

The Unknowable *Dao* of China: What Scenario Planning Tells US Military Planners about China through 2030

A Monograph

by

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Abstract

The Unknowable *Dao* of China: What Scenario Planning Tells Military Planners about China Through 2030, Major Robert L. Boyce III, USMC, 37 pages.

The project of this monograph is to use scenario planning methodology to develop a range of possible futures for the People's Republic of China (PRC) through 2030. Chapter one lays out the background and methodology of scenario planning. Chapter two uses the Chinese economy, Beijing's policy approach to the current international system, and the reaction of China's neighbors to China's rise to define a set of plausible futures. Chapter three further develops three of these futures into scenarios. The three scenarios are: "Marathon Winner," where China's continued growth results in an aggressive challenge to the current international status quo and provokes balancing policies on its periphery, "Drum Beats," where economic stagnation drives greater domestic nationalism and external military adventurism, and "Rising Tide," where continued economic strength allows China to draw its periphery closer and attempt to reshape the international order from within. These scenarios inform policy options that are laid out in Chapter four. The scenarios describe the future relationship between the United States and China as defined by competition instead of cooperation. Driven by this sense of competition, US military policy should seek to bolster the strength of alliances and partnerships and steadfastly meet any Chinese challenges to the rule based international system. By shoring up relationships with like-minded nations and defending the international system, the United States will be best able to maintain its position of relative advantage vis a vis the People's Republic of China.

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Acronyms

AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of South East Asian Nations
BRICS	Brazil, Russia, India, China, South Africa
CCP	Chinese Communist Party
FON	Freedom of Navigation
FONOP	Freedom of Navigation Operation
OBOR	One Belt, One Road
PAP	People's Armed Police, Chinese paramilitary internal security force
PLA	People's Liberation Army
PLAN	People's Liberation Army Navy
PRC	Peoples Republic of China
UNCLOS	United Nations Convention on the Law of the Sea
WTO	World Trade Organization

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Chapter 1: Many Paths to the Future

There remains only one way to gain the intended results. That is to investigate the military events of the future and to adapt as much as possible to present-day conditions. In this we have to reckon in part with unknown and mutable quantities, but also in many cases with known and permanent ones. We cannot attain an absolutely correct result, but we can discover the probable.

—Helmuth von Moltke, *Moltke on the Art of War*

The act of military planning is fundamentally an effort to manage risk. Risk is inherent in all aspects of military operations. It emerges from the complexity of the problems military operations are used to solve, from changes in weather, from human weakness and frailty, and from war being a partial-information game. At the most fundamental level, risk comes from the fact that planning is future oriented, and the future is not just unknown, but unknowable. Scenario planning, which seeks to mitigate this unknowability by examining multiple possible future paths instead of predicting one that will come to pass, provides a tool in managing the risk of long term planning. The project of this monograph is to use scenario planning methodology to develop a range of possible futures for the People’s Republic of China (PRC) through 2030. This monograph develops three scenarios based on these futures to help define what the range of futures will look like. It then develops policy relevant themes common to the scenarios and use them to shape military policy recommendations.

Peter Schwartz, one of the creators of the scenario planning methodology, defines a scenario as, “a tool for ordering one’s perceptions about alternative future environments in which one’s decisions might be played out.”¹ Critical to this definition is the word ‘tool.’ Using this approach to look at the future does not allow us to ‘know’ what will happen. Bill Ralston and Ian Wilson describe the goal as to, “cover the ‘envelope of uncertainty.’”² The scenarios enable the

¹ Peter Schwartz, *The Art of the Long View: Planning for the Future in an Uncertain World* (New York: Crown Buisness, 1996), 4.

² Bill Ralston and Ian Wilson, *The Scenario Planning Handbook: Developing Strategies in Uncertain Times* (Mason, OH: South-Western Cengage Learning, 2006), 115.

reader to understand what the range of futures encompasses. None of the scenarios are likely, or even intended, to accurately reflect what will happen in the future. The objective is not to establish relative probability. Instead, each is designed to frame the limits of what is possible.

Defining what the “envelope of uncertainty” consists of presents a challenge. Any forward-looking endeavor must find a means of defining what the future could look like. While the trite saying, “anything is possible” belies the constraints inherent in the physical world and ignores the restraints of historical context and human relations, it captures an important point. There are an infinite number of possible futures. Without a means to constrain that infinite set, it is impossible to make decisions about the future that are informed by it. Traditional forecasting limits the future based on the probability of different outcomes or sets of outcomes. However, the attempt to place bounds on the future often involves drawing sharp lines that rule out real possibilities. Schwartz uses the collapse of the Soviet Union as an example of this. It was a possibility that, it turns out wrongly, was widely dismissed. He and his team identified internal Soviet policy discussion and proponents, like Mikhail Gorbachev, that made this future probable.³

Instead of constraining the future by defining what is thought to be unlikely, scenario planning methodology takes a different approach. By looking at forces that will influence the future, planners build scenarios that encompass the possible futures arising from those forces. How each of these forces and drivers influences decision makers will help shape what that future will look like. Instead of a reductive approach involving walling off possibilities as unthinkable, scenario planning is additive. (See figure 1.) Starting from the current state, it uses these forces and drivers to expand the realm of what is possible. By following the path derived from each of these forces the methodology allows the practitioner to avoid certain preconceived notions about

³ Peter Schwartz, *The Art of the Long View: Planning for the Future in an Uncertain World* (New York: Crown Buisness, 1996), 55.

what could happen. The shape of the future grows organically from these forces. This shape defines what the envelope of uncertainty looks like.

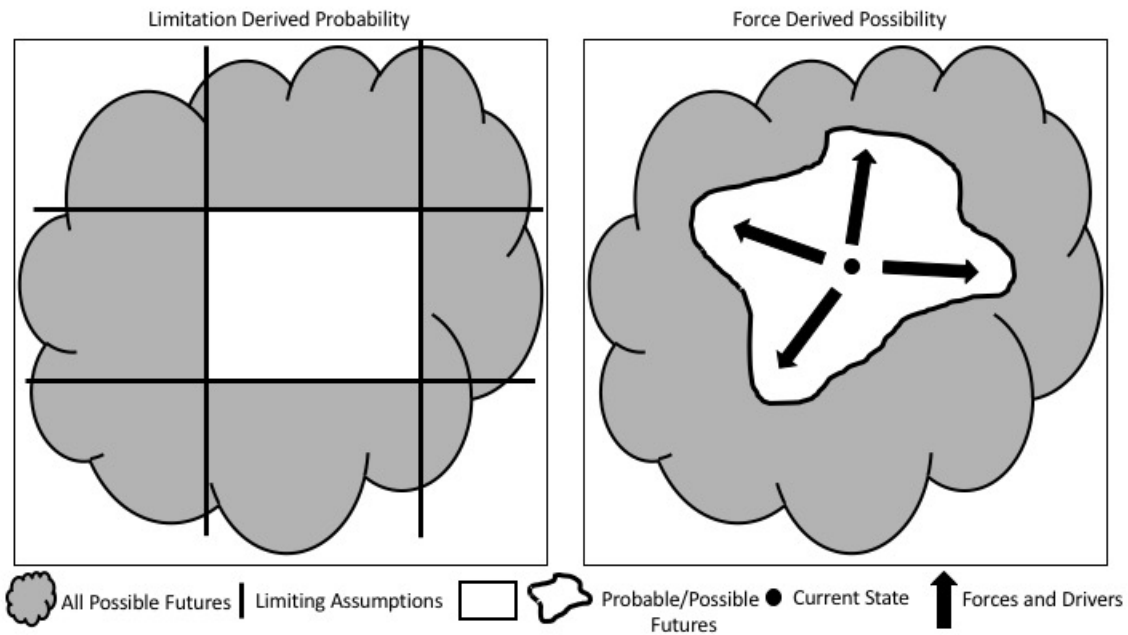


Figure 1. Models of the approaches to defining the future in both forecasting and scenario planning. Author.

The selection of the forces and drivers is therefore crucial to the integrity of the process. Scenarios are not developed in a vacuum. Instead, planners use scenario planning to facilitate deep understanding while driving toward a specific strategic decision. Schwartz describes the purpose of building scenarios as not to paint, “an accurate picture of tomorrow, but [to enable] better decisions about the future.”⁴ A question related directly to that decision provides the focus for the scenarios. In this monograph that question is, “What military policy options best position the United States regarding its relationship with the People’s Republic of China through 2030?” From this question, the planner compiles a list of forces and drivers that could shape the answer to that question. Once this broad list of possible factors is compiled, the list is narrowed. Many of the factors can be combined into broader categorical drivers while others may be dismissed as not

⁴ Peter Schwartz, *The Art of the Long View: Planning for the Future in an Uncertain World* (New York: Crown Buisness, 1996), 9.

directly related to answering the focus question. The goal of this process is to arrive at one to three forces and drivers of the future. As the increase in factors causes an exponential growth in the number of scenarios, more than three factors, resulting in eight scenarios, is unworkable.

The final step in process before wringing the scenarios is defining the limits of what each force or driver would mean for the future. As the purpose of the methodology is to expand the “envelope of uncertainty,” the practitioner must seek the logical limit of where each factor leads. When looking at the decision to build a \$6 billion natural gas platform in the North Sea while working for Royal Dutch/Shell, Peter Schwartz used scenarios to anticipate the future supply of natural gas to the Western European market. He used forces that he saw could lead to a liberalization of the Soviet economy to examine the impact of an expansion of the Western European appetite for Soviet gas on the viability of the Troll gas platform. In 1983, the idea of the Soviet Union adopting the policies that became *perestroika* and *glasnost* was nearly unthinkable for most observers, as Schwartz and his team were told when they presented their ideas to various US government agencies. However, by using this extreme possibility, which was based on a compilation of small trends they had observed, Schwartz developed a scenario where Western Europe was open to an expansion of the percentage of gas that they purchased from the Soviet Union.⁵ The point of the scenario was not to predict that the Soviet Union would collapse. Instead, it allowed the decision makers to make an extremely expensive business decision while accounting for previously dismissed possibilities.

Once the planner establishes the limits of the forces and drivers, they combine those limits to create possible futures. Depending on the number of these factors that are used, the planner writes some or all of these futures into scenarios. These scenarios take advantage of the natural human inclination toward narrative, “so pervasive and universal” as to be “genetically

⁵ Peter Schwartz, *The Art of the Long View: Planning for the Future in an Uncertain World* (New York: Crown Business, 1996), 44-56.

hard wired into our minds.”⁶ By combining this natural predilection for storytelling and the ability to shape the direction the story takes through the forces and drivers previously identified, scenarios present a means of understanding what the future could look like in a way that is both rigorous and intuitive. Peter Schwartz describes a scenario as asking, “people to suspend their disbelief in its stories long enough to appreciate their impact.”⁷ It is this understanding that facilitates the ability to answer the question that focused the scenario planning effort.

This monograph follows a modified version of the process and methodology that Bill Ralston and Ian Wilson describe in *The Scenario Planning Handbook*. In this handbook, the authors lay out an eighteen-step process for the development and use of scenarios.⁸ The first six steps, which involve gaining buy-in from the organization for scenarios and the assembly of the planning team, are not relevant to the current project as there is no need to establish a planning team or generate buy-in from the organizational leadership. The seventh step requires background research to build a broad understanding about the area of focus within the scenario planning team. For this monograph, this step is fulfilled through the previous study and experience of the author.⁹ This monograph begins at step eight, “Identifying and assessing the key decision factors.” Steps 8-13 form the second section of the monograph and establish the forces and drivers selected, determine the “axes of uncertainty” derived from them, and end with the scenario logics that form the basis of the scenarios themselves. In this section, three “axes” will be developed leading to eight scenario logics.

⁶ H. Porter Abbott, *The Cambridge Introduction to Narrative* (Cambridge: Cambridge University Press, 2008), 3.

⁷ Peter Schwartz, *The Art of the Long View: Planning for the Future in an Uncertain World* (New York: Crown Business, 1996), 37.

⁸ Bill Ralston and Ian Wilson, *The Scenario Planning Handbook: Developing Strategies in Uncertain Times* (Mason, OH: South-Western Cengage Learning, 2006), 25.

⁹ The author is a North East Asian Foreign Area Officer for the USMC. (Master of Arts, National Security Affairs, Naval Post Graduate School, 2012. Mandarin – Defense Language Institute, 2010-11. In-Country Training, People’s Republic of China, 2011-2012).

The third section of the monograph is comprised of the three scenarios developed from these eight logics. The three scenario logics selected cover the two extremes of each of the axes of uncertainty and present the broadest possible set of conditions relevant to the selection of military policy in the future. The trends developed within these three scenarios provide an understanding of where each of the forces and drivers can lead to without writing all eight scenarios. Expanding beyond these three would lead to duplicative work and provide little more in the way of understanding. The last section of this monograph lays out a suggested set of military policy options that best position the United States military considering the possible futures described in the scenarios.¹⁰

¹⁰ The treatment of the words “China,” “PRC,” and “the Chinese” in this monograph requires a note. Based on the absolute control of the levers of power held by the leadership of the Chinese Communist Party, when “China,” “PRC,” or “the Chinese” is used here, it is the leadership of the Chinese Communist Party (CCP) that is being referenced. The Standing Committee of the Politburo and the Central Military Commission are here treated as representing all of China and speaking with a single voice. Where the population of the PRC or some other element of China is intended, that will be clear, i.e. “the Chinese people.”

Chapter 2: Forces and Drivers

To capture the range of possible futures of the PRC, this monograph uses three forces and drivers to frame the scenarios. These factors are derived from the three perspectives defined by the three ‘persons’ in grammar: first, second and third. In the ‘first person,’ the state of the Chinese economy represents a self-reflective view of China’s place in the world. Beginning with the ascendancy of Deng Xiaoping at the end of the 1970’s, the primary driver of Chinese policy, both domestic and international, has been focused on economic development. As such, the ability of the PRC to continue its rapid growth is both fundamental to its increasing economic and military power and important in its internal narrative of re-establishing China in its rightful place on the world stage.

The People’s Republic of China has experienced a period of rapid economic growth for nearly forty years. Since the beginning of the “Reform and Opening Up” policies instituted at the Third Plenum of the Eleventh Chinese Communist Party Congress in December 1978, the Chinese economy has been incrementally reformed across all economic sectors.¹¹ These reforms have led to sustained economic growth averaging 9.6% per year from 1978 through 2016.¹² However, the pace of this economic growth has led to distortions in the Chinese economy that have raised questions concerning the future viability of this model.¹³ James Xiaohe Zhang argues that with reasonable shifts in policy, in keeping with the “crossing the river by searching for stones” paradigm utilized throughout the Reform and Opening period, growth can be maintained

¹¹ Yingyi Qian, “The Process of China’s Market Transition (1978-98): The Evolutionary, Historical, and Comparative Perspective” (paper prepared for the Journal of Institutional and Theoretical Economics symposium on “Big-Bang Transformation of Economic Systems as a Challenge to New Institutional Economics,” June 9-11, 1999, Wallerfangen/Saar, Germany), 3-9, accessed December 7, 2017, <http://www-siepr.stanford.edu/workp/swp99012.pdf>.

¹² Congressional Research Service, “China’s economic Rise: History, Trends, Challenges, and Implications for the United States”, Wayne M. Morrison, RL33534, September 15, 2017, accessed December 7, 2017, <https://fas.org/sgp/crs/row/RL33534.pdf>, 5.

¹³ Michael Pettis, *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy* (Princeton: Princeton University Press, 2013), 74-6.

through at least the mid 2020's.¹⁴ However, Julian Gruin argues that for reasons of domestic stability, the financial system within China will serve as an impediment to future sustained growth.¹⁵ Furthermore, Michael Pettis argues that global economic imbalances will cause China's economic growth miracle to come to an end, leaving policy makers in Beijing seeking to ensure a soft landing instead of a hard one.¹⁶ The state of the Chinese economy is both one of the primary sources of legitimacy for the CCP as well as China's main tool in building power across all elements of national power. The combination of the importance of economic growth to Chinese power and the uncertainty of the future growth make this a key factor in the path China takes. This 'first person' perspective will be thus divided into 'Growth' and 'Stagnation,' signifying these disparate views of China's economic future.

For the 'second person' perspective, this monograph uses the presence or absence of Chinese efforts to play a revisionist role within the current international order to demonstrate how China sees its relationship with the world. A consistent theme in the interactions between the US and China since President Nixon initially visited the PRC in 1972 has been the effort to have a developed China be a responsible actor in the international community. The critical assumption in this effort is that a more powerful China would act within the post-World War II international system. The current disputes within the South China Sea, along with norm-altering institutions like the Asian Infrastructure Investment Bank (AIIB) and the One Belt, One Road (OBOR) initiative, indicate that this may be a bad assumption going forward.

¹⁴ James Xiaohe Zhang, "Is China's Economic Growth Sustainable? A General Equilibrium Analysis," *The Journal of Developing Areas* Vol. 49, No. 4 (Fall 2015): 407-14, accessed December 11, 2017, <http://dx.doi.org/10.1353/jda.2015.0147>. For a detailed look at the incremental reforms of the "Reform and Opening Up" period, see Barry Naughton, *The Chinese Economy: Transitions and Growth*, (Cambridge, MA: The MIT Press, 2007), 229-48.

¹⁵ Julian Gruin, "Asset or Liability? The Role of the Financial System in the Political Economy of China's Rebalancing," *Journal of Current Chinese Affairs* 4/2013 (2013): 73-104, accessed December 11, 2017, Political Science Complete, EBSCOhost.

¹⁶ Michael Pettis, *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy* (Princeton: Princeton University Press, 2013), 178-85.

Michael Pillsbury argues that a leading faction within the governing elite of China are pursuing a decades-long effort to supplant the United States as the leading global power and overturn the post-WWII international system.¹⁷ Recent interactions with China have led some to the conclusion that China will never become part of the Western system. Policies of engagement seeking to draw the PRC into this system must be replaced with pragmatic acknowledgment that relations with China will be based on competition, not cooperation.¹⁸ In contrast, Scott Kastner and Phillip Saunders argue that China's diplomatic interactions demonstrate a status quo approach to the international system.¹⁹ Additionally, Brantly Womack argues that the international system has fundamentally changed and China will play a leading role in this new post-hegemonic global order. In this view, China is not revisionist but instead is a "status ad quem," forward looking, nation.²⁰ In this debate about the role China will play in the future, the base assumption is that China will, regardless of the path taken, seek to reshape the international order to better serve the interests of the PRC. The debate centers around if China will seek to reshape the current Status Quo system or operate outside of, and eventually replace, the current system through a parallel set of institutions. These perspectives will thus divide the "second person" perspective into 'Status Quo' and 'Revisionist' categories based on China acting generally within or seeking to overthrow the current global order.

Lastly, the relationships between China's neighbors serve as the 'third person' perspective. As China increases its influence on the global stage, the nations on the borders of the

¹⁷ Michael Pillsbury, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (New York: St. Martin's Press, 2016).

¹⁸ Andrew Browne, "The West Faces Up to Reality: China Won't Become 'More Like Us'," *Wall Street Journal*. December 12, 2017, accessed Dec 12, 2017, <https://www.wsj.com/articles/the-west-gets-real-about-china-1513074600>.

¹⁹ Scott Kastner and Phillip Saunders, "Is China a Status Quo or Revisionist State? Leadership Travel as an Empirical Indicator of Foreign Policy Priorities," *International Studies Quarterly* 56 (2012): 163-77, accessed December 11, 2017, <http://dx.doi.org/10.1111/j.1468-2478.2011.00697.x>.

²⁰ Brantly Womack, "China and the Future Status Quo," *The Chinese Journal of International Politics* (2015): 115-37, accessed December 11, 2017, <http://dx.doi.org/10.1093/cjip/pov001>.

PRC and with adjacent maritime interests continue to face questions of how they will react to the increasing regional and international clout wielded from Beijing. The success of the OBOR system and the positions taken within the nations of ASEAN continue to serve as a key factor. Will China draw these neighbors into its orbit more closely through economic and diplomatic ties or will they seek to balance against a growing regional hegemon with incompatible interests?

Amitav Acharya argues that Southeast Asia resembles a consociational security order, where ASEAN restrains the PRC in its regional ambitions and engenders greater regional stability.²¹ Kai He similarly sees ASEAN as utilizing institutional balancing to constrain China within the region.²² Moving outside of ASEAN, Alan Bloomfield concludes that Australia's governments have recently adopted balancing behaviors in dealing with China.²³ Other researchers find the dominant policy within East, Southeast and South Asia as demonstrating hedging against China's rise.²⁴ While few countries are currently seen as bandwagoning with China, if Beijing is successful in continuing to accumulate power this may not continue to be the case. Many of the nations on China's periphery are allies and partners of the United States. The disputed waters in the South China Sea are vital to global commerce. The uncertainty regarding

²¹ Amitav Acharya, "Power Shift or Paradigm Shift? China's Rise and Asia's Emerging Security Order," *International Studies Quarterly* 58 (2014): 158-73, accessed December 11, 2017, <http://dx.doi.org/10.1111/isqu.12084>.

²² Kai He, "Facing the Challenges: ASEAN's Institutional Responses to China's Rise," *Issues & Studies* 50, no.3 (September 2014): 137-168, accessed December 11, 2017, Political Science Complete, EBSCOhost.

²³ Alan Bloomfield, "To Balance or to Bandwagon? Adjusting to China's Rise During Australia's Rudd – Gillard Era," *The Pacific Review* Vol. 29, no. 2 (2016): 259-82, accessed December 11, 2017, <http://dx.doi.org/10.1080/09512748.2015.1013497>.

²⁴ Bibek Chand and Zenel Garcia, "Power Politics and Securitization: The Emerging Indo-Japanese Nexus in Southeast Asia," *Asia & the Pacific Policy Studies*, vol. 4, no. 2 (2017): 310-24, accessed December 13, 2017, <http://dx.doi.org/10.1002/app5.180>; Le Hong Hiep, "Vietnam's Hedging Strategy Against China Since Normalization," *Contemporary Southeast Asia* Vol 35, No. 3 (2013): 333-68, accessed December 13, 2017, <http://dx.doi.org/10.1355/cs35-3b>; Phuc Thi Tran, Alena Vysotskaya G. Vieira, and Laura C. Ferreira-Pereira, "Vietnam's Strategic Hedging vis-à-vis China: The Roles of the European Union and Russia," *Revista Brasileira de Política Internacional*, 56 (1) (2013): 163-82, accessed December 13, 2017, Academic Search Complete, EBSCOhost.; Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*, Vol. 27, No. 2 (2005): 305-22, accessed December 11, 2017, Academic Search Complete, EBSCOhost.

the path that these nations will take as China seeks to expand its influence makes these relationships likely to shape China’s future. As such, the ‘third person’ perspective will divide based on China’s neighbors’ policies, be they ‘Balancing’ against China’s rise or ‘Bandwagoning’ to be on the winning side.

Eight Paths

From these three forces and drivers, eight possible scenarios exist. The implications that each of these futures have for US military policy vary widely from one to another. Below are five of eight futures. Chapter three describes the final three futures before each is further developed into detailed scenarios.

Table 1: China’s Futures Scenario Matrix

First Person	Second Person	Third Person	Possible Future
Growth	Status Quo	Bandwagon	“Rising Tide”
Growth	Status Quo	Balancing	“Status Quo”
Growth	Revisionist	Bandwagon	“Middle Kingdom”
Growth	Revisionist	Balancing	“Marathon Winner”
Stagnation	Status Quo	Bandwagon	“Asian Community”
Stagnation	Status Quo	Balancing	“Dipping Dragon”
Stagnation	Revisionist	Bandwagon	“BRICS Wall”
Stagnation	Revisionist	Balancing	“Drum Beats”

Source: Author

“Status Quo”

The dividend from massive societal investment in education pays off as Chinese business and manufacturing move up the value chain, continuing to drive growth and offset the investment-to-consumption transition. While flexing its muscles on a regional level and pressing ASEAN on accepting China as a ‘leading partner,’ the PRC generally operates within the international system. However, this increasing regional pressure leads Vietnam, the Philippines, India, Japan, and South Korea to turn ever more to the United States to as a hedge against Chinese domination.

“Middle Kingdom”

China continues to drive global growth through extensive investment in high technology, green energy, and artificial intelligence. As nations participating in the OBOR initiative find themselves and their economies increasingly linked to China, they find it advantageous to have their stances on international issues fall more in line with the Chinese position. The PRC utilizes this leading role to drive an international system that diverges from previous international norms. This Beijing Consensus reshapes maritime rules to redefine the understanding of freedom of navigation. Increasingly, multinational corporations share data with the Chinese government as the price of access to the Chinese market.

“Asian Community”

China’s remarkable four decade-long growth miracle comes to a screeching halt. After a decade of artificially propping up growth through increasing debt, the Chinese banking sector collapses. Much of the pain of the collapse is borne by the coffers of the central government through its guarantee of the state banking sector. A fall in real estate value combined with a further reduction of the deposit rate leads to Chinese consumption to drop as households tighten due to loss of perceived wealth. This malaise strips out the growth in the developing service sector, removing the path to the middle class for many Chinese. As China’s miracle economy retrenches, the PRC seeks to build a stronger relationship with ASEAN. Through the relative olive branch of reaching an accord on disputed South China Sea claims, Beijing acts as an elder partner in defending Southeast Asia’s position as a hub of low cost manufacturing.

“Dipping Dragon”

The Chinese economy stagnates as the return on its investment in infrastructure falls to an untenable level. Having not succeeded in transitioning to a balanced growth model, the PRC devalues the Renminbi to reinvigorate its export sector. While this effort creates international tension and threatens to ignite a trade war, the repercussions on the global economy from China’s

fall head off this conflict. On a regional level, this drives China into increased direct competition with neighbors and other developing nations in the low-cost manufacturing market.

“BRICS Wall”

China finds that its state investments in high technology and its population’s investment in education fail to pay off. The state sponsored sectors miss the emerging opportunities in Artificial Intelligence and Bioengineering based on poor management of resources. As the massive debt from years of infrastructure led development comes due, the PRC’s economy stagnates. After years of being neglected by China, a reemerging BRICS coalition pushes for dramatic changes in the international system. A driving narrative of the ‘West denying emerging nations the ability to rise,’ typified by the economic struggles in Brazil Russia, and China, forces changes within the United Nations and the leadership of the International Monetary Fund and the World Bank.

These futures, combined with the three in the following chapter, point to an increasing assertive China, regardless of future economic expansion. One of the dominant narratives in China since the founding of the PRC has been an ending of the ‘Century of Humiliation,’ the period from the First Opium War to the end of the Chinese Civil War, and a return of China to its rightful place on the world stage. While an increasingly economically powerful China will continue this path, the same is true in a future of economic stagnation. Part and parcel of this drive to increased prominence are changes to the international system. Beijing does not see the current international order as being in line with Chinese interests. These futures depict efforts to either change the system from within or to replace it. Even in a future where China acts within the current system, the Chinese leadership seeks to alter that system to fit their desires. Finally, the attitudes of those nations on China’s periphery currently demonstrate mostly hedging activities. The confidence these countries have in their continued ability to protect their interests while holding China at arm’s length is a strong determiner of whether they seek balancing or bandwagoning.

Chapter three will develop scenarios based on the “Marathon Winner,” “Drum Beats,” and “Rising Tide” futures identified in the chart above. These three scenarios cover both polarities of each of the forces and drivers. “Marathon Winner” and “Rising Tide” both capture futures where China continues its trend of economic growth, while “Drum Beats” captures a future of Chinese economic stagnation. China adopts a status quo approach to the international system in “Rising Tide” but pursues revisionist policies in both “Marathon Winner” and “Drum Beats.” The countries on China’s periphery seek means of balancing against the rise of the PRC in both “Marathon Winner” and “Drum Beats” and instead seek accommodation through bandwagoning in “Rising Tide.”²⁵

²⁵ The fact that each force has two scenarios dealing with one polarity and only one dealing with the other is not meant to be an indication of a more likely set of possibilities and is instead just a byproduct of the need to cover all eight factors. Writing a scenario for the “Asian Community” future would have eliminated this disparity but at the cost of needlessly extending this monograph.

Chapter 3: Scenarios

The following are three scenarios that portray plausible futures for China in a narrative form. The intent is not to depict what will happen, but instead what the combination of the forces and drivers in each scenario could lead to. Each is written based on the forces and factors laid out above for the particular scenario. The first scenario consists of a series of excerpts from fictional news articles. The second depicts a retrospective piece looking back on the previous twelve years told chronologically. The third scenario also paints the future in retrospect, but this time organized thematically. Each of these scenarios depicts an independent future and reflects a different possibility based on the respective forces and drivers. None of the events portrayed in one scenario are relevant to the other two.

Scenario 1: Marathon Winner

Having utilized excess foreign reserves funneled through notionally private corporations to acquire both foreign natural resources and intellectual property in key areas, the PRC has continued its decades long economic rise. China has utilized its economic leverage to dictate policy choices of its investment partners, moving toward a system with neo-colonial and mercantilist traits. It has begun resource extraction within its Nine-Dash Line in the South China Sea and has begun to utilize naval and maritime militia forces to “inspect” vessels transiting this area. Neighboring countries seek external balance but increasingly find that China has accomplished a *fait accompli* in regional dominance.

The "Marathon Winner" scenario:

Bloomberg News, July 24, 2018 – Global commodity markets have rarely experienced a day like July 24, 2018. With the announcement that China had reached an agreement with four nations, Brazil, Angola, Oman, and Kazakhstan, to purchase petroleum in contracts denominated in Renminbi, the price of oil futures fluctuated rapidly in the New York Mercantile Exchange and the Tokyo Commodity Exchange as algorithmic trading programs interpreted the news

differently. Both exchanges stopped trading for twelve hours to allow the system to stabilize. As the details emerged concerning the conversion of each nation's state debt owed to China from US Dollars to Renminbi and the 3% premium on the exchange rate written into the contracts, oil markets stabilized. Chinese Premier Li Keqiang stated, "Today, China and our partners have agreed to mutually beneficial relationships, securing long term cooperation and freeing ourselves from the havoc wreaked by the whims of the US Federal Reserve. There is no reason that bilateral relationships between China and other nations should be tied to the health of the tumultuous economy of the United States. We have taken steps to correcting that today."

The Brussels Times, August 23, 2020 – Global demand for wind turbines and solar power has been accelerating as nations pass laws and institute regulations to meet Paris Climate Accords targets. Through significant investment in this sector, Chinese manufacturers have come to dominate much of the market. While the Chinese have been competing in this sector for many years, this has been mainly limited to the mass production of older generation technology. However, recently multinational corporations that have partnered with Chinese firms in the Chinese domestic market, as required by regulators in Beijing, find themselves increasingly being undercut on the global markets with technologically advanced products based on technology they were required to share with their Chinese partners.

Forbes, February 27, 2023 – A study of the overall impact of an offshore petroleum exploration deal signed between China and the Philippines in 2019 was published today in the *Harvard Business Review* and it does not bode well for the junior partner in that deal. That deal, hailed at the time by President Duterte as a boon to the Philippine economy, allowed both countries to explore, jointly or independently, within the contested waters near the Reed Bank in the South China Sea. However, the joint exploration has yet to materialize with multiple rounds of talks between the two nations failing to establish the parameters. In contrast, the Chinese National Offshore Oil Company has partnered with BP and Transocean and has productive oil platforms scheduled to be online early next year. This deal has not worked out as well for the

Philippines. To date, there has been tepid interest in the leases offered by the Philippine government. According to the report's author, Dr. Bonny Stephenson, an economics Professor at the University of Chicago, "Given the relative clout of China versus the Philippines, no companies seem to be willing to risk angering Beijing. The Philippines are basically being squeezed out of their own backyard."

***New York Times*, March 18, 2023** – The two container ships flagged out of the Marshall Islands that were stopped by Chinese Maritime Militia vessels while transiting through the South China Sea on March 2 have been released. After two weeks in the port of Sanya on Hainan Island off China's South-East coast, Chinese authorities allowed the vessels to depart. According to a statement from Maersk Line, the vessels' owner, after paying a fine of RMB10 million for "environmental damage to Mischief Reef due to bilge water contamination," the vessels were cleared to depart the harbor. The captain of one the ships reported that he was told that he should expect this to continue for "all ships from nations that illegally recognize the independence of Taiwan." A Marshall Islands lawmaker has recently introduced a bill calling for the nation to recognize the People's Republic of China and end relations with Taiwan. "It is time that the Marshall Islands join the international community and recognize Beijing. No good comes from our obstinate position of Taiwanese recognition," said Ruben Loeak, a legislator representing Ebon Atoll. With the threat of several international shipping companies changing their registration to another nation, resulting in the loss of employment for the islands, the bill looks likely to pass. Already, the owners of thirty-seven ships have reflagged them to Panamanian registration. Wang Ruili, a spokesman from the Foreign Ministry of the Republic of China, addressed the issue in Taipei on Wednesday, "This is an obvious case of the Peoples Republic of China flouting international law to intimidate both the Marshall Islands and the international shipping industry. We call on the international community to take a stand against this brazenly illegal act and deny Beijing its goal of achieving diplomatic goals through what amounts to piracy on the high seas."

Washington Post, August 8, 2026 – The ongoing spat between China and Vietnam over eighty-nine fishermen being held on Woody Island in the Paracel Islands took a turn for the worse this morning as a Vietnamese Navy Corvette was fired upon as it approached the islands. The fishermen have been held for two weeks after being detained by the Chinese Coast Guard while fishing in waters claimed by both Vietnam and China. All seventeen of the fishing boats that they manned were sunk by Chinese Maritime Militia boats. Thus far, Vietnamese consular officials have been denied access to the fisherman based on the sensitive nature of the Paracel Islands, which China and the Republic of Vietnam (South Vietnam) fought over in 1974. The Sansha Prefectural Court, which administers the Chinese claims across the South China Sea from Woody Island, has charged all eighty-nine fishermen with illegal fishing in Chinese waters and espionage. This last charge reportedly stems from the presence of standard depth finding equipment on the fishing boats.

Honolulu Star-Advertiser, July 24, 2028 – The *USS John Basilone* has returned to port at Joint Base Pearl Harbor–Hickam on Sunday. The Public Affairs Office reported, “The *USS Basilone* returned to port early for unscheduled maintenance after conducting operations at sea for two months.” A source speaking anonymously because of the sensitivity of the issue reported that after a FONOP patrol in vicinity of Fiery Cross Reef in the South China Sea, the ship experienced a communications failure. Shortly after this issue, a maintenance check discovered that two of the ship’s *Aegis* SPY-1 radar arrays were damaged and inoperable. In the hours preceding the communications failure, a PLAN Type 055 destroyer, the *Nanjing*, was shadowing the *Basilone*. Further maintenance tests during the transit back to Hawaii revealed large portions of two of the SPY-1 radar arrays, both facing the quarter that the *Nanjing* occupied, were burned out from some type of energy overload. This is the third reported incident in the past five months of communications issues on FONOP patrols, but the first reported incident of damage of this kind. Questions to USPACOM and 7th Fleet remain unanswered at this time.

Asahi Shimbun, December 13, 2028: Following the announcement on Monday that China was suspending all international air traffic to “its province of Taiwan,” two EVA flights in route to Taipei were intercepted yesterday by PLAAF fighter jets and directed to land at Xiamen, PRC. One flight, EVA 2301 originated at Norita International Airport. The other, EVA 1542, began at Incheon International Airport in South Korea. According to reports, Chinese immigration authorities screened all passengers before issuing “Taiwan Entry Visas.” Chinese police detained three Taiwanese travelers, reportedly for ties to the banned religious group Falun Gong. Taiwanese F-16s and Japanese Air Defense Force F-15s were launched by their respective nations in response to this provocative action. All commercial air traffic into and out of Taiwan was suspended for nearly 18 hours. Limited flights have recommenced with altered flight paths taking them well east of Taiwan. The Taiwanese Air Force have begun continuous combat air patrols in the area to prevent future interceptions. The actions have been roundly condemned around the world as extremely dangerous and illegal. The Chinese Ministry of Foreign Affairs issued a statement claiming that it had the authority to divert any aircraft arriving in its “sovereign territory, to include Taiwan and all Chinese maritime possessions, for any reason.”

New York Times, May 14 2029: After Saturday’s collision between an US Navy F-18F “Growler” and a Chinese B-5002 surveillance plane off the northern coast of Luzon Island, tensions have continued to escalate. The collision occurred on the periphery of the annual Balikatan exercises between the United States and the Philippines. Both aircraft were lost at sea, including two US Navy aircrew and eight Chinese PLAAF aircrew. In light of the increased tensions, the proximity of Chinese and United States and Philippine vessels and aircraft have complicated search operations. Tensions escalated further this morning as two PLAN Yuan-class submarines surfaced amid the US carrier battle group heading up the US rescue effort. The exercise maneuvers had been halted on Sunday to focus search and recovery operations. The submarines reportedly remain in the area, shadowing the USS *Gerald Ford*.

Scenario 2: Drum Beats

A combination of diminished economic growth due to increasing debt burdens and the response to protests over natural disaster response lead to a wave of multinational corporations cutting their building losses in the Chinese market. However, the international response to this was limited by Chinese economic concerns in other countries. As China's economic interests around the world are increasingly threatened by local opposition, Beijing begins responding more forcefully, using military forces as diplomacy and inducements fail. Disputes between China and Vietnam in the SCS escalate further when tit-for-tat seizures of fishermen and boats lead to deaths on both sides. Seizing on what it sees as an opportunity based on most of the international community turning against Beijing, Taiwan schedules a referendum on independence, coinciding with the PRC's National Day celebration.

The "Drum Beats" scenario:

Oct 1, 2030 - As the world watches to see what the People's Republic of China will do in the wake of today's independence referendum in Taiwan, it is helpful to look back at how we got here. It is hard to pick a point in time that caused any geopolitical crisis. This present situation could easily trace its origin back at least to 1949 with the end of the Chinese Civil War, if not earlier to the decades long confrontation between the Kuomintang and the Chinese Communist Party. However, if we look for a more proximate cause, perhaps the best place to start is August 17, 2018. While the events of that day seemingly have little to do with cross strait relations, the fallout has been wide ranging.

It was on that day that *Caixin*, the highly respected financial news publication in China published its analysis of that month's interest rate and investment vehicle changes by the People's Bank of China. That report, depicting a nearly 40% loss of value for household savers, set off a panic as bank withdrawals surged. The capital flight out of the state banking system led to a reversal of some of the changes, but at the expense of central bank. The end of cheap credit brought about by these changes is largely seen as being the marker for the end of the "Chinese

growth miracle.” Quarterly growth figures from outside sources have not topped 2% year on year since. Even the official state numbers, long considered suspect, reflect this drop since the early 2020’s.

The following summer brought in mother nature’s hand in stirring the pot. The arrival of the Category 5 Typhoon *Kai-tak* across Hong Kong, Macau, and Guangzhou two days after an 8.1 magnitude earthquake centered just outside Chengdu, Sichuan overwhelmed the capacity of the Chinese emergency response capability. The widespread destruction in central Sichuan was magnified by its coinciding with the GaoKao testing.²⁶ Among the more than 27,000 deaths were nearly 7,000 eighteen-year-old students taking the test. Mirroring the deaths of over 5,000 elementary students a decade earlier in 2008, large-scale protests forced local authorities to balance relief efforts with “internal security matters.”

In Hong Kong, popular opinion viewed the typhoon response from Beijing as inadequate. A division arose within the Legislative Council of Hong Kong with a faction calling for international assistance. As protests became increasingly critical of Beijing, the Chief Executive of Hong Kong declared that no foreign assistance was required. The Chinese Coast Guard began intercepting ships with aid bound for Hong Kong and redirecting them to Shenzhen, forcing all aid to pass through the “mainland.” Protests surged and many People’s Armed Police (PAP) and People’s Liberation Army (PLA), on hand for disaster relief, were deployed to suppress the demonstrations. Then, on June 22, PAP police, attempting to break up a protest march, killed forty-eight protesters. The Hong Kong Crisis persisted into the fall with what amounted to the beginning of the dissolution of the One Country-Two Systems policy. Throughout the rest of 2019, numerous multinational corporations closed operations within Hong Kong and new

²⁶ The National Higher Education Entrance Examination, or GaoKao, is a standardized test that is sole determiner of high school student’s admission to most Chinese universities.

international investment in mainland China dropped to less than 10% of its level from the previous year.

The international response to the Hong Kong Crisis was muted by the Chinese ownership position in business, agricultural, and mineral enterprises across the globe. After Australia unilaterally sanctioned the PRC, setting a limit on the export of iron ore, China responded by laying off all Australian workers at its Australian mining interests and in the port of Darwin. Chinese demand for Australian imports dropped sharply in the wake of a wave of anti-Australian sentiment. Competing cases worked their way through the WTO ending in a mixed decision affirming Australia's right to limit exports of natural resources but also deciding there was a lack of evidence that the Chinese government had interfered with Australian imports.

The protests in Tanzania in April of 2023 marked a further turning point for China. After a string of deaths in several villages near a Chinese mine in central Tanzania, a large protest blocked access to the Chinese mining compound. After the Tanzanian government refused to disperse the protesters, a company of PLA troops were inserted via helicopter from the Chinese base in Djibouti. Seven Tanzanians are killed and forty-three are wounded as these troops tried to clear the protesters. The Tanzanian government finally cleared the protests but suspended all activities at the mine. They further demanded that the PLA soldiers involved be turned over. The standoff continued for a month, highlighted by the arrival of the *Liaoning*, China's first aircraft carrier, off the Tanzanian coast. The eventual deal, with all Chinese military and civilian personnel tied to the mining operation leaving Tanzania and the ownership of the nominally privately-owned facility being transferred to the Tanzanian government as recompense, satisfied neither side and shaped the standoff in Sri Lanka the following year.

With the global spread of anti-Chinese sentiment following the events in Tanzania, the election of the anti-Chinese nationalist party in Sri Lanka in June of 2024 was not surprising. As the new government announced that it was re-examining the lease of the Hambantota Port by two

Chinese companies, a battalion of PLA troops arrived in the port on civilian shipping.²⁷ Attached engineering troops began to immediately reinforce the port facility. Claiming it was “forced to respond to threats to Chinese strategic commercial interests,” Beijing decried the ability of “the mob to seize power in corrupt democratic systems.” The arrival of more troops and the constant presence of People’s Liberation Army Navy ships in the port and surrounding waters have converted the once commercial port to a *de facto* naval base, derided by *The Guardian*, as “China’s Guantanamo Bay.” This action sparked the second wave of multinational flight from China. The international outcry of the seizure of the port, combined with slackened growth and weak consumption figures in China over the previous five years, gave these corporations cover with shareholders to cut ties with their Chinese partners, effectively abandoning the Chinese market.

In the buildup to the Party Congress through the summer of 2027, speculation rose that Xi Jinping, who had retained the principle positions past his expected retirement in 2022, would be forced cede power. The stature of General Peng Jundao, the leader of both the Djibouti garrison during the operations in Tanzania and the director of the seizure of Hambantota, was seen as a direct threat to Xi. The widespread rumors that the ever-present anticorruption campaign under Xi had targeted, but failed to bring down, Peng made him seem untouchable.

Even before the Party Congress convened, there were signs confirming Peng’s status. On September 28, 2027, the Vietnamese Coast Guard detained seventeen Chinese fishermen for fishing in Vietnamese waters. Chinese Maritime Militia subsequently sunk five Vietnamese fishing boats in waters east of Fiery Cross Reef, detaining thirty fishermen. Another eighteen were lost as two of the vessels were fired upon and sunk as they fled. Upon responding to the area, a PLAN destroyer sunk a Vietnamese Navy corvette, leaving ninety-eight dead and nine

²⁷ The Hambantota port is on the southern end of Sri Lanka. It was leased to Chinese state-controlled companies as a means of satisfying Sri Lankan debt obligations. Kai Schultz, “Sri Lanka, Struggling with Debt, Hands a Major Port to China,” *New York Times*. December 12, 2017, accessed December 12, 2017, <https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html>.

sailors in Chinese custody. These actions, occurring so close to the Party Congress and with General Peng prominently portrayed in the news accounts, boded ill for Xi's hold on power. When Peng did, in fact, assume the leadership of the Party and military suspicions of a much more militaristic road ahead for China seemed to be confirmed.

At the ASEAN summit hosted the following month in Danang, Vietnam, ASEAN denounced China. Of greater significance, the body agreed to settle all territorial disputes between the members in line with UNCLOS definitions. While this had the greatest effect on the previous Vietnamese claims, the united front presented by the block showed a dramatic loss of influence by Beijing, which had for years sought to divide the body and undermine its requirement for universal consent. In a further affront, the declaration referred to resolving the disputes in the "Inter-Vietnam Philippine Sea." President Peng denounced the action, specifically criticizing the Vietnamese, calling them "Naughty Little Children," echoing a term used during the short war between Vietnam and China in 1979. He announced that in 2028 China would conduct Exercise *Chengfa* ("Punishment" in Mandarin) along the border with Vietnam and in the Gulf of Tonkin.

This brings us full circle to the events of this year. On February 13, 2030, the Legislative Yuan in Taiwan lowered the threshold for passage of popular constitutional referenda from 75% to 66%. Within hours of the change, a call was made for a referendum on Taiwanese Independence. After angrily denouncing the vote, President Peng threatened Taiwan with annihilation if the vote was allowed to take place. On the day that the government in Taiwan announced the date for the referendum, Oct 1, 2030, PLA forces that had been exercising in the Paracel Islands launched an assault on Itu Aba, the Taiwanese controlled island in the South China Sea. The airbases on Subi Reef and Fiery Cross Reef supported the offensive.

Today, National Day in the PRC and the day of the referendum in Taiwan, the world holds its breath. Extensive buildup of PLA and PLAN forces have been noted in the bases along the coast across from Taiwan in the past couple weeks. Over the past several days, all Taiwan

civilians evacuated to the Taiwan from Kinmen and Matsu, two Taiwan-controlled islands within conventional artillery range of the Chinese mainland. Results from the referendum are expected to be available around 11 pm local time. All indicators point to a clear vote for independence. The only uncertainty is the reaction from Beijing. Given the rhetoric from Beijing, however that may be predictable as well.

Scenario 3: Rising Tide

China continues its four decade long economic ascent through flexible policy making in line with the “seeking truth from facts” dictum. Foreign companies continue to bow to the onerous partnership and intellectual property sharing requirements levied by Beijing in exchange for market access. Along with substantial national investments in key technology sectors, these partnerships allow for China to lead the world in high technology development. Of particular focus are dual use technologies like Artificial Intelligence that help translate continued economic muscle into military power. This continuing growth allows for substantial outlays in non-economically viable but politically advantageous projects as part of OBOR. The “G-2” partnership of the United States and China becomes increasingly important as the two nations compete in an increasingly bipolar international environment.

The “Rising Tide” scenario:

September 18, 2030 - People still debate about whether the world is a zero sum or positive sum system. However, when it comes to the United States and the People’s Republic of China over the last two decades, there is no question about the relative position in this game. China saw, and seized, its opportunity with the financial crisis of 2008. Since that time, the leaders in Beijing have steered their ship nearly unerringly toward their ‘Chinese Dream.’ Today, nearly four decades after the collapse of the Soviet Union, the world once again finds itself in a truly bipolar world. Unlike the Cold War, however, today the world features two behemoths

operating and competing within the same economic system instead of leading two opposing systems.

Remaining true to Deng Xiaoping's dictum, "It doesn't matter if it is black cat or white cat, as long as it catches mice," China has shown a willingness to shift its policies in response to feedback²⁸. It has thus ensured that the rise of China has continued unabated for five decades. As Beijing increased in wealth and influence, the Chinese leadership used this economic leverage to single mindedly acquire more power. It has done this across all four elements of national power. Perhaps the signature of the success of this Chinese model has been the reinforcing of gains in one element of national power by concomitant gains across the others. By ensuring that its diplomatic and informational power rose along with its military might, Beijing has thus far limited the potential negative carry-on effects from this build up. No story of China's rise can start, however, with anything other than economics.

Despite concerns over the past two decades that Chinese growth was unsustainable, the economic planners in Beijing long ago recognized a critical advantage that they held: the untapped consumption of one quarter of humanity. What outside observers recognized as an economy so unbalanced between investment and consumption that it was on the verge of collapse, the residents of *zhongnanhai* interpreted differently.²⁹ Instead of a fatal flaw, this dearth of consumption was the critical leverage that they could use to extract unheard of concessions from the world's leading corporations as the price to access this untapped market. These concessions, covering intellectual property transfers, domestic partnerships, censorship, and access to, and control of, user data, enabled Chinese corporations to make leaps in technology and

²⁸ Yingyi Qian, "The Process of China's Market Transition (1978-98): The Evolutionary, Historical, and Comparative Perspective" (paper prepared for the Journal of Institutional and Theoretical Economics symposium on "Big-Bang Transformation of Economic Systems as a Challenge to New Institutional Economics," June 9-11, 1999, Wallerfangen/Saar, Germany), 4, accessed December 7, 2017, <http://www-siepr.stanford.edu/workp/swp99012.pdf>.

²⁹ *Zhongnanhai* is a large compound on the western side of the Forbidden City in the center of Beijing. It is the tightly controlled residential area housing Beijing's ruling elite.

business process. This in turn enabled them to emerge as the strongest competition for these international “partners.” Very few of these multinationals ever saw the gains that they sought as the Chinese market, as Chinese consumers increasingly opted for domestic brands produced using transferred technology. Moreover, what gains were realized in China were more than outweighed in most cases by the negative repercussions of the increased competition globally.

In addition to the advancements made by Chinese industry with this access to multinational partner intellectual property and processes, the Chinese government made massive investments in pursuing emerging technology, posturing China to dominate these fields. Artificial intelligence, biotechnology, and advanced materials research, much conducted by US educated Chinese scientists and engineers, have all paid dividends. While the systemic problems associated with success in centrally directed research resulted in extensive waste, the size of the investment in pure and applied science masked these structural issues. Technologies and research that could be described as “dual-use,” having both civilian and military use, were pursued with particular vigor. This synergy between economic development and military strength is emblematic of the approach across the elements of national power. Perhaps nothing illustrates this more than the recent demonstration of a fleet of small drones operating in swarms enabled through artificial intelligence. While the demonstration was made using small autonomous boats to conduct floating debris collection and pollution monitoring, reports of similar boats as well as airborne drones using the same technological architecture in the PLA demonstrate this cross talk between industrial and military applications.

Beyond these dual-use advances, China has translated its economic development into military strength in other ways as well. The same approach utilized in economic policy, derived from the “seeking truth from facts” doctrine of Deng Xiaoping, allowed a dramatic restructuring of the PLA beginning in the 2000’s which continues today.³⁰ What was once a corrupt and

³⁰ Yingyi Qian, “The Process of China’s Market Transition (1978-98): The Evolutionary, Historical, and Comparative Perspective” (paper prepared for the Journal of Institutional and Theoretical

technologically backward force dominated by a massive ground force has been steadily transformed into a technologically advanced military with modern air, naval, missile, and cyber capabilities. The ground force has also been reorganized with a ‘quality over quantity’ approach. While the official Chinese defense budget remains smaller than that of the United States, most of the difference is tied to the large difference in personnel costs between the two militaries. When extrapolation is done to bring the cost of pay and benefits per service member in line between the two nations, the Chinese defense budget reached relative parity with the United States in 2026. However, given the smaller share of the budget devoted to personnel costs, the PLA today has greater funding for acquisitions and operations than the base US defense budget.

Over the past decade, China’s diplomatic clout grew concomitantly with its burgeoning economic and military might. Faced with an increasingly internally focused United States, many nations on China’s periphery sought security in appeasement and accommodation with the PRC. Across the international system, Beijing has used inducements, primarily economic and development related, to divide the community of nations into two camps: its own and that of the United States. Beijing has increasingly engaged in ‘lawfare’ in seeking to reshape established institutions and international norms toward their own vision of the future. Where this has not been possible, a parallel set of institutions, like the AIIB, have been established. This has further bifurcated the international system.

The resultant “Beijing Consensus” now stands as a clear alternative to that of Washington. Increasingly authoritarian regimes are justifying their policies in modeling the economic success in China. This far, this enabling of kleptocracies across Africa and Central Asia has failed to yield the promised economic benefits. However, Chinese-style Party-State systems were established in both Zimbabwe and Uzbekistan in the first half of the 2020’s. In seeking to

Economics symposium on "Big-Bang Transformation of Economic Systems as a Challenge to New Institutional Economics," June 9-11, 1999, Wallerfangen/Saar, Germany), 4, accessed December 7, 2017, <http://www-siepr.stanford.edu/workp/swp99012.pdf>

demonstrate the viability of the system and further enhance its international prestige, Beijing has committed a massive aid package to enable the success in Zimbabwe. Chinese advisors, from technical to political, support the Zimbabwean Communist Party that emerged as the victor in the short civil war and chaos in the years after the ouster of Robert Mugabe. Portraying the Chinese as saviors of the Zimbabwean people, Chinese media has creating a compelling story by contrasting the current regime with the decades of dysfunction under Mugabe.

The present divide in the international community is, however, markedly different from the divide between the US and Soviet spheres of influence during the Cold War. The economic interplay between the Soviet-bloc and the West was relatively limited. In the current system, while there has been consistently increasing competition between the US and China over the past two decades, they remain among each other's largest trading partners. This combination of economic interconnectedness and overall competition on the international arena divides scholars. Some scholars see the interdependence of the two largest economies as a calming influence on the otherwise tense relationship. In this view, both sides of the relationship are restrained in the pursuit of its goals at the expense of the other by the potential risk to their own economy in the event of a breakdown. However, there are also those who predict dire consequences. Instead of overall mitigation of tension, this camp sees that the economic ties have allowed for tensions to build over time. These observers use the model of an earthquake. The economic ties have held the two sides together as tension has built over time. As a result, when the split eventually happens, the resulting quake will be calamitous.

Chapter 4: Policy Recommendations

By examining the three scenarios above, three trends emerge: the future competitiveness inherent to the US-PRC relationship, the importance of the relationships the United States has with its allies and partners, and the likelihood of future challenges to the current rules-based international order. These trends are likely to be influential in the future relationship between the United States and the People's Republic of China regardless of which path the latter takes. From these trends, this section presents policy options that best position the United States to maintain a position of relative advantage vis a vis China through 2030.

Beginning with the 'opening' of China by the Nixon administration, US policy toward China has generally sought greater cooperation between the two countries. Policy makers at the time initially framed this policy within the context of the Cold War as a balance against the Soviet Union. The relationship soured in the wake of the Tiananmen Square Massacre. While the relationship never returned to the pre-Tiananmen period, the general trend toward cooperation returned in the early 1990's and continued largely unabated until the financial crisis in 2008. China interpreted that crisis as evidence of the United States being a failing superpower. As a result, Beijing adjusted its stance from one based on cooperation to a mindset of competition. Two driving forces continue to foster this sense of competitiveness. The first is China's desire to return to its 'rightful' place as a leader in the world order. Secondly, after nearly forty years of unbroken growth and development, China sees itself as nearing parity with the United States. Fundamental to China's approach is the conception of the world in zero-sum terms: for China to rise in power, the United States must decline. Competition, not cooperation, thus drives the resulting relationship.³¹

³¹ Robert Dujarric, "China's Zero-Sum Game: Comparative Quiet in China's Neighborhood Has Given it the Chance to Rise Peacefully. Will it Keep Flexing its Muscles?" *The Diplomat*, July 26, 2011, accessed March 13, 2018, <https://thediplomat.com/2011/07/chinas-zero-sum-game/>.

The current international system is based on a positive-sum world view. International institutions, from the United Nations to the International Monetary Fund and World Bank, are based on the idea that all nations are stronger individually when part of an advancing collective whole. Globalization and free trade grow out of this positive-sum world view. The sense of competition inherent in the future of China depicted in these scenarios runs directly counter to this cooperative international system. In the “Marathon Winner” scenario, the expansion of the mercantilist economic policies and neo-colonial exploitation of smaller nations for resource extraction repudiates the ideals of the current order. As China’s partners become increasingly reluctant in their engagement based on the perception of a lack of mutual benefit, the positive-sum worldview will remain appealing. If the United States shifts from policy based on the positive-sum principle, many opportunities to bolster the international system in a manner that supports US interests will be lost.

In the “Rising Tide” scenario, this same conflict plays out differently. Instead of seeking to overturn the international system, China seeks to reform it from within. However, this reformation is still within the context of the zero-sum world view. Through application of increasing economic largess, the PRC draws other nations into its sphere, establishing a parallel system. These relationships are largely transactional, with Beijing buying acceptance of its policies and influence. This future is more difficult for the United States to counter, but the solution looks largely the same. By supporting the system built on international norms and seeking mutually beneficial relationships, partner nations have a choice between the transactional nature of Beijing’s approach and one built upon support of common goals. For the US military, support of this system comes in the form of maintenance of international norms, from freedom of navigation to building partner capacity for internal defense.

Neither a collapse in domestic economic growth nor a continued galvanization of China’s neighbors, as depicted in the “Drum Beats” scenario, is likely to change this new mindset in Beijing. Much of the legitimacy of the Chinese Communist Party stems from their narrative of

returning China to its rightful place after the ‘Century of Humiliation.’ Without successes on the economic front, pressure to demonstrate Chinese power on the world stage will likely increase, leading Beijing to impose its will on its neighbors. The strong network of military relationships that the United States has across the East, Southeast, and South Asia provides the clearest check against any attempt by the PLA to assert itself in this manner.

While diplomatic and economic efforts are also important in fostering and maintaining these relationships, the US military has a vital role to play. China’s neighbors generally see the PRC as an economic partner, but a security threat. The burgeoning relationship between the United States and Vietnam is an example of this. The United States and Vietnam have a shared interest in preventing China from dominating the South China Sea and Southeast Asia. This shared interest has created opportunities to build a stronger security relationship between the two militaries. For Vietnam, this relationship serves as a check against Chinese expansionism that the Vietnamese military could not achieve on its own due to the disparity between the two Asian countries. For the United States, a stronger and more confident Vietnam bolsters US diplomatic efforts at maintaining the international order. As an example, a militarily cowed Vietnam would make efforts to ensure freedom of navigation in the South China Sea more challenging.

The US military must be capable of defending US national interests in the conditions likely to occur in twenty-first century warfare. This is true of any age. However, the scenarios reinforce the lesson of history about what this effort should look like. Planner should not define this effort by what a conflict with a peer competitor like China would entail, but instead base policy on a wider range of possible conflicts. During the Cold War, the US military prepared to fight against the Soviet Union. However, the conflicts that occurred were smaller proxy wars, from Korea to Vietnam to Afghanistan. The prospect of a US-Soviet conflict became so terrible that both nations were unwilling to challenge the other directly. Before the Cold War, history likewise demonstrates that in great power conflict, rival nations will generally avoid direct conflict. The Wakhan Corridor in Afghanistan is a demonstration of this principle played out in

the Great Game between Britain and Russia.³² The calamitous results of a war between the United States with its allies and China make the most likely future one involving fights along the seams where US interests collide with those of China. The US military must be prepared to win both a large-scale war as well as to support partner nations on these seams of conflict.

In both large-scale war and smaller proxy fights, fostering partnerships with nations with coinciding goals best serves the interests of the United States. The United States does not, and has not historically, maintained the military it needs to fight existential wars. However, the alliances, partnerships and relationships with other interested nations serve to bolster the steady-state US military strength. As the scenarios above lay out, when Beijing seeks to expand its power, it is likely to be at the expense of smaller nations on its periphery. Many of those nations are current American allies and partners. The relationships that the US military has, and continues to build and foster, with these nations will prove critical in an increasingly bipolar world. These relationships will be valuable for three reasons. First, military confrontation with China is most likely to stem from defending US allies and partner nations from Chinese expansion. Secondly, in any conflict, the United States will seek to not fight China alone. Finally, prior to the outbreak of conflict, the strength of these relationships places a check on China's ability to dominate its near abroad.

One of the critical components of the current international order is the fact that it is a rules-based system. Those rules, derived from treaties, international agreements, and custom, allow for all parties to develop expectations concerning the results of differing courses of action. This is not unlike a system of laws within a nation. However, unlike domestic law, there is no supranational enforcement body that can punish those who flout international law. Instead, the

³² Alexander C. Diener and Joshua Hagen, eds., *Borderlines and Borderlands: Political Oddities at the Edge of the Nation-State* (New York: Rowman & Littlefield Publishers, Inc., 2010), 53-4, accessed March 10, 2018, https://books.google.com/books?hl=en&lr=&id=Pci-AAAAQBAJ&oi=fnd&pg=PR5&dq=Wakhan+corridor&ots=dJIKbryyWM&sig=OXuf_KYlqkEhIUfBp9FWg4JObks#v=onepage&q=Wakhan%20corridor&f=false

community of nations, through use of each nation's instruments of national power, either collectively or individually, rewards or punishes these violations. Within this system, the United States has a special position. With the greatest national resources available, the United States bears a role commensurate with its power in enforcing international law. The clearest demonstration of this in in the realm of freedom of navigation (FON) in accordance with customary international maritime law and under the United Nations Convention on the Law of the Sea (UNCLOS).

The United States has determined that maintaining the current understanding of FON is in the national interest. The rules governing FON are spelled in UNCLOS. The Permanent Court of Arbitration (PCA), established by UNCLOS, ruled in 2016 that the Chinese claims formed by the Nine-Dash Line were “contrary to the convention [UNCLOS] and without legal effect.”³³ However, China refused to participate in the arbitration process and rejected the decision.³⁴ While the Philippines won a legal victory based on the PCA's decision, without any physical challenges to the Chinese claims, that victory would remain hollow. Therefore, the US Navy has conducted numerous patrols inside waters claimed by Beijing as territorial but without merit according to international law. Through these patrols, the United States makes real the decision from The Hague and thus maintains the rule-based order.

Based on the futures laid out in this monograph, competition will be a defining characteristic of the relationship between the United States and the People Republic of China through 2030. Military planners must take this into account as they shape US military policy.

³³ Permanent Court of Arbitration, “PCA Case No 2013-19: The Matter of the South China Sea Arbitration Before an Arbitral Tribunal Constituted Under Annex VII to the 1982 United Nations Convention of the Law of the Sea Between the Republic of the Philippines and the People's Republic of China,” 117, accessed March 13, 2018, <https://pca-cpa.org/wp-content/uploads/sites/175/2016/07/PH-CN-20160712-Award.pdf>. The 9-dash line is an expansive claim covering nearly the entirety of the South China Sea based on historical influence in the area. The PCA's ruling demonstrated that such claims to history in determining claims have no basis in international maritime law.

³⁴ Tom Phillips, Oliver Holmes, and Owen Bowcott, “Beijing Rejects Tribunal's Ruling in the South China Sea Case,” *The Guardian*, July, 12, 2016, accessed March 13, 2018, <https://www.theguardian.com/world/2016/jul/12/philippines-wins-south-china-sea-case-against-china>

That policy must help to manage that competition without driving it from competitive to adversarial. Two pillars of such a policy are an ongoing commitment to the strengthening of US alliances and partnerships and efforts to maintain the rules based international order. The expansion of Chinese influence and power presents security dilemmas for the nations on its periphery. US military collaboration and partnering enables these nations to maintain an independence from Beijing that may otherwise be difficult to maintain. Additionally, the international order frames international interaction in positive-sum terms. This runs counter to the current Chinese worldview, leading Beijing to challenge this system. While not the sole responsibility of the United States or the US military, US national interests and global reach require that the United States will bear a significant portion of this responsibility.

Chapter 5: Conclusion

The value of scenario planning methodology lies in forcing the planner to examine previously ignored or unrecognized possibilities. Using multiple, independently identified forces and drivers, futures can be identified that would not otherwise be apparent. In this monograph, using three factors demonstrated this value. Combining revisionist policies with a growing Chinese economy and neighboring countries choosing to bandwagon, depicted in the “Middle Kingdom” scenario, presented challenges in identifying a narrative that made this combination make sense. Even more challenging was identifying how this future would look different, in terms of the actions of the relevant parties, from a similar future like “Asian Community,” where the only difference in the forces and drivers is the stagnation of the Chinese economy. This methodology doesn’t allow for the planner to dismiss the resulting future. Instead, it forces creative thinking and in doing so results in previous unconsidered possibilities.

The three forces and drivers identified in this monograph provide a broad approach to identifying what the future of China could look like. While these three factors were chosen to attempt to frame the future as broadly as possible, different choices made regarding these factors could provide a different appreciation of the future. However, the central focus of all scenario planning is to provide understanding toward answering a specific question. The question that has driven the research in this monograph concerns military policy options regarding the PRC through 2030. While all elements of national power play a role in these futures and scenarios, situations that do not involve the use or threat of coercive power play a smaller role in these futures because of this policy focus. Efforts to use the same methodology toward a different question or with a different policy focus may provide insights into the future of China that this monograph did not.

Using the scenario planning methodology, this monograph has laid out a set of forces and drivers that define future paths of the People’s Republic of China through 2030. From these forces and drivers, chapters two and three identified eight plausible futures and further developed

three of these into scenarios. Chapter four has used these scenarios to develop broad policies that the US military can adopt to best position the United States and its allies regardless of what the future holds. While this approach has not eliminated any of the uncertainty about what path China will take, it has allowed for a certain level of clarity about what different paths could lead to and thereby extended that clarity onto the best possible set of policy options for the US military.

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