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Mending Vulnerabilities to Isolation

How Chinese Power Grows out of the Development of the Belt and Road Initiative

Christer Ljungwall and Viking Bohman

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Abstract

The Belt and Road Initiative is gradually moving China and its economy beyond the reach of Western sanctions and is reducing the economic impact that a US naval blockade could have. Without a measured Western response, this could increase the likelihood of Chinese aggression in regional territorial disputes.

The Belt and Road Initiative (BRI)¹ is an essential element in China's pursuit of becoming a great power. Originally launched in 2013 under the name 'One Belt, One Road', the immense development scheme has grown to become the core of Chinese foreign policy. It is now estimated to be worth nearly \$1 trillion, with its infrastructure (both hard and soft) set to span more than 60 countries in Asia, Europe and Africa.² While the economic consequences of the initiative are of great importance, its geostrategic implications are arguably more critical.

The BRI has the potential to boost China's national power by addressing the country's vulnerability to a US naval blockade and economic sanctions that may be imposed on it by other, mainly Western, states. As the BRI is gradually put in place, the West's ability to deter China from resorting to armed aggression in regional territorial disputes is slowly diminishing. Ultimately, this would drastically alter the balance of power in Asia and might encourage a more assertive Chinese foreign policy.

The Possibly not so Benign Silk Road

The need for the West to develop a measured approach to the BRI was clearly underlined when Chinese President Xi Jinping hosted the first-ever Belt and Road Forum in May. The two-day summit was filled with enthusiastic Chinese messages about the benevolence of the new initiative and how it would create a 'win-win' situation for everyone.³ Nearly 30 heads of state and government attended and a joint communiqué was issued.⁴

Absent from the summit, however, were top-level officials from Germany, the UK and France, among others, while the US sent only a representative from its National Security Council. Western countries have, by and large, adopted a wait-and-see policy towards

China's new economic strategy. As Xi's infrastructure plan moves forward, however, these countries will eventually have to figure out how to approach the BRI. It is too large to ignore.

Western governments' deliberations on the BRI will likely focus on the economic gains and losses that can result from the initiative. Geopolitics will also feature, with concerns over how China's economic power and size will allow it to bully smaller states. What is often missing in these debates, however, are considerations of the long-term geopolitical consequences of the initiative. The ability to bully smaller states by economic means can hardly be seen as an end in itself, but rather as a means to achieve something else. In other words, what is China out to accomplish and how does the BRI support Beijing's long-term geostrategic interests?

A closer look at the details of the land-based BRI suggests that China's intentions might not be so benign. Rather than broadly connecting China to the world, the BRI seems to be selectively and gradually decoupling China from dependence on the West and maritime trade while constructing a more industrially self-sufficient Eurasia and building alternative land-based trade routes across the continent.⁵ These 'lifelines' of massive road, rail and energy transportation infrastructure are also part of a bigger geoeconomic offensive to make countries in the BRI sphere economically dependent on China. Ultimately, these efforts make China more resilient to economic isolation. More specifically, it increases China's ability to withstand the consequences of a conflict in the Pacific Ocean.

This type of resilience will help China face up to the looming threat of economic isolation that is ever-present in regional territorial disputes (the US, for example, would not let China invade Taiwan or the South China Sea islands without repercussions). Today, Western sanctions or a US naval blockade would have disastrous consequences for the Chinese economy, which makes Beijing's policymakers think carefully about not going too far. If, on the other hand, China succeeded in strengthening its resilience to economic isolation – what the authors call *geoeconomic resilience*⁶ – it could operate more freely (and aggressively) in its neighbourhood without having to worry about the fallout of a Western reaction.

Whether China will be successful in reducing its dependence on Western states depends largely on their response to the BRI. If Western states sit out the opportunity to participate, Chinese officials who prioritise geopolitical objectives will most likely use the initiative as a vehicle to achieve Beijing's wider geostrategic goals. The best way to prevent this is by holding China to its word when it says that the project will lead to 'win-win' for all. Western governments should initiate efforts to ensure that the BRI becomes the liberal development project the Chinese have said it will be, rather than a tool for Beijing to decouple itself from dependence on the West.

Western governments should therefore engage China to try to shape the initiative rather than dismiss it due to economic irrelevance or out of lack of interest. This does not mean unconditionally endorsing the BRI. Instead, their support should come with strong demands

for transparency, oversight and equal say for stakeholders. They should also consider integrating Western entities into BRI supply chains and into China's international trade network more generally. Such efforts could ensure that if China embarked on a conflict in the Pacific, it stood to lose – something that would act as a deterrent.

The Analytical Framework of Geoeconomic Resilience

The authors define geoeconomic resilience as the relative ability of a state to inhibit, withstand and recover from economic isolation through a combination of economic and political factors (Table 1). Isolating an adversary by means of naval blockade or sanctions is a strategy that has been widely studied.⁷ In the case of China, such analyses often focus on the strategic dynamics of the Pacific Ocean to understand how long the country's military might continue to function when faced with a US naval blockade.⁸

Such approaches, however, typically neglect the non-military components that have to be present for a country to live through isolation and which help it to prevent and circumvent isolating measures such as sanctions. To fully grasp a country's resilience to isolation, questions have to be asked regarding how self-sufficient the country's industrial base and financial system are; how able the state is to make up for a loss in energy supply or trade; whether the country would be able to apply pressure to neighbouring states to make up for such a loss; and how willing the country's population is to endure economic decline.

The geoeconomic resilience concept encapsulates these questions and complements traditional understandings of state ability to counter and deal with economic isolation. It is a tool to more holistically evaluate national power in such contexts.

Table 1: Factors of Geoeconomic Resilience9

Economic Factors	Political Factors
Energy. Ability to maintain a steady supply of energy Livelihood. Ability to provide food, water and vital services to the population	International resilience. Ability to use influence over other actors and states to prevent and/or circumvent isolation and sanctions Domestic resilience. Ability to maintain political support and cohesion in key population groups, such as the middle class, rural populations, and ethnic and religious minorities, among others
Vital goods and commodities. Ability to maintain a steady supply of goods and commodities vital to the economy	
Trade. Ability to maintain trade flows with the outside world	
Industrial resilience. Ability to maintain industrial activity when faced with undersupply or lack of certain factor inputs	
Financial and market stability. Ability to maintain market activity and stability faced with such problems as reductions in trade or sanctions	

Source: The authors.

Factors of Geoeconomic Resilience

At the economic level, the goal for a given state is to maintain economic activity and the living standards of its population. Failure to do so would substantially increase the likelihood of, and potentially provide the reason for, social unrest. It is therefore essential that the state and its people have access to energy, food, water and basic services, as well as commodities and goods vital to economic activity. Also, unless the national market is independent and self-sufficient, the state will need to maintain external trade flows to ensure economic stability. Another important factor is a state's industrial resilience. This is determined by its ability to maintain industrial activity when faced with issues such as undersupply. Financial and market stability are also crucial to avoid financial crises and maintaining a well-functioning payment and transfer system in the economy.

At the political level, a distinction is made between international and domestic resilience. Internationally, the task is to use influence and leverage to prevent and circumvent isolation. For example, if other states are dependent on another that is, or is about to be, economically isolated, then the country facing isolation can leverage those that are dependent on it to ensure that sanctions are either averted or less strictly implemented. Domestically, the goal is to maintain support and cohesion in key population groups. This is 'the last line of defence' of geoeconomic resilience, and when it falters, political instability is likely to follow.

Russia as the Archetype

Russia is a striking example of a geoeconomically resilient country. In response to its intervention in Crimea in 2014, both the US and the EU imposed far-reaching sanctions. Yet more than two years later, the sanctions have not had any overwhelming effects on Russia. The country has displayed resilience both in the political and economic domains. Russia's massive energy reserves are clearly one of its main advantages in this regard. Not only did this defuse any danger of energy shortage, but it also gave Russia leverage over neighbouring states. Certain EU states have opposed tougher sanctions, reluctant to upset their major energy supplier to the east. Additionally, Russia has been flexible enough to find alternatives to Western imports and exports, while sustaining vital industrial and market activity.

China, in contrast, would find economic isolation harder to endure. The country's heavy dependence on imported energy and its reliance on global markets mean that repercussions from isolating measures could cause a major economic decline. This would almost certainly spur unrest and severely hurt the legitimacy of the Chinese Communist Party (CCP). Nationalism may have a cushioning effect with people willing to accept some economic hardship, but the existential threat to the party would remain. Only when China amasses a sufficient amount of geoeconomic resilience will it be able to stand up to economic isolation in the way that Russia has. This questions the mainstream assumption that China's economy

is strong while Russia's is weak: at least when it comes to withstanding the consequences of controversial geopolitical ventures, Russia's economy is much stronger than China's.

A Need for Geoeconomic Resilience

Before China began opening up in 1978, the legitimacy of the CCP rested on two main components: nationalism and communism. Yet soon after Mao Tse-Tung's death and the gradual liberalisation of the Chinese economy, the relevance and appeal of Marxist ideas slowly waned in the eyes of the people. To fill this ideological void, Mao's successors have, beyond promises to make the people rich, turned to nationalism.¹⁰

Since the early 1990s, school books and propaganda campaigns have educated the people in stories of the Chinese 'century of humiliation' consisting of a number of lost wars and degrading invasions by colonial powers. For the CCP, aiming to maintain its legitimacy and raison d'être, the notion of recovering from this humiliating past has become an integral part of its construction of Chinese nationalism.¹¹

Today, Beijing is promising a 'national rejuvenation' where China rids itself of the last remnants of its humiliating past and returns to a great power status. A fundamental component of this objective is reclaiming lands that where historically part of China. The centrepiece of the rejuvenation is Taiwan; without reunification, it would be hard for the CCP to claim to have restored China to its past glories. Contested islands in the South and East China Seas also hold great symbolic importance.

Accordingly, China is staging a military build-up and has emphasised that it is unwilling to compromise on territorial claims. Beijing has made clear that it is prepared to use military force if Taiwan pushes for independence and is increasingly enforcing its territorial claims in neighbouring waters. Yet as China challenges Taiwan, Japan and Southeast Asian nations, it faces one major difficulty and constraint: the looming threat of economic isolation.

The Threat of Isolation and China's Dilemma

If China invaded contested islands or staged a military takeover in Taiwan, the US and its allies are unlikely to remain idle.¹² Military confrontation would almost certainly follow, which would bring about some level of economic isolation of China due to turmoil and disrupted trade.

The Trump administration's military actions in Syria and Iraq this year point to the possibility of armed conflict should China embark on an aggressive path. Also, it is likely that China would face economic sanctions, just as Russia did after it invaded Crimea in 2014. While the EU may be unwilling to impose sanctions because of its economic dependence on China, it would most likely have to follow a US initiative to sanction Beijing to be able to count on Washington's support against Russia in Europe.

All this should worry the Chinese leadership because the country would be largely incapable of dealing with the fallout from economic isolation. China's economy is highly vulnerable to interruptions in energy supply and trade. It is particularly exposed in the South China Sea where a number of chokepoints are situated.¹³ Some analysts have estimated that a conflict could bring China's economic development to a 'screeching halt'.¹⁴

Because the legitimacy of the CCP hinges on economic prosperity and growth,¹⁵ such an economic downturn does indeed pose a threat to political stability. Since the Tiananmen Square protests of 1989, the party has kept political instability and demands for reform at bay by delivering on a promise to raise the living standards of its population. Isolation of China would therefore be highly dangerous for the leadership because people would suffer from a real drop in living standards. Questions would be asked about why the people have to bear this cost and the likelihood of social unrest would increase.¹⁶ The CCP is already facing growing protests stemming from economic problems.¹⁷ If economic conditions unexpectedly worsened, the situation could quickly deteriorate to a point where the legitimacy of the whole political system is thrown into question.

In such a scenario it could not be ruled out, however, that strong nationalism in combination with regime propaganda could redirect the people's anger towards external actors, leaving CCP legitimacy untouched or even increasing it. As in Russia in 2014, such efforts would most likely be aimed at the US. In essence, blaming the people's suffering on foreign powers may initially generate a 'rally round the flag' effect and promote social cohesion. However, the risk of political instability could never be ruled out given the strong linkage between economic stability and CCP legitimacy.

Meanwhile, the regime's top priority is survival and thus to avoid such risks. Therefore it appears highly unlikely that it would act in any way that could lead to economic meltdown, unless it was left with no other option. As a result, China is likely to refrain from aggressive action in its neighbourhood as long as the consequences (Western-led isolating measures) can spark a hefty economic downturn.

The Solution

It is by increasing its geoeconomic resilience that China might break free from this constraint. Such resilience would allow China to withstand and absorb the economic effects of sanctions or a naval blockade — thus also avoiding jeopardising internal stability — if it were to annex Taiwan or South and East China Sea islands. This would give China the option to act more assertively abroad, without having to worry about economic isolation that would badly damage its economy and could lead to political instability (Figure 1).

Geoeconomic resilience is also what will ultimately allow the CCP to weld together and fully make use of its two main sources of legitimacy: economic wealth and nationalism. Today, the possibilities of severe interstate crises are dangerous to the party because it is often put under nationalist pressure to take aggressive action. As of now, the CCP could not comply with such demands without bearing great economic consequences that would undermine

the legitimacy it derives from providing economic welfare to its people. Meanwhile, stepping back and accepting a military or political loss in one of China's symbolically important territories would deal a blow to both Xi and party legitimacy.

The solution to the dilemma is geoeconomic resilience, which would grant China the option to comply with nationalist demands to take aggressive action, while at the same time absorb the consequences of such action and continue to deliver on its promise of economic wellbeing.

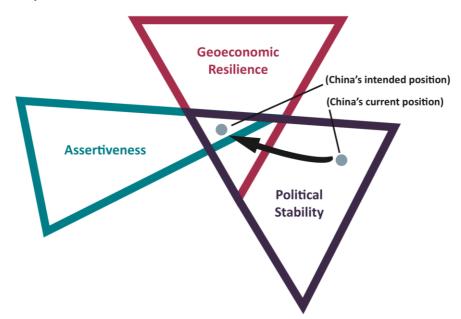


Figure 1: Why China Needs Geoeconomic Resilience

Source: The Authors. To be able to act assertively while maintaining political stability, China needs to develop a basic level of geoeconomic resilience that can offset the consequences of economic isolation brought on by assertiveness.

Silk Road to Independence

Understanding the mechanisms by which the BRI is making China more resilient to economic isolation requires thinking in interdisciplinary terms. More specifically, we need to operate where economics meets geopolitics: indeed, in the geoeconomic domain. Robert D Blackwill and Jennifer M Harris's *War by Other Means: Geoeconomics and Statecraft* expands on this and shows how different states use economic tools to achieve geopolitical results. ¹⁹ The book emphasises the need for new thinking on the increasingly relevant, but still poorly understood, area of geoeconomics.

While the book focuses on the direct ways that economic actions can create geopolitical gains, such as when Russia threatens to halt gas supplies to Ukraine, it does not consider how states build this type of power and leverage in the first place – for instance, how did Ukraine become dependent on Russian gas? In other words, it fails to discuss how economic tools can serve the purpose of building power and geoeconomic resilience in the long term

- creating capability and leverage that can be activated in crisis situations. The following examination of the Silk Road Economic Belt, the land-based part of the BRI, constitutes a first case study in this line of thought.

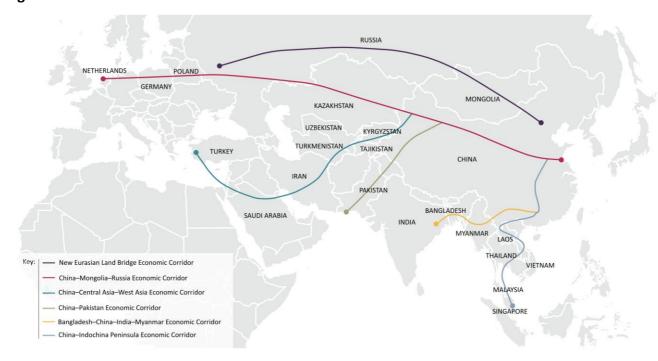


Figure 2: The Six Economic Corridors of the Belt and Road Initiative

Source: The authors. Based on information provided in Nadège Rolland, China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative (Seattle, WA: National Bureau of Asian Research, 2017), p. 73.

China's plans for the Economic Belt entail large projects of roads, railroads, ports, energy pipelines, power grids and other infrastructure. Six economic corridors will span Asian and European countries, including Pakistan, Afghanistan, Russia and others. The aim is to facilitate the transport of raw materials, energy, capital, goods, information, people and culture. The following four points elaborate on how the Belt is increasing China's geoeconomic resilience.

First, infrastructure projects are expanding the capability to transport energy, food, vital commodities and goods between China and nearby states such as Pakistan. This means that if China were to be sanctioned or isolated from other directions, there would be greater possibilities to expand trade and supply coming through these countries into China, to make up for a loss elsewhere.²⁰

Apart from these land-based 'lifelines', trade initiatives and reduced transportation costs are set to increase trade between China and its neighbours.²¹ This will allow it to shift trade away from Pacific maritime routes to Eurasia.²² If China opted for such a shift, it could reduce its dependence on vulnerable chokepoints in the South China Sea controlled by the

US. This would also reduce China's economic dependence on potential competitors, mainly the US, the EU and Japan.

Second, Chinese projects are laying the groundwork for what could become a more self-sufficient Eurasian economy.²³ Massive trade hubs are being constructed with clusters of gigantic industrial estates. Greater connectivity is likely to both boost trade and spur technological development. As Nadège Rolland has noted, railway networks could deliver manufactured goods to remote areas, expand opportunities for natural resource exploitation and spark the development of modern management methods – all of which could turn China's backyard into an industrial powerhouse.²⁴

In the long term, this could shift the centre of regional economic and commercial activity from the Pacific to Eurasia. If this happens, the relevance of trans-Pacific trade for China will decrease.²⁵ As a result, China would be less reliant on trade passing through US-controlled maritime chokepoints.

Third, many states along the Belt are economically dependent on and indebted to China.²⁶ Most of them suffer from great capital shortages and lack of market access due to absent infrastructure. By providing loans, investment and aid, China is offering these countries a solution to many of their problems. At the same time, however, they are becoming heavily indebted and dependent on China's capital and market. China has already shown that it knows how to use such leverage to its advantage, most recently by putting pressure on economically vulnerable ASEAN countries not to issue joint statements on South China Sea disputes.²⁷

If China were to be isolated by Western powers, neighbouring states would not have much of an option but to accommodate potential Chinese requests to prevent or alleviate the effects of economic isolation. In the case of conflict or a naval blockade, for example, China could demand that neighbouring countries supply it with energy and vital goods and commodities, along the Eurasian land-based lifelines.

Fourth, China's economy would suffer greatly if sanctions were imposed to restrict the use of currencies such as the US dollar, sterling, the yen and the euro. This vulnerability could be ameliorated if states along the Belt, backed by Chinese financial institutions, used the renminbi. In some projects, this is a stated goal.²⁸

A Liberal Geoeconomic Response

The fact that parts of the BRI seem designed to decouple China's economy from dependence on the West and maritime trade should be alarming to many. These developments reinforce concerns that John Ikenberry's argument that China will be forced to integrate into the liberal world order may be losing relevance. While Ikenberry optimistically suggests that China will remain highly dependent on and entangled in the current system because of its need for Western markets and global economic flows, the communist country appears to have something else in mind.

Yet the somewhat disturbing turn of events of the BRI cannot be entirely blamed on China. On the contrary, many analysts see it as a reaction to the US 'pivot to Asia' which encircles China militarily.³⁰ From a geostrategic perspective, it becomes natural for China to turn westward to lessen its dependence on the US and maritime trade. This increase in geopolitical tension in the China–US relationship can be observed in other places as well, such as in South Korea with the deployment of the American Terminal High Altitude Area Defense (THAAD) missile defence system. For now, it does not look like this trend is reversing.

Ultimately, the only way to deter a nationalistic China from taking aggressive action in the South China Sea or Taiwan is to make sure that the economic losses of such action continue to be so massive that the CCP deems it too costly, given the risks to stability and its own survival. The US has pursued this goal mainly by strengthening its ability to militarily cut off China from vital supply lines and trade. The key problem with such policies, however, is that they are likely to trigger further arms races and competition.

The other way to ensure that China remains dependent on the West is by engaging Beijing economically. As China expands lifelines and seeks to decouple itself from dependence on Western countries, it becomes essential for these states to 'be there' and integrate their economies into the BRI supply chains. This would ensure that in the case of Western withdrawal, these supply chains would not function. China would thereby be discouraged from undertaking provocative action in its neighbourhood. Also, cooperation and joint projects in the BRI development phase would make it harder for China to act aggressively abroad without putting the project at risk.

Engaging China on its new economic strategy may seem nonsensical to Western policymakers, mainly because regions along the BRI routes, such as Central Asia, are not profitable markets for North America and Western Europe. The West also does not rely on these countries for resource inputs. Yet opportunities should be explored and financial assistance, trade and investment should be encouraged when a basic level of economic viability is present. Naturally, decisions would be made on a case-to-case basis, but the overall approach should not be to dismiss the initiative due to economic irrelevance or lack of interest.

When engaging the BRI, Western governments should hold China to its word when it says that the initiative is nothing but a win-win project. Otherwise their support will serve simply to legitimise Chinese geoeconomic expansion. Investment, trade and assistance should come with demands for transparency, oversight and equal say of stakeholders. EU member states have reportedly already insisted on this, as they backed away from a joint statement during the BRI forum due to concerns over transparency and sustainability.³¹

Beijing may be reluctant to accept such demands, but economic drivers and voices in China are often stronger than those that prioritise geopolitical goals. Chinese foreign policy is not locked on a predetermined path, and while it has become more assertive under Xi, it is constructed by a plethora of domestic interests and institutions. In a best-case scenario, the

expansionist motives that underpin the BRI would become completely overrun by economic drivers and China's pursuit of economic wellbeing for its people.

In conclusion, supporting a giant Chinese geoeconomic initiative may seem counterintuitive to competitors such as the US. And while it is true that the BRI will most likely help China to attain its growth and development goals, this is not necessarily a bad thing, even for the US. Economic simulations show that the negative trade impacts of the BRI for the US would be close to zero, even if a BRI free trade zone were established.³² Also, and more importantly, there are indications that an economic downturn in China may lead the leadership to lash out against Taiwan as a way to distract an unhappy domestic audience if the CCP was struggling and left with no other option.

It is therefore in the interest of the West that China's economy remains stable and deeply integrated in the international trade and financial system, so that losses caused by severing these connections are almost unthinkable. To achieve this, participating in the BRI to shape China's future foreign policy is the better option. Failure to do so is likely to increase the risk of a major conflict.

Christer Ljungwall is an affiliated professor in the Asia Research Centre at the Copenhagen Business School. He has done extensive research and field work on China's economy and authored, with Xingyuan Feng and Sujian Guo, The Political Economy of China's Great Transformation (Routledge, 2016) and, with Xingyuan Feng and Guangwen He, The Ecology of China's Private Enterprises (World Scientific, 2015).

Viking Bohman is a Master of Science double degree candidate at the London School of Economics and Peking University. He has previously worked at the Swedish Embassy in Beijing. His works have appeared in the Swedish Human Security Magazine and the National Interest.

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