

Understanding China's Rise: Implications for Security and Logistics

National Defense Transportation Association

Fall Meeting – 9 October 2019

Agenda

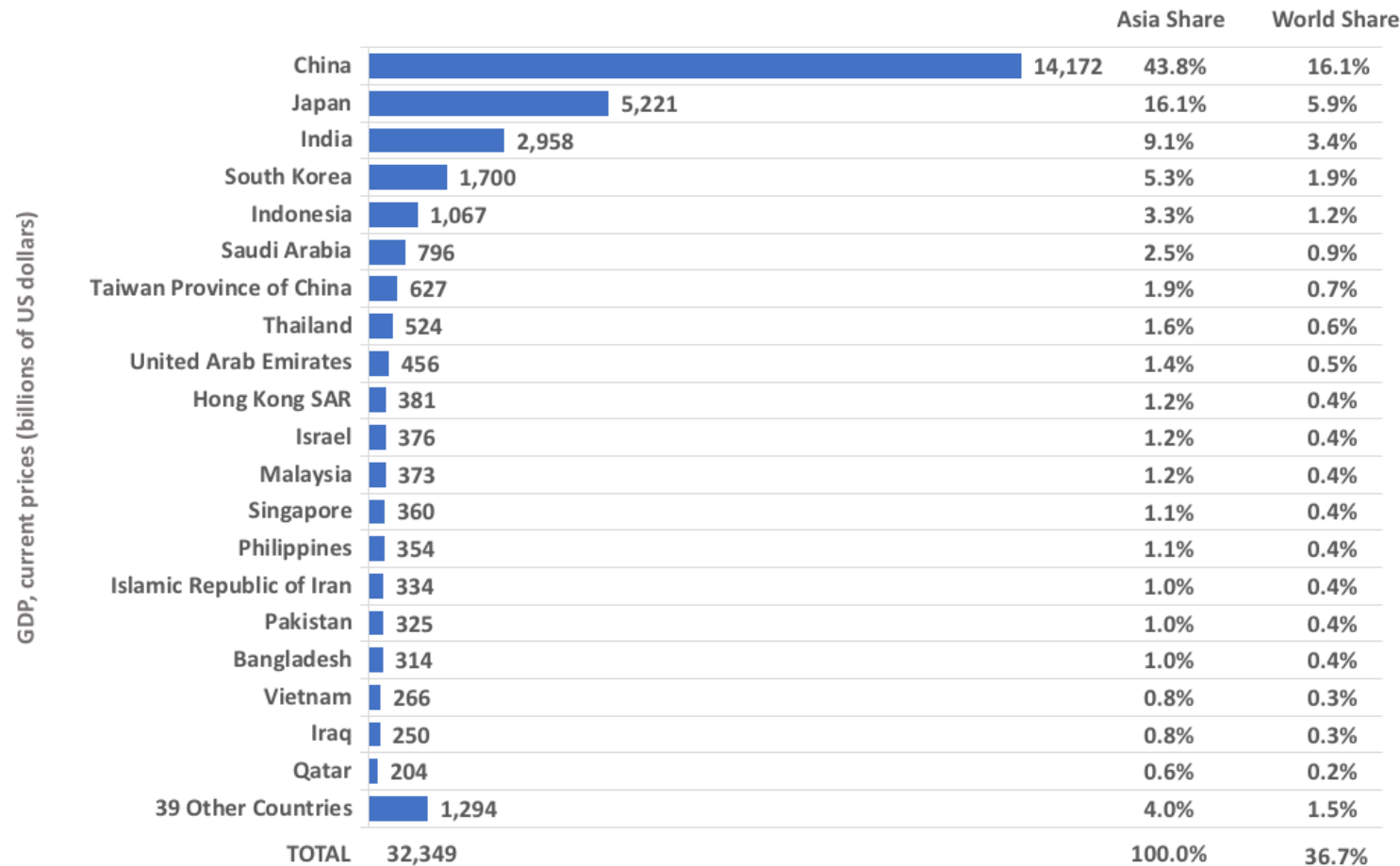
- Introduction
- Asian Logistics and Economics
- Chinese Foreign and Security Policy
- Sources of Chinese Policy
- Chinese Geopolitical Priorities
- Implications



Asian Logistics and Economics

East and South-East Asian GDP

ASIA TOP-20 COUNTRIES BY GDP – 2019 FORECAST



- East and South-East Asian now account for 30% of world GDP
- Asian economies are fast-growing and diversified
- Export-driven, import-dependent model creates substantial logistical demand



Asian Logistics and Economics

Asian Air Traffic

Table 1 – Total passenger traffic 2018 (preliminary)

RANK 2018	RANK 2017	AIRPORT CITY / COUNTRY / CODE	PASSENGERS	
			(Enplaning and deplaning)	Percent change
1	1	ATLANTA GA, US (ATL)	107 394 029	3.3
2	2	BEIJING, CN (PEK)	100 983 290	5.4
3	3	DUBAI, AE (DXB)	89 149 387	1.0
4	5	LOS ANGELES CA, US (LAX)	87 534 384	3.5
5	4	TOKYO, JP (HND)	87 131 973	2.0
6	6	CHICAGO IL, US (ORD)	83 339 186	4.4
7	7	LONDON, GB (LHR)	80 126 320	2.7
8	8	HONG KONG, HK (HKG)	74 517 402	2.6
9	9	SHANGHAI, CN (PVG)	74 006 331	5.7
10	10	PARIS, FR (CDG)	72 229 723	4.0
11	11	AMSTERDAM, NL (AMS)	71 053 147	3.7
12	16	NEW DELHI, IN (DEL)	69 900 938	10.2
13	13	GUANGZHOU, CN (CAN)	69 769 497	6.0
14	14	FRANKFURT, DE (FRA)	69 510 269	7.8
15	12	DALLAS/FORT WORTH TX, US (DFW)	69 112 607	3.0
16	19	INCHEON, KR (ICN)	68 350 784	10.0
17	15	ISTANBUL, TR (IST)	68 192 683	6.4
18	17	JAKARTA, ID (CGK)	66 908 159	6.2
19	18	SINGAPORE, SG (SIN)	65 628 000	5.5
20	20	DENVER CO, US (DEN)	64 494 613	5.1
TOP 20 FOR 2018			1 539 332 722	4.7

Table 3 – Total air cargo traffic 2018 (preliminary)

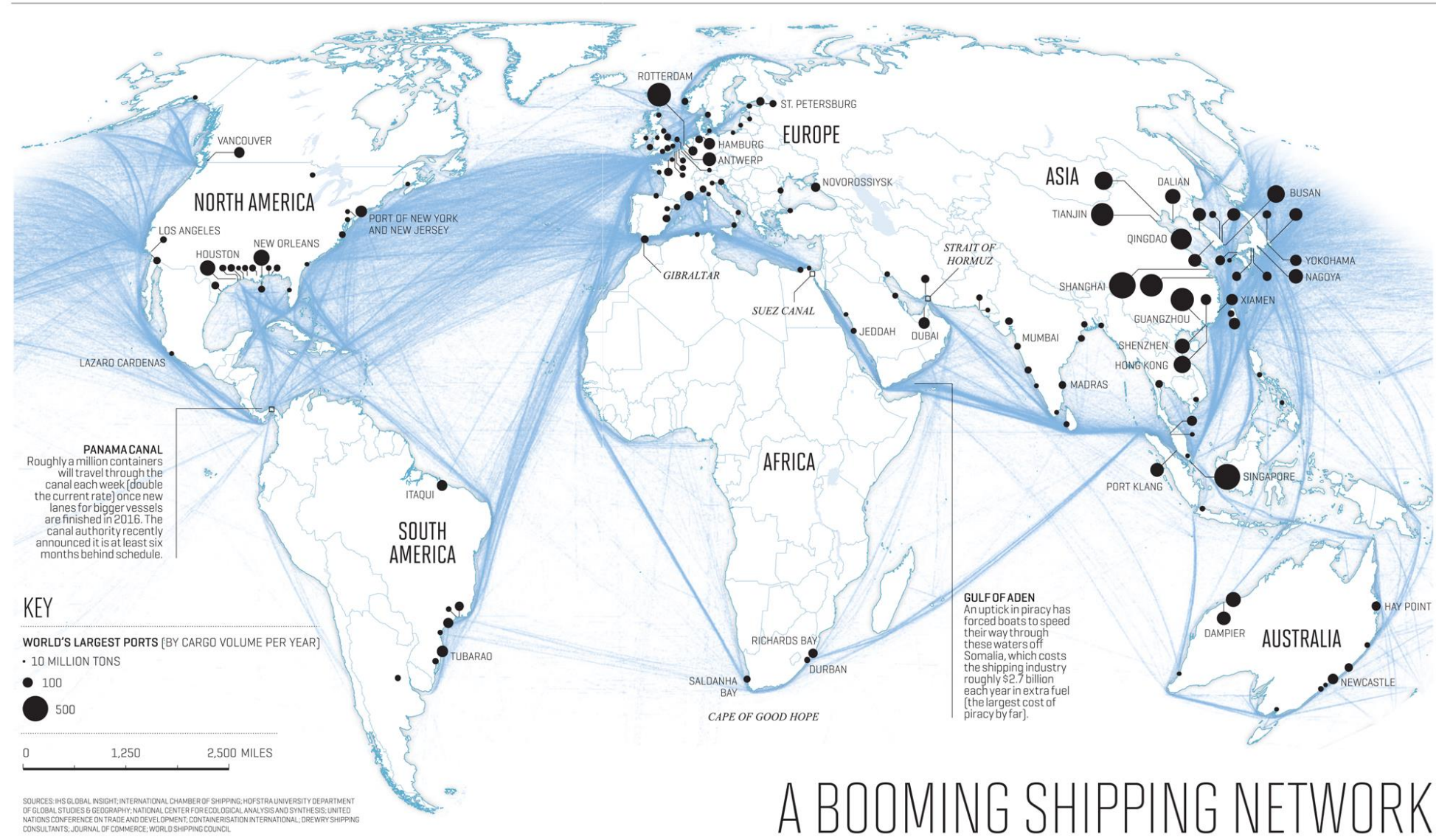
RANK 2018	RANK 2017	AIRPORT CITY / COUNTRY / CODE	CARGO (Metric tonnes)	
			(Loaded and unloaded)	Percent change
1	1	HONG KONG, HK (HKG)	5 120 811	1.4
2	2	MEMPHIS TN, US (MEM)	4 470 196	3.1
3	3	SHANGHAI, CN (PVG)	3 768 573	-1.5
4	4	INCHEON, KR (ICN)	2 952 123	1.0
5	5	ANCHORAGE AK, US (ANC)*	2 806 743	3.5
6	6	DUBAI, AE (DXB)	2 641 383	-0.5
7	7	LOUISVILLE KY, US (SDF)	2 623 019	0.8
8	9	TAIPEI, TW (TPE)	2 322 823	2.4
9	8	TOKYO, JP (NRT)	2 261 008	-3.2
10	13	LOS ANGELES CA, US (LAX)	2 209 850	2.4
11	16	DOHA, QA (DOH)	2 198 308	8.8
12	12	SINGAPORE, SG (SIN)	2 195 000	1.4
13	11	FRANKFURT, DE (FRA)	2 176 387	-0.8
14	10	PARIS, FR (CDG)	2 156 327	-1.8
15	14	MIAMI FL, US (MIA)	2 129 658	2.8
16	15	BEIJING, CN (PEK)	2 074 005	2.2
17	18	GUANGZHOU, CN (CAN)	1 890 561	5.0
18	20	CHICAGO IL, US (ORD)	1 868 880	3.6
19	17	LONDON, GB (LHR)	1 771 342	-1.3
20	19	AMSTERDAM, NL (AMS)	1 737 984	-2.7
TOP 20 FOR 2018			51 374 981	1.3

*includes transit freight



Asian Logistics and Economics

Global Shipping Routes



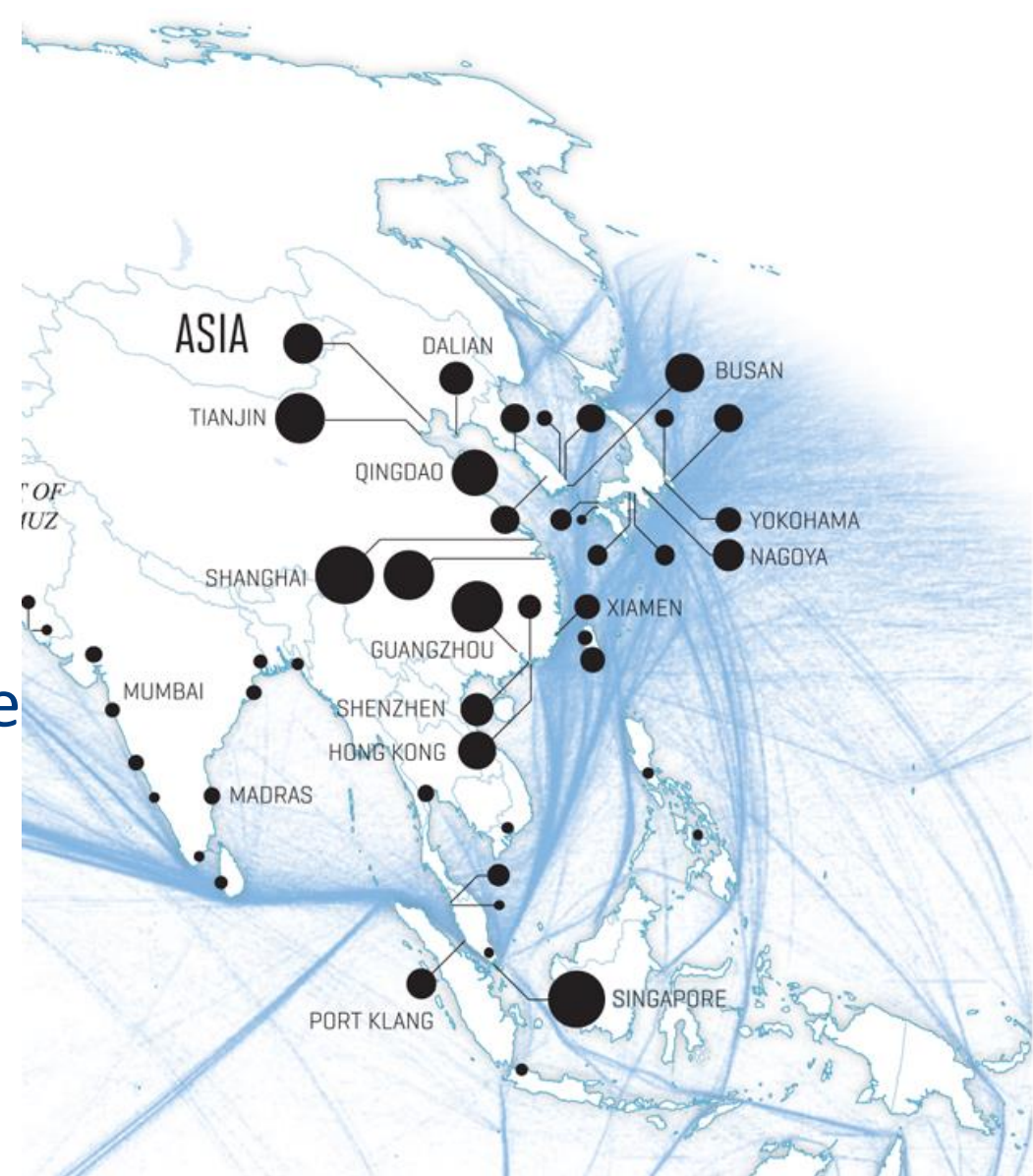
A BOOMING SHIPPING NETWORK



Asian Logistics and Economics

Shipping Routes in Asia

- East and South-East Asia contain 9 out of the 10 busiest ports in the world
- Six of the nine are in China (excluding Hong Kong)
- Majority of traffic already passes through China's EEZ
- EEZ surrounding disputed South China Sea Island chains captures Korean/Japanese trade with Europe, most SE Asian trade



Chinese Foreign and Security Policy

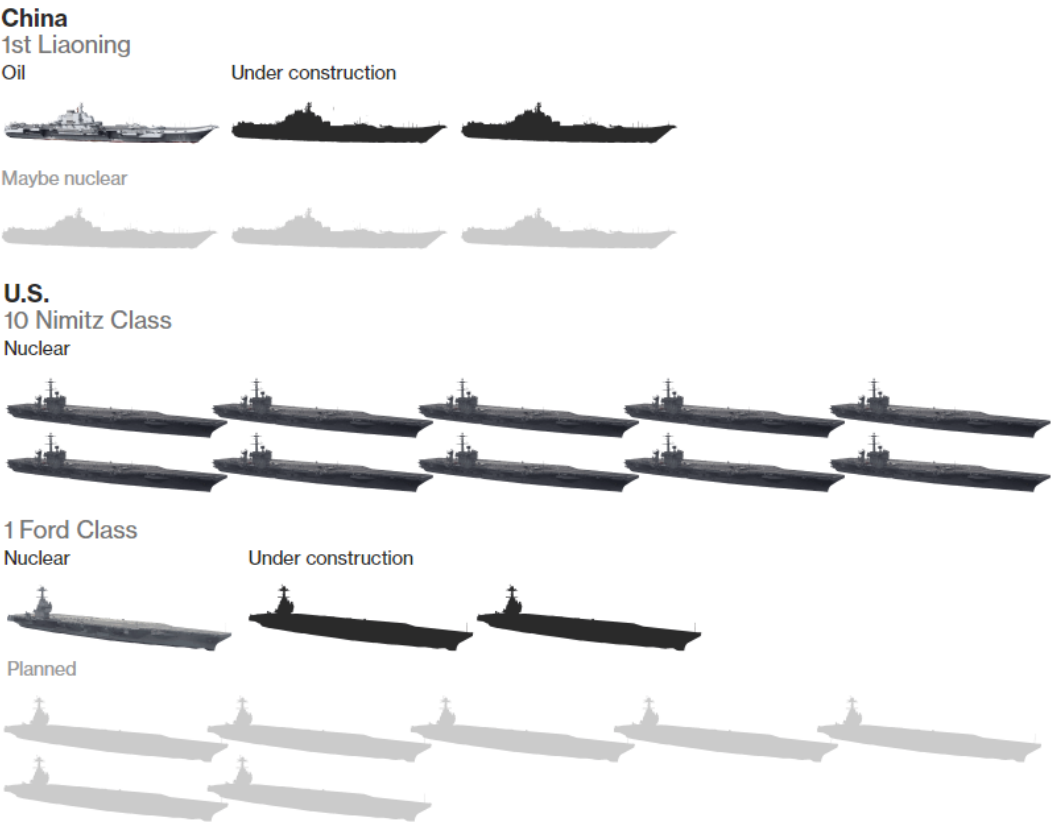
Politics Impact Logistics

- Massive military expansion with increased technological sophistication
- Chinese claims in South China Sea, Senkaku Islands
- Claim over Taiwan as a “rogue province”
- Economic lifeline for North Korea
- Dispute over status of Hong Kong
- Cybersecurity threats
- China-centric BRI, AIIB
- Economic pressure, IP theft, forced tech transfer



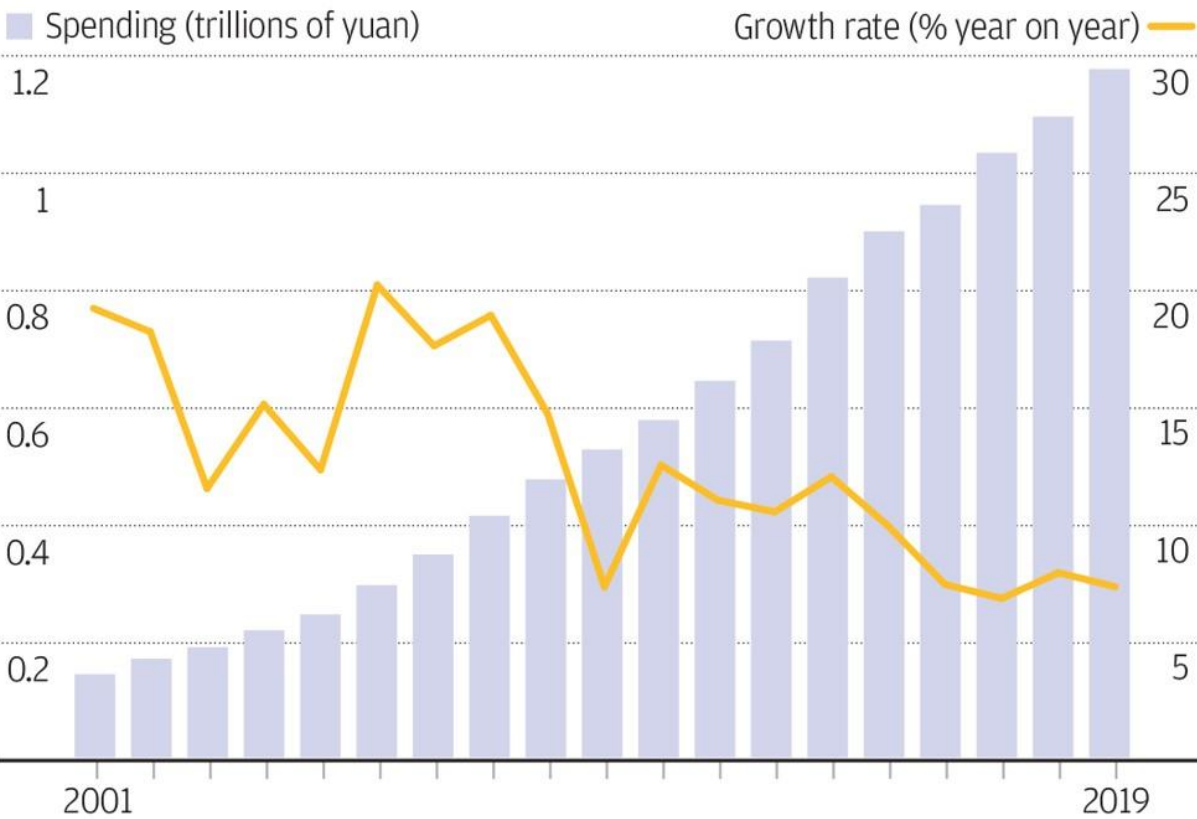
Chinese Foreign and Security Policy

Increasing Military Budgets and Force Capabilities



Note: Ford-class carriers will eventually replace the Nimitz-class

China's military budget



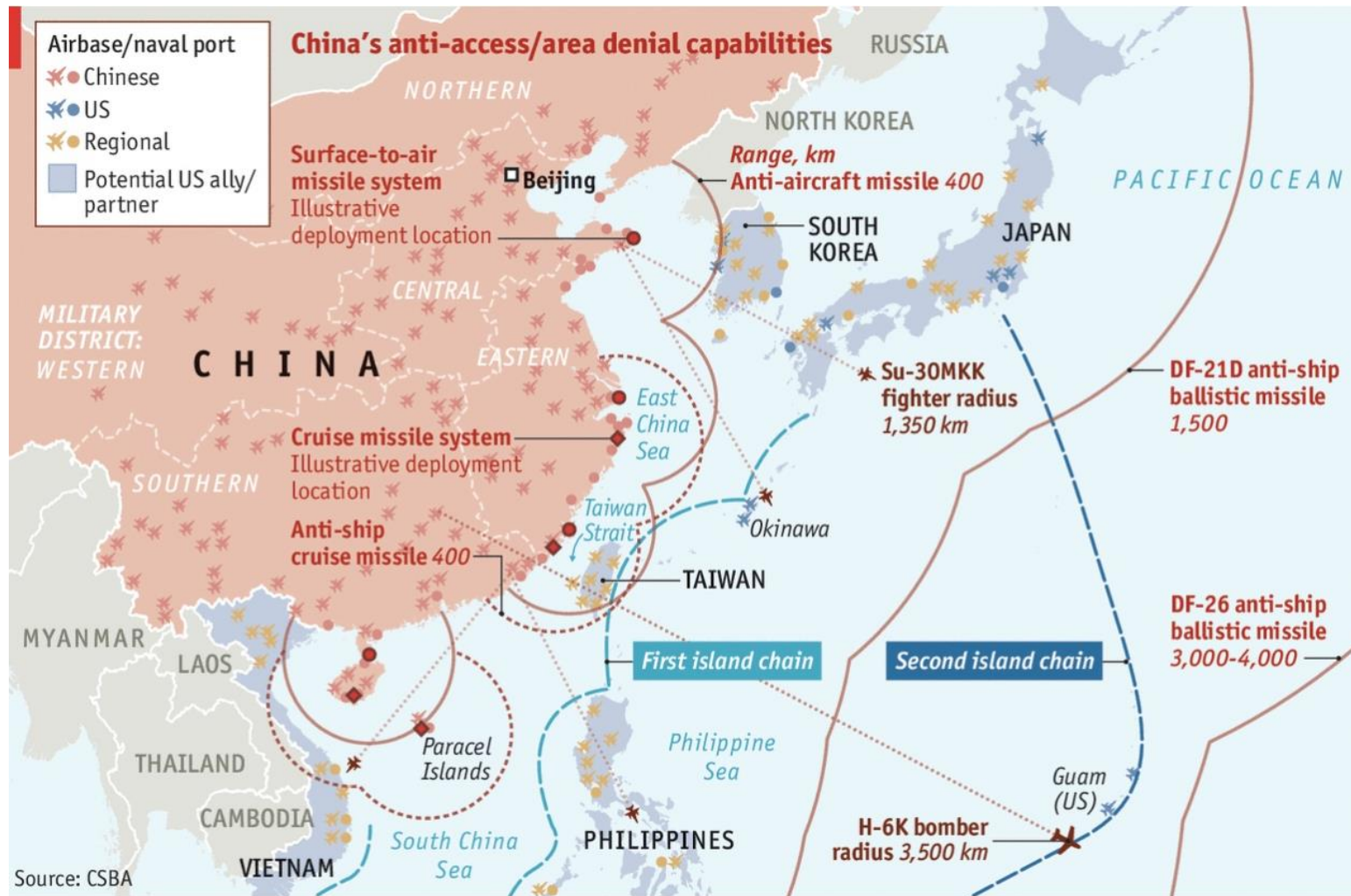
Sources: China Statistical Yearbooks, National Bureau of Statistics and SCMP

SCMP



Chinese Foreign and Security Policy

Chinese Power Projection

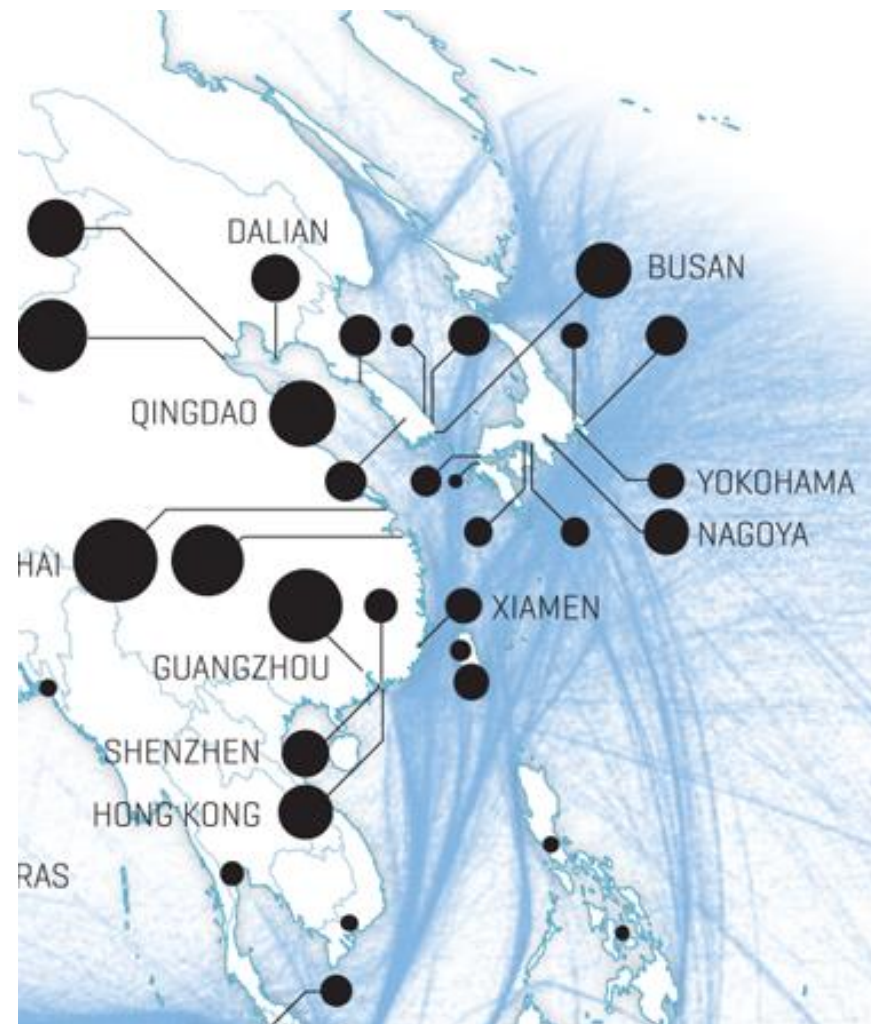


- China an Asian power, US must project force
- US bases depend on allied cooperation
- PRC projecting naval power, owning local water and reaching open sea
- Deploying electronic warfare, guided missiles, A2AD etc. to shut down access to Asian waters at will



Chinese Foreign and Security Policy

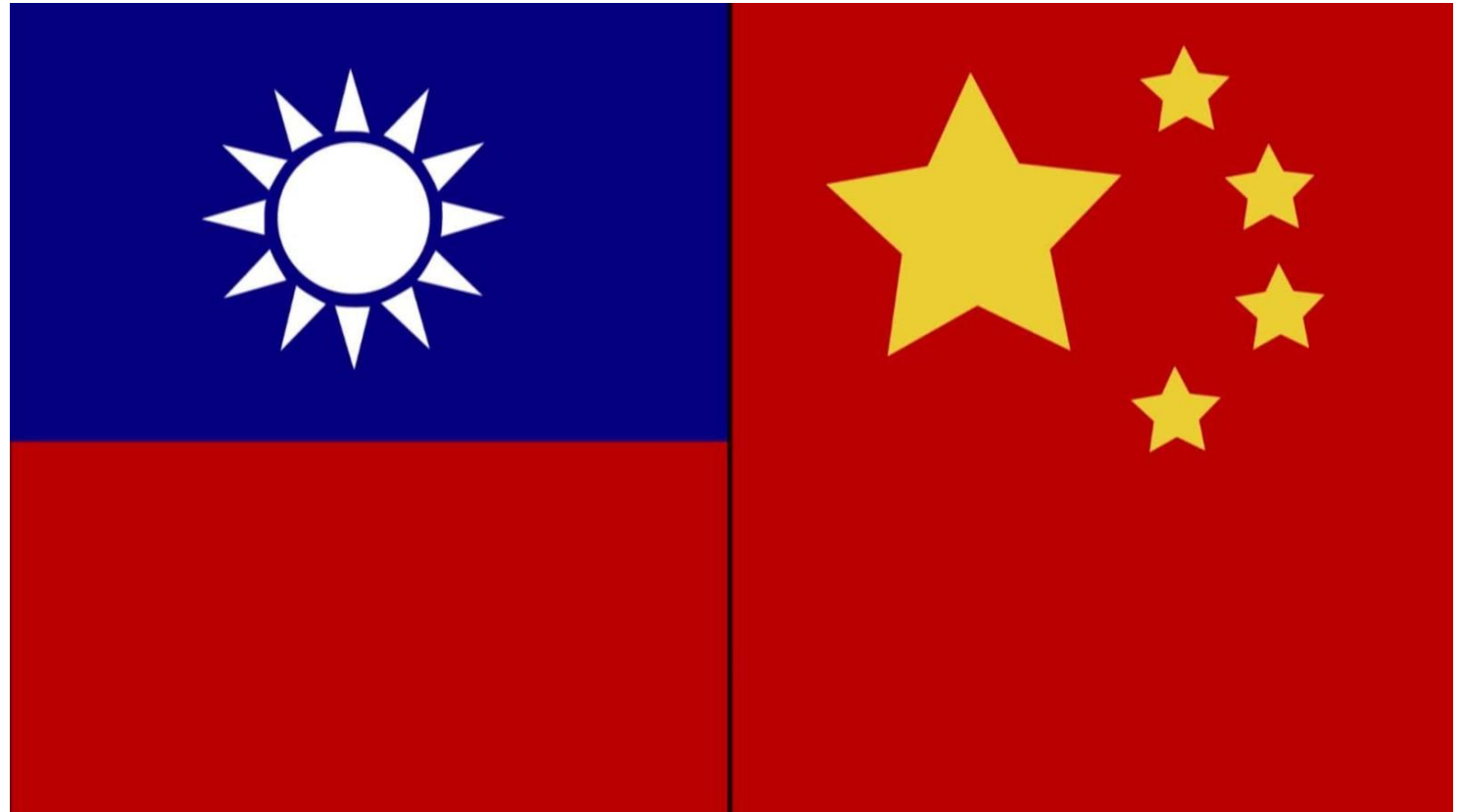
Politics Impact Logistics



Chinese Foreign and Security Policy

Taiwan Straits Dispute

- Legacy of Chinese Civil War (1927-1949)
- PRC and Taiwanese KMT claimed all of China, so-called “One China” policy
- Cold War military clashes, post-Cold War economic relations
- Increased tension as Taiwanese Democratic Progressive Party pushes independence



Chinese Foreign and Security Policy

North Korea Policy

- China provides North Korea only reliable economic lifeline
- Chinese companies continue trade despite official sanctions
- Security guarantee in case of “external aggression”
- Despite anti-Western cooperation, strained and conflictive relationship
- Treats North Korea as buffer between US-allied South



Chinese Foreign and Security Policy

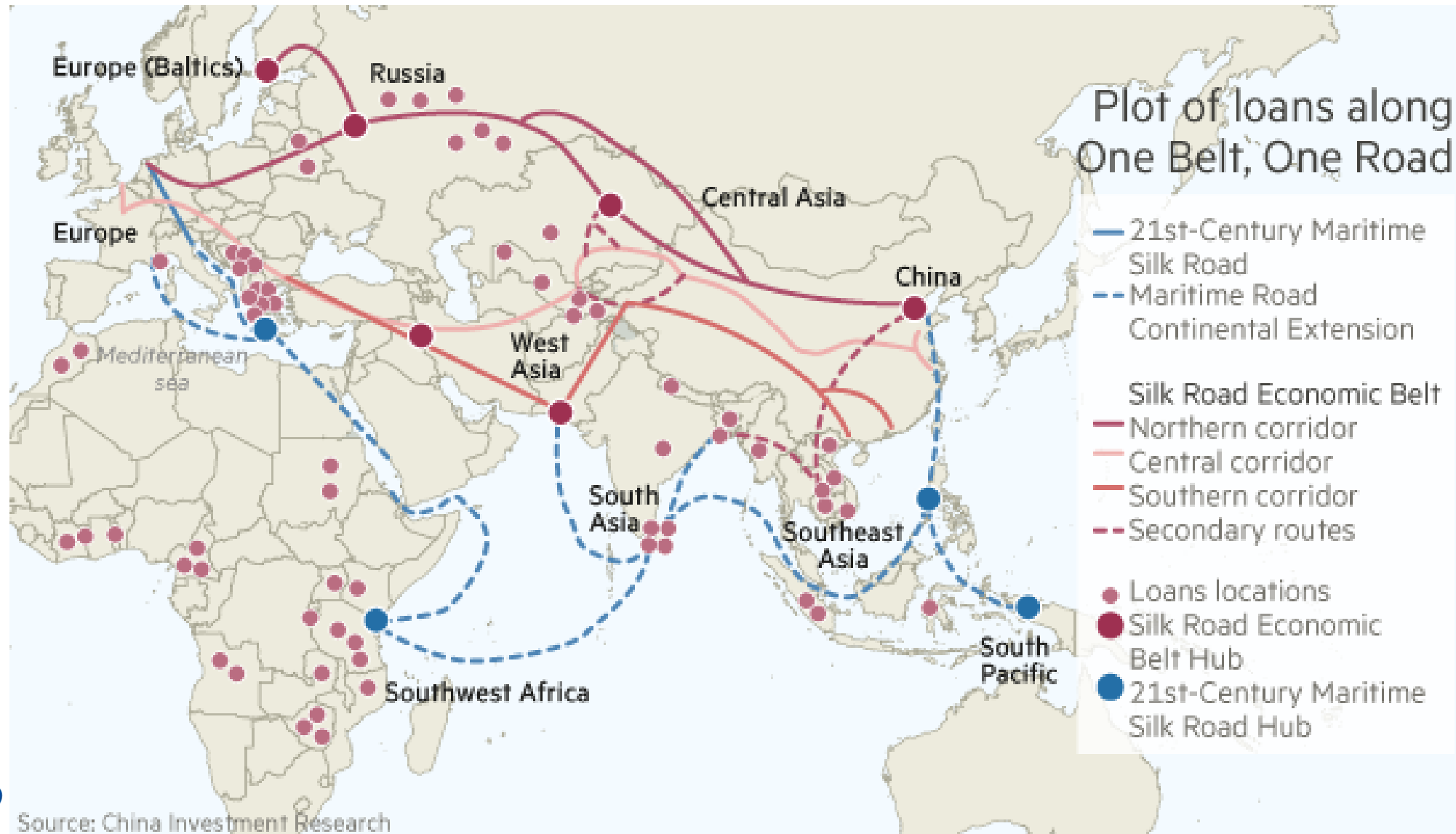
Hong Kong Protests

- Former British colony handed over in 1997
- Under “One Country, Two Systems” policy, China pledged to respect Hong Kong autonomy
- Since 1997, Beijing continually eroded Hong Kong freedoms
- Latest clashes over extradition treaty, second attempt by PRC to pass law
- Protests continue, paralyzing HKIA



Chinese Foreign and Security Policy

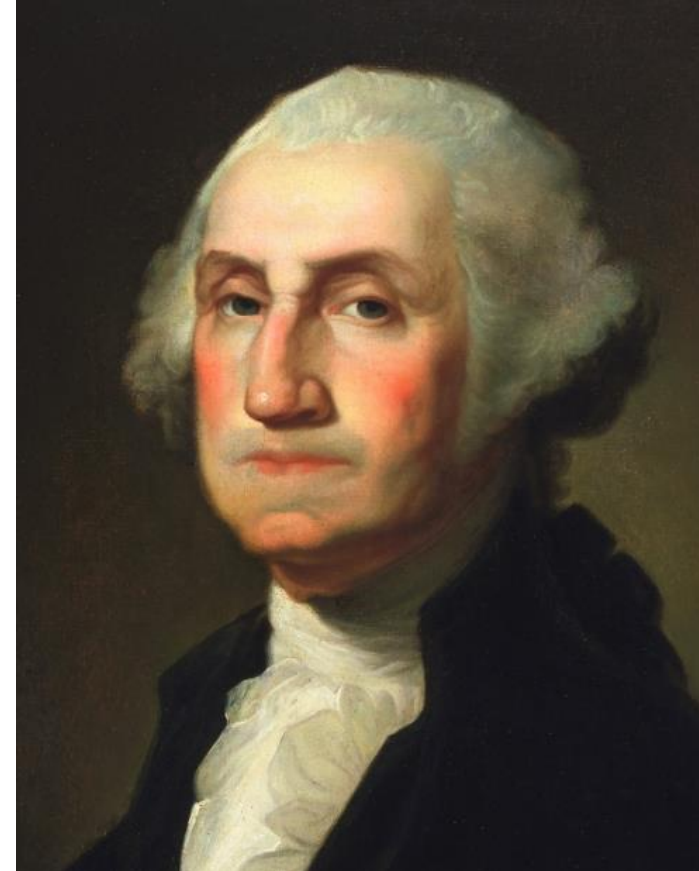
Belt and Road Initiative



Sources of Chinese Policy



- Chinese leaders think differently than American policy makers
- China neither a mirror image nor an evil inversion of America
- Chinese goals and policies motivated by a distinct history and identity
- Understanding Chinese priorities can help anticipate Chinese moves



Sources of Chinese Policy

The American Model

- Birth in the Revolutionary War, commitment to Constitutional government and individual liberty
- Land of freedom and opportunity
- Narrative of progress and growth
- Confrontation and triumph against totalitarian evil
- American virtue and global leadership taken for granted



Sources of Chinese Policy

The Chinese Model

- **Marxism-Leninism-Maoism**
 - Communist PRC Outside US-Based Global System
 - One Party State
- **Imperial Chinese Tradition**
 - “One Under Heaven” – Absolute Imperial Government
 - “Middle Kingdom” – China as World Center
 - Indifference Towards Non-Asians – “Red Barbarians”
 - Harmonious Society, not Individual Rights
 - Confucian, Meritocratic Bureaucracy
- **Recent Historical Experience**
 - “Century of Humiliation” – Victim of Western Imperialism
 - Asian Developmental States
 - Soviet Collapse Demonstration Effect
 - Regime Change, Human Rights, American Unilateralism



Sources of Chinese Policy

Orthodox Marxism-Leninism Maoism

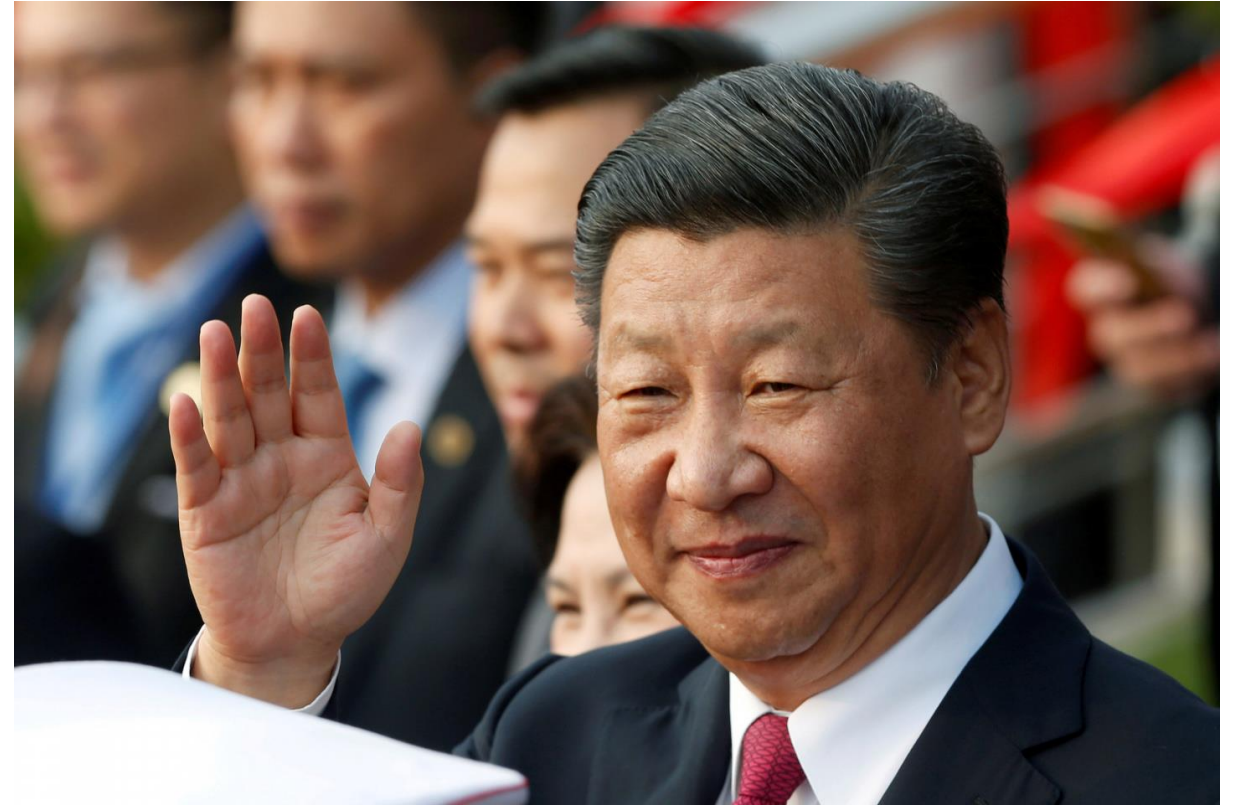
- **Marxism**
 - Suspicion of Capitalist Elites
 - Worker Control of Industry
 - Radical Egalitarianism
 - Utopian Promise
- **Leninism**
 - Communist Party Monopoly
 - Party-led Police State
 - Socialist Internationalism
 - Central Planning
- **Maoism**
 - Cultural Revolution/Destruction of Tradition
 - Equality Above Development
 - Ideology Above Pragmatism



Sources of Chinese Policy

Contemporary Marxism-Leninism Maoism

- Marxism
 - Suspicion of Capitalist Elites
 - ~~Worker Control of Industry~~
 - ~~Radical Egalitarianism~~
 - ~~Utopian Promise~~
- Leninism
 - Communist Party Monopoly
 - Party-led Police State
 - ~~Socialist Internationalism~~
 - ~~Central Planning~~
- Maoism
 - ~~Cultural Revolution/Destruction of Tradition~~
 - ~~Equality Above Development~~
 - ~~Ideology Above Pragmatism~~



Sources of Chinese Policy

Imperial Chinese Tradition



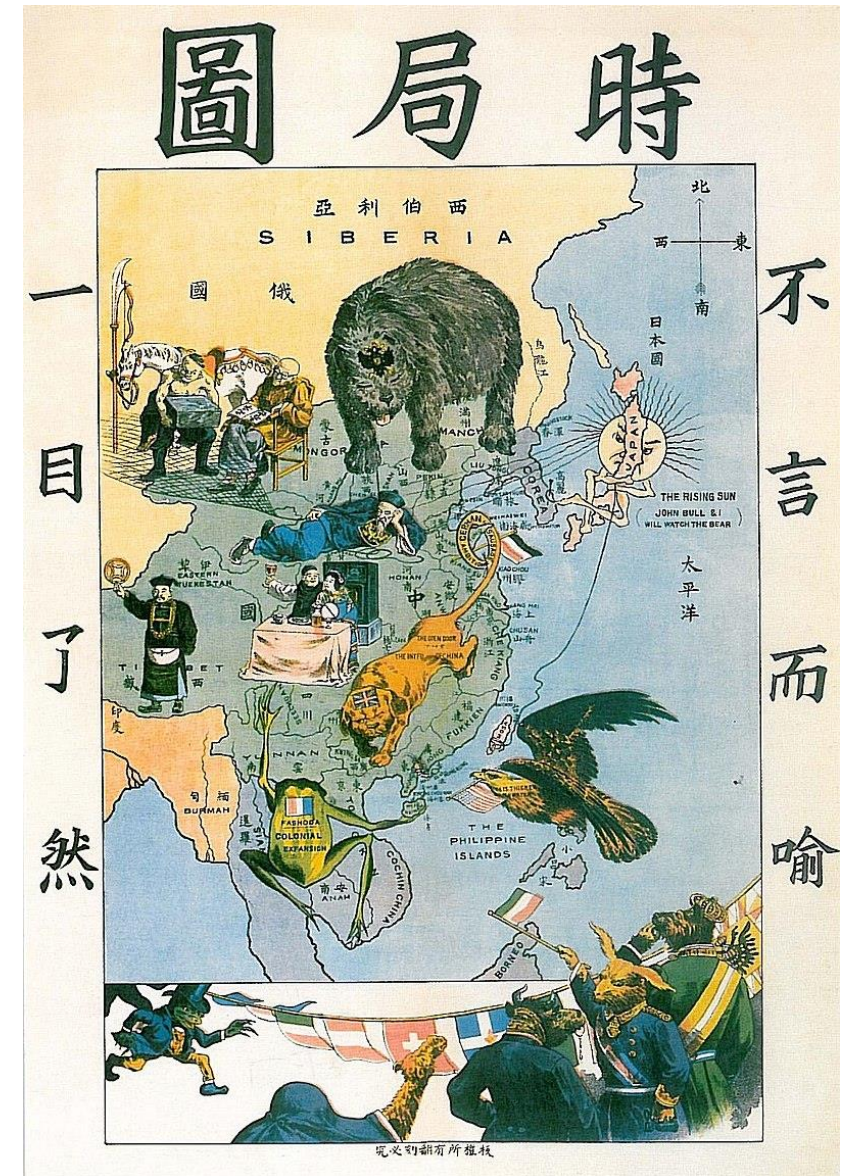
- All Under Heaven: 天下
 - Dynastic Succession
 - Unity of All Chinese Territory
 - Absolute Sovereignty
 - Absolute Imperial Authority
- Middle Kingdom: 中国
 - China as Leader of Asia
 - Chinese Exceptionalism
 - Cultural Particularism
 - Suspicion of Missionary Outsiders
- Harmonious Society: 和谐社会
 - Leaders Provide Welfare, Citizens Obey
 - Meritocratic, Exam-Based Leadership
- Communist Party = “The Red Dynasty”



Sources of Chinese Policy

Recent Historical Experience

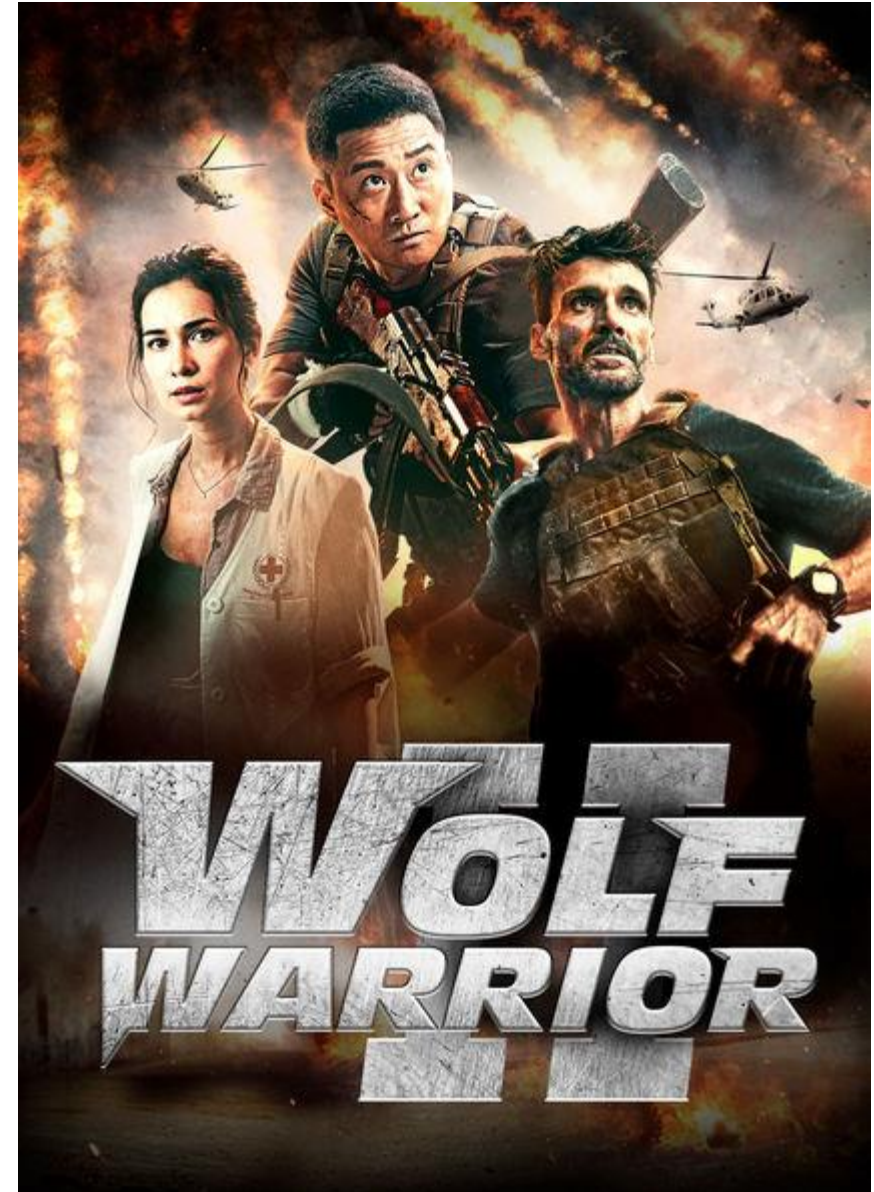
- **Century of Humiliation: 百年国耻**
 - Opium Wars (Including US)
 - Unequal Treaties/Trade
 - Diplomatic Marginalization
 - Failure of Reform/RoC
 - Loss of Territory (Tibet/Taiwan)
 - Foreign Invasion (West/Japan)
- **Asian Developmental States**
 - Japan/Korea/Taiwan Success
- **Soviet Collapse/Tiananmen**
 - Reject Democratization
- **Fear of Regime Change Efforts**
 - Oppose Human Rights Promotion



Chinese Geopolitical Priorities

Politics Impact Logistics

- Domestic Stability Above All
- Economic Growth for National Greatness
- End Isolation, Lead Asia



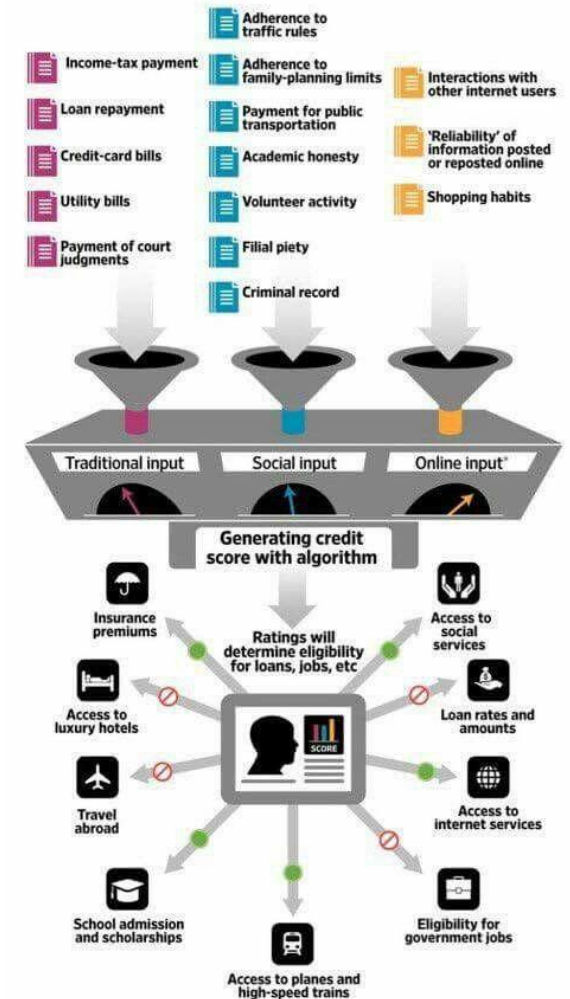
Chinese Geopolitical Priorities

Domestic Stability

- Domestic Stability Through Han Legitimacy
 - Provide Economic Growth
 - Protect National Prestige
 - Recover Lost Territory (Tibet, Taiwan, South China Sea)
- Domestic Stability Through Repression
 - Crush Tibetan, Uighur Independence Hopes
 - Powerful Censorship, Surveillance and Police Apparatus: Social Credit System
- Control Influence of External Forces
 - Catholic Church
 - Islam (“the Green Religion”)
 - Pro-Democracy, Human Rights NGOs
 - Foreign Media and Culture (Hollywood Movies Adjust to PRC Rules)

China Watching

Beijing wants to create a nationwide ‘social-credit’ system that compiles digital records of citizens’ social and financial behavior to calculate a personal rating that will determine what services they are entitled to — and what blacklists they go on. Here’s a look at how the system might work.



It is currently unclear how "online inputs" will be implemented.
Source: WSJ reporting based on government blueprints, state-media reports and interviews with architects of the plan.

THE WALL STREET JOURNAL



Chinese Geopolitical Priorities

Economic Growth for National Greatness

- **Business Interests Subordinate to PRC Political Goals**
 - Limited Corporate Influence Over Policy
 - Sacrifice Profits for Internal Stability, Foreign Influence
 - Harmonize Product Design with State Objectives
 - Access to Personal Information/Intelligence Collection
- **Exploit Foreign Investors**
 - Technology Transfer for Market Access
 - Selective Learning of Business Practices
 - Direct Financing to Favored Projects
 - Leverage Business Interests for Foreign Influence (Including US)
- **Leverage Chinese International Investment**
 - Link Aid, Investment to Foreign Policy
 - Gain Access to Foreign Tech Markets, IP



Meng Wanzhou,
Huawei CFO

Daughter and Granddaughter of CCP Leaders, Meng is under arrest in Canada on a US warrant for financial fraud related to Iran sanctions-busting



Sources of Chinese Policy

End Isolation, Lead Asia

- National Defense: End Encirclement
 - Disrupt US Alliance System
 - Flip Philippines, Smaller Allies
 - Push South Korea/Japan Antagonism
 - Naval Ops Beyond First Island Chain
 - Prevent Taiwanese Independence
 - Political and Economic Pressure
 - Command Taiwan Strait
 - Establish Air and Naval Dominance
- Deter/Avoid Direct Military Conflict
 - Compete in Other Domains: Cyber, Econ and Space
- National Economic Security: Belt and Road
 - Create Alternative Economic Institutions
 - Develop China-Centric Trading Bloc
 - Secure Routes for Exports, Raw Materials



Conspiring to Commit Computer Fraud; Accessing a Computer Without Authorization for the Purpose of Commercial Advantage and Private Financial Gain; Damaging Computers Through the Transmission of Code and Commands; Aggravated Identity Theft; Economic Espionage; Theft of Trade Secrets



Huang Zhenyu



Wen Xinyu



Sun Kailiang



Gu Chunhui



Wang Dong



Implications

Navigating a New Asia

- The Communist Party Will Not Give Up Power
- China Will Not Let Taiwan Go
- Political Priorities Will Override Business Interests
- China Will Seek to Control Its Neighborhood
- Direct Conflict is Possible, Indirect Conflict (Cyber, Economic, etc.) is Likely

Chinese Goals Will Not Change – America's Choice is Deterrence or Accommodation



Discussion and Q&A