

QUAD-PLUS Dialogue



China's Foreign Policy under President Xi

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Introduction

We suspect that our assessment of China's foreign policy will, in the broad, look pretty much the same as everyone else's. We all see the growing confidence and assertiveness, which at times is coercive. This draws on China's rapid military modernization, on China's continued strong economic growth, and on China's progress in elements of technology like computing, telecommunications, and e-commerce. China's militarization of the South China Sea, an increasingly threatening tone towards Taiwan, border incursions in the Himalayas, and the frequent and often aggressive incursions around the Senkaku Islands are the most obvious practical demonstrations of its foreign and strategic policy in action in its region. We probably weigh those things differently, depending on how strongly our interests are engaged, but we probably all agree that none of them are helpful in positioning China as a non-revisionist power.

Of course, if we were to ask officials in Beijing about those things, they would claim that they are not so much foreign policy, as China asserting its rights to things that are rightfully its own. The pressures and clashes of interests in East Asia are much more intense than the effects China is creating so far in the rest of the globe. So, perhaps it is worth looking further afield to see what China's approach to its international affairs looks like when it is not dealing with its locale.

When we take a more global view of China's actions, it does not look as threatening as it does nearer to home—but it is not a particularly reassuring picture, either. Chinese money talks loudly in the developing world, and it is used as leverage to get Chinese companies into new places, often as a consequence of soft loans made to governments with little power to resist the funds on offer. Looking at the South Pacific, for example, there are many instances of loans being given for economically marginal ventures, with the locals getting only a

modest amount of flow on benefits, as a Chinese labor force arrives to do the work. Huawei's kind offers to build government networks in the South Pacific and build communications cable infrastructure on extremely favorable commercial terms are other examples.

I am also reluctant to take much reassurance from this broader global picture because it may simply be that as China's ability to project power further from its shores grows, we will see more of the over-confident assertiveness I have sketched out above. The Indian Ocean may be a place where we begin to see this begin.

It is fair to ask how that differs from the approach of other countries—including Australia. We also work with Pacific island countries and fund infrastructure work. The difference, we think, is in the intent. Australia's view is that money spent on engagement that helps weaker states develop capacity contributes to a greater good—including, it must be said, our own benefit. Australia has expended a lot of effort on stabilisation operations and peacekeeping in places like East Timor, the Solomon Islands, and Bougainville in the past couple of decades. Helping states in our region to grow more robust internal structures and governance is in our interest as well as theirs. But we do not expect to produce states that are beholden to Australia, or that will automatically do our bidding in international forums. It would be nice to be highly thought of, and to have regional nations tend to agree with our positions, but it is not the primary goal we are working towards. In recent decades, we have involved our corporate sectors as contractors to us in delivering development programs, but with successful delivery the main aim, not geopolitics.

The other difference is the "Team China" approach, under which the commercial venture does not have to make commercial sense if it is in the interests of the Chinese state. China's foreign policy cannot be neatly described as foreign policy with government development assistance programs. It is a blurrier, bigger amalgam of state agencies' activities in concert with big Chinese firms, acting in the interests and at the direction of the Chinese leadership. Using Huawei as an example again, the Chinese government is not having to manage its people's concerns about the potential overreach of a big tech company, nor does it have to listen to Huawei pushing back about any government direction that it invest or not invest somewhere overseas.

But we do not think we should view all Chinese global activity in a negative light. China is currently the biggest contributor of troops to U.N. peacekeeping missions, for example, and it would be a stretch to say that selfish motives underlie the current rate of effort. Similarly, the Chinese navy has worked with multinational maritime forces to help police against piracy. China does some things because it wants to be seen as a major power, with the ability to contribute to global efforts, rather than with narrow self-interest as the motivation. It also uses such deployments to test and develop capabilities—much as our nations are working with Southeast Asian partners on humanitarian assistance and disaster relief capabilities to build interoperability and raise capacity. With those thoughts in mind, let us look at perhaps its biggest foreign policy initiative.

The Belt and Road Initiative

China's Belt and Road Initiative (BRI) is the iconic example of the Team China phenomenon. It is seeing a lot of Chinese money going into infrastructure throughout Southeast Asia, across the Indian Ocean's littoral states and through the heart of Asia through

to the Caucasus. There are a few motivations underpinning the BRI—economic (about which I am unpersuaded, for reasons I will explain later), geopolitical, and the management of the nation’s industrial resources.

Let’s start with the geopolitical factors. China’s economic clout and the money underpinning BRI construction projects is strengthening China’s position relative to many of the states on its periphery. It has managed to essentially co-opt a couple of the weaker Association of Southeast Asian Nations (ASEAN) states by implicitly making the flow of money contingent on not crossing Beijing’s position on various regional issues. The result is that China has a defacto veto power in ASEAN, given that body’s consensus model of decision making—a positive for Beijing.

But some the motivations for the BRI are related to Chinese weaknesses, rather than strengths. A major goal—and the one most readily admitted to by Chinese interlocutors—is to relieve the strategic pressure of China’s vulnerability to the disruption of maritime trade. That is particularly true of energy flows. China is largely dependent on the delivery of energy by sea, a vulnerability it seeks to remedy. But it is hard to see how that will be remediated by the BRI. The sea remains the easiest and by far the most efficient way to move bulk materials, and overland rail and road, or even pipelines, are not going to be able to meet China’s requirements for fuels and other inputs to production. The most likely favorable outcome for China is the ability to ensure supply of a fraction of its overall requirements—perhaps for the People’s Liberation Army (PLA) use—but the overall vulnerability for the wider Chinese economy and society will remain.

Another aim of the BRI is to find an outlet for the excess capacity in the Chinese economy, especially the construction sector. The Communist Party has based much of its legitimacy on providing the economic growth that has powered China to its current position. It can ill-afford an economic downturn to occur, so it needs to keep its industries busy. That means in many cases that works are being done for which the business case is marginal at best—the proverbial “bridge to nowhere.” In fact that must be the case; there is no shortage of liquidity in the world today, and interest rates are very low. Any construction project that has a sound expectation of a positive return should have no trouble attracting funding.

Having to throw money at questionable projects is a symptom of a state with some problems. It is worth reminding ourselves, especially those of us in countries with a rather negative “self-talk” in the polity at the moment, that China is not an invulnerable colossus.

China now, as throughout its history, has multiple internal tensions and pressures. Like the Qin, Han, or Manchu emperors of the past, Chinese leaders fear that internal tensions could lead to social and political unrest that will end their rule. They continue to feel insecure about their borders. An abbreviated list of some of the major pressures the Communist Party leadership confronts includes:

- Unrest driven by ethnic differences between Han Chinese populations and local populations like Uighurs and Tibetans;
- Corruption and fraud that takes people’s savings and brings the Party into disrepute;
- Air, water, land pollution, and contamination affecting human and environmental health;

- Bad debts in a financial system distorted by government requirements to take on bad loans and prop up state-owned businesses;
- Excess capacity in construction and manufacturing that creates the conditions for unrest as people lose jobs;
- Growing social media connectivity which absorbs growing amounts of state resources and people to control and censor so that debates do not threaten Communist Party rule;
- A rapidly aging population who do not have the means to support themselves in retirement, owing to the lack of a social safety net; and
- Potential collapse of North Korea, whether through its own contradictions or miscalculated military action, causing millions of hungry, desperate North Koreans to move into China combined with environmental damage from North Korean use of nuclear weapons.

That is rather a long list, and it suggests that there are weaknesses in elements of China's power that provide potential points of leverage for the Quad countries, especially if we can take a consistent and strategic approach on at least some of the issues. It is fashionable in the Western press to talk about how dependent we are on China. That is especially true in Australia, where the narrative now is that our 26 years of uninterrupted growth is the result of economic ties with China. But that cuts both ways. China needs the rest of the world at least as much as we need it—and may become *more* dependent as some of its internal structural problems become more obvious. It might be productive for Quad members to think through ways of making the interdependencies clearer. It would certainly help balance a lot of unthinking rhetoric about others having no choice but to placate China.

Tiger by the Tail

As we just explained, China's weak points might provide an opportunity for the rest of the international community to push back against its more assertive and self-interested inclinations. But there is also a downside risk to the rest of in those weaknesses. The Communist Party has quite skillfully used a combination of appealing to Chinese nationalism and providing economic benefits to strengthen its hold on the country. For most of the past 20 years, which included the tenures of Hu Jintao and Jiang Zemin, the economic element of the formulation took precedence. Nationalism could be stirred up when it suited and, while an imprecise implement, it probably suited the Chinese Communist Party (CCP) quite well to have a backdrop of sometimes angry nationalists when asserting its position on contested spaces.

But vehement nationalism is a deeply unattractive thing, especially when it is accompanied by anger at perceived social injustices (and the Chinese have no monopoly on that) and it can lead to disaster if a nation is swept along by it. So the question becomes what happens when there is a confluence of factors that could conspire to make Chinese nationalism less contained. An economic downturn, especially one that impacted heavily on China's relatively newly wealthy middle class, could cause the CCP to try to turn attention away from internal issues to external ones. That is not unknown behavior for authoritarian states. Argentina seized the Falkland Islands during a time of great unpopularity of the regime and street protests against it, tapping into a long-held nationalist resentment about Britain's enduring possession of "La Malvinas."

Some local observations might be helpful here. A good friend of ours has worked as a correspondent in Beijing for many years. His view is that, as unseemly as Chinese nationalism is from time to time, especially where Japan is concerned, we have been spared the worst of it precisely because of the hold that the CCP has had over public discourse. In that view the Communist Party has been a “thin red line,” if you like, between an angry form of nationalism and the rest of the world. He might be right. China’s assertiveness and unilateral ways have always seemed calculated to not cross the threshold where open conflict is a predictable outcome. China has effectively annexed the South China Sea by never doing anything precipitous, for which a robust military response would be appropriate. Similarly, Beijing backed off the angry rhetoric regarding the Senkaku Islands after President Obama said that the U.S.–Japan Treaty provisions extended over the islands. They did not, however, stop the low-level incursions and in fact have ramped up the frequency of them—always slowly enough that a big pushback is not likely. This calibration depends on an outburst of nationalism being able to be managed and contained by Chinese authorities. Growing public confidence in China’s strength, combined with a desire by the PLA to show what they can do may result in circumstances where managed calibration fails.

The Years to Come

It is now clear that President Xi sees himself continuing to preside over China for many years to come. His status in the party seems assured, and he has overseen a new level of monitoring and control of public discourse to ensure that his effective takeover of the role is unchallenged. And party control seems solid enough, at least for now. It may be that the centralisation of power in the person of Xi turns out to be overreach in the Party, or overreach in the party’s management of China. It certainly makes it hard for Xi not to be associated with failures. For the time being there seems to be little danger of an uprising of popular sentiment that unsettles the party to the point where its foreign policy becomes more aggressive. But the party remains cautious, and it is pretty clear that it still feels the need to be hypervigilant and proactive in preventing unrest.

That is the relatively good news. The bad news is that the new level of “normal” in Chinese policy is rather more aggressive than it has been in the past. That might be simply because China has grown stronger by many measures, and any leader would feel more emboldened—that the time for biding and hiding is over—or it might reflect Xi’s own vision of China in the modern world. I am not sure which (or both) of those explanations applies—and I will leave the question to more experienced China watchers—but the outcome is the same in any case. We are dealing with a China that is increasingly confident and willing to throw its not inconsiderable weight around. And it does so in a way that often favors a narrow “China first” zero-sum view of the world.

China’s assertiveness may well be borne of a mix of economic weight, overconfidence in its (untested) military progress, and opportunism flowing from Western democracies’ unhealthy introspection and anxieties that are making us underappreciate our strengths.

From Xi’s point of view, things are going well. He has gained many of the concessions—either explicitly or in practice—that he wanted about China’s claims. He also has a solid hold on the South China Sea and is slowly pushing at weak spots around China’s margins. But his more assertive approach also runs the risk of raising expectations in the domestic population

about China's strengths and the apparent inevitability of success. A geopolitical setback might be hard to manage, especially if the economy slows further.

As for the Quad, we have many strengths as well, and our collective military and economic clout is more than a match for China. But we are being slowly nibbled away by a series of Chinese policy decisions that are carefully calibrated to avoid provoking a response—and a strident overreaction from Beijing about any pushback that does happen. That is probably calibrated to scare us into backing down again, but it also plays into the domestic narrative, which has the effect of raising the overall temperature of disputes.

We think the Quad is capable of doing more to resist Chinese power grabs—and then achieving some gains of our own. Over recent years, we have mainly been responding defensively to Chinese initiatives and responding to Chinese actions. It would be better for us to be taking positive actions and implementing our own initiatives, to advance our own interests and to promote our own values. That is a path most likely to complicate Chinese thinking and add to an already ugly daily agenda of challenges for China's new paramount leader.

And we think we can collectively put a bit of a handbrake on China's geopolitical ambitions. But there are dangers here. Humiliating China plays into their nationalist narrative, and runs the risk of the CCP acting in response to internal agitation. That should not stop us acting in our interests, but I think we need to factor it into our calculus when thinking about how we might act.