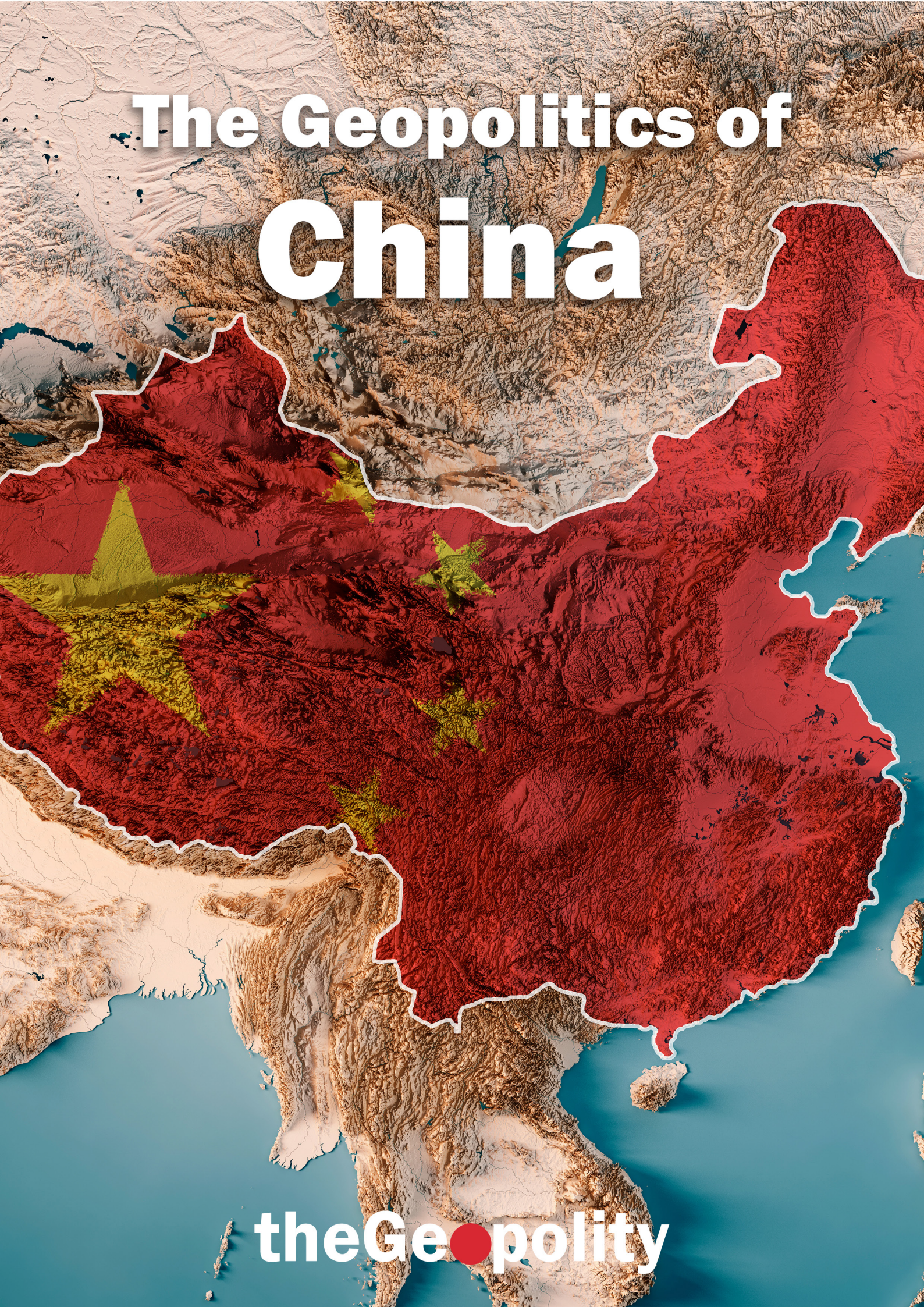


# The Geopolitics of China



theGeopolity

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# Introduction

**China's rapid return to the global stage is the greatest geopolitical trend of the 21st century. Most analysts believe by 2050 China will be larger than the US in dollar terms and at some point in the 21st century will replace the US as the global superpower. The US public and many of its politicians believe the US is rapidly losing ground to China and it is just a matter of time when China emerges as America's heir.**



## What are China's Geopolitical imperatives?

China has a recorded history of over four millennia. In the past, much like today, societies needed water for agriculture and this came either from natural sources such as rivers or from rainfall. The Han people emerged around the Yellow River in the north of modern China and the Yangtze in the south. This region became the heartland of the Han people. This region was also the area where enough rainfall occurred to support agriculture. Without the Yellow and Yangtze Rivers, China as we know it would not exist. When the Qin dynasty captured both rivers and the surrounding areas in 221 BC, China as a single unit came into being and this is considered by the Han people as the beginning of their civilisation. Over time China became a land of farmers and merchants and established itself as an economic force. Merchants from Japan, India and the Arab lands and eventually Europe, all flocked to the country to buy coveted Chinese goods such as silk and porcelain.

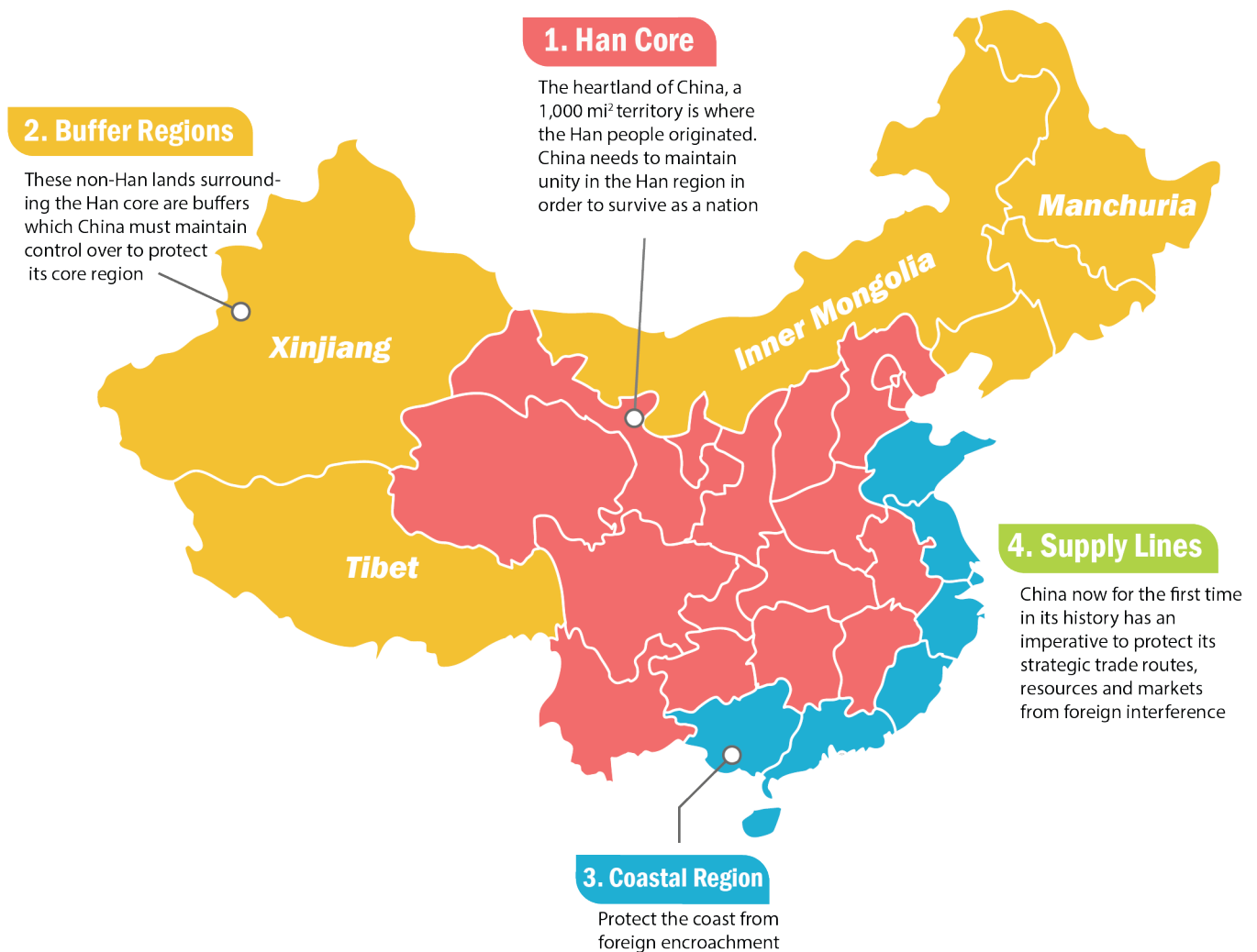
China's geography consists of arable land that is surrounded by deserts, steppes, jungles, mountains and the sea. The vast majority of China's population historically and today live within one thousand miles of

the coast, the other two thirds are sparsely populated. This is a vast landmass which surrounds the core area for the Han people. For the Han Chinese to survive it would need to control (expand) from its heartland to these buffers. These regions have historically been where threats to China originated. In the 13th century, the Mongols under Genghis Khan's grandson Kublai Khan established the Yuan dynasty and occupied parts of Han China until the 15th century.

The size of China's population in history, when it had secure frontiers and an abundance of resources, allowed it to develop with minimal interaction with the rest of the world. China has been through numerous lengthy periods of its history, closed off to the rest of the world. China along with India has also been the world's largest economy for most of human history and so it didn't see the need to engage with the world. The Ming dynasty-sponsored maritime adventures of the Muslim admiral, Zheng He, were the exception, but that was brought to an abrupt end in 1425 due to foreign influence entering China, which China didn't need.

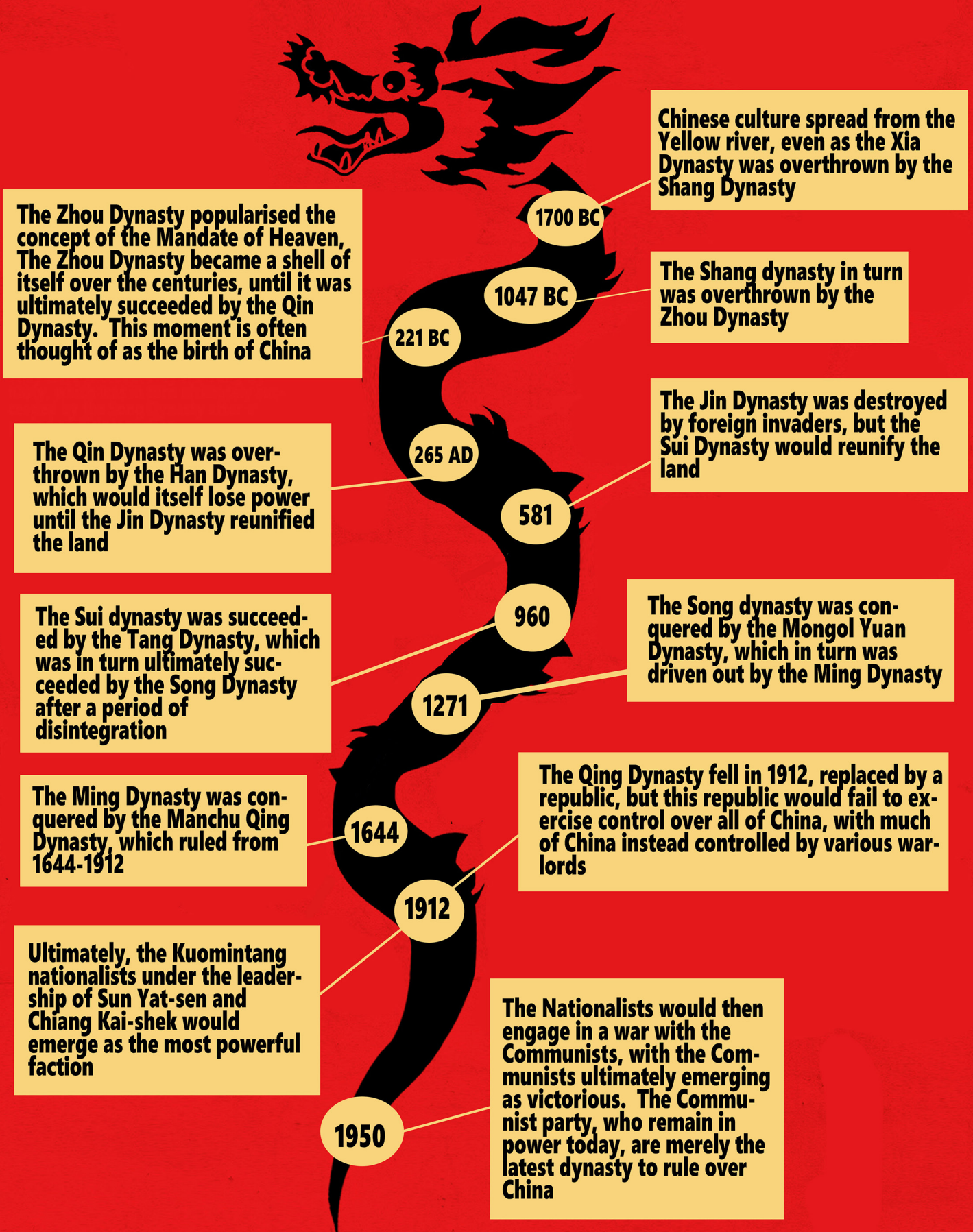
Chinese history consists of multiple millennia where she faced the imperative of expanding to protect her vast interior from invasion from hordes of nomads and other invaders. This vast territory has allowed China many eras of progress and immense wealth. But China's history also consists of many eras of contraction, invasion and poverty. Chinese history is one of expansion and contraction; this has been the country's struggle for centuries. Zbigniew Brzezinski encapsulated thousands of years of Chinese history in his seminal work, *The Grand Chessboard*. He characterised China's geopolitics through the ages as "...cycles of reunifications and expansions, followed by decay and fragmentations." Every dynastic ruler in China's more than 4,000 years of history has faced the same strategic imperatives: to unify the Han areas. Maintain control over the buffer regions and protect the coast from foreign encroachment.

## China's Geopolitical Imperatives



# China's Four Millenia History of Unification and Disintegration

China traces its history back to the Xia Dynasty of the second millennium BCE, which was centred along the Yellow River





## Why did China go Through a Century of Humiliation?

China was not spared from European imperialism. When European ships arrived on China's shores in the 19th century, they encountered China when it was going through one of its isolationist periods. By the 1830s the Middle Kingdom's fortunes had changed. European traders, empowered by the technological progress of the Industrial Revolution, forcibly opened China up to trade on their terms. China dubbed the ensuing period the 'Century of Humiliation,' when between 1839 and 1945, Western powers and then a newly industrialised Japan forced their way into mainland China and rooted themselves there.

China was under the illusion that other nations were barbarians and too remote from the centre of the civilised world. But China was shaken by the much more powerful Western nations. For much of the second half of the 19th century, it suffered humiliating defeats in the Opium Wars with the British, wars with the French, Portuguese, Russians and the Japanese, whom the Chinese considered inferior 'dwarf people.'<sup>2</sup>

Britain found a novel way to entrench themselves in China. The East India Company was buying large amounts of tea but found the payment in silver a major problem. Twice, in 1793 and in 1816, Britain sent emissaries to try to convince the Chinese emperor of the excellence of British goods, in the hope of preserving the profits from the tea trade while ending the pressure on their silver. China rebuffed both efforts.

British traders found another solution. Unlike Chinese trade officials, who were interested only in silver, ordinary Chinese citizens had a taste for another British import: opium. Fortunately for British merchants, the world's best opium came from Bengal, which came under British rule in the 1750s. By the 1820s, the silver that Chinese consumers were spending on opium more than matched the amount the British handed over to buy tea. The relationship was splendidly transactional and made plenty of people rich. But there were two big problems: first, the trade was fuelling a Chinese opium epidemic; second, opium was illegal in China.

In the end, the emperor declared a war on drugs and confiscated large amounts of British opium. The British drug cartel responded by pressuring the government back in London to demand that Beijing repay them the full street value of the lost narcotics. When the emperor refused, a squadron of the UK's most modern warships were sent to Guangzhou in 1840, brushing aside the Empire's junk ships and blasting its coastal towns into ruins. The one-sided war dragged on for two years, until the Qing emperor capitulated. The Treaty of Nanking (Nanjing), the post-war treaty of 1842, stipulated that Hong Kong would be handed over to Britain and that China would be forced to establish five treaty ports in which British traders would trade anything they wanted with anybody they wanted to. China's century of humiliation had begun.

The British extracted additional capitulations in the second Opium War (1856-1860) after declaring that the Qing emperor failed to meet his requirements in the first treaty. Britain forced the emperor to formally recognise the British as equals and grant their traders favoured status in the Treaties of Tianjin.<sup>2</sup> In an attempt to quell Chinese antagonism, the British and French destroyed the Old Summer Palace, the traditional home of the Qing emperor. The act humiliated the Chinese by "...teaching the Qing a lesson they would never forget."<sup>3</sup>

As the decades passed after the Opium Wars, the Qing dynasty fell victim to other powers seeking a piece of the Chinese pie. The Opium Wars were just the beginning, and her problems did not end there. The defeat in the Opium Wars opened the floodgates. The French, Russians, Germans and Japanese all got their unequal treaties too.



By the turn of the 20th century China was in chaos. The Qing dynasty had been in a long decline. It was forced to agree to unequal treaties that granted foreign concessions in China's ports. The Qing dynasty had lost control of not just the buffer regions but even key areas of the heartland. Regional warlords began to take over areas from the Qing dynasty.

The four millennia old civilisation was brought to its knees. The Qing government signed a series of unequal treaties, conceding Hong Kong, Macau, and other major port cities to western control. The Chinese have never forgotten this shame. This period is carved into the minds of all Chinese. Their view is, long the world's pre-eminent civilisation, China fell behind the superior technology of the west over the centuries, an imbalance that finally came to a head with the loss in the Opium Wars. This began the most tumultuous century in the country's history, one that featured an incessant series of wars, occupations and revolutions. When the Qing dynasty fell in 1911 it was believed China would be 'Balkanised' and carved up amongst the colonial powers.



## How did the Communists Come to Power in China?

When the Qing dynasty collapsed in 1911 China came to be ruled by various regional warlords. These warlords divided the country and a four-decade civil war ensued. In time the warlord Sun Yat-sen would establish the Republic of China in an attempt to reverse China's fortunes. With a presence only in China's urban areas Sun Yat-sen formed the Kuomintang of China (the Chinese Nationalist Party). But Sun Yat-sen had no army to command and an ineffective state apparatus. China was dominated by warlords, and this made the central government ineffective. As a result, another influential warlord Chiang Kai-shek eventually replaced Sun Yat-sen as the leader of the nationalists. As dictator, Chiang Kai-shek attempted to unite China but the nationalist government was even weaker as a republic than it was under imperial rule. Japan took advantage of this and invaded and occupied China in 1937. The Japanese invasion and occupation were worse than the European invasions.

This was the context Mao Zedong emerged in. He was working at Peking University at the time and became a founding member of the Chinese Communist Party (CCP). He first attempted to trigger an uprising in the cities in 1927 against the Nationalist government but failed. The communists temporarily allied with the nationalists under the United Front during the Japanese invasion from 1937–1945. When the Japanese forces surrendered in 1945 the civil war resumed between the communists led by Mao and backed by the Soviet Union and the Nationalists, led by Chiang Kai-shek who was backed by the US. Mao took the long march to the interior of China, where he raised a massive peasant army and in 1948, returned to expel the Nationalist leaders, who, along with their government and supporters escaped to the island of Taiwan where their descendants still remain today.

The communists faced a daunting task. The central government had weakened and lost control of the country. Japan had occupied and destroyed much of the country and warlords had taken over most of the buffer regions. Japan left Manchuria after its defeat and this region came back under Chinese control. Outer Mongolia was under Soviet control which was extending its influence deep into China. China's buffer regions were beyond the control of the communists.

Mao re-enclosed China, re-established Beijing as the capital, centralised power again and wanting to end the huge inequality between the coastal region and the rest of China, Mao expelled foreigners in the coastal areas. Mao had recreated a united Han China, he severed ties with the outside world and then established manufacturing bases in remote, mountainous inland regions to protect them against foreign invasion and capture.



# Did China Succeed in Establishing a Communist Utopia?

After a century of humiliation China expelled the European imperialists as well as the Japanese. The communists defeated the nationalists and in October 1949 the people's Republic of China was established. China was now secure, but Chinese premier Mao Zedong faced the huge challenge of feeding a population of 550 million. China along with India throughout history had always been the world's largest population. China needed to develop its economy after a century of devastation by foreign powers. This was to be achieved, according to Mao via communist lines.

The '**Great Leap Forward**' in 1958 was a hugely ambitious plan that attempted to use mass mobilisation to catch up with the industrial standards of the US and UK in just a few short years. The plan attempted to collectivise all aspects of life (even cooking pots), the strategy saw farmers pulled off their land to engage in ill-advised rural industries such as small-scale steel plants. The strategy led to widespread famine and the death of 30 - 40 million people. The years of the Great Leap Forward saw economic regression, a disaster of epic proportions. The negative effects of the Great Leap Forward were studied by the Communist Party and Mao was criticised in the party conferences. Mao came to be marginalised within the Communist Party leading to moderate party members like Liu Shaoqi and Deng Xiaoping to rise to power.



Mao hit back and initiated the **Cultural Revolution** in 1966. Mao announced China was lacking in revolutionary spirit. He targeted the party bureaucracy and accused them of leading the country into stagnation. He accused the party bureaucracy of dragging their feet in implementing his edicts. The Cultural Revolution was a campaign to shake the bureaucracy's hold on power. Brigades of students were mobilised to make war on thoughts that were deemed reactionary. These Red Guard students roamed the country seizing control of government offices, destroying cultural artefacts and terrorising the population. The army stepped aside leaving the party bureaucracy to direct attacks. Many leading communist cadres were killed after being identified as reactionaries. Liu Shaoqi and Deng Xiaoping were purged, Liu later died in prison. The campaign would not come to a complete end until the death of Mao in 1976, when the military demobilised the Red Guards leading to the end of another period of instability in China's long and turbulent history.

When Mao passed away China was secure but it was poor and remained economically backward, well behind the world's powers. This was largely due to its own self-destructive policies such as the Great Leap Forward and attempts to turn the country into a communist state. China's GDP in 1976 was a mere \$153 billion, whilst it possessed the world's largest population of 930 million. Spain and Holland, the size of Chinese cities, had larger economies. Over 90% of China's population was in poverty. Consequently, even bicycles and fans were rationed. After three decades of communist rule China remained a poor country.



## What Caused the Sino-Soviet Split?

Whilst China and Russia have close relations today, throughout most of history both nations had difficult relations. The Soviet Union influenced the development of 20th century China. Ties between Chinese Communists and Soviet Russia dated back to 1919 with the formation of the Communist International (or Comintern). The Comintern was a Moscow-based agency created by the Bolshevik leader Vladimir Lenin. Its mission was to promote international socialism and provide advice, leadership and support for socialist movements around the world. The Comintern played an important role in the formation and direction of the Chinese Communist Party (CCP). For the entire 1920s the CCP's organisation, ideology and methodology followed instructions and advice from Moscow.

In 1949 the CCP formed the People's Republic of China. Communist regimes now held power across nearly a quarter of the world, ruling a combined population of almost 800 million people. Maintaining a friendly and productive relationship between Moscow and Beijing was crucial for the advancement of global socialism. In 1949 Mao travelled to Moscow to meet Joseph Stalin for the first time. Recognising the need for unity at a time of growing opposition to communism, Stalin and Mao signed a bilateral treaty called the 'Treaty of Friendship, Alliance and Mutual Assistance.' Among its terms was a military alliance: if either China or the Soviet Union was attacked, the other would come to their assistance. But privately Mao felt that Stalin did not view him as an equal

partner.<sup>5</sup> Mao committed forces to the Korean War on the assumption that Stalin would involve Soviet forces and provide men, machinery and weapons. Stalin, however, did not wish to be drawn into open conflict with the US. He confined Soviet involvement in Korea to air support and the sale of aircraft, weapons and munitions, for which he charged Beijing full price.

When Stalin died in 1953, Mao began to see himself as the world's senior communist leader. Leadership of the Soviet Union passed to Nikita Khrushchev, a blunt, crudely spoken party official. In 1956 Khrushchev delivered his famous 'Secret Speech' which condemned the personality cult, despotism, show trials, purges and violence that occurred under Stalin's reign. Khrushchev's denunciation of Stalin placed Mao in an awkward position. While Mao privately distrusted Stalin, in public he had always given Stalin his full backing. Stalin's cult of personality was replicated by Mao and the CCP, who hailed Stalin as the benevolent and visionary leader of international communism.

After the October 1957 defence accord, which saw Moscow share nuclear weapons prototypes with China, Sino-Soviet relations began to worsen when Khrushchev took a softer line on the west, suggesting that "peaceful coexistence" between communist and capitalist nations was possible.<sup>6</sup> Mao's foreign policy revolved around anti-Western, anti-American propaganda. Khrushchev visited China in July

1958 and during the talks, Mao treated Khrushchev with arrogance and disdain. Mao refused to agree to Khrushchev's proposed joint defence projects and Khrushchev responded by pulling most Soviet advisors out of China. Khrushchev visited China again the following year and infuriated Mao by delivering a speech praising US president Eisenhower and his foreign policy.<sup>7</sup> By 1960, the Treaty of Friendship, Alliance and Mutual Assistance was all but dead. In the mid-1960s, the Soviet Union pulled its remaining technical advisors out of China, leaving many infra-

structure projects half finished. In 1964, Mao claimed the Soviet Union was still in possession of Chinese territory, stolen during the reign of the Czars. By 1968, China and the Soviet Union built up their military presence in the Manchuria region, to the point where more than 1.5 million soldiers were straddling the Ussuri River. In March 1969, the first skirmishes took place leading to the death of nearly 700 mostly Chinese soldiers. It would take another decade to resolve this dispute. But relations had reached rock bottom and were to get far worse still.

## **China Border Changes**





## Why did China Turn to America in the 1970s?

The US viewed China as a communist state who in coordination with the Soviet Union was looking to spread communism around the world. The US established a containment policy after World War Two in order to stop the spread of communism by backing nation states around the Eastern Bloc. The US viewed China as an aggressor nation and enforced an economic containment policy including an embargo on the country, following its entry into the Korean War in 1950. But after nearly 20 years of neither diplomatic nor economic relations, the US saw an opportunity to split the communist bloc. The CIA throughout the 1960s was informing the White House of problems between Moscow and Beijing and that the united front was suffering from many problems behind the scenes.<sup>8</sup>

The US and China came to have the same enemy – Moscow. As a result, China came to see closer relations with the US as a beneficial counter to its increasingly tense relationship with the Soviet Union, while the US sought closer relations with China as leverage in its peace negotiations with North Vietnam and in order to split and weaken the Eastern Bloc. In 1971, President Nixon's National Security Advisor Henry Kissinger secretly visited Beijing during a trip to Pakistan and laid the groundwork

for Nixon's visit to China. This meeting was arranged and facilitated by Pakistan through its strong diplomatic channels with China.

After 25 years of no diplomatic relations US President Richard Nixon visited China on the 21st of February 1972. Over the next decade, the US transferred diplomatic recognition from Taipei to Beijing. The US reiterated the Shanghai Communiqué's acknowledgment of the Chinese position that there is only one China, and that Taiwan is a part of China. When Premier Deng Xiaoping visited the US in 1979 numerous bilateral agreements, especially in the fields of scientific, technological, and cultural interchange, as well as trade relations were signed which gave China access to US technology. Arms sales to China also began, a significant factor as China's military was based upon Soviet exports. The People's Republic of China (PRC) was admitted to the United Nations in place of the Republic of China (Taiwan).

The loss of China in the eastern bloc undermined global communism, for China it was the beginning of the end of poverty and economic chaos and eventually led to the China we know today.

## Why did China Reform?

Mao's era came to an end in 1976 when he passed away, a power struggle ensued but Deng Xiaoping outmanoeuvred Mao's appointed successor and gradually emerged as the de facto leader. Under his leadership an analysis of the nation was undertaken by technocrats from the CCP. The analysis at the 3rd Plenary Session of the 11th Central Committee of the Communist Party of China in 1978, concluded that the prior efforts to develop China, the Great Leap Forward and the Cultural Revolution, had been failures. Mao's theory of continued revolution under socialism was abandoned and mass class struggle came to an end. It proposed a new comprehensive policy for China called the "Four Modernizations" of industry, agriculture, national defence and science-technology. This plan was based on a number of realisations.

The **first** of these was that China possessed many of the ingredients needed to become a global superpower. It had the agrarian land to be self-sufficient in its food supply. The sheer size of China's population gives it the ability to become economically independent i.e. the Chinese market is so big that every local demand – both civilian and military could efficiently be produced domestically. If managed properly, such strengths combined could give China the financial ability to develop its armed forces.

**Secondly**, China would never realise its potential if it did not increase its knowledge base. If China ever wanted to challenge the then foremost powers of the day, America and the Soviet Union, the Chinese workforce would need to make "great leaps forward" in both technical and managerial knowledge.

**Thirdly**, China's population and in particular the growth of its population, could become the nation's achilles heel. If China's population growth was not matched with economic growth and employment growth, then the resulting mass unemployment would cause mass poverty, civil unrest and a revolt against the rule of the Communist Party.

The reformists' view was that developing China economically was not just an aspiration but a necessity. This comprehensive analysis of China's state of affairs was translated into policy in 1979 and saw the birth of China's 'open door economic policy' and the abandonment of communism. The CCP recognised that it had failed to develop the nation and the years under Mao were leading to questions about the legitimacy of the CCP. China's strength on the eve of its development was its huge population and large labour force. They were not particularly skilled in modern methods, but such a large labour force if used correctly and deployed into the right areas could lead to a huge increase in production.



# How did China Transform into a \$17 Trillion Economy?

By the turn of the 2010s China's economy had turned around over 150 years of economic chaos and mismanagement. In three decades from 1979 China went from a poor country to an industrial beast. There were several policies that allowed China to achieve this.

**Special Economic Zones (SEZ)** - In 1980, Beijing created the first Special Economic Zone (SEZ) in the coastal Guangdong and Fujian provinces, designed to attract foreign investment in low-end manufacturing by offering cheap land, labour and a variety of tax and other incentives. Success in the southern cities allowed Beijing to expand economic reforms, first to the Yangtze River Delta area and later to cities along the Yellow and Bohai Seas. For most of the last 40 years, these coastal clusters acted as Beijing's experimental (and carefully monitored) interface with the outside world. China provides an unlimited supply of cheap labour to foreign companies and foreign investors in return for skills and technology. Like Japan and South Korea, China gradually moved up the value chain with its industrial manufacturing, progressing from light industry, such as textile production, through to electronics and on to high-tech assembly.

**Infrastructure** - If China's open and reform strategy

was to attract foreign companies, it would need to develop the infrastructure to link the vast country and allow manufacturers to trade. Roads, ports, power plants and telecommunication networks were constructed in order for manufacturers to move their production facilities to China. In the 1980s, China also launched major efforts to build dams, irrigation projects and highways. As China's rural population moved to urban areas China has had to build infrastructure, properties, schools, and whole towns for 800 million former farmers who moved to the cities. China needed to construct a New York and Boston every year for 35 years with the urban population growing by 16 million every year. What China achieved was unprecedented, it created 25 of the world's 100 largest cities, today China has 183 cities with populations in excess of 1 million, 15 are megacities, which are defined as having populations in excess of 10 million.

**State-Owned Enterprises (SOEs)** - The Chinese government's main tool to direct the economy was through large State-Owned Enterprises (SOEs). Around 160 large SOEs provided the key inputs from utilities, heavy industries and energy resources that facilitated the private sector. SOEs were given easy loans and unfettered access to government funding



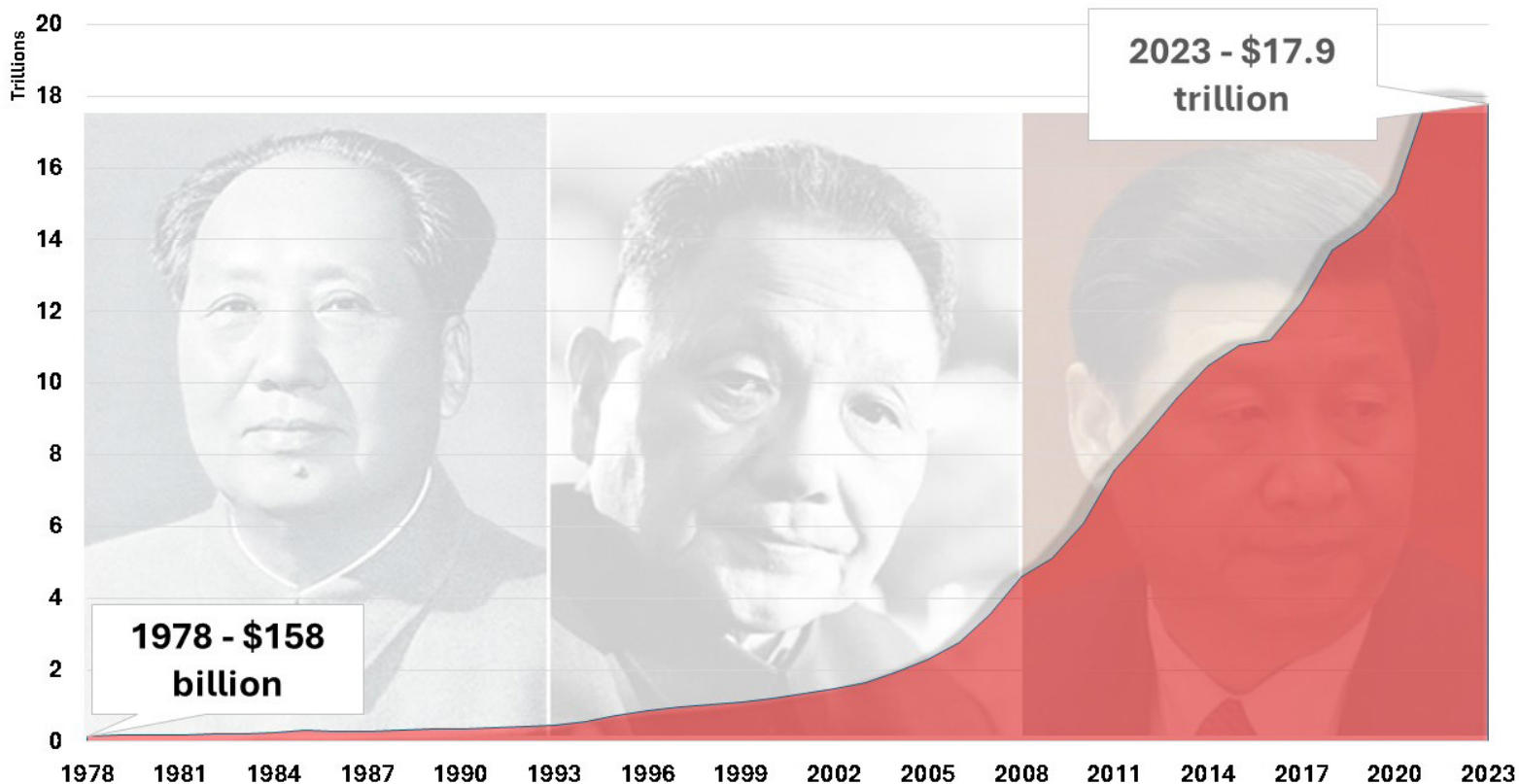
and assistance, China's domestic market developed largely behind barriers that protected national firms from outside competition, while also letting foreign technology into the country as part of Beijing's strategy to attract outside investment.

**Banking** - At the heart of China's economic development has been the nation's banking system. In China the government used the national banking system to serve the Communist Party's objectives. The nation's banking industry was used to develop the coastal infrastructure and then further in the interior in order to develop the nation and also to aid the nation's economic development. The managers of China's state banks are still drawn from the ranks of the Chinese Communist Party cadre system, which enabled the party to exert influence over bank lending. In 2015, the top five largest banks in China in terms of assets were SOEs. The nation's large savings were funnelled through banks to firms through subsidised rates. In order to qualify for such loans, firms were required to maintain high employment (in order to maintain social cohesion), while rates of return on capital, building brands, customer service and profit played

no part in this process. Anyone who wanted to start a business, could get access to subsidised loans and this multiplied China's economic growth. These loans did not look at the ability of the debtor to repay.

**Currency** - The value of the yuan, the Chinese currency, was controlled by the Communist Party to placate the Chinese population. To make Chinese goods more attractive than Japanese and German goods, the Chinese government controlled the value of the exchange rate of its currency with the world, rather than let it float freely. China kept the value of its currency artificially low, which made it cheaper for the world to purchase consumer goods – far cheaper for the world than anyone else. By undercutting the world, China kept factories open and citizens in work. When Chinese citizens have jobs this deals with domestic social unrest which has long plagued the country. Chinese factories made little profits on the goods they exported, with low exchange rates restricting returns. According to the Chinese Ministry of Finance, Chinese profits on their exports were about 1.7%.

## China's Rapid Economic Growth

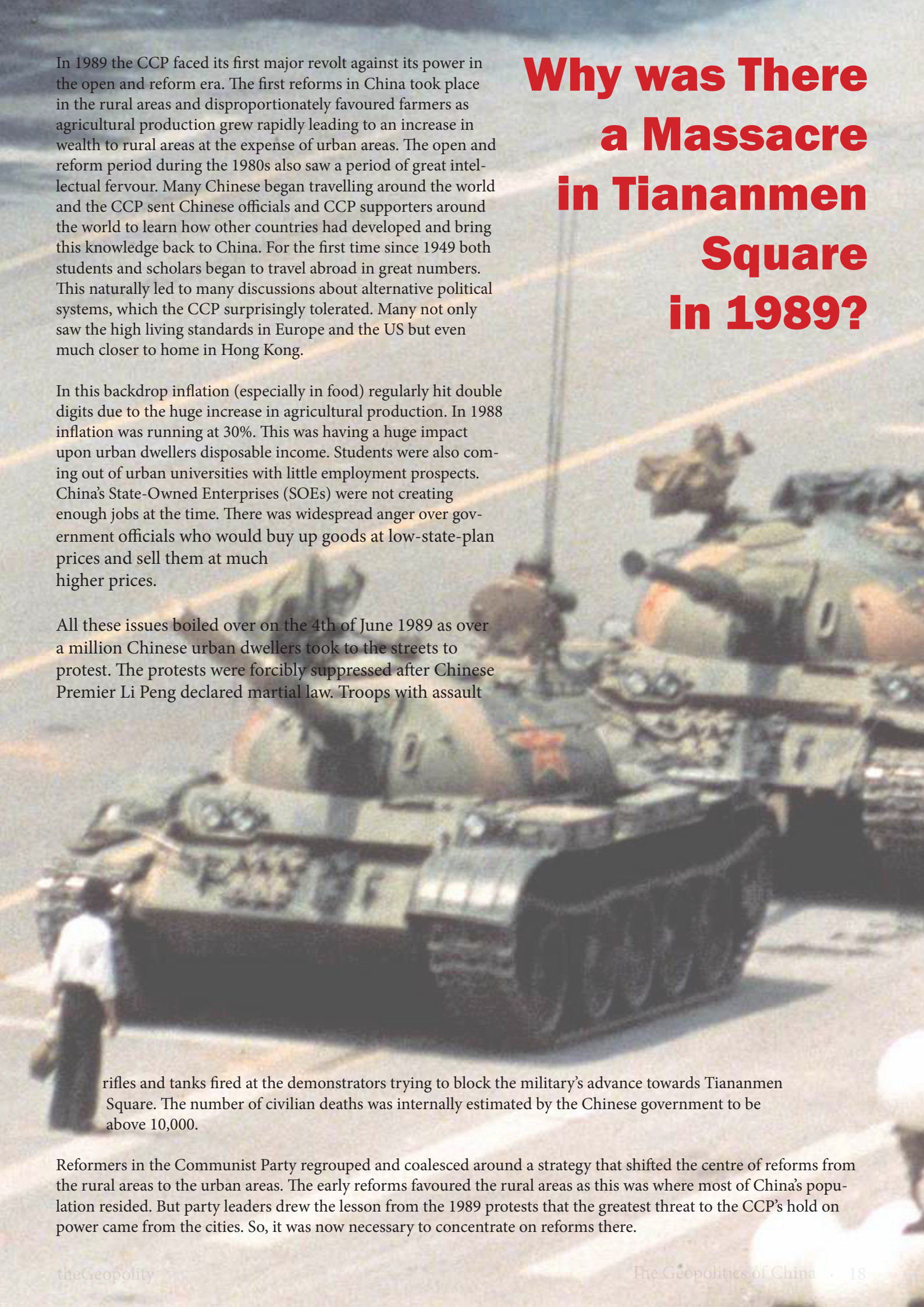


# Why was There a Massacre in Tiananmen Square in 1989?

In 1989 the CCP faced its first major revolt against its power in the open and reform era. The first reforms in China took place in the rural areas and disproportionately favoured farmers as agricultural production grew rapidly leading to an increase in wealth to rural areas at the expense of urban areas. The open and reform period during the 1980s also saw a period of great intellectual fervour. Many Chinese began travelling around the world and the CCP sent Chinese officials and CCP supporters around the world to learn how other countries had developed and bring this knowledge back to China. For the first time since 1949 both students and scholars began to travel abroad in great numbers. This naturally led to many discussions about alternative political systems, which the CCP surprisingly tolerated. Many not only saw the high living standards in Europe and the US but even much closer to home in Hong Kong.

In this backdrop inflation (especially in food) regularly hit double digits due to the huge increase in agricultural production. In 1988 inflation was running at 30%. This was having a huge impact upon urban dwellers disposable income. Students were also coming out of urban universities with little employment prospects. China's State-Owned Enterprises (SOEs) were not creating enough jobs at the time. There was widespread anger over government officials who would buy up goods at low-state-plan prices and sell them at much higher prices.

All these issues boiled over on the 4th of June 1989 as over a million Chinese urban dwellers took to the streets to protest. The protests were forcibly suppressed after Chinese Premier Li Peng declared martial law. Troops with assault



rifles and tanks fired at the demonstrators trying to block the military's advance towards Tiananmen Square. The number of civilian deaths was internally estimated by the Chinese government to be above 10,000.

Reformers in the Communist Party regrouped and coalesced around a strategy that shifted the centre of reforms from the rural areas to the urban areas. The early reforms favoured the rural areas as this was where most of China's population resided. But party leaders drew the lesson from the 1989 protests that the greatest threat to the CCP's hold on power came from the cities. So, it was now necessary to concentrate on reforms there.

# Why has Beijing Failed to Integrate Hong Kong?



Hong Kong, like many of China's ports and coastal towns, was lost to the colonial powers during China's century of humiliation. In the first opium war from 1839-1842 Britain humiliated the Qing emperor by defeating his huge army. He was forced to sign an unequal treaty, The Treaty of Nanking 1842, which forced the emperor to open China to British companies and it gave Hong Kong to Britain as a colony forever with a British Governor. Britain then forced further concessions from the weak emperor in 1860 and forced him to cede the whole Kowloon peninsula. Britain took advantage of China's defeat to Japan in 1895 and expanded its control by forcing the Qing emperor to cede the whole area around Hong Kong for a lease of 99 years with no rent.

The Hong Kong area when Britain took it over was an area of farming and fishing villages which the British foreign secretary at the time, Lord Palmerston, described as "...a barren island with hardly a house upon it." But it gave Britain a port to access China for trade and for its ships to dock and

replenish. Eventually, Hong Kong became a busy trading port and its economy took off in the 1950s as it became a manufacturing hub eventually becoming a significant financial centre and commercial port.

As the end of the lease of Hong Kong was approaching, Britain attempted to continue its status with Deng Xiaoping in 1979. China regarded the treaties by which Britain obtained various parts of Hong Kong as unequal treaties, forced upon China when it was weak, by a militarily stronger colonial nation. The lease was set to expire in 1997. In 1984 the Sino-British Joint Declaration was agreed which would see Britain hand back Hong Kong to China when the 99-year lease ended in 1997 on the condition China maintained Hong Kong's economic and political system for 50 years after the transfer.

This meant rather than Hong Kong fully integrating into mainland China it would become a special Administrative Region of China where communism would not apply, it would have autonomy

and its western lifestyle would be preserved. China agreed to this as it was not strong enough then to fully assimilate Hong Kong into mainland China, though it believed by 2047 it would be and would not renew the agreement at the time. Britain had built and ruled Hong Kong for so long and established western values and structures it believed it could maintain its influence in this indirect way. As China refused further direct rule by Britain, Hong Kong was transferred to China on the 1st of July 1997, after 156 years of British colonial rule.

The Chinese regime began increasing its control as the years went by, by preselecting candidates for political office. When China announced in 2014 that people would only be allowed to vote for their chief executive in elections from a short list of pre-approved candidates, Hong Kong witnessed its biggest protests since 1997. To protect themselves from police spraying tear gas, they used umbrellas, giving rise to the name the "Umbrella Movement." In 2017 Carrie Lam, a candidate loyal to Beijing was elected chief

executive — Hong Kong's highest public official. Under her leadership pro-democracy politicians were removed from office and some jailed as dissidents.

The only aspect left of Hong Kong's system that China did not control was the legal system. But hundreds of thousands of people took to the streets in 2019 when a legal proposal was being considered that would allow criminal suspects to be extradited to mainland China. Opponents of the extradition amendments said the changes would compromise the territory's legal independence.

Although the people of Hong Kong

are Chinese, they see themselves as Hong Kongers first and do not want to be part of China. They view China as communist and want to be distinct and different to mainland China. Surveys carried out in Hong Kong show less than 10% of the population see themselves as Chinese, most see themselves as Hong Kongers who are more western and have a better system than China and are more free and live different lifestyles to mainland China. Britain ensured its culture was adopted by the people and this is now causing problems for China.

China's strategy was to always integrate Hong Kong slowly and join it with its mainland and eventually re-

gain all its lost territories. But it has miscalculated and is unable to use political cunning to win the people of Hong Kong. Despite China's economic rise the people of Hong Kong see themselves differently from China. Despite ruling over Hong Kong for 22 years, despite dominating the political system, the Chinese Communist Party has failed to win the hearts and minds of the Island. This is a major failure for the Communist Party as it lost many territories due to its century of humiliation and wants to regain all of them to show it's a united global power. Hong Kong has shown the world that the government in Beijing cannot force them to join China.



# Why is Xinjiang So Important to Beijing?

China has for long denied it was targeting ethnic Muslim Uyghurs for internment camps in its restive Xinjiang region. But the last few years has seen a flurry of reports and videos showing Uyghur Muslim being interned at camps across west China.<sup>9</sup> With international pressure mounting, the Chinese regime finally admitted to the dark reality: an island of concentration camps has been built. China's state-run Xinhua news agency in 2018 quoted an official that the "sinicisation" of religion must be upheld. Quoting You Quan, head of the ruling Communist Party's United Front Work Department, which oversees ethnic and religious affairs, he said: *"The Party's leadership over religious work must be upheld, the infiltration of religious extremism must be guarded against."*<sup>10</sup> Despite China's economic rise it has struggled with this restive region which is composed mostly of minorities.

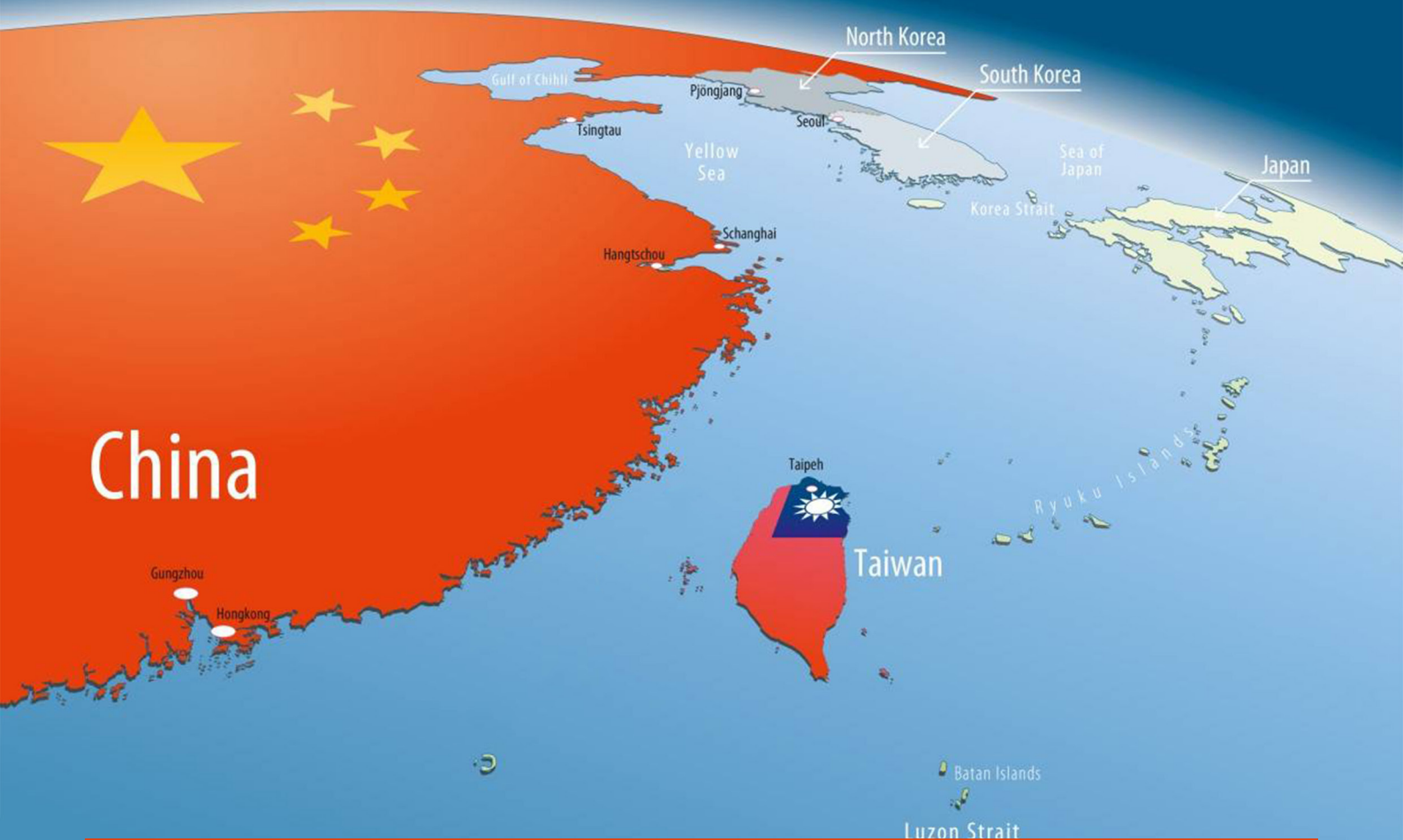
The Xinjiang Uyghur Autonomous Region (Xinjiang) lies in China's northwest and stretches over 1.6 million square kilometres. The region accounts for one sixth of the Chinese territory and borders eight countries. Today Xinjiang is home to around 21 million people coming from thirteen different ethnic groups with the largest being the Uyghur Muslims. It was historically a main conduit and hub for economic and cultural exchange between East and West, Xinjiang became an important section of the Silk Road. The rise of European imperialism in the 1800s saw the Russian and British empires expand into Central Asia. The Qing dynasty's collapse in 1911 led to Chinese control over Xinjiang to virtually diminish. It would take Mao Zedong in 1949 to abolish the independence of the territory and annex it to the Republic of China. On this occasion

though Mao attempted to empty the region of its Muslim population by forcibly re-settling the region's Muslims and relocating Han Chinese to the restive region. This policy, still in force today, has largely failed and is what culminated in the Ürümqi riots in 2009.<sup>11</sup>

China's economic miracle has been predicated upon access to energy and commodities. Xinjiang is a critical region that needs to fuel China's economic machine and it is also strategically located as a supply route. Xinjiang contains over 20% of China's coal, natural gas and oil resources. Xinjiang also has the highest concentration of fossil fuel reserves of any region in the country.<sup>12</sup> The oil fields at Karamay are one of the largest in China and the region has extensive deposits of coal, silver, copper, lead, nitrates, gold, and zinc. Xinjiang is China's largest natural-gas producing area and serves as an important trade and pipeline route into the Central Asian region and beyond.

Historically Xinjiang has been China's key land route to the world. Western China provides extended access to the Arabian Sea through Pakistan and to the Indian Ocean and Persian Gulf. China could access Pakistan, Central Asia, the Middle East and the whole of Eurasia and beyond via Xinjiang and transport resources overland and avoid excessive dependence on vulnerable sea routes.

For strategic, economic, commercial, demographic and political reasons Xinjiang represents an existential issue for China. But despite throwing lots of money at the region and in the past using the iron fist, it has failed to win the Muslims in the region and the Western media have only relatively recently caught onto what China is doing. The daunting issue for China's leaders is its economic and political future runs through a region populated by Muslims, who Beijing has been fighting for over a century.



## Why is Taiwan so Important to Beijing?

When World War Two ended in 1945 and with the Japanese defeated, China at the UN was one of the founding members of the international body. The Nationalists led by Chiang Kai-shek believed they ruled over all of China. By 1948 the civil war between the communists led by Mao Zedong against the Nationalists resumed, having been previously put on pause due to the Japanese invasion. Mao raised a peasant army to fight the Nationalists, who by 1949 retreated to the island of Taiwan. There was little the communists could do about this as they lacked the military capability to invade Taiwan.

With the Chinese Communist Party (CCP) ruling over mainland China and with the Cold War in full swing the US opposed the replacement of the Nationalist government at the UN, in effect supporting Taiwan's position. Taiwan's foreign policy has ever since been based upon maintaining its status as the legitimate government of all of mainland China. Over the decades Taiwan has been consistently marginalised by the CCP on the international stage. As a result, Taiwan has had to be satisfied with maintaining official state relations with just a few small states around the world.

The CCP position has always been that Taiwan is a rebel province and a part of mainland China which needs to be reunified. China worked actively to isolate Taiwan on the international stage and for much of the post-World War Two period China built relations with the world on the basis that the CCP was the legitimate representative of all of China, including Taiwan. China continues to rely on a combination of tools, from conciliatory, political and economic policies to more coercive military activities and international diplomatic isolation to maintain control over Taiwan.

For the CCP, reunification with Taiwan is a strategic priority. Taiwan is a perpetual scar on the Communist Party's narratives about her victory in the Chinese civil war. Taiwan sits firmly in the middle of the first island chain and more than any other island in this chain, Taiwan could be used by a foreign power to threaten the Chinese mainland itself.

For the US, Taiwan is an integral part of her strategy to contain China.



## Is China a Capitalist or Communist Nation?

**D**eng Xiaoping famously stated: *“I don’t care if the cat is black or white, so long as it catches mice.”* This meant for Deng if a system or policy works, it should be used. His reforms for China were gradual, and the CCP did not follow any ideology for economic development from 1978. Reform in China was driven by pragmatism and undertaken slowly to manage change. China focused on export-oriented growth and slowly opened certain sectors of its economy to foreign companies. All the major reforms were the result of a process of trial and error on a limited scale. Successful experiments were then scaled up and rolled out across the country. Thus, the establishment and success of four Special Economic Zones (SEZ) in the 1980s, led to them being rolled out across the country.

China today has an economy with many elements of capitalism, but the CCP adopts what works for the country, rather than looking to be an ideological country. Reforms in China developed gradually, starting in the rural areas with the household responsibility system and township and village enterprises.

Steps to open the economy to foreign trade and investment only started to play a significant role in the 1990s. Financial sector and State-Owned Enterprises (SOE) reform was also gradual, only gaining momentum in the mid-1990s. The country’s motto was “crossing the river by feeling the stones”, i.e. partial reforms in an experimental manner, often starting in a few regions and expanding them upon proven success. A broader strategy emerged only in 1993, with the decisions of the Third Plenum of the 14th Central Committee, but this too was implemented gradually.

Whilst many have called China’s economic model ‘state capitalism’, the reality is China has not adhered to any consistent and ideological model of economic development; reform in China was driven by pragmatism and a piecemeal approach to instigating and managing change. China focused on export-oriented growth and gradual liberalisation of certain markets combined with an outward looking foreign investment strategy. What China has been very successful at, is the rolling out of its policies.

# Has China now Secured all Its Strategic Imperatives?

China throughout its long history had three strategic imperatives from maintaining internal unity, controlling its buffer regions and protecting its coastal region.

The Chinese Communist Party (CCP) was seen as the saviour of the Chinese civilisation after the Japanese surrendered and after the communists emerged victorious from the civil war. The CCP was never viewed as a political party but as the saviour of Chinese civilisation. Today, China is internally united.

China's buffer regions overall, were restored in the first few years of the CCP's rule. Despite tensions with the Soviet Union and skirmishes, the buffers were never under threat of being overrun under the CCP. Today, despite some tensions, the surrounding nations know these buffers are firmly in Beijing's control.

Under the Communist Party China acquired naval ships from the Soviet Union, but its main threat was land based during this period rather than the sea. Under Mao, China's coast was secure and today

China has a navy that can not just protect its coastal areas but project power into the South China sea. China's rapid economic rise has now created a new imperative, one that shifted China out of what had been a near self-reliant capability and into one that left China vulnerable to international involvement. China now has a fourth imperative of the need to protect her strategic trade routes, resources and markets from foreign interference.

China's economic success has been built upon importing raw materials, commodities and energy from the world. It has an economy that is based on adding value to this by converting them into exportable goods to the rest of the world. China is dependent on the global economy, global markets, sea routes and infrastructure. China must secure its vulnerable supply lines through expanding its military presence and extend its international presence. This is the first time in China's four millennia history that strategic imperatives extend beyond its homeland. This means China will need to develop global capabilities to achieve this and this naturally brings it into conflict with the US, the global superpower.



Buffer Regions

Han core

Coastal Region





## Why is China Building Infrastructure Across the World?

China's Belt and Road Initiative (BRI) has gained much media attention and has seen terms such as the '21st century Silk Road' and 'Eurasian Trade Bloc' thrown around as descriptions of the project. By 2023, China had signed Memorandums-of-Understandings (MOUs) with 150 countries and 32 international organisations, among which 46 are in Africa, 37 in Asia, 27 in Europe, 11 in North America, 11 in the Pacific and eight in Latin America. China is now the world's number one overseas investor.

China grew rapidly from 1979 to well into the 2000s. This was achieved with production and investment powered by the country's integration into regional cross-border production networks. In 2002 China became the world's biggest recipient of foreign direct investment (FDI) and by 2009 it had overtaken Germany to become the world's biggest exporter. But the Great Recession from 2008 led to a decline in world trade, creating a major problem to the country's export-oriented growth strategy. Beijing attempted to counter the effects of declining external demand with a major investment programme financed by massive money creation and low interest rates. Investment as a share of GDP rose to an all-time high of 48% by 2012.

Despite the government's efforts, growth steadily declined. Beijing pursued a high growth strategy by promoting a massive state-supported construction boom. New roads, railways, airports, shopping centres and apartment complexes were built. Such a big construction push has left the country with excess facilities and infrastructure, highlighted by a growing number of ghost towns. The boom also caused several industries to dramatically increase their scale of production, creating serious overcapacity problems.

The party leadership then chose a new strategy, one that sought to maintain the existing growth process by expanding it beyond China's national borders. The One Belt and One Road Initiative was born. One Belt One Road (OBOR), as it was known at the time, was conceived before Xi Jinping was elected President by the National People's Congress in 2013. Soon after his election, he announced his support for OBOR. But it was not until 2015, after consultations between various commissions and ministries, that an action plan was published and China aggressively moved forward with the initiative. This initiative did not come out of the blue but is a direct result of challenges stemming from China's growth model.

The initial aim of the Belt and Road Initiative (BRI) as it came to be known by 2020 was to link China

with 70 other countries across Asia, Africa, Europe, and Oceania. The two parts to the initial BRI vision: The “Belt”, which seeks to recreate the old Silk Road land trade route, and the “Road,” which is not actually a road, but a series of ports creating a sea-based trade route spanning several oceans. There is no official BRI map, what we have are illustrations by everyone, apart from Chinese officials.

The reason for no official BRI map is that the initiative has continued to evolve. In addition to infrastructure it now includes efforts at “financial integration,” “cooperation in science and technology,” “cultural and academic exchanges,” and the establishment of trade “cooperation mechanisms.” Its geographic focus has also expanded. In September 2018, Venezuela announced that the country “...will now join China’s ambitious New Silk Road commercial plan which is allegedly worth \$900 billion.”

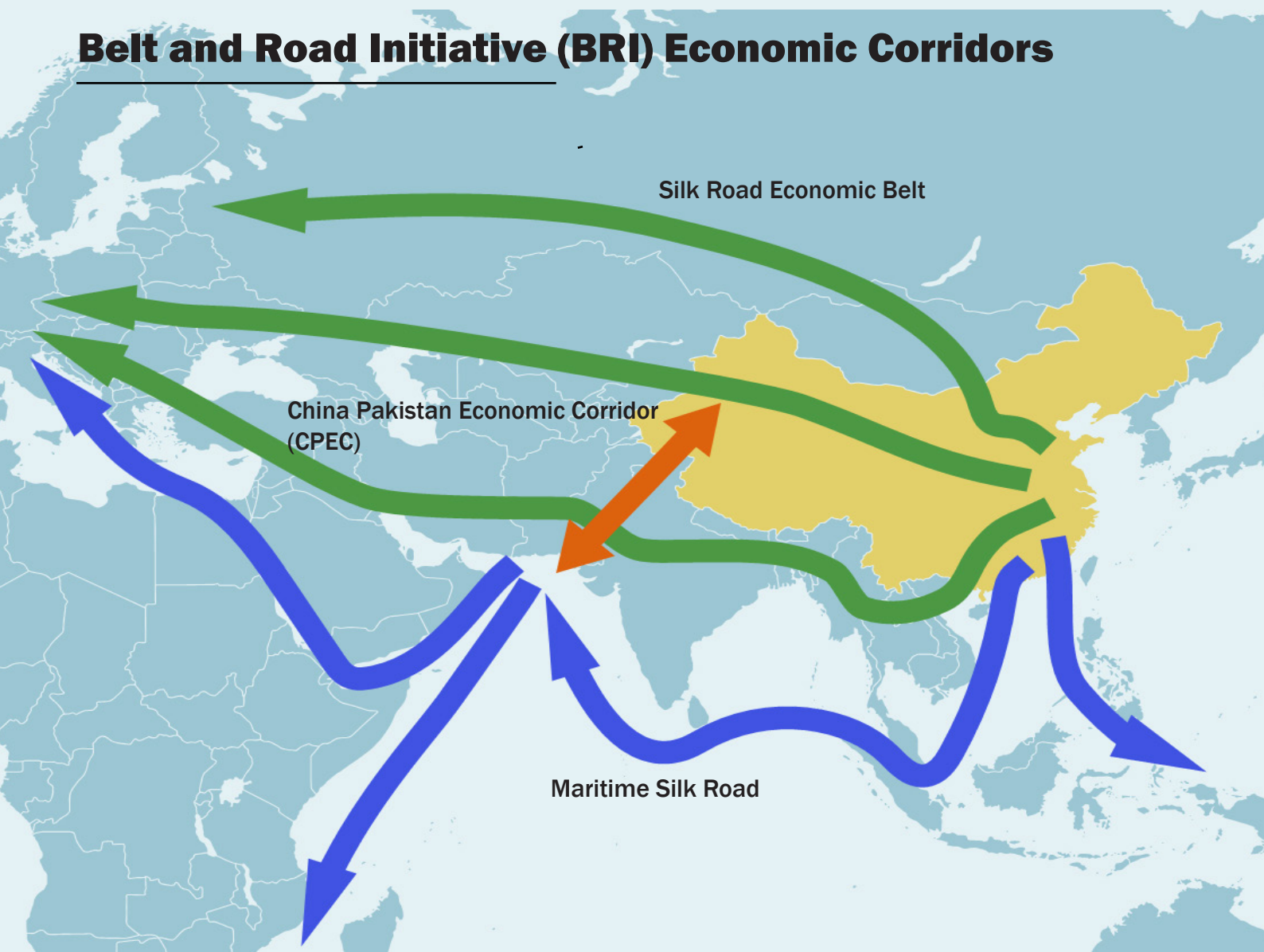
BRI in reality represents an attempt to solve China’s problems of overcapacity and surplus capital, declining trade opportunities, growing debt and falling rates of profit through a geographic expansion of

China’s economic activity and processes. China has rushed to generate projects, many of which are not financially viable. The European railway projects are illustrative of this. Chongqing-Duisburg, Yiwu-London, Yiwu-Madrid, Zhengzhou-Hamburg, Suzhou-Warsaw and Xi’an-Budapest are among the more than 40 routes that now connect China with Europe. Yet out of all these, only Chongqing-Duisburg, connecting China with Germany, was created out of a genuine commercial need. The other routes are political creations by Beijing.

A growing number of countries are becoming reluctant to participate because it means they will have to borrow funds for projects that may or may not benefit the country or generate the foreign exchange necessary to repay the loans.

By 2023 the BRI has grown and expanded across the world. China continues to get global media attention due to the sheer scale and scope. Whilst many see this infrastructure as a power move by China, for the CCP the infrastructure project was an attempt to deal with the economic challenges China was facing.

## **Belt and Road Initiative (BRI) Economic Corridors**





## What is China's Political System?

China's political system is a bureaucratic-authoritarian one-party state. It is in principle highly centralised, but in practice substantially de-centralised. China's political system has evolved since 1978 from the cult personality of Mao Zedong where today decisions are made through consensus. Authority resides in no individual but in the Communist Party which sits atop the political system and selects leaders who are subject to term limits and mandatory retirement ages.

China's top leader holds three concurrent positions in order to be the supreme leader. General secretary of the Communist Party, chairman of the central military commission (which controls the army) and state president, a mainly ceremonial role that confers ultimate control of the government. A leader must hold all three positions, but especially the first two to exercise full control of the state. In 1992 at the 14th party congress Deng Xiaoping, who had been China's paramount leader since 1978 retired and transferred control of the party, military and government to the new president Jiang Zemin. In 2002 Zemin retired and ceded control of the party and government to Hu Jintao, he did not give up chairmanship of the central military commission for another two years. In 2012 Hu retired and Xi Jinping assumed control of the party, government and military.

China is a one-party state but rather than a tiny cabal of secretive leaders, it is a vast organisation of around 90 million members and reaches into every organised sector of society including the government, courts, the media, companies (both private and state owned), universities and religious organisations. Top officials in all these organisations are appointed by the CCP.

The party no longer attempts to control every individual's life as it tried doing in the Mao era, but it does seek to heavily influence every sphere of organised activity. Whilst China is seen by many to be a highly centralised nation, the reality on the ground is local governments enjoy a high level of discretion and autonomy. A 2004 IMF study found that in the period 1972-2000 the share of government expenditure that takes place at the sub-national level was 25% for democracies and 18% for non-democracies. In China from 1958-2002, this figure was 54% and by 2014 it reached a staggering 85%. For an authoritarian nation this level of fiscal decentralisation is extremely high.

China is run through a pyramid structure with several layers of bureaucracy between the top leaders and specialised agencies. Most of these layers lay within the Communist Party structure and often their activities are cloaked in secrecy. At the top of the pyramid

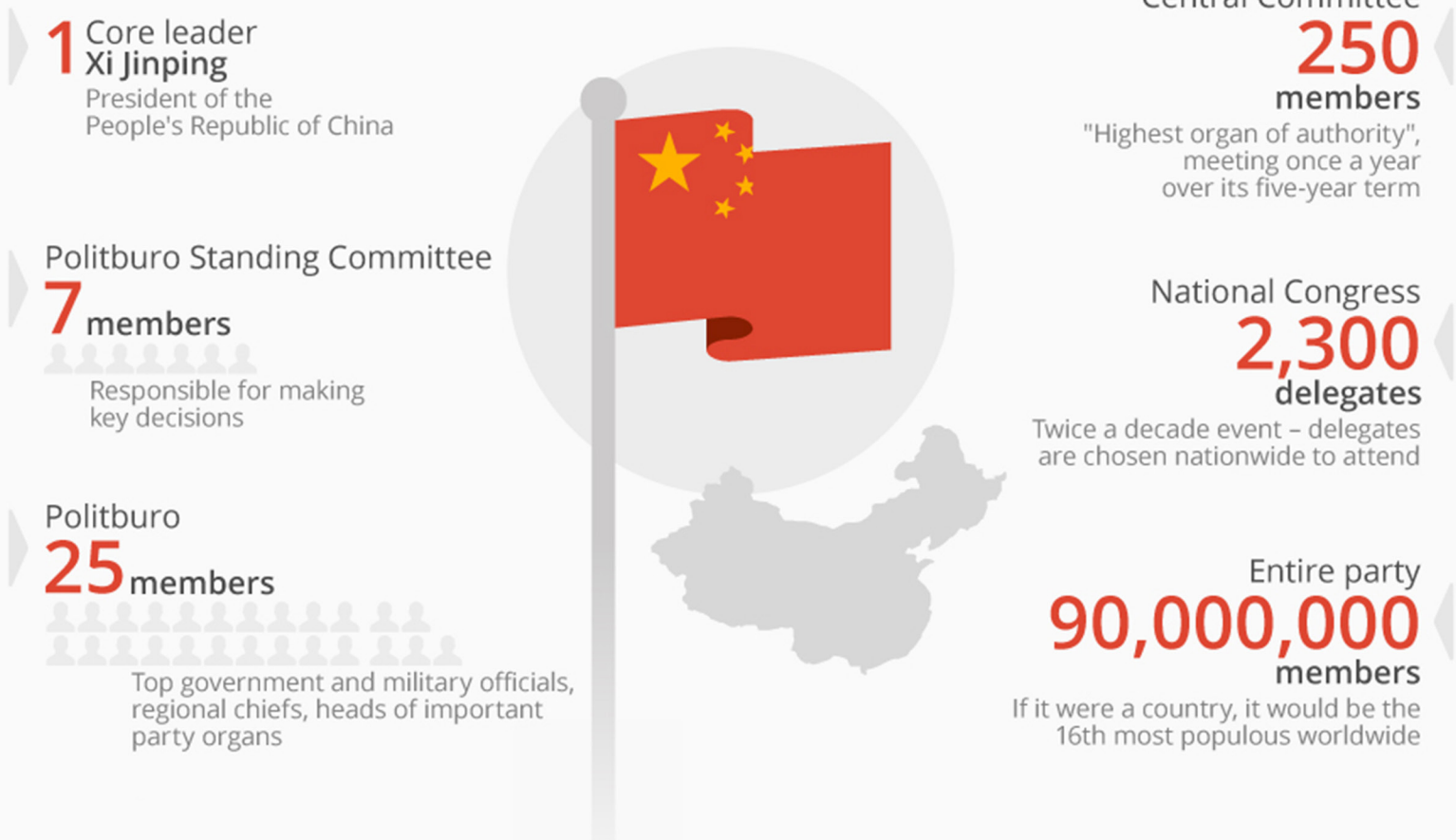
is the standing committee of the party's politburo consisting of 7 members with decisions requiring consensus. This committee sits within a broader 25 member politburo, which meets several times a year and ratifies major decisions. Below the politburo are the 'leading small groups' which the party organises to coordinate policy on major issues.

Below this is the State Council, chaired by the premier, which is the highest organ of government and is equal to the cabinet in most national governments. Below the state council are the ministry level bodies, the most important of which are the National Development and Reform Commission (NDRC), the Ministry of Finance (MOF), the Ministry of Commerce

(MOFCOM), which also handles foreign policy issues and the Peoples Bank of China (PBC).

A lot of power is concentrated at the top of this structure, but Chinese leaders rely upon provincial leaders to come up with policy to execute such decisions, making provincial leaders important national decision makers. Although China is run by a centralised command structure in practice it is decentralised, which is necessary due to its sheer size and population of the country. The CCP discipline and control of the bureaucratic appointment system throughout the country prevents China from splintering apart and enables the formulation and implementation of coherent strategies.

## China's Communist Party By The Numbers



# The CCP - One Party State

The CCP is the sole political party in China. It is a vast organisation of 90 million members (5% of the countries population) and reaches into every organised sector of society. A similar party in the UK would look like the following....



**GOV.UK**

The appointment of the entire government cabinet, government ministers, the heads of the ministerial departments, heads of the non-ministerial departments, their deputies, the mayors of the major cities, all the regulatory bodies and the justices on the supreme court



The Chief executives of Royal Dutch Shell, HSBC, BP, GlaxoSmithKline, BAT, and 50 of the next largest companies in the UK



The editors of the Sun, Daily Mail, the Times, Daily Mirror and the Daily Telegraph. The bosses of the TV networks such as the BBC, ITV, Channel 4 as well as Sky.



The presidents of Cambridge, Oxford, UCL, Imperial, Kings, LSE and other big universities and the heads of the Think Tanks such as the Adam Smith Institute, RUSI, Institute for Fiscal Studies, Chatham House, DEMOS and the International Institute for Strategic Studies





## Is Xi Jinping a Dictator?

Chinese premier Xi Jinping celebrated his 10th year as Chinese leader at the 20th National Congress in October 2022. After a decade under the rule of Xi Jinping, there has been extraordinary change in China. Over his 10 years as leader, Xi has tightened his personal grip on the Communist Party, and the party's grip on the country. He has weeded out rivals and enemies through anti-corruption purges and cracked down on grassroots dissent by tightening censorship and surveillance.

Xi's decade in power has also seen China's list of challenges increase. In 2012 when Xi was made politburo head he inherited a raft of challenges from declining demographics, growing inequality and pollution. During his decade in power America launched a trade war with China, there was the COVID-19 pandemic, troubles in Hong Kong and Taiwan and problems with China's economic model.

Xi's time in power can be best described as getting rid of all opposition and making himself supreme emperor of China. He began with the military with retired Vice Chairman Xu Caihou and former PLA General Guo Boxiong, who were accused of corruption and charges were brought against them. This

sent a powerful signal to serving military officers that anyone that resists Xi's control is not immune from harm. In 2015, Xi overhauled the structure of the military. He abolished the four military headquarters, staff, politics, logistics and armaments, and replaced them with 15 smaller agencies. The new structure allowed the Central Military Commission (CMC), which Xi leads to issue orders directly to the various branches of the military, extending as far as even financial auditors. This made it impossible for senior military leaders to build loyalty for themselves who might someday oppose Xi.

Xi Jinping's signature anti-corruption campaign was used to remove his political rivals and other factions within the party. During Xi's reign more than 4.7 million people have been investigated by anti-corruption authorities. Xi further purged career security officials who supported his rise to power. Now the security agencies are run almost exclusively by officials who shared a history with Xi and who are trusted by him.

In 2018 Xi Jinping's "Thought on Socialism with Chinese Characteristics for a New Era" was enshrined in China's constitution. Having an ideology named after

you has cemented Xi's legacy. Before Xi, only Chairman Mao achieved this. Whilst it's debatable what exactly Xi Jinping's "Thought" means, it didn't matter, it was a power move. Xi's thought is aimed primarily at strengthening Xi's own legitimacy and power above anyone else in the CCP and the country.

Under Xi, China's economy has continued to grow, growing 100% in the last decade but Xi has reasserted state control over the economy, initiating heavy-handed and widespread crackdowns on private industry. China has cracked down upon large online platform companies (especially online tutoring) and on real estate developers, arguably the two business sectors responsible for the biggest portion of the country's economic growth over the past decade.

Though authorities justified the clampdown on technology companies by accusing them of anti-competitive behaviour, bad working conditions, and data security and privacy breaches, the intervention was primarily the result of Xi's obsession with control.

Mao used the Communist Party and created a cult personality to dominate China. Today Xi is doing the same but utilising modern technologies that were not available to Mao. China's use of surveillance technology, payment technology and monitoring of the population during COVID-19 has given Xi the power to dominate China like no other ruler in history. Xi Jinping has now changed China into his personal dictatorship.





## Is China a Military Power?

China's military attracts a lot of media attention whether it is its anti-aircraft carrier ballistic missiles, its aircraft carriers or its growing cyber capabilities. China's military ascent has garnered significant global attention, especially when the US was bogged down in two long wars in Iraq and Afghanistan. Numerous studies have been completed regarding the US vs China scenario and when China may eclipse the US. But much of the research uses a bean counting exercise comparing the number of ships or aircraft of both countries. When evaluating any force, you have to measure it against the mission it is trying to accomplish and the adversaries it may face and how it plans to resource and coordinate all its assets.

The US military doctrine is based upon the US projecting power globally to maintain its global presence. As the global superpower it needs to have enough military presence in every region. This is not what China is attempting to do. China's military was for long geared towards a foreign invasion and for internal security. But this has changed in the 21st century. Its four decades long development has to be protected from both internal threats and those external. Its doctrine termed 'active defence,' is based upon preemptively countering threats to the Chinese mainland as well as avoiding becoming entangled in major conflicts, particularly those far away from China. China's doctrine is based on a regional view, not

global, as this is where it expects threats to emerge. China sees the US as a potential adversary within its region due to its presence there. To resource this, China realised it would need to develop its navy and air force as a result it has reduced and replaced its old naval and air platforms with more modern ones. It sees its platforms not travelling far from its mainland. As a result, China has a small logistical base such as tankers and air transporters as it sees all future threats within its region. China's doctrine is defensive, to protect what it has, it is not for offensive purposes. China's military doctrine is the opposite to the US.

China's long-term strategy is to project power beyond her first island chain, which is between 500 miles – 1,000 miles away from its coast. China needs air and maritime assets to do this. Submarines are vital for China for this as they offer China the most realistic and effective way to project military power far from her shores. While Beijing is in the process of building up a very capable surface fleet, it is not yet powerful enough to reliably break through the first island chain let alone dominate distant waters.

The Chinese navy would need to add nuclear attack submarines for this, but its navy is currently dominated by diesel-electric submarines. China's existing nuclear-powered submarines still trail far behind



both US and Russian designs in terms of quality, as they are noisier, possess less advanced sensors and deploy propulsion technology that is not as capable.

While diesel-electric submarines are well-suited for warfare within the first island chain, only nuclear submarines combine the stealth and the range necessary to engage in modern, long-distance operations. Nuclear submarines allow a navy to be at sea for longer periods due to nuclear propulsion. Germany in both world wars and the Soviet Union built up powerful submarine fleets precisely because their surface navies could not contend with the respective fleets of the west.

As China does not have a military that will fight far from home any conflict between the US and China would likely be in China's region. In a conflict close to the Chinese mainland, China's military would enjoy geographic and positional advantages, while the US would be required to successfully deploy her forces into the region. The geography of conflict is critical, and even short distances have a major impact on relative capabilities. Chinese power projection capabilities are improving, but the PLA's ability to control military events diminishes rapidly beyond the unrefueled range of jet fighters and diesel submarines. On the flip side the US will need time to project force and concentrate them in the region, making military bases and their protection essential

for the US. Although China has rapidly developed her capabilities and in some areas closed the gap with the US, China has not caught up to the US military in terms of aggregate capabilities. Despite this it does not need to catch up to the US to dominate her immediate periphery. The advantages conferred by proximity severely complicate US military tasks. Fundamentally, China is increasingly capable of challenging the ability of US forces to accomplish mission-critical tasks in scenarios close to the Chinese mainland. Beyond her mainland, China's capabilities are not just extremely limited, but virtually non-existent.

For the moment, China's military is heavily focused on defending her huge territory. This can be seen from the fact that most of China's ground force group armies are geared towards the defence of the homeland. China has made significant progress in modernising her armed forces and this has worried US policy makers who see China challenging her place in the region. The Chinese military started her modernisation drive from a very low position in the 1990s with an outdated navy and air force. Despite developments the balance of military power between the US and China is still predominantly in favour of the US. But on the current trajectory mainland China is secure and China is on the road to developing a military that can protect her global supply lines.

## China's Perspective



## Can China Conquer Taiwan?

Any invasion of Taiwan by China will require her military to carry out a major offensive operation, land forces on the island and occupy it. It will need to supply its troops there and establish a logistical network for the duration of the occupation.

Although China has one of the largest armies in the world and can certainly amass them on its shores across the Taiwan Strait, to invade Taiwan. However, China would need the bulk of its forces to get into boats and make the eight-hour voyage into the teeth of Taiwanese firepower coming from well-entrenched, well-supplied onshore positions. Taiwan has about 130,000 well-armed troops (plus 1.5 million in reserve) and thousands of armoured fighting vehicles and camouflaged, self-propelled artillery pieces. Only about 10% of Taiwan's coastline is suitable for an amphibious landing, and even taken by surprise, Taiwan could amass its forces at the landing zones, even under a missile barrage from China and exact high rates of attrition on the Chinese.

Amphibious war requires extraordinarily complex coordination between air, land and sea forces. An enormous number of things would have to go right for China to succeed, and the political risks of failure would be sky-high. That's to say nothing of the headaches involved in occupying the island itself.

In making plans for an invasion of Taiwan, it will have to calculate that it will be facing not only Taiwan's own forces, but also US forces. These would include fighter aircraft sent to reinforce Taiwan (or potentially based elsewhere in the theatre and operating with the support of tankers) and US aircraft carriers, which can be massed for operations. Thus, the question of a Chinese invasion of Taiwan is predicated on China's ability to suppress air activity originating in Taiwan, to force US naval forces out of effective operational range of the theatre and to render non-Taiwanese based aircraft ineffective.

China will literally need to project force over distance, hope to land successfully, penetrate Taiwan and ensure it continues to resupply these troops. Then there is the US factor which completely changes the dynamic. Although China possesses more personnel and equipment, the fact that it has to get these assets across the sea is the challenge. Irrespective of one's power, you still need to carry out the complex actions using the capabilities you have. Having military heft alone doesn't mean you can achieve victory, capabilities are needed and geography needs to be overcome.



## Why is China's Population in Decline?

China's National Bureau of Statistics released the countries' demographic numbers in 2023. It confirmed China's population fell for the first time since records began back in 1953. The world's most populated nation saw its demography shrink by 850,000 people as its replacement rate fell to 1.15 children per woman, well below the replacement rate of 2.1. China's birth rate has been declining for years and prompted a slew of policies to try to slow the trend. But ever since scrapping the one-child policy, China has entered a new era of negative population growth.

Since 2021 when China published results from its once-a-decade census it showed China's population growing at its slowest pace in decades with newborn babies falling by 20% from 2019. It was expected China would not see population decline for at least another decade. But the arrival of population decline poses a major strategic challenge for China who for long relied upon an endless supply of young workers to fuel its economic growth.

The number released from the National Bureau showed the country's population was 1.4118 billion, falling by 850,000 lower than 2021. Chinese population growth has been shrinking for a decade and now it has turned negative. This is the first time this has happened since records began after World War Two when the Communist Party conducted its first census in 1953. The birth rate of babies has been declining for a decade, but it now reached its lowest official number since 1961, when the great leap forward caused widespread famine. The only aspect of China's demography that is growing are those in retirement. The population is ageing rapidly with 264 million pensioners. China is growing old without first having grown rich.

China abandoned its one child policy in 2015 as after three decades the policy led to a huge gender imbalance and an inverted population pyramid where a diminishing pool of young workers came to support an ever-increasing number of pensioners. The One Child Policy, adopted in 1979 was in order to avoid

massive overpopulation. As a result of this policy China's fertility rate has fallen to 1.15 children per woman, when 2.1 children per woman is needed to maintain a stable population.

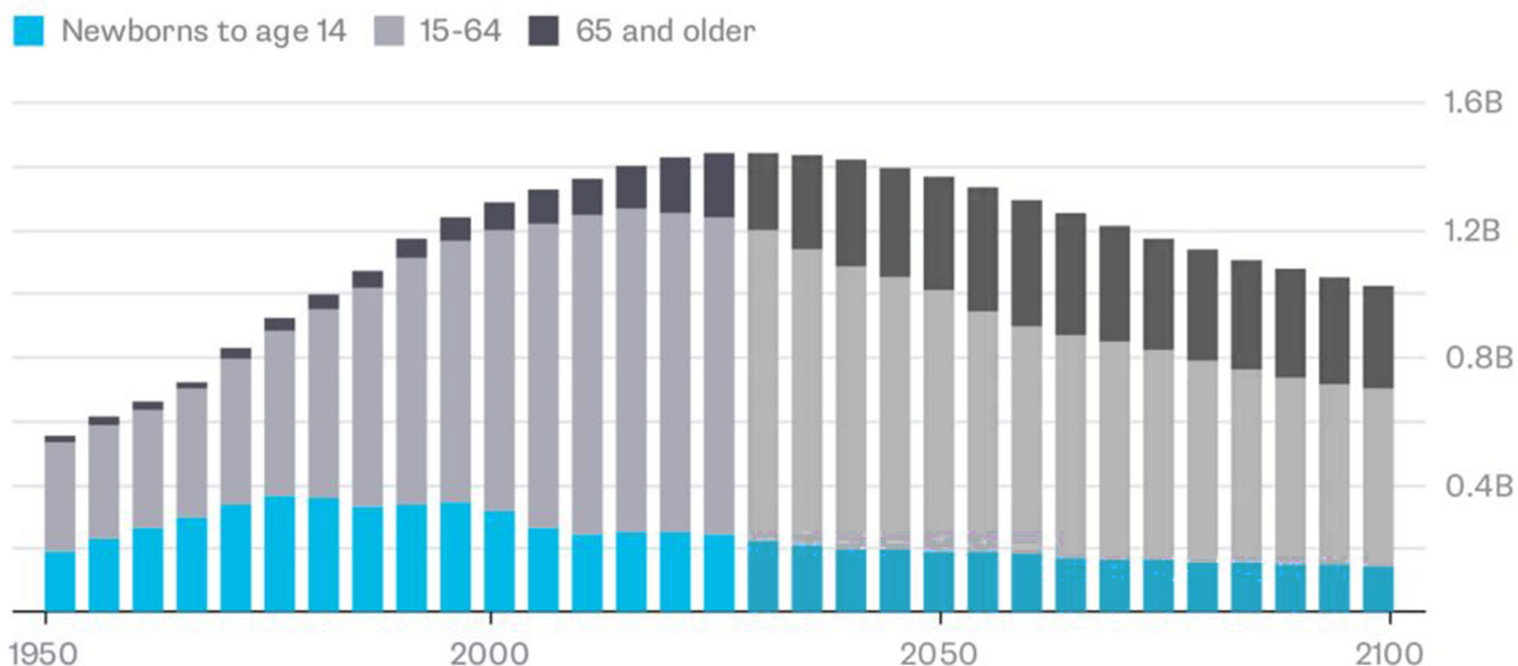
The effects of the One Child Policy can be felt across China. A Ministry of Education report in August 2018 confirmed more than 13,600 primary schools closed nationwide in 2012. The ministry looked to China's dramatically shifting demographic profile to explain the widespread closures, noting that between 2011 and 2012 the number of students in primary and secondary schools fell from nearly 150 million to 145 million. It also confirmed that between 2002 and 2012, the number of students enrolled in primary schools dropped by nearly 20%.

Considering China's large population, one would think a slowing or even shrinking of the population is a positive development. But for China the declining population comes at the wrong time. If China wants to continue its economic growth, she will need to urbanise much more of its population to increase domestic consumption. It will need to house, employ, care for and educate most of its population if it hopes

to create more consumers by 2030. Within the next decade however, over 25% of China's population will be over the age of 60, compared with around 13% today. In that time, the portion of China's population too young or too old to work will rise from around 38% to 46%, with the balance of China's dependent population shifting substantially from young to old. At the same time, China's working-age population (20-59) is set to decline by as much as 80 million people. The shift to internal consumption will require a drastic increase in worker productivity just to sustain growth rates even remotely close to present levels.

China's huge and endless supply of workers was the backbone of its economic growth for four decades. Whilst China has been looking to shift away from cheap, low-end manufacturing to high end and high value manufacturing that will rely more on technology rather than workers, China needs its large population to consume much of what it will produce. With China's workforce shrinking, this will mean its consumer base will also shrink and this will likely pose one of the most serious challenges to the Chinese Communist Party.

## China's Shifting Demographics



# Why is China Obsessed with Technology?



China has made a number of impressive achievements on the technology front. It is considered to have leapfrogged the US in areas such as artificial intelligence (AI), life sciences, 5G and quantum computing. Whilst China is long known for creating cheap knockoffs and imitations it is now seen as a major threat in the 4th industrial revolution of technologies. For the Chinese, they are returning to where they always were at the cutting edge of technology where for four millennia it was a global leader. After a hiatus of 180 years, today's China sees technology as essential for its future prospects.

China's view towards technology and its importance is rooted in its history. For millennia China was a great and powerful civilisation that had technology, wealth and prosperity. But then the industrial revolution took place and China stagnated and fell behind the west. The Europeans with their superior technology and violence descended upon China, beginning with the opium war in 1839 and forced their way into China. This was the beginning of China's humiliation which would last for 100 years. The century of humiliation ended with the defeat of the Japanese at the end of World War Two. The rejuvenation of the

Chinese nation, the slogan adopted by successive leaders, is by revitalising the economy which will be achieved by being at the forefront of new technologies and creating a strong military via civil-military cooperation. As far as the Chinese are concerned, they want to return to where they believe they always were. China's vision is by 2049, 100 years since the founding of the People's Republic of China, to take its position amongst the world's powers, having borne all burdens, overcome all obstacles, defeated all enemies, and built its power anew so China's place is at last restored.

During the Mao era technology was transferred from the Soviet Union to China, from nuclear reactors to military jets and engines. But little progress was made by the CCP to develop indigenous technologies as Mao focused on consolidating China and its borders and firmly establishing the CCP as the sole political entity in the country. The disaster of the great leap forward from 1958-1962 set the country back and then the Sino-Soviet split as well as Mao's cult of personality all obstructed the conditions needed to excel in technological development. Chinese science and technology were in a perilous state due to years of isolation from the global mainstream, the systematic disparagement of intellectuals under Mao and the collapse of the formal education system during the Cultural Revolution.

The opening up with the US and the passing of Mao led to the emergence of Deng Xiaoping and the beginning of China's economic rise. Realising China's industrial base was in a poor state, Deng established Special Economic Zones (SEZ) and focused on developing infrastructure such as ports, roads, railways and telecommunications in order to attract foreign companies.

The state driven "Made in China 2025" (MIC2025) plan unveiled in 2015 and aims to lift the country's industries up the value chain, replacing imports with local products and building global champions able to take on the Western technology giants in cutting-edge technologies. The strategic plan of China issued by Chinese Premier Li Keqiang and his cabinet in May 2015 aims to move China away from being the world's factory floor for cheap goods and low quality and to move to higher value products and services. Made in China 2025 is the natural evolution of China's strategy of being a technology giant, and self-sufficiency in the next generation of technologies is the direction China is now heading towards.

# Key Technologies

**Artificial Intelligence** - In 2017 China's State Council announced its "New Generation Artificial Intelligence Development Plan," which set the goal of creating a \$150 billion AI market and becoming a global leader by 2030. China's approach to AI development combines market forces with strong state support, and this means that it can quickly mobilise resources to accelerate AI development and gain an advantage over Western players. China also has access to vast amounts of data, made possible by her large number of internet users.

**5G** - China plans to invest \$411 billion in upgrading her telecommunications systems to 5G between 2020 and 2030. China already leads the way in 5G patents, and by 2025, it is expected that China will have the largest market with 430 million users. Huawei, China's major telecommunication company, has been largely responsible for China's success. Its state-sponsored programme offers cheap finance, which means that Huawei has been able to offer significant discounts on its base stations. As a result, the company has already shipped 200,000 units to 50 telecom operators in Europe and Asia, despite sanctions from the US.

**Fintech** - China is emerging as the world's fintech market leader. Nine of the 23 privately held fintech corporations are based in China. China's influence in the global financial system is growing. The Chinese Central Bank has already announced the launch of a state-owned cryptocurrency which will be issued to seven different Chinese institutions, including tech companies Alibaba and Tencent. Facebook CEO Mark Zuckerberg has stated that US leadership in finance is being threatened by China.

**Energy** - China is now the world-leader in green technology. It holds 29% of the global total of renewable energy patents and has invested more in renewable energy than the US and EU combined. China's commitment to a transition to renewables is evident through her technology roadmap, which outlines her ambition to reach a 90% share for new energy vehicles by 2025.

**Semiconductors** - China has included the establishment of an independent chip industry as essential for her 'Made in China 2025' plan. But China has faced major challenges in these areas compared to others, even though it's probably the most critical. Whilst most of the world's chips are manufactured in China they are done mainly by foreign companies with subsidiaries in China. South Korea's SK Hynix and Samsung are the two largest by revenue, then there is America's Intel and Taiwan's TSMC. The two Chinese companies in the top six, Huahong Group and SMIC, are generations behind the pack. Whilst Huawei has become a major player in designing certain chips, its most advanced chips are built by TSMC. China's attempts to design, manufacture, test and assemble her own chips has seen the US turn against her and is now on a mission to counter China's chip dreams.

**Quantum Computing** - China has invested very heavily in quantum technologies and has taken the lead and has done so relatively quickly. The number of patents filed by Chinese companies relating to quantum computing has shot up in the last few years. In 2014, there were a similar number of patents filed in the US and China, but by 2017 China filed almost twice as many. China firstly focuses on quantum communications, through projects such as Micius, as well as a ground-based quantum network in the northern province of Shandong. Currently China is focussing on building a multi-satellite quantum network and creating a quantum simulator to tackle scientific problems. US big tech companies are focussed on pushing up the qubit-count and bringing down the error rate on quantum computers.

# Does China Have Global Ambitions?



The Chinese Communist Party (CCP) celebrated with great fanfare its centenary on the 1st of July 2021. Chinese Premier Xi Jinping highlighted the CCP's key position at the centre of China and how only she can turn the Middle Kingdom into a power to be reckoned with in the foreseeable future. China gets regular coverage about her growing strength and how she wants to uproot the global order and replace it with a Chinese global order. But there has been little detail or elaboration from Beijing on what her global order would look like or what her aspirations are for the world.

When the US was constructing the Global Liberal Order near the end of World War Two, China had been occupied by foreign powers for a century. She was in the midst of a civil war and therefore did not take part in the conferences, summits and meetings where the post-World War Two order was being constructed. Today China is forced to abide by a global system where she was unable to make any of the rules. This is why Chinese leaders and thinkers criticise the liberal norms and values that buttress the international order as a Western “political ideology.” China can clearly see despite her support for some aspects of the international order such as being a UN security council member and joining the World Trade Organisation (WTO), the order benefits the US who made the rules of the system, and the order will not be reformed to the point where China will get a chance to shape it.

For the moment, the Chinese leadership has not offered much description of the world order it would like to see emerge. The leadership does not see Confucianism, communism, or the nation's Han culture as values to underpin a future global order.

The Chinese have long believed their values are not universal and are unique to them. China does not have hegemonic ambitions like the US and criticises the presence of a hegemonic power in the world. What can be gleaned from Chinese officials, and the analytical community surrounding China's political elites is they would like to see a balance of power at a global level rather than a unipolar world. They would also prefer multiple powers in multiple regions. This would allow for greater representation in the world and the distribution of power would allow emerging markets and developing countries more say in the world.

Ideology plays no role in China's foreign policy. China has no messianic ideology to export; no doctrine of “manifest destiny” to advance; no belief in Social Darwinism or imperative of territorial expansion to act upon; no cult of the warrior to animate militarism or glorify war; no exclusion from contemporary global governance to overcome; no satellite states to garrison; no overseas colonies or ideological dependencies to protect; no history of power projection or military intervention beyond its immediate frontiers and no entangling alliances. China firmly believes its values are not universal, but unique to the Chinese people.

China has no values for the world, it has no ambition to become the global hegemon, it doesn't want the entanglements that come with it, it doesn't want to become like the US. China is more than happy with the liberal order, which China integrated into for its own development. But China views the presence of a global hegemon, who uses the liberal order to strengthen itself as a problem.



## Can China Establish an Alternative Order?

China has attempted to build and promote alternative institutions to the US dominated institutions.

**BRICS** - The BRICS (Brazil, Russia, India, China and South Africa) is a group of countries with emerging economies and nationalistic governments, which consider existing management of the global order as unfair to them and in different degrees have opposed the rules dictated by Western powers. Although most of the BRICS dynamic has been rhetorical, their joint statements have had a meaningful impact on the international public opinion. That is why, since the formation of the group, the question of what position the BRICS take towards existing international institutions and norms has been raised. These countries are perfectly integrated into the global markets. However, the unwillingness of western nations to accommodate BRICS' demands of reform pushed the group towards more revisionist and balancing positions.

**New Development Bank (NDB)** - In July 2015 the New Development Bank (NDB), formerly the BRICS Development Bank, a multilateral development bank established by the BRICS states, came into existence. According to the Agreement on the NDB, "...the Bank shall support public or private projects through loans, guarantees, equity participation and other financial instruments." Moreover, the NDB "...shall cooperate with international organisations and other

financial entities and provide technical assistance for projects to be supported by the Bank." The initial authorised capital of the bank was \$100 billion, divided into 1 million shares. The BRICS and the development bank it established are attempts to create alternatives to the World Bank and IMF. The NDB's main purpose is to mobilise resources for infrastructure and sustainable development projects in the member countries and other developing economies. It's also based upon the principle of non-interference in the internal affairs of countries, a leading feature of the bank. The NDB aims to work within the margins of state law without imposing any political condition on the loan beneficiaries.

**Asian Infrastructure Investment Bank (AIIB)** - On the 25th of December 2015, the Asian Infrastructure Investment Bank (AIIB) began operations. The multilateral development bank aims to support the building of infrastructure in the Asia-Pacific region. The bank, as of 2024, has 109 members as well as 14 prospective members from around the world. As matters stand, the bank has \$95 billion in capital. This is relatively small and not sufficient to dislodge the Bretton Woods institutions, but the seeds have been planted for this institute to play a major role in global development in the future.

**Alternative Global Payment System** - The US dollar has dominated the global payment system; the



Society for Worldwide Interbank Financial Telecommunication (SWIFT) system is currently the largest economic settlement system in the world. Almost all financial transfers are made possible through this system. As such, those who control SWIFT have the power to threaten financial institutions and sovereign nations that, if they don't do as they're told, can be denied access to the system.

China has introduced the Cross-border Interbank Payment System (CIPS), which is its own independent settlement system. CIPS began in 2015 as a means by which to settle oil and gas accounts in keeping with agreements that already existed between China and other nations. China hopes CIPS will gain strength and its use will spread outward. As China is now the world's largest importer of oil, and

the number one trading nation for 138 nations, it is well placed to challenge the dominance of the SWIFT global payment system.

China has succeeded in gaining the reputation that it's working on alternative institutions and organisations to the global liberal order dominated by the US. These are however currently small in scale and receive disproportionate coverage in the global media, giving the impression that China is challenging the US led global liberal order. For the moment China has established institutions that could be part of a new future order, but currently these pose little challenge to the global liberal order as they are small, have few members and not seen as real alternatives by most of the world's nations.



# Can China Replace the Dollar?

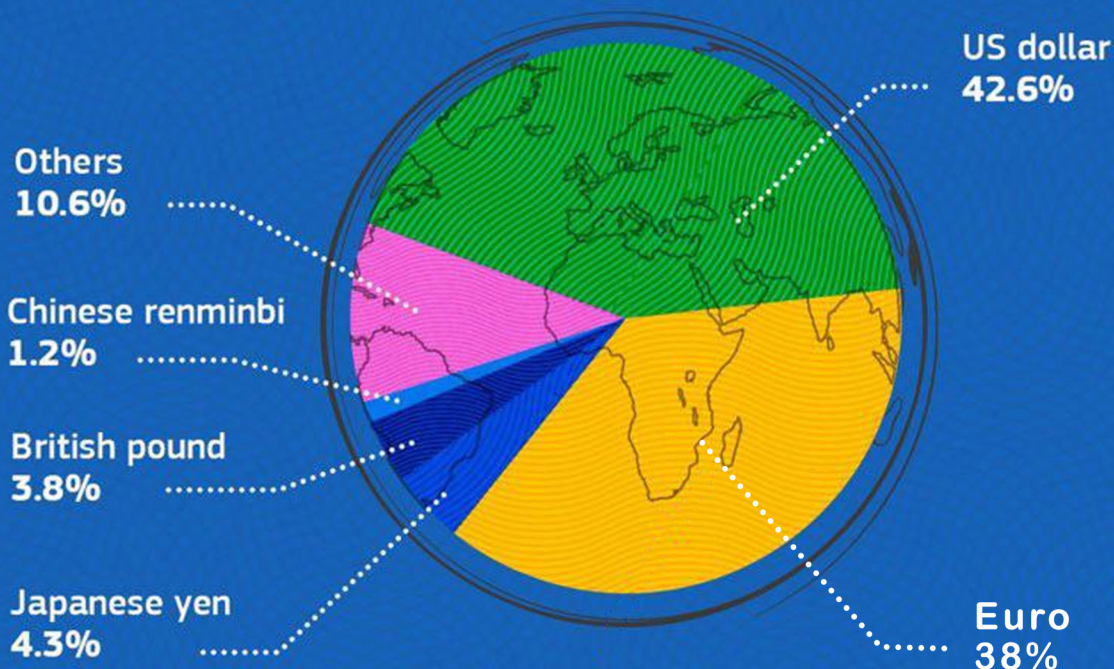
China has been talking about replacing the dollar for some time. This is despite the fact China's rise has been dependent upon its huge exports to the US, this has resulted in China accumulating dollar reserves in excess of \$3 trillion. On top of this, China has invested over a trillion dollars in US treasury bonds.

With sanctions on Iranian oil, a key supplier of Chinese energy and China's trade war with the US, China has actively attempted to move away from the dollar as the global reserve currency. In March 2018, the Shanghai Futures Exchange launched its first futures contract that is open to foreign investors. This contract, a yuan-denominated oil future, has the potential to become a rival to the dollar-denominated Brent and WTI contracts that serve as the current benchmarks. China has also agreed to currencies other than the dollar in a number of big-ticket trade deals.

Replacing the US dollar is an immense challenge as it's used in over 40% of all global transactions. The Chinese yuan accounts for only 1.7% of international payments in 2024. Over 60% of global central bank reserves are held in dollars. Despite all the noise about China's yuan, it's not used much in international transactions. To combat this, China has undertaken many actions to internationalise its currency. It has introduced Currency swap lines and entered into the International Monetary Fund's Special Drawing Right (SDR). But for the moment, few investors or traders have embraced it. In the foreign exchange market, the yuan accounts for only 1.7% of international payments. China currently has many restrictions on converting its currency, it has capital controls, and its currency is not freely available around the world. When China did make the yuan fully convertible in 2010, the capital flight was so large, full convertibility was shut down. As a result, until these restrictions are not removed the yuan cannot become the world's reserve currency and replace the dollar.

Both China and Russia are making attempts to move away from the dollar, by using their own currencies. But they will need more nations to join them to impact the dollar. China is well placed to challenge the dollar, but it cannot achieve this before it untangles itself from the US. For the moment there is little alternative to the dollar, but China is making moves to internationalise its currency and in time it will likely challenge the dollar as its economy grows.

## Global payments by Currency



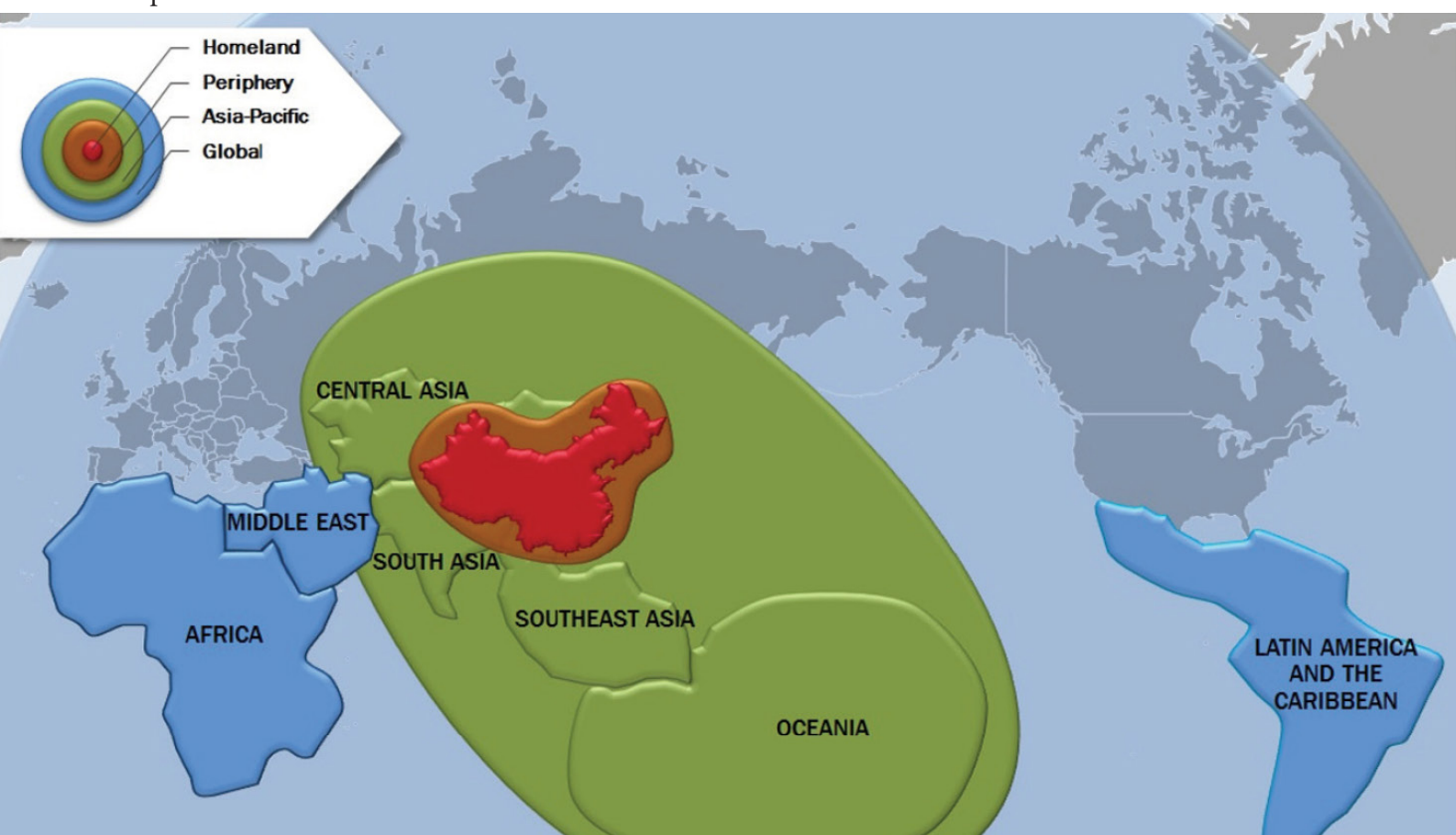
# How Does China Build its Foreign Relations?



For much of the 20th century China was closed off to the world and it engaged little with the international order. Even when it was communist, despite its claims of backing revolutionary movements to establish communism in the world, this never materialised into much as China's efforts were extremely limited as it was focused on internal challenges. Once China opened to the US and then in 1979 its reform and open era saw it engage with the wider world. China sought to gain access and influence in developing countries through military aid, arms sales, and rewards for switching diplomatic recognition from Taiwan to the People's Republic of China. By the early 1990s, China invigorated and broadened its outreach to the world as its fast-growing economy required new sources of raw materials and markets for its exports.

China's political outlook is based around national

territorial defence. China's insecurity around its own periphery results in special attention to its own neighbourhood. China views its security environment in terms of four concentric circles. The first and innermost ring encompasses China itself (including Taiwan, which it claims). China's second ring contains the territory and bodies of water directly adjacent to China's own land and maritime borders, including portions of Southeast Asia, Central Asia and South Asia. Chinese leaders believe that peace on China's periphery is essential for domestic harmony and this leads China to seek extensive influence in these regions and limit influence by outside powers. The third ring includes China's entire Asia-Pacific (including portions of Southeast Asia, Central Asia, South Asia, and all of Oceania), while the fourth ring includes everything beyond Asia i.e. the rest of the globe, the Middle East, Africa and Latin America and the Caribbean.





## **Sino-US Relations: Between Politics and Economics**

Despite the antagonistic relations between the US and China today, for much of the last few decades China and the US have had very good relations. When Richard Nixon visited China in 1972, Beijing made a break from the Soviet Union. She came to view the US as the best way to develop, as up to that point China was languishing in poverty.

When the Cold War ended the US domestic market was key for Chinese economic development. Between 1980 and 2004, U.S.-China trade rose from \$5 billion to \$231 billion. In 2006, China surpassed Mexico to become America's largest trade partner. By 2008 China surpassed Japan to become the largest holder of US debt and in 2009 China became the world's largest exporter.

When the neocons came to power in 2000, they termed China a competitor rather than a partner but the Bush administration got bogged down by its occupations of Afghanistan and Iraq and therefore did not pursue any aggressive action against China. For China, the Bush administration served its economy as China's increased economic output found its way to US consumers. For China, the US market was like no other market in terms of consumption. It also allowed China to get access to US tech, with many US companies setting up production in China. The growing interdependence between the US and Chinese economies became evident when the financial crisis in 2008 impacted China.

For Beijing the accusations of human rights, currency manipulation, accusations of free market malpractice were a problem as they didn't see trade from an ideological lens. China wanted to do business but didn't want to be held to values it didn't subscribe to. China watched on as some in the US accused China of taking US jobs, this despite many Americans until the 2010s considering cheap Chinese goods too good an offer to let go.

When Barack Obama came to power his administration spoke of a pivot to Asia, but his time in office saw little move on this. It was when Donald Trump came to office in 2017 he launched the trade war which placed significant sanctions, tariffs and restrictions on Chinese exports to the US. The Biden administration continued with these policies.

China views its relations with the US from an economic perspective as it needs the US domestic market for its own economic growth. But as the US has moved against China this has impacted the economic relationship. China wants to maintain an economic relationship with the US and keep politics out, but the US has now aligned its economic and political relationship with regards to China. China's relationship is now characterised by competition, fraught with disagreements, and divided by fundamentally different views of the global order.



## How Deep is the Sino-Russian Alliance?

With the collapse of the Soviet Union in 1991 a China-Russia rapprochement began. In 1992, the two countries declared that they were pursuing a “constructive partnership”. In 1996, they progressed towards a “strategic partnership” and in 2001, they signed a treaty of “friendship and cooperation”. America’s predicaments in both Iraq and Afghanistan saw China and Russia grow closer and they have introduced the idea of an alternative order to the US liberal order.

Energy has been one of the key strategic issues the marriage between the two nations has been built upon. The two nations have signed several major energy deals. Russian oil has made up a steadily growing share of China’s energy portfolio for years and in 2016 Russia became the country’s biggest oil supplier. China, for its part, has begun to substantially invest in Russia’s upstream industry while its state-run banks have heavily bankrolled pipelines connecting the two countries. Beijing acquired a large stake in Russian oil giant Rosneft. Russian exports of natural gas, including liquefied natural gas, to China have also increased.

At the same time, Beijing and Moscow have symbolically demonstrated their ever closer relationship in the realm of defence. They have conducted joint

military exercises in unprecedented regions, including the Mediterranean Ocean and the Baltic Sea, as well as in disputed territories, such as the Sea of Japan and the South China Sea. Vostok-2018 was Russia’s largest ever military exercise, with hundreds of thousands of troops joining Chinese soldiers. The drills consisted of 300,000 Russian soldiers, 36,000 military vehicles, 80 ships, 1,000 aircraft, helicopters and drones, as well as 3,500 Chinese troops. Weapons deals between them are likewise on the rise. Over the years, the two countries have taken on distinct roles in Central Asia. Russia has become the leading security guarantor in the region by founding the Collective Security Treaty Organisation (CSTO), a formal alliance with a mutual self-defence clause and by building military bases in Kyrgyzstan and Tajikistan. Russia has also integrated Kazakhstan into its air defence system. By comparison, China is rapidly emerging as the leading energy and infrastructure partner in the region. The country’s Belt and Road Initiative is well underway, and several oil and natural gas pipelines connecting China to its Central Asian neighbours are already functional. Both countries have a stake in the region’s security and economic integration, as evidenced by the presence of the Russia-led Eurasian Economic Union and the China-led Shanghai Cooperation Organisation there.

Along with pushing for greater financial and monetary autonomy by distancing themselves from the dollar-dominated order the two powers seem to be aiming for maximum autonomy and a proximate sphere of influence that encompasses Eastern Europe and parts of Asia. They also seek to overhaul international rulemaking with the intention of gaining greater influence in multilateral institutions, securing vetoes over military interventions, increasing global governance of the internet, ending US pressure regarding democracy and human rights, dethroning and reigning the dollar and accounting for their interests in the design of the global security order.

For China, its relations with Russia allows Beijing to raise the temperature with the US and present an image of an alliance.





## Is Pakistan China's Vassal?

Both China and Pakistan have for long presented Sino-Pakistan relations as a special relationship that has survived the test of time. Both Pakistan and China emerged in different circumstances as nations despite both being occupied by foreign colonial powers. The victory of Mao's communists led him to expel all foreigners and bring the buffer regions under Beijing's control. Pakistan emerged after the British Empire deemed partition would be advantageous to their interests. Pakistan received little of British India's resources, and was woefully unprepared for the influx of refugees and amid this Kashmir erupted. Pakistan's leadership and the military saw wooing the US and becoming a key player in the emerging Cold War as the most practical way to deal with the circumstances it was facing.

Whilst Pakistan was vehemently part of America's Cold War strategy of containing the spread of communism, in 1956 Pakistan and China signed the Treaty of Friendship. But it was events in October 1962 that defined the Sino-Pakistan relations. China and India's dispute over the demarcation of the international border between them led to aggressive claims by Indian nationalists over Aksai Chin, which China occupied. After India's wresting of Goa from Portugal in December 1961 a war of liberation was demanded by hawks in India and forces were dispatched to the mountainous terrain. China responded with a huge force and defeated India and occupied 15,000 square miles of Kashmir territory.

For Pakistan, this defeat for India led it to court China. China saw Pakistan as a low-cost secondary deterrent to India whilst Pakistan saw China as a high value guarantee against India. In order to surround India, defence relations between China and Pakistan significantly increased after the 1963 China-India war. China and Pakistan agreed to the demarcation of the international border between them where Pakistan ceded parts of Kashmir to China. For decades now China has been a steady source of military equipment to the Pakistani Army. Furthermore, China helped establish ammunition factories and provided technological assistance. The Shaheen missile series is considered to be modifications of Chinese missile imports. Pakistan's air force was for long the most prolific user of China's Chengdu J-7. But the most significant support that deepened relations was China's support for Pakistan's nuclear programme which included centrifuge equipment, warhead designs, highly enriched uranium (HEU), components of various missile systems and technical expertise.

China has for long been looking for alternative trade routes for its huge exports. It has been looking to expand its domestic economic model to outside the country as Chinese citizens cannot consume the huge manufacturing output that takes place in China. China also needed to find countries that could consume its excess iron, coal and steel and it was in this light the Belt and Road Initiative project came about. Pakistan has since received loans, infrastructure and

Chinese exports in the China Pakistan Economic Corridor (CPEC).

Pakistan became a critical route to the BRI and many grand promises have been made of its prospects. But despite all these economic moves, China has not been able to get Pakistan to support it in its political goals.

The continued skirmishes between India and China in the Himalayan mountains since 2020 have not seen Pakistan open a new front against India that would greatly aid China in its battle with India. Despite all the infrastructure, loans and economic deals China cannot rely on Pakistan to politically support it. During this same period the US has treated Pakistan as an abused partner. The US has coerced Pakistan to conduct activity in Afghanistan, in the tribal areas and within Pakistan in support of US political aims. Pakistan military top brass and politicians don't

simply provide verbal support but carry out actions that support US political plans. With China, Pakistan claims to be in an alliance but no actions have taken place by both nations to support the other's political plans, this includes both of them moving against India.

Both China and Pakistan agree that India is the enemy, but beyond this, despite all the economic and defence relations, China has not been able to lure Pakistan from the US. As the US has built relations with Pakistan since the 1950s its hands go deep into Pakistan's political class, institutions and political medium. Currently, China doesn't have the plan, capabilities or know-how to lure Pakistan away from being a vassal for the US and work with China to achieve her political plans. Until this time Pakistan's political class will always prioritise its relations with the US over China.







## Is China Replacing the US in the Middle East?

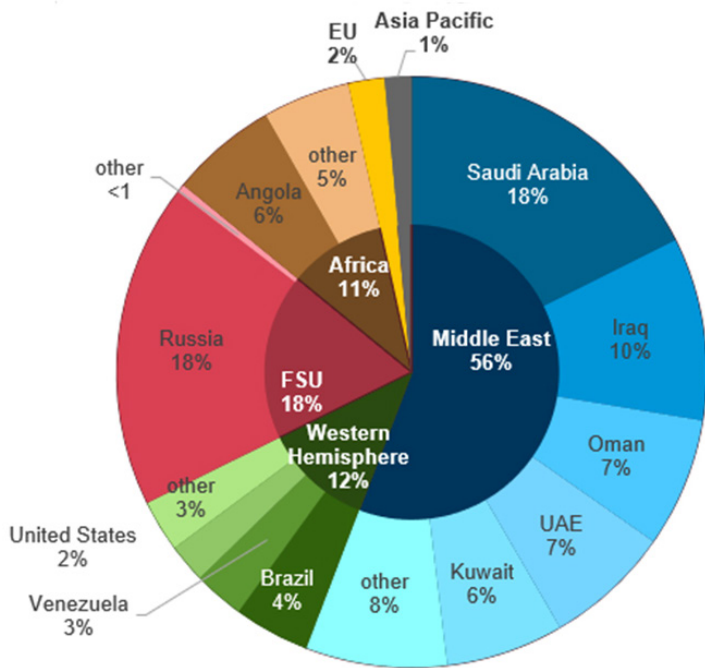
Chinese President Xi Jinping announced at a conference in Beijing in June 2018, attended by 22 Arab countries that China would pledge more than \$23 billion worth of loans and humanitarian aid as part of what he called an ‘oil and gas plus’ model. *“China and Arab states must synergise our development strategies in pursuit of our respective dream of rejuvenation...”* Xi said. Greater interest and involvement in the Middle East by China is being seen as manifestations of the growing influence of China within the region and by some as an attempt to counter Western influence.

In the post World War Two world, it was the US that constructed the global order and the Soviet Union that competed with it for global dominance. China was disengaged from much of the world including the Middle East. It was only with the demise of the Soviet Union and with efforts to gain greater international recognition at the expense of the rival in Taiwan, that China began relations with some countries in the Middle East. In 1993 China could no longer fulfil its domestic energy needs from domestic production and it turned to the Middle East for its energy imports. By 1995 the Middle East became the number one source of oil for China. China’s rapid growth and stature as well as enormous population means it needs supply lines for raw materials, commodities and more importantly oil, and this is where the Middle East comes into the picture.

In 1993 China was unable to fulfil its domestic energy needs from domestic production and it turned to the Middle East for its energy imports. By 1995 the Middle East became the number one source of oil for China. China’s rapid growth and stature as well as enormous population means it needs supply lines for raw materials, commodities and more importantly oil, and this is where the Middle East came into the picture. China consumed 15 million barrels per day (mbd) of oil in 2022. But only 5 mbd of this is from domestic sources, leading China to surpass the US as the top global importer of oil in 2017. There are 45 nations that fulfil China’s demand for oil; over half of this oil comes from nine countries in the Middle East, with Saudi Arabia providing the lion’s share. China’s most important reason for being present in the Middle East is energy. The Middle East will remain China’s largest source of oil imports and that is the strategic significance of the Middle East.

China and the Middle East traded \$507.2 billion of goods in 2022, according to customs data, double the level in 2017. Trade with the Middle East rose 27% in 2022, surpassing the growth with Southeast Asian nations (15%), the European Union (5.6%) and the US (3.7%). Over 80% of Chinese trade with the region is over petrochemicals. China also now has at least 20 port projects along critical maritime passages that straddle the Middle East and North Africa. China enjoys comprehensive strategic partnerships

## China Oil Imports by Country (2022)



or strategic partnerships with 12 Arab countries, and 21 Arab states, along with the Arab League, all have formally signed onto the Belt and Road Initiative (BRI).

### The Iran factor

The Iran–China 25-year Cooperation Program agreement was announced in July 2020 and led to much speculation regarding its impact in the volatile Middle East region. China establishing a strategic footprint in the region and challenging the US were seen as real possibilities with the deal.

Beijing committed to investing in Iranian oil and gas sectors, constructing railroads and improving manufacturing. In exchange, Iran agreed to provide energy to China at a special discount. The deal also incorporated strong military cooperation between the two nations.

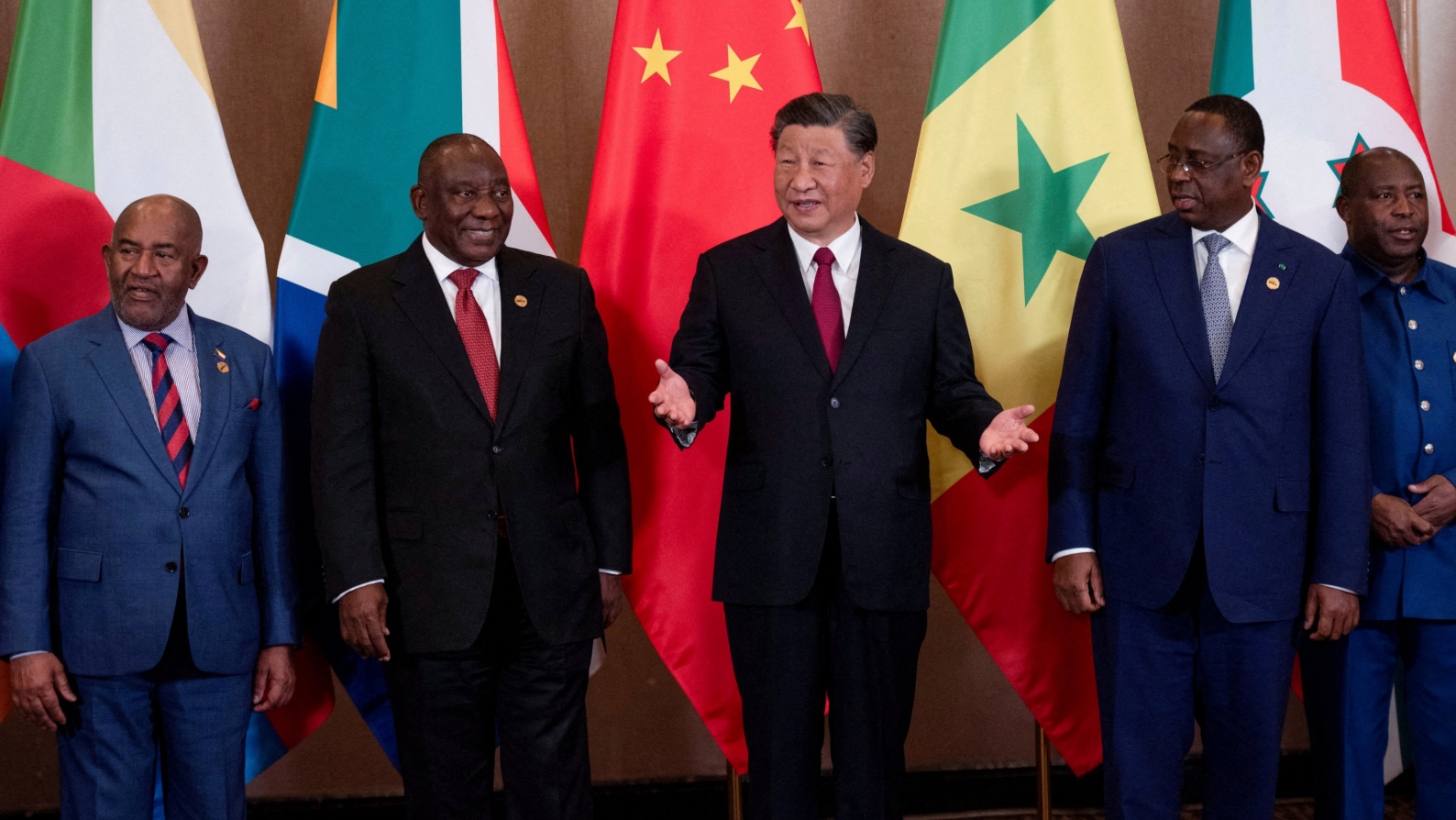
But very little progress has been made, whilst Iran's isolation has got worse. Iran in the past turned to China to relieve economic pressure but China doesn't have a good track record of delivering. Not surprisingly there are a lot of promises in the China-Iran Cooperation Programme, but many challenges will need to be overcome for this strategic deal to come to fruition.

China is not interested in arbitrating local disputes through the use of force. Indeed, China's military involvement in the region has been modest so far. The creation of a naval base in Djibouti is the most visible sign of Beijing's regional presence. Also, China has UN peacekeepers on the ground in Lebanon and some military advisers in Syria but does not contribute to the

anti-ISIS coalition. Presently, China looks happy with pursuing trade under the US regional security umbrella. Beijing has traditionally preferred the promotion of trade and investment. Accordingly, although its economic involvement in the Middle East has grown over the last decade, its military and security involvement remain marginal.

China's growing interests and increasing engagement in the Middle East highlight its achievements so far, but for the moment China lacks the capabilities to bring these to bear. This affects how much Beijing is willing to devote towards the region. China's strategy towards the Middle East is best characterised as that of a wary dragon: eager to engage commercially with the region and remain on good terms with all states in the Middle East, but most reluctant to deepen its engagement, including strengthening its diplomatic and security activities beyond the minimum required to make money and ensure energy flows. The result is China's foray into the Middle East lacks any political or military dimensions and remains limited to economic and energy considerations.





## Has China Conquered Africa?

Prior to China's economic rise her relations with the African continent were dominated by the ideological imperatives of Third World solidarity, anti-colonialism, and support for African independence movements. China based its relations with newly independent African states on the principles of equality, mutual interest, and non-interference. Located beyond China's immediate neighbourhood, African governments do not have territorial disputes with Beijing and welcomed Chinese engagement.

From the 2000s Beijing has focused on gaining access to natural resources, creating markets for Chinese-manufactured goods, and developing manufacturing facilities that can take advantage of the continent's low labour costs. China's Belt and Road Initiative also envisions linking at least the East Coast of Africa to its 21st Century Maritime Silk Road.

China's increasing activity in Africa has received much negative media coverage in the west. Beijing needs the continent's natural resources, particularly oil and gas. It also views Africa as a means to enhance international political legitimacy as a global power and leader of the developing world and support the principle of non-interference in sovereign countries' internal affairs.

China as well as the US are both seeking influence in Africa, but for different goals. China has stressed political independence from outside interference while providing state-backed investment and aid focused on infrastructure and natural resource extraction. Both the US and China seek access to natural resources and seek the creation of export markets for manufactured goods. Both need to improve African economic development through aid, investment, and trade for this to transpire, but Beijing and Washington take different approaches. Chinese and American companies generally operate in different spheres. Chinese firms tend to pursue opportunities in capital-intensive industries using low-skilled labour, such as construction, mining, and manufacturing, while US firms are involved in service industries and high-tech sectors such as banking and information technology.

China's presence in Africa has not translated into political influence. China prides itself on not interfering on the continent's political issues. This has left the US, Britain and France to deal with the continent's political disputes.



## Sino-India Relations: Between Politics and Economics

Both China and India emerged after World War Two as independent nations, suffering long and brutal occupations by imperial nations. As the Cold War began the two large and impoverished countries forged links based on post-colonial solidarity, but this association lasted only until 1962, when China defeated India in a month-long war over their disputed Himalayan frontier. That loss precipitated a paradigm shift in India's defence orientation, forcing a demoralised Jawaharlal Nehru, the country's first prime minister, to bolster the armed forces. His decision eventually triggered the launch of the country's nuclear weapons program after China's first test of a nuclear device in 1964. During the same era, Beijing also forged a strategic partnership with India's biggest foe, Pakistan.

For most of the Post World War Two era relations with India were characterised with competition and mistrust between the two, and several border conflicts. But by the 21st century relations between the world's two most populous states stabilised. With globalisation taking off and the Cold War over, a series of confidence-building measures were signed, enabling India and China to normalise and diversify their relationship into other areas. They became part of various multilateral mechanisms such as the Asia Infrastructure Investment Bank, the Shanghai

Cooperation Organization, East Asia Summit and the BRICS grouping. Trade flourished and Chinese investment in India's telecom, electronics, solar and, most notably, digital sectors increased by leaps and bounds. While India had a twinge of envy for China's rise, it saw opportunities for win-win cooperation.

Yet over the past two decades, India became increasingly wary of the dangers of widening economic, military and technological asymmetries between the two countries. With trade doubled between both nations, there is increasing unease in India regarding the perceived Chinese advantage in their trade relationship. Relations then suffered a major decline in 2017 due to multiple border standoffs that resulted in deaths on both sides.

The dispute over Aksai Chin (formerly a part of the Indian state of Jammu and Kashmir and South Tibet or Arunachal Pradesh) is not settled and plagues Sino-Indian relations. While New Delhi has raised objections to Chinese military-aid to arch-rival Pakistan and neighbouring Bangladesh, Beijing similarly objects to India's growing military collaboration with Japan, Australia and the US.

# China-India Border Disputes



CHINA

INDIA

**Arunchal Pradesh**  
China claims a large part of Arunachal Pradesh as part of South Tibet



## Can China Trust Japan?

While China's relationship with Japan goes back centuries, its recent relations have been tense due to Japan's role in China's century of humiliation. These animosities surface in recurring cycles, often involving Chinese anger over Japan's perceived lack of contrition for wartime crimes. But concrete territorial and economic issues also aggravate the relationship, including Japan's close alliance with the US, trade frictions, and ongoing disputes over ownership of various islands in the East China Sea.

Relations have improved in the 21st century as China has seen Japan as a market for its exports. Beginning from practically zero as China opened in the early 1980s, trade between the two powers has exploded, reaching \$207 billion in 2006. In 2004, China surpassed the US to become Japan's largest trading partner. Japan forms part of the supply chain where goods are assembled in China, but key components come from Japan.

But wartime issues continue to surface. In 2005, Tokyo's Ministry of Education, traditionally a conservative body, approved a history textbook that many non-Japanese historians criticise as a soft-peddalling of Japanese wartime atrocities. Among the events relegated to little or no mention in the new texts were the 1937 Nanking Massacre, the Japanese Army's use

of slave labour, and programs that forced females in occupied countries to act as so-called comfort women, a euphemism for prostitutes, for Japanese troops. After the textbook's approval, thousands of Chinese demonstrators poured into the streets of Beijing, Guangzhou, Shenzhen, and other cities, pelting Japanese offices and restaurants with rocks and eggs in the largest anti-Japanese protests in China since the two countries normalised relations in 1972. Protesters also called for a boycott of Japanese goods.

There is also the US factor in Sino-Japanese relations. China views the Sino-Japanese partnership with increasing suspicion, particularly Washington and Tokyo's decision to develop a joint missile defence system in 2004. China's relationship with Japan can be best summarised as hot economics but cold politics.





## Has China Eradicated Poverty?

The biggest problem China faces in shifting from an export driven economy to domestic consumption one is the fact that the overwhelming number of Chinese people are poor and cannot afford to consume in order to stimulate China's economy.

Since initiating market reforms in 1979, China has apparently lifted more than 800 million people out of poverty. This makes the transition to a consumption-based economy straightforward as 61% of the population have moved from poverty to affluence. The problem is however with the definition of poverty, which is usually based on the World Bank's definition. This is an extremely narrow definition and the 800 million figure obscures, rather than reveals, that poverty is still a significant problem in China.

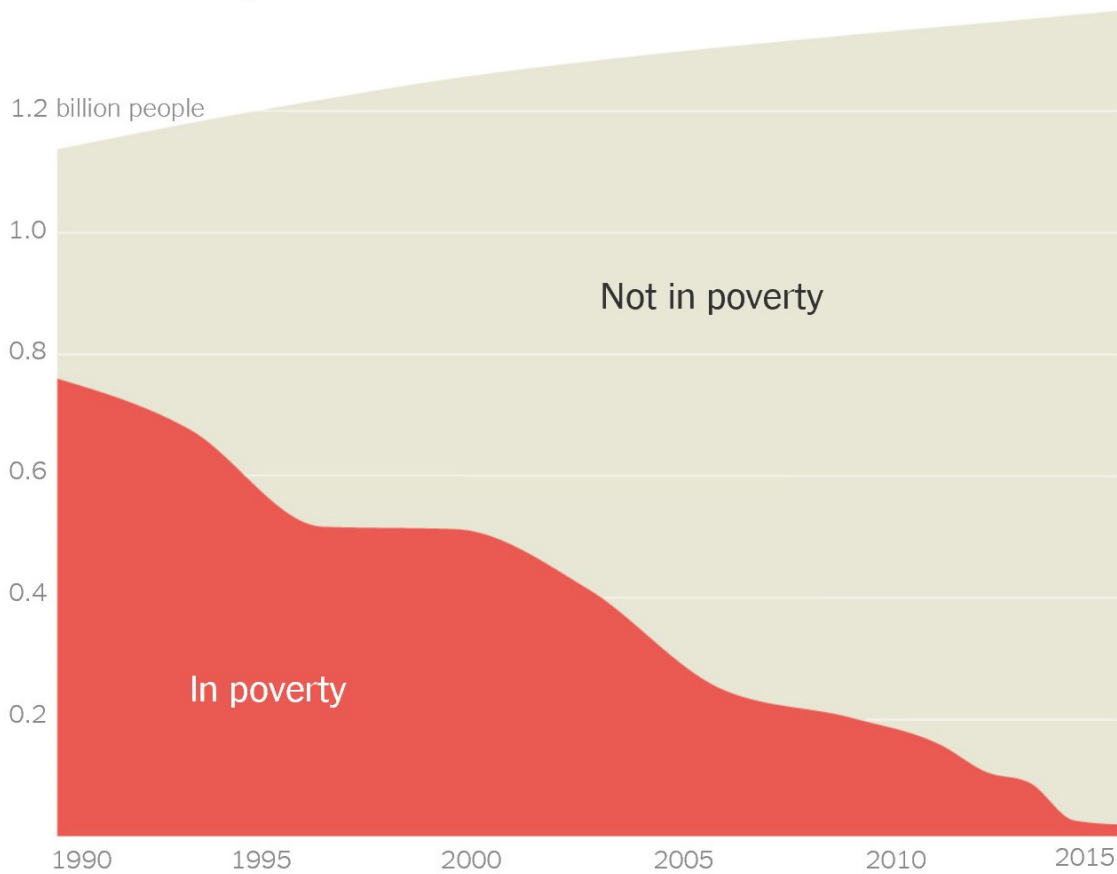
The World Bank began tracking poverty in China in 1981. In that year, 88% of China's population lived on less than \$1.90 a day (870 million people). But if this threshold is pushed up just a little bit, poverty in China was even more striking: 99% of China's population lived on less than \$3.20 a day (over 980 million people). The last year for which the World Bank has official data is 2019, and at that point, only 0.08% (around 1 million people) lived on less than \$1.90 a day, whilst 20 million Chinese lived on less than

\$3.20 a day. If we push the poverty rate up to \$10 a day, then 645 million Chinese – 45% of the population is below the poverty line. If we push the poverty rate up to \$15 a day, then 967 million Chinese, nearly 70% of the population live in poverty.

If population growth is factored in, it can be claimed that China has lifted 800 million people out of poverty, assuming poverty is defined as living on less than \$1.90 or \$3.20 a day. This doesn't say anything about how well those lifted out of poverty are doing. A rural household living on \$1.91 a day by this standard wouldn't be counted as suffering from extreme poverty, even though by any objective measure a household earning that much on an annual basis would be cripplingly poor.

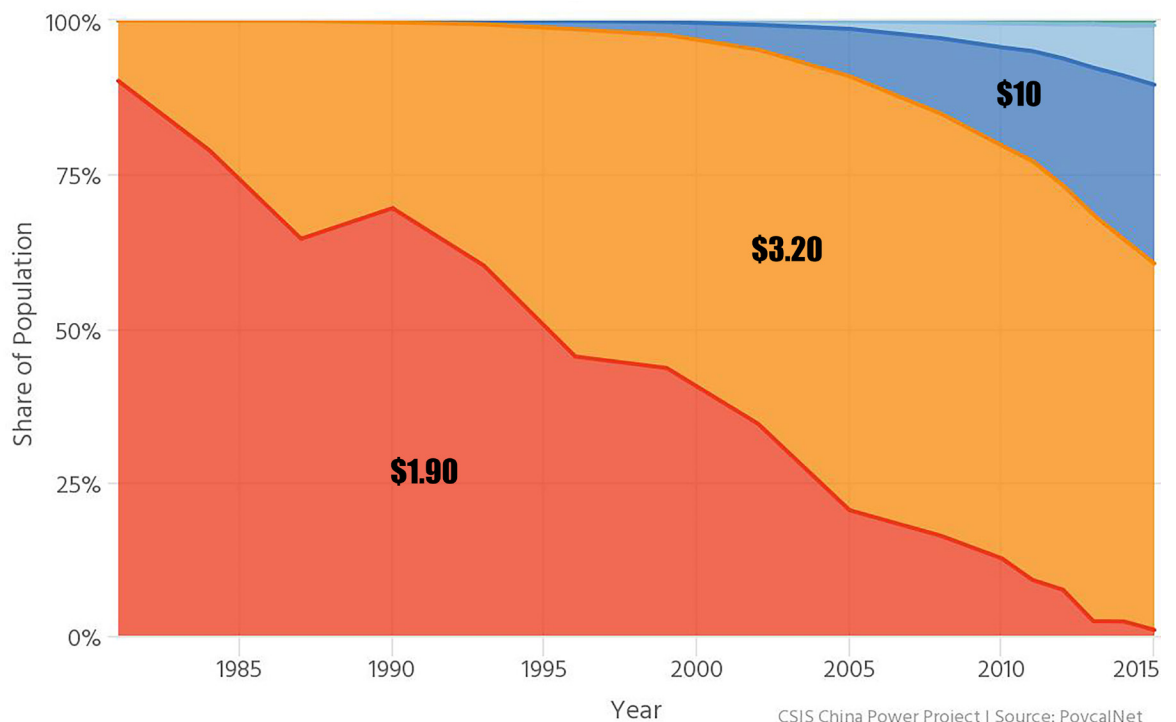
A mere 10% of the Chinese population owns 68% of the nation's wealth. Whilst the image China creates abroad is one of development and mega cities, the long-term challenge is many in China have not been lifted out of real poverty and this will be a major long-term challenge for the country.

**China is considered to have lifted hundreds and millions out of poverty in four decades.**



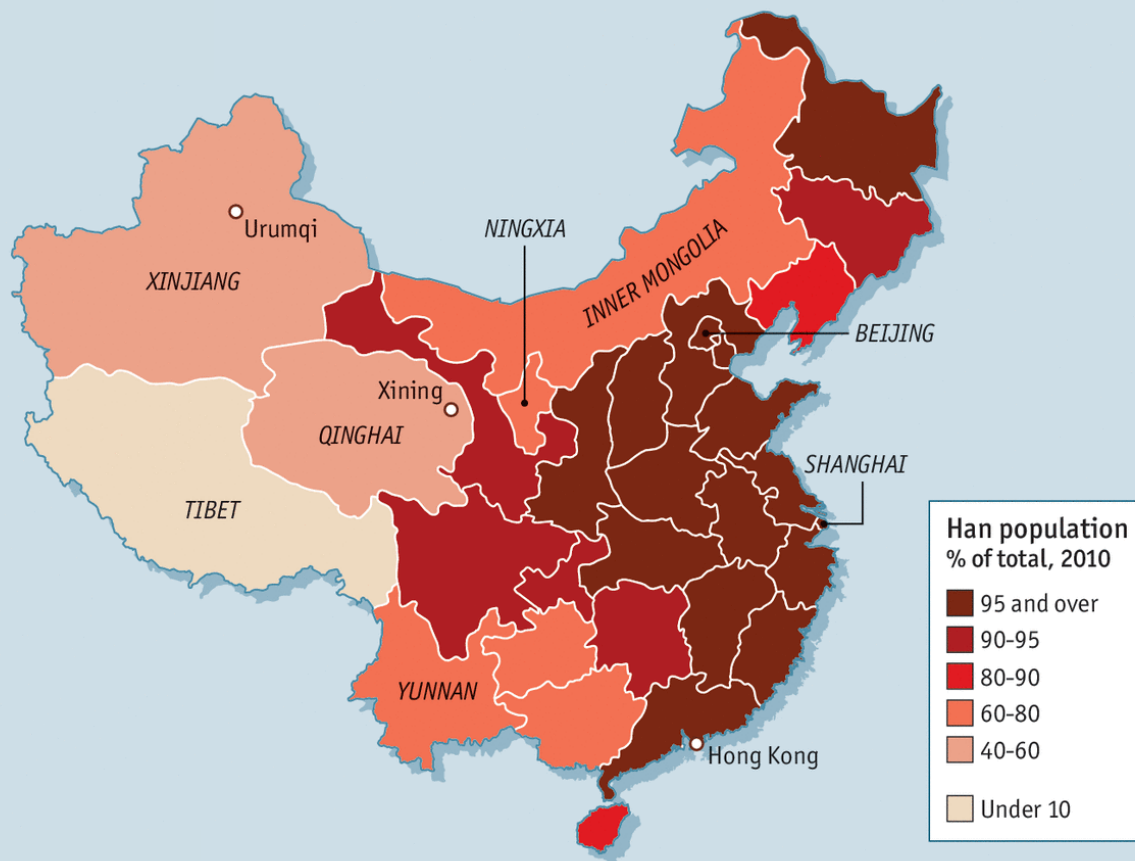
Source: The World Bank. People in poverty live at or below \$1.90 a day.

**When we adjust the poverty rate, China suffers from major wealth distribution inequality**



CSIS China Power Project | Source: PovcalNet





## Has China Integrated its Minorities?

China has throughout its history had difficult relations with its minorities and anyone who was not Han Chinese. The heartland of China consists of Han Chinese and China is unique in that it is really a civilisation state rather than a nation state as all its Han Chinese view themselves as the same race. The Han Chinese resided historically in Eastern China but were surrounded by large territories which insulated them from foreign invasion. When China was centrally strong it controlled these buffers. When it was weak, foreigners were able to assert control on these buffers and threaten the Chinese heartland.

There are 115 million Chinese citizens (nearly 8.5% of the population) that belong to China's 55 state-designated ethnic minority groups. Their numbers are equal to the population of Mexico. Centuries of isolation and autonomy have made many of them linguistically and culturally distinct from the majority Han. Most of these minorities live in southern China, Tibet or the western Province of Xinjiang or near the borders of Burma, Laos, Vietnam, India, Russia, Mongolia, North Korea and the former Soviet republics of Kazakhstan, Kyrgyzstan and Tajikistan.

Whilst 115 million is a small percentage of China's 1.4 billion population it's where these minorities are territorially based that presents problems for Chinese social cohesion. In 40% of Chinese territories (East

China) the Han make up the vast majority of the people. But in 60% of China's territory (West China) minorities constitute the majority of the population. What makes this even more challenging for China is these territories are buffer regions which historically have protected the Chinese heartland from foreign invasion.

Minorities are generally very poor in China and their income levels are significantly lower than the Chinese population as a whole. By some estimates more than 70% of ethnic minorities in southern China live below the poverty line. Many live on less than \$60 a year, reside in villages without roads and electricity, lack education, don't speak Chinese and didn't know anything of the outside world until they saw a television.

As southern and coastal areas got richer, much of central, northern and north-western China has not kept up, increasing competition and contributing to age-old resentments across ethnic, linguistic and cultural lines. Uneven distribution of wealth has fuelled deep resentment in the poorer, often ethnic regions of China. China has a huge internal social challenge.



## Why Does China Have So Many Social Issues?

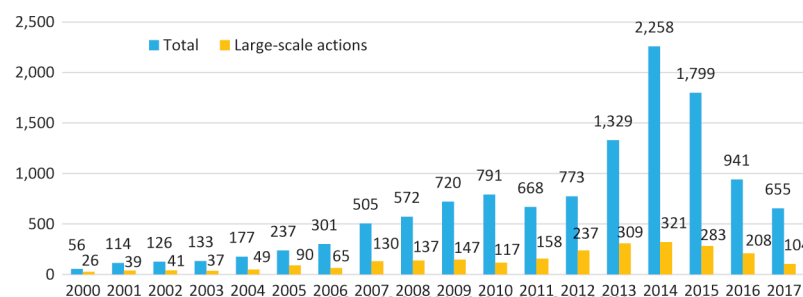
Much of the world hears little of what takes place in China due to the strict control the Communist Party places on its outreach to the world. China has for long maintained an iron grip on internal cohesion. It achieved this using brute force under Mao and continues like this to maintain the rule of the Communist Party. But despite such censorship and autocratic rule, on average about 500 protests, riots and mass demonstrations take place every day, a number that is only increasing. Getting exact numbers is notoriously difficult as the Communist Party has an interest to maintain the image that it is in control, but researchers and specialists from China have conducted research into this area and regularly publish their findings.

The number of annual protests has grown steadily since the early 1990s, from approximately 8,700 'mass group incidents' in 1993 to over 87,000 in 2005. In 2006, the Chinese Academy of Social Sciences estimated the number of annual mass incidents to have exceeded 90,000. The Chinese sociology professor, Sun Liping, estimated 180,000 incidents in 2010.

China has for centuries attempted to hold together a vast multi-cultural and multi-ethnic nation despite periods of political centralisation and fragmentation. But cultural and linguistic differences have worsened

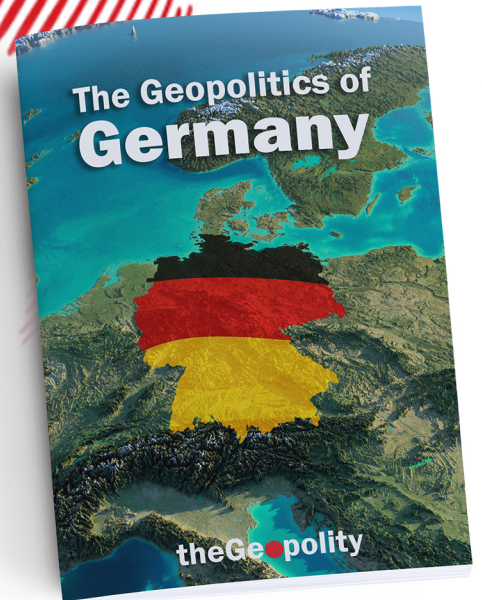
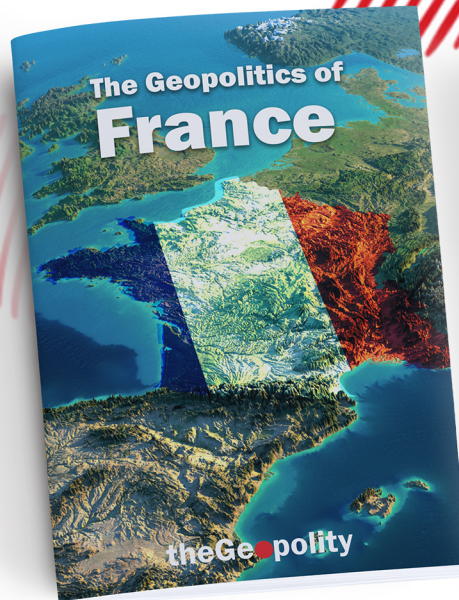
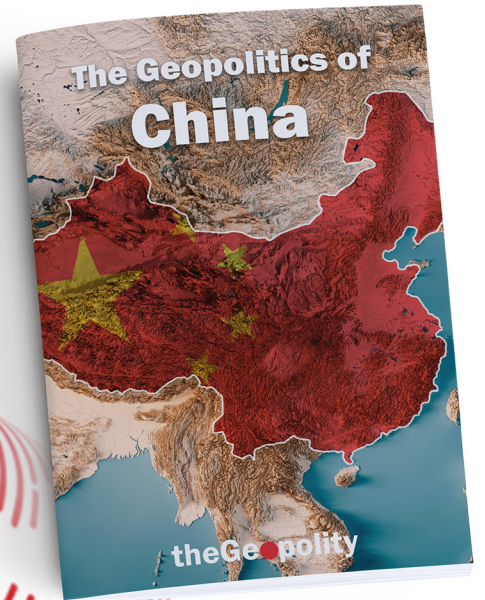
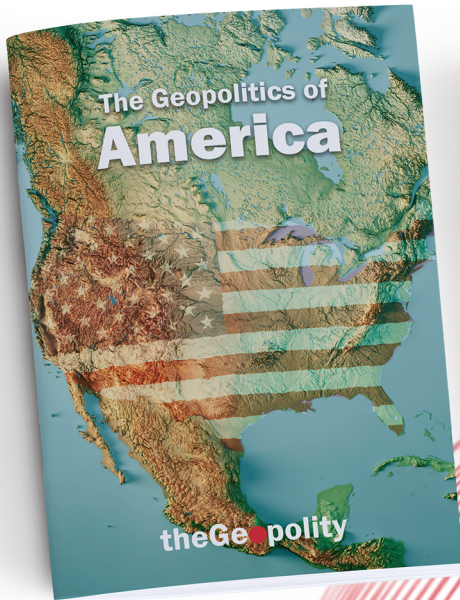
due to uneven growth and a massive maldistribution of wealth. Physical mistreatment, imprisonment, lax labour laws and pitiful pay and the fact that the Chinese government is seen not to have addressed the economic needs of the vast bulk of the population is causing internal cohesion issues. China's economy has been built upon over a billion workers serving 200 million Communist Party cadres. These workers received less pay than workers in Africa and Mexico and were the real fuel of China's economic miracle. These workers were the ones that kept China's factories running for 24 hours a day. The changes this brought to the country's landscape, such as rural dwellers shifting to urban areas and much of the decades long development remaining in the coastal areas and not the vast interior of China, lead to the 500 demonstrations a day. These protests are not linked and are based on exploitation at a local level, though have the potential to spiral out of control if not contained.

Protests in China



# Notes

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Geopolity.com aims to help in making sense of this complex world.

At geopolity.com we look at the world through the lens of power and ideology. We see forces such as geography, politics, economics and military capability constrain world leaders and nations. Through understanding these forces, we believe we can make sense of what nations are attempting to achieve. We also believe by determining the ideology nations embrace we can appreciate why the US is interested in the Middle East and why much of the world worries about Pakistan's nuclear capability.

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