

Memorandum

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To: **Marco Rubio**, United States Secretary of State

Topic: **American Strategies to Counter a Rising China**

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This memo analyses China's economic and military ascendancy from a state-controlled economy in 1978 to the global trade leader it is today. It explains China's strategic overtures via the Belt and Road Initiative and highlights China's current pain-points. Concurrently, China's military modernization aims for parity with the United States by 2049, evidenced by technical advances and military spending reaching \$450 billion. China's claims in the South China Sea and its grey-zone tactics need to be countered. The United States is advised to (1) proactively forge multilateral economic partnerships in infrastructure and technology, and (2) enhance military crisis management mechanisms with China, by expanding maritime communication protocols and arms control dialogues. These recommendations emphasize rules-based engagement and strategic deterrence to counterbalance China's rise.

China's Economy:

2028 will mark fifty-years of reformative steps the Chinese economy underwent post Mao's leadership. Before 1978, high state controls over its rural economy, and state directed industry permitted the economy low growth and per capita Gross Domestic Product (GDP) was just \$200. The economy's foreign interaction was limited to exporting goods that paid off for their regular imports – or near-autarkic(deLisle and Goldstein 2019)

Transformative Reforms after Mao:

China's economic transformation began with strategic reforms to dismantle Mao-era planned economy constraints. Capital and technology flew into China as part of the "opening up" process(deLisle and Goldstein 2019). Land use rights were allocated to individual households, decollectivizing agriculture. As a result of higher state procurement prices and opened markets, agricultural investments yielded greater material returns than before(deLisle and Goldstein 2019).

China's fledgling internal markets modernized as a result of external competition from the goods that flew in. Tariffs were lowered and non-tariff restrictions like licenses and export/ import caps were altogether removed. Special Economic Zones (SEZs) were specially established to invite foreign investments. Export-oriented policies after 2000 compelled Chinese firms to adopt international standards. It is important to recognize this transition in how it mixed the multiplicative capacities of modern technologies and foreign investment with China's plentiful and able labour capacities(deLisle and Goldstein 2019).

China's Economic Influence:

The two-fold reform – domestic “re-enlivening” and “opening up” brings China to today – the world's second largest economy by GDP totals and largest by purchasing power parity (PPP) measures. Half of its population now lives in urbanized regions – with the GDP contribution of agriculture shrinking from 30% to 8%. The number of cities grew from 195 to 650 in 2015(Hu et al. 2024). China is the world's largest trading economy with a trade to GDP ratio of 37% in 2023(“China Trade to GDP Ratio 1960-2025,” n.d.). From \$200 at the start of reforms, China per capita GDP is \$12,614 according to latest World Bank estimates(“GDP per Capita (Current US\$) - China,” n.d.). China is now a source of foreign investment across the world – the second largest, after the United States (“Leading Economies for Foreign Direct Investment Outflows from 2020 to 2022, by Country,” n.d.). Private firms account for most of China's output and Beijing has increasingly directed efforts of global economic positioning. Its regional economic influence is evident in its founding of regionally focussed development financiers like Asian Infrastructure Investment Bank. Shanghai Cooperation Organization and the Regional Comprehensive Economic Partnership are other examples of how China is affecting policy in Asia for its own economic growth (deLisle and Goldstein 2019).

Belt and Road Initiative:

A very significant initiative on part of China's with this regard is the Belt and Road Initiative (BRI). A manifestation of China's “rejuvenation” mission adopted under Xi's leadership since 2013 (deLisle and Goldstein 2019) the Belt and Road Initiative is an outbound investment strategy promoted by the government with two objectives – first, to expend surplus Chinese goods and labour and second, to increase influence of China's culture and economy in countries aligned with the initiative. China finances and builds massive projects in energy, logistics and communication, connecting itself to far-off countries via land and marine routes.

The BRI places China at the centre of a vast logistical network of physical and technological infrastructure. As Chinese expert Jiang Zhida mentions, it advances China's political, economic and security preferences in the host country (Economy 2022) to unforeseen extents and provides a developmental opportunity in times when US scales back its contributions. The United Nations itself has encouraged the initiative and suggests it could result in positive externalities of poverty reduction in the aligned nations (Economy 2022) – if executed under perfect conditions.

A key development in this regard is the unsustainable debt accrued by BRI hosts. Non-transparent agreements and unchecked high-risk investments have put nations like Pakistan and Sri Lanka under debt-distress and resulted in equity ownership of critical infrastructure like ports by China. The US has termed this as debt-trap diplomacy (Dollar 2020). China is the world's largest debt collector – with estimates between \$1.1 and \$1.5 trillion ("China's Foreign Investments Significantly Outpace the United States. What Does That Mean?" 2024).

The Chinese Economy Today - A Snoozing Dragon:

Xi's administration has undertaken a shift from a tired and slowing property-centric output with limitations on debt capacities of developers, to affect a redirection of capital to strategic sectors like semiconductors, quantum computing and AI (Lee 2024)("Xi Jinping's Thought on Economy: A Scientific Theory for Guiding Construction of a Modern Socialist Country" 2023). The current 5 year plan allocates 7% of GDP to 73 'frontier technologies' like brain-computer interfaces. A 'dual circulation' strategy is aimed to strengthen domestic demand and import substitution of critical technologies (Kallio 2018), and globalized demand of strategic goods and standards from China supported by resilient supply chains ("Key Points from Xi Jinping's Report to 20th CPC National Congress" 2022).

Measured steps have been taken to counter significant inequality within China. Regulatory interventions and pilot tax reforms(Li and McElveen 2013), alongside targeted rural revitalization efforts worth \$220 billion seemingly have moved the needle - reducing GINI from 0.465 in 2020 to 0.451 in 2024 – albeit when GDP growth slowed to 4.5%, China's lowest in three decades (Lee 2024). China also faces increased trade headwinds since the Trump administration's corrective tariffs in July 2018, especially via the qualitative restrictions on businesses operating in China – countering their economy's subsidization and controlled Renminbi depreciation efforts that expand their exports and substitute imports (Names Redacted 2013).

China's Military Transformation:

China's second most important transformation has been in its military capacities. A 2017 People's Liberation Army restructuring introduced three milestones – by 2027, capabilities to counter U.S. forces in the Indo-Pacific; by 2035, complete defence modernization; and by 2049, the establishment of a world-class military (Forum Staff 2023). Chinese 2024 military spending is estimated by the Pentagon to range between \$330 and 450 billion (Sacks 2024). This is a 7.2% annual increase for three consecutive years and catapults its shipbuilding capacities to 230 times the United States' (Tirziu 2024). The PLA benefits from China's integrating of 5G, quantum computing and satellite technologies into military applications via private firms like Huawei and DJI (Bommakanti and Singh 2024).

In its 2024 exercises, the PLA deployed 1,000-unit autonomous drone swarms and launched 20 satellites over the 950 already in place to help track US carrier groups ("China Adds Hundreds of Satellites for Use in War; Russia Building Nuke to Destroy Enemies' Assets" 2024). This is part of their 'Information Support Group' established in 2023 that integrates cyber, electronic and psychological capabilities in war (Bommakanti and Singh 2024). China's numerical parity motivation – matching US capacities – is a marked doctrinal shift from 'minimum deterrence'. Their nuclear stockpile has quadrupled since 2020 with estimates of 600 warheads and a completed nuclear triad (Erickson 2024). China's blue water ambitions are notable in their third domestically built carrier Fujian, to be operational this year with electro-magnetic catapults for heavier payloads. A lot of these developments are positioned as 'Taiwan scenarios' with simulated blockade simulations, precision strike packages with 1500+ missiles targeting Taiwanese command centres and informational warfare (O' Hanlon 2022).

China and the South China Sea:

Their missiles particularly manage a range covering 90% of the South China Sea (SCS), providing support to the premier's 'Maritime Power' motivation, characterized by territorial claims in the region (Economy 2022). These claims are based on historical evidences and are backed with increased assertiveness in the region beginning with oil-production and law enforcement patrolling since 2006 (Economy 2022). Between 2013 and 2015, China engaged in large-scale dredging to *create* artificial islands and eventually militarise them despite promises not to, to the Obama administration. The region is claimed by all countries that share SCS's waters. China has engaged with negotiations across groups (ASEAN, since 2016) or individually (Indonesia) in

international courts. Neither engagement has been backed by corrective action – and China continues to contest and show force in the region. Between 2009 and 2018, military expenditure in the region increased by 33 percent, and non-China claimants have aligned their operations with American Freedom of Navigation exercises – which China vehemently protests (Economy 2022).

Recommendations:

The United States need to act with tact

United States's policy on China has largely been 'reactive' rather than 'proactive'. The fundamental difference in either nation's global positioning is in each's definition of an "end goal". China decidedly powers it's economy and military with outlined goals, and to be fair an authoritarian regime has it easy in that regard (Ali 2023). For the United States meanwhile, a standard goal of sustained US relevance only emerged beginning with the trade issues in 2017. US foreign policy, once a trend setter has downed gears to be satisfied with coping with the world.

Make the Rules of the Game:

The tweak required then, is in regulation and policy. **Hyper-focussing global partnerships in infrastructure and technology** (Estachy 2019) **will return maximum benefits** considering the sectors' critical nature. The US should increase its risk capacity and invest in upping global standards to American levels for longer term American interest. Regionally aligned proactive trade policies will go a long way in ingraining American economic threads into these nations. There should be a measured effort to increasingly engage with multilateral forums like the G20 (Khuhro 2019), sign trade partnerships (Katada and Lin 2017) and diversify supply chains (Amin and Rafique 2021). This proactive positioning should be complementary to hardline US interest efforts like the trade restrictions in place that contain Chinese growth and underlying defensive posturing that US has adopted with respect to China.

My proposition is not for the US to cede ground, but to invite new players to the field under its rules. For all pragmatic purposes, it sticks to its own real interests – putting US interests at the forefront of any engagement – but does so as an expressly defined policy, instead of overt manipulations and reactionary tactics. The currency of choice, banking platforms and trade standards have always been extensions of the American economy – and that makes the rule-maker the natural, biggest benefactor of economic competitiveness and greater engagement (Seghezza and Morelli 2018).

Crises Management Mechanisms with the Chinese Military:

United States's strength lies in the reliability it offers. Informational and strategic communication with the military could be elemental confidence building measures for better crisis management. Realist posturing is important to control economic flows because the distance between US and China is not a lot and policies should mean immediate business. The military meanwhile, is significantly stronger despite recent Chinese advances. The fundamental idea of keeping an enemy closer explains the proposition I present.

Crises management mechanisms should be strengthened between US and China with confidence building measures and diplomatic dialogue frameworks. The 2023 Defence Policy Coordination Talks established a Maritime Risk Reduction Working Group (Thurnher 2012). Efforts like these catapult American influence in the Indo-Pacific region and legitimize deeper involvement in the South China Sea. Established 24/7 telephone links between the PLA Eastern Theatre and US-IndoPacific Communication Office, and frameworks for joint investigation protocols for close encounters should be made applicable outside the SCS, over China's eastern waters. These measures will facilitate intelligence on China's grey-zone tactics in the SCS (Thurnher 2012).

Expanding diplomatic ventures like the US-China Strategic Arms Control Dialogue, China-US Dialogue on Global Security Governance and the 2023 Bali Principles on AI in Military Systems will highlight concerning advances in technology and put principled limits on their expansion. This has already worked to prohibit autonomous targeting (Cangara 2022) and hypersonic glide technologies (Wilfried Relwende Sawadogo 2010). This prevents proliferation of advance weapon systems in South-East Asia, where multi-front interests have already expanded militarization as previously analysed before. Keeping the foe engaged, like PLA representation in SCS Workshops at CSIS (Zhang 2024), will tactfully position US for discourse leadership apart from its sheer numeric military strength.

Conclusion:

China's unchecked economic and military is a result of strategic long-term planning, from leveraging global integration via the Belt and Road Initiative (BRI) – despite its debt-trap diplomacy critiques – to pursuing military parity with the U.S. through unprecedented modernisation. The chicken has come to roost, and **Beijing's assertiveness in the South China Sea and flashing coercive economic tools risks destabilizing the global world order.** The U.S. should proactively recalibrate its approach by **(1) shaping global economics** – leveraging its strengths and forging

multilateral partnerships in economic, infrastructural and technological realms, and **(2) institutionalizing military crises management mechanisms** by expanding communication protocols and arms control initiatives – to limit escalation. These **dual strategies prioritize rules-based engagement while preserving U.S. relevance**, ensuring Washington remains the steward of 21st-century geopolitics.

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