Deterring China: Imposing Nonmilitary Costs to Preserve Peace in the Taiwan Strait

BY DR. JOHN LEE AND DR. LAVINA LEE
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The United States, Australia, and other allies have spent decades downplaying the prospect of conflict with the People’s Republic of China (PRC), offering Beijing incentives and concessions to assuage its ambitions, and managing their differences with China by seeking to deescalate tensions when they arose. In more recent times, when there is an emerging consensus that the decades-long approach to China has failed, policymakers have elevated deterrence as the urgent priority.

This report makes the following key points. First, the case for urgency in the context of deterring Chinese force against Taiwan is clear.

Second, deterrence of China is necessarily a dynamic and constant activity rather than a static one. Proponents of the latter approach have largely based it on deterrence by denial, which seeks to convince China that it cannot achieve its military objectives by force. In contrast, a dynamic deterrence approach seeks to arrest and turn back China’s creeping assertiveness and coercion. Rather than metaphorically gathering the sum of one’s forces at the gates of the castle to persuade the adversary that the final battle is unwinnable, it is better to condition China to recalculate the strategic usefulness of its constant coercion and aggressive probing.

Third, if China keeps prevailing in the gray zone, always controlling the pace and nature of escalation, deterring Beijing from taking the final step over the red line becomes more difficult. Gray zone refers to Chinese moves to achieve its political objectives, including through confrontational or military means.

EXECUTIVE SUMMARY

The United States, Australia, and other allies have spent decades downplaying the prospect of conflict with the People’s Republic of China (PRC), offering Beijing incentives and concessions to assuage its ambitions, and managing their differences with China by seeking to deescalate tensions when they arose. In more recent times, when there is an emerging consensus that the decades-long approach to China has failed, policymakers have elevated deterrence as the urgent priority.

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Third, if China keeps prevailing in the gray zone, always controlling the pace and nature of escalation, deterring Beijing from taking the final step over the red line becomes more difficult. Gray zone refers to Chinese moves to achieve its political objectives, including through confrontational or military means,
without triggering a military response from its adversary. Just as China seeks to condition the US and its allies to accept and internalize Chinese aggression, they need to condition China to internalize the reality that it will bear increasing costs if it continues its coercion of Taiwan and will suffer unacceptable costs should it cross that red line.

In this sense, the authors believe that treating deterrence as a static rather than as a dynamic or constant activity weakens a deterrence-by-denial approach as the US and its allies lose ground tactically and psychologically. This denial approach also increases the chances that Beijing will conclude that the US and its allies lack the requisite resolve and stomach for a fight should China ever cross the red line of launching a direct military attack against Taiwan.

Fourth, given Xi Jinping’s centralization of power and decision-making when it comes to forming objectives and strategy in the Chinese system, efforts to deter China should focus on ways to specifically deter Xi, that is, to change his personal calculations. He has demonstrated that other leaders can put him under pressure and that he will change direction quickly and decisively when he feels sufficient pressure.

Fifth, the US and its allies need to impose costs on the PRC to change Chinese calculations when it comes to coercion and aggression in the gray zone and, more broadly, to condition Beijing to expect a cost when it engages in coercive or aggressive activities. These costs should be nonmilitary to avoid overly dangerous kinetic escalation.

Sixth, the US and its allies need to get to the point where China, and other regional countries, expect ongoing cost imposition retaliations from them. Just as China benefits from a situation in which other countries have normalized and internalized Chinese coercion and aggression, other countries need to accept US and allied cost imposition retaliation as a fait accompli and part of the strategic and tactical architecture in the region.

Finally, costs should maximize the political pressure on Xi to compel him to reassess and recalculate. Each tit-for-tat cost that the US and its allies impose on China should incrementally increase damage to Xi’s political and economic objectives and plans. At the same time, they should send clear signals to Xi that in the event of an invasion of Taiwan, the US and its allies will consider extreme measures that could lead to immense social and political instability for the Chinese Communist Party (CCP).
On July 8, 2013, a Chinese-language newspaper with the favor of senior CCP leaders published an article entitled “Six Wars China Is Sure to Fight in the Next 50 Years.” According to Wenweipo, these six wars are as follows:

- Unification of Taiwan (2020s)
- Seizing the Spratly Islands (2020s–2030s)
- Integrating Southern Tibet (2030s)
- Seizing the Diaoyu (Senkaku) and Ryukyu Islands (2040s)
- Integration of Outer Mongolia (2040s)
- Seizing back lands lost to Russia (2050s)

The sequencing of these anticipated wars broadly aligns with the progress the CCP expects in Chinese military modernization, allowing the People’s Liberation Army (PLA) a decisive advantage in relative capabilities and readiness. Chinese planning for a successful invasion over the Taiwan Strait has been in place for decades and is first on the list. Conquest of the Spratly Islands comes later because the PLA’s fortified positions in the South China Sea are not as advanced. The planned timing of wars over Southern Tibet and lands lost to Russia has taken into account assessments that the PLA has some way to go before it can gain assurance of its dominance over Indian and Russian forces.

Additionally, these anticipated wars proceed on the basis that China reserves the right to decide when to initiate them, specifically when the expected enemies (Taiwan, Southeast Asian countries, India, Mongolia, and Russia) are not eager to initiate them. In this sense, there is an assumption about Chinese prerogatives when it comes to timing and escalation, factors that offer Beijing an enormous advantage in the use of force.

1. INTRODUCTION

Photo: An artillery unit conducts live fire drill on July 10, 2023, in Huaibei, China. (CFOTO/Future Publishing via Getty Images)
The Wenweipo article represents Chinese thinking about war and what issues it will fight over. Even Chinese military thinking about “unforeseen dangers” is largely about surprises in the timing of foreseeable conflicts in anticipated theaters over preexisting differences. Indeed, all 10 Chinese Defense White Papers from 1998 to 2019 have referenced the “threat” of Taiwanese independence as a core challenge.

The above article is not as speculative or fanciful as one might have hoped. Xi Jinping openly talks about the need for China to urgently prepare for war over Taiwan, something the PLA has been doing for decades. Xi is not only extending his control over Chinese politics but is also harnessing almost all elements of national power to better prepare China for conflict.

In contrast, the US, Australia, and other allies have spent decades downplaying the prospect of conflict, offering China incentives and concessions to satisfy Beijing’s ambitions and managing their differences with China by seeking to de-escalate tensions when they arose. More recently, a consensus has formed that this approach has failed, and strategists have elevated deterrence as the urgent priority. Even so, the reflexive strategic instinct to de-escalate and manage differences with China remains. In thinking about deterrence, most policymakers focus on deterrence by denial, especially as it relates to Taiwan. In this approach, the allies seek to convince Beijing that it cannot achieve its military objectives if it decides to invade Taiwan.

This report agrees that deterrence is critical. However, the authors argue that deterrence is a dynamic activity in which the US and its allies should condition Beijing to expect their pushback every time it behaves coercively and aggressively, including in the so-called gray zone. The latter term refers to Chinese moves to achieve its political objectives, including through confrontational or military means, without triggering a military response from its adversary. Each time Beijing asserts itself in the gray zone without ramifications, which it does regularly in the Taiwan Strait, it improves its tactical position, reaffirms its sense of escalatory dominance, and becomes conditioned to doubt that the US and its allies are genuinely prepared to bear the risk and cost of responding. In this sense, we believe that treating deterrence as a static rather than as a dynamic or constant activity weakens a deterrence-by-denial approach as the US and its allies lose ground tactically and psychologically. It also increases the chances that Beijing will conclude the US and its allies lack the requisite resolve and stomach for a fight should China cross the red line.

Imposing costs on China in peacetime, even in nonmilitary forms and for the sake of deterring war, is controversial. This is because of a settled belief that war over Taiwan was unlikely because the consequences of it would be so terrible and unacceptable for all participants. This has always been a somewhat ahistorical and mistaken perspective because all major wars have had terrible consequences and yet have occurred. If one seeks to deter Beijing, then one needs to change the mindset, calculations, and actions of its leaders—most of all, Xi Jinping’s. In this context, the neglect of deterrence through cost imposition is dangerous. More specifically, this report argues that deterrence through nonmilitary forms of cost imposition is both necessary and prudent.

The Case for Urgency

When Henry Kissinger met Mao Zedong in 1973, the Chinese leader told the American secretary of state that “we can do without Taiwan for the time being, and let it come after one hundred years” before advising him that relations between the US and PRC should not allow the issue of Taiwan’s unresolved status to prevent progress between their two countries.

In 1978, Deng Xiaoping began the shift toward negotiation rather than force as the primary approach to unification, using the term peaceful reunification as the formal phrase for the first time. This approach did not eliminate the possibility of using force to achieve unification. But it placed a greater emphasis
on increased economic and institutional integration with Taiwan. Deng mainly contemplated using force in response to the unilateral Taiwanese declaration of independence.

When Xi Jinping assumed power in 2012, his approach to cross-strait relations appeared similar to that of his predecessors in that peaceful reunification remained the primary approach and framework. However, Xi almost immediately began to develop his notion of a “China Dream” to revive the country’s historical and civilizational glory. Elements of the China Dream—such as becoming a “well-off society” by around 2020, modernizing socialism before 2035, and becoming a leading nation in the international system by 2050 in all areas of power and influence—need not be inherently unsettling. But subsequent clarifications and modifications of the China Dream are troubling because integrating Taiwan into the mainland has become an inextricable element of the dream’s realization.

Indeed, the emphasis on the importance of integrating Taiwan began almost immediately after Xi became the paramount leader. For example, and beginning in 2013, Xi accelerated Mao’s reunification timetable of 100 years by insisting that China could not continually postpone a resolution of the Taiwan issue. Xi insists that national reunification is intrinsic to the One China principle, a departure from the so-called 1992 Consensus, which merely recognized that both sides agreed there was one China (without agreement as to what entity constitutes “China”). In his speech to the Nineteenth National People’s Congress in 2017, Xi started to apply the One Country, Two Systems framework to Taiwan although the CCP had previously applied that framework only to Hong Kong. He also began to separate the notion of peaceful reunification from the ultimate goal of reunification with Taiwan. Peaceful reunification was still the preferred means, but China would not be bound by any prohibition on the use of force. By the time Xi delivered his 2019 “Message to Compatriots in Taiwan” speech, reunification had overtaken peaceful reunification as the primary Chinese objective vis-à-vis Taiwan.

Historians have thoroughly documented the PLA’s three-decade-long military buildup, including preparation to use force against Taiwan, and this report need not reproduce it. To be sure, a rapid military buildup does not always presage a decision to use force to achieve one’s objectives. In China’s case, the growing impatience Xi has demonstrated to “resolve” the Taiwan issue and the observation that his personal standing to remain leader for life and his self-defined legacy are increasingly tied to the realization of his China Dream (which includes integration of Taiwan) deepen anxiety and concern when strategists consider it alongside China’s rapid military buildup.

Moreover, specific indicators make the possibility of China using force over the next few years more likely than in previous decades. The popular and political appetite in Taiwan to contemplate any framework for integration with China is low and seems to be irrevocably fading. The 2024 reelection of the Democratic Progressive Party under the leadership of Lai Ching-te consolidates the shift away from popular acceptance of unification, even if no major party is contemplating formal independence. Having observed the gradual unraveling of Hong Kong’s liberal institutions under Xi Jinping, Taiwan shows declining faith that Beijing will respect any One Country, Two Systems agreement it offers Taiwan. This means the prospect of any Taiwanese government agreeing to a peaceful reunification with China is declining.

These Taiwanese trends that are adverse to the realization of the China Dream correlate with the increased Chinese military and economic coercion of Taiwan. Further, China’s coercion increases the likelihood that it will attempt, if not achieve, unification forcefully. Since the beginning of this decade, Xi has increasingly demanded that the PLA be ready for a war over the next few years. The PLA has permanently positioned land, sea, undersea, and missile assets in tactical locations from which it could launch an attack. The frequency and intensity of PLA military exercises around Taiwan are growing, including large-scale military exercises simulating an attack.
CCP has passed laws to accelerate military readiness, such as a December 2022 law enabling the PLA to call on its reserve forces. In February 2023, the Chinese government gave the Central Military Commission (CMC, China's peak military decision-making entity) the power to adjust legal provisions, including “jurisdiction, defense and representation, compulsory measures, case filings, investigation, prosecution, trial, and the implementation of sentences.” The CMC can use these powers to compel the population to support wartime actions or to punish those resisting. It has opened recruitment centers known as defense mobilization offices in numerous cities throughout China. In Fujian Province, which is close to the Taiwan Strait, it has rapidly constructed air raid shelters, reinforced bunkers, and military hospitals. As John Pomfret and Matt Pottinger conclude in observing these and other measures that seem to indicate gathering Chinese urgency and efforts to prepare for struggle and conflict, “[Xi’s] messaging about war preparation and his equating of national rejuvenation with unification (of Taiwan) mark a new phase in his political warfare campaign to intimidate Taiwan. He is clearly willing to use force to take the island.”

Others argue that the peak window of opportunity for China is the few years leading up to 2030. They base their view on estimates that it will take up to a decade for the US, Taiwan, and other countries to reverse and narrow the Chinese military advantage in the Taiwan Strait, while China will increasingly suffer from structural economic and demographic problems from the 2030s onward. Combining these predictions with the likelihood that Xi has another decade in power at most (given his age) to realize his personal and political objective of unification, they see the danger period as the next five to seven years. The US and its allies, such as Australia and Japan, lack consensus as to the likelihood of China using force, and government agencies in these countries lack consensus on the question of the likelihood of war. However, they take the possibility more seriously than in previous decades. Furthermore, those who accept the possibility of a forceful Chinese action generally agree that such a terrible scenario is most likely over the next decade. For example, the commander of the US Indo-Pacific Command, Admiral John Aquilino, has stated that China will be ready to invade Taiwan by 2027. While believing that China continues to doubt its readiness to successfully invade by force, the director of the Central Intelligence Agency, William Burns, agrees that Xi is seeking the capacity to do that before the end of the decade. The point is that analysts no longer view war over Taiwan as an event of such low probability that measures to deter or prevail in such a conflict are unnecessary. The above considerations also speak to the urgency of contemplating what these effective measures might be.
Since the publication of Thomas Schelling’s seminal work *Arms and Influence* in 1966, strategists and experts have generally approached deterrence by using game theory to map out the interests of decision-makers and states and predict their reactions and responses in pursuing or defending those interests. That is, seeking to deter becomes an activity taking place between rational actors.

Schelling produced his work at the height of the Cold War, and policymakers commonly applied his frameworks to deterrence between nuclear powers. In this context, they developed frameworks including mutual assured destruction and the madman theory. Behind these and other postulations is the idea that actors can strategically use violence or coercion to shape and change the behavior of adversaries. For this reason, risk becomes an instrument of policy. This is a recognition that securing one’s political objectives with only military force is difficult and often prohibitively costly. Hence, one needs to use coercion or force in such a way as to compel adversaries to yield—what game theorists might refer to as the manipulation of risk for advantage.

As Schelling argues, the power to hurt is bargaining power. This means actors can use force or coercion (i.e., the power to hurt) to achieve a political outcome that is not necessarily based on the material destruction of the adversary. Applying this concept to deterrence, the threat and capacity to hurt the adversary are not designed to destroy the adversary. They are designed to persuade the adversary that refraining from a particular action (e.g., using force against Taiwan) will lead to a

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**2. DETERRING CHINA**

Since the publication of Thomas Schelling’s seminal work *Arms and Influence* in 1966, strategists and experts have generally approached deterrence by using game theory to map out the interests of decision-makers and states and predict their reactions and responses in pursuing or defending those interests. That is, seeking to deter becomes an activity taking place between rational actors.

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Photo: Chinese President Xi Jinping reviews the honor guard during a welcome ceremony at the Great Hall of the People on November 22, 2023, in Beijing, China. (Florence Lo/Pool via Getty Images)
superior or preferable outcome for that adversary than what it might expect by using force. In other words, they aim to persuade the adversary that the rational decision is to resist using force based on a cost-benefit calculation according to their presumed interests.

Therefore, strategists should not conflate the essence of deterrence with the credible and demonstrated ability to win a battle or even a war. Recent attempts to wargame China’s use of force in the Taiwan Strait militarily and economically are valuable in that they seek to calculate the various costs for participants. But these findings do not necessarily answer the question of whether deterrence will succeed or fail against China. Deterrence is about the credible and demonstrated ability to inflict pain on an adversary in a way and to the extent that the adversary seeks to avoid the use of force. A particular or quantifiable cost that is prohibitive for one side might not be prohibitive for another entity. Different governments, regime types, and individuals will have different tolerances for various costs. To win might be a military term, but to deter does not have only a military meaning or element.

In this context, the reference is not primarily to deterrence failure due to miscalculation in that an adversary might choose to use force because they miscalculated the consequences of doing so. It is referring to the reality that one government, regime, or individual might have different priorities or values from another. For this reason, deterrence might be a rational activity in that protagonists calculate means and ends in a rational manner, but the priority of means and ends varies, and they have different deterrent effects. Therefore, the construction of one’s interest is crucial. Constructing one’s interests takes account of objective factors such as quantifiable measurements of hard power. But deterrence is a fundamentally subjective activity linked to the unique nature of the entities one is seeking to deter.

This report deals with the nonmilitary elements of deterring China—with “China” as the unique subject or reference point. In addressing the nonmilitary elements, the following sections do not claim that nonmilitary elements carry greater weight than the military elements of deterrence. We consider that there is an indispensable and central military element to deterring China and that the military cost to China of using force against Taiwan will always be a key factor in Beijing’s decision-making. Indeed, with sufficient military force over its adversaries, China may not need to bargain with the US. In this scenario, deterrence is probably impossible. Conversely, if Taiwan has “enough” military power to repel or expel any conceivable Chinese attack, or if Beijing believes both that American intervention is inevitable and that it will lead to a humiliating defeat for the PLA, then deterrence through military force alone is eminently feasible. These points emphasize the unique, irreplaceable coercive characteristic of military hard power.

However, the US cannot be certain of either of these hypothetical scenarios above in the foreseeable future, meaning the military dimension will not alone be decisive. This report fills some considerable gaps in policy assessments about the application of deterrence to China. In addition to existing and impending studies of the fluid and evolving military balance in the Taiwan Strait, this report seeks to make two contributions to the existing literature on deterring China.

The first contribution is to offer greater precision about the nature of the Chinese entity or entities the US and its allies are seeking to deter. This analysis recognizes that any decision to use force will ultimately be a political decision rather than primarily a military one. Even if the PLA is confident it can launch a successful invasion of Taiwan at an acceptable cost, this does not automatically mean the political leaders will agree to a war; they will have broader cost-benefit calculations of their own. In short, a thorough examination requires an assessment of how the CCP makes political and policy decisions and a more detailed analysis to elucidate the mindsets, hopes, and fears of the Chinese decision-making entities the US is seeking to deter—whether these are the senior CCP leaders or Xi Jinping himself.
It is worth noting that this is what we believe China has done vis-à-vis the US and other allies for decades. The Chinese approach is asymmetric, tailored to specific characteristics of the adversary, and not based solely on relative assessments of hard power. For example, China’s approach has been to create the reasonable expectation that any significant military response against it will lead to guaranteed Chinese escalation, severely disrupting economic prosperity in the region and lowering the political will in Washington or other regional capitals to contemplate military intervention in the first place. At the same time, China has improved its military capacities to control disputed maritime areas and islands before an organized and effective military counter-response is possible. In doing that, China raises the likelihood that its opponents will view any counter-response after it has already secured territory as too costly in military and diplomatic terms. This is China merging the military and nonmilitary, considering the subjective elements of its adversaries and how they make political and policy decisions, in deterring them from considering various coercive counter-responses to its maritime activities.

Greater elucidation of Chinese political and policy decision-making has relevance for those focusing mainly on military wargaming in the context of deterrence. Understanding the mindsets and interests of the Chinese leadership could offer better clues about what types of military outcomes might be prohibitive for the political leadership.

The second contribution of the report is to look at some of the structural and institutional nonmilitary vulnerabilities that most concern the political leadership in China. If the power to hurt is bargaining power, this line of inquiry should provide more useful assessments of some nonmilitary means of hurting China (or threatening to do so) that maximize US bargaining power vis-à-vis Beijing and consequently identify the most potent nonmilitary elements of deterrence that the US can use against it.

Finally, one needs to understand deterrence in a dynamic rather than a static sense. A static sense of deterrence relies on the idea of issuing red lines to a potential adversary, with deterrence stemming from the indication that crossing that red line will trigger a response that imposes unacceptable costs to that adversary. The problem is that this static notion of deterrence does not align with empirical reality when it comes to the psychology and practice of how violence and wars begin. Aggressors tend to push boundaries to gauge resolve and responses before forming a view that escalation and the use of violence are beneficial. For example, neither France nor Germany resisted Adolf Hitler’s rearming of Germany in the 1930s although it violated the Treaty of Versailles. They similarly tolerated the remilitarization of the Rhineland in 1936 and the annexation of Austria in 1938. With each episode of assertiveness and aggression, deterring an adversary from crossing the red line becomes more difficult and less likely to succeed.

More recently, one can draw similar analogies to tolerating Vladimir Putin’s 2014 annexation of Crimea and the seeming indifference or complacency of European and American allies to Russian threats of aggression in the lead-up to a full-scale Russian invasion of Ukraine. In our conversations with Israeli officials and experts after the October 7 attack by Hamas, we noted a consensus that Israeli tolerance for constant smaller rocket and other attacks by Hamas, which Israel usually left unanswered, was a psychological and strategic error as it gradually encouraged Hamas to plan and execute the horrors of October 7. More pertinent, China’s salami-slicing approach to using PLA and paramilitary forces to entrench and normalize creeping aggression against Taiwan is an example of why a static approach to deterrence is likely to fail. With each instance of aggressive intent or incursion that its opponents do not respond to, China creeps ever closer to crossing the red line of using force against Taiwan. This is because with each unpunished advance, Beijing forms the view that Taiwan or its allies are likely to lack the resolve or preparedness to bear the risk or cost of responding even if they have drawn a so-called red line. To put it in game theory language, and from the perspective of the aggressor, failing to respond to smaller violations leads China to incrementally
calculate that its odds of being subjected to unacceptable pain and punishment if it subsequently crosses the red line (of invading Taiwan) are decreasing.

This means deterrence cannot only be about signaling to China what might happen if it decides to invade Taiwan. There needs to be constant signaling to China, using a schedule of responses as Chinese acts of coercion or incursion occur. And if Beijing initially ignores these signals, then the US needs to carry through with signaled responses and be prepared to escalate them. In other words, the US and its allies need to view escalation as an essential element in the toolkit of dynamic deterrence rather than as a failure of diplomacy. Just as China seeks to condition the US and its allies to accept and internalize Chinese aggression, the allies need to condition China to internalize the reality that it will bear increasing costs if it continues its coercion of Taiwan and will suffer unacceptable costs should it cross that red line.

Finally, and in a related argument, this report deals primarily with deterrence through cost imposition rather than by denial (i.e., deterring an aggressive action by rendering that action unlikely to succeed for the adversary). This should not lead one to infer that cost imposition is always a more effective form of deterrence than denial. It is more the case that strategies of denial appear less effective against incremental forms of coercion and aggression, that is, against the gray-zone or salami-slicing tactics that China is using against Taiwan. Gray-zone notions of denial—such as attempts to enhance one’s resilience against Chinese coercion, which is the primary form of deterrence by denial—have not succeeded as China is frequently successful at both coercing Taiwan and enhancing its escalation dominance. Neither have any denial approaches prevented China from undertaking ever more coercive measures. Denial strategies of deterrence tend to work best when one is seeking to deter an extreme military action, such as an invasion of Taiwan. Yet, as we have argued, allowing China to escalate without immediate consequences is a dangerous approach.

In a military sense, it is understandable why the US and its allies such as Australia have focused on denial strategies of deterrence rather than cost imposition. The former are less escalatory. And for a smaller power such as Australia, committing to a cost imposition strategy through military means is beyond the country’s capabilities. For example, Australia’s 2024 National Defence Strategy and related 2024 Integrated (Defence) Investment program focus on military capabilities and postures strengthening deterrence by denial (rather than cost imposition).

This report argues that cost imposition will better constrain creeping Chinese assertiveness and coercion (while cost imposition and denial are necessary to dissuade China from directly attacking Taiwan). However, we note that relying primarily on cost imposition through military responses is too dangerous and may have unpredictable and disastrous consequences. Therefore, cost imposition through nonmilitary responses is a safer and more feasible alternative. It will also be more efficacious against Chinese gray-zone aggression than traditional deterrence by denial using only military means. And the more the US can constrain Chinese coercion and aggression in the gray zone, the more likely it can ultimately deter China from ever crossing the red line.

**Decision-Making in Xi Jinping’s China**

Understanding the evolution of top-level decision-making in China is important as this offers some insight into why the CCP has increasingly centralized decision-making. In the post–Mao era, there were deliberate efforts to prevent the concentration of decision-making power in one person. This collective leadership model reached its peak under Hu Jintao’s leadership from 2002–12. Hu formally described this model as “a system with a division of responsibilities amongst individual leaders in an effort to prevent arbitrary decision making by a single top leader.” While CCP leaders often used the collective leadership model to constrain rivals and advance their own interests, they still needed the appearance of consensus for decisions to gain traction and legitimacy.
When Xi assumed the paramount leader position in 2012, he inherited a Chinese economy that Hu had infamously described as “unstable, unbalanced, uncoordinated, and unsustainable.” Corruption was endemic throughout the CCP; officials were benefiting disproportionately and illegitimately in a booming real estate sector and through political connections they enjoyed with state-owned enterprises (SOEs). One of Xi’s first steps was to oversee an anti-corruption campaign that disciplined, removed, or jailed almost 4 million officials, including hundreds at the top levels. An assessment indicates that 91 percent of officials convicted of corruption were in the richest 1 percent of the country’s urban population. The point is that Xi used the very real problem of corruption to eliminate potential rivals, subdue the country’s political and economic elites, and institutionalize a culture of fear and apprehension at all levels of government.

Significantly, Xi ordered and directed the preparation of a so-called historical resolution, a formal CCP document officially summarizing and defining CCP history as well as guiding future policy. By the Twentieth Party Congress in 2022, the CCP Central Committee had written and promulgated the official recent history of the party. It formally concluded that “previously weak and lax governance” during the time of Xi’s predecessors had damaged the CCP’s reputation, cohesiveness, and national governing abilities. The findings offered greater details about supposed recent failings and subsequently used them to abandon the consensus decision-making approach of Hu Jintao and Jiang Zemin.

The historical resolution accused previous leaders of having a “lack of awareness” that permitted “weak, ineffective, diluted, and marginalized efforts in implementation of the Party’s major policies.” This allowed “feigned compliance” from lower-level officials and damaged the party’s ability to implement its own policies. The previous approach also gave rise to “a serious lack of political conviction” among CCP officials and members, it said, evidenced by “a startling level of corruption” that damaged the party’s standing and threatened its legitimacy. This claim was the foundation for Xi’s subsequent demands for ideological purity and adherence to the cause of revitalizing the CCP’s mission and purpose.

In economic affairs, the document assessed that there had been “an undue emphasis on the rate and scale of growth” since the Deng Xiaoping period and that this had led to serious institutional and structural problems in the Chinese economy. It further asserted that only strong and centralized control could address these economic problems. Similarly, in military affairs, the document assessed that weak party control and authority over the PLA and People’s Armed Police (PAP, the internal paramilitary group ensuring social stability and order) had slowed progress in both entities’ development and ability to conduct critical military missions, such as taking Taiwan by force if required. Finally, and as an overarching framework for China’s future success, previous leadership approaches had not properly positioned China to defend its national security and sovereignty in an increasingly complex and hostile domestic and internal environment. In other words, national and regime security (and not alternatives such as “prosperity” or “freedom”) will become the dominant guiding concept and objective of China. The country has become a “security state.” “Comprehensive national security” is the paradigm that permeates and defines all aspects of the country’s governance.

From here, it is a small jump for Xi to conclude that the solution to all these inadequacies is to strengthen and entrench his personal authority over all relevant organs of government and policy. As he argues, doing so is essential to ensure CCP unity and effectiveness and therefore China’s ability to achieve its objectives: comprehensive national security and the more expansive vision of Xi’s China Dream. Indeed, an insight into Xi’s political ambition and fear is his assessment that the loss of power and perceived weakness of the paramount leader caused the fall of the Soviet Union and decline of communism across Eastern Europe, not the over-concentration of power, which is a common assessment within Western liberal democracies. For Xi, the So-
The implementation and institutionalization of centralized decision-making has several steps. First, authority has shifted away from ministerial and administrative bodies formally answerable to the State Council and toward CCP-controlled entities that were not previously formal organs of state power (see table 1).

Second, and in all matters related explicitly to national security, the CCP has transferred power from state organs to CCP commissions and leading small groups that Xi chairs (see table 2). Individuals who are personally and politically loyal to Xi and report directly to him lead these commissions, which lead all policy elements in their national security areas.

Third, Xi ensures he not only exercises formal authority over these entities as chairman but is also actively involved in defining and changing rules and regulations pertaining to them. For example, some analysts estimate that Xi is personally responsible for creating or changing more than two-thirds of the party’s central regulations and rules. In 2021, he approved new CCP rules that increased his personal authority and control over personnel selection and promotions, senior cadres, and (as general secretary of the CCP) the agenda and operations of the Central Committee, Politburo, and Standing Committee of the Politburo.

The upshot is that Xi has effectively imposed his comprehensive national security framing on almost every element of gov-

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**Table 1: March 2018 Reorganization of State Council Entities and Placement under CCP Authority**

<table>
<thead>
<tr>
<th>STATE COUNCIL ENTITY</th>
<th>CCP LEADERSHIP BODY ASSUMING POWER AND RESPONSIBILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Supervision</td>
<td>National Supervisory Commission</td>
</tr>
<tr>
<td>Bureau of Corruption Prevention</td>
<td>National Supervisory Commission</td>
</tr>
<tr>
<td>State Office for Public Sector Reform</td>
<td>CCP Organization Department</td>
</tr>
<tr>
<td>Civil Service Department</td>
<td>CCP Organization Department</td>
</tr>
<tr>
<td>National Academy of Governance</td>
<td>Central Party School</td>
</tr>
<tr>
<td>State Administration for Press &amp; Media</td>
<td>CCP Propaganda Department</td>
</tr>
<tr>
<td>State Ethnic Affairs Commission</td>
<td>CCP United Work Front Department</td>
</tr>
<tr>
<td>State Administration for Religious Affairs</td>
<td>CCP United Work Front Department</td>
</tr>
<tr>
<td>State Council, Overseas Chinese Affairs</td>
<td>CCP United Work Front Department</td>
</tr>
</tbody>
</table>

ernance and policy and ensured it is inextricably tied to his centralized and personalized decision-making and authority.

At the same time, Xi has given greater definition and detail to his comprehensive national security concept to complement its overarching importance in contemporary China. The concept is based on the proposition that threats to the CCP and its legitimacy can come from any domestic or international source and require disciplined and proactive efforts to manage and minimize them. This stance covers political, military, territorial, scientific, cyber, cultural, societal, resource security, economic, environmental, space, deep sea, and biological threats.\(^39\) It defines almost any vulnerability as a security threat and allows the regime to harness all elements of Chinese power and statecraft to minimize or even anticipate a threat. In this sense, Xi has imposed his deep sense of regime insecurity and vulnerability on the process of defining threats to the Chinese state. His comprehensive national security concept also requires viewing any threat to his personal rule or standing as a threat to the CCP and the Chinese state because it increasingly conflates the three entities.

**Foreign and Military Policy Consequences**

During the Hu Jintao period, it was common for China watchers to argue that many entities and stakeholders with diverse interests and priorities shaped Chinese foreign and external policy.\(^40\) It is arguable that, even then, Chinese officials and scholars promulgated and promoted such assessments to external experts to disingenuously downplay the China threat—which comes from the perception that the CCP was

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### Table 2. CCP Commissions and Leading Small Groups Chaired by Xi Jinping

<table>
<thead>
<tr>
<th>COMMISSION / SMALL GROUP</th>
<th>HISTORY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Comprehensive Reform Commission</td>
<td>Est. 2013 as a small group, upgraded to a commission in 2018</td>
</tr>
<tr>
<td>Central Finance and Economic Affairs Commission</td>
<td>Est. 1958 as a small group, upgraded to a commission in 2018</td>
</tr>
<tr>
<td>Central Foreign Affairs Commission</td>
<td>Est. in 1958 as a Small Group, upgraded to a Commission in 2018</td>
</tr>
<tr>
<td>Central National Security Commission</td>
<td>Est. 2000 as a small group, upgraded to a commission in 2013</td>
</tr>
<tr>
<td>Central Commission for Cybersecurity and Informationization</td>
<td>Est. 2014 as a small group, upgraded to a commission in 2018</td>
</tr>
<tr>
<td>Central Commission for Integrated Military and Civilian Development</td>
<td>Est. 2017 as a commission</td>
</tr>
<tr>
<td>Central Commission on Comprehensive Governing the Country According to Law</td>
<td>Est. 2017 as a small group, upgraded to a commission in 2018</td>
</tr>
<tr>
<td>Central Audit Commission</td>
<td>Est. 2018 as a commission</td>
</tr>
<tr>
<td>Central Taiwan Affairs Leading Small Group</td>
<td>Est. 1954 as a small group</td>
</tr>
</tbody>
</table>

pursuing an expansive and assertive set of external objectives over many decades, continuously refining and altering only tactics.\(^{41}\)

To be sure, and given China’s expansive activities and interests, Xi and his commissions and small groups cannot oversee everything; these CCP entities still seek information and advice from traditional ministries. Large Chinese SOEs have been able to directly influence some tactical aspects of the country’s energy policy. Some of Xi’s flagship initiatives, such as Made in China (MIC) 2025, have received substantial input from the Ministry of Science and Technology. And Xi’s teams have inconsistently pursued and implemented Belt and Road Initiative (BRI) policies in the western and southern provinces of the country and throughout Southeast and South Asia.\(^{42}\)

However, when it comes to the central planks of Xi’s China Dream policies—including its diplomatic, strategic, and military approach to Taiwan—it is much more difficult in the current era to argue that powerful and diverse stakeholders are shaping these key elements of Chinese external policy.

Indeed, the diverse stakeholder framework or related approaches, such as Graham Allison’s bureaucratic bargaining thesis (i.e., foreign policy tends to be the outcome of bargaining and negotiation between bureaucratic entities),\(^{43}\) become less and less pertinent to the central issue of China’s approach to Taiwan given the importance of this issue to Xi. Indeed, Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era—the country’s formal foundational doctrine laying out Xi’s vision of the China Dream and guiding all policy—places considerable emphasis on the need for China to respond proactively and forcefully to external provocations related to Taiwan, Xinjiang, Hong Kong, maritime issues, and human rights.\(^{44}\) Xi Jinping Thought reinforces national and regime security as the all-encompassing and highest priority of all Chinese policy. Taiwan’s inclusion with these other issues designates it as a genuine core issue for Xi.

There is considerable evidence that Xi’s hold and control over key approaches and issues in Chinese external policy is substantial and unprecedented. For example, the adoption of aggressive wolf warrior diplomatic approaches results from officials, bureaucrats, and Chinese commentators following Xi’s insistence that any offense against the expansive range of Chinese core interests under an overarching national security lens demands a robust and uncompromising response.\(^{45}\) The CCP sidelines those who do not share Xi’s assertive national security approach or excludes them from decision-making entities. It directs resources and opportunities to institutions and individuals who most explicitly carry out Xi Jinping Thought in their roles.\(^{46}\) No individual can run a country like China alone, but Xi has institutionalized his demands, perspective, and approach at all relevant levels of external policy. To the extent bureaucratic processes are at play, a bandwagoning effect minimizes opportunity and reduces courage for alternative ideas to challenge those Xi has developed and holds.\(^{47}\)

Xi’s authority and control over the military is even more pronounced. More than simply changing senior officers, which he has done, he has hand-picked officers for almost all senior positions. All PLA personnel swear allegiance to Xi rather than only to the CCP. He explicitly expects the PLA to follow the principles and dictates of Xi Jinping Thought.\(^{48}\)

The Central Military Commission (CMC) retains ultimate authority over decision-making for both the PLA and PAP. As chairman of the CMC, Xi enjoys the institutional decision-making power that previous chairmen possessed. However, he has personalized it to an unprecedented degree. Under Xi, the CMC has placed much more emphasis on “political work” to strengthen the loyalty of the military and paramilitary forces to Xi personally. Explicitly, the first priority of the PLA and PAP is to “obey the Party’s command,” which is Xi’s command. The ability to “fight and win” is only a secondary priority.\(^{49}\)

Moreover, Xi has enhanced the CMC’s power over military policy and other related matters at the expense of the State Coun-
cil, provincial officials, and PLA bodies—thereby enhancing his personal power over the PLA and PAP. For example, the CMC provides the overall management and direction for all military and paramilitary forces. While the theater commands (Eastern, Southern, Western, Northern, and Central) remain responsible for operational warfighting matters, the CCP restructured the PLA's previous four general departments (General Political, General Logistics, General Armament, and General Staff) in 2016 and allocated their previous responsibilities to entities directly reporting to the CMC. This means military functions such as training, mobilization, and strategic planning are now under direct CMC control, and military forces will therefore seek out and follow Xi's direct instructions. Service chiefs of the PLA Ground Force, Navy, Air Force, and Rocket Force no longer have a direct decision-making role within the CMC. As a PLA newspaper dutifully put it, the role of the military is to "resolutely respond to the call sent out by Chairman Xi, and resolutely complete the tasks bestowed upon them by Chairman Xi."51

Finally, in the event of a crisis or wartime, it is likely that the regime will quickly create ad hoc party committees to determine strategy and objectives and oversee high-level operational decision-making. Under optimum circumstances, Beijing would give these committees a high level of autonomy to make tactical and operational decisions where time is of the essence and adaptability to evolving scenarios is all-important. However, the observed reality is that the regime heavily restricts freedom to make such decisions and that the system reflexively shifts back to a highly centralized command and control structure. A fragmented, poorly organized, and uncertain system of military intelligence in which human intelligence, tactical intelligence, surveillance, and reconnaissance fall to different entities within the PLA further hampers this structure. These entities have demonstrated a poor ability to coordinate with each other, thereby providing poor overall intelligence to top-level decision-makers and creating the terrible prospect that an ostensibly all-powerful Chairman Xi will be basing his decisions on poor intelligence and information.

**Deterring China Means Deterring Xi Jinping**

Deterrence is about persuading an adversary that the rational response is to avoid using force (e.g., to control Taiwan). In this context, strategists often take the adversary to mean a Chinese state making cost-benefit or opportunity-risk calculations. However, if the potential adversary is a Chinese state in which the personal and political preferences and interests of its paramount leader increasingly dominate, then one should not conflate the rationality of Xi Jinping with the rationality of the Chinese state or even the CCP. In short, if one seeks to deter the Chinese state, then one should consider the somewhat different question of how to deter Xi from a course of action. What might seem rationally prohibitive to the PLA or the CCP might not be prohibitive to Xi. Indeed, if strategists studied the personal ideology and perspectives of Vladimir Putin more carefully and took them more seriously, they might have made greater and earlier efforts to deter him from contemplating a large-scale invasion of Ukraine.54

In one sense, there is a wealth of accessible intelligence on Xi in the form of Xi Jinping Thought, which he has formalized as CCP doctrine. As Rana Mitter observes, “Bureaucrats, tycoons, and pop stars have been required to endorse it; students now learn it in school; CCP members must use a smartphone app that regularly communicates its precepts.”55 Additionally, there are his many speeches detailing what China and the CCP must do, and countless articles by Chinese scholars and strategists faithfully promulgate the application and implementation of Xi's ideas and demands in different contexts.

To understand Xi, almost all leading scholars argue he is a genuine Marxist-Leninist ideologue who interprets the world and potential threats in ideological terms. They offer different characterizations of what this means. For example, Mitter believes Xi awkwardly pairs Marxism with Confucianism—awkward because the former emphasizes struggle and perpetual revolution while the latter stresses the importance of stability, order through hierarchy, and a return to an idealized Chinese
civilizational past. John Garnaut argues that Xi (like Mao before him) believes in perpetual struggle and the need for ideological purity and purpose. This belief explains Xi’s purging of corrupt officials who are “impure” in addition to the Leninist need to eliminate political rivals. Kevin Rudd argues Xi is a classical believer in “historical materialism” (an approach to history framed by perpetual class struggle) and “dialectical materialism” (history defined and decided through constant struggle between material elements and forces). According to Rudd, Xi believes China is on the right side of history in that Western capitalism will fall due to its own inherent contradictions and weaknesses, as Karl Marx foretold.

However, a CCP-led China can prevail only if it maintains its ideological fervor and purity, the decay of which led to the implosion of the Soviet Union. It is significant that just a few months after becoming the paramount leader, Xi directed the CCP Central Committee to publish an ideological guidance document that denounced “false” ideological trends, including constitutional democracy, universal values, independent media and journalism, and all historical scholarship critical of the party. This guidance, which came to be known as Document No. 9, identified activism by civil society as “an attempt to dismantle the ruling Party’s social foundation.” The “threats” it identified explicitly guide social and civil repression to this day. While ideology frames policy, there is widespread agreement among Xi watchers that Xi is a practical Marxist-Leninist because he believes China as an agent of struggle and change must be rooted in the material world, emerging dominant in resources, technology, and economic progress. In the latter sense, analysts may view the Chinese organization of its state-guided and -led political economy as a Marxist-Leninist approach using all tools of national power to dominate in this perpetual struggle against the hitherto preeminent US-led alternative.

While this report is not primarily about drawing out the contours of Xi’s ideology, it is obvious that understanding his subjective perceptions is a critical element in deterring him from using force against Taiwan. For those interested in preserving a peaceful status quo for Taiwan, the further question will be how a deeper understanding of the ideological elements driving Xi might offer clues about nonmilitary forms of deterrence.

The key is to understand how the ideological element interacts with Xi’s decision-making vis-à-vis actual events and the kinds of vulnerabilities that are most pressing and acute for Xi given his subjective perceptions and interests. Prima facie, this is a difficult inquiry because the US and its allies do not have precise details of how Xi makes decisions, even if they know much more about the structure of decision-making under his regime and his ideological mindset.

Even so, they can extract some clues from his recent decisions and responses. The first issue is Xi’s handling of the COVID-19 pandemic, and the second is his response to Chinese economic problems. In raising these issues, the report will focus on moments and circumstances that led Xi to significantly change direction. Doing so offers insight into the nature of his greater vulnerabilities and fears, which could then lead to suggestions regarding the forms of nonmilitary deterrence that might be most effective.

Issue 1: COVID-19
Evidence of China covering up the initial known outbreak of the COVID-19 virus is well known, as is the censorship and repression of doctors and other whistleblowers attempting to publicly warn Chinese and international officials about the seriousness and deadliness of the virus. Australians are also aware of Beijing’s enraged response when then Prime Minister Scott Morrison called for an inquiry to determine the origins of the COVID-19 virus in September 2020. Beijing’s attempt to suppress any evidence that the pandemic had roots in China and vengeful response against leaders and countries seeking to impose accountability and transparency on Chinese actions is egregious but not surprising. Even before Xi assumed power, the CCP’s refusal to accept blame for any mistakes or reckless-
ness was evident when Beijing accepted little responsibility for the outbreak of the SARS virus in 2002–03. The motivation to defend China's reputation and standing at any cost and despite empirical evidence preceded Xi.

However, the subsequent handling of the COVID-19 pandemic in China reveals some fundamental governance approaches and sensitivities that the Xi era has amplified and that may be unique to the current system of leadership and governance in China. Of interest and relevance is both the way Xi handled the pandemic and his abrupt abandonment of a zero-COVID approach, which had become an entrenched article of faith and policy.

In the first few weeks of the known spread of the virus within China in December 2019, senior officials attempted to downplay its seriousness. By February 2020, the approach suddenly changed. Xi quickly mobilized the full array of the Chinese state's coercive and surveillance capabilities to contain the virus's spread. He framed the battle against COVID-19 in classical Marxist-Leninist terms, characterizing the "struggle" as "the whole country responding with all its strength to respond with the most thorough and strict prevention and control measures, starting a people's war for epidemic prevention and control." The national sacrifice was a "war of the masses" as the Chinese people "across the country closed ranks and were united as one." This was because they "knew what was at stake: the well-being of every one of us, the honor of us as a community and the security of our country." Xi praised his draconian measures to pursue a zero-COVID policy and eliminate the virus in China as evidence of a superior political system compared to the division and indecisiveness in the responses of democratic societies. Xi saw the pursuit of zero-COVID in China, which democratic societies never attempted, as proof that his authoritarian model was superior to democratic alternatives for identifying and managing problems and threats. He boasted in September 2020 that "China has made major strategic achievements in the fight against COVID-19. . . . China has become the first major economy to return to growth since the COVID-19 pandemic and has taken the lead in the world in both pandemic control and economic recovery." Moreover, the CCP saw the contemporary Chinese Marxist-Leninist approach to virus prevention and control as proof of the exceptionalism of Beijing's model, providing an example and a better paradigm to the world for managing difficult problems and threats. For Xi, the zero-COVID aspiration renewed the country's purpose and ideological fervor. It galvanized the Chinese people for the more general and perpetual Marxist-Leninist struggle and allowed the CCP to deepen its control over all aspects of Chinese society.

Leading up to the end of 2022, almost all China watchers and experts predicted that Xi would maintain the zero-COVID policy indefinitely, even if much of the world had opened up and learned to live with the virus. The common view was that achieving zero-COVID was a yardstick Xi created and on which his standing and legitimacy depended. The CCP and state media lauded tolerance of ongoing lockdowns as a sign of Chinese strength and resilience. At the same time, they derided the preparedness of democracies to vaccinate their populations and live with the virus as folly and a sign of national and cultural weakness. Admitting defeat by allowing the virus to spread would expose the lower efficacy of Chinese vaccines compared to Western alternatives. It would also undermine the notion that the Chinese system under Xi's leadership was handling the pandemic better than its geopolitical rivals.

For these reasons, Xi's sudden decision in December 2022 to abandon the zero-COVID policy took most observers by surprise. Protests had preceded the unexpected decision in the previous month after a fire killed 10 people in a residential compound in Urumqi that was allegedly under lockdown. A week after that incident, protests erupted in several cities, including Beijing, Shanghai, and Guangzhou, as Chinese citizens called for an end to the
policy and held up sheets of blank paper to represent their anger at the restrictions on free speech against the harsh measures. At the same time, protests occurred on multiple university campuses, including Tsinghua University, Xi’s alma mater. Notably, some protesters angry at the policy voiced their dissatisfaction with Xi personally and demanded his resignation.69

At the time these protests occurred, analysts estimated up to one-fifth of the Chinese economy was under zero-COVID restrictions.70 There are reports that major SOEs had been complaining to Xi and the Chinese leadership directly. Reports have also stated that provincial leaders urged the central leadership to reassess its zero-COVID policies and that Chinese provincial governments were suffering intolerable trillion-dollar deficits due to the lockdowns.71

Whatever factors inspired the change, one can assume that Xi made two calculations: (1) the abrupt reversal of policy better served his legitimacy and standing and (2) suffering the humiliation and risk of retreat and reversal was more prudent than staying the course, despite two years of linking zero-COVID policies with the unique virtue and efficaciousness of his wisdom and leadership. Shortly, we will discuss the revelations from this case study with respect to what Xi values and fears.

Issue 2: The Chinese Quest for Material Self-Reliance

Historians can trace the Chinese emphasis on economic, military, and technological self-sufficiency to the Mao period. As early as January 1945, Mao proclaimed the virtue of self-sufficiency and, in the context of a war against the Japanese, compared the CCP favorably to Chiang Kai-shek’s dependence on US military assistance.72 Although decades of civil war from 1950 onward forced China to rely heavily on Soviet assistance, self-reliance returned as the ideological ideal from the early 1960s following the Sino-Soviet split.73

When Deng Xiaoping began his reforms in December 1978, his exhortation to “Hide brightness, cherish obscurity”—to avoid antagonizing major powers while quietly building national comprehensive power—survived until Xi’s rise. His approach might have differed from Mao’s, but the intended destination was similar. As Deng explained in his 1982 opening speech to the Twelfth Party Congress, “China’s affairs should be run according to China’s specific conditions and by the Chinese people themselves. Independence and self-reliance have always been and will always be their basic stand. While the Chinese people value their friendship and cooperation with other countries and other peoples, they value even more their hard-won independence and sovereign rights. No foreign country should expect China to be its vassal or to accept anything that is damaging to China’s own interests.”74

During the Jiang Zemin and Hu Jintao periods, China allocated enormous resources to develop state-owned firms and national champions in “strategic sectors” such as finance, banking, energy, telecommunications, civil aviation, shipping, advanced machinery, automobiles, and biotechnology. Industrial-scale intellectual property (IP) theft and forced transfers of know-how from foreign firms in China began during these periods.75

Indeed, Jiang referred to “persevering with self-reliance and indigenous innovation” as an essential pillar for “realizing technological development” because “only by mastering core technologies and having our own intellectual property will we be able to securely grasp the destiny of the motherland.”76 Hu made indigenous innovation a foundation of the ongoing desire for self-reliance. “We must place the strengthening of indigenous innovative capability at the core of economic restructuring, growth model change, and national competitiveness enhancement,” he explained.77

The point is that Xi’s emphasis on self-reliance is an inherited one. Even so, there is a qualitative difference between Xi and his predecessors in that Xi’s bolder style, willingness to take on risk, and lack of patience to reach his intended destination amounts to a significant change in Beijing’s domestic and external be-
haviors. Moreover, Xi’s China Dream, which he seeks to realize in his lifetime, is far more ambitious and demanding than the slower and steadier pathways Deng, Jiang, and Hu advocated.

In terms of self-reliance, Xi’s desire and attempts to decrease economic reliance on, and vulnerability to, US and other allied policies and actions are far more proactive and ambitious than those of his predecessors. Xi has moved from previous defensive mindsets, which focused mainly on protecting China from external (especially US) actions, to plans to entrench a dominant economic role for China at the US’s expense and to shape the institutions and environment to achieve and sustain that role. In this sense, economic decoupling or distancing on Xi’s terms has been defining many of Beijing’s goals since his ascent in 2012. These goals are part of what Xi refers to as the pursuit of “a new model of major country relations between China and the US.”

Indeed, observers should understand China’s main outward-facing economic blueprints as attempts to decouple or distance on its own terms. Consider the Belt and Road Initiative, which historians rightly describe as China’s most ambitious and comprehensive economic and strategic blueprint since the Deng Xiaoping era began in 1979. It comprises the Silk Road Economic Belt, which traverses the Eurasian continent all the way to Western Europe, and the Maritime Silk Road, which links China to Southeast Asia, Oceania, the Indian Ocean Rim, Africa, and the Mediterranean. The BRI’s authoritative white paper describes its objectives as comprising policy coordination, connectivity facilitation, unimpeded trade, financial integration, and people-to-people connections.

In fact, Xi conscripted and recommissioned the BRI, which began in 2013 as a relatively modest plan to revive the ancient Silk Road through China’s western provinces by connecting them to Central Asia, as a proactive strategy to create a Sinocentric economic order that deliberately locks out the US. While there are purely economic benefits for China in advancing the BRI—not least to provide guaranteed projects and external markets for its large and lumbering capital-intensive infrastructure and construction firms—there are overriding strategic benefits to excluding the US. As Aaron Friedberg has argued, the CCP objective to reemerge as the preeminent power in Asia preceded Xi. But Xi has seized upon the BRI as a means to create an economic, political, and normative order that not only excludes the US but also absorbs many of the CCP’s authoritarian values and interests. In short, Eurasia and East Asia are to become an integrated Sinocentric zone. China will not prohibit the US and others from engaging economically within this region but will ensure they do so on a playing field that vastly suits Chinese rather than US firms. Rather than working with the US to craft the evolving economic order, China seeks to ensure the US will have little or no role in this context. In this sense, Beijing is seeking to reframe or renegotiate its economic relationship with the US and the rest of the world by forcing other countries to engage on Chinese terms while reducing reliance on the US as much as possible.

Observers should also understand the BRI alongside China’s other economic or industrial plans, especially the Made in China 2025 blueprint. As this report argued earlier, the MIC 2025 did not arise in a vacuum. In 2006, Hu Jintao issued a 15-year plan to enhance “indigenous innovation” and identified seven strategic industries in which domestic firms should excel if China were to become an “advanced economy.” MIC 2025 pursues the same central-planning and target-setting approach but is different and much more ambitious in important ways.

For example, it seeks control over, and dominance of, entire manufacturing processes, supply chains, and associated services supporting a dozen sectors. It specifies targets for the domestic content of core components and materials: 40 percent by 2020 and 70 percent by 2025. The plan explicitly references the extent to which Chinese firms are to control various sectors for making core components. For Chinese technology, it also sets out industry- and tech-specific targets and domestic and
international market-share quotas. While Chinese state-owned firms will take the lead, it considers all private indigenous firms as potential partners and participants in MIC 2025, and the state will offer these firms extensive financial, commercial, regulatory, legal, and political support and assistance.

Moreover, the MIC 2025 plan is much more ambitious and muscular than previous industrial upgrade blueprints. The explicit objective is not simply to ensure that China becomes an advanced and competitive economy. It aims to lay the foundations for control of global supply chains, innovation, and know-how so that Chinese firms dominate these sectors. By the end of 2018, authorities had issued over 450 major documents detailing MIC 2025 implementation measures. The regime has established at least 30 MIC 2025 pilot cities and given them specific MIC 2025–related targets to hit. These comprise over 50 sub-industries and 115 industrial sub-fields. More recently, China created the Shanghai Stock Exchange Science and Technology Innovation Board (Shanghai STAR Market) as the Chinese equivalent of the tech-heavy NASDAQ exchange. By design, it provides domestic capital markets from which Chinese investors and businesses can draw to advance MIC 2025 objectives.

MIC 2025 identifies the high-value industries that will become increasingly important to national power and wealth. The BRI complements this effort by providing the foundational infrastructure, finance, logistics, and agreements between China and BRI partners for the national absorption of innovation, expertise, supply chains, etc. that Chinese firms require to eventually dominate MIC 2025 sectors. The Digital Silk Road, a formal component of the BRI, encapsulates much of this ambition.

The plan aims to ensure that Chinese firms dominate MIC 2025 sectors within China and in advanced economies, including the US. Unlike the BRI, which excludes the US, MIC 2025 seeks to ensure that Chinese firms prevail over US and other international firms and dominate advanced sectors in all global markets. The state uses capital, market restrictions, infrastructure, and logistics; protects local innovation; and absorbs foreign innovation (through joint-venture agreements, acquisition of foreign firms, and IP theft) to deny US firms the opportunity to even compete effectively in these sectors. This is about renegotiating and reframing the economic relationship with China in a manner that allows China to emerge as the dominant economic and technological force.

These grand plans reveal Xi’s ambition and impatience to achieve the material elements of his China Dream. Importantly, it is not just about self-sufficiency for China in the form of protecting or insulating the Chinese economy against measures that the US and others might impose on it. It is to achieve an enlarged notion of self-sufficiency through control and dominance of regional and, in some cases, global supply chains and technologies. Xi also seeks dominance and control over discourse, prices, and policy, tirelessly and creatively trying to lock in privileges, advantages, and agency in the setup and practice of institutions (e.g., membership in groups that decide norms, policies, or actions). These attempts would normalize certain forms of economic activity and influence technological, technical, or legal standards in Asia and Eurasia.

Indeed, Xi has consistently shown that gaining control and dominance is far more important than maximizing material progress and that he believes his regime needs to deprioritize the latter if it leads to weakening CCP dominance and control. The moves against Alibaba cofounder Jack Ma after he had the temerity to criticize CCP banking, finance, and technological policy in 2020 was proof that Xi could take down even the country’s most famous entrepreneur and billionaire if he was not willing to support and comply with Xi’s approach. More generally, Xi’s regulatory control and suppression of some of China’s largest private industrial and technology firms have stifled their progress and innovation. Xi has deliberately accelerated the advance of the state-owned sector at the expense of the much more efficient and profitable private sector. Foreign firms are gradually diversifying away from China due to the increased risks that Xi’s po-
Politically and ideologically driven interventionist regulatory, legal, corporate, and security policies have created. Achieving CCP dominance and control in all its forms is much more important than economic growth. This overwhelmingly lopsided prioritization of dominance and control over economic success is unique to Xi—at least since Deng Xiaoping.

Xi’s approach has severely exacerbated already existing serious flaws and weaknesses in the Chinese economy. For example, combining the ambition and geographical vastness of the BRI with the top-down economics of the CCP is an enormously expensive and wasteful approach. Given that around 95 percent of Chinese funding for BRI projects comes from its already over-leveraged state-owned banks, the project urgently needs adequate returns on its capital investments.

Yet, the “build it and they will come” approach to capital investment that mirrors China’s own troubled domestic model creates enormous financial problems for both China and many of the recipient economies. Since the regime stepped up the BRI from 2017 onward, debt risk in low-income BRI corridor economies (i.e., most corridor economies) has risen alarmingly. About 80 percent of Chinese loans go to countries in debt distress. The financing for most BRI projects takes the form of Chinese loans to the host government with the expectation that the recipient will pay them back—a problem given that the sovereign debt levels of about half of the BRI countries are rated as “junk,” while a third have no rating at all.

In short, except for several commercially sound projects in the Southeast Asian maritime economies and a handful of Western European economies, most large-scale BRI projects run the high risk of becoming an oppressive burden for Chinese financial institutions—and ultimately for the Chinese government. Note that Chinese financial institutions are already struggling under the enormous weight of domestic non-performing loans piling up from decades of inefficient and policy-led (rather than market-led) investment and a profoundly troubled residential property sector. In profitable subregions such as maritime Southeast Asia, Japan is the leading investor, followed by a few European countries and the US.

Despite its efforts to capture high-tech and high-value supply chains (and to deny these to the US), Beijing is still heavily dependent on global technology inflows and global supply chains that US, European, and Japanese firms dominate. This is especially true in industries such as robotics, aeronautics, semiconductors, and closed-circuit chips, which are essential to the MIC 2025 goals and to military-civil fusion objectives.

More generally, growth and success in the high-tech sectors generally rely on four conditions: (1) investment at scale, (2) access to large and advanced markets, (3) a world-class domestic system to produce innovation, and (4) channels to acquire technology and know-how.

China has poured enormous state resources into investment to achieve scale. However, it has problems with the other three conditions. The Chinese domestic crowding-out of the private sector in favor of SOEs and so-called national champions is a serious drag on innovation.

To advance in most of the sectors MIC 2025 identified, China still relies on the acquisition and adaptation of basic and applied research from abroad, including through forced IP transfers or theft. It is significant that China is a net high-tech importer even as it has emerged as the leading manufacturing nation.

To be sure, Beijing has been successful at pouring state resources into helping its firms commercialize certain technologies and offer a more integrated and complete package to achieve first-mover advantage in some markets (e.g., in 5G). But to dominate and ward off competition from leading international firms, Chinese firms need substantial access to advanced market economies like the US and EU. Without it, firms such as Huawei cannot truly become global champions.
A related issue is Xi’s response to American measures to place tariffs, restrictions, and export controls of important technologies on China, which began under Donald Trump and has continued and accelerated under Joe Biden. China understood that the US government would likely give itself even broader powers to block corporate and sales transactions between American and Chinese firms and the export of whole classes of products or certain technologies, such as semiconductors and aeronautical equipment (even if it holds these powers in reserve most of the time). China also expected the Entity List would eventually place restrictions on a growing number of Chinese firms in the MIC 2025 sectors. It further anticipated that the US would threaten and apply ever harsher penalties to companies violating the restrictions. These penalties include enormous fines, revocation of US licenses, blocking of US dollar transactions, and criminal penalties for executives.

The CCP was acutely aware of Chinese dependence on the US and other advanced economies through imports and joint ventures with these foreign firms. The Trump administration then signaled that this was an increasingly unacceptable situation because it would help China emerge as the global leader in innovation and know-how. Therefore, US attempts to identify and capture a larger share of the supply and value chains across a growing number of emerging and enabling technologies and sectors and to deny these to China were only going to accelerate under Biden.

Xi’s main response to these challenges, which is illuminating, was not a tactical policy retreat but the Dual Circulation Policy (DCP). He explained in August 2020 that rising domestic demand was to compensate for the structural reduction in the current account surplus. Part of this was a reiteration of an older exhortation to rely less on net exports to drive growth and put more emphasis on domestic consumption. He also mentioned the importance of adding more value in domestic production and supply to increase domestic wealth creation, and therefore domestic demand.

To some extent, DCP is an extension and evolution of earlier plans to lower reliance on external demand and boost domestic consumption. Even so, it was not simply a rerun of earlier Chinese mindsets and policies under a different name. Unlike in previous approaches, boosting domestic demand will not simply come from fiscal and financial policies that increase spending power, as this has had limited success. It will come from government-led and -enforced supply-side initiatives to upscale the Chinese economy. CCP policymakers designed those hoped-for improvements in value-added production and total factor productivity (i.e., increases in overall output from using capital and labor inputs more efficiently and innovatively) from the DCP framework to increase domestic corporate and household incomes, which should increase domestic consumption. In this sense, the DCP is typical of previous Chinese reform efforts to focus on supply-side enhancements in the hope that benefits will trickle through to the demand side of the economy.

More than this, the DCP recognizes the importance of high-tech and advanced sectors in achieving the country’s domestic and external objectives, which is why aspects of the DCP bear a close resemblance to elements of MIC 2025. Both exhibit the same reliance on extensive central planning, control, and target-setting. As with MIC 2025, the state and state-controlled sectors will continue to lead by co-opting and using indigenous private firms to ensure that they create value in China and retain it there. All state-controlled and private indigenous firms have become potential partners and participants in all CCP programs and policies, and the CCP will offer those firms pursuing its agenda financial, commercial, regulatory, legal, and political support and assistance. Nonetheless, one should bear in mind that the intent of any reforms associated with the DCP is still to make SOEs “stronger, bigger and better.”

In summary, when facing material headwinds and problems, Xi seeks solutions and protection by advancing an ever more Leninist political economy within which his regime coerces or co-opts all entities to serve his political purposes if it calls on them.
Rather than emphasizing a struggle between economic classes in a classical Marxist sense, Xi elevates the notion of all entities and individuals uniting in a struggle to advance the objectives of its leader and the CCP—in that order. For Xi, this is a demonstration of ideological commitment and is necessary to forge national will and character. Having built his personal and unchallenged authority on this national sense of purpose and destiny, Xi needs enduring national commitment to the struggle to maintain his hold on power. Presumably, enduring commitment also requires evidence or at least the perception of success, which is why Xi demands loyalty, compliance, and commitment from all Chinese entities and is increasingly intolerant of any personal criticism of his leadership record or policies. Conversely, he views any demonstration of disloyalty, noncompliance, or non-commitment as a potential existential threat to his authority and leadership. Analysts should largely understand the emergence under Xi of a high-tech surveillance state and the implementation of an expanding social credit system in this context.

The Politics and Psychology of Decision-Making in Xi’s China

The two issues above are not a complete or exhaustive examination of policy decisions in the Xi era. But they do offer important and useful clues and insights into the politics and psychology of decision-making under Xi.

There are several pertinent insights regarding the Chinese adoption and sudden abandonment of the zero-COVID policy. In the very early days of the pandemic, Xi insisted on the extreme containment and elimination of the virus. He was prepared to use the full extent and force of the state’s coercive and surveillance capabilities in extreme ways to suspend civil and social interaction. The severe lockdowns and other restrictions caused immense difficulties for citizens’ livelihoods as well as shortages of food and other necessities. The CCP imposed mandatory nucleic acid testing on whole sections of cities when healthcare providers identified even one positive case, and ordered all those in the vicinity of the infected individual into isolation.

Many observers of China argue that due to a lack of procedural legitimacy (i.e., democracy and suffrage), performance-based legitimacy is the only basis on which the regime can retain the support of citizens. The contemporary change to this is that it is more about the performance-based legitimacy of Xi and less about that of the CCP. Once Xi set the objective of achieving zero-COVID, that became the sole yardstick of performance-based legitimacy filtering down through the governance system. From early 2020 to the end of 2022, the CCP government abandoned many hitherto critical elements of performance-based legitimacy, such as economic growth and material advancement for the people, in favor of zero-COVID. In pursuit of that objective, the Chinese system also constructed its own reality to define domestic and international success. While other nations successfully managed the pandemic and opened their economies and societies, China’s remained closed. Even then, for the CCP, the supposedly low case numbers of infections rather than the success of its vaccine program or ability to live with COVID-19 proved the superiority of the Chinese system. As the CCP’s narrative went at the time, while Xi’s China nobly and successfully struggled against the virus as a nation under his leadership, the weaker and undisciplined West capitulated by allowing the virus to spread. In this report, we speculate that one major reason Xi reacted so angrily to then Australian Prime Minister Morrison’s insistence that a proper investigation was necessary to understand the virus’s true origins and spread was that this directly challenged Xi’s narrative of success and superiority. A proper investigation of this question would expose the incompetence and irresponsibility of Xi’s governance system.

The sudden about-turn in December 2022 is also revealing. Protests against CCP policies are common within China, and were so even before the pandemic. However, the protests in multiple cities and on many university campuses were unusual in that participants openly called for Xi to step down. Predictably, authorities arrested leaders and organizers of the protests. But when combined with leaders of SOEs and national champions becoming increasingly dissatisfied with restric-
tions on economic activity, the direct challenge to Xi reached its peak just before December 2022. The protests were the most substantive challenge to the country’s leader and the most widespread since the 1989 protests. The point is that direct threats to Xi’s standing, his personal legitimacy, and the credibility of his personal vision and goals for the country appear more important (to Xi) than objective assessments and impacts on China’s comprehensive national power or even the CCP’s domestic reputation. Once Xi’s personal directives and objectives are set, he seems more prepared to absorb international criticism and opprobrium than previous leaders. It was only when policies with Xi’s personal imprimatur translated into a personal and political risk for him that he changed course. In this sense, Xi is much more self-referential than his predecessors regarding the matters and issues he prioritizes.

The survey of Xi’s response to the country’s economic problems is also revealing. Problems such as dangerously inflated asset prices, growing debt and high levels of nonperforming loans, mass misallocation of capital due to politically driven industrial policies, and inefficient SOEs preceded the Xi era. However, Xi’s security-first approach to economics and his prioritization of personal control and dominance over most aspects of economic decision-making and corporate activity are different in nature and scale. It is evident Xi will tolerate slower economic growth to this end. Indeed, his revival of the term common prosperity seems more about imposing his control over private technology and capital than about creating more equal material outcomes in the country.

This is not to say that China’s economic problems do not impose any significant constraints on Xi. Objective material factors shape the subjective constraints he might place on himself. Our hypothesis is that a more targeted and effective approach to changing Xi’s calculations focuses mainly on threatening his control and dominance over a political economy that he is re-organizing to serve national security objectives as he defines them. Merely threatening to constrain Chinese material and technological progress without considering how this affects Xi’s desire for control and dominance will be less effective.

Below are some summary conclusions regarding the politics and psychology of decision-making in the Xi era:

- Xi believes China is engaged in a permanent struggle against the West. Changes in US, Australian, and other allied policies will not fundamentally alter this entrenched perspective. It can only alter Xi’s assessment as to whether China is gaining the ascendency.
- Changing Chinese calculations means changing Xi’s personal calculations. Inflicting pain (in the form of cost or risk) on China or its economy does not necessarily mean inflicting pain on Xi but on the aspects of the Chinese political economy that matter most to him.
- Xi focuses more on his own leadership credibility and less on that of the CCP more broadly. Threats to his performance-based legitimacy and standing—his policies and subjective benchmarks of success—make a recalculation and change in Chinese policy more likely. In other words, his own political survival has become almost synonymous with regime survival.
- Beijing will take threats to Xi’s control and dominance over the political economy, and policy more broadly, more seriously than less specific threats to constrain the Chinese state.
- Changes of calculations occur when Xi’s personal performance legitimacy or control/dominance is under threat. Once he changes his calculation and therefore his mind,
he tends to do so quickly and decisively without regard for consequences, with no regret or embarrassment, and with minimal concern about international criticism unless such criticism directly undermines him.

- It is questionable to what extent Xi receives (or is willing to accept) full and frank assessments of the success or otherwise of his directives from those beneath him until the consequences become too obvious to ignore. Centralizing power around himself makes it very difficult for Xi to obtain reliable information from cowed political underlings and government functionaries.\(^{110}\) However, when he does, he will shift quickly and decisively.
3. DETERRENCE: NEGOTIATING AND BARGAINING WITH XI’S CHINA

In a speech delivered to senior CCP officials responsible for party discipline in 2022, Xi focused on the “fall of empires,” a theme he has frequently raised in his internal speeches. According to him, all empires are vulnerable to cyclical forces of rise and decline. If China is to achieve its great rejuvenation—Xi’s China Dream—it needs to address vulnerabilities and problems before they “evolve into political contradictions, risks, and challenges that will ultimately endanger the party’s ruling status and national security.” As explained in earlier sections, Xi’s response has been to expand and tighten his political and institutional grip on all aspects of power and interaction in the country and move toward implementing a “security state” covering all elements of public and private interaction that could conceivably affect the party’s power and standing. Xi’s obsession with security evinces a deep insecurity regarding his hold on power, the party, and China’s place in the world. Policymakers should base effective deterrence in the form of cost imposition on a better understanding of this insecurity.

Xi’s focus on comprehensive national security preceded him. However, he has elevated and operationalized the concept in a unique way. In late 2021, the CCP released the National Security Strategy (2021–2025). It reinforces a hierarchy of core security concerns and expands the number of “types” of essen-

Photo: Xi Jinping attends the Senior Chinese Leader Event held by the National Committee on US-China Relations and the US-China Business Council on the sidelines of the Asia-Pacific Economic Cooperation (APEC) Leaders’ Week in San Francisco, California, on November 15, 2023. (Carlos Barria/AFP via Getty Images)
A summary of the typology, which has become CCP canon law and has been entrenched in the country’s institutions and policies, is in table 3.\textsuperscript{113} While there are different levels of prioritization, it is important to note that security for Xi and the CCP leadership is both comprehensive and indivisible in that it is dependent on attaining security in the lower-level categories.\textsuperscript{114}

Drawing out a hierarchy of Xi’s priorities and vulnerabilities as he perceives them aids in constructing a ladder of cost imposition based on how much “pain” Xi and the Chinese leadership will feel. For example, in the earlier survey of how Xi suddenly changed his mind about zero-COVID, he perceived suppression of the virus as a test of regime credibility despite the severe impacts on Chinese citizens and businesses. As the suppression approach lingered, Level 2 issues in the form of potential economic and social stability became the priority. The subsequent widespread and direct criticisms of Xi and questioning of the CCP’s exclusive hold on power—a Level 1 concern—compelled him to abruptly change longstanding policy in ending the zero-COVID approach.

Using our typology, the examination of Xi’s focus on self-sufficiency also reveals a Level 2 vulnerability that he believes can

### Table 3. Priorities of Xi Jinping’s Security State

<table>
<thead>
<tr>
<th>LEVEL (highest)</th>
<th>PRIORITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>- Political security of Xi Jinping, regime preservation, and CCP supremacy</td>
</tr>
<tr>
<td>2</td>
<td>- Territorial security: preserve and control China’s national borders, including Taiwan</td>
</tr>
<tr>
<td></td>
<td>- Military security: defend against attacks and prevail in war</td>
</tr>
<tr>
<td></td>
<td>- Economic security: protect economic stability and development; ensure economic resilience and self-sufficiency</td>
</tr>
<tr>
<td></td>
<td>- Cultural security: prevent harmful ideologies and thinking, especially Western values</td>
</tr>
<tr>
<td>3</td>
<td>- Societal security: maintain public stability and social order</td>
</tr>
<tr>
<td></td>
<td>- Tech security: ensure tech self-sufficiency and resilience</td>
</tr>
<tr>
<td></td>
<td>- Cybersecurity: defend against cyberattacks and espionage; maintain control over cyber content</td>
</tr>
<tr>
<td></td>
<td>- Ecological security: protect against large-scale environmental disasters</td>
</tr>
<tr>
<td>4</td>
<td>- Resource security: preserve access to natural resources required for survival and development</td>
</tr>
<tr>
<td></td>
<td>- Nuclear security: ensure safe and normal operation of nuclear facilities</td>
</tr>
<tr>
<td></td>
<td>- Biosecurity: protect against biological risk and threats, including from terrorism and epidemics</td>
</tr>
<tr>
<td></td>
<td>- Space security: maintain access to outer space and space-based assets</td>
</tr>
<tr>
<td>5</td>
<td>- Polar security: maintain access to polar regions</td>
</tr>
<tr>
<td></td>
<td>- Deep-sea security: maintain access to seabed</td>
</tr>
<tr>
<td></td>
<td>- Security of overseas interests: protect citizens and assets abroad; guarantee access to trade routes</td>
</tr>
</tbody>
</table>

lead to a Level 1 problem. He manages this vulnerability by extending control and dominance, if need be, at the expense of maximizing material progress. This is a potential contradiction to Chinese rejuvenation that Xi is desperate to circumvent or minimize. China faces increased resistance and pushback, mainly from democracies around the world, and its economic problems are becoming more serious and intractable, testing earlier assumptions about the inevitability of Chinese dominance and preeminence. But the mere fact that these objective vulnerabilities exist, or that Xi perceives them as serious vulnerabilities, is only the beginning point for developing (nonmilitary) deterrence policies against China. It is important to know which vulnerabilities the US can exacerbate and which it can exploit for deterrent effect.

**Weaken Chinese Resilience**

For Xi, resilience comes from self-sufficiency (military, economic, informational, etc.). The more resilient Xi believes China is, the more likely he is to believe China can prevail in the general struggle against the US and its allies. In the hypothetical scenario of a prolonged conflict over Taiwan, different elements of resilience and self-sufficiency will apply (to be discussed below).

In the current situation, in which one is effectively negotiating and bargaining with Xi to constrain his Taiwan ambitions, it is important to constantly maximize one’s negotiating and bargaining leverage. A critical element is to slow down or thwart Chinese peacetime plans to achieve resilience through self-sufficiency.

The main contest here pertains to the Chinese Level 2 priorities of economic and technological security or self-sufficiency. The US already has a broad range of executive, legislative, and regulatory powers to prevent or slow Chinese technological advances (see table 4).

The US, Australia, Taiwan, and other economies using restrictions or sanctions against China need to ensure they choose these measures well to minimize unintended costs and disruptions. These economies need to forensically identify key technological chokepoints and vulnerabilities when thinking about how best to prevent China from acquiring, transferring, or stealing key capabilities and know-how.

The semiconductor industry is an instructive example. Semiconductor production consists of three main processes: integrated circuit (IC) design, IC fabrication, and IC packaging and testing. Since the 1990s, these processes have become highly fragmented. American firms such as Qualcomm lead the IC design process, while Asian firms such as Samsung and Taiwan Semiconductor Manufacturing Company Ltd. (TSMC) lead IC fabrication. It is only in the relatively labor-intensive IC packaging and testing element that China is a major player. Incidentally, US firm Intel is one of the few companies able to perform all three processes.

Chinese firm Semiconductor Manufacturing International Corporation (SMIC) is the fifth-largest IC fabrication firm. SMIC was a start-up with investment from Silicon Valley that succeeded by acquiring advanced machinery from the US. However, it still lags behind Samsung and TSMC in producing the industry standard 14-nanometer chip, while it is relentlessly seeking capital and support to produce advanced chips such as the 7-nanometer chip that TSMC, Samsung, and Intel offer. Similarly, China cannot match the IC design innovation and capabilities of international firms such as Qualcomm and Nvidia.

The point is that China’s relative backwardness and vulnerabilities are in IC design and IC fabrication. The CHIPS and Science Act is a major step toward further advancing US capabilities beyond China’s, and more focus and attention are now necessary to protect against technology leakage or theft in all advanced sectors. Tariffs, export control laws, IP safeguards, additions to the Entity List, prohibitions on Chinese investment, and prohibitions on locating or transferring technologies from US and allied firms to China should focus on similar specific Chinese vulnera-
Table 4. Available US Measures to Restrict Chinese Tech Advancement

<table>
<thead>
<tr>
<th></th>
<th>PRE-2017 AUTHORITIES</th>
<th>MAJOR CHINA-RELATED DEVELOPMENTS SINCE 2017</th>
</tr>
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<tbody>
<tr>
<td>Export Controls</td>
<td>• International Traffic in Arms Regulations (including US Munitions List)</td>
<td>• Export Control Reform Act mandated emerging and foundational technology controls</td>
</tr>
<tr>
<td></td>
<td>• Export Administration Regulations (including Commerce Control List, Entity List, deemed export restrictions, foreign direct product and de minimis rules)</td>
<td>• Military end user (MEU) / end use restrictions tightened and MEU List created</td>
</tr>
<tr>
<td></td>
<td>• Export Control Reform Act mandated emerging and foundational technology controls</td>
<td>• Entity List greatly expanded</td>
</tr>
<tr>
<td></td>
<td>• Military end user (MEU) / end use restrictions tightened and MEU List created</td>
<td>• Foreign direct product rule tightened for Huawei</td>
</tr>
<tr>
<td></td>
<td>• Entity List greatly expanded</td>
<td>• Civilian exception rescinded</td>
</tr>
<tr>
<td></td>
<td>• Foreign direct product rule tightened for Huawei</td>
<td>• Hong Kong's preferential treatment ended</td>
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<td>• Civilian exception rescinded</td>
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<td></td>
<td>• Civilian exception rescinded</td>
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<tr>
<td></td>
<td>• Hong Kong's preferential treatment ended</td>
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<tr>
<td>Investment Restrictions</td>
<td>• Committee on Foreign Investment in the United States (CFIUS)</td>
<td>• CFIUS activity increased</td>
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<tr>
<td></td>
<td></td>
<td>• Foreign Investment Risk Review Modernization Act passed</td>
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<td></td>
<td></td>
<td>• Non-SDN Chinese Military-Industrial Complex Companies List created</td>
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<td></td>
<td></td>
<td>• Holding Foreign Companies Accountable Act passed</td>
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<tr>
<td>Telecom Licensing and</td>
<td>• Carrier public interest certificate</td>
<td>• Secure and Trusted Communications Networks Act created FCC's Covered List</td>
</tr>
<tr>
<td>Equipment Authorizations</td>
<td>• Submarine cable landing licensing</td>
<td>• Team Telecom Formalized</td>
</tr>
<tr>
<td></td>
<td>• Radio frequency equipment authorization (technically based)</td>
<td>• Chinese carrier and cable landing licenses denied or revoked</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Secure Equipment Act banned radio frequency equipment on national security grounds</td>
</tr>
<tr>
<td>Visa Restrictions</td>
<td>• Section 212(a)(3)(C) of the immigration and Nationality Act (INA)</td>
<td>• Visa ban instituted for graduate students and researchers tied to military-civil fusion</td>
</tr>
<tr>
<td></td>
<td>• Section 212(f) of the INA</td>
<td>• Certain Huawei employees barred</td>
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<tr>
<td></td>
<td></td>
<td>• Chinese Communist Party members restricted</td>
</tr>
<tr>
<td>Import Restrictions</td>
<td>• Antidumping duties</td>
<td>• Broad-based tariffs imposed under a reviewed Section 301 of the Trade Act of 1974</td>
</tr>
<tr>
<td></td>
<td>• Countervailing duties</td>
<td>• Steel and aluminum tariffs imposed under a revived Section 232(b) of the Trade Expansion Act</td>
</tr>
<tr>
<td></td>
<td>• Section 337 of the Tariff Act of 1930</td>
<td>• DJI drones and Hytera radios excluded (the former later rescinded)</td>
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<td></td>
<td></td>
<td>• Xinjiang-made goods presumptively banned</td>
</tr>
<tr>
<td>Financial Sanctions</td>
<td>• International Emergency Economic Powers Act and National Emergencies Act</td>
<td>• Chinese actors placed on SDN list for human rights abuses, corruption, and Hong Kong repression</td>
</tr>
<tr>
<td></td>
<td>• Specially Designated Nationals (SDN) list</td>
<td>• US Innovation and Competition Act passed Senate (would mandate further sanctions on Chinese actors)</td>
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<td></td>
<td>• Global Magnitsky Act</td>
<td></td>
</tr>
<tr>
<td>Technology Transaction</td>
<td>• International Emergency Economic Powers Act and National Emergencies Act</td>
<td>• “App bans” attempted on TikTok, WeChat, and others (later rescinded)</td>
</tr>
<tr>
<td>Rules</td>
<td></td>
<td>• Bulk power system order instituted (later rescinded)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Information and communications technology or services (ICTS) supply chain security rule enacted</td>
</tr>
<tr>
<td>Federal Use and Spending</td>
<td>• Various</td>
<td>• Drone use and purchase restricted</td>
</tr>
<tr>
<td>Restrictions</td>
<td></td>
<td>• Section 889 of the 2019 National Defense Authorization Act restricted government and contractor use of Chinese tech</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• “Remove and replace” rule enacted</td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>• Federal investigation and prosecution</td>
<td>• China Initiative announced (later ended)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Nontraditional collector cases prosecuted</td>
</tr>
</tbody>
</table>

bilities in any denial strategy. Moreover, US policymakers ought to treat every Chinese technological capability and advancement as a potential means to advance the objectives of the Chinese state, which include achieving a permanent advantage and leverage over the US and others in that sector.

There is less reason to focus on prohibiting or restricting Chinese access to technologies and processes in which China is already proficient. The highest priority in efforts against Chinese resilience is to prevent China from becoming self-sufficient or emerging as the leading player hosting or accessing a complete supply chain for technologies that will shape national power in the years ahead.

The Western allies are only in the early stages of this contest, and the advanced-economy democracies still enjoy considerable advantages. While China has designed its state policies to help it overtake the US in advanced sectors (such as those the MIC 2025 plan identified), US firms spent almost two and a half times more on research and development (R&D) than China in 2021. Of a sample of nine advanced sectors (pharmaceuticals and biotechnology, software and computing services, technological hardware, electronic and electrical equipment, industrial engineering, automobiles, general industrials, and alternative energy), the US continues to lead R&D investment and innovation in seven of these, even if China is narrowing the gap. About 40 percent of the leading firms are headquartered in the US, while less than 25 percent are headquartered in China. Almost all the other leading firms are in advanced democracies in Europe and Asia.117

For the moment, and as the semiconductor example demonstrates, Chinese innovation and know-how still depend significantly on interactions with foreign firms, such as joint ventures and acquisitions.118 Xi’s securitization of R&D and innovation by the state-owned and private sectors will have ongoing negative effects on Chinese firms working toward technological progress and innovation. This increases the importance and opportunity for the US and other advanced economies to consider broader and deeper bans on exports to, investment in, and partnerships with Chinese entities that feed directly into China’s MIC 2025 and DCP priorities. As Derek Scissors has argued about the US, “No country seriously competing with another sends it almost US$800 billion over four years. This is the amount of new American investment in China from 2017 to 2020. . . . [Executive actions such as tariffs and controls] are not nearly as financially important as this investment flow.”119

One can make a similar argument to severely restrict passive or portfolio investment (investment in Chinese securities and debt) in China. In 2020, US investors were holding an estimated $1.4 trillion in Chinese securities, and the figure fell slightly to $1.18 trillion in 2021.120 As earlier sections explain, the severely indebted Chinese economy needs external capital to fund Beijing’s ambitious industrial and technological plans. Beijing will increasingly rely on portfolio investment to obtain that capital in the form of foreigners buying Chinese equities and purchasing central and local government bonds (see figure 1). This is a

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Figure 1: Foreign Direct and Portfolio Investment in China, 2011–20

deliberate strategy, as affirmed by significant changes over the past few years that smooth the way for foreign portfolio investment in China at a time when the CCP is increasingly accelerating its industrial and technological ambitions.

One can make similar arguments to justify tougher restrictions on the purchase of renminbi-denominated government and corporate bonds and measures against major indexes, such as the MSCI All Country World Ex-US Investable Market Index, FTSE Russell, and S&P Dow Jones. There may also be reason to restrict pension funds, such as the Thrift Savings Plan’s International Stock Fund, from including major Chinese firms. The inclusion of Chinese firms has led to hundreds of billions of passive portfolio investments in China. Inclusion and a heavier weighting in these indexes provide these firms with flow-on advantages, such as access to cheaper capital and "captured" institutional investors, given the need for benchmark or passive funds to own these stocks. In 2019, changes in these benchmark indexes alone drove an estimated $400 billion of new investment in Chinese equities, and the figure likely reached a trillion dollars in 2020. Granting inclusion and greater weight to Chinese bonds in relevant indexes has resulted in an additional $100 billion of investment in China according to some estimations.

More recently, a 2023 congressional investigation focused on 63 Chinese firms that the US has red-flagged or blacklisted as entities that are directly advancing the PLA’s capabilities or are engaged in commercial practices that violate human rights. It found that major US financial firms provided $6.5 billion to these Chinese firms that year. BlackRock alone invested $1.9 billion in these companies. Moreover, these companies’ mere inclusion in MSCI indexes passively channeled $3.7 billion in funds to them. Another report by the same select committee summarizes the problem, which also applies to investors in other allied countries such as Australia: "U.S. investors and average Americans have, often unwittingly, funneled vast sums of capital to PRC companies that the U.S. government has identified as PLA military contractors, national security threats, industrial predators, and human rights abusers."

This is a problem because many Chinese firms included are SOEs or national champions central to Beijing’s MIC 2025 and DCP plans, even if they are not directly involved in advancing PLA capacity. Similarly, Beijing is using an increasing share of Chinese government bonds (including local government and domestic corporate bonds) to fund its broader industrial and technological plans. In this context, portfolio investment and bonds are an important avenue for Chinese entities to obtain much-needed foreign capital as the US and other governments otherwise seek to restrict their access to such advantages. It also means more Western entities are sleepwalking their way toward holding more and more Chinese assets that carry sovereign and political risk, which neither the constituents of the indexes nor the passive investors are sufficiently pricing.

Bear in mind that this first step is already occurring, but in a piecemeal and inconsistent manner. For example, the Biden administration released an executive order in August 2023 directing the Treasury Department to create a new regulatory program to prohibit or seek notification of outbound US investments in some sensitive sectors. This is an attempt to align restrictions on outbound investments into China with restrictions on Chinese investment into the US. While the restrictions are a step in the right direction, regulators have interpreted them relatively narrowly. Sensitive technologies are mainly those essential for military purposes, intelligence operations, surveillance, and cyber capabilities.

The purpose of these recommendations is to implement a more systematic financial and technological regime that makes it much more difficult, if not impossible, for China to achieve Xi’s self-sufficiency targets, especially in high-tech and advanced sectors.

Targeting all the sectors that the MIC 2025 plan and DCP nominated would be a better way to begin. Doing so serves three
related purposes. First, it increases Xi’s sense of dependence on, and therefore vulnerability to, the US and other advanced economies. It does so by depriving China of outside assistance to replicate and eventually surpass the US and other advanced economies in technology, innovation, and commercial know-how in the sectors Xi has nominated as essential to winning the contest. Second, it constrains China’s material power and its ability to coerce and leverage other economies by dominating technology, supply chains, and markets in these sectors. Third, it gives the US and others more options for imposing nonmilitary costs on China.

Produce a List of Strategic Corporate Targets

In March 2023, US Senator Dan Sullivan and Congressman Mike Gallagher reintroduced the Sanctions Targeting Aggressors of Neighboring Democracies (STAND) with Taiwan Act of 2023, which proposes crippling, comprehensive, and financial sanctions on China in the event of a Chinese military invasion of Taiwan. The sanctions would include targeting of individual CCP members, restrictions on Chinese financial institutions and industrial sectors, prohibitions on US financial institutions investing in Chinese entities that benefit or are affiliated with the CCP, and prohibitions on importing certain goods from China. Although it is a robust complement to the Taiwan Relations Act 1979, the problem with the proposed bill is that such measures could be too late to change Xi’s mind as they take place only after the commencement of an invasion. As argued earlier, aggressors tend to push boundaries to gauge resolve and responses before forming a view that escalation and the use of violence will advance their objectives. Therefore, deterrence is necessarily a dynamic activity of continually signaling to adversaries that one’s preparedness and resolve are credible, and of actively conditioning them to factor into their policies and activities an expectation that each significant act of provocation or assertiveness will cause them pain. For this reason, policymakers need to impose pain constantly and responsively, rather than waiting passively until the adversary crosses a genuine red line (i.e., an invasion of Taiwan).

For this reason, US policymakers need to do the following:

- Produce in ascending order a list of Chinese financial, technological, and industrial firms vital to the realization of Xi’s objectives.
- Produce in ascending order a series of escalatory punitive actions (e.g., export controls, import restrictions, blacklisting as an allowable commercial partner, restriction of US dollar transactions).

These actions can replicate many of the cascading sanctions and restrictions against Huawei, but their design should specifically apply to that firm and sector.

The list of firms would be those critical to the realization of Level 2 and 3 objectives and vulnerable to external prohibitions, restrictions, and punishments. In addition to financial firms and other formal lending institutions (especially those engaged in international US dollar transactions), Chinese firms essential to Xi’s MIC 2025 plans and DCP blueprint are obvious candidates. Firms that receive the most generous government subsidies and other forms of assistance in relevant sectors are likely the firms Beijing is relying on to achieve national objectives. The most sensitive and impactful targets will be national champions such as Huawei.

In addition to an accurate and well-populated list of critical firms and their importance to the pursuit of Xi’s comprehensive (economic and technological) security objectives, the key is to impose immediate measures against the chosen firms upon a Chinese act of aggression against Taiwan. For example, there were 1,092 Chinese incursions into Taiwan’s Air Defense Identification Zone in 2023. An evaluation protocol could assess the level of seriousness of such incursions based on factors...
such as the size of the incursion and maneuvers performed; the type, lethality, and sophistication of Chinese military assets participating; whether the incursion exceeds previous activities; and whether the incursion is occurring at a deliberately and particularly sensitive or provocative time. The point is that once an incursion occurs and the evaluation deems it sufficiently serious to warrant a cost imposition response, the US and others should be prepared to impose that cost on the Chinese entity that perpetrated it. The greater the seriousness of the incursion, the greater the cost imposition response (i.e., the Chinese firm targeted ranks higher on the escalatory list or the action against the firm is more severe).

Importantly, the US needs to signal cost imposition ahead of time for it to have the intended effect. It needs to make Beijing understand that the US and others will be imposing costs every time an unacceptable act of Chinese aggression or coercion against Taiwan takes place. The US and its allies, rather than China, also need to define and delimit acts of coercion and aggression attracting a cost imposition response.

The intent is not merely to force China to recalculate the risk and cost of invading Taiwan. It is to compel China to recalculate the risk and cost of every significant act of coercion or aggression against Taiwan in the so-called gray zone. It is about the US and its allies winning and holding psychological and tactical ground in the unending struggle to persuade an adversary (through many cost imposition responses) that the will to deter is real and that the allies are normalizing and institutionalizing it in their policies and reactions.

The US is the primary implementer of the tit-for-tat cost imposition strategy against Chinese firms given the range of its available executive order measures and the higher impact of its economic cost imposition weapons. These advantages stem from the importance of American technology, currency, and market. Allies such as Australia have fewer such nonmilitary weapons available to them but need to bear some cost and risk where they can.

Note that Beijing still heavily depends on global technology inflows and global supply chains that US, European, Japanese, and South Korean firms are leaders in. This is especially true in industries such as robotics, aeronautics, semiconductors, and closed-circuit chips, which are essential to the MIC 2025 goals and plans for military-civil fusion objectives. Europe is still in the early stages of reassessing its economic relationship with China. Getting Europeans on board with any cost imposition strategy will be difficult but necessary.

**Signal High-Impact Cost-Imposition Measures If China Crosses the Red Line**

The measures above pertain to tit-for-tat cost imposition responses after unacceptable gray-zone acts of Chinese coercion or aggression against Taiwan. As argued earlier, demonstrating US and allied preparedness to impose costs in response to relatively small Chinese infringements strengthens Beijing’s belief that the US and its allies will impose major costs in response to major Chinese actions (such as a direct attack against Taiwan).

Foremost in Xi’s mind will be the US and allied military response to a Chinese military action. The Chinese leadership will also assess the prospects of devastating nonmilitary responses by the US and others. In this context, Xi would likely assess three possible nonmilitary but high-impact insecurities the US and its allies might take advantage of that would likely lead to immense turmoil and social instability within China. Analysts have suggested the US and its allies ought to signal that they would consider moving against these three areas in extreme circumstances. They can do so by letting China know that they are gam ing options to exploit these weaknesses and by putting resources and policies in place to do so in the event of war.

The first weakness is Chinese energy insecurity. In 2020, China imported over 300 million tons of coal, almost 550 million tons of crude oil, and over 100 million tons of natural gas. Despite its domestic investments in renewable energy sources, analysts
project it will import around 70 percent of its oil in 2050 and more than half of its natural gas after 2030.\textsuperscript{137}

Beijing has made significant progress in constructing land-based natural gas pipelines from Russia and Central Asia (see figure 2). However, its reliance on seaborne oil imports enhances its sense of energy insecurity. While it can transport oil from Russia and Central Asia fully on railways and land-based pipelines, it overwhelmingly relies on sea transport to receive oil imports from the Middle East, Africa, and the Americas. China continues to develop oil (and gas) pipelines from Myanmar sea-ports in the Bay of Bengal to Yunnan Province and is looking to develop pipeline connections from Pakistani deep sea ports in Gwadar and Karachi to hubs in western China. However, Beijing still suffers from what President Hu Jintao in 2003 referred to as the country’s Malacca Dilemma.\textsuperscript{138} This is China’s ongoing reliance on oil import shipping through the Strait of Malacca, rendering the country vulnerable to energy strangle by naval adversaries during a war (see figure 3).

Xi has not resolved this Malacca Dilemma. Chinese engineers have examined the Sunda, Lombok, and Makassar Straits as...
potential alternatives. However, these waterways are still vulnerable to interdiction, and it takes considerably longer for cargo ships leaving the Middle East and Africa to reach China using them. From a geostrategic perspective, they do not negate the insecurities pertaining to China’s Malacca Dilemma.\(^{139}\) From an operational perspective, the US with the assistance of allies can likely interdict most if not all oil shipments bound for China by sea. As they do so, US naval vessels will be far enough from China’s formidable anti-access/area-denial capabilities, which focus mainly on operations in Northeast Asia.\(^{140}\) During peacetime, the US and its allies should openly discuss the real operational and policy possibility of taking this measure in the event of war, even if it is a perilous move that can backfire strategically.

A second major insecurity that Xi has referred to several times is China’s reliance on imported food.\(^{141}\) China is the world’s biggest importer of food, including staples such as meat, dairy, soybeans, and corn.\(^{142}\) China heavily relies on the US, Canada, and Australia for these imported staples. Food shortages have led to significant instances of social instability since the Mao Zedong period. Notwithstanding decades of policies aimed at self-sufficiency, China has become even more reliant on food imports and has tried to assuage this insecurity by investing and purchasing agricultural land and food-related infrastructure to guarantee an adequate supply.

Any decrease in Xi’s sense of his (and China’s) vulnerability increases his tendency to take greater risks. In this sense, it is of
potential strategic and deterrent value that China remains dependent on democratic nations to secure adequate staples. To be sure, sanctions and embargoes on the export of staples to China are extreme measures that the US and its allies should consider taking only in wartime. However, and like the issue of blocking oil imports into China, economies such as the US, Canada, and Australia should signal to China that this extreme measure is possible if a Chinese invasion of Taiwan occurs. They can achieve this together through active contingency war planning.¹⁴³

Other major exporting food producers, such as Argentina and Brazil, are not likely to consider such an extreme possibility even in the most serious circumstances. Beijing will also respond by stockpiling even more staples. This will allow China to feel somewhat less insecure but never adequately secure. The mere possibility that the US and others might implement this measure should have some deterrent effect against China crossing that red line.

The third is China’s reliance on the US dollar. This insecurity offers the extreme financial option of banning Chinese banks and financial institutions from engaging in US dollar transactions and freezing all of China’s US dollar debt holdings. It has long been, and remains, a source of profound Chinese discomfort, one that has become more acute following the cascading financial sanctions against Russia after its invasion of Ukraine. It is also easy to understand Beijing’s discomfort.

Chinese entities still hold an estimated $800 billion of US Treasury securities (down from a peak of over $1.3 trillion in 2014, but still a large amount). Chinese holdings of all US debt and government agency bonds amounted to around $1.04 trillion in November 2023.¹⁴⁴ However, the US is far less reliant on Chinese entities buying its debt than China is on holding US dollar assets as a safe haven to park its funds. China holds around 2.5 percent of all US debt and around 10 percent of all US Treasury debt.¹⁴⁵ It has been seeking to park funds in internationally convertible assets, such as gold. However, Beijing would need to increase its holdings of gold from about 3,000 tons to over 30,000 tons to replace its US dollar assets.

China conducts almost half of its international transactions in the current account (trading activities) and capital account (investment activities) in US dollars.¹⁴⁶ China has made some progress in signing bilateral swap agreements with over 20 economies to settle cross-border trade and investment in Chinese yuan (RMB). However, its advanced-economy trading and investment partners, which remain far more important to the country, are insisting on settling in the US and other major fully convertible currencies (such as the euro, British pound sterling, or Japanese yen). More generally, only around 2 percent of international cross-border trades use the RMB.¹⁴⁷

The point is that the exorbitant privilege of the US dollar as the world’s reserve currency also gives the US enormous coercive power. The tit-for-tat cost imposition approach against individual Chinese firms can cause contained and targeted pain. However, if the US were to widely restrict Chinese use of the greenback by Chinese main financial and lending institutions or freeze US dollar assets that Chinese entities hold, it would certainly cause enormous and widespread disruption of the US and global economy. However, it would devastate and likely destroy Xi’s entire political economy. To reiterate, this is an extreme option that the US needs to game and signal to the CCP in the event China crosses genuine red lines. The US might never deploy this or the other extreme options, but it needs to convince Xi that they are real options it can and might deploy.

US and allied military leaders should seek to persuade Beijing that the consequences for the PLA in an invasion of Taiwan will be so great as to be prohibitive. Similarly, they should persuade Beijing that the various nonmilitary forms of pain for China and Xi will begin during and after an invasion of Taiwan.
Engage in Regional Diplomacy

The suggestion to augment deterrent strategies based on denial with dynamic and responsive cost imposition will cause some alarm, especially throughout Southeast Asia. There is a complex history as to why this is the case. Leaders in many Southeast Asian capitals have learned to maximize the benefits they can extract from great powers. Southeast Asian countries, to use their common refrain, do not want to be forced to choose. They may bristle at Chinese coercion of Taiwan, Japan, and other countries in the South China Sea. But many will not allow their discomfort to disrupt their efforts to gain as much as they can from both Beijing and Washington. For all these countries’ insistence that no one should force them to choose between the US and China, their determination to sit on the sidelines rather than support efforts to respond to Chinese coercion and efforts to change the status quo serves China’s purposes at the expense of the US and its allies.

To be sure, Washington has made some recent advances in rallying Asian partners to resist Chinese activities. In 2019, for example, Singapore renewed a long-standing agreement to allow the United States the use of its air and naval bases. The city-state also responded positively to the AUKUS agreement—a defense deal among Australia, the United Kingdom, and the United States that includes provisions for Australia to acquire nuclear-powered submarines—and indicated that Australian submarines would be welcome in Singaporean ports. The Philippines announced in April 2023 that it would make four new bases available to American forces (in addition to five existing ones) as part of an expanded defense agreement. In June 2023, it conducted joint naval drills with the United States and Japan for the first time near its Bataan Province, whose coast lies along the South China Sea.

These are meaningful developments. But they do not represent the hardening of coalitions or alliances, much less suggest that these countries will support the kinds of cost imposition measures this report proposes. Both Singapore and the Philippines, like most other countries in the region, would still prefer a de-escalation in US-China tension. Both countries maintain strong ties with Beijing, and neither has indicated an intention to follow in Japan’s footsteps and join a balancing coalition with the United States to counter Chinese activities against Taiwan.

A major problem is that while the region has normalized and internalized Chinese coercion and assertiveness in the Taiwan Strait and elsewhere over many years, putting up scarce resistance, it has not done the same with more recent US and allied attempts to push back. Onlookers in the region often view the latter efforts, rather than the far worse Chinese provocations, as destabilizing and dangerous. For example, Southeast Asian nations seem much more critical of Nancy Pelosi’s August 2022 visit to Taiwan than of the subsequent Chinese multi-day joint and live-fire exercises around the entire Taiwanese main island—some of which were less than 10 miles from the Taiwanese coast.

Additionally, more than two decades of weak responses to Chinese coercion and gray-zone tactics have fueled and entrenched regional narratives that no country can stop China from eventually seizing Taiwan and that the PLA is willing to escalate to any level to achieve its core objectives (which include taking Taiwan). Essentially, a common Southeast Asian perspective is that no one can deter China on the issue of Taiwan and any attempt is a dangerous fool’s errand. These narratives are not easy to change. However, the US can lead regional countries to internalize US and allied cost imposition policies against China by implementing these measures robustly and constantly. The more and longer a great power and its allies undertake an activity, the more other nations accept it as a reality and inevitability in the region. Just as China has fixed the narrative that Chinese coercion and expansion are enduring and unavoidable developments in the region, the US needs to embed the narrative that the US and its allies are “hardwired” to impose costs on an assertive Chinese power. It is also critical
that Xi internalizes this narrative. If regional governments can view the US and its allies as just as stubborn and intractable as they accept China to be, then there will eventually be fewer calls for the allies to forever compromise and pull back.

In addition to changing the narrative, the US and its allies can no longer separate economic cooperation and market access from their broader geopolitical objectives, as they did in the first two decades after the Cold War. But Washington also cannot follow the Chinese example and use arbitrary threats and economic coercion to compel smaller powers to support a cost imposition deterrence approach. Historically, US bilateral defense agreements have allowed Washington to help shape the security and economic strategies of its allies in Asia. The same logic should now guide a policy in which Washington extends tailored agreements that combine economic and security imperatives to key countries in the region.

The US has already tested the waters with such an arrangement. Biden’s groundbreaking AUKUS deal built on the Trump administration’s decision in 2016 to include Australia and the United Kingdom in the US National Technology and Industrial Base, and the agreement will eventually allow these nations to share military technology and to jointly develop and deploy advanced weapons. More than just a defense agreement, AUKUS established a platform for the three parties to share information and technology and to integrate industry and supply chains related to national security. This collaboration should also boost civilian industry and yield other economic benefits down the road.

Decades of security and intelligence cooperation among Australia, the United Kingdom, and the United States made the AUKUS agreement possible. It thus may not be wholly replicable, as other US alliances in Asia lack this bedrock of close ties. But AUKUS does represent a new paradigm in which US-led regional arrangements align economic privileges and technological benefits with strategic and geopolitical interests. It is no coincidence that US-Taiwan trade negotiations are moving forward at the same time that Taiwan is accepting greater responsibility for its own territorial defense.

For example, and to help countries overcome their reluctance to support this more robust deterrence posture, the US can offer economic opportunities, such as market access or special carve-outs to export controls, that these countries will not want to miss out on. And it should condition these offers on Asian countries’ agreement to leave behind their neutral or indifferent positions regarding China’s forceful seizure of Taiwan.

This is not a proposal to indiscriminately flood the region with cheap capital in the hope of purchasing temporary loyalty to the US and countries such as Australia. Instead, privileged economic, trade, and technological cooperation arrangements will encourage hesitant countries to choose to support deterrence efforts against China. It is true that not every country will wish to support the US in this way. Washington should thus devote its diplomatic attention and economic resources to countries that express interest in pushing back against China and supporting others already doing so.

The Philippines is another obvious candidate. Its recent decision to grant the United States access to additional military bases increases the coverage and credibility of the US security guarantee included in the countries’ bilateral defense treaty. The northernmost of these new bases, specifically, allows the stationing of US forces closer to the Taiwan Strait, while the southern bases provide direct access to the South China Sea. In return for a larger deployment of US forces, greater investment by the Philippines in national defense, and diplomatic support for a cost imposition deterrence strategy against China, the US can offer to fast-track assistance with the Philippines’ 5G rollout, update the country’s air transportation network, and finance upgrades to its railways, ports, and healthcare system.

Singapore is also an important US strategic and diplomatic partner, but it appears to have accepted Chinese coercion of Taiwan as
unchangeable. It has effectively given China diplomatic cover by failing to criticize Beijing’s regional aggression—a noteworthy omission given the diplomatic authority Singapore holds. If Singapore takes a firmer stance against aggressive Chinese economic and military policies, especially those targeting Taiwan, the US could offer deeper collaboration in artificial intelligence, digital payment systems, biotechnology, and quantum applications—sectors that are crucial to the future of Singapore’s technology-based economy.
4. SUMMARY AND CONCLUSION

China’s economic, financial (especially indebtedness), demographic, and fiscal problems are well known. They have been exacerbated and accelerated by Xi’s obsession with control and dominance over all levers of national strength, influence, and capability. In the Taiwan Strait (and regarding other issues such as the South China Sea, as well as economic and trade malfeasance), China enjoys the escalatory advantage and has covered as much ground as it has largely due to the reluctance and refusal of other countries to impose costs on China. Beijing, and Xi in particular, is far from undeterrable. It is just that the US and other nations have not really tried, preferring instead to focus on the risks of pushing China back rather than the risks of not doing so. It is not too late. China’s enduring (and in some cases deepening) weaknesses provide opportunities for deterrence, which largely involves changing Xi’s calculations, and it is important to turn Xi’s obsession with control and dominance into a vulnerability.

The report makes these seven main points:

1. The case for urgency in deterring China from using force against Taiwan is clear.

2. Deterrence of China is necessarily a dynamic and constant activity rather than a static one. The latter approach is largely based on deterrence by denial, which seeks to convince China that it cannot achieve its military objectives by force. A dynamic deterrence approach seeks to arrest and turn back China’s creeping assertiveness and coercion. Rather than metaphorically gathering the sum of one’s forces at the gates of the castle to persuade the adversary that they cannot win the final battle, it is better to condition China to recalculate the strategic usefulness of its constant coercion and aggressive probing.

If China keeps prevailing in the gray zone, always controlling the pace and nature of escalation, then deterring Beijing from taking the final step over the red line becomes more difficult. Just as China seeks to condition the US and its allies to accept and internalize Chinese aggression, they need...
to condition China to internalize the reality that it will bear increasing costs if it continues its coercion of Taiwan and will suffer unacceptable costs should it cross that red line.

3. Given Xi’s centralization of power and decision-making when it comes to forming objectives and strategy in the Chinese system, deterrence should focus on ways to specifically deter Xi, that is, to change his personal calculations. He has demonstrated that he is vulnerable to pressure and that he will change direction quickly and decisively when he feels sufficient pressure.

4. Cost imposition is necessary to change Chinese calculations regarding coercion and aggression in the gray zone, and more broadly, to condition Beijing to expect a cost when it engages in coercive or aggressive activities. These costs should be nonmilitary to avoid overly dangerous kinetic escalation.

5. The US and its allies need to ensure China and other regional countries expect ongoing retaliatory US and allied cost imposition. Just as China benefits from other countries’ normalization and internalization of Chinese coercion and aggression, the allies need to make sure other countries accept US cost imposition retaliation as a fait accompli and part of the strategic and tactical architecture in the region.

6. Costs should maximize the political pressure on Xi to compel him to reassess and recalculate. Each tit-for-tat cost the US imposes on China should incrementally increase the accumulated damage to Xi’s political and economic objectives and plans.

7. At the same time, there need to be clear signals to Xi that in the event of an invasion of Taiwan, the US and its allies will consider extreme measures that could lead to immense social and political instability for the CCP.

In common language, deterrence is largely a constant game of chicken and an effort to get the other side to blink. In technical jargon, deterrence by cost imposition is a strategy of increasing the adversary’s cost burden each time they act against US interests.153 Deterrence by denial has limitations in preventing the adversary from constantly probing for tactical advantage. It also cannot stop them from seeking out evidence of psychological weaknesses and lack of resolve as often little risk or cost accompanies this probing (i.e., operations in the gray zone). In America’s constant negotiation of its relationship with China, including over the Taiwan issue, deterrence through nonmilitary cost imposition needs to be an essential element of strategists’ toolkit, and they need the preparedness to escalate in this manner. They need to find ways to cause Xi to blink and do so regularly, which means finding nonmilitary ways to inflict pain that he feels. Achieving that means giving the US and its allies a better chance of changing Xi’s calculations and risk assessments to their advantage and keeping the peace in the Taiwan Strait.
ENDNOTES


3 Wuthnow, “System Overload.”


6 Jiann-fa Yan, “The Likely Framework and Contents of Xi Jinping’s Taiwan Policy,” Taiwan International Studies Quarterly 9, no. 4 (2020): 39-61. Note that the term reunification is not historically accurate as Taiwan has never been part of, or governed by, China since the Chinese Communist Party has been in power.


18 Pomfret and Pottinger, “Xi Jinping Says He Is Preparing China for War.”

19 Pomfret and Pottinger, “Xi Jinping Says He Is Preparing China for War.”

20 For example, see Amonson and Egli, “The Ambitious Dragon.”


53 Lee, “Control and Decisionmaking.”


56 Mitter, “Real Roots of Xi Jinping Thought.”


96 Lund et al., Globalization in Transition.


101 For example, see Zhai, “The Politics of COVID-19.”


124 Schoenfeld, “Americans Are Investing More in China.”


135 Lee, Understanding and Countering China’s Approach to Economic Decoupling.


145 United States Treasury figures.


