

**China's Counterbalancing Soft Power:  
Explaining the Weakness of Balancing Against China's Rise**

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## **China's Counterbalancing Soft Power:**

### **Explaining the Weakness of Balancing Against China's Rise**

#### **Abstract**

Why is it that China could chip away at American primacy without triggering balancing? International Relations scholars long presumed that Beijing would not develop the intentions or capabilities to challenge Washington. Optimistic accounts are valid up to the 2008 global financial crisis. Since then, Chinese leaders have taken increasingly “proactive” actions by their own reckoning. To avoid balancing, Beijing has pursued counterbalancing “soft power” to soften the hard edges of its rising power. IR scholars have analyzed China’s “charm offensive” and “multilateral offensive” as evidence of its “peaceful rise.” These offensives should instead be seen as the strategic marriage of economic and soft power to forestall balancing. Beijing has reframed its emergence from a threat to an opportunity by diverting attention from the risk of an ascending Chinese military to the allure of a flourishing Chinese economy. Although “soft power” took a hit when the stock market crashed in 2015-16, President Trump has inadvertently boosted China’s diminished “soft power” by withdrawing from interdependence and multilateralism. When President Xi stepped into the global leadership role, balancing finally started to coalesce in late 2017. Nonetheless, “soft power” may have made this emergent balancing too little, too late.

# China's Counterbalancing Soft Power:

## Explaining the Weakness of Balancing Against China's Rise

### Introduction

Why is it that China could challenge American primacy in Asia and beyond without triggering effective balancing? While the US still surrounds China with a string of allies and strategic partners, Beijing has developed the capabilities to harass American ships and planes in the South China Sea and prevail over Asian neighbors in territorial disputes. Alarming analyses have proliferated in 2017 and 2018.<sup>1</sup> Graham Allison observed with apprehension that “China has gone from nowhere to rivalry for supremacy on every domain.”<sup>2</sup> He laments that the US military no longer has “uncontested control of the sea and air along the thousand-mile-wide corridor of ocean bordering China.”<sup>3</sup> The International Institute for Strategic Studies’ “The Military Balance

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<sup>1</sup> Alarming analyses have long existed but did not come in a cascade as in 2017-18. See, for example, Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (Boston: Houghton Mifflin Harcourt, 2017); Kurt Campbell and Ely Ratner, “The China Reckoning: How Beijing Defied American Expectations,” *Foreign Affairs*, Vol. 97, No. 2 (2018), pp. 60-70; James Dobbins et al., *Conflict with China Revisited: Prospects, Consequences, and Strategies for Deterrence* (CA: RAND Corporation, 2017); Andrew S. Erickson et al., “Correspondence: How Good Are China's Antiaccess/Area-Denial Capabilities?” *International Security*, Vol. 41, No. 4 (Spring 2017), pp. 202-213; Nathan Freier et al., *At Our Own Peril: DoD Risk Assessment in a Post-Primacy World* (Strategic Studies Institute, June 2017); International Institute for Strategic Studies (IISS), *The Military Balance 2018*; Isaac Kardon, “Rising Power, Creeping Jurisdiction: China's Law of the Sea,” Ph.D. dissertation, Cornell University, 2017; James Kynge et al., “How China rules the waves,” *Financial Times*, January 12, 2017; Jennifer Lind, “Life in China's Asia What Regional Hegemony Would Look Like,” *Foreign Affairs*, Vol. 97, No. 2 (2018), pp. 71-82; White House, “National Security Strategy of the United States of America,” *White House*, December 18, 2017. Earlier analyses include Richard Bernstein and Ross Munro, “China I: The Coming Conflict with America,” *Foreign Affairs*, Vol. 76, No. 2 (1997), pp. 18-32; Aaron L. Friedberg, *Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: W.W. Norton, 2011); Adam P. Liff and John G. Ikenberry, “Racing toward Tragedy? China's Rise, Military Competition in the Asia Pacific, and the Security Dilemma,” *International Security*, Vol. 39, No. 2 (Fall 2014), pp. 52-91; Evan Braden Montgomery, “Contested Primacy in the Western Pacific: China's Rise and the Future of U.S. Power Projection,” *International Security*, Vol. 38, No. 4 (Spring 2014), pp. 115-149.

<sup>2</sup> Interview with James Kidd, “Is war between China and the US inevitable? A new book looks to the past for answers,” *South China Morning Post*, August 6, 2017.

<sup>3</sup> Allison, *Destined for War*, p. 131.

2018” confirms that China has developed “land-, air- and sea-based anti-access/area-denial capabilities” to erode the US’s air and naval dominance in the Western Pacific.<sup>4</sup> Kurt Campbell and Ely Ratner concur that China has “chipped away at the US-led security order in Asia, developing the capabilities to deny the US military access to the region and driving wedges between Washington and its allies.”<sup>5</sup> The US National Security Strategy believes that China aims to “displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor.”<sup>6</sup> A Pentagon report warns that a “post-US primacy environment” has already arrived.<sup>7</sup> If International Relations (IR) scholars contend that it is “an almost-ironclad rule that great powers balance... against aspiring hegemons,” why has the US not checked China’s rise to preeminence?<sup>8</sup>

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<sup>4</sup> IISS, *The Military Balance 2018*, p. 5.

<sup>5</sup> Campbell and Ratner, “The China Reckoning,” pp. 66-67.

<sup>6</sup> White House, “National Security Strategy of the United States of America,” pp. 25, 46.

<sup>7</sup> Freier et al., *At Our Own Peril*, p. ix.

<sup>8</sup> Christopher Layne, “The Waning of US Hegemony—Myth or Reality A Review Essay,” *International Security*, Vol. 34, No. 1 (2009), pp. 147-172, at p. 148.

Until 2017, most analysts maintained that China would not develop the intentions<sup>9</sup> and/or capabilities to challenge the US.<sup>10</sup> Richard Bernstein and Ross Munro issued an early admonition of a “coming conflict” with China.<sup>11</sup> Yet, Washington opted to support Beijing’s accession to the World Trade Organization (WTO) in 2001. WTO membership has facilitated China’s steep ascent. Since then, analysts have busily examined China’s “future intentions”<sup>12</sup>: Is China a status-quo or revisionist state?<sup>13</sup> Will China become “an aggressive state determined to achieve regional hegemony?”<sup>14</sup> Will a stronger China enhance or undercut regional stability?<sup>15</sup> Will growing power

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<sup>9</sup> On China not having the intentions to challenge the U.S., see, for example, John G. Ikenberry, “The Future of the Liberal World Order,” *Foreign Affairs*, Vol. 90, No. 3 (2011), pp. 56-68; Iain A. Johnston, “How New and Assertive Is China’s New Assertiveness?” *International Security*, Vol. 37, No. 4 (2013), pp. 7–48; David Kang, “Why China’s rise will be peaceful: hierarchy and stability in the East Asian region,” *Perspectives on Politics*, Vol. 3, No. 3 (2005), pp. 551–554; Scott Kastner and Phillip Saunders, “Is China a Status Quo or Revisionist State? Leadership Travel as an Empirical Indicator of Foreign Policy Priorities,” *International Studies Quarterly*, Vol. 56, (2012), pp. 163–177; David Lake, “Domination, Authority, and the Forms of Chinese Power,” *The Chinese Journal of International Politics*, Vol. 10, No. 4 (2017), pp. 357–382; Yuen Foong Khong, “Primacy or World Order? The United States and China’s Rise—A Review Essay,” *International Security*, Vol. 38, No. 3 (Winter 2013/14), pp. 155–157; Jeffrey Legro, “What China will want: the future intentions of a rising power,” *Perspectives on Politics*, Vol. 5, No. 3 (2007), pp. 515-534; T.V. Paul, “Recasting Statecraft: International Relations and Strategies of Peaceful Change,” *International Studies Quarterly*, Vol. 61, No. 1 (2017), pp. 1–13; Yaqing Qin, “Continuity through Change: Background Knowledge and China’s International Strategy,” *The Chinese Journal of International Politics*, Vol. 7, No. 3 (2014), pp. 285–314; Edward Steinfeld, *Playing Our Game: Why China’s Rise Doesn’t Threaten the West* (Oxford: Oxford University Press, 2010).

<sup>10</sup> On China not having the capabilities to challenge the U.S., see, for instance, Michael Beckley, “China’s Century? Why America’s Edge Will Endure,” *International Security*, Vol. 36, No. 3 (Winter 2011/12), pp. 41–78; Stephen Biddle and Ivan Oelrich, “Future Warfare in the Western Pacific: Chinese Antiaccess/Area Denial, U.S. AirSea Battle, and Command of the Commons in East Asia,” *International Security*, Vol. 41, No. 1 (Summer 2016), pp. 7–48; Stephen G. Brooks and William C. Wohlforth, “The Rise and Fall of the Great Powers in the Twenty-first Century: China’s Rise and the Fate of America’s Global Position,” *International Security*, Vol. 40, No. 3 (Winter 2015/16), pp. 7–53; William C. Wohlforth, “The Stability of a Unipolar World,” *International Security*, Vol. 24, No. 1 (Summer 1999), pp. 30–32; Stephen G. Brooks and William C. Wohlforth, “American Primacy in Perspective,” *Foreign Affairs*, Vol. 81, No. 4 (July/August 2002), pp. 20–33; and Stephen G. Brooks and William C. Wohlforth, *World Out of Balance: International Relations and the Challenge of American Primacy* (Princeton, N.J.: Princeton University Press, 2008).

<sup>11</sup> Bernstein and Munro, “China I,” pp.18-32.

<sup>12</sup> Legro, “What China will want,” pp. 515-534.

<sup>13</sup> Kastner and Saunders, “Is China a Status Quo or Revisionist State?” pp. 163-177.

<sup>14</sup> John Mearsheimer, *Tragedy of Great Power Politics* (New York: W.W. Norton), pp. 401-2.

<sup>15</sup> Kang, “Why China’s rise will be peaceful,” pp. 551-554.

lead Beijing to overturn or accept international norms, rules, and institutions?<sup>16</sup> While some analyses have continued to debate “Will China’s Rise Be Peaceful?” in the future tense,<sup>17</sup> Beijing has turned its challenge into a *fait accompli*.

China has capitalized on the momentous shifts in relative capabilities presented by the financial crisis of 2008. The “economic meltdown” not only set in motion “whispers of American decline”<sup>18</sup> but also propelled China’s economy to become the world’s second largest by 2010. Chinese leaders, by their own reckoning, have taken increasingly “proactive” actions to project military and economic power abroad in the 2010s.<sup>19</sup> Edward Steinfeld once made the comforting observation that China was “playing our game.”<sup>20</sup> However, China has transformed from the role of “game player” to “game maker.”<sup>21</sup> Randall Schweller and Xiaoyu Pu relay an earlier incidence when “a Chinese ambassador reportedly thundered during China’s negotiations to enter the WTO: ‘We know we have to play the game your way now, but in ten years we will set the rules!’”<sup>22</sup> And they did. In Asia, the most notable “game changer” is China’s near success in turning the South China Sea into “virtually a Chinese Lake.”<sup>23</sup> China has occupied disputed reefs and built artificial

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<sup>16</sup> Legro, “What China will want,” pp. 515-6.

<sup>17</sup> Asle Toje, *Will China’s Rise Be Peaceful?* (Oxford: Oxford University Press, 2017).

<sup>18</sup> Layne, “The Waning of US Hegemony,” p. 151.

<sup>19</sup> Adam P. Liff, “China and the US Alliance System,” *The China Quarterly*, First View, (2017), pp. 1-29, at p. 19. According to Liff and Ikenberry, Beijing may continue to profess “peaceful” intentions. However, “the objective reality of Beijing’s growing military power, coupled with its rapidly expanding military capabilities and recent policies vis-à-vis disputed territory and features on its periphery, appear provocative and newly ‘assertive,’ even aggressive” to other states. See Liff and Ikenberry, “Racing toward Tragedy?” pp. 52–91, at p. 56.

<sup>20</sup> Steinfeld, *Playing Our Game*.

<sup>21</sup> Zhibo Qiu, “From ‘game player to ‘game maker’: news features of China’s foreign policy,” *China Brief*, Vol. 15, No. 14 (2015).

<sup>22</sup> Randall Schweller and Xiaoyu Pu, “After Unipolarity: China’s Visions of International Order in an Era of US Decline,” *International Security*, Vol. 36, No. 1 (2011), pp. 41–72, at p. 54.

<sup>23</sup> Center for Strategic and International Studies, “By 2030, South China Sea Will Be “Virtually a Chinese Lake,” *Washington Post*, August 8, 2017, [https://www.washingtonpost.com/news/worldviews/wp/2016/01/20/by-2030-south-china-sea-will-be-virtually-a-chinese-lake-u-s-study-warns/?utm\\_term=.c63c31b959d0](https://www.washingtonpost.com/news/worldviews/wp/2016/01/20/by-2030-south-china-sea-will-be-virtually-a-chinese-lake-u-s-study-warns/?utm_term=.c63c31b959d0).

islands equipped with runways, ports, and radar—and has largely evaded censure by Asian states with competing territorial claims. On the global stage, China’s triumphant launch of the Asian Infrastructure and Investment Bank (AIIB) in 2015 is another “game changer.”<sup>24</sup> Washington saw the AIIB as a challenge to the US-constructed World Bank and International Monetary Fund (IMF) but failed to prevent allies from joining.

Why has balancing remained inoperative even after China revealed its intentions and capabilities to “change the game?” If liberals are optimistic about China’s intentions, realists tend to downplay its capabilities. With few exceptions,<sup>25</sup> balance-of-power experts have extensively examined the unlikelihood of *balancing against the US* and paid scant attention to *balancing against China*.<sup>26</sup> Realists argue that China is a long way off to becoming a “peer competitor.”<sup>27</sup> Brooks and Wohlforth contend that China would need additional decades to close “the gap between economic parity and a credible bid for superpower status.”<sup>28</sup> However, China can “pos[e] problems without catching up.”<sup>29</sup> China only needs to prepare for “local wars” while the U.S.’s

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<sup>24</sup> China Policy, “AIIB: China’s game changer,” August 8, 2017, <http://us2.campaign-archive2.com/?u=3fd756a9629015f7becc6e127&id=d652e8d188&e=a6ad64d6de>.

<sup>25</sup> Notable exceptions include Steve Chan, “An Odd Thing Happened on the Way to Balancing: East Asian States’ Reactions to China’s Rise,” *International Studies Review*, Vol. 12, (2010), pp. 387–412; Robert Ross, “Balance of Power Politics and the Rise of China: Accommodation and Balancing in East Asia,” *Security Studies*, Vol. 15, No. 3 (2006), pp. 355–395; Nina Silove, “The Pivot before the Pivot: U.S. Strategy to Preserve the Power Balance in Asia,” *International Security*, Vol. 40, No. 4 (Spring 2016), pp. 45–88.

<sup>26</sup> Even Montgomery, who offers a worrisome analysis of China’s anti-access/area denial capabilities, speaks of China’s “local balancing” against the U.S. See Montgomery, “Contested Primacy in the Western Pacific,” p. 125.

<sup>27</sup> Brooks and Wohlforth, “The Rise and Fall of the Great Powers in the Twenty-first Century,” p. 40. Montgomery highlights that both “deep engagers” and “offshore balancers” are “in broad agreement regarding the durability of U.S. military dominance.” See Montgomery, “Contested Primacy in the Western Pacific,” p. 116. See also Thomas J. Christensen, *The China Challenge* (New York, NY: W.W. Norton, 2015), p. 66; Randall Schweller, *Unanswered Threats: Political Constraints on the Balance of Power* (Princeton NJ: Princeton University Press, 2006), p. 2; Schweller and Pu, “After Unipolarity,” p. 2.

<sup>28</sup> Brooks and Wohlforth, “The Rise and Fall of the Great Powers in the Twenty-first Century,” p. 33.

<sup>29</sup> Christensen, *The China Challenge*, p. 99; Thomas J. Christensen, “Posing Problems without Catching Up: China’s Rise and Challenges for U.S. Security Policy,” *International Security*, Vol. 25, No. 4 (Spring 2001), pp. 5–40.

power projection is disadvantaged by “geographic asymmetry.”<sup>30</sup> While most pundits have continued to debate China’s military capabilities in the future tense, Beijing has established de facto control over airstrips and seaports on artificial islands in the South China Sea to enhance its anti-access/area-denial capabilities. In addition to installing medium-to-long-range missiles, China has innovated in what “The Military Balance 2018” calls “leap-ahead technologies,” most notably, the radar-beating stealth combat aircraft Chengdu J-20 and the air-to-air missile PL-15, that rival Western weapons systems.<sup>31</sup>

Despite obvious signs of China’s intentions and capabilities to undermine American primacy, observers have maintained their abiding faith that China has deep interest in preserving the US-constructed world order. It is not just Ikenberry who believes that China has built its prosperity on the liberal world order and has deep interest in preserving it.<sup>32</sup> Christensen similarly contends that China is the greatest beneficiary of the existing international order and thus “has more reasons to avoid military and economic conflict with the US and its allies than any previous rising power.”<sup>33</sup> Nevertheless, interdependence is a double-edged sword and can be “just another word for vulnerability.”<sup>34</sup> Hirschman’s old insight is instructive:

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<sup>30</sup> On China’s strategy for “informationized local wars,” see Taylor M. Fravel, “Shifts in Warfare and Party Unity: Explaining China’s Changes in Military Strategy,” *International Security*, Vol. 42, No. 3 (Winter 2017/2018), pp. 37-83, at p. 80. Montgomery argues that “geographic asymmetry” allows China to “obstruct the arrival of additional military units and limit the effectiveness of forward deployed forces, specifically by targeting the theater bases; aircraft carrier strike groups; and command, control, computers, intelligence, surveillance, and reconnaissance systems that underpin U.S. power projection.” See Montgomery, “Contested Primacy in the Western Pacific,” p. 117.

<sup>31</sup> IISS, *The Military Balance 2018*, p. 5.

<sup>32</sup> Ikenberry, “The Future of the Liberal World Order,” p. 58.

<sup>33</sup> Christensen, *The China Challenge*, pp. 56, 62.

<sup>34</sup> Jack Snyder, “Trade Expectations and Great Power Conflict—A Review Essay,” *International Security*, Vol. 40, No. 3 (Winter 2015/2016), pp. 179-196, at p. 179. See also Dale C. Copeland, *Economic Interdependence and War* (Princeton, N.J.: Princeton University Press, 2014).



“The influence which country A acquires in country B by foreign trade depends in the first place upon the total gain which B derives from that trade; the total gain from trade for any country is indeed nothing but another expression for the total impoverishment which would be inflicted upon it by a stoppage of trade. In this sense the classical concept, gain from trade, and the power concept, dependence on trade... are... merely two aspects of the same phenomenon.”<sup>35</sup>

Paradoxically, Chinese analysts understand Hirschman’s logic better than most American IR scholars. Worrying that the US would exploit China’s dependence on foreign markets, capital, resources and technology, Beijing has sought to secure its supply lines from a multitude of developed and developing economies.<sup>36</sup> Beijing has further turned the realist logic of economic vulnerability or the power of “impoverishment” in its favor by drawing trading partners to its side “with promises of market access and investment capital.”<sup>37</sup> The growing concentration of international trade on China since 2008 has dramatically enhanced Beijing’s leverage. China surpassed the US as the world’s largest trading state in 2013 and has hovered around the second-largest importer (after the US). While China’s economic firepower has limited impact on the US itself,<sup>38</sup> it is enough to convince American allies and partners to stay on good terms with Beijing. Moreover, the logic of “gains from trade” applies so long as political and business elites benefit, even when local manufactures are deindustrialized, minorities and underclasses are displaced, and

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<sup>35</sup> Albert Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley CA: University of California Press, 1945), p. 18.

<sup>36</sup> Aaron Friedberg, “Globalisation and Chinese Grand Strategy,” *Survival*, Vol. 60, No. 1 (2018), pp. 7-40, at p. 10.

<sup>37</sup> Friedberg, “Globalisation and Chinese Grand Strategy,” p. 27.

<sup>38</sup> Daniel Drezner, “Bad Debts: Assessing China’s Financial Influence in Great Power Politics,” *International Security*, Vol. 34, No. 2 (2009), pp. 43.

national interests are jeopardized. In this globalized world, China's very economic weight has decapitated the balance of power. In short, geo-economics has worked against geo-politics.

Beyond the structural force of globalization, it is also necessary to examine how China “as a political agent” has attempted to beat back the balance of power.<sup>39</sup> Amitav Acharya implores IR scholars to recognize “multiple forms of agency beyond material power, including resistance, normative action, and local constructions of global order.”<sup>40</sup> T. V. Paul suggests that the rising power may avoid the Thucydides' Trap by “design[ing] around the balance of power” with “clever strategies” that rely “primarily on economic and institutional power.”<sup>41</sup> Multiple generations of Chinese leaders have sought to return China to “its historic and rightful place as the pre-eminent economic, political and military entity” by thinking strategically.<sup>42</sup> Christensen argues that Chinese leaders do not have “a blueprint for a new international system.”<sup>43</sup> Agency does not require a grand scheme. As Injoo Sohn points out, China is a “reflective dragon” with “strong learning or adaptation capacity.”<sup>44</sup> It is ambitious but contemplative – it advances by trial-and-error or “crossing the river by groping for the stones.”<sup>45</sup> Agency requires only that policy-makers are rational actors who can learn from the existing stock of knowledge, review shifts in the international environment, update foreign policies, and seize on opportunities.

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<sup>39</sup> On China “as a political agent,” see Francisco Urdinez et al., “Chinese Economic Statecraft and US Hegemony in Latin America: An Empirical Analysis, 2003-2014,” *Latin American Politics and Society*, Vol. 58, (2016), p. 7.

<sup>40</sup> Amitav Acharya, “Global International Relations (IR) and Regional Worlds,” *International Studies Quarterly*, Vol. 58 (2014), pp. 649, 651.

<sup>41</sup> Paul, “Recasting Statecraft,” p. 3.

<sup>42</sup> Gordon Barrass and Nigel Inkster, “Xi Jinping: The Strategist Behind the Dream,” *Survival*, Vol. 60, No. 1 (2018), pp. 41-68, at pp. 46, 62.

<sup>43</sup> Christensen, *The China Challenge*, p. 56.

<sup>44</sup> Injoo Sohn, “After renaissance: China's multilateral offensive in the developing world,” *European Journal of International Relations*, Vol. 18, No. 1 (2011), pp. 77-101, at pp. 78-79, 94.

<sup>45</sup> Sohn, “After renaissance,” pp. 78-79.

Building on these insights, I argue that China has warded off balancing by a counterbalancing “soft power” strategy.<sup>46</sup> Christopher Layne observes that China has built up preeminence with “a potent combination of economic and soft power—and growing military muscle.”<sup>47</sup> He does not explain why this combination is potent. I contend that such a combination allows economic and soft power to halt the balance-of-power mechanism which military muscle necessarily sets off. The term “soft power” refers to the marriage of economic and soft power to soften the hard edges of China’s rise so as to forestall balancing. This understanding may deviate from Joseph Nye’s definition of “soft power” as “the ability to get what you want through attraction rather than coercion or payments.”<sup>48</sup> Yet, an effective strategy should “integrat[e] different sorts of power – political, economic and military.”<sup>49</sup> Given that money is the most fungible resource,<sup>50</sup> it is hardly unusual that Beijing deploys “money” as “the strongest instrument in its soft-power toolbox.”<sup>51</sup> “Soft power” in this sense overlaps with “economic statecraft,” that is, the use of economic power to achieve strategic objectives by payments or coercion.<sup>52</sup> China has taken advantage of its geo-economic advantages and exploited “gains from trade.” As Qin Yaqing puts it, in Sino-American relations, Beijing has tried to “shape a relationship of high economic interdependence” in order to “reduce ... strategic and ideological pressure.”<sup>53</sup> With

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<sup>46</sup> I owe this term “Soft power” to David Schak, 21 September, 2016.

<sup>47</sup> Layne, “The Waning of US Hegemony,” p. 158.

<sup>48</sup> Joseph Nye, *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2004), p. x.

<sup>49</sup> Barrass and Inkster, “Xi Jinping,” p. 50.

<sup>50</sup> David Baldwin, “Power and International Relations. In: Walter C, Risse T, and Simons B (eds.),” *Handbook of International Relations*, (2013), p. 279.

<sup>51</sup> David Shambaugh, “China’s soft-power push,” *Foreign Affairs*, Vol. 94, No. 4 (2015), pp. 99-107, at p. 100.

<sup>52</sup> William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy and State Control* (Ithaca, N.Y.: Cornell University Press, 2016), p. 16.

<sup>53</sup> Qin, “Continuity through Change,” p. 308.

American allies and security partners, China's policy is to "give more and take less" so as to undercut their ties with the US.<sup>54</sup> When targeted states do not fall in line, China's centrality in global trade has granted it the power of the stick as well as that of carrots. As economic coercion can be as hard as military muscle and may spark balancing, "soft power" also involves "soft power" to project the message of China's peaceful rise. Beijing has promoted not just trading relations, but also cultural exchanges, educational programs and media outreach. By making soft and hard powers indistinguishable, Beijing's "soft power" can be seen as "sharp power" in disguise.<sup>55</sup> China's "soft power" works magic when its softer aspects are magnified and its sharper edges are blurred by a macro lens. "Soft power" loses its potency when its soft and hard aspects are simultaneously in focus.

Where did the counterbalancing "soft power" strategy come from? It is not coincidental that calls for agency are at least partially inspired by China's ancient wisdoms.<sup>56</sup> Christensen notices extensive discussions among Chinese analysts of "the inferior defeating the superior" through "a combination of skill, timely strikes on key targets, and superior political resolve."<sup>57</sup> China's military history is loaded with examples of counterbalancing stratagems in asymmetrical competition.<sup>58</sup> The famed *Sunzi's Art of War* counsels that "to bring the enemy's army to submit without combat is the highest skill."<sup>59</sup> The ancient board game of *weiqi* (Go in Japanese) teaches

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<sup>54</sup> Qin, "Continuity through Change," p. 308.

<sup>55</sup> Christopher Walker and Jessica Ludwig, "From 'Soft Power' to 'Sharp Power': Rising Authoritarian Influence in the Democratic World," *National Endowment for Democracy*, December 5, 2017, pp. 10-12.

<sup>56</sup> Paul, "Recasting Statecraft," p. 6, p. 9.

<sup>57</sup> Christensen, *The China Challenge*, p. 98.

<sup>58</sup> Victoria Tin-bor Hui, *War and State Formation in Ancient China and Early Modern Europe* (New York: Cambridge University Press, 2017), chapter 2.

<sup>59</sup> Hui, *War and State Formation*, p. 29.

that the best strategy is to neutralize the enemy and seek relative advantages by making “strategic encirclement” and taking “empty spaces.”<sup>60</sup> We should, however, avoid “the danger of idiosyncrasy” because world history is littered with “underreacting to threats.”<sup>61</sup> As Paul Schroeder points out, the presumption of “the unchanging, repetitive nature of balance-of-power politics and outcomes throughout the ages” is “unhistorical, unusable, and wrong.”<sup>62</sup> The triumph of US hegemony itself provides a ready example for China to “mimic.”<sup>63</sup>

Indeed, American IR theories and foreign policy analyses provide both the diagnosis and the prescription for a counterbalancing strategy. Early realist treatises on the “China threat” alerted Chinese analysts to the risk of triggering balancing. Deng Xiaoping’s policy of “keeping a low profile” was “extremely effective at calming foreign concerns.”<sup>64</sup> Realist theories also suggest that states balance against not power, but threat.<sup>65</sup> To make China appear less threatening, liberal and constructivist theories offer ample solutions. If interdependence provides the power of “impoverishment,” China should intensify trade, investment and aid. If international engagement signals cooperativeness, Beijing should launch a “multilateral offensive.”<sup>66</sup> If “soft power” enhances attractiveness, China should rollout a “charm offensive.”<sup>67</sup> If intentions are shaped by

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<sup>60</sup> Henry Kissinger, *On China* (New York: Penguin, 2012), pp. 23-24.

<sup>61</sup> Steve Chan, “An Odd Thing Happened on the Way to Balancing,” pp. 403-4.

<sup>62</sup> Paul Schroeder, “Historical Reality vs. Neo-realist Theory,” *International Security*, Vol. 19, No. 1 (1994), pp. 108–148, at p. 129.

<sup>63</sup> Lind, “Life in China’s Asia,” p. 72.

<sup>64</sup> Barrass and Inkster, “Xi Jinping,” p. 55.

<sup>65</sup> Stephen Walt, “Alliance Formation and the Balance of World Power,” *International Security*, Vol. 9, No. 4 (1985), 3-43.

<sup>66</sup> Sohn, “After renaissance,” p. 88.

<sup>67</sup> Joshua Kurlantzick, *Charm Offensive: How China’s Soft Power is Transforming the World* (New Haven: Yale University Press, 2007); Falk Hartig, “China Understands Public Diplomacy: The Importance of National Image for National Interests,” *International Studies Review*, No. 18 (2016), pp. 655-680.

historical and cultural influences,<sup>68</sup> Beijing should emphasize its non-Western history and culture. All these offensives are backed up by China's growing economic clout. Beijing has flaunted so much Yuan around the world that "China" is sometimes seen as a synonym for money.<sup>69</sup> It is often said that money cannot buy love. However, China, seen as money, has helped Beijing reframe the discourse of China's rise from a threat to an opportunity, and distract the world's attention from the danger of an ascending Chinese military to the allure of a flourishing Chinese economy. By adopting liberalism-inspired measures to counter realism-driven balancing, China has deflected effective balancing.

However, "soft power" has built-in limits. First, "soft power" is only as strong as the pocket is deep. Just when Chinese leaders rejoiced in the AIIB's triumph in 2015, China's stock market and the Yuan took a dive in what is dubbed the "Great Fall of China."<sup>70</sup> The volatility of the stock market did not mark the end of China's rise, but exposed the Chinese economy's structural problems and deflated the Yuan's purchasing power. Although Beijing continued to maintain 6 percent plus GDP growth in 2016 and 2017, economists are doubtful that China's state-led and infrastructure-led economy will be sustainable in the long-term.

Paradoxically, at a critical moment when China's seemingly unstoppable rise was eventually obstructed by its own internal troubles, it was given a boost by the hegemon itself in 2016-17. Schweller observes that elite disagreement and social fragmentation produce

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<sup>68</sup> Kang, "Why China's rise will be peaceful," pp.551-554.

<sup>69</sup> Daisy Wong, "China=money (qian na)..." *Facebook*, April 18, 2017, <https://www.facebook.com/daisywonghk/posts/951770291521026>.

<sup>70</sup> The Economist, "The great fall of China," *The Economist*, August 29, 2015.

“underbalancing.”<sup>71</sup> Unprecedentedly divisive domestic politics has clearly undercut American balancing. At the same time, President Xi Jinping has astutely seized on Donald Trump’s “America First” agenda to “make China great again.”<sup>72</sup> Trump’s withdrawal from interdependence and multilateralism, especially the Trans-Pacific Pact (TPP) and the Paris climate agreement, has effectively created a “promising period of historical opportunity” for China to reshape the world order.<sup>73</sup> Trump’s response was to shower admiration: “Who can blame a country for being able to take advantage of another country...?”<sup>74</sup> After Trump’s visit to Beijing, *Time* magazine declared that “China Won.”<sup>75</sup>

This leads to the second limitation of China’s “soft power”: Its very success is its own grave digger. When China is seen as winning, balance-of-power theory suggests that it is time to think about balancing against China instead of the US. When President Xi moves to the “center stage,”<sup>76</sup> it is much harder to distract attention from the hard edges of its military and economic power. The National Endowment for Democracy contends that Chinese-style “soft power” is in reality “sharp power” that has been used to “pierce, penetrate, or perforate the political and information environments in the targeted countries” like “the tip of the dagger.”<sup>77</sup> Beijing’s double-edged sword finally started to brew a new “global backlash against China” in late 2017.<sup>78</sup>

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<sup>71</sup> Schweller, *Unanswered Threats*, pp. 11-12.

<sup>72</sup> Nectar Gan, “Make China great again: Communist Party seeks to seize ‘historic’ moment to reshape world order,” *South China Morning Post*, January 18, 2018.

<sup>73</sup> Xuanyan (Manifesto), “Jingjing zhuazhu dayoukewei de lishi jiyu qi (Tightly grasping the very promising period of historical opportunity)” *People’s Daily*, January 14, 2018.

<sup>74</sup> David Nakamura and Ashley Parker, “In Beijing, Trump declines to hit President Xi Jinping on trade: ‘I don’t blame China’,” *Washington Post*, November 9, 2017.

<sup>75</sup> Time, “China Won,” *Time*, November 13, 2017.

<sup>76</sup> Xinhua, “Full text of Xi Jinping’s report at 19th CPC National Congress,” *China Daily*, October 18, 2017.

<sup>77</sup> Walker and Ludwig, “From ‘Soft Power’ to ‘Sharp Power,’” p. 13.

<sup>78</sup> John Pomfret, “The global backlash against China is growing,” *Washington Post*, December 19, 2017.

Yet, “soft power” is ultimately dispensable. Once China has developed the hard power to force its ways, the transitory strategy designed to forestall premature balancing during China’s catch-up can be disposed of.

The rest of this article will further explain how China has thwarted balancing. The next section takes stock of the failure of IR theories to explain the missing balancing. The third and fourth sections separately examine the “soft power” side and the dollar sign in China’s “soft power.” The fifth section first analyzes how China’s “soft power” suffered a “great fall” in 2015-16 and then how President Trump has lifted it back up by withdrawing from Asia and the world in 2016-17. China’s hitherto unchecked rise eventually confronted new balancing by the end of 2017. Nonetheless, “soft power” may have made this emergent balancing too little, too late.

### **China’s Unchecked Rise**

The trajectory of China’s millennial rise began in 1992. Although Deng Xiaoping had introduced the “open door” policy in 1978, economic reforms were stifled by the 1989 Tiananmen crackdown and restarted only after his determined efforts to ease international sanctions. The US responded positively by delinking human rights considerations from the annual renewal of the Most Favored Nations status in 1994. However, shortly after, security experts were taken aback by China’s occupation of the Mischief Reef in the South China Sea in 1995 and its threats to Taiwan with military exercises and missile tests in 1995-96. Bernstein and Munro warned of China’s desire to challenge American primacy in Asia.<sup>79</sup> Nevertheless, the 1990s were a time

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<sup>79</sup> Bernstein and Munro, “China I,” p. 31.



when Americans believed in “the triumph of liberalism.”<sup>80</sup> Washington championed China’s accession to the WTO in 2001, hoping that “constructive engagement” would “socialize” China to the liberal norms embedded with international institutions.<sup>81</sup>

WTO membership has propelled China’s great rise. China’s GDP more than quadrupled from US\$1.339 trillion in 2001 to US\$6.04 trillion in 2010. The year 2010 marked a major milestone when China’s GDP overtook Japan’s US\$5.495 trillion and dwarfed the UK’s US\$2.4 trillion, Germany’s US\$3.4 trillion and France’s US\$2.65 trillion.<sup>82</sup> China reached another goal post in 2014 when its GDP of \$18.33 trillion in purchasing power parity (PPP) (US\$10.48 trillion in current US\$) exceeded the US’s \$17.39 trillion for the first time.<sup>83</sup> China’s GDP reached \$23.12 trillion in PPP in 2017, compared with the US’s \$19.36 trillion.

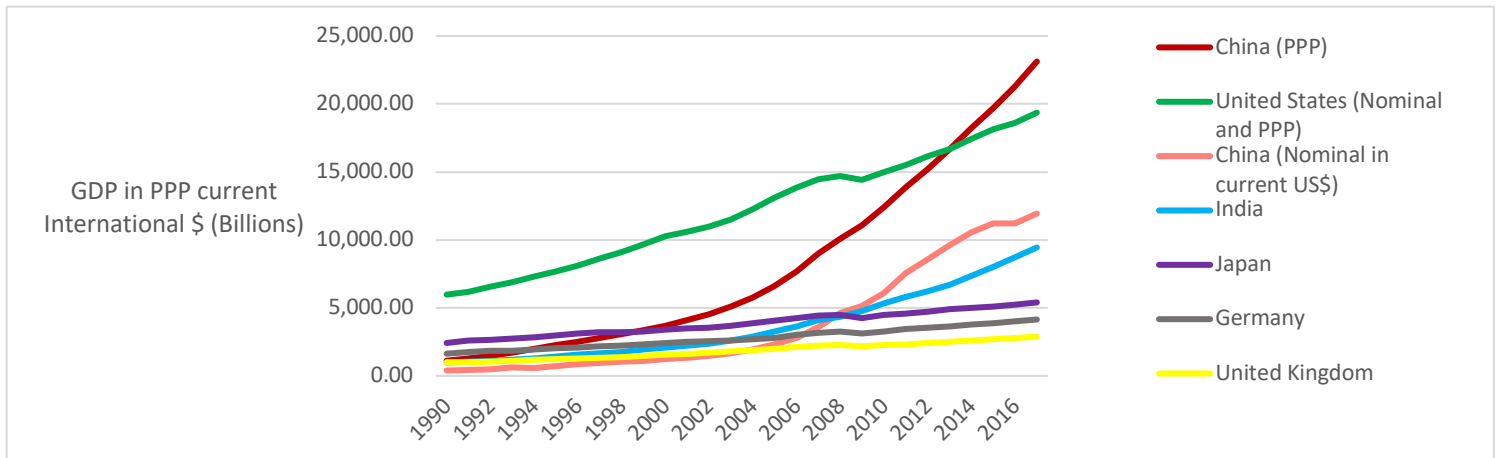
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<sup>80</sup> Francis Fukuyama, *The End of History and The Last Man* (New York, N.Y.: Free Press, 1992).

<sup>81</sup> Ian Johnston, *Social States: China in International Institutions* (Princeton NJ: Princeton University Press, 2007), p. 2.

<sup>82</sup> International Monetary Fund, *IMF’s DataMapper*, January 12, 2018, <http://www.imf.org/external/datamapper/NGDPD@WEO/CHN/USA/DEU/GBR/JPN?year=2018>.

<sup>83</sup> International Monetary Fund, *IMF’s DataMapper*, 2018.



Graph I: China’s gross domestic product (GDP) in both purchasing power parity (PPP) current international \$ and nominal current US\$, vis-à-vis the US’s, India’s, Japan’s, Germany’s and the UK’s in PPP current international \$ for the period 1990 to 2016. Source: IMF DataMapper (2018).

Steep economic growth has powered the People’s Liberation Army’s (PLA) rapid modernization. Former foreign minister Li Zhaoxing stated that “the Chinese government follows the principle of coordinating defense development with economic development.”<sup>84</sup> China’s official military budget figures are known to underestimate actual expenditures,<sup>85</sup> but they reveal “two decades of double-digit budget growth.”<sup>86</sup> When converted into PPP current prices, China’s military budget swelled from \$12.42 billion in 1992 (when Deng sought to end international sanctions) to \$27.875 billion in 2001 (when China joined the WTO), to \$115.712 billion in 2010

<sup>84</sup> Global Security, “China’s Defense Budget,” *Global Security*, August 8, 2017. <http://www.globalsecurity.org/military/world/china/budget.htm>.

<sup>85</sup> Adam P. Liff and Andrew Erickson, “Demystifying China’s Defence Spending: Less Mysterious in the Aggregate,” *The China Quarterly*, Vol. 216, (2013), pp. 805-830.

<sup>86</sup> Global Security, “China’s Defense Budget,” 2017; Liff and Ikenberry, “Racing toward Tragedy?” p. 66.

(when China became the second largest economy), and further to \$215.176 billion in 2016 (SIPRI 2017).<sup>87</sup> When viewed as a percentage of the US's military spending, China's budget in PPP current prices jumped from 4.07% of the US's \$305.141 billion in 1992, to 8.9% of the US's \$312.743 billion in 2001, to 16.57% of the US's \$698.180 billion in 2010, and further to 35% of the US's \$611.186 billion in 2016. Pundits may dispute whether this trend should be seen as a glass half-empty – that China is still not “a peer competitor” – or a glass half-full – that China is narrowing the gap. What is clear is that the PLA has acquired capabilities to control the Western Pacific within the First Island Chain and obstruct U.S. power projection there.<sup>88</sup> On July 30, 2017, a confident President Xi showed off China's upgraded combat capabilities at a military parade to commemorate the 90th anniversary of the PLA's founding.

Among the PLA's enhanced capabilities, the most remarkable is its ascendance from almost nothing to “a maritime superpower” that “rules the waves.”<sup>89</sup> Chinese leaders are determined to correct the “historical error” of “ignoring the oceans.”<sup>90</sup> They particularly learned from the Taiwan Strait Crisis of 1995–96 – when the US sent two carrier battle groups through the Strait – that China must develop its naval and anti-carrier ballistic-missile capabilities.<sup>91</sup> The

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<sup>87</sup> Stockholm International Peace Research Institution (SIPRI), *SIPRI Military Expenditure Database*, October 20, 2017, <https://www.sipri.org/databases/milex>. All forms of currency conversions involve some distortion. Thus, in the Chinese Yuan, China's defense budget multiplied from ¥37.8 billion in 1992 to ¥141 billion in 2001, to ¥532.1 billion in 2010, and further to ¥1.044 trillion in 2017. See Global Security, “China's Defense Budget,” 2017. According to Liff and Ikenberry, China's official defense spending “has nearly quintupled in nominal *renminbi* terms since 2002” and “is the world's second highest, more than double Japan's and nearly three times India's.” See Liff and Ikenberry, “Racing toward Tragedy?” pp. 56, 66.

<sup>88</sup> Montgomery, “Contested Primacy in the Western Pacific,” pp. 130; Erickson et al., “Correspondence,” pp. 202–213, at p. 203.

<sup>89</sup> Kynge et al., “How China rules the waves.”

<sup>90</sup> Allison, *Destined for War*, p. 131.

<sup>91</sup> Barrass and Inkster, “Xi Jinping,” p. 47.

PLA's 2014 strategic guideline gives particular prominence to "maritime military struggle" and "preparations for maritime military struggle."<sup>92</sup> China now has the world's fastest-growing naval fleet (which is set to become the second largest by 2020), the world's biggest blue water coastguard, and a powerful seagoing militia.<sup>93</sup> In addition to military assets, China has invested in networks of dual-use ports at strategic locations from Maday Island in Myanmar, Gwadar in Pakistan, Hambantota in Sri Lanka, to Darwin in Australia and Djibouti in East Africa, with plans to acquire additional ports at the Melaka Gateway in Malaysia, Walvis Bay in Namibia, and São Tomé and Príncipe on the Atlantic Ocean. In July 2017, Beijing opened the first overseas military base in Djibouti, where Washington also maintains an airfield and a naval station.

Liberal analyses have faith in China's peaceful intentions and excuse the PLA's build-up. For instance, Legro believes that China is "mostly integrationist" and that its military modernization largely "signals ... a desire to protect its version of autonomy."<sup>94</sup> However, as Sebastian Rosato argues, the future intentions of great powers are "inscrutable."<sup>95</sup> Intentions can change when existing leaders take stock of shifts in international power constellations or when new leaders with different ideas emerge.<sup>96</sup> Indeed, China has changed from "keeping a low profile to striving for achievement" in its foreign policy.<sup>97</sup> As Schweller and Pu explain, "[w]hen China

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<sup>92</sup> Fravel, "Shifts in Warfare and Party Unity," pp. 37-83, at p. 81.

<sup>93</sup> IISS, *The Military Balance 2018*, p. 1; Liff and Erickson, "Demystifying China's Defence Spending"; Kyngé et al., "How China rules the waves."

<sup>94</sup> Legro, "What China will want," pp. 517-8.

<sup>95</sup> Sebastian Rosato, "The Inscrutable Intentions of Great Powers," *International Security*, Vol. 39, No. 3 (2014/15), pp. 48-88. Liff and Ikenberry agree that China's "future intentions are unknowable—even to the most prescient of Chinese leaders." See Liff and Ikenberry, "Racing toward Tragedy?" p. 57.

<sup>96</sup> Rosato, "The Inscrutable Intentions of Great Powers," p. 87.

<sup>97</sup> Xuetong Yan, "From Keeping a Low Profile to Striving for Achievement," *Chinese Journal of International Politics*, Vol. 7, No.2 (2014), pp. 153-84; Kejin Zhao, "The motivation behind China's public diplomacy," *Chinese Journal of International Politics*, Vol. 82, (2015), pp. 167-196, at p. 195.

was relatively weak in the... 1990s, its strategy stressed integration within the Western-led order. As China's... capabilities have increased, its strategists have gradually shifted ... toward ... an embryonic vision of a new Chinese order."<sup>98</sup>

Thus, while China once “avoided face-to-face confrontation” with the US,<sup>99</sup> it has taken an “acerbic turn” after 2009.<sup>100</sup> In that year, Chinese ships harassed the unarmed American Navy *Impeccable* in international waters off China’s coast. In 2010, Beijing warned Southeast Asian states against coordinating with Washington in managing disputes over the South China Sea, and South Korea against conducting naval exercises with the US in international waters near China.<sup>101</sup> Since then, the PLA has stepped up its power projection over the East and South China Seas. Over the Diaoyu (Chinese) or Senkaku (Japanese) islands, Beijing established an air defense identification zone in 2013 to “erode the notion that Japan [had] uncontested administrative control.”<sup>102</sup> In the South China Sea, China seized the Scarborough Shoal from the Philippines after a prolonged standoff in 2012. With little balancing reaction, China proceeded to construct a string of artificial islands armed with military facilities. By establishing de facto control over disputed reefs and waters, Beijing has effectively made “creeping claims to jurisdiction and rights” in the South China Sea.<sup>103</sup>

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<sup>98</sup> Schweller and Pu, “After Unipolarity,” p. 59.

<sup>99</sup> Xiao Ren, “China as an institution-builder: the case of the AIIB,” *The Pacific Review*, Vol. 29, No.3 (2016), pp. 435-442, at p. 435.

<sup>100</sup> Thomas J. Christensen, “The Advantages of an Assertive China: Responding to Beijing's Abrasive Diplomacy,” *Foreign Affairs*, Vol. 90, No. 2 (2011), pp. 59; Christensen, *The China Challenge*, pp. 246, 265.

<sup>101</sup> Christensen, “The Advantages of an Assertive China,” pp. 54-55.

<sup>102</sup> Christensen, *The China Challenge*, p. 264.

<sup>103</sup> Isaac Kardon, “Rising Power, Creeping Jurisdiction,” 2017.

If liberal arguments fail to account for China's turn to "abrasive diplomacy,"<sup>104</sup> realist analyses have difficulty explaining the impotence of balancing. In 2011, Obama likened China's new assertiveness to a new "Sputnik moment" and proclaimed a "rebalance to Asia."<sup>105</sup> Unfortunately, as Obama also stated, "It's pretty hard to have a tough negotiation when the Chinese are our bankers."<sup>106</sup> Kirshner further points out that "the US simply does not have the capability to inhibit China's rise" in a globalized world economy.<sup>107</sup> China is the largest importer for so many countries that any attempt to "knock down" China's growth rate would "leav[e] behind an angry mob of exporting countries in distress."<sup>108</sup>

It may be argued that Washington should leave the burden of balancing in the geographically distant Asia to regional states.<sup>109</sup> Even if lesser Asian states tend to engage in "hedging" rather than balancing, those that have enduring territorial disputes with China should "strengthen their 'bets' on Chinese aggression" and "intensify... US security cooperation in order to deter China."<sup>110</sup> Robert Ross looks on Japan and the Association of Southeast Asian Nations (ASEAN) as "the balancers."<sup>111</sup> Ikenberry likewise believes that any "manifestations of a more

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<sup>104</sup> Christensen, "The Advantages of an Assertive China," pp. 54-67.

<sup>105</sup> Silove argues that the Bush administration already pursued a "little-recognized" "reorientation strategy" toward Asia from the mid-2000s onward. See Nina Silove, "The Pivot before the Pivot," pp. 45-88, at pp. 46, 53.

<sup>106</sup> Daniel Drezner, "Bad Debts," p. 15.

<sup>107</sup> Jonathan Kirshner, "The tragedy of offensive realism: Classical realism and the rise of China," *European Journal of International Relations*, Vol. 18, No. 1 (2010), pp. 53-75, at p. 70.

<sup>108</sup> Kirshner, "The tragedy of offensive realism," pp. 70-71.

<sup>109</sup> Beckley believes that China's neighbors "can check Chinese maritime expansion" if the U.S. would bolster their anti-access/area-denial capabilities with "loans, arms, training and intelligence." See Michael Beckley, "The Emerging Military Balance in East Asia: How China's Neighbors Can Check Chinese Naval Expansion," *International Security*, Vol. 42, No. 2 (Fall 2017), pp. 78-119, at pp. 116-7.

<sup>110</sup> Evelyn Goh, "Southeast Asian Strategies toward the Great Powers: Still Hedging after All These Years?" *The Asian Forum*, February 22, 2016, <http://www.theasianforum.org/southeast-asian-strategies-toward-the-great-powers-still-hedging-after-all-these-years/>.

<sup>111</sup> Ross, "Balance of Power Politics and the Rise of China," p. 387.

bellicose... foreign policy” by China would push “ASEAN, Japan, and South Korea perceptibly closer to the United States.”<sup>112</sup> Yet, balancing has been grossly undersupplied in Asia. It is true that Japan, China’s main rival in Asia, has consistently balanced against China’s advance, and India, another Asian giant, has faced off with the PLA along disputed borders and pushed back China’s expansion of political influence in South Asia, from Bhutan, Nepal, Pakistan, Sri Lanka, to Western Africa. Weaker Southeast Asian states, however, have increasingly fallen under China’s orbit. The Philippines’ dramatic turnaround in 2016 portended the deep fragility of balancing. The former president Benigno Aquino had taken China to the International Court of Justice, which issued a favorable ruling in July 2016. Yet, the new President Rodrigo Duterte disavowed the legal victory and pivoted to China instead. At the 2017 ASEAN meeting, Vietnam was alone in criticizing China’s seizure of reefs and construction of artificial islands. The Philippines joined forces with Cambodia to champion Beijing’s position that the rising tensions were caused not by “its maritime assertiveness” but by “interference by non-claimant states,” meaning the US.<sup>113</sup>

Why have the Asian states failed to balance against China? If it is unviable for even the US to balance against China in an integrated world, it is even more so for lesser Asian states that coexist in close proximity with China. The unreliability of Washington’s commitment has only signaled to Asian states that they should stay in Beijing’s good graces. While high-income states such as Singapore have diverse trading partners, lower-income states have few options. Beijing has further touted the gravitational pull of “China as money” in the region, promoting Asian

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<sup>112</sup> Ikenberry, “The Future of the Liberal World Order,” p. 66.

<sup>113</sup> Yoichi Funabashi, “Have we lost Asean to China?” *The Japan Times*, August 10, 2017.

states' "asymmetric dependence for political influence."<sup>114</sup> When ASEAN's goods trade with China went from surplus to deficit after the enactment of the ASEAN-China Free Trade Area (ACFTA) agreement in 2010,<sup>115</sup> Beijing has intensified tourism and foreign direct investments. Beijing has particularly seized on the region's "thirst" for infrastructural investments in transportation, telecommunication, energy and water supplies that had been neglected by Western powers.<sup>116</sup> When Duterte abandoned the Hague's ruling and visited Beijing in October 2016, he secured US\$24 billion worth of railways, ports, energy and mining agreements.

Although all IR theories get China wrong, they offer important ideas for a counterbalancing strategy. Scholars have extensively studied China's "charm offensive"<sup>117</sup> and "multilateral offensive"<sup>118</sup> as evidence of China's peaceful intentions. Since intentions are inscrutable and changeable,<sup>119</sup> we should understand these offensives as "soft power" strategic tools to avert balancing. If realism argues that states balance against threat rather than power,<sup>120</sup> China should counter the "China threat" theory by propagating the message of a "peaceful rise." If realism asserts that a rising power must be blocked from becoming a peer competitor,<sup>121</sup> China should take "steps just small enough"<sup>122</sup> "at the peripheries of US areas of influence" to avoid

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<sup>114</sup> Friedberg, "Globalisation and Chinese Grand Strategy," pp. 32-33.

<sup>115</sup> Nargiza Salidjanova and Iacob Koch-Weser, *China's Economic Ties with ASEAN: A Country-by-Country Analysis. US-China Economic and Security Review Commission staff research report*, March 17, 2015, p. 4.

<sup>116</sup> Ren, "China as an institution-builder," pp. 463; Sohn, "After renaissance," p. 81.

<sup>117</sup> Kurlantzick, *Charm Offensive*.

<sup>118</sup> Sohn, "After renaissance," p. 88.

<sup>119</sup> Rosato, "The Inscrutable Intentions of Great Powers."

<sup>120</sup> Walt, "Alliance Formation and the Balance of World Power," pp. 3-43.

<sup>121</sup> Mearsheimer, *Tragedy of Great Power Politics*.

<sup>122</sup> Campbell and Ratner, "The China Reckoning," pp. 68-69.



“waking up the giant.”<sup>123</sup> If openly “bidding for hegemony” is a path to self-destruction,<sup>124</sup> Beijing should adopt what Schweller and Pu call “a strategy of rightful resistance” – that is, “follow established rules, norms, and practices of international politics and act through authorized channels.”<sup>125</sup> This strategy makes the divination of intentions even more problematic because active participation in the existing order is “consistent with both the intention of strengthening the legitimacy of the existing order and of significantly revising or overthrowing it at a later date.”<sup>126</sup> If realists and liberals agree that multilateralism has helped to make American hegemony appear “benevolent,”<sup>127</sup> China should double down on the outwardly cooperative strategy of “rightful resistance.” If hierarchy theory points out that “authority” or legitimate power grants “the right to rule others” and “induces compliance” while domination provokes resistance,<sup>128</sup> Beijing should appear to use power for the former rather than the latter purpose. If realism insists that China’s growing economy is itself a threat, Beijing should champion its rise as a “win-win opportunity” rather than a “threat.”<sup>129</sup> If liberals criticize the IMF’s harsh conditionality,<sup>130</sup> China should lavish the Yuan with no strings attached. If constructivism highlights that a “strategic power struggle and legitimacy contest are two sides of the same coin of hegemonic wars,”<sup>131</sup> China should engage

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<sup>123</sup> Urdinez et al., “Chinese Economic Statecraft and US Hegemony in Latin America,” pp. 6-7.

<sup>124</sup> Kirshner, “The tragedy of offensive realism,” p. 61.

<sup>125</sup> Schweller and Pu, “After Unipolarity,” pp. 47, 51.

<sup>126</sup> Schweller and Pu, “After Unipolarity,” p. 52.

<sup>127</sup> Layne, “The Waning of US Hegemony,” p. 151. See also Ikenberry, “The Future of the Liberal World Order”; Kang, “Why China’s rise will be peaceful”; Legro, “What China will want.”

<sup>128</sup> Lake, “Domination, Authority, and the Forms of Chinese Power,” p. 358.

<sup>129</sup> Barrass and Inkster, “Xi Jinping,” pp. 56; Xinhua, “*Zhongguo de fazhan, shijie de jiyu* (China’s Development, The World’s Opportunity),” *China Daily*, October 18, 2017, <http://www.xinhuanet.com/fortune/zt050805/>.

<sup>130</sup> Francis Fukuyama, “The Imperative of State-Building,” *Journal of Democracy*, Vol. 15, No. 2 (2004), pp. 26-27.

<sup>131</sup> Mlada Bukovansky, *Legitimacy and Power Politics The American And French Revolutions In International Political Culture* (Princeton: Princeton University Press, 2002), p. 304.

in a “struggle for legitimacy.”<sup>132</sup> If liberal-constructivist theories maintain that states that command “soft power” enjoy international popularity,<sup>133</sup> Chinese diplomats should promote traditional culture and public diplomacy. When China does resort to strong-arm measures, it can claim that it is merely reacting to others’ provocations<sup>134</sup> or defending its sovereign territory.<sup>135</sup> When Chinese leaders vow to maintain an “enabling international environment for China’s peaceful development,”<sup>136</sup> the key idea is to preempt balancing.

I use the term “soft power” as a shorthand to refer to China’s various non-military measures to divert attention from its hard power so as to escape balancing for as long as possible. The simultaneous pursuit of realist and liberal-constructivist policies has sent confusing signals to mislead experts. For instance, Iain Johnston concludes that China shows “no across-the-board new assertiveness” “on balance.”<sup>137</sup> Kastner and Saunders agree that China is “largely consistent with a status quo characterization, though with some ambiguities.”<sup>138</sup> Paul concurs that “China is indeed one of the rare rising powers in history that crafted an explicit strategy for peaceful rise” notwithstanding “the ‘salami slicing’ of the South China Sea.”<sup>139</sup> With determined counterbalancing “soft power,” China has made inroads into American primacy in Asia and

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<sup>132</sup> Yongjin Zhang, “Legitimacy, China and the struggle for legitimacy,” *The Chinese Journal of International Politics*, Vol. 8, No. 3 (2015), p. 317, p. 320.

<sup>133</sup> Nye, *Soft Power*.

<sup>134</sup> Christensen, *The China Challenge*, p. 261.

<sup>135</sup> Yaqing Qin, “Continuity through Change: Background Knowledge and China’s International Strategy,” *The Chinese Journal of International Politics*, Vol. 7, No. 3 (2014), pp. 285–314, at p. 311.

<sup>136</sup> Xinhua, “Xi Eyes More Enabling International Environment for China’s Peaceful Development,” *CRI English.com*, 30 November, 2014, [http://english.cri.cn/12394/2014/11/30/189s854461\\_1.htm](http://english.cri.cn/12394/2014/11/30/189s854461_1.htm).

<sup>137</sup> Ian A. Johnston, “How New and Assertive Is China’s New Assertiveness?” pp. 32-33.

<sup>138</sup> Kastner and Saunders, “Is China a Status Quo or Revisionist State?” p. 174.

<sup>139</sup> Paul, “Recasting Statecraft,” pp. 9-10.

beyond. The next two sections examine in greater detail how the “softer” side and the dollar part of “soft power” have helped China divert attention from its coercive power.

### **The “Soft Power” in “Soft Power”**

Joseph Nye’s insight that success in international competition “depends not only on whose army wins, but also on whose story wins”<sup>140</sup> seems to have had a stronger impact in Beijing than in Washington. The early years of China’s rise coincided with the shot to stardom of Nye’s exposition on soft power.<sup>141</sup> Chinese politicians and academics eagerly adopted the idea. The pursuit of “soft power” became an official policy when the previous President Hu Jintao mentioned in 2007 for the first time the need to “enhance culture as part of the soft power of our country.”<sup>142</sup> Party leaders formally declared the national goal to win the “international cultural competition” in 2011.<sup>143</sup> Beijing reaffirmed in 2012 the resolution to make China a “cultural great power” because “the strength and international competitiveness of Chinese culture is an important indicator of China’s power and prosperity.”<sup>144</sup> President Xi Jinping reiterated in 2014 the official admonition: “We should increase China’s soft power, give a good Chinese narrative, and better communicate China’s message to the world.”<sup>145</sup> He pledged again in 2017 the priority to “enhance our country’s cultural soft power.”<sup>146</sup> Shambaugh estimates that China’s annual budget for public

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<sup>140</sup> Joseph Nye, “The Rise of China’s Soft Power,” *Wall Street Journal*, December 29, 2005.

<sup>141</sup> Nye, *Soft Power*.

<sup>142</sup> Xinhua, “Hu Jintao calls for enhancing ‘soft power’ of Chinese culture,” *China Daily*, October 15, 2007.

<sup>143</sup> Michael Wines, “China Tries to Add Cultural Clout to Economic Muscle,” *New York Times*, November 7, 2011.

<sup>144</sup> Jintao Hu, *Report of Hu Jintao to the 18th CPC National Congress*, November 8, 2012, [http://www.china.org.cn/china/18th\\_cpc\\_congress/2012-11/16/content\\_27137540.htm](http://www.china.org.cn/china/18th_cpc_congress/2012-11/16/content_27137540.htm).

<sup>145</sup> Xinhua, “Xi Eyes More Enabling International Environment for China’s Peaceful Development,” 2014.

<sup>146</sup> Xinhua, “Full text of Xi Jinping’s report at 19th CPC National Congress,” 2017.

diplomacy amounts to \$10 billion, which vastly dwarfs the US's similar budget of \$666 million ca. 2014.<sup>147</sup>

Nye contends that China does not “get” soft power.<sup>148</sup> Soft power is the power of attraction attained by unleashing the talents of civil society. Yet, Beijing has pursued its version of “soft power” with the same top-down approach that it has built its hard power with: “set a long-term goal, adopt rigid specifications, pour in copious amounts of public money, [and] monitor closely to ensure the desired result.”<sup>149</sup> Veteran diplomat Yang Jiechi maintains that the main objective of “soft power” is to advance China's national interest.<sup>150</sup> Chinese scholar Yan Xuetong argues that the crux of “soft power” should be political rather than cultural power.<sup>151</sup> China's use of “soft power” as a tool for power competition<sup>152</sup> has led the National Endowment for Democracy (NED) to conclude that China's “soft power” is in fact “sharp power” that “poison[s]” targeted countries like a “syringe.”<sup>153</sup>

Analysts have scorned China's “charm offensive” with headlines like “can't buy me soft power” or “can't buy me love.”<sup>154</sup> Indeed, China's favorability ratings have remained low. The Globe Scan surveys of 2014 show that “China's perceived influence worsened the most” since 2005, with positive views dropping 13 points to 35 percent and negative views climbing 17 points

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<sup>147</sup> Shambaugh, “China's soft-power push,” p. 100.

<sup>148</sup> Joseph Nye, “What China and Russia don't get about soft power,” *Foreign Policy*, April 29, 2013.

<sup>149</sup> Wines, “China Tries to Add Cultural Clout to Economic Muscle,” 2011.

<sup>150</sup> Jiechi Yang, “*Nuli kaichuang Zhongguo tese gonggong waijiao xin jumian* (Seeking to Open New Horizons in Public Diplomacy with Chinese Characteristics),” *Qiushi*, (2011), pp. 43–46.

<sup>151</sup> Xuetong Yan, “*Ruanshili de hexin shi zhengzhi shili* (The core of soft power is political power),” *Xinhuanet*, May 22, 2007.

<sup>152</sup> Hartig, “How China Understands Public Diplomacy,” p. 670.

<sup>153</sup> Walker and Ludwig, “From ‘Soft Power’ to ‘Sharp Power’,” p. 13.

<sup>154</sup> The Economist, “Can't buy me soft power,” *The Economist*, April 27, 2013; Shambaugh, “China's soft-power push,” p. 107.

to 49 percent.<sup>155</sup> The Pew Research Center's Global Attitudes Project highlights China's soft power deficits in not just the Western world, but also in Brazil, Colombia, and South Africa, where China has showered billions in investment and aid.<sup>156</sup>

Nevertheless, such dismissive assessments may be missing the mark. China's "soft power" is better understood as counterbalancing "soft power." Chinese leaders aim to debunk the "China threat" theory that "demonizes" China by presenting China's own narrative of a "peaceful rise."<sup>157</sup> "Soft power" is designed to forestall balancing during China's catch-up phase. The NED report highlights that China's "sharp power" efforts have a "degree of stealth" and so have benefited from a "lag time."<sup>158</sup> By this measure, "soft power" has been undeniably effective. While it is worth examining how China's "rising authoritarian influence in the democratic world" finally alarmed spy chiefs from Australia to Germany in 2017, it is just as important to ponder how China's "sharp power" could stay under the radar for so long.

While Chinese analysts make soft and hard power indistinguishable, they do not really fail to understand soft power. The core elements of soft power are a country's culture, political values and foreign policies.<sup>159</sup> Although Beijing cannot win applause for repressive policies at home and aggressive foreign policies abroad, it has correctly identified "China's 3,000-plus years of civilizational heritage" as "its strongest soft-power asset."<sup>160</sup> China has also sagaciously anointed

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<sup>155</sup> Globe Scan, "Negative Views Of Russia On The Rise: Global Survey," *Globe Scan*, June 3, 2014, p. 1.

<sup>156</sup> Wike et al., "Global Opposition to US Surveillance and Drones, but Limited Harm to America's Image: Many in Asia Worry about Conflict with China," *Pew Research Center*, July 14, 2014.

<sup>157</sup> Hartig, "China Understands Public Diplomacy," pp. 655, 673; Zhang, "Legitimacy, China and the struggle for legitimacy," pp. 314, 317, 322.

<sup>158</sup> Walker and Ludwig, "From 'Soft Power' to 'Sharp Power'," p. 13.

<sup>159</sup> Nye, *Soft Power*.

<sup>160</sup> Shambaugh, "China's soft-power push," p. 105.

Confucius as its cultural ambassador. The “Confucian” brand helps to refute the narrative of “China threat” by positing a stylized image of a dominant but peaceful “Middle Kingdom” in history. To improve soft power without democratizing domestic politics or moderating foreign policy, Beijing has endeavored to make its political system and policies look more legitimate. As Kejin Zhao observes:

“past studies have... neglected an important dimension of China’s public diplomacy—that of justifying the party and the legitimacy of the development model... [T]he strategic motivation behind Chinese public diplomacy is not just to enhance China’s soft power..., nor to shape national image abroad ... [T]he core mission of China’s public diplomacy is to win legitimacy both internationally and domestically... [and] to define a new model of national governance system...”<sup>161</sup>

Although Beijing cannot make the world’s democratic publics love its dictatorship, it can cajole rich democracies and poor autocracies alike to toe its line. The Chinese “dictator’s diplomacy” has compelled foreign governments and businesses to “trade their respect for freedom for profits.”<sup>162</sup> The NED analysis chronicles how Beijing has successfully used “sharp power” to “reduce, neutralize, or preempt any challenges to the regime’s presentation of itself.”<sup>163</sup>

The silencing of criticisms is, at best, a form of *negative legitimacy*. China has also strived for *positive legitimacy*, that is, international recognition of its achievements. Legitimacy overlaps with but is broader than soft power. The sources of legitimacy repeat the same elements of cultural

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<sup>161</sup> Zhao, “The motivation behind China’s public diplomacy,” pp. 177, 189.

<sup>162</sup> Guoguang Wu, “A Shadow Over Western Democracies: China’s Political Use Of Economic Power,” *China Perspectives*, No.2 (2009), pp. 80-81, 88.

<sup>163</sup> Walker and Ludwig, “From ‘Soft Power’ to ‘Sharp Power’,” pp. 12-13, 18.

disposition, democratic consent and ideological affinity, but also include the components of performance and prestige.<sup>164</sup> Beijing may be unwilling to earn soft power and legitimacy by adopting democratic values and liberal foreign policies, and unable to compensate for this deficit with cultural achievements. However, the party-state has recourse to performance legitimacy and international prestige.

To maximize positive legitimacy, Chinese leaders have exploited the economic miracle. Although economic take-off from the rock bottom in the post-Tiananmen era is arguably more or less inevitable, party leadership has propagated the theory that dictatorship has been the very driver for economic success. President Xi published *The Governance of China* to enhance “the world’s understanding of the Chinese government’s philosophy and its domestic and foreign policies.”<sup>165</sup> The “China model” of authoritarian politics and state-led development is upheld as a “morally legitimate” alternative to the Western model of liberal democracy and market capitalism.<sup>166</sup> Chinese authoritarianism is supposedly uniquely conducive to high-quality governance because Chinese leaders are unencumbered by the electoral cycle to design far-sighted policies. In contrast, Western democracy is denigrated for producing suboptimal policies because elected politicians are necessarily blinded by the electoral cycle and thus motivated to chase after short-sighted impulses. While the Chinese system has generated “unparalleled growth and

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<sup>164</sup> Bruce Gilley, “Legitimacy and institutional change: the case of China,” *Comparative Political Studies*, Vol. 41, No. 3 (2008), p. 271.

<sup>165</sup> Jinping Xi, *The Governance of China* (Beijing: Foreign Languages Press, 2014), p. publisher’s note.

<sup>166</sup> Daniel Bell, *The China Model: Political Meritocracy and the Limits of Democracy* (New York: Princeton University Press, 2015), pp. 1, 75.

staggering achievements,” the Western system has induced “endless political backbiting, bickering and policy reversals” that have “retarded economic and social progress.”<sup>167</sup>

Nye and Wang judge that it is “dubious” to think that the China model could challenge the Western model.<sup>168</sup> Yet, the financial crisis of 2008, which started in the US and spread to the world, “tarnished the American model” and “rais[ed] doubts about an American-led world economy.”<sup>169</sup> The “crises and chaos” accompanying the rise of populism in Western democracies have further boosted the party line that “enlightened Chinese democracy puts the West in the shade.”<sup>170</sup> Most of all, China’s impressive transformation from rags to riches has served as a model for emulation. As a Chinese editorial puts it, China’s soft power lies in expositions of the “success of the China model.”<sup>171</sup> Thus, Beijing may not be able to buy soft power for its repressive political system, but it can earn performance legitimacy for its seemingly never-ending growth. Even Nye acknowledges that “a strong economy” can be “a source of attractiveness.”<sup>172</sup>

### **The Dollar Sign in “Soft Power”**

A strong economy, of course, enhances the dollar sign in China’s “soft power.” Although economic power is a form of hard power and may induce balancing, Beijing has marketed the “China opportunity (*zhongguo jiyu*)” narrative to counter the “China threat” theory.<sup>173</sup> It has also

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<sup>167</sup> Laifang Li, “Enlightened Chinese democracy puts the West in the shade,” *China Daily*, October 17, 2017.

<sup>168</sup> Joseph Nye and Jisi Wang, “Hard decisions on soft power: opportunities and difficulties for Chinese soft power,” *Harvard International Review*, Vol. 312 (2009), p. 21.

<sup>169</sup> Ikenberry, “The Future of the Liberal World Order,” p. 57.

<sup>170</sup> Li, “Enlightened Chinese democracy puts the West in the shade,” 2017.

<sup>171</sup> Ming Pao editorial, “US’s hard and soft containment,” *Ming Pao*, February 1, 2018.

<sup>172</sup> Nye, *Soft Power*, p. 8.

<sup>173</sup> Xinhua, “*Zhongguo de fazhan, shijie de jiyu* (China’s Development, The World’s Opportunity),” 2017b.



championed a “multilateral offensive” which not only sends out an olive branch but also helps to create a new international structure centered in Beijing.

Kang pointed out a decade ago that China’s growing economy should be seen as an opportunity:

“the benefits from China’s rise are... obvious: as both a consumer and a producer, the Chinese market is increasingly seen to hold the future for many companies worldwide, and many countries—including the United States—are attempting to gain access to it.”<sup>174</sup>

To “transform China’s development into the world’s opportunities,” Beijing has massively invested in infrastructure building in Asia, Africa, the Middle East and Latin America.<sup>175</sup> Chinese money has funded and constructed many of the new airports, terminals, stations, highways, railways, dams, power plants, steel mills, mineral mines, sports stadiums, and government buildings in less developed countries. To further promote the message of “peaceful development,” China has established the Forum on China–Africa Cooperation, the China–Caribbean Economy and Trade Cooperation Forum, and the China–Arab States Cooperation Forum.<sup>176</sup>

The Yuan has bought China not just feeble balancing, but also strategic gains. By investing in infrastructural modernization, Chinese companies, often partially or wholly state-owned, have established strongholds around the world. These include the pipelines that run across Myanmar to the Kyauk Pyu Special Economic Zone on the Bay of Bengal, the transportation networks along the China-Pakistan Economic Corridor leading to the Arabian Sea port of Gwadar, and the port,

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<sup>174</sup> Kang, “Why China’s rise will be peaceful,” p. 552.

<sup>175</sup> Dalton Lin, “China’s Experiment in Peaceful Power Transition: ‘One Belt, One Road,’” paper presented at the International Studies Association International Conference, Hong Kong, 2017, p.16.

<sup>176</sup> Christensen, *The China Challenge*, pp. 23-24; Sohn, “After renaissance,” p. 77.

railway, and water pipeline in Djibouti that radiate out to Ethiopia, Sudan, Zambia, and Central Africa. Moreover, once Chinese projects are locked in, they continue to generate benefits for Beijing even when they become more liabilities than opportunities for host countries.<sup>177</sup> As infrastructural investments take decades to break even, poor countries have become increasingly unable to service their debts. Chinese companies can then acquire equity in strategic assets or future incomes. In 2017, Sri Lanka agreed to a 99-year lease of the Hambantota port to help finance its debts to China. Beijing has also been adept at acquiring civilian assets in the name of commercial interests and then enlisting them into military service later on. In Djibouti, Chinese companies initially arrived to build a new container terminal but then expanded it as China's first overseas military base.

China's dollar diplomacy initially charmed only cash-trapped autocracies, but has extended its purchasing power to wealthy democracies. China's economy surpassed Western economies one by one in the 2000s. After the financial crisis of 2008, European economies stagnated (see Graph I) and became increasingly dependent on "China as money" to expand market access for multinationals and to rescue distressed assets. China's deep-pocketed companies have purchased cargo terminals not just in Asia, but also in Piraeus in Greece and Zeebrugge in Belgium. The West's relative decline and China's continuing rise have combined to create the impression that 'China is the future' – jump on the China bandwagon or be left behind. Pew surveys conducted in early 2017 showed that pluralities in developed economies

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<sup>177</sup> I thank Luis Schenoni for this point.

including US allies Australia (58%), Spain (48%), France (47%), the UK (46%), Canada (42%), and Germany (41%) considered China the leading economic power.<sup>178</sup>

This shifting economic balance has enabled China to extend its “multilateral offensive” to the Bretton Woods institutions. Beijing began to agitate for a “fair and just financial order ... not dependent on the US” after 2008.<sup>179</sup> However, Western capitals conceded little and continued to control more than half of the voting shares in the IMF and World Bank. As of 2015 (when Beijing rolled out the AIIB), China’s voting shares in the IMF represented only 3.8% (up from 2.3% in 1997), while the US still held 16.74%, Japan 6.23%, Germany 5.81%, France 4.29%, and the UK 4.29%.<sup>180</sup> China’s shares elsewhere likewise grew only at glacial rates, from 2.9% in 1997 to 4.8% in 2015 in the World Bank’s International Bank for Reconstruction and Development,<sup>181</sup> and from 5.5% in 1997 to 6.5% in 2015 in the Asian Development Bank.<sup>182</sup> In China’s assessment, if it “is not ... welcomed by the established powers,” it should create an alternative order under its control.<sup>183</sup>

Thus, alongside Beijing’s “acerbic” turn in foreign policy after 2009, it also proceeded to construct “a Chinese-led international development financing mechanism” with the BRICS New Development Bank (involving Brazil, Russia, India, and South Africa), the Asian Infrastructure

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<sup>178</sup> Richard Wike et al, “Globally, More Name US Than China as World’s Leading Economic Power,” *Pew Research Center*, July 13, 2017.

<sup>179</sup> Drezner, “Bad Debts,” p. 36.

<sup>180</sup> International Monetary Fund, *IMF Members’ Quotas and Voting Power, and IMF Board of Governors*, December 19, 2015.

<sup>181</sup> World Bank, *International Bank for Reconstruction and Development: Subscriptions and voting power of member countries*, December 22, 2015.

<sup>182</sup> Asian Development Bank, *Shareholders*, 2016, <http://www.adb.org/site/investors/credit-fundamentals/shareholders>.

<sup>183</sup> Ren, “China as an institution-builder,” p. 438.

and Investment Bank (AIIB), the New Silk Road Economic Belt and the 21st Century Maritime Silk Road.<sup>184</sup> Christensen suggests that the new banks “simply supplement rather than undercut the existing institutions.”<sup>185</sup> Yet, Chinese analysts express the hope that the AIIB can “uproot and outdo” the Bretton Woods system so that it cannot “continue its promulgation of liberal democracy, free markets, and Western governance institutions.”<sup>186</sup> As a former IMF official Eswar Prasad observes, “the AIIB helps Beijing put a stamp of legitimacy on China’s operations to extend its spheres of economic and political influence, even while subtly redefining the rules of the game.”<sup>187</sup> The challenge for China was to attract enough states to join it. To this end, Beijing promised “serious money”:

“\$50 billion for the Asian Infrastructure Investment Bank, \$41 billion for the New Development Bank, \$40 billion for the Silk Road Economic Belt, and \$25 billion for the Maritime Silk Road. Beijing has also pledged to invest \$1.25 trillion worldwide by 2025. This scale of investment is unprecedented: even during the Cold War, the United States and the Soviet Union did not spend anywhere near as much as China is spending today. Together, these recent pledges by Beijing add up to \$1.41 trillion; in contrast, the Marshall Plan cost the equivalent of \$103 billion in today’s dollars.”<sup>188</sup>

Against Washington’s clear stand that allies should stay away from the AIIB, China’s “soft power” emerged victorious. America’s allies might share the “China-as-threat” position on

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<sup>184</sup> Lin, “China’s Experiment in Peaceful Power Transition,” p.5.

<sup>185</sup> Christensen, *The China Challenge*, p. 57.

<sup>186</sup> Rebecca Liao, “Out of the Bretton Woods: How the AIIB is different,” *Foreign Affairs* Snapshot, July 27, 2015.

<sup>187</sup> Eswar Prasad, *Gaining Currency: The Rise of the Renminbi* (Oxford: Oxford University Press, 2016), p. 244.

<sup>188</sup> Shambaugh, “China’s soft-power push,” p. 100.

Beijing's military maneuvers, but they adopted the "China-as-opportunity" view on its financial overtures. The UK was the first US ally to sign on to the AIIB. As then Chancellor of the Exchequer George Osborne and Commerce Secretary Jim O'Neill explained:

"There are those who say we should fear China's rise – that we should somehow guard ourselves against it. But we reject such thinking, which would simply leave the UK slipping behind. Instead, we should embrace it. We want a golden relationship with China that will help foster a golden decade for this country. It is an opportunity that the UK can't afford to miss. Simply put, we want to make the UK China's best partner in the west..."<sup>189</sup>

London's decision triggered a domino effect. One after another, all American allies except Japan chose to defy Washington. World leaders came to the same conclusion that "China is such a large export and investment market" that they "[could not] afford to stay on the sidelines."<sup>190</sup> By believing that they had no option but to formally acknowledge Beijing's financial leadership against Washington's wishes, Western democratic leaders inadvertently proved China's "soft power" *par excellence*.

China reached another milestone when the Yuan was included in the IMF's basket of reserve currencies (along with the US dollar, Euro, Yen and Pound Sterling) known as the Special Drawing Rights in November 2015.<sup>191</sup> This represented a small but critical step toward creating an alternative international monetary system centered on the Yuan to "erode the dollar's grip" in

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<sup>189</sup> George Osborne and Jim O'Neill, "It's in Britain's interest to bond with China now," *The Guardian*, September 19, 2015.

<sup>190</sup> Andrew Higgins and David Sanger, "3 European powers say they will join China-led bank," *The New York Times*, March 17, 2015.

<sup>191</sup> Prasad, *Gaining Currency*, p. 226.

the long run.<sup>192</sup> A Chinese newspaper *Global Times* boasted of a “victory tantamount to a ‘coronation ceremony’.”<sup>193</sup>

With Beijing successfully pulling American allies to support a Sinocentric parallel order, Washington rushed to conclude the painfully negotiated Trans-Pacific Partnership (TPP). In the announcement on October 6, 2015, the Obama White House was explicit about who the target was: “When more than 95 percent of our potential customers live outside our borders, we can’t let countries like China write the rules of the global economy.”<sup>194</sup> As the US is the world’s largest importer, it is well positioned to wield the power of interdependence. The TPP was designed to present a dilemma to China: Join and conform to international norms, or abstain and miss out on 40% of global trade.<sup>195</sup> However, by launching the AIIB, China turned the table and created a dilemma for the US and its allies. To make matters worse, the TPP was aborted by the incoming President Trump in January 2017.

With Trump leading the US on an isolationist course, President Xi has stepped up to assume global leadership in international trade and finance. Washington’s withdrawal from the TPP has made Beijing-centered institutions indispensable to large swathes of countries in Asia.

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<sup>192</sup> Steven Liao and Daniel McDowell, “Redback Rising: China's Bilateral Swap Agreements and Renminbi Internationalization,” *International Studies Quarterly*, Vol. 59, No. 3 (2015), p. 416.

<sup>193</sup> Emily Rauhala, “IMF decision a victory for China — and a big challenge, too,” *The Washington Post*, December 1, 2015. In hindsight, this ‘victory’ turned out to be extremely costly. As a necessary step toward admission to the IMF’s basket of currencies, Beijing de-pegged the Yuan from the US dollar on August 11-12, 2015. It was bad timing as Beijing was in the middle of a stock market rout that had started in late June. The market panicked and triggered the “Black Monday.” See more below.

<sup>194</sup> White House, “Statement by the President on the Trans-Pacific Partnership,” *White House*, October 5, 2015.

<sup>195</sup> Xinyuan Dai, “Who defines the rules of the game in East Asia? The Trans-Pacific Partnership and the strategic use of international institutions,” *International Relations of the Asia-Pacific*, Vol. 15, No. 1 (2015), pp. 1–25, at p. 22. The original purpose of the TPP was not to isolate China, but to “place additional pressure on China to liberalize and integrate with the global economy. See Silove, “The Pivot before the Pivot,” p. 86.

The well-timed ‘Belt and Road Forum’ in May 2017 and BRICS meeting in September further helped to shore up China’s financial leadership. With 29 heads of states and delegates from 130 countries paying respect in Beijing, Chinese analysts hailed the first Forum as yet another “great achievement.”<sup>196</sup> President Xi has since pledged \$100 billion from the AIIB and \$40 billion from the Silk Road Fund to construct land and sea infrastructure that radiate from China. If the proposed highways and railways are built, “all roads [will] lead to Beijing.”<sup>197</sup>

### **Soft Power’s Fall and Rise in 2015-17**

Nevertheless, the dollar sign in China’s “soft power” is only as strong as its economic foundation. China’s reputation for economic competence plummeted in 2015. Just when representatives from 50 countries gathered at the Great Hall of the People to sign the AIIB’s articles of association on June 29, 2015, Beijing’s prestige precipitously slid “from triumph to near disaster.”<sup>198</sup> As the *Washington Post* wrote on July 6, 2015:

“China began last week with the much-trumpeted launch of the Asian Infrastructure Investment Bank, portrayed as a major foreign policy triumph for Xi Jinping. But the week ended with all eyes on the country’s collapsing stock market, and with observers asking if confidence in the economy and in the credibility of the authorities was going to take a hit.”<sup>199</sup>

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<sup>196</sup> Jian Wang, “Guanyu “yidai yilu” changyi de mubiao dingwei wenti (On the question of identifying the focus in championing the “One Belt One Road”),” *Aisixiang*, July 24, 2017.

<sup>197</sup> Peter Frankpan, “These Days, All Roads Lead To Beijing,” *Huffington Post*, July 28, 2017.

<sup>198</sup> Simon Denyer, “From triumph to near disaster,” *Washington Post China Newsletter*, July 6, 2015.

<sup>199</sup> Denyer, “From triumph to near disaster,” 2015.

China's stock market had begun its descent two weeks before the AIIB meeting. On June 27, the People's Bank of China cut both benchmark interest rates and bank reserves in an effort to restore financial stability, but the market exploded nonetheless. By July 3, the Shanghai Composite Index fell to 3,629 points from the June 12 peak of 5,178. In the rest of that summer, share prices continued to sink. A commentary on July 28 was illustrative of the "new normal" – "Another day, another stock rout. And the Chinese government can't seem to stop the slip."<sup>200</sup> After Beijing de-pegged the Yuan from the US dollar on August 11-12, the Shanghai index cratered to 3,209 points by August 24. On this "Black Monday", the sell-off spread and depressed currencies and commodity prices in other emerging markets. The market further experienced the "Black Debut" in the first week of trading in January 2016.

For economists, a 30 to 40 percent dive after a 150 percent surge within one year was just an overdue correction. The fluctuation should have been left to run its course if Beijing had not put regime legitimacy on the line. In Spring 2015, party media had talked up the market rally. A widely-cited commentary in April dismissed the hint of a bubble and exhorted the public to place their trust and savings in the stock market.<sup>201</sup> "Keeping stock markets go upward" became "a test of the credibility of the 'China Dream'."<sup>202</sup> When the Shanghai index plunged, the *China Daily*<sup>203</sup> declared a "war of defense" to save share prices.

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<sup>200</sup> Emily Rauhala, "For Chinese investors, a crisis of faith," *The Washington Post*, July 28, 2015.

<sup>201</sup> Ruoyu Wang, "4000 dian caishi A gu niushi de kaiduan (4000 points is only the beginning of A shares' bull market)," *People's Net*, April 21, 2015, <http://finance.people.com.cn/stock/n/2015/0421/c67815-26880528.html>.

<sup>202</sup> Guoping Li and Hong Zhou, "The Systematic Politicization of China's Stock Markets," *Journal of Contemporary China*, Vol. 25, No. 99 (2016), p. 427.

<sup>203</sup> China Daily, "A-gu baoweizhan (A-share defense battle)," 2015, [http://www.chinadaily.com.cn/opinion/2015-07/03/content\\_21169741.htm](http://www.chinadaily.com.cn/opinion/2015-07/03/content_21169741.htm).



Unfortunately, the rescue package had the opposite effect of further crashing the market. The slate of measures imposed in early July 2015 – using central-bank funds to support share prices, ordering state-owned companies to buy back shares, instructing pension funds to purchase stocks, capping short selling, and so on – propped up prices by effectively freezing, and thus destroying, the market.<sup>204</sup> While calm did return momentarily after the Black Monday, observers anticipated a rush to cash in when the six-month ban on stock sales by major shareholders expired in January 2016. To combat the expected sell-off when the market re-opened on January 4, 2016, regulators installed “circuit-breakers” (which automatically suspended trading when stock prices dropped by 5% and then closed the market for the day after an additional fall of 2%). This mechanism only magnified the stampede and catalyzed the “Black Debut.” To stop the bloodletting, officials abandoned the circuit breakers but extended the sale ban, which only served to postpone, rather than solve, the problem. After repeated intervention, the stock market was considered “broken.”<sup>205</sup> The world watched in disbelief as Chinese regulators “turned what should have been a... natural slowdown into a chaotic descent.”<sup>206</sup> It was the ensuing collapse of confidence that turned the market crash into a “great fall.”<sup>207</sup>

Of course, the “great fall” did not mean the end of China’s rise because the stock market is not the economy. Nevertheless, the market tumbles leave the structural problems of the economy exposed to full view. Economists had long worried about China’s state-led, export-led,

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<sup>204</sup> Timothy Lee, “China is destroying its stock market in order to save it,” *Vox*, July 11, 2015.

<sup>205</sup> The Economist, “China’s broken stockmarket: China crashes its stockmarket with circuit-breakers meant to save it,” *The Economist*, January 7, 2016.

<sup>206</sup> Washington Post editorial board, “China’s Obsolete Economic Strategy,” *Washington Post*, January 8, 2016.

<sup>207</sup> The Economist, “The great fall of China.”

and investment-led economy.<sup>208</sup> The previous premier Wen Jiabo already said a decade ago that China's economy was becoming increasingly "unstable, unbalanced, uncoordinated and ultimately unsustainable."<sup>209</sup> Although it might appear that the Chinese economy beat Western economies after the 2008 financial crisis, it was in fact hard hit by a significantly reduced demand for made-in-China products. Sharp declines in global demand led to the sackings of over 20 million migrant workers. China temporarily escaped the downturn by going into an investment spree of massive infrastructural investments. The stimulus policy beefed up GDP growth rates and created the impression that the Chinese economy was surging ahead against hard currents. However, it also created a crisis of over-capacity, weighing the economy down by "airports with no commercial flights, highways to nowhere, and stadiums with no teams."<sup>210</sup> More ominously, these projects have been funded by a "tsunami of bad debt."<sup>211</sup> Between 2008 and 2016, China's total debt ballooned from nearly US\$7 trillion to US\$27 trillion, and its debt-to-GDP ratio from 150% to 242%.<sup>212</sup> The economy's structural problems were conveniently overlooked in good times, but have captured financial news headlines ever since.

Most of all, the "great fall" revealed the frailty of the regime's performance legitimacy. Central to Chinese "soft power" is the conviction that the visible hand of the party can prevail

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<sup>208</sup> Michael Pettis, *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy* (Princeton: Princeton University Press, 2014).

<sup>209</sup> International Monetary Fund, *IMF Survey: China's Difficult Rebalancing Act*, Vol. 44, No. 3 (September 2007), p. 27.

<sup>210</sup> Jonathan Laing, "Anne Stevenson-Yang: Why Xi Jinping's troubles, and China's, could get worse," *Barron's*, December 6, 2014.

<sup>211</sup> Laing, "Anne Stevenson-Yang," 2014.

<sup>212</sup> This refers to the non-financial sector debt which includes household, corporate and government debt. International Monetary Fund, *People's Republic of China: 2017 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China*. *IMF Country Report No. 17/247*, August 8, 2017, p. 48.

over the invisible hand of the market. Chinese leaders once enjoyed an aura of omnipotence that they could defy economic gravity and ride through troubles that would bedevil even developed economies. However, almost overnight, the China narrative was turned upside down: the buzz about China's "great rise" reverted to the "great fall", the frenzy of the "China-led AIIB" yielded to the "China-led global slowdown", and the hype of "China as opportunity" gave way to "China as the blame."<sup>213</sup> As a commentary in the *Haaretz* puts it, "The idea that [China] is destined to be the world's No. 1 super-power is premature to say the least, and Israel should be careful not to bank so much on it."<sup>214</sup>

Just when Beijing's "soft power" hit a low point in 2015-16, the US inadvertently lifted it back up in 2016-17. Power is relative: The specter of China's "great fall" has been outdone by the US's even more precipitous plunge in world standing. If the US long underbalanced against China's rise, it has further stepped aside to facilitate Beijing's crowning. China's wish that the US should "simply butt out" has finally come true.<sup>215</sup>

President Trump's policy to "Make America Great Again" has given President Xi a "historic opportunity" to further undercut American hegemony.<sup>216</sup> Chinese media have used the Belt and Road Initiative to "portray China as the new trailblazer of global capitalism, which it will lead better than the United States, specifically illustrating and justifying a new Sinocentric order in and beyond east Asia."<sup>217</sup> At the World Economic Forum in Davos in January 2017,

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<sup>213</sup> Vesna Poljak, "China is leading us into a global recession," *Sydney Morning Herald*, September 15, 2015; Peter Spence, "China leading world towards global economic recession," *The Telegraph*, September 8, 2015.

<sup>214</sup> David Rosenberg, "Why China won't be the next great power," *Haaretz*, July 16, 2015.

<sup>215</sup> Allison, *Destined for War*, p. 126.

<sup>216</sup> Gan, "Make China great again," 2018.

<sup>217</sup> Astrid H.M. Nordin and Mikael Weissmann, "Will Trump make China great again? The belt and road initiative and international order," *International Affairs*, Vol. 94, No. 2 (2018), pp. 231–249, at p. 232.

Trump's withdrawal from the Paris Accord allowed Xi to present himself as the champion of multilateralism and globalization. Although it was Trump instead of Xi who attended the forum in 2018, China's state media trumpeted that Davos' new theme "Creating a Shared Future in a Fractured World" was based on Xi's 2017 speech on "the goal of building a community of shared future for mankind."<sup>218</sup> In Asia, the tearing up of the TPP means that countries formerly hoping to use the US as "a hedge against Chinese economic domination" have been left with no choice but to turn to the China-led order.<sup>219</sup> Without US backing and with heavy dependence on "China as money", ASEAN states have soft-peddled their territorial disputes. In February 2018, Duterte even "joked" before an audience of the Chinese Ambassador to the Philippines and Filipino-Chinese businessmen that, "If you want, just make us a province, like Fujian."<sup>220</sup>

President Trump has also helped China catch up on soft power by bringing the US down to "nearly even footing."<sup>221</sup> Polls conducted in 2017-18 reflect drastic loss of the US's attractiveness. Global Scan shows that positive views decreased by five points to 34% and negative views increased by six points to 49% between 2014 and 2017.<sup>222</sup> Gallup World Poll reveals that the median approval of US leadership dropped from 48% in 2016 to 30% in 2017 while disapproval climbed from 28% to 43%.<sup>223</sup>

In February 2018, Xi maneuvered to drop the two-term limit on his presidency. He could justify personal rule by referring to a growing list of "achievements", including the successful

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<sup>218</sup> Zheping Huang, "In a chorus, Chinese state media say Xi Jinping shaped this year's Davos," *Quartz*, January 25, 2018.

<sup>219</sup> Thomas Friedman, "Trump Is China's Chump," *The New York Times*, June 28, 2017.

<sup>220</sup> Richard Heydarian, "Duterte to China: 'if you want, just make us a province'," *The LA Times*, February 22, 2018.

<sup>221</sup> Gallup World Poll, "Rating World Leaders: 2018," *Gallup News*, January 18, 2018, p. 2.

<sup>222</sup> Globe Scan, "Sharp Drop in World Views of US, UK: Global Poll," *Globe Scan*, July 4, 2017.

<sup>223</sup> Gallup World Poll, "Rating World Leaders," 2018.

launch of first the AIIB and then the “Belt and Road Forum”, the opening of the first overseas military base in Djibouti and the beginning of a second offshore naval base near Gwadar in Pakistan, the de facto control of the South China Sea, the cowing of the Philippines’ and Vietnam’s territorial claims, the imposition of economic sanction on South Korea for the THAAD missile system, the withdrawal of Indian forces from a military stand-off in Doklam, the squeezing of Taiwan’s diplomatic space, and, most of all, the retreat of the US from geo-politics and geo-economics and the sharp decline of American influence around the world.

### **Conclusion**

Why is it that China’s creeping encroachment of American primacy has not triggered effective balancing? In the 2000s, IR scholars spared much time debating if China’s rise would be peaceful or threatening. Chinese analysts learned valuable lessons from such debates, adopting liberalism- and constructivism-inspired offensives to diffuse the realist “China threat” theory. To create the appearance of “peaceful rise”, China exercised restraint in the early stage of its ascent. As China grew militarily and economically powerful, it has taken increasingly assertive postures. To divert attention from its coercive power, Beijing has promoted economic and soft power and further turned China’s rise from a threat into an opportunity. With counterbalancing “soft power”, China has gradually eaten into America’s dominant position without setting off balancing.

However, China’s “soft power” may have reached its limits. Most of all, “soft power” contains the seeds of its own destruction. “soft power” offensives are more effective in the catch-up phase. Once China is seen to be winning, at least in Asia and trade and finance, it stands under the global spotlight and cannot so easily distract attention from its coercive military and economic policies with “soft power” postures. For instance, Beijing’s success at acquiring a 99-year lease of the Hambantota port in Sri Lanka has sparked criticisms of China’s infrastructural investments

as “debt traps” rather than “opportunities.”<sup>224</sup> At the turn of 2018, balancing finally started to kick in. China’s archrival, Japan, revived the TPP sans America. Japan has also sought to rejuvenate the Quadrilateral Security Dialogue with India, Australia and the US, and to promote “high-quality infrastructure” in the “Indo-Pacific.”<sup>225</sup> Yet, this renewed balancing may be too little, too late: too little because President Trump has continued to worsen underbalancing by alienating allies and attacking multilateral institutions; too late because China has accumulated significant military power to hold out in a confrontation in Asia, and enormous economic power to compel other states to follow its wishes. Coercion can work without “soft power” when the dominator can overawe lesser states to think that “any attempt at resistance would be futile.”<sup>226</sup>

If China’s further rise is ultimately obstructed, the source is more likely to come from its internal weaknesses rather than external balancing. The second limitation of “soft power” is that it is only as strong as its economic foundation. The stock market’s “great fall” of 2015 did not put an end to China’s rise but exposed the extent of the regime’s internal decay.<sup>227</sup> Beijing may continue to declare that it meets its GDP growth target of 6 plus percent. However, this growth is driven by increasingly unsustainable debts. The party leadership recognizes that excessive debt is China’s “original sin” and makes debt control a priority.<sup>228</sup> However, Chinese leaders face a difficult dilemma between deleveraging debt and promoting growth. In order to maintain

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<sup>224</sup> Richard Heydarian, “China’s Silk Road project: A trap or an opportunity?” *Al Jazeera*, May 16, 2017.

<sup>225</sup> Lucas Niewenhuis, “The Quad Vs. China’s Belt And Road,” *SupChina newsletter*, February 21, 2018.

<sup>226</sup> Lake, “Domination, Authority, and the Forms of Chinese Power,” p. 380.

<sup>227</sup> Minxin Pei, *China’s Crony Capitalism: The Dynamics of Regime Decay* (Cambridge: Harvard University Press, 2016).

<sup>228</sup> Emma O’Brien, “China Is Taking On the ‘Original Sin’ of Its Mountain of Debt,” *Bloomberg News*, August 8, 2017.

performance legitimacy as measured by growth, Beijing has consistently pumped up credit-driven investments. As Victor Shih bluntly puts it, “China as a whole is a Ponzi unit.”<sup>229</sup>

As of early 2018, Beijing seems to have stabilized its economy and advanced further in its contest with Washington. The future of US-China relations will hinge on how both states play balancing and counterbalancing in their external policies and how they put their own house in order in domestic policies.

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<sup>229</sup> Victor Shih, “Financial Instability in China: Possible Pathways and Their Likelihood,” *China Monitor*, Vol. 42, Mercator Institute for China Studies, October 20, 2017, p. 4.