

China's Modus Operandi For The 21st Century

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CHINA'S MODUS OPERANDI FOR THE 21ST CENTURY

by

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Issue: China is possibly the greatest threat to U.S. prosperity in the foreseeable future.

Background: Understanding China's goals, how they perceive the world, and the methods they use to achieve their goals are necessary tasks. This essay draws on Chinese history and current events to understand how and why China does what it does—China's international modus operandi for the 21st Century, and what the U.S. should do about it.

Discussion: This essay is divided into two sections. Part One (chapters 2-3) examines factors from China's history that have shaped China's thinking. Specifically, how China's history has influenced them to focus on a broad range of issues and develop a concern for their status in the international community. Each generation of Chinese leaders has adjusted China's international modus operandi, which has led to a more balanced approach to China's growth. This balanced approach forces China's international modus operandi to consider a broader spectrum of issues to improve China's domestic conditions as well as their standing in the eyes of the international community. Additionally, Part One discusses the present conditions in China and analyzes the degree to which these conditions combine to shape China's international modus operandi. China is operating from a precarious position—balancing growth, potential political and economic pitfalls, ever expanding regional supply lines, and international skepticism—which leads China to rely on subtlety as an integral part of their international modus operandi. Part one concludes that China's international modus operandi is characterized by subtle and specific acts conducted across a broad spectrum of issues focused on elevating China's status, both real and perceived, in the eyes of the international community

Part Two (chapters 4-5) begins with a case study of Hutchinson-Whampoa Limited (HWL) as an example of how China exerts its influence subtly and specifically across a broad spectrum of issues in order to improve China's status, both real and perceived, in the eyes of the international community. Part Two also looks to China's future in an attempt to predict the specific areas of regional and global interest China will target and recommends how the U.S. should respond. Today, China is most concerned with internal issues, external influences on their economy, and world opinion.

Conclusion:

With the exception of the issue of Taiwan, U.S. support for China's efforts to solve their internal issues is required to support China's peaceful rise. On the issue of Taiwan, the U.S. must stall the use of force against Taiwan in order to allow the U.S. and China to avoid direct conflict and preserve the peace until such time as Taiwan and China can agree on a peaceful resolution. Regionally, the U.S. must work to understand the influence China is building in the international arena in order to maintain U.S. regional political and economic influence and therefore their influence over world opinion. And finally, the U.S. should focus primarily on peripheral contact, and avoid direct conflict with China to allow both nations to maneuver without clashing during China's peaceful rise.

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Abstract

China is possibly the greatest threat to U.S. prosperity in the foreseeable future. Therefore, understanding China's goals, how they perceive the world, and the methods they use to achieve their goals are necessary tasks. This essay draws on Chinese history and current events to understand how and why China does what it does—China's international modus operandi for the 21st Century.

This essay is divided into two sections. Part One (chapters 2-3) examines factors from China's history that have shaped China's thinking. Specifically, how China's history has influenced them to focus on a broad range of issues and develop a concern for their status in the international community. Each generation of Chinese leaders has adjusted China's international modus operandi, which has led to a more balanced approach to China's growth. This balanced approach forces China's international modus operandi to consider a broader spectrum of issues to improve China's domestic conditions as well as their standing in the eyes of the international community. Additionally, Part One discusses the present conditions in China and analyzes the degree to which these conditions combine to shape China's international modus operandi. China is operating from a precarious position—balancing growth, potential political and economic pitfalls, ever expanding regional supply lines, and international skepticism—which leads China to rely on subtlety as an integral part of their international modus operandi. Part one concludes that China's international modus operandi is characterized by subtle and specific acts conducted across a broad spectrum of issues focused on elevating China's status, both real and perceived, in the eyes of the international community

Part Two (chapters 4-5) begins with a case study of Hutchinson-Whampoa Limited (HWL) as an example of how China exerts its influence subtly and specifically across a broad spectrum of issues in order to improve China's status, both real and perceived, in the eyes of the international community. Part Two also looks to China's future in an attempt to predict the specific areas of regional and global interest China will target and recommends how the U.S. should respond. Today, China is most concerned with internal issues, external influences on their economy, and world opinion. With the exception of the issue of Taiwan, U.S. support for China's efforts to solve their internal issues is required to support China's peaceful rise. On the issue of Taiwan, the U.S. must stall the use of force against Taiwan in order to allow the U.S. and China to avoid direct conflict and preserve the peace until such time as Taiwan and China can agree on a peaceful resolution. Regionally, the U.S. must work to understand the influence China is building in the international arena in order to maintain U.S. regional political and economic influence and therefore their influence over world opinion. And finally, the U.S. should focus primarily on peripheral contact, and avoid direct conflict with China to allow both nations to maneuver without clashing during China's peaceful rise.

Preface

My interest in China begins with the belief that China is the only significant conventional threat facing the U.S. in the foreseeable future. With the world's largest population, the world's largest standing army, and the world's third-largest nuclear arsenal with missiles that can reach the United States, China is certainly a force to be reckoned with. Additionally, China's move from a centrally controlled economy toward a market-oriented economy over the last 27 years has been the largest and fastest economic expansion in recent history. China is a rising star in the world of power and influence and I believe we need a better understanding of China's goals, and methods for achieving those goals. This essay is an effort to explore China's modus operandi—how and why they do what they do—as well as forecast what China will focus on next.

I'd like to thank MajGen Gardner, USMC (ret.) for taking the time to mentor me through this process. His perspective, guidance, and generous allocation of time are truly appreciated. I'd also like to thank Dr. Wray Johnson for his passion for Small Wars, Insurgency, Air Power, and proper punctuation, syntax, and grammar; but most of all for his dedication to educating and mentoring his Conference Group. His efforts this year in seminar, as well as with this research and writing project are something I will not soon forget. And finally, I'd like to thank Col. Walker, USMC, for not saying, "I told you so."

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CHAPTER ONE: INTRODUCTION

China has the world's largest population, the world's largest standing army, and the world's third-largest nuclear arsenal with missiles that can reach the United States.¹ In 1978 China began moving from a centrally controlled economy toward a market-oriented economy. By 2000 economic output had quadrupled and by 2004 China stood as the second-largest economy in the world after the U.S.² This rapid economic expansion brought with it socio-economic and political volatility, including a dramatic increase in the demand for imports, which fuel China's rapid growth. Increased demand for imports in turn created pressure to secure China's supply lines which has increased regional tension in areas such as Kashmir, the Spratly, Paracel, and Senkaku-shoto islands, and in other maritime areas in the Asia region. Regardless whether China is viewed as an economic threat, a potential military threat, or a potential ally, China's influence on the international stage cannot be ignored. Acknowledging China's importance to the U.S. and to the world, requires an understanding of China's international modus operandi—how and why China interacts on the international stage. Considering significant events in China's recent past, the personal vision and influence of China's leaders, and recent events in China, it becomes apparent that China's international

¹ Jamie McIntyre, "Tiananmen Ten Years Later: World's Largest Army Not Necessarily the Strongest," CNN.com, May 28, 1999 [journal on-line]; available from: <http://www.cnn.com/WORLD/asiapcf/9905/28/china.military/>; Internet; accessed 25 April 2005. "China," Chinese Defense Today [journal on-line]; available from: <http://www.sinodefence.com/army/default.asp>; Internet; accessed 25 April 2005.

² "China," The World Fact Book, CIA [database on-line]; available from <http://www.cia.gov/cia>; Internet; accessed 30 April 2005.

modus operandi is characterized by subtle and specific acts conducted across a broad spectrum of issues focused on elevating China's status, both real and perceived, in the eyes of the international community.

To support this thesis, this paper is divided into six chapters. Chapter One is an introduction that frames the essay. The following two chapters focus on the factors that shape China's international modus operandi. The next two chapters focus on China's current and future operations, and make recommendations for U.S. strategy. And the final chapter, Chapter Six, offers a summary and conclusion.

Chapter Two examines the three factors from China's history—the Chinese Civil War, opening Special Economic Zones in China, and the personal vision and influence of China's leadership—that have most significantly shaped China's current international modus operandi. Chapter Three discusses the present conditions in China, focusing on China's current internal volatility, China's National Strategy for Defense, China's perspective of the international system, and the world's perception of China, and then analyzes the degree to which all of these factors combine to shape China's international modus operandi.

Chapter Four is a case study of Hutchinson-Whampoa Limited (HWL) and demonstrates how a successful multi-national corporation, with influence in many sectors of international business, supports China's national goals. Chapter Five looks to China's future and analyzes China's international modus operandi in an attempt to predict the specific areas of regional and global interest China will target. This chapter also recommends how the U.S. should respond to China's modus operandi.

From Sun Tzu to Hu Jintao Chinese culture has blended Confucianism, Taoism, Mohism, and Legalism with Maoist thought and added those influences to the recent global, economic,

and political influences in China to produce a uniquely Chinese perspective on the world. Understanding this perspective will present a better understanding of the international modus operandi being used to shape the peaceful rise of China.³

³ For a complete definition see “A ‘Peaceful Rise’ of China,” *Beijing Review*, 8 April 2004, 12. “China’s Peaceful Rise,” Wikipedia [database on-line]; available from http://en.wikipedia.org/wiki/China%27s_peaceful_rise; Internet; accessed 30 April 2005.

CHAPTER TWO:
THE INFLUENCES THAT SHAPED CHINA’S INTERNATIONAL MODUS
OPERANDI

By every analysis China has experienced a turbulent 20th century. The Korean War, involvement in the Vietnam conflict, the Cultural Revolution, the Gang of Four, the Red Guard, and Tiananmen Square have all had an impact on the way China interacts on the world stage.⁴ However, as influential on China’s modus operandi as these events appear, each of them—whether considered individually or collectively—pale in significance when compared with the Chinese Civil War, the opening of Special Economic Zones, and the personal vision and influence of China’s leaders. It is these three factors — the Chinese Civil War, Special Economic Zones, and leadership — that have, more than any other, most significantly influenced China’s international modus operandi.

⁴ The Korean War (1950-1953): saw heavy Chinese involvement on the side of the North Koreans against the U.S. and other UN allies. During the U.S. involvement in the Vietnam Conflict (1959-1975) China provided sanctuary and arms support to the North Vietnamese. Later, China invaded Vietnam (1979) as a response to what China called a collection of provocative actions and policies by Vietnam. The Cultural Revolution (1966-1976) was a revolutionary upsurge by Chinese students and workers against the bureaucrats of the Chinese Communist Party. During the Cultural Revolution in China (1976), a group of Communist Party leaders called The Gang of Four was arrested and punished for counterrevolutionary activity during the Cultural Revolution. Also during the Cultural Revolution, Mao Zedong called on a group of civilians called The Red Guard to protect and implement the progress of the socialist movement in China. The Red Guard was found in all aspects of Chinese society from the Foreign Ministry down to the supervision of siblings. The Tiananmen Square protests of 1989 were a series of student-led pro-democracy demonstrations in China during the months of April, May, and June that ended in violence when Army used force to restore order.

CHINA'S CIVIL WAR

The Chinese Civil War significantly shaped China's current international modus operandi for two reasons: first, it marks the unification of mainland China, effectively creating the most populous nation on earth; and second, the Civil War marks the beginning of Chinese isolationism which is the largest hurdle China has had to overcome to join the global community. In the first instance, population dominance gave China a unique position from which to launch its international modus operandi. In the second instance, overcoming isolationism forced China to adapt their modus operandi to allow for the influence of world opinion.

The Chinese Civil War began in 1911 with the revolutionary Sun Yat-sen attempting to unite the nation and wrest local control from warlords.⁵ It began as a conflict between the warlords and the Nationalist Party, the Kuomintang (KMT), supported by the Communist Party of China (later named the Chinese Communist Party, CCP), and evolved over 30 years into a conflict between the KMT and the CCP. The war ended in 1949 with the CCP uniting mainland China and driving the KMT to Taiwan. Prior to this, China was predominantly a feudal society without a warlord powerful enough to unite the nation. From an international perspective, individual warlords had previously entered into treaties with neighboring nations; however, no single ruler spoke for China until Mao Zedong, Chairman of the CCP, united mainland China in 1949.

The initial and most prominent visionary of a united China was Dr. Sun Yat-sen. Sun founded the KMT on the concept of "Three Principles of the People: Nationalism, Democracy,

⁵ There are many references available that give a complete account of the Chinese Civil War, however most differ on the actual start of the war; for a succinct example see John Powell, ed., *Magill's Guide to Military History* (Pasadena, Ca: Salem Press Inc., 2001), 2:328.

and Socialism.”⁶ These principles stood for the changes he believed essential in order to advance China and create a better way of life for its people. Nationalism would end unwanted foreign influence—China must be a fully independent and respected member of the community of nations. Democracy would end the corrupt Chinese Empire and establish a government popularly elected by the people. Socialism would improve the lot of the poor peasants and coolies who barely had enough to eat and who were exploited by the wealthy landlords and merchants.⁷ Sun’s Three Principles have proven to be enduring goals that continue to influence the Chinese leadership today: unite all of China, improve the living standards of the people, and improve the status of China in the international community. This last goal, improving the status of China in the international community, is an integral part of China’s modus operandi today.

Sun died before realizing his dream; however, two of Sun’s most influential supporters, Chiang Kai-shek and Mao Zedong fought against each other to achieve Sun’s goals. Chiang joined Dr. Sun and the KMT when the revolution broke out in 1911, become one of Sun’s most trusted assistants, and eventually succeeded Sun as leader of the KMT following Sun’s death. Chiang had a robust military education both in China and abroad which most likely contributed to his willingness to engage the international community. During the Civil War he openly welcomed international support and actively engaged the international community to bolster China’s standing in the international community. The Civil war ended with Chiang’s defeat which forced the KMT to flee to Taiwan. Yet, Chiang continued to solicit support from the

⁶ Trevor Dupuy, *The Military History of the Chinese Civil War* (Franklin Watts, Inc., 1969), 4.

⁷ For a complete definition see “Three Principles of the People,” Wikipedia [database on-line]; available from http://en.wikipedia.org/wiki/Three_Principles_of_the_People; Internet; accessed 10 April 2005. Seymour Topping, *Journey Between Two Chinas* (New York: Harper and Row, Publishers, 1972) 17. Hu Pu-yu, *A Brief History of the Chinese National Revolutionary Forces* (Taipei, Taiwan, Republic of China: Chung Wu Publishing Co., 1971), 8,13,25,131.

international community, and with international backing gained three major victories. First, he convinced the Western world to regard Taiwan as the seat of China's government for many years following the Civil War. Second, Chiang's interaction with the West ensured Taiwan's survival through the continued support for Taiwan by the U.S. Finally, Chiang managed to ensure Taiwan's economy remained open to the international community allowing it to flourish. Despite a significant defeat on mainland China, once in Taiwan the international posture of Chiang and the KMT proved successful. This approach to international relations was markedly different to Mao Zedong's approach.

As the leader of the CCP, Mao Zedong had a decidedly isolationist attitude and internal focus on the civil war.⁸ This focus is most likely a byproduct of his education. Mao was largely self-educated and spent his rebellious youth wandering the countryside observing the pitiful living conditions of the Chinese peasants. Reading the works of Karl Marx significantly influenced his approach to life, war, and international relations. Mao joined the KMT with the intent of helping Sun unite China. Later he helped to establish the CCP and worked to increase the influence of the CCP within the KMT. While he initially worked with Chiang and Sun to unite China, he disagreed with them on several issues and eventually split the CCP from the KMT. During the Civil War Mao did not accept any overt support from other nations, instead preferring to rely on the power of the peasants. After the Civil War, Mao continued to reject offers of international support and eventually severed ties to his biggest supporter, the Soviet Union. Mao continued to focus on internal improvements without regard to the rest of the world, shunning the international community and leading China down the path of isolationism and internal revolution.

⁸ Trevor Dupuy, *The Military History of the Chinese Civil War*, 4.

More than 50 years since the end of the Civil War, the situation in Taiwan and the conditions in China appear to have changed very little. On the surface, China is still embroiled in an internal struggle to pull the peasants out of poverty and Taiwan is still an open, free, and prosperous society. However, beneath the surface the situation is dramatically different. After Mao's death, Deng Xiaoping began moving China away from isolationism toward modernization by opening China to the global economy, and in the process changed China's international relations posture. This change shifted the focus of China's international modus operandi towards a greater consideration of their status in the international community.

SPECIAL ECONOMIC ZONES

China's modernization over the past few decades has been a significant event for the world to watch; the key to China's success has been the opening of Special Economic Zones. Since the late 1970s China has focused on the formulation and implementation of overall reform and opening to the outside world. This began with the creation of Special Economic Zones in China and has grown dramatically since. During the 1980s the PRC went through several stages, ranging from opening coastal cities and surrounding areas, to designating open inland and coastal economic and technology development zones. In 1988, mainland China's opening to the outside world extended to its border areas along the Yangtze River. Since 1992, China has opened a number of border cities, all the capital cities of inland provinces and autonomous regions, 15 free trade zones, 32 state-level economic and technological development zones, and 53 new and high-tech industrial development zones in large and medium-sized cities. As these "open" areas adopt different preferential policies, they play the dual roles of windows in developing the foreign-

oriented economy, generating foreign exchanges through exporting products and importing advanced technologies, and as radiators in accelerating inland economic development. Primarily geared toward exporting processed goods, the special economic zones are foreign-oriented areas, which integrate science and industry with trade, and benefit from preferential policies and special managerial systems.

The person responsible for creating the Special Economic Zones was Deng Xiaoping.⁹ Deng attracted foreign companies to a series of Special Economic Zones, where foreign investment and market liberalization were encouraged. He also introduced reforms centered on improving labor productivity through a bonus system and material incentives. He revived rural markets that sold peasants' homegrown products and the surplus products of communes. These rural markets not only increased agricultural output, but stimulated industrial development as well. With the peasants able to sell surplus goods on the open market, domestic consumption stimulated industrialization and created political support for more difficult economic reforms.

Deng provided the theoretical background and the political support to allow economic reform to occur; however, Deng originated very few of the reforms he introduced. Deng's hands-off and bottom-up approaches to reform were likely key factors in China's success. Deng's reforms actually included the introduction of planned, centralized management of the macro-economy by technically proficient bureaucrats. This was a conscious shift away from Mao's mass campaign style of economic construction. Additionally, unlike the Soviet model, Deng exercised control of the economy indirectly, through economic and market mechanisms. At the local level, material incentives, rather than political appeals, were used to motivate the

⁹ June Grasso, Jay Corrin, and Michael Kort, *Modernization and Revolution in China*, Revised Edition (Armonk, NY: M.E. Sharpe Inc., 1997), 57.

labor force, including allowing peasants to earn extra income by selling the produce of their private plots. In the move toward market allocation, local municipalities and provinces were allowed to invest in industries that they considered most profitable thus encouraging investment in light manufacturing. Deng's policies opened up the economy to foreign investment and market allocation within a socialist framework, and essentially sparked an industrial revolution in China.

Deng's reforms, however, have left a number of issues unresolved. As a result of his market reforms, it became obvious by the mid-1990s that many state-owned enterprises were unprofitable and needed to be shut down if they were not to be a permanent and unsustainable drain on the economy. Furthermore, by the mid-1990s most of the benefits of Deng's reforms, particularly in agriculture, had run their course and rural incomes had become stagnant, leaving China's current leaders in search of new means to boost economic growth or risk a massive social explosion. Finally, the Dengist policy of asserting the primacy of pragmatism over communitarian Maoist values, while maintaining the rule of the Communist Party, raised questions in the West. Specifically, can a one-party system indefinitely maintain control over an increasingly dynamic and prosperous Chinese society?

The bottom line is the Special Economic Zones are driving the Chinese economy and therefore significantly impact the development of all political, economic, and social aspects of China. In this sense, opening China to the global economy has taken much of the control of China's destiny out of the hands of the CCP and dropped it squarely in the lap of the people. The CCP still exercises control of the country but the list of things they can no longer control is growing quickly. The most basic and insidious example of this is the World Wide Web. The CCP currently limits access to specific content and screens the preponderance of the email traffic

that flows into and out of China; yet, at some point in the not too distant past the CCP could have shut off Chinese access to the World Wide Web without too much backlash from the people or the economy. At this point, they can no longer do so because their economy largely depends on the flow of information to be profitable. This gradual loss of control is taking place across many sectors of China's economy and further emphasizes the question, can a one-party system indefinitely maintain control over an increasingly dynamic and prosperous Chinese society?

Therein lies the rub: China is profitable. China is moving from a socialist model to a profit-based society and perhaps a capitalist model. China has already begun privatizing much of their state-run industries and is under significant pressure to reform their banking industry and remove it from state control. Applying this concept not only over China's economy but over the CCP as well leads one to the conclusion that those parts of the CCP that do not support capitalism must be eliminated or must evolve if China is to continue on its prosperous and peaceful rise. Through Deng Xiaoping's vision and influence China has shifted away from isolationism, opening Special Economic Zones, significantly shaping China's modus operandi to include a greater range of issues.

SIX GENERATIONS OF LEADERS

Throughout the rise of China in the 20th century the personal vision and influence of China's leaders have driven China down the path to modernization and participation in the global economy. This section covers the Six Generations of Chinese Leaders, highlights the influences

on and perspectives of each generation, discusses the significance of each generation, and explains how each has had an impact on China today.¹⁰

Influencing the leadership of a nation can affect the course of that nation and therefore its modus operandi. Whereas, the succession of leadership in a democratic society is not necessarily predictable or homogeneous, the succession of leaders in an autocratic society is predictable and fairly homogeneous. In China, both the CCP and the People's Liberation Army (PLA) promote according to seniority. Therefore, it is possible to group Chinese leaders into generations and potentially predict the succession of leadership as well as the direction they may take once in control. If we understand who they are, where they come from, and their shared experiences, we can better understand them and potentially shape the future generations of China's leaders to meet U.S. goals.

The first generation of Chinese leaders included Mao Zedong, Zhou Enlai, Zhu De, and Liu Shaoqi; these were the men that founded the PRC. These leaders tended to be both political and military leaders, most had little education outside China, and their formative experiences included the Long March, the Chinese Civil War, and the Second Sino-Japanese War.¹¹

As the leader of the first generation, Mao Zedong significantly shaped both the outcome of the Civil War and subsequent domestic and foreign policy for China until his death in 1976. However the most significant legacy of Mao and the first generation of leaders with respect to China's current modus operandi was isolationism. Mao wanted very little to do with the world

¹⁰ For a complete discussion see "Background Note: China," U.S. Department of State [database on-line]; available from <http://www.state.gov/r/pa/ei/bgn/18902.htm>; Internet; accessed 26 October 2004. "Six Generations of Chinese Leaders," Wikipedia [database on-line]; available from http://en.wikipedia.org/wiki/Generations_of_Chinese_leadership; Internet; accessed 10 April 2005.

¹¹ The Long March (1934) was a massive military retreat, covering about 5000 miles and lasting more than a year, by the CCP to evade the KMT during the Chinese Civil War. The Second Sino-Japanese War (1937-1945) was a major invasion of eastern China by Japan which ended with the surrender of Japan in 1945.

beyond China's borders and this shaped China in many profound ways. China effectively shunned significant alliances; for example, during the Cold War China did not ally itself with the USSR and was only involved on the periphery with the U.S. in such conflicts as Korea and Vietnam. China's posture benefited the U.S. and the West throughout the Cold War, allowing the West to basically ignore China as a global threat for nearly 50 years. Isolationism was beneficial for China as well because China was effectively left alone to develop and modernize. Isolationism worked very well for China and the West until the second generation of Chinese leaders realized that in order to move Chinese society into the 20th century they would have to turn Chinese society completely around and allow the rest of the world in to China.

The second generation of Chinese leadership included Deng Xiaoping, Chen Yun, Hu Yaobang, and Hua Guofeng. These leaders were also involved in the Chinese Civil War but in junior roles, and their formative experiences were similar to the first generation. Unlike the first generation, however, many were educated overseas, particularly in France. Most had some position of authority during the Cultural Revolution, although as a rule those that held power after the 1980s were purged during that decade in the Cultural Revolution.

Deng Xiaoping was actually purged twice during the Cultural Revolution and was called back to lead different parts of the CCP each time. Finally, after the fall of the Gang of Four, Deng solidified power and stepped up to lead the CCP from 1976 - 1997. As a member of the second generation of leaders, Deng came to power after the Cultural Revolution and was handed a nation poised to expand. Mao had molded the country with an inward focus, but as soon as Deng shed some light on the nation by opening Special Economic Zones, the country virtually exploded with new development and productivity. He turned the country away from Maoist extremes and opened it to world influence and the global economy.

With Deng at the helm, relations with the West improved markedly. Deng traveled abroad and had a series of amicable meetings with Western leaders. He developed the “one country-two systems” approach to Hong Kong and Macau, and hoped to apply it to Taiwan.¹² Deng spurred the Four Modernizations—agriculture, industry, science and technology, and the military—through the socialist market economy.¹³ With the country on the path of economic expansion it was left to the third generation of Chinese leaders to decide how to balance economic growth with environmental and social concerns related to rapid expansion.

The third generation of leaders included Jiang Zemin, Zhao Ziyang, Li Peng, and Zhu Rongji. These leaders were born before the Cultural Revolution but educated afterwards; prior to the Sino-Soviet split. Most of them received an education in Russia as engineers and entered the Party initially as factory managers. Unlike their predecessors, there is a split within the third generation between the political and military leadership. Their formative experiences included the Sino-Japanese War and the Korean War. From 1997-2002 Jiang Zemin led the fourth generation and China.¹⁴

Jiang was actually a compromise candidate chosen by Deng Xiaoping, Li Peng, Chen Yun, and the retired elders following the Tiananmen crisis to replace the more liberal Zhao Ziyang, who was considered too conciliatory to student protestors. Although not directly involved with the crackdown, Jiang was elevated to central Party positions after the Tiananmen Square protests of 1989 for his role in averting similar protests in Shanghai.

¹² The system adopted by China to bring Hong Kong and Macau under Chinese control while maintaining their individual governments. Hong Kong and Macau operate independently and maintain their capitalist structures within their borders while China represents them in international matters.

¹³ First introduced by Zhou Enlai in 1976, The Four Modernizations focused on developing China’s economic prosperity and centering, in order of priority, on the fields of Agriculture, Industry, Science and technology, and the military.

¹⁴ For more detail see “Jiang Zemin,” Wikipedia [database on-line]; available from http://en.wikipedia.org/wiki/Jiang_Zemin; Internet; accessed 10 April 2005.

Under Jiang's leadership, Mainland China sustained an average of 8% Gross Domestic Product (GDP) growth annually, one of the world's highest rates of per capita economic growth ever. This was mostly achieved by continuing the process of transitioning to a market economy. Jiang's legacy is also cemented by the PRC's successful bids to join the World Trade Organization and host the 2008 Summer Olympics. Despite these achievements, human rights groups have criticized him for not continuing political reform. Instead Jiang acted to maintain the Communist Party's strong control over the vast country, which the party has cited as necessary to maintain order and stability in the vast, rapidly changing country. In addition, he has also come under quiet criticism from within the Communist Party of China for focusing on economic growth at all costs while ignoring the resulting environmental damage of that growth, the widening gap between rich and poor, and the social costs absorbed by those whom economic reform has left behind. Many of the policies of his successors have widely been seen as efforts to address these imbalances and move away from a sole focus on economic growth toward a broader view of development, which incorporates non-economic factors such as health and the environment.

Of note, Jiang was a college-educated engineer, the first Chinese leader with a college degree, the first top communist leader without military experience, and the only Chinese leader to fire missiles close to "rambunctious" Taiwan.¹⁵ Jiang is also known for his Theory of Three Represents, which justifies the incorporation of the new capitalist business class into the party.¹⁶ Conservative critics within the Party have quietly denounced this as a betrayal of communist

¹⁵ "Farewell To Deng Xiaoping," Freep.com [journal on-line]; available from <http://www.freep.com/news/nw/dengxp/dengxp2.htm>; Internet; accessed 10 April 2005.

¹⁶ The Three Represents essentially suggest that the CCP should represent the people's interests and defines the focus of that effort. For more detail see "The Three Represents," Wikipedia [database on-line]; available from http://en.wikipedia.org/wiki/Three_represents; Internet; accessed 10 April 2005.

ideology, while reformers have praised Jiang as a visionary. Some have suggested that incorporating the new capitalist business class into the party is the part of Jiang's legacy that will last, at least in name, as long as the communists remain in power.

In 2004 Jiang transferred power to the fourth generation of leadership. This transition of power officially marked the end of Jiang's era in China, and is the first time that a power transfer was completed in peace since the formation of the Peoples Republic in 1949.

The fourth generation of leaders includes Hu Jintao, Wen Jiabao, and Zeng Qinghong. These men were promoted to top leadership in November 2002, and are expected to remain in power until 2012. Most of them were engineers whose education was disrupted by the Cultural Revolution and, unlike both their predecessors and potential successors they have spent very little time overseas. The leader of the fourth generation, and current leader of China, is Hu Jintao.¹⁷

Hu distinguishes himself from his predecessor in both domestic and foreign policy. In domestic policy, he appears to want more openness to the public on governmental functions and meetings. Additionally, he appears to have a more egalitarian style of leadership than his predecessor, has focused on sectors of the Chinese population that have been left behind by economic reform, and has taken a number of high profile trips to the poorer areas of China with the stated goal of understanding these areas better. In foreign policy, he has differed from his predecessor by actively engaging in the current North Korean crisis. He has also assured neighbors in the region with the concept of China's peaceful rise.¹⁸ Hu has attempted to move

¹⁷ For more detail see "Hu Jintao," Wikipedia [database on-line]; available from http://en.wikipedia.org/wiki/Hu_Jintao; Internet; accessed 10 April 2005.

¹⁸ For a complete definition see "A 'Peaceful Rise' of China," *Beijing Review*, 8 April 2004, 12. "China's Peaceful Rise," Wikipedia [database on-line]; available from http://en.wikipedia.org/wiki/China%27s_peaceful_rise; Internet; accessed 30 April 2005.

China away from a policy of favoring economic growth at all costs toward a more balanced view of growth that addresses social inequality and environmental damage. He has also talked about intra-party democracy, an important focus for many domestic and international observers. Hu's motto is considered to be *yi ren wei ben*, or putting people first.¹⁹

The fifth generation of Chinese leaders includes Li Keqiang, Zhou Qiang, Zhao Leji, and Han Zheng. These men have not been promoted to top leadership positions; they are currently in mid or high level positions such as provincial governors or heads of ministries. The fifth generation of leaders have a decidedly business focus. Some have been educated in engineering, others are successful entrepreneurs, but most majored in business management and finance. And most of the fifth generation of civilian leadership was educated in elite universities in the United States. This is the generation of leaders that the U.S. should focus on influencing for two reasons. First, with a predominantly business background they are the right people to be in power when China will likely be competing with the U.S. to be the largest economy, and therefore the largest economic influence on the world. Second, as leaders without military experience, they may be the wrong people to be in charge of directing the PLA when the PLA will likely be challenging the global dominance the U.S. military now enjoys.

The sixth generation of leaders currently makes up the low and mid level party positions and will likely come to power after 2020. Most were born after the Cultural Revolution and tend to be more nationalistic than their predecessors. Like the fifth generation, most of the members of this generation of leadership are expected to be educated in elite universities in the United States.

¹⁹ "Profile: Hu Jintao," BBC News: World Edition [journal on-line]; available from <http://news.bbc.co.uk/2/hi/asia-pacific/2404129.stm>; Internet; accessed 10 April 2005.

Beginning with Mao we see China mired in isolationism and internal restructuring. When Deng takes power we see the emergence of China on the international scene. Next we see Jiang wholly focused on economic growth, regardless of the social or environmental costs. While each of these leaders plays an important role in the development of modern day China, each leader also has what seems to be a different and perhaps competing focus with the next. However, they all have one thing in common: none of them takes a balanced approach to the growth of China. Hu Jintao and the fourth generation of leadership are the first example in recent history of China taking a balanced approach to the growth of their nation. This balanced approach to growth focuses China's international modus operandi on the broad spectrum of issues available to improve China's domestic conditions and standing in the eyes of the international community. America must make strides to engage China in a way that favorably influences the fourth, fifth and sixth generations of Chinese leaders to maintain a balanced approach to the growth of their nation and their peaceful rise.

CHAPTER THREE:

CURRENT INFLUENCES ON CHINA'S INTERNATIONAL MODUS OPERANDI

Today, more than at any other time in its history, China is a volatile nation. Rapid economic growth, increased international influence, changes within the operating structure of the CCP, and a massive population shift all contribute to the internal volatility of China. While significant, this volatility is not the only influence on the international modus operandi of China. In addition to domestic volatility, China's international modus operandi is influenced by its own international perspective, their National Strategy for defense, and the world's view of China. Each of these factors—internal volatility, international perspective, National Strategy, and the world's view of China—will be examined to determine their influence on China's international modus operandi.

INTERNAL VOLATILITY IN CHINA TODAY

There are many significant changes taking place in China today: rapid economic growth, increased international influence, and both structural and procedural changes within the CCP. However, the most significant development facing China today is population shift. “In the last ten years about one third of China's population has jumped into the industrial revolution and now lives an urban existence.”²⁰ However, the other two thirds of the population is in flux; this

²⁰ Clay Chandler, “Inside the New China,” *Fortune*, 4 October 2004, 90.

situation has created a great divide between the “haves” and the “have-nots”. This disparity of lifestyles alone is a great source of tension within China. Compounding this problem is the plan to move another one third of the population into the cities over the next 25 years, which presents significant challenges of its own.²¹ Once this move is complete China will effectively double the size of their urban population; this will not only have a significant impact on China, but the world as well. Moving more than 300,000,000 people from a rural existence to an urban lifestyle requires an incredible amount of infrastructure development, and will include significant cultural and environmental impact. At a minimum, this shift in population will increase the demand for food, water, housing, transportation, and electricity in China which will impact the global demand for oil, coal, steel, and concrete, and therefore further entrench China in the global economy.

Most significantly for the CCP, however, is that an increase in educated citizens will affect their ability to govern. When the potential number of students rioting doubles in size, does the PLA’s reaction force need to double in size? Similarly, when the number of homeless persons doubles, or the crime rate doubles, or any other social problem doubles, will a one-party system be able to meet the needs of the society? One of the largest issues the CCP faces today is governing a nation of 1.3 billion people with a one-party system. Unfortunately for China, no other nation has the experience to help China in this area. As a nation, China is transitioning from communism to some form of government that combines communism and capitalism in a manner and on a scale never before attempted. China’s increased dependence on the global economy and increased stress on one party control of the government impacts on their

²¹ Chandler, “Inside the New China,” 90.

international modus operandi, causing it to be increasingly sensitive to the opinion of the international community.

CHINA'S INTERNATIONAL PERSPECTIVE

China views itself as having a place at the table of world power and influence. This is not to say that China intends to rule the world or even achieve the superpower status the U.S. enjoys today. On the contrary, according to their own National Defense Strategy for 2004, “China will never go for expansion, nor will it seek hegemony.”²² China sees the world as trending towards “multipolarization and economic globalization” and “democratized international relations,” and envisions itself as a key player in the balance of world power.²³ China views itself as a unifying force for the Asia-Pacific region and has joined organizations such as Asia-Pacific Economic Cooperation (APEC) and Association of Southeast Asian Nations (ASEAN), as well as participated in recent dialogue concerning North Korea and nuclear weapons proliferation. China recognizes the significant gap between themselves and the U.S. in military technology and capability and they are making great strides to move from semi-mechanization to mechanization and from mechanization to informationalization of the PLA.²⁴ China views Taiwan as an internal matter and blames U.S. interference for keeping the situation

²² “China’s National Defense in 2004” Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, Forward, 2nd paragraph.

²³ “China’s National Defense in 2004” Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, The Security Situation, 1st paragraph.

²⁴ “China’s National Defense in 2004” Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, The Security Situation, 2nd paragraph.

on an unstable footing. While China professes a stable, robust and growing society, they also recognize their domestic shortfalls.

China is wrestling with some significant domestic issues: environmental pollution, a potentially overheated economy which could lead to significant inflation, a banking industry that is essentially insolvent, and a health organization in need of significant improvement. China recognizes these issues and is beginning to take steps to correct the problems, but they have a long way to go before lasting change can be implemented. Specifically, with the handover of power to Hu Jintao, China has begun to take a more balanced approach to development, and has focused China's international modus operandi on the broad spectrum of issues available to improve China's domestic conditions, and standing in the eyes of the international community.

CHINA'S NATIONAL STRATEGY

One model of identifying the influences a nation brings to bear on a situation is the DIME model. In essence the DIME model looks at international influence by analyzing the impact each element of national power—diplomacy, information, military, and economy—has on a nation. Over the past 30 years China has developed very effective diplomatic and information functions of national influence by building alliances and joining international trade organizations from a position of weakness. By developing very effective diplomatic and information functions China is able to make friends and influence nations around the globe without the threat of military force. Recently, China has developed a very influential economic arm of influence and has slowly transitioned to a position of strength in both Southeast Asia and the world. Finally,

China's military has only recently grown into a regional influence, and is not projected to have significant influence outside the region in the near term. Additionally, China's regional military influence is somewhat overshadowed by U.S. protection of nations throughout the Asia-Pacific theater - most notably Taiwan.

The world community perceives the rise of China as threatening in many ways, and the most effective action China has taken to mitigate international fears is to profess the idea of China's peaceful rise. "China's peaceful rise" is an information campaign used by China to describe their economic and political growth over the next 50 years. The premise is that in the past, the rise of a new power often results in a drastic change to the global political structure, and war may occur as these powers follow a policy of aggression and expansion. Alternatively, China professes to make use of the current peaceful environment to continue to develop and grow, and in turn help to maintain this peaceful environment.

The peaceful rise is used primarily to reassure the nations of East Asia and the U.S. that China's rise in military and economic prominence will not be a threat to peace and stability, and that other nations will benefit from China's rise. Explicit in this campaign is the notion that China represents less economic competition than economic opportunity. China emphasizes the importance of soft power and the premise that good relations with its neighbors will enhance rather than diminish Chinese comprehensive national power.²⁵ Implicit in the concept is that nations outside of China will be able to materially benefit from China's economic rise through trade and investment. Diplomatically, the doctrine emphasizes multilateral cooperation sought through institutions such as the Six Power talks and the Shanghai Cooperation Organization

²⁵ For a complete discussion of soft power see Joseph Nye, *Soft Power: The Means to Success in World Politics* (United States: Public Affairs, 2004).

(SCO). It also calls for less assertiveness in border disputes such as the Spratly Islands, Diaoyutai/Senkaku, and the Aksai Chin, and seeks to avoid confrontation with the U.S.²⁶

China has chosen to avoid confrontation with the U.S. for two reasons. First, Chinese leadership concluded in the late 1990s that the United States was not a declining power and that for the first part of the 21st century no alliance of great powers could constrain U.S. actions.²⁷ Second, trade with the United States has been and will continue to be essential for China's economic growth. Thus China seeks to both prevent the United States from becoming an enemy, as well as make it impossible for the United States to follow a strategy of containment toward China.

According to "China's National Defense in 2004" China has five basic goals for maintaining national security. The first goal is to stop separation, promote unification, guard against and resist aggression, and defend national sovereignty, territorial integrity and maritime rights and interests. Second, safeguard the interests of national development, promote economic and social development in an all-round, coordinated and sustainable way and steadily increase national strength. Third, modernize China's national defense under the conditions of informationalization. Fourth, safeguard the political, economic, and cultural rights and interests of the Chinese people, and maintain public order and social stability. And finally, pursue an independent foreign policy of peace.²⁸ These goals are listed in order of importance to China, and it is of no small consequence that the first goal refers to the unification of Taiwan.

²⁶ For a complete definition see "A 'Peaceful Rise' of China," *Beijing Review*, 8 April 2004, 12. "China's Peaceful Rise," Wikipedia [database on-line]; available from http://en.wikipedia.org/wiki/China%27s_peaceful_rise; Internet; accessed 30 April 2005.

²⁷ "China's National Defense in 2002" Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005.

²⁸ "China's National Defense in 2004" Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, Chapter Two. National Defense Policy.

“China’s National Defense in 2004” also refers on several occasions to China’s commitment to reunification with Taiwan, and states that “U.S. action does not serve a stable situation across the Taiwan Straits.”²⁹ A quick comparison of previous White Papers from China will show that the language has become increasingly less ambiguous in this area. The first goal is also a statement of China’s intent to expand influence over maritime rights and interests, specifically the Sea Lines of Communication (SLOCs) in the South China Sea, and the islands under dispute in that region.

The second goal is a reflection of Hu Jintao’s focus on a balanced approach to China’s development with a nod to addressing the social and environmental issues currently facing China. The third goal is addressed more specifically in chapter three of the White Paper and it basically recognizes how far China is behind the U.S. in military technology. This section also assures the reader (most likely PLA officers) that China is committed to making great strides in catching up. The fourth goal talks about maintaining social order, and the fifth professes China’s peaceful rise.

From a Chinese perspective, these goals are all domestic issues. China considers Taiwan to be an internal issue just as the U.S. would consider it an internal issue if Hawaii voted to secede from the U.S. in 2006. Additionally, China considers the international waters of the South China Sea as sovereign territory for two reasons: it protects vital supply lines, and it extends China’s defensive perimeter beyond its coastline. Currently China is content to have influence over the region and does not attempt to exercise control; however, it is not unreasonable to assume they are positioning themselves to be able to control the area without

²⁹ “China’s National Defense in 2004” Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, Chapter One. The Security Situation, 6th paragraph.

military intervention. As China's influence grows its international modus operandi will continue to be subtle but specific in order to maintain China's status in the eyes of the international community, while protecting its vital interests.

WORLD PERCEPTION AND CHINA'S INTERNATIONAL MODUS OPERANDI

Environmentally, China is in poor shape. Rapid industrialization has polluted most of China's water sources and the influx of automobiles coupled with the dependence on coal-fired power plants has increased air pollution drastically. Additionally, China has several demanding resource constraints. First, "China is facing a water shortage that threatens the continued progress of its economic development."³⁰ Second, China consumes over 30% of the world's fish, coal, cigarettes, cotton, and rice, and over 50% of the world's pork; these consumption rates leave China vulnerable to influence from world markets.³¹ Third, China is now the second leading importer of oil after the U.S., which leaves them vulnerable to the same influences the U.S. feels from the oil producing regions of the world. China's centralized economy lacks a coherent central plan, which means their economy is fundamentally dependent on foreign multinational corporations for growth.³² Finally, China's financial system is underdeveloped; specifically, their national banking system is unable to operate without support from the government, which is a large cause for concern. In general China's economy is very vulnerable to market forces and has a very limited ability to recover if it gets off track.

³⁰ Nicholas Stein, "Water, Water," *Fortune*, 4 October 2004, 115.

³¹ Brenda Cherry, "What China Eats (and Drinks and ...)," *Fortune*, 4 October 2004, 152.

³² Chandler, "Inside the New China," 96.

While the world economy sees the enormous potential of China as an emerging market, the international community has not lost sight of the fact that by many metrics China is still a third-world (or developing) nation. In fact, if it weren't for the sheer volume of China's population and therefore gross demand on the world economy, China, by all accounts, would be considered a third-world nation, and would not be of much interest to the global economy or international community. This characterization has become central to the focus of China's international modus operandi on improving the status of China, both real and perceived, in the eyes of the international community.

China's leadership understands they are operating from a precarious position, or a position of weakness: delicately balancing China's incredible growth while navigating domestic social, political, and economic pitfalls is only the beginning of the problem. Add to that increased internal demand for imports which leads to an increased requirement to protect ever-expanding regional supply lines. Then, top it all off with a fickle international community that cannot decide whether to fuel China's growth out of greed or thwart their development out of fear and one begins to understand China's focus on subtlety as an integral part of their international modus operandi. This subtlety applied across a broad spectrum of influence is highlighted in the case study of Hutchinson-Whampoa Ltd. in the following chapter.

CHAPTER FOUR:
HUTCHINSON-WHAMPOA LTD., A CASE STUDY

If the Marine Corps were given the mission to exert U.S. influence on a nation we would call it forcible entry and there would be nothing subtle about it. China on the other hand uses very subtle and disarming tactics, which they have employed and will continue to employ as their presence and influence grows on the world scene. China's recent history is littered with examples of the depth and breadth of China's subtle influence throughout the globe, too many to be covered here. One example of China's influence felt throughout the world is embodied by the actions of Hutchinson Whampoa Limited (HWL). HWL is a very successful multi-national corporation with influence in many sectors of international business. Because HWL is also inextricably linked to the PLA, it provides an excellent example of how China's international modus operandi has evolved to meet the demands of the global economy.

China's leaders understand they are operating from a position that demands subtlety of action. To begin to understand how China will achieve its goals from a Western perspective, the first thing to be taken into consideration is the basis of Chinese warfare, "to defeat the enemy without fighting."³³ The second consideration is how to land after vaulting over the mental hurdle of accepting that the PLA is not an offensive weapon. China is building the PLA to support a "national defense policy of a defensive nature."³⁴ While there is a fine line between

³³ Sun Tzu

³⁴ "China's National Defense in 2004" Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, Forward, 2nd paragraph.

quelling an uprising in a province attempting to secede from a nation and an outright attack on a neighboring country, it is useful to consider, for a moment, China's assertion that they will not attack across international boundaries as a credible assertion. According to "China's National Defense in 2004" the PLA is not being built to attack anyone, not Taiwan, definitely not the U.S., and certainly not any of China's neighbors.³⁵ The PLA is strictly a defensive tool; however, the PLA does have offensive capabilities. To that end, China states emphatically that they consider any attempt to separate Taiwan from China to be an attack, and the PLA is standing by to "crush" any such attempt.³⁶ If China is to be believed, one can surmise that if China is not provoked, the PLA won't attack. This point is obviously not absolute; however, it leads to a useful question: "Without the direct involvement of the PLA, what will China do to influence the world in their favor?" The obvious answer is that China has already begun shaping the world in their favor through a gradual diffusion of their influence, *you dian dao mian*, from a key point outward over a broad surface".³⁷ This answer suggests China's international modus operandi will include subtle acts focused on specific points across a broad spectrum of issues to achieve their goals; HWL is a tangible example of how this modus operandi is executed.

HWL is a leading international corporation committed to innovation and technology with businesses spanning the globe. Its diverse array of holdings include; some of the world's biggest retailers; property development and infrastructure; and, the most technologically advanced and marketing-savvy telecommunications operators in the world today. HWL reports consolidated

³⁵ "China's National Defense in 2004" Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, Forward, 2nd paragraph.

³⁶ "China's National Defense in 2004" Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, Chapter Two. National Defense Policy, 4th paragraph.

³⁷ Ororic Y.K. Wou, *Mobilizing the Masses: Building Revolution in Henan* (Stanford, Ca.: Stanford University Press, 1994), 375.

turnover of approximately Hong Kong \$145 billion (US\$18,660 million) and Hong Kong \$81 billion (US\$10,420 million) for the year ended 31 December 2003 and for the six months ended 30 June 2004 respectively. With operations in 45 countries and more than 180,000 employees worldwide, HWL has five core businesses: ports and related services, telecommunications, property and hotels, retail and manufacturing, and energy and infrastructure.³⁸

HWL is based in China and has ties to the Chinese Communist Party, and the PLA. While some argue that HWL is an extension of the PLA or CCP, others draw similarities between HWL and corporations of the same scale and influence headquartered in America. No matter, the case the fact remains that things that are good for HWL are good for China. HWL has a number of subsidiaries, most notably the Panama Ports Company (PPC) and Hutchison Port Holdings (HPH) Group. PPC is a member of HPH Group, the world's leading port investor, developer and operator with interest in 15 countries throughout Asia, Middle East, Africa, Europe and the Americas. Today, HPH operates a total of 30 ports, together with a number of transportation related service companies.³⁹ This essay does not afford the space to cover the implications of all of HWL's holdings as they relate to strategic shipping choke points and economic influence throughout the globe however two examples of HWL's influence are of particular interest: the Panama Canal and the Port of Long Beach, California.

PPC operates the Ports of Balboa and Cristobal located at each end of the Panama Canal. Serving as major hubs for the Atlantic and Pacific trade routes, the ports are equipped with comprehensive facilities for handling containers, general cargo, bulk cargo, and passenger

³⁸ Hutchinson-Whampoa [corporate website]; available from <http://www.hutchison-whampoa.com/eng/index.htm>; Internet; accessed 16 March 2005.

³⁹ Hutchinson-Whampoa [corporate website]; available from <http://www.hutchison-whampoa.com/eng/index.htm>; Internet; accessed 20 March 2005.

vessels.⁴⁰ While control of one of the world's maritime choke points by a potential adversary has significant economic and military implications in and of itself, there seem to be mitigating factors that make this acceptable to the U.S. First, the U.S. Navy doesn't need to move a large number of ships through the Panama Canal in support of operations, as it did in the past. And second, HWL's goals appear to be financially motivated, rather than militarily or politically motivated, as their development of Balboa and Cristobal suggests.

A more interesting factor than the development of Balboa and Cristobal is an analysis of those actions taken in conjunction with this move. Once HWL gained control of the Panama Canal, they then gained control of the gateway to the Americas: Freeport, Grand Bahama Island. Freeport's strategic location at the gateway to the Americas is a major incentive to industrial development. The city is only a 35-minute plane ride from southern Florida and its harbor is the closest offshore port to the United States. The free trade zone is well positioned for global commerce, located at the crossroads of routes between Europe, North and South American trade links, and international shipping transiting through the Panama Canal.⁴¹ This significantly increased HWL's influence by allowing them to profit from virtually every ship transiting the Caribbean and the Panama Canal. With the expansion of the port facility at Freeport, fewer restrictions to international vessels, and ease of transit, more than 60% of the traffic that once flowed through Miami now flows through Freeport. This reduction in traffic has significantly impacted Florida's economy.

⁴⁰ Hutchinson-Whampoa [corporate website]; available from <http://www.hutchison-whampoa.com/eng/index.htm>; Internet; accessed 20 March 2005.

⁴¹ Hutchinson-Whampoa [corporate website]; available from <http://www.geographia.com/bahamas/investment/freep01.htm>; Internet; accessed 20 January 2005.

In addition to the development of the port facilities at Freeport, HWL is involved in real estate development in the Caribbean.⁴² At Tung Chung, HWL has a joint venture interest in Caribbean Coast, a multiphase residential and commercial development, which has a total floor area of approximately 4.4 million sq ft. Construction is on schedule for phased completion between 2002 and 2005.⁴³ While the U.S. appears to be ignoring or antagonizing its neighbors in the Caribbean, China appears to be befriending the island nations in the Caribbean. While expanding business opportunities are a viable reason for HWL to invest in the Caribbean, world influence is a more compelling reason for China to ally itself with the nations of the Caribbean.

Allowing HWL to gain control of Freeport may have been a strategic move by the U.S.; if the U.S. plan was to reduce traffic through Miami thereby reducing U.S. exposure to potential threats entering the U.S. through the port of Miami. However, it is more likely the U.S. was caught unaware of the implications of the transactions taking place in their backyard. On the other hand the U.S. did, at the eleventh hour, block HWL's attempt to buy controlling interest in the Port of Long Beach, California. This is a great example of HWL and by implication, China subtly spreading their influence throughout the globe for both political and economic gain.

The argument that the U.S. should not be concerned by the ownership of the Panama Canal or the Port of Long Beach by a foreign government is generally accompanied by the assertion that the U.S. military could easily retake either facility in less than one month if need be. However, one month is an incredibly long time considering West Coast ports handled \$260 billion of waterborne commerce in 1999, more than 7% of the U.S. Gross Domestic Product;

⁴² Peter Richards, "Grenada Could be Latest 'Convert' to China," Inter Press Service News Agency, 2004 [journal on-line]; available from <http://www.ipsnews.net/africa/print.asp?idnews=26719>; Internet; accessed 23 December 2004.

⁴³ Hutchinson-Whampoa.com [corporate website]; available from <http://www.geographia.com/bahamas/investment/freep01.htm>; Internet; accessed 20 January 2005.

and, Port cargo supports more than 3.3 million jobs and amounts to approximately 42% of U.S. waterborne trade.⁴⁴ If the Panama Canal or the Port of Long Beach closes for an hour, the financial implications could conservatively reach 30 million dollars; if they close for a day the financial implications approach the billion-dollar mark.

A billion dollar impact on the global economy may not be tremendous, but it is significant enough to cause the U.S. to reposition military forces. Therefore, if China's intent is to make the U.S. move forces away from Taiwan, applying pressure at the Panama Canal might be an effective means to that end; and, HWL is in a position to apply that pressure.

HWL provides an example of China's subtle approach to influence on the international stage and is reflective of their current international modus operandi. Many, including China, believe that China has a long way to go before they are considered a nation with global influence in all areas of DIME, and China has set goals to answer these dissenting opinions. Specifically, China has addressed stabilizing their economy and financial institutions, and solving internal issues such as Taiwan, pollution, and dwindling resources. However, others assert that China is poised to take a seat at the table of international power and influence today. This case study is an example of China's international modus operandi in action. HWL's diverse array of holdings allow China to exert its influence subtly across a broad spectrum of issues all focused on improving China's status, both real and perceived, in the eyes of the international community.

⁴⁴ Sean Kilcarr, "ILWU conducting slowdown at Port of Long Beach," 20 Sep 2002 [journal on-line]; available from http://fleetowner.com/news/fleet_ilwu_conducting_slowdown/; Internet; accessed 16 March 2005.

CHAPTER FIVE:

WHAT LIES AHEAD

The path taken by China, from the Chinese Civil War through the opening of Special Economic Zones to the present, will significantly shape the decision making process of the leadership of tomorrow. China understands how isolationism has helped and hurt them, why they need to keep moving toward embracing the global community, and how to subtly shape the global environment in their favor. China has experienced first hand the pitfalls of a leadership that is too focused on a specific approach toward modernization and growth, and understands that a balanced approach will work best on the road ahead. Finally, China understands the road before them requires they solve significant domestic issues before they will be considered a true power player in international affairs. Each generation of Chinese leadership cultivates a better understanding of the domestic and international issues facing China, and the additive nature of the succession of leadership in the CCP makes this process more potent and powerful.

There are three issues that directly threaten the preservation of China: the volatile internal issues, external input to their economic rise, and world opinion. China's international modus operandi—subtle and specific acts across a broad spectrum of issues focused on elevating China's status, both real and perceived, in the eyes of the international community—is focused on addressing internal volatility, external input to their economy, and world opinion.

The following section will cover the specific areas of interest China will target from both a regional and a global perspective. Additionally, this section will give a recommendation for how the U.S. should approach China's specific areas of interest.

WHERE CHINA WILL FOCUS

China's specific areas of interest are driven by self-preservation. There are three issues that directly threaten the preservation of China: volatile internal issues, external influences on their economic rise, and world opinion.

There are four internal issues China must address to stabilize the nation. The first three are: solve the social issues associated with rapid expansion; solve the internal banking/financial system issues; and address the issue of how a one party system can effectively administer a nation as large and diverse as China. These are largely internal matters, and for the most part they will be resolved over time and with the support and coaxing of international organizations and treaty partners. The U.S. should make it clear they are available to support China because a prosperous and stable China is good for the U.S., but should remain as removed as possible to avoid conflict with China. Avoiding direct conflict in this arena will allow the U.S. more maneuver space in other arenas.

The fourth internal issue facing China is the issue of Taiwan. According to "China's National Defense in 2004", China cannot allow Taiwan to remain separate, or achieve independence.⁴⁵ Taken in consideration with the first goal of "China's National Defense in

⁴⁵ "China's National Defense in 2004" Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, Chapter Two. National Defense Policy, 4th paragraph.

2004”—“to stop separation, promote unification, guard against and resist aggression, and defend national sovereignty, territorial integrity and maritime rights and interests”—it is obvious China is very concerned about the issue of Taiwan. Therefore, if China will not allow Taiwan to succeed it is reasonable to assume they have four options: achieve reunification through diplomacy; force reunification through other than military force; force reunification by military force; or some combination of the aforementioned options. The rhetoric thrown back and forth across the Taiwan Straits seems to be increasingly antagonistic which suggests the first option is becoming less viable. The final two options are currently in the works. China is conducting operations to influence Taiwan with other than military means. A subtle example is the dwindling number of nations that recognize Taiwan as an independent nation. An obvious example is that China has established a law against secession effectively telling the world, and Taiwan, that China believes they are legally justified in attacking Taiwan if specific criteria are met.⁴⁶ This diplomatic rhetoric is an attempt to force Taiwan’s bluff, and put the U.S. in a position of having less international support to oppose China. China is attempting to set conditions they hope will prevent U.S. intervention in the Taiwan Straits and prevent Taiwan from resisting.

The best position for the U.S to take is to stall the unification as long as possible for two reasons. First, the bulk of the issues Taiwan has with reunification revolve around the “suppressive” nature of the CCP—suppressive to personal liberties as well as access to information. As China continues to grow and develop, the CCP will have to adopt a less suppressive posture in order for the Chinese economy to remain competitive and accommodate an urban population in excess of 600,000,000. Therefore, if the U.S. can stall long enough, the

⁴⁶ “China: No independence for Taiwan”, CNN.com, 5 March 2005 [magazine on-line]; available from <http://www.cnn.com/2005/WORLD/asiapcf/03/05/china.npc/>; Internet; accessed 5 March 2005.

conditions in China will eventually become less suppressive and therefore more tolerable to Taiwan. Second, the longer the U.S. stalls, the longer egos and political positions have to cool down. The rhetoric has become so inflammatory that both sides need time to be able to either back down from their positions, or put new leaders in place.

The second area of interest for China in the future is maintaining the inputs to their growing economy. These include commodities as well as the means to both access and transport those commodities to and from China over SLOCs. China is locked into rapid development and becoming more and more dependent on imports to continue their rapid growth. Oil is one of many resources limiting China's rapid advance. China continues to develop overland sources of oil; however, the problem of SLOCs remains. China must gain control of, and maintain influence over, their critical SLOCs. To address this specifically, China will further relations with North Korea, South Korea, Japan, and Taiwan as well as the nations around the South China Sea to ensure stability in their SLOCs. Additionally, China will increase their influence in and around the Straits of Malacca. And finally, China will continue to increase ties to the U.S.

The focus for China in this respect is regional dominance, not as Americans may think of the term regional dominance, but consistent with China's international modus operandi—subtle and specific acts that advance China's position. For example, China has recently partnered with an Australian oil company, which serves three specific purposes and one overarching goal. First, it gives China access to more oil. Second, partnering with Australia gives China credibility in the region as well as with the world because Australia is well regarded throughout the region and the world. And the third specific purpose is that it puts Australia in a position of having to assist China in securing their shared SLOCs to ensure China and Australia achieve their shared goal.

China's overarching goal is leverage in the international community. Through its subtle modus operandi China is deliberately gaining leverage with Australia, a traditional U.S. ally, against the U.S. It is clear today that Australia would not favor China over the U.S. in any matter of international significance. However, in matters of the Australian economy, Australia obviously does a cost-benefit-analysis and chooses the option that is most economically beneficial for Australia. This is not to suggest that Australia is being co-opted by China. However, this example does suggest that if China continues to achieve success with their international modus operandi they will, at some point in the next ten to 40 years develop enough influence with traditional U.S. allies to reach a tipping point of international opinion away from the U.S. and in favor of China.⁴⁷

The U.S. can counter China's international modus operandi in this area in two ways. First, the U.S. must ensure that they are aware of all alliances at all levels: diplomatic, economic, and military. This is a tall order; however, it is also a matter of public record in most cases, not a hidden or clandestine event. And second, the U.S. must track these alliances and the posture a nation or a group of nations must develop due to these alliances. This will aid the U.S. in navigating the murky waters of Asia, and allow the U.S. to maintain favorable world opinion.

The third area of interest for China is World opinion. Of particular importance is China's perception of the balance of world power. China believes that "tendencies of hegemonism and unilateralism have gained new ground."⁴⁸ Which means, attempts by the powerful nations of the world to strike a balance against U.S. superpower have been unsuccessful; however, China is

⁴⁷ For a complete discussion of the tipping point see Malcolm Gladwell, *The Tipping Point: How Little Things Can Make a Big Difference* (United States: Little, Brown and Company, 2000; First Back Bay, 2002).

⁴⁸ "China's National Defense in 2004" Global Security.Org [database on-line]; available from <http://www.globalsecurity.org/index.html>; Internet; accessed 25 April 2005, Chapter One. The Security Situation, 2nd paragraph.

willing to join with other powerful nations to balance the power of the U.S. This position garners support for China from the international community and allows China more freedom of action in the face of U.S. hegemony. China needs this support to continue to do things the U.S. does not want it to do.

While favorable world opinion allows China some latitude, the need for favorable world opinion drives China as well. For example, China is being very careful with the Taiwan issue to ensure they do not inflame critics or create adversaries among the international community. They have recently enacted a domestic law prohibiting secession. This ploy by China has two purposes: first, it is designed to warn Taiwan; and second, it is an attempt to garner favorable world opinion. If China can demonstrate to the world that they have given Taiwan every opportunity to continue with the status quo, and that Taiwan has blatantly crossed “the line”, then China has the potential to gain world support against Taiwan. This scenario has the potential to leave the U.S. in a position of being unable to garner significant international support against China with respect to Taiwan. The U.S. is obviously capable of intervening unilaterally in the Taiwan Straits; however, maintaining favorable world opinion for the U.S. position is critical if the U.S. does not want to act unilaterally against China.

In order for the U.S. to counter China’s bid to garner favorable world opinion away from the U.S. the U.S. has two options: either improve the diplomatic and information functions of national power thereby improving foreign relations with other nations, or be prepared to act unilaterally. In the interim, a course of action that may help the U.S. mitigate the risk of China attacking Taiwan is to identify, befriend, and co-opt the nations China is targeting to support an attack on Taiwan. For example, consider the nations in Southeast Asia that China could potentially influence. Of those nations, how many would the U.S. need to create a coalition in

support of Taiwan against China? Obviously some nations are more influential than others; using this rationale, the U.S. could develop a list of nations whose support the U.S. would prefer to have against China. This list of “swing-nations” would focus U.S. diplomatic efforts on the areas that matter most in the short-term situation with Taiwan.

In summary, the U.S. must understand the three issues China appears most concerned with—volatile internal issues, external influences on their economic rise, and world opinion—and they must understand how to deal with these issues to ensure success in future relations with China. The U.S. should support China in the resolution of their volatile internal issues in order to ensure China’s peaceful rise. The exception to this statement is the issue of Taiwan. Delaying the resolution of the issue of Taiwan is the course of action that will have the least negative effects with respect to U.S. involvement. Understanding China’s second area of interest is simple enough, understanding the subtlety with which China is expanding their regional influence over economic factors with the goal of influencing the world economy in their favor is a detailed and daunting task. Tracking trade agreements, alliances, and national posturing is a step in the right direction; aggregating the data to arrive at a meaningful result will be demanding. Just as demanding is the continuing contest to maintain world opinion. China will side with other nations to sway the balance of power against hegemony, or U.S. unilateralism, in an effort to address their third area of interest, World opinion.

Overall, avoiding direct conflict with China is in the best interest of the world. Peripheral contact by the U.S., either in support or admonishment, will allow China to mature and stabilize while allowing the U.S. the maneuver space to evolve and accommodate the rise of China.

CHAPTER SIX: CONCLUSION

China's recent history is rife with events that influence their current thinking. The three events that most significantly influence China's perspective today are: The Chinese Civil War; Special Economic Zones; and China's leaders. The Civil War focused China internally and allowed them to develop rapidly with little unwanted outside interference. Mao's focus on isolationism has been difficult to overcome however, and the opening of Special Economic Zones has focused China's international modus operandi on a greater range of issues and towards a greater consideration of their status in the international community.

Since Deng Xiaoping opened China, each successive generation of leaders has adjusted the focus of China's efforts which has led to a more balanced approach to the growth of China. This balanced approach forces China's international modus operandi to consider a broader spectrum of issues to improve China's domestic conditions and their standing in the eyes of the international community. China's standing in the international community grows increasingly important as they increase their dependence on the global economy. Additionally, China's continued reliance on one party control of their government adds to the sensitivity of their international modus operandi to world opinion. Therefore, as China's regional influence grows its international modus operandi will continue to be subtle but specific in order to maintain their status in the eyes of the international community.

China's leadership understands they are operating from a precarious position—balancing growth while navigating domestic social, political, and economic pitfalls; an increased

requirement to protect ever expanding regional supply lines; and, an international community that cannot decide whether to fuel China's growth out of greed or thwart their development out of fear—which leads China to rely on subtlety as an integral part of their international modus operandi. The actions of Hutchinson-Whampoa Ltd. are an example of how China exerts its influence subtly and specifically across a broad spectrum of issues in order to improve China's status, both real and perceived, in the eyes of the international community.

Understanding how and why China takes specific courses of action is the first step in future relations with China, the next step is to understand what lies ahead. Today, China is most concerned with volatile internal issues, external influences on their economy, and world opinion. Understanding how China will apply their international modus operandi to these challenges will ensure U.S. success in future relations with China.

With the exception of the issue of Taiwan, U.S. support for China's efforts to quell internal volatility will assist China's peaceful rise. On the issue of Taiwan, the U.S. must stall the use of force to resolve the issue of Taiwan in order to allow the U.S. and China to avoid direct conflict and preserve the peace until such time as Taiwan and China can agree on a peaceful resolution.

External influences on China's emerging economy are significant. The U.S. must work to understand the influence China is building through regional trade agreements, alliances, and national posturing in an attempt to secure external influences to their economy. By building an understanding of the subtle and specific ways China is expanding their regional influence the U.S. should be able to maintain their regional political and economic influence and therefore their influence over world opinion. World opinion is very important to an emerging nation; to

garner world opinion, China will side with other nations to sway the balance of power against the U.S. Recognizing this strategy is central to U.S. success in future international relations.

And finally, the U.S. should focus primarily on peripheral contact with China, whether in support or admonishment. Avoiding direct conflict will allow China the latitude to mature and stabilize while limiting the potential to clash with the U.S. Additionally, this will allow the U.S. the maneuver space to avoid direct confrontation with China and accommodate China's peaceful rise.

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