



# Beware China's Grand Strategy

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Last month 57 nations applied to become founding members of China's newest creation: the Beijing-based Asian Infrastructure Investment Bank (AIIB). Ostensibly designed to help finance projects that satiate Asia's expanding appetite for infrastructure, the AIIB has left Washington struggling over how to respond. Some applaud China for assuming greater international responsibility and wielding soft power to aid Asia's growth. Some oppose the move as undermining the U.S.-led economic order and using aid as a tool to advance China's strategic agenda.

In an article for *Foreign Affairs*, "Who's Afraid of the AIIB?" Phillip Lipsky makes a detailed case for the former. He argues that the United States' principal concern - that the AIIB will undermine existing international lenders and their standards - is misplaced. China, he argues, is more of a status quo power when it comes to international institutions than many think. Further, development aid is a "highly competitive and fragmented policy area" and donors, he believes, are unlikely to devote resources to any institution that narrowly pursues its own interests and is unaccountable to its stakeholders. In any event, he writes, China is already able to "undercut the quality and conditions of existing aid agencies... more expediently through bilateral aid and overseas activities of its state-owned enterprises." Washington, Lipsky concludes, should embrace the AIIB and even join the institution to shape its policies and practices from the inside.

Lipsky admirably addresses the question of U.S. participation in the AIIB and its impact on international lending standards, but security strategists see such issues as tactical questions that pale in comparison to the broader strategic ones. China is now operating beyond the reach of a U.S. veto, capable of reshaping the international order unilaterally. The AIIB will grant China a virtuous cycle of benefits, expanding its political and economic leverage across Asia and aiding its efforts to elevate the yuan as an international reserve currency. And it is China's own companies, with unrivaled experience building affordable infrastructure, that will be uniquely positioned to reap the benefits of the AIIB's initial capitalization of \$100 billion.

Such a zero-sum construct may seem unnecessarily Machiavellian: Must Washington view every Chinese advance with hostility and believe that it comes at the United States' expense? The answer to that question, and to how Washington should ultimately view AIIB, is dependent on China and the objectives of its grand strategy.

## AGENDA ITEMS

Ask ten China scholars to define Chinese grand strategy and you will get ten answers. In a formal sense, it does not exist. Yet observers can discern coherent strategic priorities that, in aggregate, resemble the elements of a grand strategy. Today, the first priority is arguably driven by the Communist Party's preoccupation with mitigating key vulnerabilities in pursuit of stability and growth.

Rapid economic growth long ago replaced ideology as the principal binding agent of the Chinese system. At a time when Beijing needs that growth more than ever to ease the frictions in its system (rampant corruption, elite infighting, social and political unrest, environmental degradation, and massive demographic challenges), Chinese GDP growth has dipped to its lowest level in a quarter century.

Externally, Beijing is keenly sensitive regarding the vulnerability of the energy imports that sustain China's economy, the bulk of which must traverse thousands of miles of open sea patrolled by the U.S. Navy and through the narrow naval chokepoint at the Strait of Malacca. The naked vulnerability of these imports (particularly in war time) is intolerable to Chinese strategists.

The goals of Chinese grand strategy can therefore be assumed to be attaining diverse and defensible sources of energy and rapid economic growth bolstered by a healthy supply of export markets in an increasingly connected Asia.

The AIIB has the virtue of advancing both agendas, but it represents just one finger in a Chinese hand grasping Asia in an ever-tighter embrace. China's "String of Pearls" investments in port facilities along the Indian Ocean rim represent another. Just this past February, a Chinese state-owned enterprise assumed control of the "crown pearl," Pakistan's Gwadar Port. Another finger is the web of new oil and gas pipelines from Myanmar (also called Burma) to Kazakhstan, and new industrial and commercial rail links spanning from Western China to Europe. Last year a Chinese cargo train made the longest continuous train ride in history, a 21-day, 8,000-mile round trip from China's Zhejiang province to Spain and back. Meanwhile, Russia and China are currently negotiating the details of a largest-ever gas pipeline and supply contract worth up to \$40 billion. Finally, Beijing is still unveiling the details of a "One Belt, One Road" New Silk Road Initiative, an ambitious vision for an interconnected Asia with each spoke linking back to the hub of the Chinese economy.

## NATIONALIST RISE

There are sound economic rationales behind each Chinese initiative. And, in isolation, they would offer little cause for alarm. However, the initiatives undoubtedly strengthen China's strategic position, which becomes more troubling when paired with a second theme emerging in Chinese foreign policy. It's driven by a tide of nationalism that China's leaders are attempting to wield as a political tool, but that threatens to expand beyond their control. China's leaders appear (at least temporarily) preoccupied with stability and growth, but there are more neo-imperial ambitions lurking in the shadows.

In the extreme nationalist worldview, the U.S. military has effectively "boxed in" China along the "first island chain" stretching from South Korea to Indonesia. And they believe the United States is secretly encouraging tensions between China and its neighbors in a further attempt to contain China's rise. This group supports more aggressive opposition to the U.S. military presence in the region, promoting tactics such as harassing U.S. surveillance vessels in China's Exclusive Economic Zone (EEZ).

Nationalists are even more eager to punish neighbors such as Japan, Vietnam, and the Philippines - and even India - who they believe capitalized on a period of relative Chinese weakness to assume control of disputed islands in the South and East China Seas and territory along China's land border. They seek a favorable resolution to these territorial disputes, by force if necessary. Longer-term, many aspire to a loose recreation of the tributary system, where regional powers are so dependent on Beijing or intimidated by it that they're rendered submissive.

It is unclear how committed China's leaders are to pursuing these outcomes, and over what timeframe, but since 2008, the ambitions have been reflected in Chinese policy with greater clarity and intensity. That year, Beijing made a paradigm-shifting miscalculation: It interpreted the global financial crisis as a symbol of terminal U.S. decline and the dawn of America's strategic retreat from Asia. As a result, in subsequent years the world witnessed alarming growth in unilateral provocations in the South and East China Seas, a rising chorus of nationalist rhetoric, military expenditures untethered from GDP growth, confrontations along the disputed Sino-Indian border, an uptick in confrontations with U.S. naval vessels in China's EEZ, and unprecedented "land reclamation" activities in the disputed Spratly and Paracel islands.

Although it began before his tenure, Xi Jinping, China's avowedly nationalist president has largely embraced the more aggressive posture. Xi's China has outwardly abandoned the Deng Xiaoping-era adage of "hide your strength, bide your time" in favor of the confident pursuit of the "Chinese dream." And his promotion of a new "Asia for the Asians" slogan constitutes an unsubtle effort to delegitimize America's presence in the region.

## RED LINES

Since the turn of the century, Washington has adopted a relatively cautious and consultative approach toward China. Concerns over human rights and political freedoms, discriminatory trade policy, and growing militarization have mostly been subdued in service to a grander vision: peacefully integrating China into the Western-led international order.

This approach was largely successful in managing ties under President George W. Bush. It has been less kind to President Barack Obama. The president bears some responsibility for this, but it is also the result of a more confident and assertive China post-2008. Since then, Washington's measured responses to incremental changes to the status quo have only invited further boundary testing from Beijing.

Consequently, there is a growing chorus in Washington urging a change in approach to Asia's giant. A recent report by Ashley Tellis, from the Carnegie Council, and Robert Blackwill, from the Council on Foreign Relations, advocates a bold new strategy that "deliberately incorporates elements that limit China's capacity to misuse its growing power" and "centers on balancing the rise of Chinese power rather than continuing to assist its ascendancy."

The report cautions against a Cold War-style "containment" policy, but implores Washington to abandon diplomatic idealism and wield a more robust arsenal of inducements including: preferential trade agreements that "consciously exclude China;" a technology-control regime that prevents China from obtaining military hardware capable of "high-level strategic harm" to the United States; and further capacity building for the United States and allied militaries.

The report may prove overly pessimistic in its conviction that there is "no real prospect" of ever building "peaceful coexistence" or "mutual understanding" with China. There are conditions under which the two can reach an accommodation that respects the sanctity of both countries' vital national interests and those of China's neighbors. But that outcome is largely dependent on Chinese behavior and may, ironically, be hurried by a more muscular U.S. approach. What's arguably missing, however, is a critical interim step: In a security sphere pregnant with ambiguity, the United States must establish more clearly defined red lines for China.

Defining these red lines will present considerable challenges. Set them too liberally and the United States risks establishing rules that cannot be enforced or, worse, needlessly provoke Beijing and contribute to its nationalists' siege mentality. Set them too conservatively, however, and they further encourage Chinese adventurism and continued attempts to alter the status quo in its favor.

Projects such as the AIIB, inherently non-threatening but strategically advantageous to China, will evade such red lines altogether. There's little merit in the United States opposing such initiatives, as was apparent when American partners rushed to join the new bank over Washington's objections. Nor should it be forgotten that the AIIB and the New Silk Road Initiative could ultimately raise the living standards of millions of people in underdeveloped corners of Eurasia. Yet, rather than viewing them in isolation, Washington must observe these initiatives in the context of a Chinese grand strategy and acknowledge the dangers and opportunities they present should that strategy assume a more nationalist trajectory.

Despite these challenges, defining new red lines is critical as any attempt to adopt a tougher approach toward China will hinge on the United States' ability to form a broad coalition of partners. On one hand, never has the Indo-Pacific been more apprehensive over China's rise and more solicitous of an increased U.S. presence. At the same time, Beijing's growing power and influence will make achieving alignment on a firmer approach to China exceedingly difficult. The clearer the rules of the road, the more palatable and legitimate a tough new approach will be to the United States' partners, and the less abrasive it will be to Beijing. Washington must be seen less as a subjective arbiter than a guarantor of a fair and consistent rules-based order.

