

**Navigating the Economic Threat Posed by the Chinese Communist Party**

Adam Opp  
Liberty University  
Helm's School of Government

## **Abstract**

For decades, the Chinese Communist Party (CCP) and the economic growth of China has become a threat to the United States. Beginning in 1978, the CCP issued a series of economic, market-oriented reforms which led to a period of economic growth and productivity increase in China. The CCP turned to diplomacy with the United States and other nations to increase foreign investment and implemented the Belt and Road initiative. The impressive scale of Chinese economic growth poses an economic and hegemonic threat to the United States, as the Chinese economy is projected to outpace the United States and the CCP has expressed interest to replace the United States as a global hegemon by 2049. Economic tensions between the United States and China have increased, especially regarding the BRICS alliance and the Belt and Road Initiative. The CCP seeks reunification with Taiwan, but the growth of the Taiwanese semiconductor industry makes the nation an economic interest and ally of the United States. The United States should seek to avoid conflict with the CCP by identifying and agreeing on procedures to navigate redlines between the two nations, while also identifying areas of strategic cooperation and competition.

## **Navigating the Threat Posed by the Chinese Communist Party**

The United States and China are the two largest economies in the world, competing for strategic and economic dominance as global hegemon. Chinese economic reforms in 1978 utilized market reforms, productivity increases, collective enterprises, diplomacy, and foreign investment to facilitate massive economic growth. This growth makes China an economic threat to the United States. China incentivizes other nations economically through the Belt and Road Initiative, and the BRICS alliance. Intertwined is the issue of Taiwan, semiconductors, and the Chinese Communist Party's (CCP) goal of reunification. The United States must identify solutions to avoid the possibility of conflict with China. The industrial and economic growth of the CCP makes China an economic threat to the United States, which must be carefully navigated if there is to be hope of avoiding conflict and retaining the United States as a global hegemon.

### **How the CCP Became an Economic Powerhouse**

The 1978 economic reforms were initiated by CCP leader Deng Xiaoping who sought to reform China following economic stagnation, and he turned to market reforms to prevent further economic decline. Before 1978, China saw fluctuating annual growth of about six percent a year; but following 1978, China witnessed average real growth of over nine percent a year with fewer hardships.<sup>1</sup> The Chinese economy grew more than thirteen percent and per capita income almost quadrupled by the mid-1990s.<sup>2</sup> Before 1978, the Chinese government had strict urban regulations. "In the 1953-78 period Chinese central planners invested heavily in the urban industrial sector and restricted migration from the country into the cities."<sup>3</sup> Chinese political tensions before 1978 contributed to Chinese economic stagnation. Mao Zedong implemented the Cultural Revolution to purge capitalism, and the CCP consolidated economic power and management in the Chinese central planners. Mao tried to industrialize China through the Great Leap Forward, but his policies led to an estimated thirty million deaths as "the fanatical push to meet unrealistic goals culminated not in record-breaking output but the starvation of approximately one in twenty Chinese."<sup>4</sup> Afterward, there was little accountability in the Chinese central planning commission and economic stagnation ensued. When Deng Xiaoping took office, there was a great need for Chinese economic reform, resulting in new market-oriented reforms.

The Chinese economic reforms of 1978 relied on capital investment and productivity boosts to bring about economic growth. Capital investment increased Chinese productivity as improved machinery, better technology, and greater infrastructural investment raised output.<sup>5</sup> However, the role of capital was constrained as despite the increase in capital stock, the capital output ratio increased only slightly as the production levels of goods and services per unit of capital barely improved despite the increase in capital expenditures. While China possessed an impressive labor force, its role following 1978 seemed to diminish, indicating another factor of economic growth. An IMF study found that "while capital formation alone accounted for over 65 percent of pre-1978 growth, with labor adding another 17 percent, together they accounted for only 58 percent of the post-1978 boom, a slide of almost 25 percentage points. Productivity increases made up the rest."<sup>6</sup> Productivity increases thus seem to be the best indicator of Chinese economic growth,

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<sup>1</sup> Zuli Hu and Mohsin Kahn, "Why Is China Growing So Fast?," in *International Monetary Fund*, 1997, 3, <https://www.imf.org/external/pubs/ft/issues8/index.htm>.

<sup>2</sup> Hu and Kahn, "Why Is China Growing So Fast?"

<sup>3</sup> Hu and Kahn, 8.

<sup>4</sup> Clayton Brown, "China's Great Leap Forward," in *Association for Asian Studies*, 2012, 2, <https://www.asianstudies.org/publications/ea/archives/chinas-great-leap-forward/>.

<sup>5</sup> Hu and Kahn, "Why Is China Growing So Fast?," 5.

<sup>6</sup> Hu and Kahn, 6.

as capital formation only accounted for a portion of the economic growth following 1978. “Chinese productivity increased at an annual rate of 3.9 percent during 1979-94, compared with 1.1 percent during 1953-78. By the early 1990s, productivity's share of output growth exceeded 50 percent, while the share contributed by capital formation fell below 33 percent.”<sup>7</sup> Such growth was exemplary as capital investment complimented by productivity-led growth was sustainable. The reforms created a productivity boom that outpaced the United States. The United States' average productivity growth rate was 0.4 percent between 1960-1989,<sup>8</sup> which contributed to the growing Chinese economy by opening more development opportunities. Between 1979-94, productivity increases contributed over forty-two percent of Chinese growth and by the 1990s had surpassed capital as the greatest source of economic growth.<sup>9</sup> Thus, capital investment and productivity increases were vital factors in Chinese economic growth.

The economic reforms of 1978 began a period of rapid industrialization and market reform. The market reforms increased economic efficiency and output by creating profit incentives for rural collective enterprises, farms, private businesses, and foreign investment. Collective enterprises are “nominally owned by those people residing in the areas where the enterprises are located, but effectively controlled by the local governments”<sup>10</sup> and guided by market principles. The economic reforms freed a variety of enterprises, primarily agriculture, from constant state intervention while allowing for greater foreign investment and small business entrepreneurship.<sup>11</sup> The goal of the reform program was to improve communism by greatly increasing the role and functions of market mechanisms, and by decreasing government planning and direct control.<sup>12</sup> Profit incentives encouraged greater investment into factories and rural businesses by owners, as improved business performance could yield greater profit. Paired with other reforms, profit incentives encouraged private businesses and private ownership of production. “Between 1978 and 1992, the output of state-owned enterprises declined from 56 percent of national output to 40 percent, while the share of collective enterprises rose from 42 to 50 percent and that of private businesses and joint ventures rose from 2 to 10 percent.”<sup>13</sup> As different enterprises, such as collective enterprises and factories, were eager to increase their profits, they devoted the revenue from the enterprise towards bettering performance. Profit incentives played a significant role in the Chinese market reforms as they encouraged the growth of collective enterprises and led to performance increases, further promoting Chinese economic growth.

The expansion of property rights in countryside regions and decollectivization increased productivity in the rural sector. Implemented in 1979, the contract responsibility system allowed farm families to cultivate their land for profit and deliver a fixed produce quota to the collective for a set price. Individual households were contracted to work assigned sections of collective land and farmers were incentivized to reduce production costs while increasing productivity to increase their profit.<sup>14</sup> This system was successful and spread throughout China and administrative townships oversaw the farmers and the land, which remained collective property. The household became “the basic economic unit and was responsible for its own production and losses. Most

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<sup>7</sup> Hu and Kahn, 6.

<sup>8</sup> Hu and Kahn.

<sup>9</sup> Hu and Kahn, 3.

<sup>10</sup> Jiangyong Lu and Zhigang Tao, “The Costs and Benefits of Government Control: Evidence from China’s Collectively-Owned Enterprises” (2009), 1, [https://pweb.fbe.hku.hk/~ztao/\\_private/pdf/COE%20complete.pdf](https://pweb.fbe.hku.hk/~ztao/_private/pdf/COE%20complete.pdf).

<sup>11</sup> Hu and Kahn, “Why Is China Growing So Fast?,” 5.

<sup>12</sup> Robert Worden, “Reform of the Economic System, Beginning in 1979” (U.S. Library of Congress, n.d.), 1, <https://countrystudies.us/china/92.htm>.

<sup>13</sup> Hu and Kahn, “Why Is China Growing So Fast?,” 5.

<sup>14</sup> Worden, 2.

economic activity was arranged through contracts, which typically secured promises to provide a certain amount of a commodity or sum of money to the township government in return for the use of land.”<sup>15</sup> The results were specialization as some households were dedicated to cash crops or a particular service, and productivity and price increases, all benefiting rural incomes. The contract responsibility system boosted the agricultural industry, but the market expansions and resulting competition pushed families away from agriculture and towards manufacturing jobs. Before the 1978 reforms, almost eighty percent of Chinese worked in agriculture; but by 1994, the number dropped to around fifty percent.<sup>16</sup> Rural sector economic reforms contributed to Chinese economic growth and productivity as the contract responsibility system revitalized the agriculture industry and encouraged a shift toward manufacturing.

The 1978 market reforms gave greater autonomy to private businesses and enterprise managers. Chinese economic policies lessened production regulations, incentivized competition, and the creation of more private business jobs. Enterprise managers “became more free to set their own production goals, sell some products in the private market at competitive prices, grant bonuses to good workers and fire bad ones, and retain some portion of the firm's earnings for future investment.”<sup>17</sup> Collective enterprises were permitted to produce goods beyond government quotas and determine their own goals for production. The Chinese government tested a policy allowing enterprises to utilize bonuses to reward higher productivity to further incentivize workers. “Rather than remitting all of their profits to the state, these enterprises were allowed to pay a tax on their profits and retain the balance for reinvestment and distribution to workers as bonuses.”<sup>18</sup> The reforms enabled greater private ownership of production, allowing for the development of more consumer-desired products and creating more jobs. Private business ownership encouraged foreign trade, payment of state taxes, and improved the resiliency and flexibility of the national economy<sup>19</sup> as production and productivity increases provided a firm foundation for the Chinese economy. Greater autonomy for collective enterprises and private businesses created productivity increases for the Chinese economy while encouraging production.

The economic reforms of 1978 saw the Chinese government ease restrictions on foreign trade and allow for foreign investment by other nations and outside businesses. The increased autonomy granted to enterprise managers and private enterprises allowed these businesses to engage in foreign trade and expand their markets. “Individual enterprises and administrative departments outside the Ministry of Foreign Trade [were allowed] to engage in direct negotiations with foreign firms.”<sup>20</sup> Under Deng Xiaoping, foreign trade became a vital source of investment as the Chinese economy sought to develop and modernize. The Chinese government liberalized foreign trade and legalized foreign investment, cooperation, and credit trading with foreign businesses to allow China to immerse itself in international trade. Joint ventures between foreign firms and Chinese units were common foreign investments.<sup>21</sup> The result was an open-door policy to bring about Chinese economic transformation.

The open-door policy combined diplomacy and foreign investment to encourage rapid economic growth in China. The open-door policy sought to maintain the Chinese commitment to socialism while expanding new areas for foreign investment within the Chinese economy. Areas designated for foreign investment included: “the special economic zones, open coastal cities, the

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<sup>15</sup> Robert Worden, “Decollectivization” (U.S. Library of Congress, n.d.), 1, <https://countrystudies.us/china/47.htm>.

<sup>16</sup> Hu and Kahn, “Why Is China Growing So Fast?,” 5.

<sup>17</sup> Hu and Kahn, 5.

<sup>18</sup> Worden, “Reform of the Economic System, Beginning in 1979,” 2.

<sup>19</sup> Hu and Kahn, “Why Is China Growing So Fast?,” 5.

<sup>20</sup> Worden, “Reform of the Economic System, Beginning in 1979.”

<sup>21</sup> Worden. *Ibid.*

economic and technology development zones, the delta open zones, the peninsula open zones, the open border cities, and the high-tech industry development zones.”<sup>22</sup> These zones increased foreign investment, culminating in an entrepreneurial boom creating more venture businesses. Foreign investment boosted the Chinese economy by creating jobs, building factories, increasing technological access, and most importantly, linking China to international markets. In 1994, aggregate foreign direct investment reached almost U.S. \$100 billion; annual inflows increased from under one percent in 1979 of total fixed investment to eighteen percent in 1994.<sup>23</sup> The open-door policy increased Chinese exports, rising nearly nineteen percent each year between 1981 through 1994. The inflow of foreign investment and technology, paired with the increase in business management allowed China to utilize its vast labor resources to increase economic growth. By 1998, Chinese per capita income was nearly U.S. \$770, which was fourteen times higher than it was in 1980.<sup>24</sup> The open-door policy built upon previous economic reforms to truly bring China into the international market economy.

Foreign investment and the open-door policy led to the creation of the Chinese special economic zones. Special economic zones are regions within a nation that receive different economic regulations than other areas in the nation. Characteristics of special economic zones are that: “(a) it is a geographically delimited area, usually physically secured; (b) it has a single management or administration; (c) it offers benefits based on physical location within the zone; and (d) it has a separate customs area (duty-free benefits) and streamlined procedures.”<sup>25</sup> Chinese special economic zones enjoy less government regulation and receive more free market-oriented economic policies. These measures facilitate improved economic growth and management, attracting foreign businesses and investment. Building upon the contract responsibility system, the open-door policy created a need for special policies to accommodate foreign investment. Four special economic zones were created in 1979; the cities of Shenzhen, Shantou, Zhuhai, and Xiamen.<sup>26</sup> They were kept distant from Beijing to mitigate the risk of political interference and were located in coastal regions that allowed for significant contact with foreign markets. Foreign direct investment exploded in these cities. In 1984, “the four SEZs still accounted for 26 percent of China’s total FDI. By the end of 1985, realized FDI in the four zones totaled US\$1.17 billion, about 20 percent of the national total.”<sup>27</sup> The CCP created economic and technological development zones, which became industrial parks further accounting for Chinese economic growth. As of 2010, China has nearly seventy economic and technological development zones and numerous special economic zones. The CCP welcomed foreign trade and investment, as well as other economic reforms and a socialistic stance to enter into international markets and propel its economy to new growth and development it had not previously seen.

### **Threats posed by the CCP**

The magnitude of Chinese economic growth makes the CCP an economic threat to the United States. Since 1949 and particularly after the Cold War, China has sought to replace the United States as global hegemon. A hegemon regulates the actions and behavior of other states by forcing compliance, incentivizing compliance or agreement, or commanding compliance through

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<sup>22</sup> Shigeo Kobayashi, “The ‘Three Reforms’ in China: Progress and Outlook,” in *Japanese Research Institute*, 45, 1999, <https://www.jri.co.jp/english/periodical/rim/1999/RIMe199904threereforms/>.

<sup>23</sup> Hu and Kahn, “Why Is China Growing So Fast?”

<sup>24</sup> Kobayashi, “The ‘Three Reforms’ in China: Progress and Outlook.”

<sup>25</sup> Douglas Zeng, “China’s Special Economic Zones and Industrial Clusters: Success and Challenges” (Lincoln Institute of Land Policy, 2012), 3, [https://www.lincolnst.edu/sites/default/files/pubfiles/2261\\_1600\\_Zeng\\_WP13DZ1.pdf](https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf).

<sup>26</sup> Zeng, 7.

<sup>27</sup> Zeng, 8.

legitimate right.<sup>28</sup> After the Soviet Union collapsed following the Cold War, the United States emerged as the global hegemon. However, China has utilized a three-pronged strategy to displace the United States as global hegemon while quietly asserting itself on the international scale. First, the strategy weakened the control of the United States over China and parts of Asia. China blunted American power following the events of Tiananmen Square, the Gulf War, and the Soviet collapse by changing the perceptions of United States power.<sup>29</sup> Second, China amassed power and exerted control as a regional hegemon in Asia over other countries, especially economically and militarily. Following the global financial crisis, the United States economy was more devastated than the Chinese economy, portraying a weak view of the United States which allowed China to influence more nations.<sup>30</sup> Finally, China has begun to expand its influence at the global level to displace the United States. The Chinese presence in the South China Sea and the emergence of the BRICS alliance committed to replacing the American dollar with the Chinese yuan reflects this stage of expansion to displace the United States. Seeking to replace the United States as the global hegemon, China poses an economic threat to the United States.

The growing economic influence of China threatens the United States. As China continues to grow and develop economically, it expands its manufacturing markets while involving itself in global projects and infrastructure development. China remains a major global trading power, threatening the United States as China can exert influence on more nations and global markets. Thus, China continues to impact different regions while seeing increases in its imports and exports. “Chinese merchandise exports rose from \$14 billion in 1979 to \$2.5 trillion in 2018, while merchandise imports grew from \$18 billion to \$2.1 trillion.”<sup>31</sup> More nations look to China as a trading partner as Chinese markets expand and manufacturing increases. China surpassed Germany as the biggest merchandise exporter in 2009 and outpaced the United States as the largest merchandise trading economy in 2012.<sup>32</sup> Passing the United States as the biggest trading economy, China continues to engrain itself in the economies of other nations, ensuring their economic reliance on Chinese goods. The largest Chinese exports include electrical machinery and equipment, plastics, furniture, nuclear machinery, vehicles, and clothing.<sup>33</sup> Increasing Chinese economic dominance and development presents an economic threat to the United States as China replaces the United States in international markets.

The Belt and Road Initiative (BRI) poses an economic threat to the United States and the free world. Launched by President Xi Jinping in 2013, the BRI is a Chinese program to develop the infrastructure of other nations, allowing China to develop political relations with these nations. This foreign policy initiative spearheads the strategy Xi Jinping envisions for expanding Chinese influence<sup>34</sup> by engraining itself politically in other nations. The BRI holds “a vision to deepen physical infrastructure, financial, political, and security ties spanning Africa, Asia, Europe and the Middle East.”<sup>35</sup> Economists and analysts see the BRI as a modern-day Silk Road, as the initiative seeks to link China to developing European, Asian, and African nations through infrastructure development. The “belt” alludes to a linkage of transportation projects into Central Asia and

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<sup>28</sup> Rush Doshi, *The Long Game* (Oxford University Press, 2021), 3.

<sup>29</sup> Doshi, 4.

<sup>30</sup> Doshi, 4.

<sup>31</sup> Morrison, “China’s Economic Rise: History, Trends, Challenges, and Implications for the United States,” 19.

<sup>32</sup> Morrison, 20.

<sup>33</sup> Morrison, 23.

<sup>34</sup> Audrye Wong, “China’s Economic Statecraft under Xi Jinping,” in *Brookings*, 2019, <https://www.brookings.edu/articles/chinas-economic-statecraft-under-xi-jinping/>.

<sup>35</sup> “China’s Approach to Global Governance,” Council on Foreign Relations, n.d., <https://www.cfr.org/china-global-governance/>.

Europe, while the “road” refers to the expansion of railways, roads, and ports to connect China with Africa, the Middle East, and maritime nations.<sup>36</sup> The Belt and Road Initiative is a masterful Chinese strategy to develop infrastructure and expand its political influence with more developing countries.

State-owned enterprises (SOEs) play a significant role in the Belt and Road Initiative. SOEs have lost their prominence due to collective and individual enterprises, but still account for a fourth of Chinese gross industrial production and nearly 65% of employment.<sup>37</sup> To impact the international community and global economy according to long-term CCP objectives, SOEs operate and invest under the direction provided by the CCP.<sup>38</sup> These enterprises will sacrifice their profits to ensure a strategic foothold for CCP ambitions or will explore economic opportunities that could yield long-term profits and investment for the BRI and CCP goals. The Chinese banking system is dominated by CCP interests, and United States analysts believe that SOEs receive preferential credit treatment from government banks.<sup>39</sup> Speculation suggests that SOEs are not required to repay their loans<sup>40</sup> and they receive government subsidies or bailouts for their risky investments to fulfill CCP objectives.<sup>41</sup> Such practices are not only harmful to the free-market system but also position BRI projects to invest in poor nations to further indebt them to China.

China yields various domestic benefits through the BRI. As China welcomes more BRI projects, there is a greater need for resources and supplies to complete development, which entices China to expand its markets and utilize new trade routes. The BRI creates economic linkages between China and other nations, resulting in new trade corridors, particularly access to European markets.<sup>42</sup> The BRI utilizes Chinese labor to complete infrastructure projects in other nations. These projects benefit Chinese engineering firms and material suppliers by providing foreign business ventures, allowing for greater Chinese domestic economic growth.<sup>43</sup>

China benefits from the Belt and Road Initiative by expanding its influence and economic development internationally. The BRI allows China to focus on developing nations that lack critical infrastructure. By growing the infrastructure of developing nations through construction projects, China is able to assert regional influence over these nations and surrounding countries. Such infrastructure projects include the Jakarta-Bandung High-Speed Railway, the China-Laos Railway, the China-Pakistan Economic Corridor, the China-Europe Railway Express, and the New International Land-Sea Trade Corridor.<sup>44</sup> Politically, successful BRI projects allow for greater relations with other nations, portraying the CCP as a savior and benefactor to developing countries. By engraining itself in the economic development of other countries, China can subtly integrate itself economically and financially into these nations.<sup>45</sup> This ensures economic reliance on China through increased trade links and potential further development projects. Subsequently, the CCP possesses greater ability to exert soft power over nations that fall under Chinese influence through

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<sup>36</sup> Arthur Kroeber, *China's Economy*, 2nd ed. (Oxford University Press, 2020), 310.

<sup>37</sup> Kobayashi, “The ‘Three Reforms’ in China: Progress and Outlook.”

<sup>38</sup> Daniel Lindley, “Assessing China’s Motives: How the Belt and Road Initiative Threatens US Interests,” *Journal of Indo-Pacific Affairs*, 2022, <https://www.airuniversity.af.edu/JIPA/Display/Article/3111114/assessing-chinas-motives-how-the-belt-and-road-initiative-threatens-us-interests/>.

<sup>39</sup> Morrison, “China’s Economic Rise: History, Trends, Challenges, and Implications for the United States,” 27.

<sup>40</sup> Morrison, 27.

<sup>41</sup> Lindley, “Assessing China’s Motives: How the Belt and Road Initiative Threatens US Interests.”

<sup>42</sup> Kroeber, *China's Economy*, 310.

<sup>43</sup> Kroeber, 310.

<sup>44</sup> Huaxia, “A Glimpse of Key Infrastructure Projects under BRI” (Xinhuanet, September 2023), <https://english.news.cn/20230928/41df3176c0c6451db0b62c06a579013b/c.html>.

<sup>45</sup> Morrison, “China’s Economic Rise: History, Trends, Challenges, and Implications for the United States,” 34.



BRI projects. By creating a network and linkage of economically reliant nations, China possesses greater influence on the global economy and international scale.

China implements debt-trap diplomacy to maintain economic dominance and control over countries that welcome BRI projects. China offers development projects to nations that do not receive foreign investment, providing loans to developing nations. China utilizes unsustainable debt burdens for BRI project nations to maintain a cycle of dependency while further integrating itself into the economy and political structure of these nations.<sup>46</sup> To manage its Chinese debt burden, Pakistan gave China exclusive rights to Gwadar Port in 2015 for four decades and the port became a major project under the China-Pakistan Economic Corridor.<sup>47</sup> Accepting these unregulated loans leads to the erosion of national sovereignty in nations crippled by the debt burden which inhibits the ability of a country to resist CCP political pressures that are not in the general interest of the nation. Furthermore, debt-trap diplomacy has allowed China to acquire control of the foreign assets of other nations, access to their ports and military forces, and pressure these nations to support Chinese positions on international issues.<sup>48</sup> Low-income BRI countries continue to struggle to repay their loans, due to unsustainable repayment plans or the global economy. In the last five years the Covid-19 Pandemic, the Russian invasion of Ukraine, and tensions in the Middle East have all impacted global markets, creating a wave of debt crises in BRI nations unable to repay their loans.<sup>49</sup> The Belt and Road Initiative threatens the United States by compromising the sovereignty of other nations, which has consequences for the global economy and international system. Moreover, it inhibits the United States' trade and relations as more nations fall under the influence of China and its BRI projects. The BRI undermines the European Union as China partners with non-member European nations, obstructing possibilities for unity.<sup>50</sup> Ultimately, the Belt and Road Initiative helps position China to become the global hegemon.

The BRICS alliance presents another economic threat to the United States. This group originally included the nations of Brazil, Russia, India, China, and South Africa. BRICS is an anti-western alliance based on cooperation on economic issues, seeking to expand its economic influence and global importance.<sup>51</sup> The alliance has two major objectives presenting national security threats to the United States: to undermine the United States dollar and to continue to expand its member nations. BRICS seeks to undermine the United States by stripping the dollar as the basis for a global currency by implementing a new global reserve currency. At a 2022 BRICS forum, Russian President Vladimir Putin announced that Russia, China, and other BRICS countries were preparing to introduce a new global reserve currency constituted by the basket currencies of BRICS nations.<sup>52</sup> The Chinese yuan is a frontrunner to replace the dollar and smaller currencies such as the Swedish krona and the South Korean won may be utilized. By challenging the dominance of the dollar China can undermine the United States by exerting soft power over BRICS nations, aspiring BRICS members, and countries influenced by BRICS nations. Currently, the basket currencies that make up the SDR under the International Monetary Fund include the United

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<sup>46</sup> McBride, "China's Massive Belt and Road Initiative."

<sup>47</sup> Frederic Grare, "Along the Road: Gwadar and China's Power Projection," *European Union Institute for Security Studies*, July 2018, [https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief%207%20Gwadar\\_0.pdf](https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief%207%20Gwadar_0.pdf).

<sup>48</sup> Lindley, "Assessing China's Motives: How the Belt and Road Initiative Threatens US Interests."

<sup>49</sup> McBride, "China's Massive Belt and Road Initiative."

<sup>50</sup> McBride.

<sup>51</sup> Philip Pilkington, "The New BRICS Alliance Is a Mortal Threat to the West," *The Post, UnHerd*, June 2022, <https://unherd.com/thepost/the-new-brics-alliance-is-a-mortal-threat-to-the-west/>.

<sup>52</sup> George Clever, "Russia and China Are Brewing up a Challenge to Dollar Dominance by Creating a New Reserve Currency," *Markets Insider*, June 2022, <https://markets.businessinsider.com/news/currencies/dollar-dominance-russia-china-rouble-yuan-brics-reserve-currency-imf-2022-6>.

States dollar, the euro, the British pound, the Japanese yen, and the Chinese yuan.<sup>53</sup> In challenging the United States with a basket currency of its own, BRICS hopes to influence countries within their respective spheres and steer them away from utilizing the dollar as a reserve currency.

IMF reports show that reliance on the dollar is decreasing. A study in 2022 found that the United States dollar consists of only 59% of global reserves, compared to the 70% it held in 1999.<sup>54</sup> IMF noted that central bank reserve managers were more likely to consider non-traditional currencies in addition to or instead of the United States dollar. Consequently, China is in a greater position to undermine the United States economically by shifting reliance away from the dollar towards the yuan and other BRICS-basket currencies. Reliance on the yuan as the global reserve currency would further indebt nations to China; enabling the CCP to ensnare nations with debt trap diplomacy and trapping them as the yuan would be the basis for the reserve system.

The rapid growth of BRICS member nations presents an economic concern to the United States. Argentina, Iran, Egypt, Saudi Arabia, Ethiopia, and the United Arab Emirates will assume BRICS membership in 2024. Twenty countries seek BRICS membership,<sup>55</sup> exacerbating fears of a trade bloc since more African and Middle Eastern members can assert regional influence that benefits China. Currently, BRICS possesses nearly 33% of world GDP and with the additional nations BRICS produces 26% of global oil output, 50% of iron ore to produce steel, 40% of corn cultivation, and 46% of wheat production.<sup>56</sup> Trading these commodities in a new reserve currency would further destabilize the dollar and bolster the Chinese economy, and the economies of the member nations at the expense of the United States. BRICS is an economic threat to the United States as the alliance seeks to replace the dollar as the basis for a global reserve currency and the addition of new members creates concerns that have economic implications for the United States.

Chinese militarization in the South China Sea presents economic concerns. By creating and reinforcing artificial islands, China seeks to increase the boundary of its exclusive economic zone to exert soft power economically over nations in the South China Sea. Utilizing these artificial islands, China undermines the economic growth and development of nations in the South China Sea by harassing their trade and fishing vessels. This threatens the United States economically by hindering trade routes and opportunities to create alliances with ASEAN members. The Strait of Malacca is a vital shipping route in the South China Sea, and Chinese militarization presents security concerns regarding the passageway. Chinese militarization of artificial islands in the South China Sea presents economic threats for ASEAN nations and the United States.

### **The role of Taiwan**

Taiwan possesses a vital role in the conversation between the CCP and the United States. Following the Chinese Civil War in 1949, Taiwan separated from mainland China and is officially the Republic of China. Taiwan is seen as a threat to the legitimacy of the CCP, as the party could not retain control over Taiwan. Taiwanese sovereignty and democracy serve as a reminder of the failure of the CCP, and the success and modernization of Taiwan constantly adds to that reminder.<sup>57</sup> The CCP indoctrinates reunification into the Chinese people to gain their support for the “one country, two systems” policy. The Ministry of Foreign Affairs of the People’s Republic of China champions a peaceful reunification as a common interest of Chinese people on the mainland and

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<sup>53</sup> Clever.

<sup>54</sup> Pilkington, “The New BRICS Alliance Is a Mortal Threat to the West.”

<sup>55</sup> Eric Mandel, “China-Dominated BRICS Is a Threat to US Interests in the Middle East,” *The Hill*, 2023, <https://thehill.com/opinion/international/4201304-china-dominated-brics-is-a-threat-to-us-interests-in-the-middle-east/>.

<sup>56</sup> Pilkington, “The New BRICS Alliance Is a Mortal Threat to the West.”

<sup>57</sup> Mark Harrison, “Any Conflict over Taiwan Will Be One That Xi and the CCP Have Chosen,” in *The Strategist*, October 2022, <https://www.aspistrategist.org.au/any-conflict-over-taiwan-will-be-one-that-xi-and-the-ccp-have-chosen/>.

across the strait. The ministry advocates the “one country, two systems” policy to establish political relations with Taiwan.<sup>58</sup> The CCP does not seek full-scale invasion or complete desolation of Taiwan. Instead, the CCP intends to negotiate with Taiwan to establish a long-term political relationship.<sup>59</sup> The CCP views the sovereignty of Taiwan as a threat to its legitimacy and seeks to create a political relationship with Taiwan to restore its integrity and dominance.

Taiwan opposes reunification with China. Despite Chinese efforts for political negotiations via the “one country, two systems” policy, Taiwan continues to reject unification proposals with only five percent of the population in favor of reunification in 2022.<sup>60</sup> A longstanding belief held that Taiwan rejected Chinese culture, but data from 2021 suggests otherwise. Nearly sixty percent of Taiwanese survey respondents agreed that Taiwanese culture is similar to Chinese culture, displaying a majority in every age group except ages thirty to thirty-nine.<sup>61</sup> Therefore, the Taiwanese people do not reject reunification over ethnocultural differences. Taiwanese citizens increasingly identify themselves as Taiwanese, encouraging their rejection of reunification with China. “The percentage of individuals identifying as “Chinese” plummeted from 25.4% to 2.4% between 1992 and 2022, while those who identify as “Taiwanese” rose from 17.6% to 63.7%.”<sup>62</sup> There remains a cultural affinity between China and Taiwan, though a growing sense of Taiwanese nationalism has emerged. Data suggests Taiwan holds apathy towards the Chinese political system and the aggressive CCP policies. Sixty-three percent of respondents held a negative view of China and CCP policies, while eight percent had any positive opinions.<sup>63</sup> Resistance to the “one country, two systems” policy is not based on distrust or resentment of the Chinese people, but rather on the political structure of China and the aggressive policies of the CCP.

Taiwanese opposition to reunification presents further opportunities for the United States to partner with Taiwan. The 1960s saw Taiwan insert itself into the semiconductor industry and it expanded its foreign policy towards the end of the decade.<sup>64</sup> Taiwan continued to expand its manufacturing base and through the Taiwan Semiconductor Manufacturing Company (TSMC), came to dominate the semiconductor chip industry. The early success of the TSMC can be attributed to Taiwanese government support and deep ties with the United States chip industry.<sup>65</sup> TSMC growth has allowed Taiwan to dominate the chip market and the United States maintains good relations with Taiwan as it has stagnated in producing semiconductor chips.

The United States has put pressure on the Chinese chip industry. The Trump administration weaponized semiconductor supply chains and in May 2020 restricted any products made by United States-produced technology or resources from being sold to Huawei.<sup>66</sup> This inhibited TSMC from constructing chips for Huawei as it is unable to use United States manufacturing machinery. However, the strike against China was only so effective as Chinese companies were able to purchase United States chips or turn to TSMC or SMIC to produce semiconductors instead. Regardless, partnering with Taiwan and increasing economic relations will ultimately benefit

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<sup>58</sup> “A Policy of “one Country, Two Systems, on Taiwan,” Ministry of Foreign Affairs of the People’s Republic of China, 2014, [https://www.fmprc.gov.cn/eng/ziliao\\_665539/3602\\_665543/3604\\_665547/200011/t20001117\\_697847.html](https://www.fmprc.gov.cn/eng/ziliao_665539/3602_665543/3604_665547/200011/t20001117_697847.html).

<sup>59</sup> Culver and Ryan Hass, “Understanding Beijing’s Motives Regarding Taiwan, and America’s Role.”

<sup>60</sup> Sungmin Cho, “Nationalism versus Liberalism: A South Korean View of Taiwan Issues,” in *Brookings*, 2023, <https://www.brookings.edu/articles/nationalism-versus-liberalism-a-south-korean-view-of-taiwan-issues/>.

<sup>61</sup> Shelley Rigger and Lev Nachman, “Why Is Unification so Unpopular in Taiwan? It’s the PRC Political System, Not Just Culture,” in *Brookings*, February 2022, <https://www.brookings.edu/articles/why-is-unification-so-unpopular-in-taiwan-its-the-prc-political-system-not-just-culture/>.

<sup>62</sup> Cho, “Nationalism versus Liberalism: A South Korean View of Taiwan Issues.”

<sup>63</sup> Rigger and Lev Nachman, “Why Is Unification so Unpopular in Taiwan? It’s the PRC Political System, Not Just Culture.”

<sup>64</sup> Chris Miller, *Chip War* (Scribner, 2022), 163.

<sup>65</sup> Miller, 167.

<sup>66</sup> Miller, 316.

America as the United States can continue to dissuade Taiwan from the influence of China while advancing its own chip industry. The semiconductor industry is vital for future global development and the United States must improve its chip manufacturing capabilities while allying with Taiwan to prevent Chinese dominance of the chip market.

### **Strategies to avoid conflict with China**

The rise of the CCP, the economic growth of China and the threat it poses to the United States and the free world merits a discussion on potential measures to avoid conflict with China. In the October 2022 National Security Strategy, the Biden Administration acknowledges China as a rival with capabilities to displace global order. “The PRC [China] is the only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to advance that objective.”<sup>67</sup> While the United States and China are seemingly on a collision course, war between the two powers is not desirable, and should not be an end goal of diplomacy. The United States must explore strategies to avoid future conflict with China.

One proposal is to solve the language barrier between United States and Chinese officials. More United States leaders and officials need to be fluent in Chinese, allowing for direct communication with Chinese officials and better comprehension of their motives. In discussions between President Biden and Xi Jinping, the two leaders rely on intermediaries to translate the messages presented before them. However, Chinese translation sources have not been known for their accuracy or refinement, and Chinese intelligence sources rarely view the United States positively. Moreover, Chinese officials may tailor their analyses to what President Xi desires to hear, often out of fear of aggravating Xi Jinping.<sup>68</sup> Former Australian Prime Minister Kevin Rudd stressed the importance of speaking Mandarin, as it allowed him to avoid such intermediary issues. “I was fortunate to be able to communicate directly with my counterparts and other Chinese officials in their own language.”<sup>69</sup> This measure would allow the United States to communicate directly and more effectively with Chinese leaders. Furthermore, it would demonstrate a commitment on behalf of the United States to engage with the Chinese and could open further doors for future cooperation with China.<sup>70</sup> A first step towards cooperation and avoiding conflict is bridging the language barrier between the United States and China.

Identifying guardrails and guidelines to preserve peace is a vital measure to avoid conflict. By collaborating with China, the United States can promote cooperation between both nations that could prevent escalation and conflict. Both countries have strategic, militaristic, economic, and developmental redlines. The United States must facilitate cooperation and discussions with China to navigate the strategic redlines of both nations. The urgency resides in the fact that if one country crosses the redlines of the other country, military escalation could result which is in the interest of neither country.<sup>71</sup> Understanding principles and protocols for navigating such redlines is critical to ensure both countries are respected. There should be a mutual identification of areas of strategic competition between the United States and China. Strategic areas to consider include foreign policy, economic policy, and technological development. Diplomacy between the United States

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<sup>67</sup> “National Security Strategy” (2022), 8, <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>.

<sup>68</sup> Betsy Reed, “How to Stop China and the US Going to War,” *The Guardian*, 2022, <https://www.theguardian.com/world/2022/apr/07/how-to-stop-china-and-the-us-going-to-war>.

<sup>69</sup> Reed.

<sup>70</sup> “Integrated Country Strategy: People’s Republic of China” (U.S. State Department, 2022), 3, [https://www.state.gov/wp-content/uploads/2023/03/ICS\\_EAP\\_China\\_02FEB2023\\_PUBLIC.pdf](https://www.state.gov/wp-content/uploads/2023/03/ICS_EAP_China_02FEB2023_PUBLIC.pdf).

<sup>71</sup> Reed, “How to Stop China and the US Going to War.”

and China could establish competition in these domains as an accepted new normal. This requires open communication between China and the United States to reduce the possibility of misperceptions and confrontations.<sup>72</sup> Such diplomacy could lay a foundation to advance the United States' strategic interests and preserve peace between China and Taiwan. Intentional communication to identify areas of competition may serve to prevent escalation and future confrontation between the two nations.

The United States must recognize strategic areas of cooperation with China and opportunities for joint strategic frameworks. Overlapping interests between China and the United States include “addressing climate change, waging joint efforts against illicit narcotics, and advancing global health, agricultural trade, nonproliferation, and aviation safety and security.”<sup>73</sup> Combined efforts to confront these issues could prevent escalation with China and open the possibility of improved diplomacy. The Biden administration also identified strategic areas of cooperation such as energy security, biodefense, food insecurity, arms control, and terrorism.<sup>74</sup> Creating joint strategic frameworks for collaboration and response to national security concerns that face both countries could serve to bolster the national security of both nations while improving political relations. The United States needs to responsibly communicate and navigate redlines, areas of competition, and opportunities for cooperation to avoid conflict and escalation with China.

The United States needs to ensure fair practices and lessen its dependence on China. The United States needs to analyze its trade agreements with China, ensuring that American economic development and growth is prioritized. An integrated policy objective with China is to “promote an economic and trade relationship that defends U.S. workers, farmers, and businesses; counters the PRC’s abusive economic practices; promotes U.S. goods and services; and advances U.S. technological competitiveness.”<sup>75</sup> Bilateral trade between the United States and China heavily impacts the global economy. Thus, the United States must ensure fair competition, business practices, and trade while increasing its strategic growth. Furthermore, the United States must counter destabilizing Chinese policies and coercion that pose national security concerns. Particularly alarming is the usage of United States technology and resources to further Chinese objectives. “The U.S. must defend its interests, including by seeking to prevent the use of U.S. technologies and goods in ways that further the PLA’s military modernization, enhance the PRC’s surveillance state, and perpetuate human rights abuses.”<sup>76</sup> The United States must analyze its relationship with China to ensure economic stability and uphold its national security.

Strategic investment in United States industrial innovation is critical. A modern industrial and innovation strategy would decrease economic dependence on China, allowing the United States to become more self-sufficient and competitive. The United States needs to identify and invest in critical areas to protect its economic and natural security interests. Critical infrastructure, cybersecurity, technology, and semiconductors are vital industries in need of greater investment. The White House announced that the United States is working to secure “supply chains, including through new forms of public-private collaboration, and using public procurement in critical markets to stimulate demand for innovation.”<sup>77</sup> Other important areas of investment include transportation, energy infrastructure, sanitation and clean water, and agriculture. The United States must improve its semiconductor industry to compete with China. In addition to domestic policy

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<sup>72</sup> “Integrated Country Strategy: People’s Republic of China,” 12.

<sup>73</sup> “Integrated Country Strategy: People’s Republic of China,” 3.

<sup>74</sup> “National Security Strategy,” 27–31.

<sup>75</sup> “Integrated Country Strategy: People’s Republic of China,” 13.

<sup>76</sup> “Integrated Country Strategy: People’s Republic of China,” 14.

<sup>77</sup> “National Security Strategy,” 14.

measures such as the CHIPS and Science Act, the United States should seek to increase its policy initiatives with Taiwan. Cooperation with Taiwan will be reliant on deterring Chinese pressure on Taiwan and the threat of military conflict.<sup>78</sup> The emerging importance of the semiconductor industry presents the opportunity and necessity for the United States to grow this industry domestically. By strengthening its economy, the United States will be better equipped to compete with China and establish lasting partnerships with other nations. Such economic alliances would allow these nations to develop economically while deterring China from indebting and entrapping these nations. The United States can strengthen its economy to lessen its dependence on China and boost its national security while investing in critical infrastructure.

Finally, the question becomes if avoiding conflict with China is possible. Neither the United States nor China desires war, as war is expensive and ultimately detrimental. While China is preparing for war, evidenced by its militarization, war is not the endgame the CCP envisions; rather, it desires to rebuild the global system and become the new global hegemon.<sup>79</sup> In light of Chinese intentions and actions, the United States should hope for the best while preparing for the worst. The United States must advance efforts to maintain diplomacy with China while identifying strategic areas of competition and cooperation. The United States should continue to develop economically to deter China and its efforts to ensnare other nations economically. The United States can counter the BRI by moving manufacturing jobs to Africa to establish economic and humanitarian partnerships with these nations, but this runs the risk of escalation with China. Any policy or diplomatic action that the United States entertains must be carefully analyzed to be aware of how China will perceive it. How China will interpret, react, and respond to United States actions is a vital consideration when weighing policy options.<sup>80</sup> The aforementioned measures are all potential solutions to avoid future conflict, but none can guarantee preventing escalation between the United States and China. To protect and uphold global stability, the United States must pursue a diplomatic relationship with China despite the uncertainty of avoiding conflict.

### **Conclusion**

In 1978, the CCP implemented a series of market-oriented reforms to restore the Chinese economy. The economic reforms, paired with productivity increases, diplomacy, and foreign investment revitalized the economy of China. The reforms were extremely effective as China experienced rapid economic growth over a short period of time. China poses economic and military threats to the United States, particularly through the Belt and Road Initiative, the BRICS alliance, and its presence in the South China Sea. Taiwan continues to be relevant as it dominates the semiconductor industry and China encourages attempts for reunification. The United States should seek to avoid conflict with China, identifying redlines while improving its economic capabilities. Whether conflict can be avoided between the United States and China remains to be seen. In light of the economic growth of China and the threats it poses, the United States must continue to prepare for conflict.

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<sup>78</sup> Culver and Ryan Hass, "Understanding Beijing's Motives Regarding Taiwan, and America's Role."

<sup>79</sup> "Integrated Country Strategy: People's Republic of China," 1.

<sup>80</sup> Reed, "How to Stop China and the US Going to War."

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