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*

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**ASIA TOP-20 COUNTRIES BY GDP – 2019 FORECAST**

<table>
<thead>
<tr>
<th>Country</th>
<th>Asia Share</th>
<th>World Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>43.8%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>16.1%</td>
<td>5.9%</td>
</tr>
<tr>
<td>India</td>
<td>9.1%</td>
<td>3.4%</td>
</tr>
<tr>
<td>South Korea</td>
<td>5.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Taiwan Province of China</td>
<td>1.9%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>1.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>1.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Israel</td>
<td>1.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Islamic Republic of Iran</td>
<td>1.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Iraq</td>
<td>0.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Qatar</td>
<td>0.6%</td>
<td>0.2%</td>
</tr>
<tr>
<td>39 Other Countries</td>
<td>4.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>36.7%</strong></td>
</tr>
</tbody>
</table>

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- 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)

<table>
<thead>
<tr>
<th>RANK 2018</th>
<th>RANK 2017</th>
<th>AIRPORT CITY / COUNTRY / CODE</th>
<th>PASSENGERS (Enplaning and deplaning)</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>ATLANTA GA, US (ATL)</td>
<td>107 394 029</td>
<td>3.3</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>PEKING, CN (PEK)</td>
<td>100 983 290</td>
<td>5.4</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>DUBAI AE (DXB)</td>
<td>89 149 387</td>
<td>1.0</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>LOS ANGELES CA, US (LAX)</td>
<td>87 534 384</td>
<td>3.5</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>TOKYO, JP (HND)</td>
<td>87 131 973</td>
<td>2.0</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>CHICAGO IL, US (ORD)</td>
<td>83 339 186</td>
<td>4.4</td>
</tr>
<tr>
<td>7</td>
<td>7</td>
<td>LONDON, GB (LHR)</td>
<td>80 126 320</td>
<td>2.7</td>
</tr>
<tr>
<td>8</td>
<td>8</td>
<td>HONG KONG, HK (HKG)</td>
<td>74 517 402</td>
<td>2.6</td>
</tr>
<tr>
<td>9</td>
<td>9</td>
<td>SHANGHAI, CN (PVG)</td>
<td>74 006 331</td>
<td>5.7</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>PARIS, FR (CDG)</td>
<td>72 229 723</td>
<td>4.0</td>
</tr>
<tr>
<td>11</td>
<td>11</td>
<td>AMSTERDAM, NL (AMS)</td>
<td>71 053 147</td>
<td>3.7</td>
</tr>
<tr>
<td>12</td>
<td>16</td>
<td>NEW DELHI IN (DEL)</td>
<td>69 900 090</td>
<td>10.2</td>
</tr>
<tr>
<td>13</td>
<td>13</td>
<td>GUANGZHOU, CN (CAN)</td>
<td>69 769 497</td>
<td>6.0</td>
</tr>
<tr>
<td>14</td>
<td>14</td>
<td>FRANKFURT, DE (FRA)</td>
<td>69 510 269</td>
<td>7.8</td>
</tr>
<tr>
<td>15</td>
<td>12</td>
<td>DALLAS/FORT WORTH TX, US (DFW)</td>
<td>69 112 607</td>
<td>3.0</td>
</tr>
<tr>
<td>16</td>
<td>19</td>
<td>INCHEON, KR (ICN)</td>
<td>68 350 784</td>
<td>10.0</td>
</tr>
<tr>
<td>17</td>
<td>15</td>
<td>ISTANBUL, TR (IST)</td>
<td>68 192 683</td>
<td>6.4</td>
</tr>
<tr>
<td>18</td>
<td>17</td>
<td>JAKARTA, ID (CGK)</td>
<td>66 908 159</td>
<td>6.2</td>
</tr>
<tr>
<td>19</td>
<td>18</td>
<td>SINGAPORE, SG (SIN)</td>
<td>65 628 000</td>
<td>5.5</td>
</tr>
<tr>
<td>20</td>
<td>20</td>
<td>DENVER CO, US (DEN)</td>
<td>64 494 613</td>
<td>5.1</td>
</tr>
</tbody>
</table>

**TOP 20 FOR 2018**

|                       | 1 539 332 722 | 4.7 |

### Table 3 – Total air cargo traffic 2018 (preliminary)

<table>
<thead>
<tr>
<th>RANK 2018</th>
<th>RANK 2017</th>
<th>AIRPORT CITY / COUNTRY / CODE</th>
<th>CARGO (Metric tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>HONG KONG, HK (HKG)</td>
<td>5 120 811</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>MEMPHIS TN, US (MEM)</td>
<td>4 470 196</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>SHANGHAI, CN (PVG)</td>
<td>3 768 573</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>INCHEON, KR (ICN)</td>
<td>2 952 123</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>ANCHORAGE AK, US (ANC)*</td>
<td>2 806 743</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>DUBAI AE (DXB)</td>
<td>2 641 383</td>
</tr>
<tr>
<td>7</td>
<td>7</td>
<td>LOUISVILLE KY, US (SDF)</td>
<td>2 623 019</td>
</tr>
<tr>
<td>8</td>
<td>9</td>
<td>TAIPEI, TW (TPE)</td>
<td>2 322 823</td>
</tr>
<tr>
<td>9</td>
<td>8</td>
<td>TOKYO, JP (NRT)</td>
<td>2 261 008</td>
</tr>
<tr>
<td>10</td>
<td>13</td>
<td>LOS ANGELES CA, US (LAX)</td>
<td>2 209 850</td>
</tr>
<tr>
<td>11</td>
<td>16</td>
<td>DOHA, QA (DOH)</td>
<td>2 198 308</td>
</tr>
<tr>
<td>12</td>
<td>12</td>
<td>SINGAPORE, SG (SIN)</td>
<td>2 195 000</td>
</tr>
<tr>
<td>13</td>
<td>11</td>
<td>FRANKFURT, DE (FRA)</td>
<td>2 176 387</td>
</tr>
<tr>
<td>14</td>
<td>10</td>
<td>PARIS, FR (CDG)</td>
<td>2 156 327</td>
</tr>
<tr>
<td>15</td>
<td>14</td>
<td>MIAMI FL, US (MIA)</td>
<td>2 129 658</td>
</tr>
<tr>
<td>16</td>
<td>15</td>
<td>BEIJING, CN (PEK)</td>
<td>2 074 005</td>
</tr>
<tr>
<td>17</td>
<td>18</td>
<td>GUANGZHOU, CN (CAN)</td>
<td>1 890 561</td>
</tr>
<tr>
<td>18</td>
<td>20</td>
<td>CHICAGO IL, US (ORD)</td>
<td>1 868 880</td>
</tr>
<tr>
<td>19</td>
<td>17</td>
<td>LONDON, GB (LHR)</td>
<td>1 771 342</td>
</tr>
<tr>
<td>20</td>
<td>19</td>
<td>AMSTERDAM, NL (AMS)</td>
<td>1 737 984</td>
</tr>
</tbody>
</table>

**TOP 20 FOR 2018**

|                       | 51 374 981    | 1.3 |

*Includes transit freight
Global Shipping Routes

Asian Logistics and Economics

Key:
- **World's Largest Ports (by Cargo Volume Per Year)**
  - 10 Million Tons
  - 500
  - 500

A Booming Shipping Network

Panama Canal:
Roughly 15 million containers will travel through the canal each year. Each ship is limited to a capacity of 20,000 containers, meaning this current canal can only handle about 54% of the containers expected to pass through it by 2025. The canal authority recently announced it has at least six months behind schedule.
• 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
• 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

China’s military budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending (trillions of yuan)</th>
<th>Growth rate (% year on year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>0.8</td>
<td>30</td>
</tr>
<tr>
<td>2015</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>3.0</td>
<td></td>
</tr>
</tbody>
</table>

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

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

Airbase/ naval port
- Chinese
- US
- Regional
- Potential US ally/partner

China’s anti-access/area denial capabilities

Surface-to-air missile system
Illustrative deployment location

Cruise missile system
Illustrative deployment location

Anti-ship cruise missile 400

Su-30MKK
Fighter radius 1,350 km

First Island chain

Second island chain

DF-21D anti-ship ballistic missile
1,500

DF-26 anti-ship ballistic missile
3,000-4,000

H-6K bomber radius 3,500 km

Source: CSBA
• 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
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)
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
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