

論文題目

中國崛起: 機會或威脅?

The Impact of China Rise: An Opportunity or Threat?

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A Thesis

Submitted to International Master's Program in Asia-Pacific Studies

National Chengchi University

In Partial fulfillment of the Requirement

For the degree of Master in Asia-Pacific Studies

中華民國 106 年 10 月

Acknowledgement

I would like to express my sincere gratitude to my advisor Professor Ming Lee for the continuous support of my thesis writing and research, for his patience, motivation, and immense knowledge. His guidance helped me in all the time of research and writing of this thesis. I could not have imagined having a better advisor and mentor for my graduate study.

I would also like to thank the rest of my thesis committee: Professor Chung-Min Tsai and Professor Da-Jung Li for their insightful comments and encouragement, which incited me to widen my research from various perspectives.

On this note, I also thank the staffs of IMAS at the National Chengchi University for helping with the management process of writing this thesis.

I thank my fellow classmate and friend Cris Batista for the stimulating discussions, for the sleepless nights we were working together before deadlines, and also to Chander Kuo Yi Tseng for his valuable time in helping me with all the translations I required in writing this thesis.

Last but not the least, I would like to thank God and my family: my parents and to my brother and sisters for supporting me throughout in writing this thesis and my life in general.

Abstract

As China becomes increasingly influential in world affairs the international community continues to examine their global responsibilities for international economy and regional integrity. The thesis examines the global prominence of China and its status as an influencer in power transitioning and balancing in the region. Through the method of descriptive and normative theorization an analysis is produced where coexistence of historic hegemonic theories creates a new international environment where the perception of a rising China is neither a reason for conflict nor design for a solitary power but rather a phenomenon of generating equal opportunities and benefits for all concern actors.

中國在國際舞台上的影響力逐漸攀升，以全球經濟和區域完整性而言，世界各國也持續觀察自身所扮演的角色與責任。此篇論文以記敘性方法和常態性理論分析，探討中國在地區的權力轉移與平衡上扮演的重要角色。歷史上，一個國家勢力的崛起常被負面地視為是霸權和威脅。但以現今中國的崛起而言，這些過往的霸權理論反而提供了新的詮釋結果：對其他國家而言，中國的崛起不會帶來威脅或衝突，反而會帶給各國益處和機會。

Keywords: China Influence, Investment Abroad, International Relations, Regional Power

關鍵字：中國影響力、海外投資、國際關係、區域權力

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Chapter 1. Introduction

The world is changing at a very remarkable speed. If we look at Goldman Sachs projections,¹ by 2025 Chinese economy will be almost the same size as the American economy. And by 2050, it is projected that China will surpass America and Indian economy will be almost the same size as the economy of America. As China, India, Russia, and Brazil join the global middle class, brain and money will increasingly flow away from the United States.

China has already surpassed Japan to become the world's second-largest economy. The United States in 2010 reported a current account deficit of \$470 billion,² contributing to imbalances that threaten the future of US growth, while China racked a surplus of \$305 billion. China channels its accumulating surpluses into sovereign wealth funds, which the government invests strategically around the world. Meanwhile, on the other hand, with its annual deficits as America piles up on its financial debt, China becomes the leading foreign purchaser of American treasuries.³ According to the words of John Mearsheimer, this is one of the reasons America mustn't be afraid of Chinese takeover because China is one of the big contributors of US publically held debt, where it holds about \$1.1 trillion of US debts, which means that China already owns US, it doesn't make sense for China to go stage a war against US when China is essentially going to be getting pay offs from US for a long time.

As China continues to climb the economic ladder, their power of influence in international affairs will continue to expand. China's global rise is not a new area of study, but because of its progressive nature the study becomes more and more relevant over time.

¹ Dominic Wilson, "Dreaming with BRICS: The Path to 2050," *Global Economics Paper*, no. 99, Economic Research from the Goldman Sachs, October 2013. http://www.goldmansachs.com/our-thinking/archive/archive_pdfs/brics-dream.pdf

² Bureau of Economic Affairs, U.S Department of Commerce, "US Current-Account Deficit, First Quarterly 2010: Preliminary Estimates of US International Transactions," 2010. https://www.bea.gov/newsreleases/international/transactions/2011/pdf/trans_annual10_fax.pdf

³ Charles A. Kupchan, "The World in 2050: When the 5 largest Economies are the BRICS and Us," *The Atlantic*, 2012. <http://www.theatlantic.com/business/archive/2012/02/the-world-in-2050-when-the-5-largest-economies-are-the-brics-and-us/253160/>

1.1 Purpose

Objective of the study

This thesis intends to state that the rise of China will adjust power balancing among the major players in the Asia-Pacific region, by highlighting their leadership role in development investment mechanisms. The thesis will assert the affirmative rise of China on the grounds that the rise is trending at a different international setting juxtaposed to Cold War bipolar system, where existing power and emerging power will balance each other through counter alliances and inter dependent economic relations. So that China will not jeopardize their position by replacing the status quo but would consolidate with the system.

Significance of the study

What makes the study significant for international studies is that it involves the world's fastest developing nation and second's largest economy in the world that has a quite a share of international influence at hand. It has been continuously studied on par with the super power America, making their relationship one of the important strategic relationships of the 21st century. Given this status, the rise of China has been a subject of immense scrutiny, especially with regard to its intentions- positive/peaceful or negative.

The study of rising China echoes the coming of East Asian system (*Eastphalia*) as opposed to the Western international system (*Westphalia*), which will instigate further research on institutional changes in the field of international relations.

The world has long been steered by powerful western nations and international institutes governed by them. The Asian financial crisis brought Asia into its knees and the disappointing action of global financial institutes gave a learning lesson.⁴ The lesson for Asia was that they would have to start building their own defenses. The void left by the 'guardian' states in Asia gave China the opportunity to take the role of a leader in the region.

⁴ Pablo Bustelo, "The East Asian Financial Crises: An analytical Survey," *Instituto Complutense de Estudios Internacionales*, ICEI Working Paper 10, 1998. <http://pendientedemigracion.ucm.es/info/eid/pb/ICEIwp10.pdf>

Ever since China opened up to international market during the late 1980s, their economic progression took America by surprise and they had since confronted China from various angles. Even though they may state otherwise, we can't deny that there are indications US has been building a conception of 'China threat' in terms of foreign policies. China like any other sovereign nation is advancing its nation into economic modernity in the face of rapid globalization in order to keep up with the international community, especially because they have the capital too.

Also at times, US allegations give no choice for China but to retaliate in various issues which makes them look like the "bad guy" because America has more leverage in terms of soft power. For example, China's list of grievances such as continued US military support in the region, territorial claims makes them look bad against the US.

China has had a remarkable period of growth shifting from a centrally planned to a market based economy and integration into the international system promises to moderate its approaches towards its Asian neighbors. From Chinese perspective the key question for a rising nation is how to handle its relationship with existing institutions and system.

1.1 Research Approach

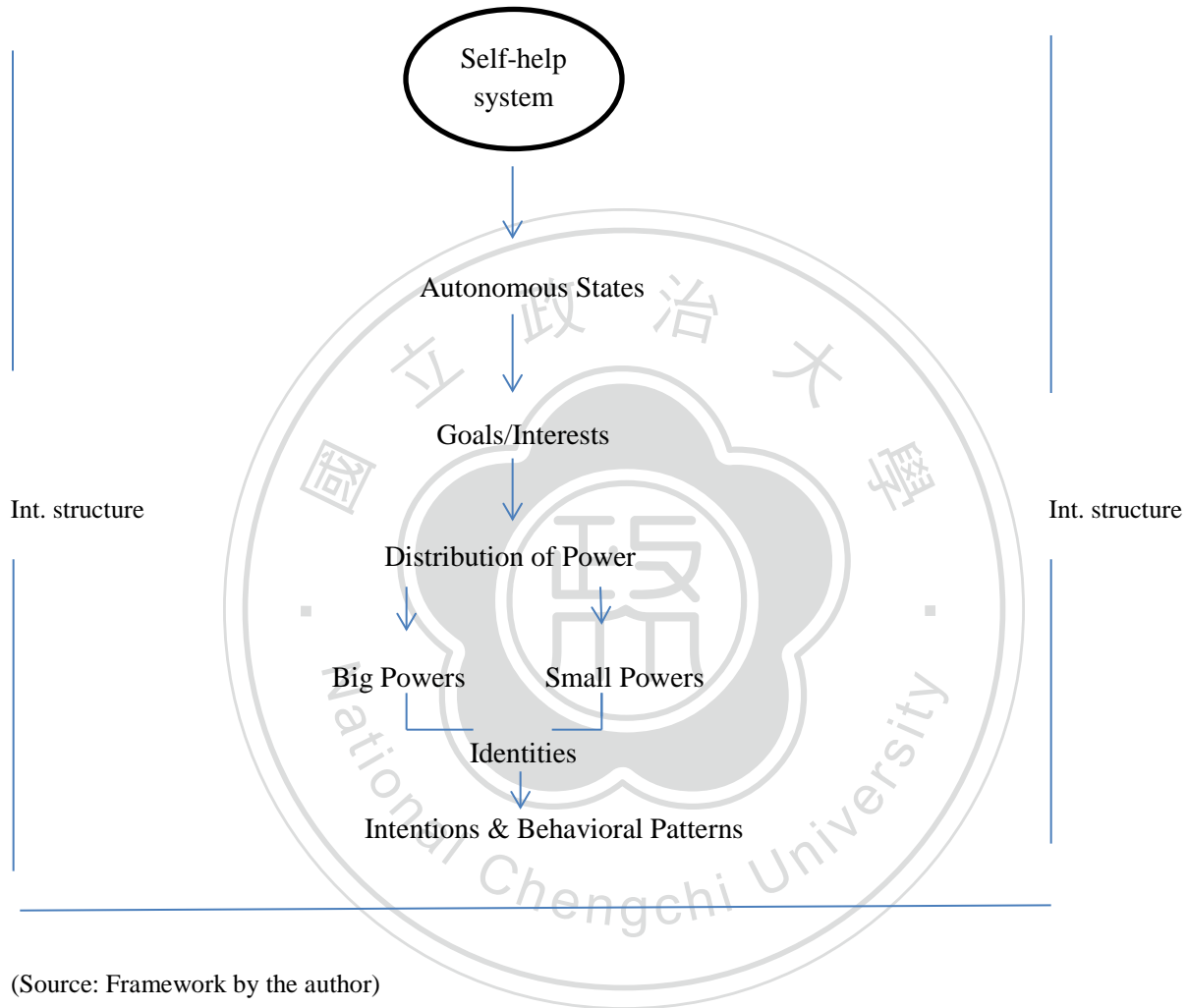
The purpose of the thesis expresses a need for learning more about the dominant concepts of rising China as a research domain. Hence, a qualitative research approach will help us gain an understanding of the underlying reasons of the research subject which will further provide insights to develop hypothesis for potential quantitative research.

To analyze the varying developments of the rise of China a theoretical design has been considered for the thesis, especially when the subject study is developed in an international setting. Theoretical reasoning defines why this phenomenon has occurred, what were the major factors in how this phenomenon has been developed, who were involved, and what has this trend in store for the future.

In order to study this phenomenon of a rising nation, first we will consider a structure of the anarchic international system as a background setting to conceptualize the rise and fall of a

nation. In accordance to the theory of structural realist and constructivism, the following diagram represents the working and interpretation of various units in the system and the construction of identities, interests, intentions, and behavior of states.

Figure 1: Theoretical Framework of the International System



(Source: Framework by the author)

International theory defines a self-help system of autonomous states whom have goals and interests for their survival, but due to an anarchic system there is a distribution of power into big power (stronger states) and small power (weaker states). This distribution of power will help realize their goals/interests accordingly, which makes up their identity and ultimately their behavioral pattern.

Both schools of thought are better addressed according to Kenneth Waltz's theorization,⁵ in which there are two main assumptions: First, the international system is anarchy, thus it is a self-help system consisting of states that are autonomous each of which must defend itself. Their main goals are survival, territorial integrity, and domestic autonomy. These goals establish their intentions in the international politics.

Second, in an anarchic society there is a distribution of power, shared among all units in the system. This results in classification of units into how much power each other possesses (small power or big power). Differences in power yield differences in the types and magnitude of constraints that states face, forming an identity of who they are, what they are, and how others should perceive them thus, resulting in variation in behavioral pattern.

These theories give us the interpretation that international politics is made up of states, whose characteristics are the same but they differ in their capabilities. The less powerful states are seen confined in a corner while the great powers rule the court, often times interfering with the affairs of smaller ones, sometimes knocking them over, dominating the game and determining its course of action.

International relations are a social construct, where social phenomena such as states, alliances, or international institutions are not thought to exist independent of human meaning and action. The key idea is that international relations are also constructed by ideational structures such as shared norms, ideas, beliefs, which shape the social identities of political actors, that is, identities and interests of states are endogenous to social interaction.⁶ These identities inform interests, which in turn shapes behavior. For example, Chinese nationalism shaped the identities and interests of China, which contains norms that guide how their leaders could play the game of politics, and encourage leaders to draw from their political identity to manoeuvre their interests.⁷ Thus, how Chinese leaders play their regional games was constructed by the norms of Chinese politics. This theoretical reasoning explains why

⁵ Kenneth N. Waltz, *Theory of International Politics*, IL: Waveland Press, Inc., reissued 2010, p.91.

⁶ John Baylis, et al, *Globalization of World Politics: An Introduction to International Relations*, Oxford, UK: Oxford Press, 2011, p.155.

⁷ Andrzej Walicki, "Ernest Gellner and the Constructivist Theory of Nation," *Harvard Ukrainian Studies*, Vol.22, Harvard Ukrainian Research Institute, 1998, pp.611-619. <http://www.jstor.org/stable/41036761>

China is rising- because the interactive international environment influences reconstruction of identity.

Further as we move from the international structure, the theory of trade expectation or economic interdependence will interpret the nature of rising states, here China (or other non-western rising states). According to the theory, state's dependence depends on the benefits of trade and the costs of severed trade. With benefits of trade as positive and costs of severed trade being negative, the expected value of trade (future trading) may be anywhere between the two extremes⁸. For example, if a state has positive expectations that the other will maintain a free and open trade over long period, then the expected value of trade will be positive or in other words, the economic interdependence will be peace-inducing. Whereas, if a state expects that trade will be severed by the trading partner due to policy decision, then the state will attach a negative expected value of trade or in other words, the economic interdependence will be threat-inducing.

If trade is severed and the dependence is threatened, the prospect of war can only be ascertained based on relative power balance. For example, smaller states could be compromised in case the future of peaceful trading is negative, but if actors are roughly equal in relative power, then they will assign a high expected value to continued peaceful trade, and will choose peace as rational strategy.

1.2 Research Methodology

In terms of research methodology, the approach to the study is descriptive, theoretical, and normative, reliant on secondary sources of data collection. Such documents will be interpreted and analyze in accordance to the above theoretical approach. Some concepts in this study may apply economic analysis, for example, in understanding the factors on how the rise of China has developed, like Chinese investment market.

⁸ Dale C. Copeland, "Economic Interdependence and War: A Theory of Trade Expectations," *International Security* 20, no. 4, 1996, pp. 17-19. <http://www.jstor.org/stable/2539041>

Given the broad and vast study of the global rise of China and their economic components, the important properties of the content of the study are identified as: China influence, Investment abroad, International Relations, and Power in Asia-Pacific region.

Another approach that may help conduct the study is through comparison between the West and East system, where the rise of China is applied in a different setting as compared to historical rising powers of the West and also comparison of key Chinese leaders, as how as how their national policies may have affected the development of Chinese power over time.

1.3 Scope and Limitation

The study on rising China is an ongoing process because it is a developing phenomenon. The scope of the study goes beyond the domain of economic motives although this research explores the influence of growing China on Asia-Pacific and its intimidation on power transitioning in the region through the urgings of theoretical reasoning and economic development mechanism. For the intent of this paper, data are limited to the years in the early 2000s and by the narrow availability of materials on recent developments of Chinese progress

1.5 Literature Review

There are numerous literatures on the global rise of China and its image on the West and the pacific region. In this chapter, the literature will be compiled into three major themes that incorporate the key notes of the study: The economic rise of China, regional effect, and the inevitable balance of power in the region.

Theoretical context of a Rising Power

As mentioned on the onset, the theoretical context helps us understand why something has occurred. As for this case, it helps us understand the circumstances of phenomena like rising China in the millennial.

Mearsheimer's International theory states that there are five assumptions of the International system.⁹ First, States are main actors and there is nothing above them- anarchy; second, every nation has some sorts (it can vary) of military capabilities; third, no one can know what each other states intentions are. Intentions are uncertain; fourth, survival is the highest goal of all states. It is not the only goal but it is an obvious no. 1 goal; finally, States are strategic experts.

This setting of the international system results in three forms of state behavior- first, states fear each other and for two reasons: one, because there is always a possibility of a rising power, secondly if there is trouble there is no higher authority you can turn to because the International System is anarchy. This leads to second form of behavior- self-help: because there is no higher authority to turn to you must help yourself. The third form of behavior is that the best way to survive in the anarchic system is to be continuously powerful, that is, you want to be the hegemon in the system. That is why America does not like competition and wants to continue holding on to their global power status.

These forms of behavior help us clarify why there exist great power rivalry, or why there a rise and fall of states. As the realist theory suggests, because differences in power creates the types and magnitude of constraints states face, identity of who they are, what they are, and how others perceive them.

Because the international system does not allow you to be the global hegemon, the best you can do is be a regional hegemon, so that no other states in the system dominate your region. So then what implication does this have on the economic rise of China?

John Mearsheimer's theory of the international structure is approachable up to the extent when he argues the hegemonic and revisionist nature of states. China's intentions, he believes are hegemonic and will use force to alter the balance of power.¹⁰ Isaac Freedman states these predictions are based on estimates of the economic rise of China and that it will convert

⁹ John J. Mearsheimer, *The Tragedy of Great Power Politics*, New York: WW Norton & Company, 2001 pp. 31-33.

¹⁰ *Ibid* p.17.

economic power to war-fighting power.¹¹ However in the ensuing period a struggle for rise in power does not have the capacity to ensure a new world order, perhaps because the age of Nuclear weapons have paved way for more integrated relations and economic interdependence. Attempting for hegemony would compromise a state's survival and China is not ignorant of this fate and recognizes the hazards of war with the US or the rest of the world for that matter.

Power Transition in the Region

What does China and rising states beyond China want, what are their ambitions and interests and visions? The global power transition is complex and full of uncertainties especially in the East Asia where China is at the centre of this. Regardless, this global transformation will be a kind of democratic revolution. In the sense that, more people in more societies will seek to have a voice in the running of the global order.

Even if there is contestation and power rivalry, it won't be a struggle of overthrowing of liberal international order. Indeed, what we have seen in recent decades is that China and other rising states like BRICS, Australia, South Korea, are rising from within rather than instigating 'revisionist intentions' around the rules of law and international institutions. In one sense or the other, the rising non-western states are also experiencing in their own the same problems the West experience, what we call the 21st Century problems- like problems of inequality, sustainable growth, climate change, infrastructure, immigration.¹²

Some of the reasons why power transition this time may be different from what we imagined from the past is that the international system is a complex, multi-layered, integrated, accommodating difference, shared leadership, and hence different from past orders.

Unlike the offensive realist claim, China has pursued policies within the current Western international order. For example, their active participation in international organizations has doubled since 1966. Also China derives its foreign policies based on "Five Principles of Peaceful Coexistence", which opines that all foreign relations will be dealt with mutual respect for

¹¹ Isaac Freedman, "The Peaceful Rise of China," *Academia.edu*, No. 9, pp.3-4.

http://www.academia.edu/5623559/The_Peaceful_Rise_of_China

¹² John Ikenberry, "The rise of China and the Future of Liberal World Order," *Chatham House*, 2014, p.9.

https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20140507RiseofChina.pdf

sovereignty, mutual respect for territorial integrity, mutual non-aggression, non-interference of internal affairs, equality and benefit, and peaceful coexistence.¹³ China and non-western states wants a modern system that liberal internationalism offers, minus the American and Western hegemonic aspect of it. One of it is openness and access to trade, investment, and technology.

China indeed is progressing aggressively in the Asia-Pacific region and appears to have the ability to be a rising power. But in a broader perspective, perhaps it is not really a rise of China but a broader global transformation. John Ikenberry describes this phenomenon as rise of global middle class- not just BRICS but Mexico, Indonesia, South Korea, Turkey, Australia, and Canada.¹⁴ Many non-western states are rising in some aspect or the other: first they want to have a say in their region, and more generally they are engaging actively in stakeholder diplomacy, such as multilateral cooperation, influencing world politics through agenda-settings, bridge-building, coalition diplomacy where South Korea is a perfect example of this. China's approach is using infrastructural development as a means to bring state-to-state relationships and resource relationships. Hence, it depends on the rest of the world being liberal.

Power Rivalry

Tracing back from history, America has never appreciated competitors, for example Imperial Germany during WW1 in the Western Hemisphere, the Imperial Japan in WW2, the Soviet Union when they were becoming the possible hegemon in Europe after the fall of Nazi Germany, and now possibly China in Asia. Just like how Americans do not like any presence in the Western Hemisphere, likewise the Chinese are not going to like the Americans sitting at their doorstep. They are going to do anything to keep them away just like Americans would at their end. Why? because states want to maintain certain influence in their region. China may simply be trying to mark its regional hegemony. How has US reacted to this? Suddenly US announced Pivot to Asia which they've stated had nothing to do with containing China, but we know that it was specially design to contain China. US had been confident about 'balancing coalition', that is,

¹³ Andrew J. Nathan, Robert S. Ross, *The Great Wall and the Empty Fortress: China's Search for Security*, New York: W.W. Norton, 1997, p.260.

¹⁴ John Ikenberry, "The Rise of China and the Future of Liberal World Order," *Chatham House*, 2014 p.7.
https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20140507RiseofChina.pdf

to work together with Chinese neighbors in containment. These neighbors are India, South Korea, Japan, Vietnam, Singapore, Philippines. But the problem with this strategy is the theory of 'security dilemma', that anything the US will do for defensive purposes and/or China's neighbors do to contain China will look offensive to China. And anything that the Chinese will do for defense will look offensive to the Americans.

Taylor M. Fravel also discusses the theory of offensive realism predicting a future of conflict in great power rivalry, because of benefits of aggression.¹⁵ He applies different principles of international relations to identify the weightage between the benefits of aggression against cost, and recognizes the importance of revisionist intentions in power transitions and note that some transitions have been peaceful.

Unlike the past, this century power transitioning takes place at a different international setting and the concept of rising China can be endorsed by the theories of economic independence that highlights the wide-ranging costs that China would pay for aggressive policies, especially the damage it would bring to their decades of economic reforms and jeopardize its participation in the international system that has facilitated greatly its rise.

It is in the interest of China that they will likely avoid benefits of aggression against costs; otherwise it would most certainly trigger the formation of a coalition of states to contain China which would ultimately undermine their grand strategy of reassurance.¹⁶

In the East Asian community, China and Japan are two crucial pillars, when in the 1980s Japanese investment in East Asian contributed to common prosperity and now the Chinese economy is assuming the role of regional integration and will shape the economic future of the region. Sino-Japanese relations are dividend on various issues. For example, the Chinese nuclear tests and military expansion began to make Japan nervous of Chinese intentions, while Japan strengthened alliance with the US, which in turned fuelled Chinese perception of renewed Japanese militarism. But even more ironic is that they both enjoy ever closer economic ties. Amitav Acharya writes that Japan and the US worry about possible Chinese dominance of the

¹⁵ Taylor M Fravel, "International Relations Theory and China's Rise: Assessing China's Potential for Territorial Expansion," MIT, *International Studies Review*, Vol.12, 2010, pp. 520-532.
<http://taylorfravel.com/documents/research/fravel.2010.ISR.china.expansion.pdf>

¹⁶ Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security*, California: Stanford University Press, 2005, pp.133-36.

East Asian community but both China and Japan need to keep their economic and diplomatic relationships from being undermined by nationalist political posturing.¹⁷

Relative power of the US in the ASEAN has never been more distinct. American hegemony today is a two-track for ASEAN. Balance of power sees it as a stabilizing force against a rising China and keeping peace in the region. But at the same time, dependence on American power also raises question about ASEAN's own autonomy and relevance. In dealing with the US, China, India, and other major powers, it is important to know that its unity and credibility is vital so that its states are not confronted with Hobbesian nightmare.

China's Second Rise

Scholars have scrutinized the negative perception of China rise on the lines of territorial expansion, because historically states have fought over territories more than any other issues. However, given the current international system the analysis of territorial expansion of China becomes unnecessary. China's recent territorial disputes suggests that future territorial expansion may be unlikely; stronger China will sought cultural hegemony over physical control; and globalization of supply chains creates production interdependence, and rise of markets generates human capital and technology that conflict over land is the least important. And also most importantly there are costs involved: states must bear in mind the political and diplomatic costs of territorial expansion; economic costs that China would pay for aggressive policy and the negative impact on their economic development as well as the political legitimacy of the ruling party.

While we look into the intentions and behavior, we must also understand the characteristics of China itself, because it is after all our environment that creates our identities and interests. In order to understand how China has been rising or whether there exist China rise, Hsiung emphasizes the history.¹⁸ The history of Chinese dynasties tells us that China has once been the global power before the coming of western exploration and until the Opium war.

¹⁷ Amitav Acharya, *Asia Rising*, Singapore: World Scientific Publishing Co., 2008, p. 26.

¹⁸ J.C Hsiung, *China into its Second Rise: Myths, Puzzles, Paradoxes, and Challenges to Theory*, Singapore: World Scientific Publishing Co., 2012, pp.52-56.

Then after the last Dynasty and all the wars post 1949, China saw the onslaught of the modern political development of Chinese communism with the founding of the republic under the Chairmanship of Mao Zedong. Then came Deng Xiaoping who revolutionized the Chinese economy and entry into the world market. Ever since, China has never looked away from building an economic empire.

It is a widespread assumption that as countries modernize, they also westernize. It is an assumption that modernity is a product of competition, markets, and technology. But it is not. It is also shaped by history and culture. Chinese civilization is one of the oldest that remained to this day, changed but not altered. Domestic developments in China cannot be evaluated by comparing it with those countries born of the *Westphalian* tradition. When China re-rises it is not like the arrival of “new kid on the block”, instead it is almost comparable to a meeting of two civilizations. Like for example, the re-rising of China must assimilate into the *Westphalian* system, for it to be integrated with other members of that system.

In the recent decade, China under Xi Jinping has seen various plunges but that didn't stop its growing dominance. In 2014, China total GDP took over US in terms of purchasing power parity.¹⁹ More important than their size, many were surprised by the speed with which it was growing. Chinese consolidated leadership has helped built a huge foreign reserve of almost \$3 trillion, by far the biggest in the world. It has also helped Beijing to pursue its global strategy of investment and reshaping financial architecture. China's growing strength indeed threatens the status quo, and this has led to various assessment of imagining.

Image Making

Imagining is important in the sense that images that existing powers have of rising power influence the policies they pursue. America-China imagining is an interesting case. In case of America's imagining of rising China, McGiffert makes it clear that as long as China improves in material capabilities American image of China will be increasingly negative. However it is also

¹⁹ Ian Bremmer, “The 5 Facts Explain Why China Is Still on the Rise,” *TIME*, August 20, 2015. <http://time.com/4005404/china-economy-influence-growing-tianjin/>

understood that the economic aspect of their relationship makes it difficult for them to make decisions on national security interests against economic interests.²⁰

America's self-image of "exceptionalism", which means that America believes it is a special chosen state created to be the redeemer of the inferior, is prominent in their policies and decision making. It seems like they cannot stand the fact that China rejected Western teachings and values that made them powerful.

Often times the West tends to force their 'values' unto third world societies largely unaware of their condescending attitudes and practices toward the East. Mahbubani remarks that economic development is probably the most powerful tool to 'liberate' the third world.²¹ It shakes up old social arrangements and paves the way for the greater percentage of the society and political decisions. For example, today China is no longer under the tight control of the communist party like Mao did. Deng Xiaoping's reform killed that possibility. In this aspect and changes in the international society, the containment of China only brings more complications in China's strategy for reassurance.

After centuries of trying to come to prominence the time has arrived for Asia to par with the West and likely to avoid petty disputes and historical squabbles. It is safe to say that European and North Americans will never understand the nature of this psychological revolution because they cannot step into the Asian's mind and they've never had to struggle with the subconscious assumption that perhaps they are second-rated never good enough to be 'number one'. The development of rising East Asia gives confidence that they can come to par with the major power in the west. China's emergence as a great power in the Asia-Pacific is not a preparation for war but rather a preparation for progress into a new millennium.²² China's rise will influence power transitioning in the Asia-Pacific by giving China greater incentives for integration where US relative command may decline.

²⁰ Carola McGiffert, *China in the American Political Imagination*, Washington D.C.: Center for Strategic & International Studies Press, 2003 pp.80-85.

²¹ Kishore Mahbubani, *Can Asians Think?*, Singapore: Marshall Cavendish International Pvt. Ltd, 2010, pp 58-59.

²² John G. Ikenberry, "The Rise of China and the Future of the West: Can the Liberal System Survive," *Foreign Affairs*, Vol.87, No 1, 2008. <https://www.foreignaffairs.com/articles/asia/2008-01-01/rise-china-and-future-west>

Chapter 2. Major Trends in China Rise

Ever since the establishment of PRC in 1949, China was perceived as geopolitical extension of the Stalinist Communist Empire threatening US interests in Asia. Then after realizing the importance of “China card” against Soviet Union, America considered China as a “strategic partner”, which was then lost when Soviet collapsed and focus was shifted towards China becoming a “threat”.

Early 1990s prompted the beginning of ‘Chinese threat’ labeled by the American mass media. It appears that the real threat was not Chinese communist economy but its military expansion fueled by growing nationalism. Theoretically, the growth of China’s military modernization does not come as a surprise in a system of insecurity and uncertainty of each other’s intentions.¹ Every sovereign nation has the caliber and freedom to choose what it wants.

By late 1990s American scholars began to calculate the threat of China as grave as challenges with EU and Japan (EU was merely an economic challenge and Japan would compromise with US because it needs security protection). Only China presented a multi-dimensional threat to US in political, military, cultural, economic aspects because China differed greatly from America in these aspects. Also China’s intended rise in the region was anxious for America, who prevents any single country from gaining overwhelming power. These hegemonic thought itself is provoking to any nation if not only to China, just because America being the sole superpower the international society lean towards it even though they share same grievances with China regarding the long dominance of the West, for example Africa and Central Asia sides with China, giving more reasons to America to add to the fear.

But it is only a natural phenomenon in constructivism if a country is protecting, channeling, and building its interests. Also, China in return has never showed signs of aggression (only passive-aggressive) in requiring its interests. China’s geostrategic political threat turned into geo-economic threat after the turn of the 21st century. Economists forecasted that the world in 2020 would likely be one in which Asia is the main engine of the global economy, with China

¹ John J. Mearsheimer, *Tragedy of Great Power Politics*, New York: WW Norton & Company, 2001, p. 32.

and India merging as ‘major powers’.² If China’s rise as world’s economy power is predicted then it means there is a relative decline in America’s economic hegemony.

Besides geo-economic threat, China rise also has geopolitical dimension, for example in the early 2000 both China and India was perceived as potential threat to America, but the level at which this threat was perceived was different. In the case of India they were considered ‘natural ally’ which mean that America supported the rise of India. Here, the difference between the two was their political ideology, so if this was real that means China threat also consists of geopolitical threat, according to US.

If theorists were to fear whether China rise is a threat or not based on past examples of various nations rising and falling, it should be kept in mind that China’s current rise is not a first-timer, and its behavior in international is very different from past examples. It is said that first-timers are aggressive predators,³ not only is this second time for China but also in its first time (before the Western exploration) its rise was benign.

This chapter will express the major developments of the China Rise phenomena giving accounts of its economic credibility and growth which affect the progress in military and its image making in the region and ultimately the world.

2.1 Economic Rise

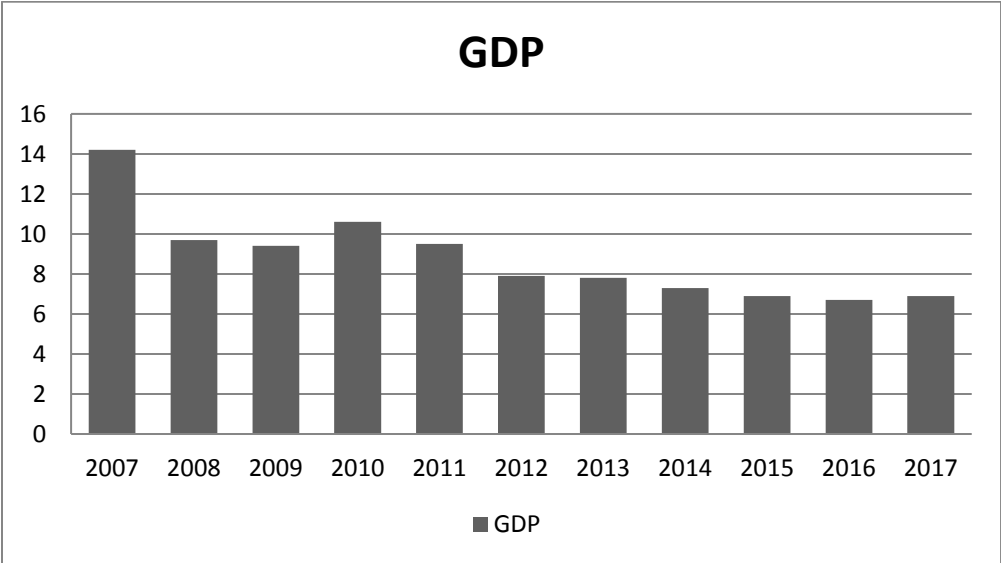
China’s economic growth has quadrupled since the 1980s intensifying to become one of the world’s fastest growing economies. Private and semi-private enterprises, higher education, and international trade all contributes to higher economic growth in China. More importantly international trade and inflow of huge amount of Foreign Direct Investment are underlined as the main engines of China’s growth performance.

² Anthony Fensom, “China, India, to lead world by 2050 says PwC,” *The Diplomat*, 2015.
<http://thediplomat.com/2015/02/china-india-to-lead-world-by-2050-says-pwc/>

³ J. C Hsuing, *China into its Second Rise: Myths, Puzzles, Paradoxes, and Challenges to Theory*, Singapore: World Scientific publishing Co., 2012, p. 48.

China’s economy expanded at an annual rate of 6.9 per cent in the second quarter of 2017, beating the government’s target in a year of political transition.⁴ Growth remained at its strongest level since the third quarter of 2015. The Gross Domestic Product (GDP) Annual Growth Rate in China averaged 9.71 percent from 1989 until 2017, reaching an all-time high of 15.40 percent in the first quarter of 1993 and a record low of 3.80 percent in the fourth quarter of 1990.

Figure 2.1: China’s Annual GDP Growth Rate (%)



[Source: The World Bank]

The National Bureau of Statistics added that the 6.9 % growth rate showed China’s economy had become ‘more stable, co-ordinated, and sustainable’. The signs of slow growth were due to the government tightening monetary policies and property sector at the start of 2017.

The global presence of Chinese economic power project the rise of China as an ‘Economic Rise’ deemed to take up the role of a responsible leadership. In other words, as long as China is considered relevant in the world economy their role as a leader contains them from causing any risk to the international order.

⁴ Gabriel Wildau, Tom Mitchell, “China GDP Growth Points to 2017 Economic Rebound,” *Financial Times*, July 27, 2017. <https://www.ft.com/content/6e46e302-6878-11e7-8526-7b38dcaef614>

Liberals and realists have argued the potentiality of economic dependence among great powers with probability of war. The theory of trade expectations⁵ clarifies the notion of economic dependence by fusing the liberal insight that the benefits of trade gives states the incentive to be cooperative while the realist view that the potential cost of over dependence can push states to war to ensure continued access to necessary and vital materials and goods.

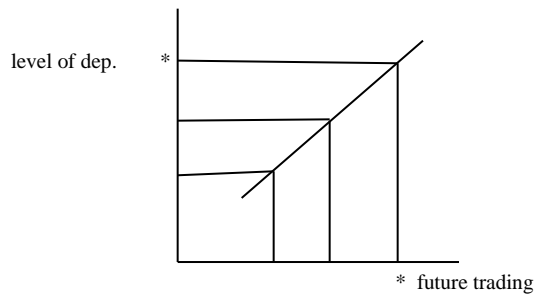
In addition to this, the theory introduces a new variable- the expectations of future trade. Economic interdependence among states will be peaceful if states expect that trade levels in the future is high. If their future trade expectations are low, then the most dependent state will likely initiate conflict for fear of losing the economic wealth that supports their long term security.

Realists have opined that only the most dependent state in the economic network will initiate conflict which means that China's rise as an economic power guarantees little to no power conflict and war. Another example in contrary is the case of North Korea. The continued sanction on the country forces them to initiate instability and war for their economic security because they are highly dependent nation with no future trade expectancy.

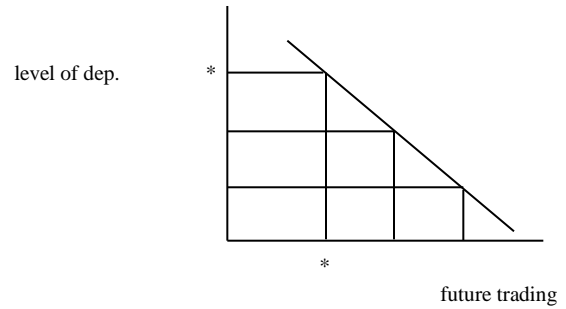
To simply construct a theoretical logic to this theory, let us consider the following graphical representation:

⁵ Dale C. Copeland, *Economic Interdependence and War*, New Jersey: Princeton University Press, 2014, p.16

Theory of Economic Interdependence



(Figure. 2.2 a)



(Figure. 2.2 b)

[source: author]

Figure (2.2a) accounts the Liberals perspective of state's expectation to its trading environment. It assumes that states seek to maximize welfare therefore the more the level of future trade expectancy the higher the level of economic interdependence and actors will foster peace given the benefits of trade over war. Figure (2.2b) accounts the Realists assumption that states seek to maximize security thus at higher level of dependency states sever trade ties (low future trade expectancy) to escape potential vulnerability.

State's dependency depends on benefits of trade and the costs of severed trade. Benefits being positive and costs being negative, the expected value of trade may be anywhere between the two extremes, depending on a state's estimate of the expected probability of securing open trade or being cut off.⁶

The prospect of conflict or hegemony in case trade is severed can only be ascertained based on the relative power balance. For example, only if one state is more powerful than the other can there be threat, but if both states are equally powerful then the expected value of future trading is high and thus likely to trade peacefully and project healthy relationship and leadership.

Modern technology has increased the costs and risk of aggression making trading more preferential. Norman Angell makes the argument that trade pays more than war through the observation that states tend to choose peaceful trade over 'old method' of power politics because

⁶ Dale C. Copeland, "Economic Interdependence and War: A Theory of Trade Expectation," *International Security*, Vol.20, No. 4, 1996, pp. 20-21.

even though war was once legitimate, modernization has made it difficult to supplement oneself through force, by destroying economic bonds.⁷

China's economic acceleration can be assumed through four stages of reformation: First, 1980s- set up of modern economic management system. Second, 1990s- increasingly privatized corporate system that strengthened profit incentives; set up new system of urban society safety nets, rural compensation efforts, well-funded police, and arrest of ringleaders, violent protestors, and some corrupt officials. Third, 2001 through 2007 by now China was surging with domestic investment and consumption and its entry into the WTO stimulated growth to more than tenfold. China's fourth reform phase began in 2008 with its newly formed government, with young leadership meant to last for the next fifteen years. This period of young leadership promoted promising combination of economic growth alongside environmental protection and social welfare.

Chinese theorists rooted their development strategy in the work of Friedrich List⁸ who insisted that policies must make state a key player in development, such strategies include selective protectionism and promoting champion industries, because countries pass through stages of industrial maturation linked to their level of development.⁹

Its economic growth over the years has cumulated China into a major global commercial and institutional leader, with its size double to that of America. Implications of its growth suggests China will take the lead in shaping trade and investment patterns, any fluctuation in the domestic market will send ripples around the world, its monetary policies will influence liquidity and interest rates everywhere, leadership of international institutions will gravitate toward China. Thus, China's economic activity will spill into every conceivable dimension of international relations. The United States will only have an important secondary influence.

These factors itself incline to rationalize the notion that the nation's economic rise is a pure opportunists with large encompass of actors interested in its investment and assistance both global and regional. It is easier to achieve an advantageous position through economic

⁷ Norman Angell, *The Great Illusion*, New York: G.P Putnam's Sons, 4th edition, 2015, p.59.

⁸ Albert Keidel, "China's Economic Rise: Fact and Fiction," *Carnegie Endowment for International Peace*, Policy Brief, 2008, p 2-4. http://carnegieendowment.org/files/pb61_keidel_final.pdf

⁹ Friedrich List, *National System of Political Economy*, New York: Cosimo Classics, 2011 p.22.

multilateralism than militarism. For this reason, Chinese economic and diplomatic influence has spread rapidly. The price America has to pay for containing China will only grow and its effectiveness will be only reduced because no country will wish to sacrifice their economic gain in exchange for any political and military alliance to contain China.

Lately reports calculate that China's open-market based economy has created problems of inequality in per capita income between the coastal and interior provinces,¹⁰ and to achieve balanced growth so as to reduce these disparities appears to be one of the major policy challenges China has to face in order to maintain a steady GDP growth rate and social stability. Krugman argues that China will face a limit on growth sooner or later, since it depends heavily on a massive increase in input with only small improvement in productivity, as in the case of East Asian economies.¹¹

2.2 Military Expansion

Major western security analysts have projected China's rising economic power as a tool to potential military expansion. They also believe that the growth of Chinese military power will be a potential source of conflict between major powers in Asia. As of now, China's military capabilities are relatively weaker than America and unlike America, who enjoys a system of bases and agreements like those found in Guam, Japan, South Korea, Southeast Asia, and Central Asia, China has no such system. Thus, US clearly enjoy substantial military advantages. The Americans distinguish clearly between rising Chinese economic power, with which they are comfortable, and military power, with which they are less comfortable, despite America's own military supremacy.

Amongst all of Chinese activity, perhaps the most provocative has been China's devotion to the "nine-dash line". It is this array of disputes in the South China Sea that has prompted tension in the region and infamously indicted China of expanding and upgrading their military capabilities.

¹⁰ John Knight, Sai Ding, *China's Remarkable Economic Growth*, North Carolina: Oxford University Press, 1st edition, 2012, p. 99.

¹¹ Paul Krugman, "The Myths of Asia's Miracle," *Foreign Affairs*, Vol.73, No.6, 1994, p.63.
http://www.brmandel.com/uploads/3/2/4/5/3245755/myth_of_asias-miracle.pdf

The South China Sea is incredibly rich in natural resources- 11 billion barrels of oil, 190 trillion of natural gas, and 10% of the world's fisheries and most importantly 30% of the world's shipping trade flows through here to booming economic centers and markets of South East Asia¹². Currently five countries lay claim to some part of it based on the United Nations Convention on Law of the Sea, which states that a nation's territorial water extend up to 200 nautical miles from its shores or otherwise known the Exclusive Economic Zones (EEZs).¹³

China argues they have historical claim to South China Sea (SCS) dating back to naval expedition in the 15th century and following WW2 when Japan lost control of all the surrounding seas, China used the moment to claim the sea by drawing a border that encompass 90% of the SCS, which became known as the 9 Dash Line¹⁴ and has no concrete clarification to its boundaries.

In the middle of it all are the Spratly Islands currently claimed by China, Brunei, Vietnam, Philippines and Malaysia. These clusters of Islands are at the heart of the SCS, and any country that can claim the Spratly Islands can extend their EEZs to include them and gain exclusive rights to the surrounding territories.¹⁵ China building man-made islands in these inhabited islands and installing military bases took the dispute to the new level because it threatened the position of the other claimants.

Now the dispute becomes even complicated when US start to take notice. Although America has no claims to the SCS, it being the lone super power uses their massive naval army to defend the international waters. But China sees the US presence in the area as an encroachment in their backyard.

China is building airstrips on disputed islands in the South China Sea, moving oil rigs into disputed waters and redefining its airspace but without any clear program for turning such assertion into the acknowledged status it sees. This troubles the neighbors, and it definitely

¹² GlobalSecurity.Org report on South China Sea Oil and Natural Gas.

<http://www.globalsecurity.org/military/world/war/spratly-oil.htm>

¹³ UNCLOS, Oceans and Law of the Sea, *United Nation*.

http://www.un.org/depts/los/convention_agreements/convention_overview_convention.htm

¹⁴ Beina Xu, "South China Sea Tensions," *Council on Foreign Relations*, 2014.

<https://www.cfr.org/backgrounder/south-china-sea-tensions>

¹⁵ Robert Beckman, Leonardo Bernard, "Maritime Boundary Disputes in the east and South China Seas," Forging a Common Maritime Future for ASEAN and Japan, *Centre for Strategic and International Studies*, 2015 pp. 27-29.

troubles America. In other words, China's desire to re-establish itself (without being fully clear about its intentions) and America's determination not to let that desire disrupt its interests and those of its allies (without being clear about how to respond) have caused tension and distrusts in the region and among allies.

According to the State Council,¹⁶ China plan to extend its global military reach to safeguard its economic interests, while also defending its territorial claims at sea against 'claimants' and prying by the United States. Beijing has insisted its military is dedicated to international security cooperation and peaceful development, in order to protect their national interests. For example, in a move welcomed by other nations, China sent a 700 strong peacekeeping force in the winter of 2014 to South Sudan, where it has extensive oil interests, marking the first time it has sent an infantry battalion on a UN mission.¹⁷

China is the only country besides the US to have a triple-digit defense budget (in USD).¹⁸ This level of spending is remarkable given where China started off. For example, in the late 1990s, their military spending roughly totaled to about \$10 billion on par with Taiwan and definitely lesser than Japan and South Korea. However, since then the budget began to rise significantly, firstly because their economy soared and secondly, the low inflation rate in the last two decades means real growth in defense spending has nearly matched nominal growth.

Defense budget identifies the importance of a country's armed forces relative to other organs of the state. No matter how much a country spends on military, it must still find ways to translate its potential capability for power into power itself. The following graph represents China's defense spending according to three sources: The official Chinese Defense Budget, US Department of State, and a non-partisan third party, Stockholm International Peace Research Institute (SIPRI):

¹⁶ Chinese Military Strategy white paper outlining the new policy of 'active defense', released by the *Chinese Ministry of National Defense*, May 26, 2015.

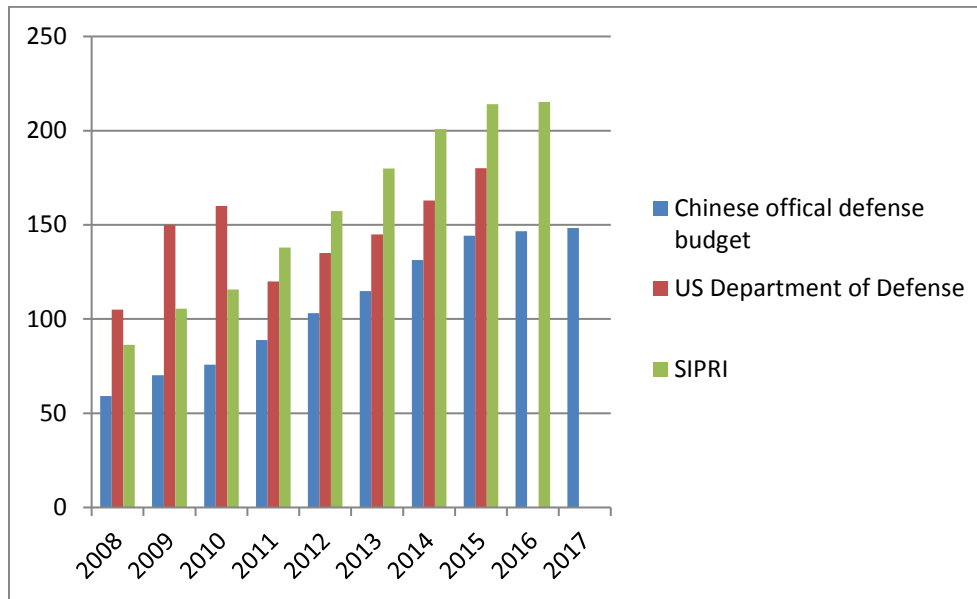
http://english.gov.cn/archive/white_paper/2015/05/27/content_281475115610833.htm

¹⁷ David Smith, "China to send 700 combat troops to South Sudan," *The Guardian*, December 23, 2014.

<https://www.theguardian.com/world/2014/dec/23/china-700-combat-troops-south-sudan-africa-battalion-un-peacekeeping>

¹⁸ Global Firepower list of Military Strength Ranking 2017. <http://www.globalfirepower.com/countries-listing.asp>

Figure 2.3: China's Defense Spending (US\$bn)



[Source: Various¹⁹]

Estimating Chinese Defense budget is inconsistent as there is no universally accepted standard for reporting military spending. Although China provides official estimates of its defense spending, external estimates of the same are often higher than Beijing's official number. Therefore, the above graph has been drawn from three different sources for a comparison analysis.

Official figures released by the Chinese government peg the country's 2016 defense budget at \$146.6 billion, an increase of 7.6 percent from the 2015 budget of \$144.2 billion. The SIPRI estimates the overall 2016 figure at \$226 billion and the 2015 estimate at \$214 billion. The U.S. Department of Defense (DOD) places the 2015 defense budget at more than \$180 billion, while the SIPRI puts the number at \$214.1 billion.

¹⁹ China's National Defense http://www.china.org.cn/government/whitepaper/node_7060059.htm, Department of Defense Annual Report to Congress <https://www.defense.gov>, SIPRI Military Database <https://www.sipri.org/databases/milex>

China's rising defense spending follows from almost two decades of modernization efforts. China began military modernization in earnest after the 1995–1996 Taiwan Strait crisis, an event that exposed fundamental weaknesses in China's ability to deter foreign intervention in China's sovereignty disputes. Additionally, the increase in China's defense spending during this period was, in part, a response to domestic policies that left China's defense budget relatively low. Throughout the 1980s and early 1990s, the Chinese defense budget suffered even as economic reforms increased China's overall wealth, which prompted the PLA to increase its low funding through business investments. Due to corruption and a host of other problems, the PLA was forced to strip in 1998, a move that resulted in increased defense costs for the Chinese government.²⁰

Even though China's defense spending as a percentage of GDP has not risen significantly, China's aggregate spending increase has corresponded with several high-profile procurement programs, military reforms, and doctrinal and strategic shifts within the PLA.²¹ These changes have facilitated China to play a larger role in regional and international security. Some of these efforts, such as China's participation in UN peacekeeping operations, antipiracy efforts, and humanitarian assistance and disaster relief are welcomed contributions to global governance. On the other hand, defending China's security interests in the East and South China Seas may strain relations with other regional actors.

While Chinese military spending has increased considerably over the past decade, China's military budget lacks in comparison to the U.S. military budget. The United States spent 3.3% of its GDP on defense in 2016, with a nominal expenditure more than two and a half times higher than China's figure. Even when considering the estimation discrepancies discussed above, China would have to spend a great deal more to match U.S. defense spending. Unlike the United States who maintains a global military presence, China has no bases on foreign soil and its defense interests are primarily focused within the Asia-Pacific.

Potential military expansion has also been speculated since President Xi announced in 2013 that the country would invest in historic Silk Road trade routes across Asia to Europe and

²⁰ Dennis J. Blasko, *The Chinese Army Today: Tradition and Transformation for the 21st Century*, New York: Routledge, 2nd edition, 2012, p. 239.

²¹ Global Security Organization Report on China's Defense Budget
<https://www.globalsecurity.org/military/world/china/budget.htm>

Africa. In the interest of securing raw materials and natural resources for the functioning of their economy China seem to have developed bases in various strategically located port cities where nations like US or France already have established military facilities. After all China is only the third most powerful military in the world behind US and Russia.²² More importantly, the world should be anxious about relations between Russia and US under the Trump administration.

In the course of last year alone various events like the establishment of Asia Infrastructure Investment Bank, political engagement surrounding the Ukraine crisis, Abenomics, rise of Asian companies (Alibaba), points towards the emergence of a more complex, multipolar world. In a bigger picture, we see how geographically the world GDP is moving towards the East with China and India aiming to become largest economic powerhouses. Based on the rise of Asia and a stabilization of the Eurozone, a scenario of a multipolar world is expected as the world economy rests on three pillars- namely America, Europe and Asia.²³ Therefore, as long as China builds an adequate, modern defense capability and continue peaceful economic development, the China threat theory will have no audience.

2.3 Rising Image

Since the establishment of PRC in 1949, theories on China's foreign policy is perceived as geopolitical extension of the Stalinist Communist empire threatening US interests in Asia.²⁴ Then after realizing the importance of 'China card' against Soviet Union, China was considered as a 'strategic partner', which was then lost when Soviet collapsed and focused was shifted towards China as the 'threat'.

This idea of 'threat' escalated when in 1995 Beijing showed displeasure when Taiwan's then President Lee Deng Hui lashed China's dictatorial regime on his visit to the US, in which an almost armed-showdown happened the following year when Taiwan was preparing for its

²² Global Firepower list of Military Strength Ranking 2017 <http://www.globalfirepower.com/countries-listing.asp>

²³ Michael O'Sullivan, "Towards a multipolar world?," *Credit Suisse Research Institute*, 2015 p.5. <http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=EE7A6A5D-D9D5-6204E9E6BB426B47D054>

²⁴ William C. Kirby, "The Internationalization of China: Foreign Relations at Home and Abroad in the Republican Era," *The China Quarterly*, No. 15, special issue: Reappraising Republic China, 1997, p.4. <http://www3.nccu.edu.tw/~lorenzo/Kirby%20Internationalization%20of%20China.pdf>

Presidential election and Beijing retaliated (to scare voters from voting Lee to second term) by testing missiles across the Cross-Straits and US sending its carriers in to the Taiwan Strait.²⁵ These incidents prompted the beginning of ‘Chinese threat’ label by American media. It appears that the real threat was not Chinese communism of economy, but its military expansion fueled by growing nationalism. According to America, China’s military buildup would soon allow Beijing to threaten American interests.

China’s growing economic and military power considered a threat is first of all, judgmental to China’s intentions when every nation has the sovereignty and freedom to safeguard its own national interests. Hence China’s growing power could also be an approach to be on par with other major power that it is surrounded with especially after the Dengist reform (after entering the competitive market).

Realist opines that an unbalanced power is a potential danger to the other, what if we were to apply this theory to China’s perspective too, for example it could be considered that for Beijing America is a threat too. If every rising power proves to be expansionist and predatory then why should America not be considered a threat when they are a self-designated policeman.

Power-transition theory examines the order of power in the international system, and how states are either satisfied or dissatisfied with the distribution of power.²⁶ So the state on top dictates the resources and conditions based on its power and other states below decides whether they are satisfied with the conditions. A rising power unsatisfied with the rules of the game may challenge the system. Thus, analysts of Chinese power fear a major conflict when the state rises in power to directly challenge the main power.

So far, the Chinese has not made any observable intent in declaring war against the status quo because when they are equally compatible, they won’t risk going against major players. Also considering the world environment today, and how America and China has been trying to maintain a stable relationship against all odds, rising power and existing power can very much come to work together, if the existing power would encourage healthy rise of new powers and not cause distrust by attempting to content rising nations. America is still powerfully influential

²⁵ Weixing Hu, “The Taiwan Strait And Asian Pacific Security,” *The Journal of East Asian Affairs*, Vol.11, No.1, 1997, pp.149-182. <http://www.jstor.org/stable/23255755>

²⁶ A.F.K Organski, Jacek Kruger, *The War Ledger*, Chicago: University of Chicago Press, 1980, pp.11-16.

but it is this power that they try to intervene in the affairs of smaller nations in the name of international peace and security, and anything that goes against their interests are branded as a probable threat. Thus, it could also be considered that imaging of China rise as an intimidation to international system could be a well-constructed western concept.

Realist theory is too closely tied to the pre-globalized past and thus cannot adequately explain the behavior of states in the new international relations.²⁷ The implication of power in transitioning theory is that ‘the amount of power a nation has does not determine its behavior or policies, what matters is intention’. For example there is no certainty that war is inevitable as a result of one rising power overtaking the existing power, the result depends on whether the rising power have extensive intentions. For example, in the 1990s the US took over Great Britain without war in economic terms, Japan moved ahead of Soviet Union without conflict over the transition. Likewise, Chinese intentions are scrutinize in terms of challenging with the US. A point to note is the environment that China finds itself today. China is rising in a globalized market world where every spoil have already been appropriated. For China it means their country will be covered with foreign firms, contributing to their development. Hence, it is unlikely that China will be so foolish as to seek self- destruction by trying to destroy the existing system. With this paradigm shift many analysts are directing their attention to why China’s Asian neighbors (with obvious exception of Japan) are not worried about China as a threat as America thinks they should be.

To point another example, at the 2005 international security conference in Singapore, Defense Secretary Donald Rumsfeld asked ‘Since no nation threatens China, why is China increasing its investment in the building of new weapons systems?’ to which the Chinese responded, ‘As no nation threatens the US, why is America’s total military expenditure so high that it is more than the total defense expenditures of all the rest of the world combined?’²⁸

If China rise was a threat, then it would be assumed that their consequent rise would result in many of Asian neighbors to tighten ties with America, however as important is

²⁷ Richard Rosecrance, “Power and International Relations: The Rise of China and Its Effects,” *International Studies Perspectives*, Vol.7, Issue 1, 2006, p.32. <https://academic.oup.com/isp/article-abstract/7/1/31/1836975/Power-and-International-Relations-The-Rise-of?redirectedFrom=fulltext>

²⁸ ‘Rumsfeld: China buildup a threat to Asia,’ *The Associated Press*, 2005. http://www.nbcnews.com/id/8091198/ns/world_news-asia_pacific/t/rumsfeld-china-buildup-threat-asia/

American allies to Washington, regional relationships has heightened in the recent years with China playing key leadership roles in various activities, especially in economic bridging. Regional response will be further discussed in the following chapter but it is safe to make points that Beijing has made clear stable regional environment is important and major neighboring powers are stake-holders. Although Japan has affiliation with US army, in recent years Abe administration seemed to have shown interest in parting ways with US in terms of security building and organizing its own army. Because of their bondage (as a result of their defeat in WW2) with America, Japan has been frustrated with their negligence, underestimation, and fading influence.

John Mearsheimer reasoned that the mightiest states will attempt to maintain their hegemony in their part of the world, while making sure that no rival power dominates another region.²⁹ However, unlike himself he introduced a variable 'intentions', next to anarchy and power similar to the point made by Richard Rosecrance.

If China does not demonstrate an intention to challenge the existing world order, or if other states including reigning hegemon do not perceive such an intention on the part of the rising Chinese power to seek domination, then there is not necessarily going to be a hegemonic war. As a logical derivation, therefore, the question whether the rising China is going to be a threat does not purely depends on China alone. Rather, a lot also depends on whether other powerful states especially the existing hegemon attempt to suppress it, and thus creating its dissatisfaction with the system. America has been showing intention or trying to suppress China rise, there are numerous instances but to point out some few- assembling the Asian neighbors against China and whisking a revolt in Africa against China's supposed "neocolonialism".³⁰ Signs of suppression from others may create a backlash for example China will be disappointed with the system and retaliate, which will most likely force them to embrace an intention to seek to change the system, even though they may not have the intention now.

So what does the rising power want, security or domination? According to neoliberals, the existing international order, such as openness, economic integrity, liberal internationalism,

²⁹ John J. Mearsheimer, *The Tragedy of Great Power Politics*, New York: WW Norton & Company, 2011, p.36.

³⁰ Adam Tiffen, "The New-Neo Colonialism in Africa," *Global Policy*, No.19, 2014.
<http://www.globalpolicyjournal.com/blog/19/08/2014/new-neo-colonialism-africa>

provides a capacity of the system to ‘absorb China’ rather than be replaced by a Chinese-led order.

It is a rule-based relations enshrined in institutions such as United Nations (UN) and norms such as multilateralism. In this capacity the rise of China is merely a threat. China as a rising power has too much at stake, because China is a beneficiary of the rules and institutions (World Health Organization, UN, International Monetary Fund).

On the other hand, core characteristic of Chinese society show heavy emphasis on education and respect for authority in society, a record of enduring unity and political stability, etc. Most important of all is the people’s acceptance of the state. Scholars are led to believe it is due to the Chinese traditions of Confucianism, but anyhow it seems like that Chinese tradition at large believe in respecting authority. In contrast to Americans, who do not trust their government, but embrace the Jeffersonian belief in the ‘least government’, the Chinese habitually respect authority, including their government.

When it comes to the international status of mainland China, the study of its tradition are influential in understanding the societal changes within. Chinese civilization is one of the oldest that remained to this day, changed but not altered. Why is it important? because domestic developments in China cannot be evaluated by comparing it with those countries born of the *Westphalian* tradition. When China re-rises it is not like the arrival of “new kid on the block”, instead it is almost comparable to a meeting of two civilizations. Like for example, the (re) rising of China must assimilate into the *Westphalian* system, for it to be integrated with other members of that system.

Whether China under Communism makes any difference? Many analysts fear that China comes from Soviet experience. Indeed, the Soviet engineered spread of Communism to Central Europe, Mongolia, Vietnam, and Cuba. It also created Communist North Korea in 1948.³¹ During the Cold War it was trying to export Communism to much of the Third World. However, unlike the Soviet, even under the leadership of radical Mao Zedong, China was never caught with substantial evidence that it was also exporting Communist revolution or building

³¹ James Hsuing, *China into its Second Rise: Myths, Puzzles, Paradoxes, and Challenges to Theory*, Singapore: World Scientific Publishing, 2012, p.247.

Communist empire in its own image abroad. All the so-called ‘Maoists’ sprouting in places like Sri Lanka, Peru, and elsewhere, are self-designated radicals appropriating Mao’s name on their own. All in all, the communist Chinese record does not look so bad when juxtaposed to US attempts to export democracy (to destabilize other regimes) abroad, as in Nicaragua and Cuba, not to mention outright armed invasion of Grenada (1983 under Ronald Reagan) and Panama (1989 under Bush Sr) or the Iraq invasion (2003 under Bush Jr) for that matter.

Furthermore, we need to see whether China under communism acted any differently on foreign policy matters than during the non-communist KMT government from 1945 through 1949 before the CCP was established. During the first Indochina war (parts of Vietnam War) non-communist ruler Chiang-Kai Shek was faced with the dilemma of whether to withdraw its troop from Chinese-occupied Vietnam. Following Nationalist reflexes, it finally decided to withdraw forces from Vietnam, contrary to expectation. Similarly, during the Korean War, Mao Zedong during Communist rule also pulled out its troops from North Korea, just like KMT a decade ago. This similarity shows that China under both Communist and non-communist rule did not had much differences in terms of foreign affairs.

The only concern in the case of China re-emergence is the Chinese Communist leadership’s attitude on the question of social justice.³² This has been hard on China and thus the pressure from other international community because it is being assumed that social justice is most likely to the systematic value on which world affairs will be shaped in the 21st century. So many have been scrutinizing Beijing’s attitude on where China will stand as a future leader in world affairs.

Also, since the Hu Jintao regime, CCP has called for a return of Confucius and his teachings, calling for building social harmony and promoting the study of Confucianism as a serious ethical system on a par with Western philosophies.³³ Like harmony, justice is a Confucian value, in contradiction to west’s “Gun Boat diplomacy” and other acts of “imperialism” against other nations, committed in the name of “white’s-man-burden”.

³² Anna Swanson, “7 Questions and answers to understand US and China,” *The Washington Post*, September 22, 2015. https://www.washingtonpost.com/news/wonk/wp/2015/09/22/everything-you-need-to-know-about-china-and-the-u-s/?utm_term=.6cc4b55ccc25

³³ J.P., “What is China Plenum and why does it matter,” *The Economist Explains* (20), *The Economist*, 2016. <http://www.economist.com/blogs/economist-explains/2016/10/economist-explains-20>

Chapter 3. Infrastructural Mechanism of China Rise

Trade, FDI, regional and global production networks are the principal channels through which the Chinese economy has integrated with the International and neighboring Asian economies in a market-driven manner. Through peaceful rise/peaceful development approach China has been trying to play the role of a major contributor to various developing nations in the region or across the sea in terms of investments, goods, and services, in which existing international monetary institutions may not have been able to respond to quickly.

Keeping in mind the theory of economic interdependence this chapter will revise the Chinese ascendancy in terms of its international investments and infrastructural activities in the international business market. Section 3.1 will provide the role of China as a major exporter thus a major contributor to world GDP. Section 3.2 will look into the determinants of Chinese Outbound Direct Investments (ODI) based on theories of multinational enterprise and the role of China as a net-investor in various developing countries in infrastructure and development. Because of the success of its trade and investments abroad section 3.3 will review the wider role of China as a major institutional game-changer with the establishment of financial institute like AIIB and market strategy like OBOR.

3.1 China's Terms of Trade

To define the terminology, the terms of trade (here China) are calculated as the value of its exports as percent to the value of its imports.¹ An increase in the terms of trade means that the value of exports is increasingly relative to the value of imports. That way a country can afford to buy more imports from the revenue of its exports. For example, an increase in the price of oil will increase the terms of trade for oil-exporting countries and lowers it for the other countries who imports it. The average value of China as indicated in their trading provides an inference to China's participation as an economic power house and its contribution to the world GDP.

¹ Marshall B. Reinsdorf, "Terms of Trade Effects: Theory and Measurement," *Bureau of Economic Analysis*, 2009, pp. 1-2.
https://www.bea.gov/papers/pdf/measuring_the_effects_of_terms_of_trade_reinsdorf.pdf

During the transitioning process its trade relations with the rest of the world went through various stages, from isolation to openness. Its accession to the World Trade Organization (WTO) gave China the opportunity to participate in world trade within a multilateral trading system. The average value for China during the period from 1980 to 2015 was 96.48% with a minimum of 79.01% in 2011 and a maximum of 120.24% in 1981² when they first opened their economy.

Various studies have investigated trade between China and the rest of the world. Free Trade Agreement between China and ASEAN has led to significant trade creation and diversion effects.³ The steady expansion of Chinese international trade since its opening shows how a latecomer can create a place for itself in the international market. Terms of Trade in China averaged 100.54 Index Points from 2005 until 2017.⁴

It is noteworthy that rapid growth in China was influential in integrating Asian economies with each other and support for a dynamic rise of Asia. The economic interdependence between China and neighboring Asia has evolved into a market-based symbiosis. Until the reformation Chinese political leadership was not interested in cultivating close relations with the region or to economically integrate into the Asian economies. In time trade performance in Asia grew increasingly intra-regional, with China playing the role of a mediator because it evolved into a largest destination for regional exports.⁵ A large, open, and rapidly growing economy like China had an impact on its neighbor's growth performance. It created complementarities and growth opportunities for its neighboring economies and intensified competition for them.

Over the last two decades China's share in global trade and its global ranking have gone up steadily. Over this period trade surplus has been normally in surplus, outperforming other emerging economies.

² Data taken from The Global Economy <http://www.theglobaleconomy.com/compare-countries/>

³ Shan Ping Yang, Inmaculada Martinez-Zarzoso, "A panel data analysis of trade creation and trade diversion effects: The case of ASEAN-China free trade area," *China Economic Review*, Vol.29, 2014, pp.138-151. <http://www.sciencedirect.com/science/article/pii/S1043951X14000285>

⁴ Maria Caporale, Anamaria Sova, Robert Sova, "Trade Flows and Trade Specialization: The case of China," *China Economic Review*, Vol.34, 2015 pp. 261-273. <http://www.sciencedirect.com/science/article/pii/S1043951X15000516>

⁵ Shulan Ye, "China's regional policy in East Asia and its characteristics," *University of Nottingham*, China Policy Institute, paper no. 66, 2010, pp.14-17. https://www.nottingham.ac.uk/cpi/documents/discussion_papers/discussion-paper-66-china-regional-policy-shulan-ye.pdf

Table 3.1: Trade between China and the World

Year	Trade value USD \$ (Bn)			
	Total Exports	Total Imports	Re-Imports	Total Trade
2007	1.22	0.95	0.08	2.25
2008	1.43	1.13	0.86	3.48
2009	1.20	1.00	0.10	3.06
2010	1.57	1.39	0.10	3.06
2011	1.89	1.74	0.12	3.75
2012	2.04	1.81	0.14	3.99
2013	2.20	1.94	0.15	4.29
2014	2.34	1.95	0.14	4.43
2015	2.27	1.67	0.14	4.08
2016	2.09	1.58	—	3.67

Source: COMTRADE,⁶ calculation by author

It can be summarized as: China's international trade has been growing gradually in the last decade (2007-2016), indicating high peak during the year 2013-2015. This means trade with the rest of the world was optimistic during the time of reformative policies as announced by Beijing (AIIB, OBOR). According to the theory, future trade expectancy with major partners was positive and hence international position of China was benign. China relies on export-led growth

⁶ UN Comtrade: International Trade Statistics Database <https://comtrade.un.org>

therefore weaker economy has a negative impact on its exports and GDP growth, as seen in recent years.

China's role as a global player not only influences the developed economies but also provides profits to other developing/emerging economies (DEs/EEs) and in turns builds an interdependent economic relationship. For example, Chinese imports from DEs/EEs have grown from 49% to 58% of total imports.⁷ This indicates that China now imports more from DEs/EEs than from advanced economies. These DEs/EEs partners are comprised mainly from the developing Asian states, which China has special interests under the Regional Comprehensive Economic Partnership (RCEP) between ASEAN and China, India and advanced economies of the region, especially after the failure of the Trans Pacific Partnership (TPP) under US administration.

It is understood that China's rise as an economic superpower not only provides benefits to other developing nations, especially to its neighbors but it also requires regulations. For example, slowdown in economic growth causes a detrimental effect on its economic partners, mainly due to the interconnected networks of economic dependence. Thus due to one of these reasons, China attempts to pursue a careful approach to maintaining a stable environment in the region.

The economic impact of China on developed economies in East Asia, Western Europe, and North America are substantial and huge. For example, the developed economies integrate into China and yield positive benefits from the refined global division of labor. These developed economies (Korea, Japan, Singapore, and Taiwan) preserve their competitiveness by shifting their labor-intensive manufacturing components of their production chain to China and maintaining the higher value added component of research and development and of marketing and distribution at their home country. The emergence of low-wage market in China simply means more industries would be shifted to China making them a rising major manufacturer.

Similarly the value of international trade of Western Europe and North America are not necessarily affected by the rise of China because these economies export a large proportion of

⁷ Martin Raschen, "Do China's rapid rise effects other developing and emerging countries at various levels," *KFW Research*, Focus on Economics, No. 166, 2017 p.3. https://www.kfw-entwicklungsbank.de/PDF/Download_Center/PDF-Dokumente-Development-Research/2017-05-04-FE-VF_China%27s-Aufstieg_EN.pdf

their capital-intensive goods and high value added services to China and import bigger share of labor-intensive goods from China and other Asian economies.⁸ This shift in destination of exports and sources of imports is why there is no noticeable change in the overall trade between Western economies and Asia unless taken unilaterally. And also perhaps the reason there is a visible change in the trading pattern shifting from labor-intensive to capital and technology-intensive exports in recent years.

3.2 *China Direct Investment Abroad*

According to Dunning's eclectic framework there are three primary determinants for foreign economic activities in investments and multinational enterprises:⁹ *Market seeking* FDI are undertaken by emerging economy to access networks and facilitate the exports of domestic products. Secondly, *Efficiency seeking* FDI occurs when outward investors seek lower cost location for production, for example search for low cost labors. And finally, *Resource seeking* FDI occur when emerging economies pursue acquisition of supply of raw materials and energy sources, which maybe shortage at home.

For emerging economies like China, potential reasons for outbound foreign investments are seeking for markets for Chinese MNEs to internationalize to gain better access to foreign technology, strategic assets, and capabilities often by acquisition of these firms or subdivisions of them to exploit new markets and diversify their business activities in order to improve their international competitiveness.¹⁰

Resource seeking is essentially high in case of Chinese outbound foreign investments. Governments have used ODI to ensure the supply of domestically-scarce resources as their economy continues to grow. Chinese diaspora is also expected to have contributed to the

⁸ Woo Wing Thy, "The Economic Impact of China's Emergence as a Major Trading Nation," Hong Kong Centre for Economic Research Letters, Vol.76, 2003, p.17. <http://www.hkcer.hku.hk/Letters/v76/wtwoo.htm>

⁹ J.H Dunning, "The Eclectic Paradigm as an Envelope For Economic and Business Theories of MNE Activity," *International Business Review*, No. 9, 2000, pp. 164-165. http://www.exeter.ac.uk/media/universityofexeter/internationalexeter/documents/iss/Dunning_IBR_2000.pdf

¹⁰ J.H Dunning, "The Eclectic (OLI) Paradigm of International Production: Past, Present, and Future," *International Journal of the Economics of Business*, Vol.8, No. 2, 2001 pp. 176-177. <http://faculty.ksu.edu.sa/ahendy/313%20ECON/Syllabus%20and%20Handouts/Dunning1.pdf>

integration of China into the world economy since late 1970s. Strong economic connections amongst overseas Chinese in business dealings may also influence patterns of Chinese ODI. A number of scholars (Sung, Erdener et.al)¹¹ suggest that Chinese firms will invest in countries with a large resident population of ethnic Chinese and such countries are mostly to be found in Asia.¹² Thus this perhaps explains their involvement in the developing Asian region as a key player.

Internalization theory asserts the importance of equity-based control in the exploitation of scarce natural resources and so a positive association between the natural resources endowment of countries and Chinese ODI is expected.¹³ Thus, Chinese ODI is associated positively with host country endowments of natural resources.

Moreover, some studies held that most Chinese OFDI are state owned enterprises and as such investments decisions are derived with political objectives and not just profit-maximization unlike other countries foreign investments. These objectives are to promote domestic development to ensure regime survival or to support Chinese foreign policy by promoting host country development.¹⁴ These may suggest that Chinese investing abroad may not necessarily be a ravenous activity with foul intentions but a purpose for them to maintain a balanced domestic and foreign policy for their own country.

Opening its economy to foreign investors has been and remains an essential element of China's reform policy since the 1970s. Investments with high value added, production with high-end technology and modern sciences, renewable energies, and environmental protection are directed, controlled and welcomed. Most Foreign Direct Investment (FDI) in China comes almost exclusively from advanced economies. While on the other hand investments from

¹¹ C. Erdener, D.M Shapiro, "The Internationalization of Chinese Family Enterprises and Dunning's Eclectic MNE Paradigm," *Management and Organization Review*, Vol.1, Issue 3, 2005, pp. 420-425.

<http://dx.doi.org/10.1111/j.17408784.200500021.x>

¹² Sung Yun-Wing, "Chinese Outward Investment in Hong Kong: trends, Prospects, and Policy Implications," *OECD Development Centre*, Working Paper no. 113, Paris, 1996, pp.26-30.

<http://dx.doi.org/10.1787/000007223551>

¹³ P.J Buckley, M. Casson, *The Future of Multinational Enterprise*, London: Macmillan Press. Ltd, 2nd edition, 1991, pp. 33-58.

¹⁴ Ivar Kolstad, Arne Wiig, "What determines Chinese Outward FDI?," *Chr. Michelsen Institute*, CMI Working Paper (3), 2009 p. 6. <https://doi.org/10.1016/j.jwb.2010.10.017>

developing or emerging economies (DEs/EEs) are hardly present in China but the country is highly active as a direct investor in DEs/EEs.

Since China started the ‘Going Global’ as their national-policy strategy in 2000s and similar ‘Made in China 2025’ industrial strategy in 2015,¹⁵ the number of Chinese subsidiaries abroad has increased steadily. These strategies aimed at building transnational Chinese enterprises and obtaining sources of raw materials and peak technologies and management skills and thereby improving their productivity. Thus target countries of Chinese FDI abroad are broadly scattered.

Table 3.2: Target Countries of Chinese FDI

REGION	OFDI
Developing Asia	59%
Eastern Europe	11%
Latin America	6%
Sub-Saharan Africa	24%

Source: IMF

According to above data as of 2015, the predominant region for Chinese OFDI is the developing Asia followed by Sub-Saharan Africa with just under one fourth.¹⁶ China’s investments abroad are massive, amounting to \$1652.77B total (2005-2017), according to *China Global Investment Tracker* released by the *American Enterprise Institute*¹⁷ and almost half of its worldwide investments are in the energy sector amounting to \$629.96B.

In recent years a number of emerging economies are playing an increasing role as financier of infrastructure in Sub-Saharan Africa. Economies like China and India has high demand for energy resources like Petroleum and natural gases and Africa is rich in these

¹⁵ Scott Kennedy, “Made in China 2025,” *Centre for Strategic and International Studies*, 2015. <https://www.csis.org/analysis/made-china-2025>

¹⁶ Martin Raschen, “China’s rapid rise effects other developing and emerging countries at various levels,” *KFW Research*, Focus on Economics, No. 166, 2017 p.3. https://www.kfw-entwicklungsbank.de/PDF/Download_Center/PDF-Dokumente-Development-Research/2017-05-04-FE-VF_China%27s-Aufstieg_EN.pdf

¹⁷ China Global Investment Tracker (2005-2017) <http://www.aei.org/china-global-investment-tracker/>

resources, thus they exchange resources for investments abroad to broaden its economic bases for supporting economic growth and poverty reduction. Nigeria, Angola, Sudan, and Ethiopia are the biggest recipients of Chinese finance.¹⁸

China's emerging role as a major financier in the region can be understood in terms of the economic complementarities that exist between the two parties.¹⁹ Africa needs infrastructure assistance for development while China needs raw materials to feed its manufacturing sector.

In terms of distribution of Chinese finance, a large portion goes to large-scale infrastructure projects with a particular focus on power sector (mainly hydropower) and transport (mainly railways). Although China is greatly invested in energy sector for FDI in Africa, nevertheless they remain a relatively small player in extracting Africa's natural resources as compared to the OECD economies.

In case of Latin America, China is a big lender to Venezuela and Argentina. Experts have critiqued China's involvement in these two countries, as the two being the most troubled countries in the region. It seemed like China was sought when western creditors neglected the two countries in times of need. Thus during crisis situation, China became the superhero savior of the day, which would definitely boost China's credibility as a world net investor.

Like in all other region, outbound Chinese FDI in Asia is also heavily concentrated in Energy sector or resource extraction. Southeast Asia, Central Asia, South Asia, and Australia (Oceania) are the major areas in the region for outbound Chinese investment, with the highest being in Australia for metal and energy and Central Asia for energy industries (especially in Kazakhstan).²⁰

Even though energy remains the primary sector of investment, Chinese capital has gradually expanded to areas like transport, real estate, technology, and tourism. It can be assessed that these area of investment are part of Belt and Road initiative. In Southeast Asia

¹⁸ Stefano Pozzebon, "China has Crossed a Major Investment Threshold That is Going to Change the Entire World," *Business Insider UK*, 2015. <http://uk.businessinsider.com/statistics-on-chinas-investment-abroad-2015-2>

¹⁹ Vivien Foster, et.al, "Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa," *The World Bank*, Trends and Policy Options, No. 5, 2009, pg 14-15. <http://documents.worldbank.org/curated/en/93699146802353753/Building-bridges-Chinas-growing-role-as-infrastructure-financier-for-Sub-Saharan-Africa>

²⁰ China Power Team, "Does China dominate global investment?," *Centre for Strategic and International Studies*, 2016. <http://chinapower.csis.org/china-foreign-direct-investment/>

investment in focused in infrastructure development projects including transports. While in East Asia like Japan and Korea Chinese firms have investments in finance, technology, property, and even entertainment.

China has strengthened its bilateral trade in the region through development aid. It has set up development funds like the Silk Road Fund and China-ASEAN Fund, and moreover Chinese leadership in the Asian Infrastructure Investment Bank (AIIB) demonstrates its desire to create its own development lending platform.

3.3 AIIB and OBOR

The Asian Infrastructure Investment Bank (AIIB) is an ambitious initiative by China that aims to provide financing for infrastructural projects in Asia. Before the global financial crisis there was already a heated debate on global imbalance. But at that time the emphasis was put on some countries spending too much and some saving too much. For example China was saving too much and was asked to encourage domestic consumption. But doing so requires many factors at play: for example, there should be a rise in income, and well functional social safety network, which all takes time. Gradually China realizes that more important thing to do to boost economic development both domestically and internationally was Investment. And as illustrated by the Asian Development Bank (ADB) study, Asia has a huge investment gap.²¹

As such, in order to enhance economic development in the region, China initiated AIIB to help provide financial assistance for infrastructural development, especially after the failure of western born institutes like World Bank (WB), International Monetary Fund (IMF), including ADB failed to show assurance. AIIB may need a clear vision which they have not articulated clearly otherwise the outsiders will view AIIB from a different perspective, moreover because AIIB has the potential to be used as a policy instrument to realize China's foreign policy objectives. Basically, the intent behind the AIIB is to provide for infrastructure financing in

²¹ Michael Peel, Tom Mitchell, "Asia's \$26tn Infrastructure Gap Threatens Growth, ADB warns," Infrastructure investment, *Financial Times*, February 28, 2017. <https://www.ft.com/content/79d9e36e-fd0b-11e6-8d8e-a5e3738f9ae4>

needed areas since the existing international financial institutions are not doing much infrastructure financing as they used to.

Also, AIIB itself can't bridge the investment gap. It is still early to articulate the mundane of the bank, also it is not only China's bank, and there are more than 50 members so it will have to make collective decisions and thus in rhetoric is a collective initiative.

Some experts say that there are two conditions that can be done to prove that AIIB is a genuine international organization and not China's tool for foreign policy objective: First, China's share could be reduced to less than 20%.²² For example, in ADB the highest percent share is 16% (Japan and US) and the resident representative is at the location of that institute (like IMF, WB, ADB). However in case of AIIB, at the moment China asserts that this is unnecessary and it should be enough for participating countries to communicate with one another from their home.

To this, other experts disagree saying that AIIB's initiative to work from own home country without the existence of any bureaucratic committee could be an interesting challenge.²³ Especially given the experience of IMF, WB where these bureaucratic members have done nothing for their country but themselves. And AIIB takes pride saying it will design its structure learning from the mistakes of the other existing institutions. Existence of some sort of executive delegators being at the site has been considered to monitor the institution so that one party do not dominate the decision making.

During the time China was launching AIIB, its campaign for enlisting as many founding members as possible has been positive, joined by all the members of ASEAN, including Philippines, who at that time was having dispute at South China Sea. This indicates that there was broadly a fair acceptance of the necessity for an additional development agency for the developing nations within the campus of the region.

²² Martin A. Weiss, "Asian Infrastructure Investment bank (AIIB)," *Congressional Research Service*, 7-5700, R44754, 2017, p.2. <https://fas.org/sgp/crs/row/R44754.pdf>

²³ Zhiqun Zhu, "China's AIIB and OBOR: Ambitions and Challenges," *The Diplomat*, October 9, 2015. <http://thediplomat.com/2015/10/chinas-aiib-and-obor-ambitions-and-challenges/>

AIIB's sole focus on infrastructure which is, transportation, telecommunication, and energy projects are indicative of Chinese caliber in the field of science and technology and the demand for capital for faster infrastructure development in most ASEAN nations.

Chinese view of development focus on 'hardware'- roads, bridges, and rails rather than 'software aspect of development- trainings, services, best practices and so on, which it wants to bridge the gap through AIIB. Also as many suspects, another function of AIIB could be to align with China's ambitious idea of creating the silk route, that will potentially connect the old silk routes through Central Asia to Europe with Chinese- made infrastructure like rails, bullet trains.²⁴

From Chinese point of view, one of the motivations behind the idea of establishment of AIIB (including the BRICs bank) was due to the frustration over slow pace of reform within the existing international financial institutions (IMF, WB, ADB). Disconcerting is expected when a major power proposes changes and new mechanism to the existing regional architecture, especially in an environment rampant with suspicion over intentions. However, it seems more practical for the world community to support this new entity, especially US, because if Beijing is open to multiple stakeholders and aims to promote an international scope with the AIIB, then it would be worthwhile for US involvement to help the bank achieve global best practices. Furthermore, US involvement could help the bank be complementary to, rather than directly competitive with existing International Financial Institutes (IFIs).

Although China is the largest economy in Asia, Japan still dominates the ADB, even with IMF reforms to give China a greater voice has been delayed for years. Looking from Beijing's point of view it is undeniably a biased situation. So in response, China's new strategy is to establish new institutions for Beijing to play the kind of role that it could not in IFIs. And they have been cautious about this endeavor by not upsetting the current global system by playing a two-track approach- where it is creating new institutions on one hand, and still actively participating in existing institutions (IMF, WB, ADB, WTO) on the other.²⁵

²⁴ *Ibid.*

²⁵ Larry Greenwood, "AIIB: Now comes the hard part," Commentary, *Centre For Strategic and International Studies (CSIS)*, February 18, 2016. <https://www.csis.org/analysis/aiib-now-comes-hard-part>

It would be favorable if United States would get involved in an initiative like AIIB to avoid Beijing taking sole credits for its functions. It could be an area of cooperation and a win-win situation for various reasons.

First, there are so many crises in the world, the Middle East is the epicenter of regional war and conflict, Eurasia is struggling with territories seceding, Europe is facing refugee crisis, Africa struggles with underdevelopment. On top of that the world economy is definitely not in good shape. Against this backdrop East Asia presents a vibrant region in the world. Besides the territorial claims at sea, it is undeniably still the global growth center. ASEAN nation has tremendous economic potential and infrastructure is the blockage of its economic development. For example, for a nation like Indonesia, if it succeeds in building its highway system across the country it would unleash economic potential not only domestic but also foreign. Infrastructure building is very expensive. At this stage, Indonesia lacks sufficient investment. The same applies to many countries in the region. When it is founded, AIIB will be very useful to help many Asian countries in infrastructure building. If the United States and Japan join the AIIB together with China and the ASEAN countries, AIIB will play an important role in promoting growth of the region in general and the world as a whole.

Secondly, AIIB is not designed to replace any IFIs it is simply to bridge the gap for infrastructure investment.²⁶ Many banks avoid infrastructure projects because it is long term investment and the returns come slow. Infrastructure building in the region will give a strong push to further economic and trade cooperation in the region which will benefit the world economy.

Thirdly, AIIB is an ideal opportunity for Sino-US cooperation. The US is the major superpower and largest developed nation, while China is the largest developing nation. A healthy relationship between the two is a reassurance for the entire world. Asia is rising and there is an inevitable global shift towards the east and AIIB will provide positively to this change and thus a positive undertaking between China-US in this initiative is for the benefit of the world.

²⁶ S.R., "Why China is Creating a New World Bank for Asia," *The Economist Explains* (6), *The Economist*, November 2014. <https://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6>

One Belt One Road

One Belt One Road (OBOR) and AIIB has been the biggest foreign policy change in Beijing since 1989. Xi's grand strategy is to create new platforms in the international system or a new international environment that is favorable to China, instead of directly challenging the existing international institutions. They claim to take progressive and not provocative steps in this endeavor.

Beijing has claimed that these initiatives are solely to promote economic development and trade, but we can't help but look into the alternative that it is to secure China's greater security and long term strategic objectives. That is to say that China is marking its place in a world of uncertainties and insecurity. Just like power theory in IR, actions and reactions in the international system will influence foreign and domestic policies. China's foreign policies has been influenced by what's been happening in the Western dominated world system.

At the 2014 APEC meeting, Beijing presented its proposal for regional integration – Free Trade Agreement of the Asia Pacific (FTAAP) and AIIB.²⁷ FTAAP is Beijing's version of TPP, again rather than directly confronting with TPP they proposed their version of trade blocs. And AIIB is alternative to Asian Development Bank and World Bank. In creating its own alternatives, China maintains more control and can make a greater impact in power balancing in the region.

OBOR simply addresses a far-reaching economic development plan and focus on improving trade, infrastructure, and connectivity in this region. The new Silk Road Economic Belt will connect China with Europe through central and western Asia, while the maritime silk road aims to connect China with SE Asian countries, Africa, and Europe.²⁸

The real purpose of this initiative is however, security. China is using this plan as an attempt to mend relationship with its Asian neighbors, after much discord at the South China Sea in recent years. It is also planning to increase friendly relationship with Central and West Asia,

²⁷ Asian Powers Comment on the 2014 APEC Summit, *Rising Power Initiative Policy Alert*, No. 87, 2014. http://www.risingpowersinitiative.org/wp-content/uploads/policyalert_87_apec.docx.pdf

²⁸ Anna Bruce-Lockhart, "China's \$900Billion New Silk Road. What you need to know," *World Economic Forum*, 2017. <https://www.weforum.org/agenda/2017/06/china-new-silk-road-explainer>

mainly for two reasons-²⁹ first for greater access to resources like oil and gas, and secondly to help deal with the Muslim population in Western China (Uyghur separatists) who have close connections with Central and West Asian countries, in which Beijing is hoping this initiative will help in dealing with these security challenges by gaining the support and collaboration from the governments of Central and West Asian countries.

OBOR can also be seen as China's formal response to US's pivot to Asia. Also it wants to use this to make the best use of the strength it has. For example, with this initiative China wants to build highways, railways, pipelines, and ports. China has the caliber in this area because, first they have excess trade surplus and seeks effective ways to make use of this surplus. And it is a good option for Beijing to allocate this surplus in the Asia-Pacific region given the risk of investing in America and Europe after the wake of global financial crisis. Second, development ventures has created environmental issues in China, thus by promoting OBOR and regional infrastructural development plans, China could send their factories and manufacturing hubs to other nations in the region.

By exporting technologies and deepening economic and trade relations within the region China hopes to integrate Asian region, which will also increase their reliance on Chinese markets and capitals, which will eventually help China take on the leadership role in the region allowing it to more successfully counter balance US pivot to Asia. Through these initiatives Beijing has stated that it will allow its neighbors to "free ride" on China's development schemes, commented in response to Obama's remark on China being a "free rider" for the past 30 years.³⁰

Equally it is important for the international community to avoid seeing everything from the zero sum perspective. China's growing involvement in multilateralism is a welcome development and supports the strategy and policy of its neighbors who see that engaging China through multilateral institutions is a rather superior approach to regional order than containing China.

²⁹ Richard Ghiassy, Jiayi Zhou, "The Silk Road Economic Belt: Considering Security Implications and EU-China Cooperation Prospects," *Stockholm International Peace Research Institute*, 2017, pp. 12-22.
<https://www.sipri.org/sites/default/files/The-Silk-Road-Economic-Belt.pdf>

³⁰ Kevin G Cai, "China's Foreign Policy Adjustment Under Xi Jinping," *China's World*, *Huawen Institute*, London, Vol.2, Issue. 2, 2015 pp. 35-36.
<https://www.du.edu/korbel/media/korbel-international-newsletter/szhao-china-and-globalization-in-the-era-of-xi-jinping.pdf>

Despite various efforts, there are few inevitable challenges AIIB/OBOR may face:³¹ The success of these initiatives will depend on how China's neighbors welcome the influx of money and resources to their shores. It is possible that the neighbors may take in the development money but would not reciprocate in granting China greater influence or closer political and security ties.

The worst case scenario for Beijing will be them losing out lots of their money and not getting the influence that it seeks in return because many of its neighbors may still choose to work with America on security issues while cooperating with Chinese on development. In international relations, influence will not derive from a country's money but rather from the promotion of shared values, common identity, and soft power because IR is a construction of who you are, what you are, and how others perceive you.

Also for China to take on leadership role, it needs to change its image in the lines of improving policy research and think tanks, civil society, and soft power. Because hard power will very much depend on soft power. In the 21st Century, OBOR is probably going to be the anchor around which China's global rise/outreach would be shaped.

The 'Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st-Century Maritime Silk Road' document-³² announced by the China National Resource and Development Commission and the Ministry of Foreign Affairs, lists OBOR objectives as: Enhancing policy coordination across the Asian continent; Trade liberalization; financial integration; and connectivity including people to people links.

The document describes OBOR as an effort to integrate the development strategies of the countries along the Belt and the Road. The document further states it is to enhance the spirit of open regionalism. It further states that 'The Belt and Road run through the continents of Asia, Europe, and Africa, connecting the East Asian economic circle at one end and developed

³¹ "Prospects and Challenges on China's One Belt One Road: A Risk Assessment Report," *The Economist Intelligence Unit*, www.eiu.com, 2015.

https://www.iffco.org.hk/docs/default-source/Default/ge-one-belt-one-road-report-engversion_economist.pdf?sfvrsn=2

³² "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" March 28, 2015, National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization. http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

European economic circle at the other and encompassing countries with huge potential for economic development’

OBOR will transform China from low-end commodity export to high-end commodity exports, capital and technology exports. Its initiative is underpinned by the Chinese led AIIB, BRICS new development bank, and a proposed Shanghai Cooperation Organization Financing Institution. Another important motivation behind OBOR is to accelerate the development of the country’s relatively poorer western and southern provinces.

Statistics has reported that a sum of \$20 billion is available for infrastructure and cross-border projects in the (western and southern) provinces which will be linked to the ‘Belt’ component of the initiative, in particular Sichuan, Gansu, and Qinghai on China’s western side, and Yunnan on the southern side.³³ As such, Chongqing in Sichuan is established as the starting point of one of the branches of a rail corridor linking it with the German city of Duisburg. Another corridor will link Beijing with the port of Hamburg.

At the 2014 Shanghai Cooperative Organization (SCO) summit, it was announced that the country would push for the completion of 4,000 kms of railways and 10,000kms of highways within the Eurasian region and that \$16 billion of the Silk Road Fund would be dedicated to projects in Central Asia.³⁴

China puts great emphasis to promoting financial integration among countries along the OBOR belt. In this context, the UK has become a key platform for the internationalization of Renminbi, the creation of an off-shore yuan bond market and the spread of Chinese banking in Europe. Apart from logistics and transport hub, London has become China’s preferred center for the launch of yuan-denominated bonds.³⁵ China has invested in the redevelopment of real estate in the British capital and will guarantee \$3 billion for the proposed nuclear power station in

³³ Shiv Shankaran Nair, “China’s One Belt One Road, threat or Opportunity,” February 10, 2017.

<https://www.linkedin.com/pulse/chinas-one-belt-road-threat-opportunity-shiv-shankaran-nair>

³⁴ Shyam Saran, “What China’s One Belt and One Road Strategy Means for India, Asia, and the World,” External Affairs, *The Wire*, October 9, 2015. <https://thewire.in/12532/what-chinas-one-belt-and-one-road-strategy-means-for-India-Asia-and-the-world/>

³⁵ Liu Dongmin, et.al, “The Belt and Road Initiative and the London Market- The Next Steps in Renminbi Internationalization,” Research paper, *Chatham House*, 2017, pp.16-18. <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-01-17-belt-road-renminbi-internationalization-liu-gao-xu-li-song.pdf>

Hinckley.³⁶ Several British banks have been given license to operate in China. This British-Chinese cooperation in financial integration has lobbied the other European financial centers, particularly Frankfurt and Paris.

This is important because it could weaken the trans-Atlantic alliance which has been a stable feature of geopolitics since the Cold War (America alliance). The British has rushed to join the AIIB followed by several other European nations against US disapproval, was a clear indication of this emerging trend. The longer the TTP takes to be actualized, the greater the chances of China's Eurasian project succeeding.



³⁶ Bagehort, "The Osborne Doctrine: Britain is Sleepwalking Into a Much Closer Relationship With China," *The Economist*, September 26, 2015.
<https://www.economist.com/news/britain/21667935-britain-sleepwalking-much-closer-relationship-china-osborne-doctrine>

Chapter 4. Transition in the Asia-pacific

In a self-help anarchic system, power transitioning and balances of power recurrently occur in the international system. In a multipolar distribution of power, (three or more) states will balance each other through the formation of counterbalancing alliances. Constructivists discard the realist balance of power theory as the potential for conflict between the two states and instead argue that a shared identity will determine whether the two states view each other as threats.¹

In this chapter, section 4.1 explores the transitioning of Rise of China as a gamble for opportunity or perceived threat. Japan, South Korea, Taiwan, Australia, India, Vietnam are all allies of America, and their relationship will only continue to strengthen if they feel threatened by China's dominance and there is no reason that these states will try to balance China's rise, especially given the tension in Korean peninsula, Taiwan strait, US-Australian relations, and India's continuing ascension.

The above statement is preached by many scholars and alike, but with change in time the statement is beginning to lose its ground. Meaning that, beginning from 2013 onwards Xi administration has been developing strategic policies to shake hands with neighbors and have a peaceful regional environment, which of course is important for their domestic development and international reputation. These allies are beginning to look at China as the leader to take charge in economic prosperity and global economic growth and development in which these nations are also ultimate beneficiaries. AIIB and OBOR prove as an example of how American allies are moving away from the grips of American dominance regarding regional affairs.

With regard to security, of course these allies would continue to seek American protection but for how long? We cannot rule out the possibility that America with its superiority in power could anytime define its national interests at the expense of others, like they did in the past with Latin American nations and Africa. As a result, section 4.2 reflects the response of the region, especially the ASEAN community and the economies of APEC regarding the recurring change

¹ David Rosseau, "The Rise of China through Liberal, Realist, and Constructivist Lenses," Working Paper, *University of Pennsylvania*, 2003, p. 3.
<http://www.e-ir.info/2011/03/10/7557/>

of power as to whether the shift is a prospect for regional strengthening or a threat for world order.

4.1 Opportunity or Threat?

Many countries in Asia still rely on America for regional security but at the same time they are and have always protected their sovereignty. Recently Japan has shown interest in maintaining their own standing army, South Korea and other South East Asian nations want to limit American military presence in their shores. As for ASEAN, where many members are in the category of underdeveloped, western organizations and nations may patronize its credibility, but as the oldest regional organization, it is potential in steering their own security policies, and with the help of China many of their underdeveloped nations will benefit in infrastructure and development which will ultimately strengthen the power and influence of the organization.

In the Korean Peninsula, possibly China and South Korea may become more dynamic in their partnership because China and North Korea are merely economic partners and China is a member of Four-Party Talks and Six-Party Talks and together with America pressures North Korea on various issues including weapons of mass destruction.² Also many link these two nations on the lines of political ideology and thus say that they are partners but North Korea and China are different in their identity and ideology and it is only at the interest of China to have friendly relations with South Korea than with North Korea for various obvious reasons. And if South Korea plays their card right, they can become more prominent in global and regional power standing next to Japan with the help of China.

Irrespective of Japan's China threat theory, China is indeed important to Japan because its increase market conditions give Japanese enterprises a safe haven to avoid trade wars with the US and EU, like it did in the 1980s. Many products are from Japan but assembled in China and because of this China take the blame for "Made in China" trade surplus while in reality profits

² Wu Xinbo, "China and the United States: Core Interests, Common Interests, and Partnership," *United States Institute of Peace (USIP)*, Special Report 277, 2011, pp. 4-5.
<https://www.scribd.com/document/176308437/China-and-the-USA-Wu-Xinbo-pdf>

are returned to Japanese and American enterprises.³ Hence Japanese enterprises use Chinese markets as its manufacturing base and relies heavily on its major consumer market. Even more importantly, China is in no position to threatened Japan as Japan has higher per capita GDP; competition for technology products is higher; higher education; environment friendly; more influential Soft Power; under US Nuclear umbrella. Amongst all, Japan and China rely heavily on each other economically, and US cannot support Japan in its effort to contain China because they have their own interests at stake.

ASEAN has been ridiculed for some time now as a dying, sunset organization. It began with the Asian financial crisis, followed with growing instability in Indonesia, Singapore-Malaysia squabbles and the terrorist threats to the region. Yet, ASEAN began to see stronger nations knocking on its doors, more significantly after China signed a framework agreement for a free-trade pact with ASEAN together with India. The moves by stronger nations on ASEAN are in response to China's courting of ASEAN for enhanced geopolitical and economical influence.⁴

This balance of power politics had to do with fear of being sidelined by Beijing's growing economic clout and military might. In other sense, Chinese activity has become an important determinant of regional peace and security and less likely conflict because they all have economic interests at stake. Also importantly, irrespective of competitive economic logic, there is the shared concern for threat against transnational terrorism.

America's image juxtaposed to China's image it is understood that America always had an image of "Hobbesian" nature. It is insecure and reliant on military influence for instituting foreign policies. Take for example the Iraq War, there are various theories that the war was not intended to destroy terrorists, search for weapons of mass destruction, or transform Iraq into democracy but was rather to secure control of Iraqi oil. After investing a huge cost on the war and damaging its image in the world, America still failed to benefit from cheaper Iraqi oil or even succeeded in containing China's access to Middle East oil. Instead China's imports from

³ Sheng-Wei Wang, *China's Ascendancy: Opportunity or Threat*, Washington D.C.: International Publishing for China's Culture, 2007, p.156.

⁴ Amitav Acharya, *Asia Rising: Who is Leading?*, Singapore: World Scientific Publishing Co., 2008, p. 89.

the Middle East increased drastically. China's efforts to policies of peaceful rise may prove to be more effective than the US method of instigating war.

Since the beginning of 21st Century under the leadership of Hu Jintao, China has emphasized on 'Peaceful rise' and/or 'peaceful development' to counter the 'China threat' argument that is still prevalent in some parts of the world. To a large extent whether China is a threat to its neighbors lies on how they perceive China's intention and policies. Chinese leaders have moved towards embracing more liberal values, norms, and institutions in their contacts with the Western world. From a constructive perspective, the announcement of 'Peaceful rise' and 'Peaceful development' itself means the leaders have learned from historical evidences that it must avoid the mistakes of pre-World War Germany and Japan and Soviet Union in the Cold War and instead ensue peaceful rise.

Modern Chinese leaders seek to change the conception of a rising China by expanding the country's economic interests while minimizing rising international concerns about its growing power, through economic diplomacy, with energy and trade high on the agenda. China has dynamic relations with its neighboring states, along with other major powers and deep regional cooperation with APEC, ASEAN, SCO, WTO, and UN. Perhaps it is safe to say China's economic progress and influence have steadily enhanced its use of soft power to build peaceful approach to trading and avoid imposing political ideology or system on other nations.

At the same time, it must be understood that China still faces series of challenges both domestically and international, that if not handled accurately could lead China down a revisionist path associated with past rising powers. China does not control the fate of rising peacefully and even if it does try to maintain the pace, a containment policy directed towards them could derail even their best intentions. For examples, issues of border and territorial disputes with neighbors, Cross-Straits relations, environmental issues, Separatists movements (Tibet and Xinjiang), human rights issues, all of which are obstacles to regime instability and economic growth. The success and failure of these issues and conflicts could break or promote China's peaceful rise and so Chinese leader's policy making decisions are very important to this.

Despite differences, equally there are significant common and shared interests that China shares with the rest of the world. There is global issues regarding terrorism, nuclear proliferation,

energy and environmental protection, regional security issues like peace in Korean Peninsula and the Taiwan Strait, and multilateral economic and market benefits. Thus challenges and opportunities co-exist in Chinese foreign policy, which could be utilized by concern actors to forge stronger cooperation over competition. Efforts for regional and bilateral cooperation, or strategic partnership among all major players in the region (Japan, India, US, China, and Russia) to provide opportunities and incentives to maintain stable and constructive international environment are such example.

There is a changing world order in place, distinctively the variance between the Western world and the Oriental world. Simply take an example of contrast between the US, Europe, and Asia towards power and international relations. American and Europeans on one hand present two different worldviews and strategic cultures⁵. Europeans have entered a post-war paradise of peace and prosperity and favor peaceful solutions through diplomacy, persuasion, and negotiation, while Americans depend on possession and use of military might for security in an unreliable international order.

Asians on the other hand lags behind European level of integration and commitment to liberal democracy. They are not a post-war paradise of peace and prosperity and its lack of power has led to strategic dependence on United States. However, Asians are not and cannot be as aggressive in the sense that America is. Firstly they lack the means to pursue national objectives unilaterally through force. Secondly, unlike the Cold War period, Asia's regional order now rest on shared economic liberalism, democratic transitions in many countries, and emergence of robust regional institutions. Asia is more interdependent and institutionalized that it was in the 1960s. Hence the Western worldviews and strategic principles lacks in enlightening Asia's complex and fluid security predicament. More importantly, unlike the Europe and US, Asia is culturally heterogeneous and thus firmly beholds sovereignty as the fundamental basis for stability and identity. They negate American unilateralism and fear legitimizing outside intervention in their internal affairs.

⁵ Robert Kagan, "Power and Weakness," *Policy Review*, no. 113, July 2002, pp. 1-4.
<https://www.ies.be/files/documents/JWCdepository/Robert-Kagan-power-and-weakness-Policy-Review-No-113.pdf>

The main theoretical basis for China threat is the belief that historical evidences showed rise of any nation accompanied by war and expansion. For example, the rise of Germany or the Japanese Empire. But since the 9/11 America has changed its perception towards rising nations for a global teamwork over anti-terrorism or war on terror. Since then, the world has changed for a more globalized nature even to accommodate the rising China into a foreseeable future. The size and rapid development has made China to play a larger role in global balance of power. In short, China has earned its position in the modern world where any significant changes in its political and economic atmosphere could affect global stability.

4.2 Response of the Region

Much of the debate on China's global role has been conducted from the perspective of the West, and has therefore reflected particular Western prejudices. Yet China's impact on the world and the world's impact on China will be felt much more through regional relationships where the concerns are more dominant.

The first concern is to avoid any hegemonic war with the United States. The academic perspective of power transition theory suggests the inevitable conflict between the two giants. It is to the interest of the Chinese to avoid meeting such fate as they wish to become a lasting power without paying the costs of hegemonic war and hostile confrontation.

America's response to the ascendancy of China has been indirect both for and against. The US knows that their allies in the region have deep economic relationships with Beijing, and thus appears to welcome a rising peaceful China. But it also knows that China's assertiveness over territorial conflicts, trade or other disputes gives them the opportunity to connect with concern nations about what sort of power China will be.

Economically US responded with a free trade agreement that will champion open markets where private and state-owned firms compete on equal term (TPP). Military US responded by strengthening ties with Australia, already existing bases in South Korea, Guam, Japan, and the Philippines to send out the message that America is ensuring it is strategically poised to project power over the vital trade routes that pass through the South China Sea.

One thing is certain that caught between the sultry relationship between the two major power are the allies in the region that has both strategic relations (economic and security) with the two. Considering there are differences between the Northeast and Southeast Asia as well as within Southeast Asia based on historical legacies and post-war political contexts, optimism is hardly guaranteed. For this matter various factors are identified in terms of response to China's rise.

Trade dependence is considered where the more dependent nations with China are less likely to balance against it for fear of any adverse impact on their economic ties. Overseas Chinese population is also considered where larger population of overseas Chinese means sharing their economic assets, thus more cautious the nation may become toward the rise of China. The more regime similarity a nation shares with China less likely antagonist relations. Any nation sharing territorial dispute may be likely wary of rising China. And finally, a nation with alliance ties with the US is less likely to craze over China.

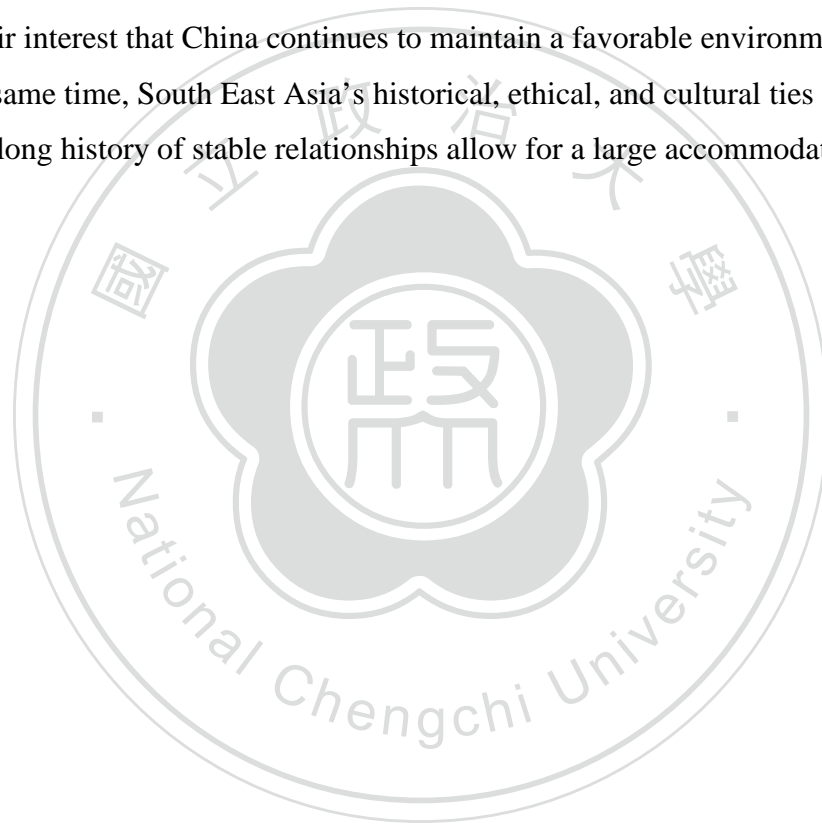
Keeping these factors in mind, the variations of sentiments towards China are classified into: There are band-wagoners⁶ Myanmar, Laos, Cambodia, and North Korea, who seek active protection and assistance from China. There are hesitant hedgers- Malaysia, Indonesia, and Vietnam, who will expand economic ties with China but will not bandwagon neither will it seek to balance against China through outside alliances or a third party (US). Then there are active hedgers- Thailand, Singapore, South Korea, and Philippines who balance against China but also seek complementary act between US and China. For example, South Korea has strong military ties with US but also maintains strategic cooperative partnership (Six-party talks) with China. While Philippines share agonies of territorial disputes with China they also reap economic benefits from China. These hedgers will bend where the wind blows. Lastly, there are balancers- Japan and Taiwan, who have explicit security concerns with China and are thus prone to cooperate in containing China.

In case of a framework centered on balance of power dynamics, it is believed that a rising China will instigate the need for an external balancer, the US, but some instances in the South East Asian nations proves otherwise. For example, regional sentiments on China did not respond

⁶ Jae Ho Chung, "East Asia Responds to the Rise of China: Patterns and variations," *Pacific Affairs*, Vol.82, No. 4, 2010, p.669. <http://www.jstor.com/stable/25608969>

to changes in the international environment, rather in large part they are shaped by Chinese contribution to their own domestic politics and economic interests.⁷

China has direct competition over manufactured products with these nations to attract foreign investments. There are also investors in China who are ethnic Chinese from multi-ethnic societies of South East Asia, who will cause problems of ‘divided loyalties’ in case of political and economic emergencies.⁸ There are problems of ‘energy securities’ especially over resources from the disputed islands. There is also fear in the South-east Asia that domestic instability in China will bring problems of large influx of Chinese population into their nations. Thus, for them it is to their interest that China continues to maintain a favorable environment for their growth. At the same time, South East Asia’s historical, ethical, and cultural ties with China combined with long history of stable relationships allow for a large accommodating strategy.



⁷ Il Hyun Cho, Seo Hyun Park, “The Rise of China and Varying Sentiments in South East Asia toward Great Powers,” *Rising Power Initiative Org*, 2010, pp. 71-72. <http://www.risingpowerinitiative.org/resource-database-post/cho-hyun-and-seo-hyun-park/>

⁸ Vincent Cable, Peter Ferdinand, “China as an Economic Giant: Threat or Opportunity?,” *Royal Institute of international Affairs*, Vol.70, No. 2, 1994, p. 261. <http://www.jstor.org/stable/2625233>

Chapter 5. Conclusion

Can China lead? There are two emerging scenarios: The Chinese ‘Monroe Doctrine’, similar to the sphere of influence that the US built over its Southern neighbors in the early 20th century. The other scenario is, a return of Chinese tributary system: a hierarchical but benign inter-state order founded on Chinese notion of its cultural superiority, but offering its lesser members the benefits of trade and occasional protection.

Despite Chinese growing power, neither of the two scenarios is likely to materialize. First, the Chinese sphere of influence that is hypothesize will be resisted by the US, Japan, and India among others. China is not the only country in the region offering public goods to its followers. The old system will not revive in a regional multi-polarity. Similarly a neo-Confucian Chinese regional order would be inconsistent with modern principles of sovereign equality and non-intervention in world relations.

Using instruments of modern principles of international relations, there is a considerable scope for Chinese leadership. It has shown sacrifices for the sake of collective interest. For example, the Chinese market is a boon for East Asian exporters and has played a major role in doubling the intra-East Asian trade since 1990. To prevent aggravating the crisis further, it decided not to devalue its currency during the Asian financial crisis.

The most important component of a leadership is to entail consensus building. To acquire legitimacy a leader must restrain from coerce especially in dealing with weaker neighbors. China has shown some restraint on the disputed South China Sea by agreeing to the Declaration on the Code of Conduct. It is increasingly involved in the regional institutions like the ASEAN Regional Forum (ARF) among others, forging cooperation in non-traditional security matters. Its efforts in international participation and relationship building has helped subdued the talk of China threat than it was in the 1990s. China can lead in a functional and institutional mechanism and not with a neo-Confucian conception of regional order or through exceptional sphere of influence, and their leaders are very well conscious of this.

The purpose of this thesis is to throw light on the China threat theory from the perspectives of cultural, historic, economic, and military. An examination of which demonstrates that the rhetoric is largely misguided without concrete foundation. If United States is committed

on defending their proactive role in the development of the world, it should realize to secure a long-term strategic partnership with China on security affairs now while China is relatively less prominent before it gets more resilient in the next twenty years.

In Power transition theory the powerful states dictates the distribution of power (sets the rules of the game). Other states below it decide whether they are satisfied or dissatisfied with the distribution of power. Those satisfied do not challenge the system; however a rising power (usually ones who are dissatisfied) could be the reason for conflict in international order. Here comes the power balance theory, which negates the possibility of conflict by balancing the powers between the weaker and stronger states through counter alliances. Although the theory suggests that a bipolar world (clarity) is much safer than multi-polar (uncertainties). But a multipolar world could be balanced through the theories of interdependence. Now, in the middle of all the above situation of world system lies the theory of rising China as an opportunity or a threat. Thus concluding that today we see a world of coexistence of historic hegemonic theories creating a different international environment where the concept of ascending China is neither a cause for conflict nor a sole power but rather a phenomenon of generating equal opportunities and benefits for one another.

The current degree of globalization could be considered as a consequence of the end of *Westphalian* order to a period characterized by intensified economic integration and the influence of its principal institutions where “no one is in control”. In short, we now face a hybrid situation in which states share a host of responsibilities with both intergovernmental organizations and a multiple of non-governmental institutions. This does not mean that the international order has become pointless it simply means a need for restructuring has emerged to take into account the division of power between states (rise and fall), networking, and global governance. States identities are undergoing changes but they still coexist within an international order, and this order is seeking to develop set of principles to reflect that transformation.

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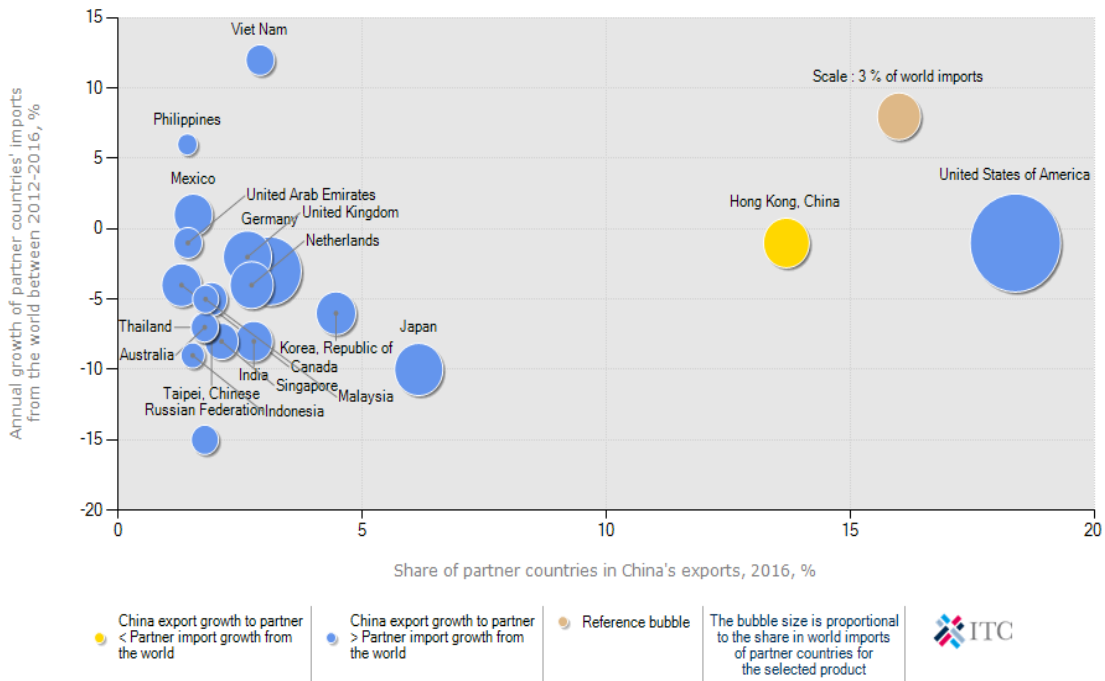
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APPENDIX A

China Export Growth to Partners

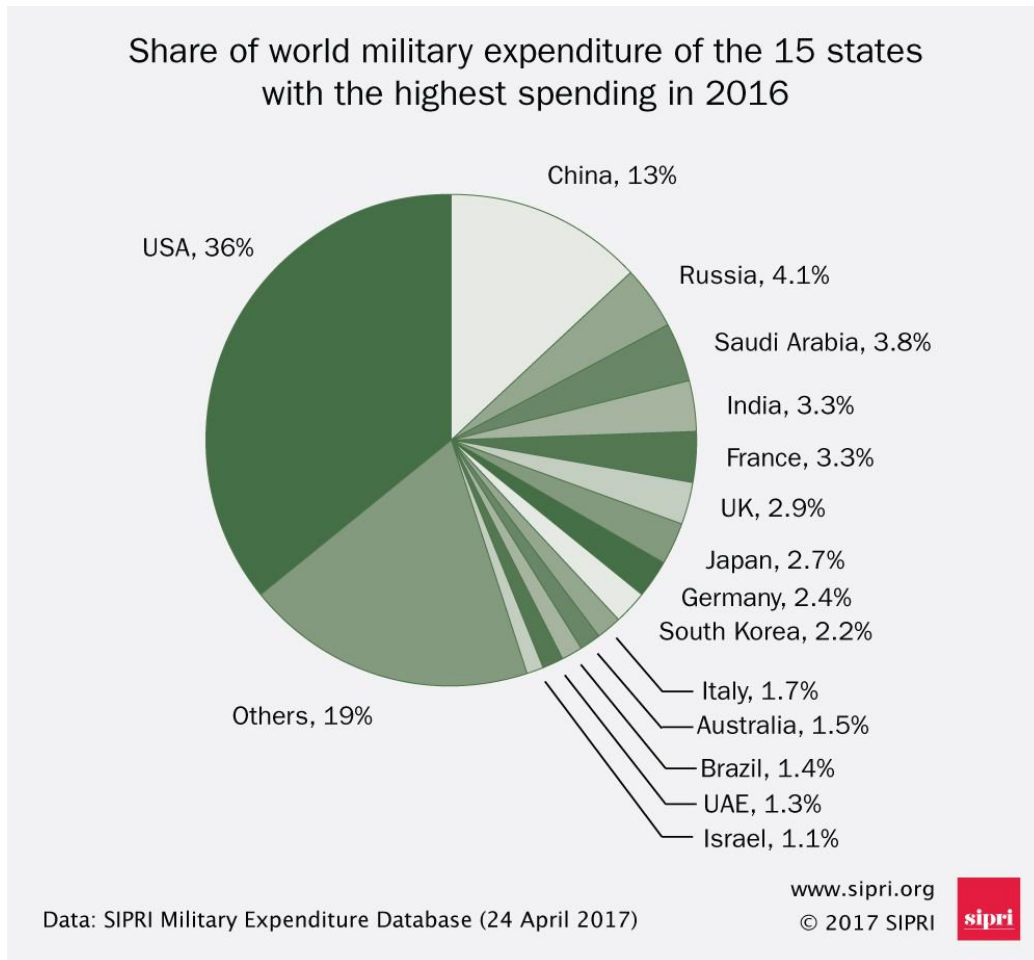
Prospects for market diversification for a product exported by China in 2016
Product : TOTAL All products



Source: International Trade Centre

APPENDIX B

Share of World Military Expenditure



Source: Stockholm International Peace Research Institute

APPENDIX C

China's New Silk Road



Source: Council on Foreign Relations via Xinhua