

# **How China Has Outbid American Hegemony With Soft Power**

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**October 2017**

Victoria Tin-bor Hui is Associate Professor in Political Science at the University of Notre Dame. The author thanks the Minerva Research Initiative for funding, Robert Jervis, Michael Davis, Greg Mitrovich, Erin Jenne, Milos Popovic, Juraj Medzihorsky, David Edelstein, Luis Leandro Schenoni, Erik Wang, and Aron Tabor for comments, Hana Davis and Christine Gorman for editorial assistance, and Grace Zhu, Jenny Ng, and Bonna Yi for research assistance.

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## **Abstract**

Why is it that China's challenge of American hegemony has not met effective balancing? International Relations scholars have long insisted that China could not possibly develop the intentions or the capabilities to challenge the U.S. Such optimistic accounts are valid up to the 2008 global financial crisis. Since 2009, Chinese leaders have taken increasingly 'proactive' actions by their own reckoning. I argue that China has averted balancing with 'soft power'. 'Soft power' refers to the use of money to soften the edges of hard power so that China's rise will not trigger pre-mature balancing. IR scholars have analyzed China's 'charm offensive' and 'multilateral offensive' as evidence of China's 'peaceful rise'. These offensives should instead be seen as counter-balancing strategic tools to escape balancing. Beijing has also reframed China's rise from a threat to an opportunity by diverting attention from the danger of an ascending Chinese military to the allure of a flourishing Chinese economy. China's 'soft power' took a hit when the stock market crashed in 2015-16. However, President Trump has inadvertently boosted China's diminished 'soft power' by withdrawing from the world. By late 2017, China is set to dominate Asia and beyond. If China's bid for hegemony is ultimately blunted, the checks will come from within rather than without.

# How China Has Outbid American Hegemony With \$oft Power

## Introduction

Why is it that China's challenge of American hegemony has not met effective balancing? Graham Allison observes with apprehension that 'China has gone from nowhere to rivalry [with the U.S.] for supremacy on every domain' (interview with Kidd 2017). Although the U.S. surrounds China by a string of allies and partners, its military no longer has 'uncontested control of the sea and air along the thousand-mile-wide corridor of ocean bordering China (Allison 2017: 131). A Rand Corporation analysis concurs that the U.S. cannot 'rely indefinitely on the direct defense of its regional interests' in Asia (Dobbins, Scobell, Burke, Gompert, Grossman, Heginbotham and Shatz 2017: 1). David Shambaugh (2017) likewise argues that 'the predominant power in the Pacific' now is China rather than the U.S. A Pentagon report even warns of a 'post-U.S. primacy environment' in which the U.S.-constructed world order is 'not merely fraying but may, in fact be collapsing' (Freier, Bado, Bolan, Hume, and Lissner 2017). Allison examines if the U.S. and China are 'destined for war' and unable to escape Thucydides's trap', whereby 'the rise of Athens and the fear that this instilled in Sparta... made war inevitable', (2017 xiv). The frightening specter of a U.S.-China war helps to refocus attention on China's rapid military buildup. However, the debate over if the two superpowers can 'escape Thucydides's trap' also distracts attention from a more fundamental question at the core of International Relations (IR) theory: how has China escaped balancing by the U.S. and its allies?

Remarkably, it was only seven years ago that Jonathan Kirshner (2010: 64) penned in this journal that it would be suicidal for China to 'embark upon a bid for hegemony'. Following Kirshner (2010: 60), this article begins with regional hegemony as an immediate stepping stone to more distant global hegemony. For China to challenge American hegemony, the first critical

mark of victory is to undercut the U.S.'s long-standing domination in Asia. China does not yet have the capability to expel America from Asia, but it can deny Washington freedom of action, harass American ships and planes in the South China Sea, bring America's Asian allies into its orbit, and prevail over Asian states in territorial disputes. By these yardsticks, China's bid for regional hegemony is nearly complete by late 2017. Why is it that China's actions to alter the military balance in Asia have not triggered effective balancing?

The inept balancing cannot be attributed to insufficient theorizing. IR scholars have long studied China's rise. Two decades ago, Richard Bernstein and Ross Munro (1997) called for attention to the 'coming conflict' with China. However, Washington opted to support China's accession to the World Trade Organization in 2001 -- a momentous event conducive to China's steep ascent ever since. Realists, liberals and constructivists have had rounds of lively debates over China's emergence. In the 2000s, scholars mostly analyzed China's 'future intentions' (Legro 2007): Will China become 'an aggressive state determined to achieve regional hegemony' (Mearsheimer 2001: 401-2)? Will a stronger China enhance or undercut regional stability (Kang 2005)? Will growing power lead Beijing to challenge or accept international norms, rules, and institutions (Legro 2007: 515-6)? After China's economy became the world's second largest in 2010, Randall Schweller and Xiaoyu Pu (2011: 41) diagnosed that post-Cold War 'unipolarity' had proven to be merely a 'passing moment'. Yet, IR scholars have continued to maintain abiding faith in the unassailability of the American-constructed world order. Stephen Brooks and William Wohlforth (2015/16: 44) contend that China cannot change 'the one-superpower character of the system'. Ikenberry (2011: 58) similarly believes that China has benefited from the liberal world order and so has deep interests in preserving it. Ho-fung Hung

(2015: 173-174) even calls it a ‘myth’ that China would desire to challenge ‘the US political and economic dominance in the world’ because the ‘China boom’ is heavily dependent on it.

Optimistic accounts are correct up to the late 2000s, but wrong after the global financial crisis of 2008 punctured the belief that American primacy was unchallengeable. In the 2010s, Chinese leaders have taken increasingly ‘proactive’ actions to project military and economic power abroad (Liff 2017: 19). Edward Steinfeld (2010) once made the comforting observation that China was ‘playing our game’. However, under President Xi Jinping (2012-), China has quickly transformed from the role of ‘game player’ to ‘game maker’ of international rules and institutions (Qiu 2015). In Asia, the most notable ‘game changer’ is China’s near success in turning the South China Sea into ‘virtually a Chinese Lake’ (Center for Strategic and International Studies 2016). China has occupied disputed reefs and built artificial islands equipped with runways, ports, radar—and has evaded censure by Southeast 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’ (China Policy 2015). Washington saw the AIIB as a challenge to the U.S.-dominated World Bank and International Monetary Fund (IMF) but failed to prevent allies from joining.

If specialists have insisted for two decades that China could not develop the intentions or the capabilities to challenge the U.S., why is it that China’s bid for hegemony in Asia and beyond has swiftly proceeded from a hypothetical question to nearly a *fait accompli*? Kirshner (2010: 70) predicted as late as 2010 that such a bid would be ‘disastrous’ for China. Yet, he also pointed out that balancing against China in an integrated world was much more complicated than traditional balancing against the Soviet Union in a sharply divided world. In his assessment, ‘the US simply [did] not have the capability to inhibit China’s rise’ (Kirshner 2010: 70). At the time of his writing,

China had become the world's third largest importer for many countries so that any attempt to 'knock down' China's growth rate would 'leav[e] behind an angry mob of exporting countries in distress' (Kirshner 2010: 70-71). Three years later in 2013, China surpassed the U.S. as the world's largest trading state. By 2017, China is the number one trading partner for not just Asia, but also Africa and the Middle East, and even Latin American countries Brazil, Argentina, Peru, and Chile in America's backyard. Kirshner's analysis thus points to a stark lesson: China's bid for hegemony cannot be checked because China's very economic weight has decapitated the balance of power. When it comes to the U.S.'s China policy, geo-economics works against geo-politics.

Kirshner also overlooked the basic tenet of classical realism that 'the future is unwritten' no less because 'wise policy matters' (2010: 65). The importance of 'wise policy' is reinforced by Injoo Sohn's (2011: 78-79, 94) observation, also published in this journal, that China is a 'reflective dragon' with 'strong learning or adaptation capacity'. Legro (2007: 519) similarly underscores that China is a 'patient hegemon'. China is ambitious but contemplative – it advances by trial-and-error (or 'crossing the river by groping for the stones' in Chinese political talk), regularly reviewing the international environment and updating its foreign policies (Sohn 2011: 78-79). Building on these insights, I argue that China has successfully averted balancing with a 'wise policy' of '\$oft power.'<sup>1</sup> The composite term '\$oft power' refers to the use of money to soften the hard edges of China's rise. As Shambaugh (2015: 100) points out, Beijing has employed economic power as 'the strongest instrument in its soft-power toolbox'. Chinese analysts use the term '\$oft power' to 'include anything outside the traditional security domain, such as popular

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<sup>1</sup> I owe this term "\$oft power" to David Schak, September 21, 2016.

culture, foreign aid, and economic cooperation' (Schweller and Pu 2011: 57). I thus adopt the term 'Soft power' to distinguish Chinese practice from Joseph Nye's (2004: x) view of soft power as 'the ability to get what you want through attraction rather than coercion or payments'. By emphasizing 'wise policy,' I do not presume that Chinese leaders harbor any preconceived grand strategy to 'rule the world'; they only need to take stock of changing circumstances and take advantage of opportunities.

IR theories provide both the diagnosis and the prescription for a 'wise policy'. Early realist treatises on the 'China threat' theory alerted Chinese analysts to the risk of triggering premature balancing. Beijing initially followed Deng Xiaoping's strategy of 'keeping a low profile' to avoid 'waking up the giant'<sup>2</sup>. When China becomes increasingly more powerful, it has indeed flexed its economic and military muscles in Asia and beyond as realists would expect. To counter the realist 'China threat' theory, Beijing has championed trade interdependence and multilateral engagement in line with liberal and constructivist tenets. To reassure the world of China's 'peaceful rise', Beijing has launched a 'multilateral offensive' (Sohn 2011: 88) and a 'charm offensive' (Kurlantzick 2007; Hartig 2016). Its diplomatic overtures are accompanied by enormous amounts in trade, aid, and infrastructural investments. China has flaunted so much money around the world that 'China' is sometimes seen as a synonym for money (Wong, 2015). It may be contended that 'China as money' cannot buy love. However, if China is seen as money, Beijing can divert the world's attention from the danger of an ascending Chinese military to the allure of a flourishing Chinese economy, thereby reframing the discourse over China's rise from a threat to an opportunity.

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<sup>2</sup> I thank Luis Leandro Schenoni for the 'giant' characterization.

China's 'soft power' initially charmed only cash-trapped autocracies, but it 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, stagnant European economies grew increasingly dependent on China for investment funds and market access. The West's relative decline and China's continuing rise combined to create the impression that 'China is the future' – jump on the China bandwagon or be left behind. By 2015, China's seemingly unstoppable rise reached such a point that American allies one after another joined the China-led AIIB against Washington's wishes.

Nevertheless, China's 'soft power' is only as strong as its pocket is deep. China's bid for hegemony finally suffered a setback out of its own internal weaknesses. Just when Chinese leaders congratulated themselves on the AIIB's triumph in 2015, China's stock market and the Yuan began their dramatic climb down in what is dubbed the 'Great Fall of China' (The Economist 2015). The volatility of the stock market might not mark the end of China's rise, but has exposed the Chinese economy's structural weaknesses and deflated the Yuan's purchasing power. Although Beijing has continued to maintain 6.8-percent GDP growth, economists doubt if China's state-led and infrastructure-led economy is sustainable in the long-term.

Yet, at the critical moment when China's unceasing bid for hegemony was eventually obstructed by its own internal troubles, it was given a boost by the giant itself. With President Donald Trump withdrawing from international organizations and trade agreements in 2017, the U.S. has effectively given China a free hand to dominate Asia and beyond. In this context, even diminished Chinese 'soft power' is sufficient to compel Southeast Asian states to shelve their territorial disputes with China over the South China Sea in exchange for access to 'China as money'.

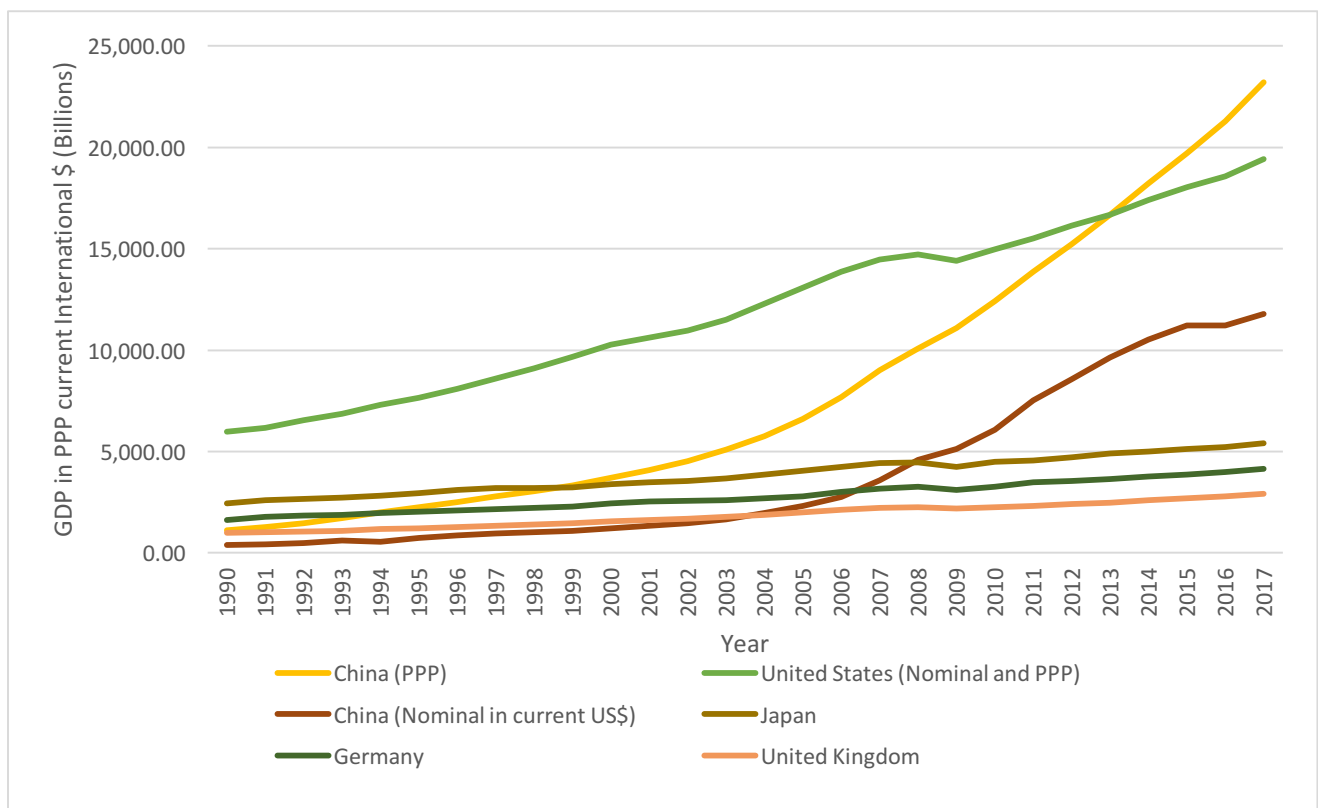


The rest of this article will elaborate on how China has outbid American hegemony with ‘soft power’. The next section takes stock of the failure of IR theories to explain China’s unimpeded rise. The third and fourth sections examine how China has escaped balancing with a ‘soft power offensive’ and a ‘multilateral offensive’. The fifth section analyzes China’s ‘great fall’ in 2015-16. The sixth section explores how the nature of the U.S.-China rivalry has been turned upside down – or, more appropriately, inside-out – since the 2016 U.S. presidential election. The article concludes that the future of U.S.-China relations is more unpredictable than ever because domestic variables are highly volatile. If China’s bid for hegemony is ultimately blunted, the checks are more likely to come from within rather than without.

### **China’s Unchecked Bid for Hegemony**

We may begin the trajectory of China’s rise in 1992, when Deng Xiaoping sought to ease the international sanctions imposed after the 1989 Tiananmen crackdown. The U.S. responded positively by delinking human rights considerations from the annual renewal of the Most Favored Nations status in 1994. Security experts were soon taken aback when China occupied the Mischief Reef in the South China Sea in 1995 and threatened Taiwan with military exercises and missile tests in the Taiwan Strait in 1995-96. Richard Bernstein and Ross Munro (1997: 31) warned of China’s desire to challenge American domination of Asia. Nevertheless, the 1990s was a time when Americans believed in ‘the triumph of liberalism’ (Fukuyama 1992). Washington championed China’s accession to the World Trade Organization (WTO) in 2001, hoping that ‘constructive engagement’ would ‘socialize’ China to the liberal norms embedded with international institutions (Johnston 2007: 2).

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 U.K.'s US\$2.4 trillion, Germany's US\$3.4 trillion and France's US\$2.65 trillion (World Bank 2017). China's economy reached another goal post in 2014 when its GDP of \$18.33 trillion in purchasing power parity (PPP) (or US\$10.48 trillion in current US\$) exceeded the U.S.'s \$17.39 trillion for the first time (World Bank 2017). China's lead has further widened since. Its GDP is expected to grow to \$23.19 trillion in PPP in 2017, compared with the U.S.'s \$19.42 trillion.



Graph I: China's gross domestic product (GDP) in both purchasing power parity (PPP) current international \$ and nominal current US\$, vis-à-vis the U.S.'s, Japan's, Germany's and the U.K.'s in PPP current international \$ for the period 1990 to 2016. Source: World Bank databank.

Steep economic growth has powered the People's Liberation Army's (PLA) rapid expansion. Former foreign minister Li Zhaoxing stated that 'the Chinese government follows the principle of coordinating defense development with economic development' and 'sets the country's defense spending according to the requirements of national defense and the level of economic development' (Global Security 2017). China's official military budget figures are known to underestimate actual military expenditures (Liff and Erickson 2013). Nevertheless, Beijing's own figures reveal 'two decades of double-digit budget growth' in military spending (Global Security 2017). When converted into PPP current prices, China's military budget increased by 17 times, from \$12.42 billion in 1992 (when Deng Xiaoping sought to end international sanctions) to \$27.875 billion in 2001 (when China joined the WTO), to \$115.712 billion in 2010 (when China became the second largest economy), and further to \$215.176 billion in 2016 (SIPRI 2017).<sup>3</sup> When viewed as a percentage of the U.S.'s military spending, China's budget in PPP current prices jumped from 4.07% of the U.S.'s \$305.141 billion in 1992, to 8.9% of the U.S.'s \$312.743 billion in 2001, to 16.57% of the U.S.'s \$698.180 billion in 2010, and further to 35% of the U.S.'s \$611.186 billion in 2016. Pundits may dispute whether this trend should be seen as a glass half-empty – that China's military spending is still only a fraction of the U.S.'s – or a glass half-full – that China is narrowing the military gap with the U.S. What is clear is that the PLA has acquired or built aircraft carriers, sophisticated missiles, advanced submarines, cyberwar capabilities and more. On July 30, 2017, a confident President Xi showed off China's

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<sup>3</sup> In the Chinese currency, 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 (Global Security 2017).

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 the ascendance from almost nothing to 'a maritime superpower' that 'rules the waves' (Kynge, Campbell, Kazmin and Bokhari 2017). Chinese leaders are determined to correct the 'historical error' of 'ignoring the oceans' (Allison 2017: 131). Beijing now commands 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 (Liff and Erickson 2016). In addition to military assets, China has invested in networks of dual-use ports at strategic locations from Madaya 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 the U.S. also maintains an airfield and a naval station.

Of course, what matters most is not how China has built up the PLA, but how it has used its military muscle. States balance against not sheer power, but threat (Walt 1985). Earlier analyses – whether liberal, constructivist, or realist – converged on a positive note. Writing in the 2000s, David Kang predicted that China's rise was going to be peaceful because Beijing had 'toned down its rhetoric, resolved territorial disputes with its neighbors, and joined (and proposed) international and regional institutions' (Kang 2005: 552). Likewise, Legro (2005: 517-8) believed that China's intentions were 'mostly integrationist' and that its military modernization largely 'signal[ed] ... a desire to protect its version of autonomy'. Commenting a few years later, Ikenberry (2011) and Kirshner (2010) remained confident that China had vested interests in the liberal order.

In contrast, Thomas Christensen (2011: 59; 2015: 246, 256) began to observe in 2011 that Beijing's foreign policy made an 'acerbic turn' in 2009 which 'undercut the achievements of the previous twelve years of constructive reassurance'. In 2009, Chinese ships harassed the unarmed U.S. Navy Impeccable in international waters off China's coast. In 2010, Beijing warned Southeast Asian states against coordinating with the U.S. in managing disputes over the South China Sea, and South Korea against conducting naval exercises with the U.S. in international waters near China (Christensen 2011: 54-55). Since then, the PLA has stepped up its power projection over the East and South China Seas. Over the Diaoyus (Chinese) or Senkakus (Japanese), Beijing established an air defense identification zone in 2013 to 'erode the notion that Japan has uncontested administrative control' over the islands (Christensen 2015: 264). In the South China Sea, China seized the Scarborough Shoal from the Philippines after a prolonged standoff in 2012. With weak response from the U.S. and Asian states, China soon began construction of a string of artificial islands armed with military facilities. Beijing now openly and regularly challenges the U.S.'s 'freedom of navigation operations'. In June 2017, Beijing threatened war to force Vietnam to end drilling for gas at the very edge of Hanoi's own exclusive economic zone. Isaac Kardon (2017) concludes that China has successfully made 'creeping claims to jurisdiction and rights' in the South China Sea.

How did other IR scholars miss this turn of events? Legro (2005: 515-516, 518) pointed out in 2005 that both realist and liberal analyses were 'half-blind' in making 'linear projection of the nature of Chinese policy' and 'ignoring the contingent nature of China's future intentions'. Indeed, as Sebastian Rosato argues, the future intentions of great powers are 'inscrutable' (2014/15). Intentions can change when existing leaders take stock of shifts in international power constellations or when new leaders with different ideas emerge (Rosato 2014/15: 87).

As China's relative power increases, Chinese leaders have taken increasingly 'proactive' actions even by their own reckoning (Liff 2017: 19). Beijing initially followed Deng Xiaoping's admonition to 'hide our capacities and bide our time' and 'never claim leadership' (Yan 2014; Zhao 2015: 195). However, since 2009 and especially after Xi Jinping came to power in 2012, China has changed from 'keeping a low profile to striving for achievement' (Yan 2014; Zhao 2015: 195). Although China once 'avoid[ed] face-to-face confrontation' with the U.S. (Ren 2016: 435), it began to directly contest American hegemony after 2009. As Schweller and Pu (2011: 59) explain, '[w]hen China 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 visions of a negotiated order, and an embryonic vision of a new Chinese order'. They relay an 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!"' (Schweller and Pu 2011: 54).

If liberal and constructivist arguments fail to account for China's shifting policies, realist analyses also have difficulty explaining the absence of balancing against China's rising challenge. Kirshner, for instance, wrote in 2010 that China would not bid for hegemony because such a course was 'one of the few and rare paths *to* destruction for a great power' (2010: 61). He overlooked the fact that China had reached the milestone of becoming the world's second most powerful state and was asserting its claims over the East and South China Seas.

Kirshner's (2010: 61) optimism was predicated on effective balancing. The U.S. has long followed a 'hedging' strategy which prescribes that 'should China pursue aggressive policies that undermine international order', Washington should work with other countries and organizations to sanction and delegitimize them (Legro 2007: 527). However, economic balancing is unviable

because China is the largest trading partner for most U.S. allies. The U.S. could have mounted more robust military and diplomatic balancing. In 2011, Obama likened China's rise to a new 'Sputnik moment' and proclaimed a 'rebalance to Asia'. However, his plan was both derailed by partisan politics and distracted by various crises in other parts of the world. If the military budget is any guide, Washington has trimmed it over time.<sup>4</sup> Trump increased the budget by \$54 billion in 2017, but simultaneously undercut American diplomatic influence by withdrawing from the Trans-Pacific Pact (TPP) and reducing funding to the State Department and public diplomacy programs.

It may be argued that the talk of U.S. balancing against China is premature because Beijing still needs more decades to close 'the gap between economic parity and a credible bid for superpower status' (Brooks and Wohlforth 2015/16: 33). Nevertheless, we should focus on the critical first step of regional hegemony rather than the long game of global hegemony. Christensen's (2015: 63, 95) seemingly contradictory chapter titles are suggestive: while chapter three explains '[w]hy Chinese power will not surpass U.S. power any time soon', chapter four zooms in on "[w]hy China still poses strategic challenges' to US security interests, particularly in East Asia. In case of any military conflict, China only needs to control the sea and airspace along its periphery. This task has been made much easier now that the PLA controls airstrips and seaports on artificial islands in the South China Sea.

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<sup>4</sup> If measured by 2015 constant prices, the U.S. military budget declined from US\$515.431 billion (or US\$305.141 billion in current prices) in 1992 to US\$418.631 billion (or US\$312.743 billion in current prices) in 2001, increased to fight the Bush wars in the 2000s reaching US\$758.890 billion (US\$698.180 billion in current prices) in 2010, and decreased again in the 2010s to US\$606.233 billion (US\$611.186 billion in current prices) in 2016 (SIPRI 2017).

It is not just the U.S. that has failed to balance against a rising challenger. Asian states that have territorial conflicts with China have likewise done little to check China's emergence to regional domination. Ikenberry (2011: 66) was once convinced that any 'manifestations of a more bellicose and aggressive foreign policy' by China would push 'ASEAN, Japan, and South Korea perceptibly closer to the United States'. Yet, the balance of power has remained weak, even inoperative, in Asia. It is true that Japan, with a world-class military, has consistently checked China's advance. India, another Asian giant, has tried to push back China's expansion of political influence in South Asia, from Bhutan, Nepal, Pakistan, Sri Lanka, to Western Africa. The Association of Southeast Asian Nations (ASEAN), however, is lost to China. The Philippines' dramatic turnaround in 2016 portended the deep fragility of balancing in Southeast Asia. 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, cut the cord with the U.S., and pivot 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' (Funabashi 2017). Kang (2005: 552) once observed that China signed the Declaration on the Conduct of Parties in the South China Sea in 2002 to 'put in writing that it [had] no intention of using force'. Yet, over the past fifteen years, Beijing has solidified its de facto control over disputed reefs and waters while compelling ASEAN to issue ever more toothless joint communiqués.

Why have lesser states failed to balance against China? Events since 2009 made it clear that it is not because they 'believe China's claims' (Kang 2005: 552). Rather, it is the gravitational



pull of ‘China as money’. China is the top trading partner for every Asian country. Southeast Asian states, in particular, run trade surpluses with China and are dependent on them. Beijing has doubled down on the promises of infrastructural investments in recent years. 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. The unreliability of U.S. commitment has further pushed allies and partners away from Washington and toward Beijing.

If all IR theories get China wrong, classical realism nevertheless provides the best prism to understand how China has outbid American hegemony. Kirshner is correct that classical realism is more useful than structural realism because it ‘places great emphasis on politics, domestic and international’, studies ‘the nature of leadership’, considers ‘ideas, norms, and legitimacy’, and allows for the possibility that states ‘seek not just security, but also status, prestige, and even deference from others’ (Kirshner 2010: 58, 67, 68). In other words, classical realism is eclectic enough to accommodate issues that are ‘forbidden by structural realism’ (Kirshner 2010: 67) but taken seriously by liberalism and constructivism. Kirshner’s predication turned out wrong only because he committed the same mistake that he accused others of: ‘an over-reliance on structural-level analysis’ (2010: 67). Although he advised the reader to dig into liberal-constructivist issues, Kirshner (2010: 54, 58) reverted to the structural position that great-power competition must be ‘determined by power, and ultimately by military power’. However, if we are to understand China’s up-to-now unchecked bid for hegemony, we should pay more attention to how China has deployed non-military forms of power to escape balancing against its military power.

Contending IR theories suggest important strategic tools for how China can avert balancing backlash, counter the ‘China threat’ theory, and generate the image of ‘peaceful rise’.

Scholars have extensively studied China's 'multilateral offensive' (Sohn 2011: 88) and 'charm offensive' (Kurlantzick 2007; Hartig 2016) as evidence of China's peaceful intentions. We should instead understand these offensives as counter-balancing measures. If realism asserts that a rising power is bound to seek hegemony and must be blocked from becoming a peer competitor (Mearsheimer 2001), China should avoid prematurely provoking the reigning hegemon. If 'open resistance to unipolarity is suicidal', Beijing should adopt what Schweller and Pu (2011: 47, 51) call 'a strategy of rightful resistance' – that is, 'follow established rules, norms, and practices of international politics and act through authorized channels'. This strategy makes the divination of intentions particularly 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' (Schweller and Pu 2011: 52). If realists insist that China's growing economy itself is a threat, Beijing should champion China's rise as an 'opportunity' rather than a 'threat' (Xinhua 2017). If liberalism and constructivism counsel that interdependence and multilateralism are conducive to peace (Ikenberry 2011; Kang 2005; Legro 2007), China should double down on the outwardly cooperative strategy of 'rightful resistance'. If liberals criticize the IMF's harsh conditionality (Fukuyama 2004: 26-27), China should lavish massive aid and investments in the developing world to project the message of 'peaceful development'. If constructivism highlights that 'strategic power struggle and legitimacy contest are two sides of the same coin of hegemonic wars' (Bukovansky 2002: 304), China should engage in a 'struggle for legitimacy' (Zhang 2015: 317, 320). If liberal-constructivist theories further maintain that states that command 'soft power' also enjoy international popularity (Nye 2004), Chinese diplomats should promote traditional culture and public diplomacy. It is to the credit of these 'wise policies' that experts have been repeatedly (mis-)led to conclude that China shows

‘no across-the-board new assertiveness’ ‘on balance’ (Johnston 2013: 32-33). When China does resort to coercion, Beijing can claim that it is merely reacting to others’ provocations or defending territory that has been part of China ‘since ancient times’. China’s counter-balancing diplomacy is nicely summed up in an official letter to *The Economist*:

‘China is committed to avoiding the Thucydides Trap, in which an established power feels under threat by the emergence of a rising power. We want international relations to be based on win-win co-operation; a new concept of building a shared future for mankind that improves global governance and shared benefits. To understand China’s foreign policy and peaceful development, one needs to look beyond the old [‘realist’] concepts... China’s steady growth continues to bring opportunities to the world...’ (Zeng Rong 2017)

‘Soft power’ has bought China not just goodwill, but also strategic gains. By offering massive credit for infrastructural modernization, Chinese companies, often partially or wholly state-owned, have established strong holds 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, railway, and water pipeline in Djibouti that radiate out to Ethiopia, Sudan, Zambia, and Central Africa. Moreover, once Chinese money is locked in, it continues to work magic even when it becomes more a liability than an opportunity.<sup>5</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

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<sup>5</sup> I thank Luis Leandro Schenoni for this point.

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. 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 'Soft power' is not fool-proof and has been met with popular protests, but what matters more is that ruling elites desire Chinese money.

With determined counter-balancing 'Soft power' offensives, China has made a successful bid for hegemony in Asia and beyond. Subsequent sections further examine how China has lavished money to buy soft power and legitimacy, and then how China has used multilateral platforms to transform its rise from a threat into an opportunity. When China suffered from the 'great fall' of 2015, it appeared as if 'soft power' was hitting the wall. Nevertheless, the new U.S. president has helped China compensate for its diminished 'soft power' by withdrawing from Asia and the world in 2016-17. By the end of 2017, China's bid for regional hegemony in Asia has almost completed.

### **'Soft Power' and the Charm Offensive**

Nye counselled the U.S. to pay more attention to 'the rise of China's soft power' as early as 2005. Paradoxically, Nye's (2005) insight that success in international competition 'depends not only on whose army wins, but also on whose story wins' seems to have had a stronger impact in Beijing than in Washington. Chinese leaders have been eager to debunk the American narrative of 'China threat' that 'demonizes' China, and to present China's own account of 'peaceful rise' (Hartig 2016: 655, 673; Li 2008; Zhang: 314, 317, 322). 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' (Xinhua 2007). Party leaders

formally declared the national goal to win the ‘international cultural competition’ in 2011 (Xinhua 2011). Beijing reaffirmed in 2012 the determination 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’ (Hu 2012). President Xi Jinping reiterated in 2014 the official admonition that ‘We should increase China’s soft power, give a good Chinese narrative, and better communicate China’s message to the world’ (Xinhua 2014). In order to promote its cultural power, Beijing has largely relied on its economic power. Shambaugh (2015: 100) estimates that China has committed an annual budget of \$10 billion on cultural programs, which vastly dwarfs the U.S.’s similar budget of \$666 million on public diplomacy as of 2014.

To ‘correct negative images’ of China in ‘hostile Western media’ (Hartig 2016: 660, 663), China has borrowed from the standard toolbox of public diplomacy. China hosted the Olympics in Beijing in 2008 and the World Expo in Shanghai in 2010 to put China in the center of world attention. The State Council Information Office has extended the international reach of state-owned media outlets with the New China News Agency (Xinhua), China Global Television Network, and China Radio International. Xinhua has leased a giant billboard at Times Square in New York city and used it to broadcast messages such as China’s stand on disputes in the South China Sea. *China Daily* puts inserts in and posts with major international newspapers, from the *Washington Post* and *Wall Street Journal* to the *Daily Telegraph*. China Radio International controls at least 33 radio stations in 14 countries to broadcast ‘China-friendly news’ as ‘independent’ sources (Koh and Shiffman 2015). To bring state-censored programs into international households, StarTimes offers inexpensive digital services to 30 African countries.

In addition to such familiar measures of media and cultural outreach, China has also developed what Chinese diplomats coin ‘public diplomacy with Chinese characteristics’ (Yang

2011). Most of all, China has anointed Confucius, the most well-known icon of Chinese history, as its cultural ambassador. By 2017, Beijing has set up over 516 Confucius Institutes and 1076 Confucius Classrooms in 140 countries and regions, plus online Confucius Institutes and Radio Confucius Institutes for additional outreach. In addition to language training and cultural exchange, the ‘Confucian’ brand is designed to help refute the narrative of ‘China threat’ by positing a stylized image of a dominant but peaceful Middle Kingdom in history.

Despite the lavish spending, China’s soft power as measured by favorability ratings has not only remained low but even declined over time. Headlines like ‘can’t buy me soft power’ or ‘can’t buy me love’ have continued to proliferate as poll after poll generate similarly frustrating results (The Economist 2013; Shambaugh 2015: 107). The BBC’s PIPA/Globe Scan surveys show that ‘China’s perceived influence has worsened the most’ from 2005 to 2014, with positive views dropping 13 points to 35 percent and negative views climbing 17 points to 49 percent (Globe Scan 2014: 1). The Pew Research Center’s Global Attitudes Project highlights 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 (Wike, Richard, Bruce Stokes, Jacob Poushter, and Russ Oates 2014).

What’s wrong with China’s charm offensive? There is a near consensus. As Nye (2013) bluntly points out, China does not ‘get’ soft power. Soft power is the power of attraction attained by unleashing the talents of civil society. Yet, China views soft power as a strategic tool to assist with power competition (Hartig 2016: 670). Veteran diplomat Jiechi Yang (2011) contends that the main objective of cultural diplomacy is to advance China’s national interest. Chinese scholar Xuetong Yan (2007) argues that the crux of soft power should be political rather than cultural power. In effect, Beijing has pursued soft power in the same way that it has built up its hard power:

‘set a long-term goal, adopt rigid specifications, pour in copious amounts of public money, [and] monitor closely to ensure the desired result’ (Wines 2011).

Nevertheless, Chinese academics and leaders do not really fail to understand soft power. The core elements of soft power are a country’s culture, political values and foreign policies (Nye 2004). Beijing correctly identifies ‘China’s 3,000-plus years of civilizational heritage’ as ‘its strongest soft-power asset’ (Shambaugh 2015: 105). The real problem is that China cannot win applause for repressive policies at home and aggressive foreign policies abroad. Pew surveys have repeatedly shown that even world publics with positive overall views of China have negative opinions of the regime’s suppression of personal freedoms (Drake 2015). As Hartig (2016: 674) puts it, ‘as long as the Chinese government is still arresting human rights lawyers, ... censoring journalists, or ... bullying its East Asian neighbors, all efforts by China’s public diplomacy to shape China’s image ... can only hit the wall’.

Nevertheless, it would be a mistake to think that China is compelled to either accept its soft power deficit or democratize its politics. If the one-party dictatorship is what costs China soft power, a third option is to make this political system look more legitimate (Zhang 2015). As Kejin Zhao (2015: 177, 189) highlights:

‘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...’

Legitimacy overlaps with but is broader than soft power. The sources of legitimacy repeat the same elements of cultural disposition, democratic consent and ideological affinity, but add the components of performance and prestige (Gilley 2008: 271). 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. Nevertheless, the party-state has recourse to performance legitimacy and international prestige.

Chinese leaders have exploited the economic miracle to maximize legitimacy and prestige. 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 (if not also a new ideology) that dictatorship has been the very driver for economic success. 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. (Bell, 2015: 1, 75). Chinese authoritarianism is supposedly uniquely conducive to high-quality governance and never-ending growth as Chinese leaders are unencumbered by the electoral cycle to design far-sighted policies. In contrast, Western democracy is denigrated for producing suboptimal policies as elected politicians are necessarily blinded by the electoral cycle to chase after short-sighted impulses. Xi personally published *The Governance of China* to enhance ‘the world’s understanding of the Chinese government’s philosophy and its domestic and foreign policies’ (Xi 2014: publisher’s note).

Nye and Wang (2009: 21) judge that it is ‘dubious’ to think that the China model could challenge the Western model. Yet, the financial crisis of 2008, which started in the U.S. and spread to the world, ‘has tarnished the American model’ and ‘rais[ed] doubts about an American-led world economy’ (Ikenberry 2011: 57). Moreover, China’s impressive transformation from rags to riches has served as a model for emulation. Thus, China may not be able buy soft power for its



repressive political system, but it can earn performance legitimacy for its stunning economic growth. Even Nye (2004: 8) acknowledges that ‘a strong economy’ can be ‘a source of attractiveness’.

### **‘Soft Power’, the Multilateral Offensive and the China Opportunity**

Beijing has had only limited success in winning soft power and legitimacy no less because these social desirables must be conferred by others. China has been much more successful in softening the edges of its hard power where it has direct control, as in access to ‘China as money’. Kang (2005: 552) observed a decade ago that China was seen by lesser states as an opportunity rather than a threat:

‘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’.

Beijing has since championed the ‘China opportunity (*zhongguo jiyu*)’ slogan to counter the ‘China threat’ narrative (Xinhua 2017).

To ‘transform China’s development into the world’s opportunities’, Beijing has provided huge credit to build up infrastructure in developing countries (Lin 2017: 16). By 2017, Chinese money has funded and constructed most of the new airports, terminals, stations, highways, railways, dams, power plants, steel mills, mineral mines, sports stadiums, and government buildings in less developed countries. China has astutely targeted countries in Asia, Africa, and Latin America that are ignored or alienated by the U.S. 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 (Christensen 2015: 23-24; Sohn 2011: 77). These new platforms not only demonstrate China's commitment to multilateralism, but also help to create a new international structure of spokes and wheel centering in Beijing.

The Chinese Yuan originally charmed only poorer autocracies. Since the financial crisis of 2008, it has gained purchasing power with even wealthy democracies. European economies have experienced stagnant growth (see Graph I) and become increasingly dependent on 'China as money' to expand market access for multinationals and to rescue distressed assets. A Pew survey conducted in early 2017 shows that pluralities in developed economies including U.S. allies Australia (58%), Spain (48%), France (47%), the UK (46%), Canada (42%), and Germany (41%) consider China the leading economic power (Wike, Poushter, Silver and Bishop 2017).

This shifting economic balance has allowed China to extend its 'multilateral offensive' to the IMF and World Bank long dominated by the U.S. Beijing has long sought a weightier role in Bretton Woods institutions commensurate with its rising economic power. However, Western capitals have conceded little and have continued to control more than half of the voting shares. As of 2015, China's voting shares in the IMF represented only 3.8% (up from 2.3% in 1997), while the U.S. still held 16.74%, Japan 6.23%, Germany 5.81%, France 4.29%, and the U.K. 4.29% (IMF 2015).<sup>6</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 (World Bank 2015), and from 5.5% in 1997 to 6.5% in 2015 in the Asian Development Bank (2016). Liberals, constructivists and realists agree that it is normal for China to seek stronger decision-making authority (Ikenberry 2011: 57; Kirshner 2010: 58; Ren 2016: 440; Zhang 2015:

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<sup>6</sup> China's voting shares in the IMF rose to 6.09% in 2017.

318). What liberals did not expect is that China's 'struggle over... rights, privileges, and responsibilities' is not confined to 'within the system' (Ikenberry 2011: 61). According to Chinese scholar Ren Xiao (2016: 438), when an increasingly powerful China 'is not embraced or even welcomed by the established powers and the global institutions they dominate', it should create an alternative China-centered order.

Building on the early 'multilateral offensive', Beijing 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 and Investment Bank (AIIB), and the New Silk Road Economic Belt and the 21st Century Maritime Silk Road (One Belt One Road) (Lin 2017: 5). To mobilize support for the alternative China-centered order, Beijing has committed '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' (Shambaugh 2015: 100).

The AIIB, in particular, is designed to challenge not only the structure of U.S.-dominated international financial institutions, but also the liberal values embodied by them. Chinese analysts express the hope that the AIIB can 'uproot and outdo' the Bretton Woods system so that it may no longer 'continue its promulgation of liberal democracy, free markets, and Western governance institutions' (Liao 2015). As a former IMF official Eswar Prasad observes, the AIIB is 'an

instrument for China to lend legitimacy to its international forays and to extend its sphere of economic and political influence even while changing the rules of the game' (Perlez 2015). Washington tried to stop its allies from joining the AIIB but to no avail. America's allies might share the 'China-as-threat' position on Beijing's military maneuvers, but they adopted the 'China-as-opportunity' view on its financial overtures. The U.K., the U.S.'s staunchest ally, was the first Western democracy to sign on to the AIIB. As then Chancellor of the Exchequer George Osborne and Commerce Secretary Jim O'Neill (2015) 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 U.K. 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 U.K. can't afford to miss. Simply put, we want to make the U.K. China's best partner in the west...’

London's decision triggered a domino effect. One after another, all U.S.'s 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' (Higgins and Sanger 2015)'. When Western leaders believed that they had no option but to formally acknowledge Beijing's financial leadership against Washington's wishes, this is 'soft power' *par excellence*.

China scored another win 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>7</sup> This has enhanced Beijing's efforts to construct an alternative 'international monetary system' where the Yuan 'plays the role of a primary reserve and trading currency' (Lin 2017: 5). A Chinese newspaper *Global Times* boasted of a 'victory tantamount to a 'coronation ceremony' (Rauhala 2015b).

With Beijing successfully pulling U.S. allies to support a China-centered competing international order, Washington rushed to conclude the painfully negotiated Trans-Pacific Partnership (TPP). In the announcement of the pact 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' (White House 2015). The TPP was initially designed to present a dilemma to China: Join and conform to U.S.- designed rules, or abstain and miss out on 40% of global trade (Dai 2015: 22). However, by launching the AIIB, China turned the table and created a dilemma for the U.S. and its allies. To make matters worse, the TPP was jeopardized by American electoral politics and aborted by the new president.

With Trump stepping aside to pursue an isolationist course, Xi has stepped up to assume global leadership in finance and trade. Washington's withdrawal from the TPP has made Beijing-centered institutions the only game in town in large swathes of Asia. The well-timed 'Belt and Road Forum' in May 2017 and BRICS meeting in September 2017 further helped to shore up Beijing's pursuit of financial leadership. With 29 heads of states and delegates from 130 countries

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<sup>7</sup> 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 U.S. 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.

paying respect in Beijing, Chinese analysts hailed the first ‘Belt and Road Forum’ as yet another ‘great achievement’ (Wang 2017). Xi has pledged \$100 billion from the AIIB and \$40 billion from the Silk Road Fund to build infrastructure connecting China to the world by land and by sea. If the proposed highways and railways are built, ‘all roads [will] lead to Beijing’ (Frankopan 2017).

### **Soft Power’s Great Fall**

Nevertheless, China’s ‘soft power’ did not remain so flashy in 2016-2017 after taking a ‘great fall’ in 2015 (*The Economist* 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’ (Denyer 2015). 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’ (Denyer 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 the summer, share prices continued to plunge. A news story 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’

(Rauhala 2015a). After Beijing de-pegged the Yuan from the U.S. 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 sank currencies and commodity prices in other emerging markets. The market further experienced the ‘Black Debut’ in the first week of trading in January 2016 before it stabilized later in the year.

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 except that Beijing had put regime legitimacy on the line. In Spring 2015, party media had talked up the market rally. A commentary in the *People’s Daily* in April dismissed the hint of a bubble and exhorted the public to place their trust and savings in the stock market (Wang 2015). ‘Keeping stock markets go upward’ became ‘a test of the credibility of the “China Dream”’ (Li and Zhou 2016: 427). When the Shanghai index collapsed, party officials hastily declared a ‘war of defense’ to save share prices (China Daily 2015).

Unfortunately, the rescue package had the unintended 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, thus destroying, the market (Lee 2015). Calm did return momentarily after the Black Monday. However, 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 created the ‘Black Debut.’ To stop the

bloodletting, officials abandoned the circuit breakers but extended the sale ban, which served to postpone, rather than solve, the problem. After repeated intervention, the stock market was considered ‘broken’ (*The Economist* 2016). The world watched in disbelief as Chinese regulators ‘turned what should have been a... natural slowdown into a chaotic descent’ (*Washington Post* editorial, January 8, 2016). It was the collapse of confidence that turned the market crash into the ‘great fall’.

The stock market tumbles might not damage the Chinese economy, but they exposed the structural problems of the economy to full view. Economists have long worried about China’s state-led, export-led, and investment-led economy (Pettis 2014). The previous premier Wen Jiabo already said a decade ago that China’s economy was becoming increasingly ‘unstable, unbalanced, uncoordinated and ultimately unsustainable’ (IMF 2007). Although it might appear that the Chinese economy beat Western economies after the 2008 financial crisis, it was in fact hard hit by much reduced demand for made-in-China products. Plunges in global demand triggered 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’ (Laing 2014). More ominously, these projects have been funded by a ‘tsunami of bad debt’ (Laing 2014). Between 2008 and 2016, China’s total debt has skyrocketed from US\$6 trillion to US\$280 trillion,



and its debt-to-GDP ratio has ballooned from 150% to 235% (IMF 2017: 10).<sup>8</sup> The economy's structural problems were conveniently overlooked in good times, but have captured financial news headlines ever since the crash.

The 'great fall' has also revealed the frailty of the regime's performance legitimacy. Central to the 'China model' is the conviction that the visible hand of the party can prevail 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' (Poljak 2015; Spence 2015). As a commentary in the *Haaretz* put 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' (Rosenberg 2015). In an effort to restore confidence, Xi Jinping (2015) compared China's economy to a large ship experiencing unstable sailing on the high sea – it will be fine so long as it 'sail[s] in the right direction'. Analysts responded by asking if China 'could... sink like the Titanic' (O'Neill 2015).

### **America's Retreat**

With the Chinese stock market busted and the China model broken, Beijing's 'soft power' deflated in 2015-16. Yet, the drama of China's 'great fall' was outdone by the U.S.'s even more

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<sup>8</sup> This refers to the non-financial sector debt which includes household, corporate and government debt (IMF 2017: 19).

spectacular plunge in 2016-17. If the U.S. long failed to balance China's rise, it now stepped aside to facilitate Beijing's bid for hegemony. Chinese analysts have long taken the line that the U.S. should 'simply butt out' in the face of China's emergence (Allison 2017: 126). Their wish finally came true.

President Trump's policy to 'Make America Great Again' has effectively meant 'making China great again'. In the Asia-Pacific, the tearing up of the TPP means that countries that formerly hoped to use the U.S. as 'a hedge against Chinese economic domination' are left with no choice but to turn to the China-led order (Friedman 2017). In addition to the AIIB and the 'One Belt One Road', Beijing is rolling out the Regional Comprehensive Economic Partnership (RCEP) to take the place of the dead TPP. Without U.S. backing and with heavy dependence on 'China as money', the Philippines and Vietnam have soft-peddled their territorial disputes.

With the U.S. in retreat, China enjoys a golden opportunity to extend its political clout from Asia to the world. At the World Economic Forum in Davos in January 2017, Trump's withdrawal from the Paris Accord allowed Xi to present himself as the champion of globalization and multilateralism. At the G20 summit in July 2017, Trump appeared more isolated than ever from long-standing European allies. Xi was derailed from taking another ride on Trump's troubles only by the untimely death of China's most renowned dissident Liu Xiaobo in prison.

China's efforts to buy soft power and legitimacy have long been hamstrung by its human rights abuses at home and 'proactive' policies abroad. Trump's illiberal political values and foreign policies are a godsend, making China's one-party dictatorship appear much less repulsive. The most current BBC/ Global Scan polls reveal that the U.S. suffers from the most substantial decline in ratings of all countries surveyed, with positive views dropping by five points to 34% and negative views going up by six points to 49% since 2014 (Globe Scan 2017). With the world

looking at the American president in contempt, China no longer needs to soften the hard edges of its repressive domestic politics and aggressive foreign policies. When Beijing refused to let Liu Xiaobo seek medical treatment abroad and threatened Vietnam with the prospect of war in the summer of 2017, world leaders barely uttered objections.

### **Conclusion: The Unwritten Future**

President Xi began his second term in October 2017 by vowing to enhance China's international influence. China has indeed become a shaper of international politics. Xi's 'achievements' include the successful launch of first the AIIB and then the 'Belt and Road Forum', the opening of the first overseas military base in Djibouti, 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 marginalization of Japan's Shinzo Abe after the U.S. abandonment of TPP, 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 U.S. from geo-politics and geo-economics and the sharp decline of American influence around the world. China is set to dominate Asia and beyond.

Why is it that China could rise to challenge American hegemony without triggering 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 liberal-constructivist insights to diffuse the realist theory of 'China threat'. 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 wielded the power of the Yuan to soften the edges of its rising hard power. Armed with an ever-deeper pocket, Beijing has pursued soft power and international

legitimacy and further turned China's rise from a threat into an opportunity. With such determined counter-balancing 'soft power' offensives, China's growing challenge to American hegemony has not met with meaningful balancing.

If China's bid for hegemony is ultimately dampened, it will be caused by the weaknesses of its own system rather than the strength of international balancing. China's 'great fall' in 2015 may foretell what is likely to come. China's 'soft power' is only as strong as its financial firepower. Beijing may continue to declare that it meets its GDP growth target of 6.8 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 (O'Brien 2017). However, Chinese leaders face a difficult dilemma between deleveraging and promoting growth. In order to maintain performance legitimacy as measured by growth, they have consistently pumped up credit-driven investments. Along with the debt crisis, ordinary Chinese are also invested in the housing bubble, shadow banking instruments and Ponzi schemes. As Victor Shih (2017: 4) bluntly puts it, 'China as a whole is a Ponzi unit'.

Nevertheless, as of 2017, China seems to have recovered from its 'great fall' and advanced further in its bid for hegemony. Trump's 'America First' policy has inadvertently become a 'China first' one. Yet, Kirshner (2010: 65) is right that the future is yet 'unwritten'. When domestic politics override structural forces, the future becomes even more unpredictable. If internal troubles are the sources of the current volatility, relative domestic resilience will shape the future of U.S.-China relations. On the U.S. side, will American democracy survive Trump or will the American party system splinter further, allowing Trump to win another election? Will the next president pursue an isolationist policy or seek a rebalance to Asia? Will any return to balancing be too little too late? On the China side, will China's economy experience soft or hard

landing? Will economic troubles induce the leadership to democratize politics or take more aggressive foreign policies to rally support? Will Xi's concentration of power strengthen party competence or alienate party members? To understand if the U.S. and China can avoid the Thucydides trap, we have to further pay attention to the interaction of the two self-proclaimed strong leaders. The future could be frightening if Trump and Xi value personal power over national interest.

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