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IN THIS ISSUE:

Illegal Fishing in Southeast Asia: Scope, Dimensions, Impacts, and Multilateral Response

By Peter Chalk.....pp. 2-9

The PLA Reconceptualizes Control of the Air

By Derek Solen.....pp. 10-14

The PRC Eyes Vietnam: Chinese Assessments of Vietnam's Hedging Strategy

By Nathan Waechterpp. 15-21

Xi Shifts Blame as Chinese Economy Continues to Falter

By Antonio Graceffo.....pp. 22-27

Illegal Fishing in Southeast Asia: Scope, Dimensions, Impacts, and Multilateral Response

By Peter Chalk



(Image: A maritime graveyard of foreign fishing vessels, confiscated by the Indonesian authorities, **source:** Reporting ASEAN)

Introduction

Illegal, unreported, and unregulated fishing (IUUF) has surfaced as an increasingly salient offshore threat in Southeast Asia that is leading to huge losses in government revenue, adversely impacting food security, contributing to widespread environmental damage, destabilizing inter-state relations, and spurring other transnational crimes. It is an enduring challenge that affects much of the region, though it finds particular expression in the South China Sea (SCS), the Gulf of Thailand, and the territorial waters of the Indonesian archipelago.

This article will analyze the scope and dimensions of IUUF in Southeast Asia, assessing its primary drivers, levels of activity, and principal impacts. It will also give an overview of the operations of the People's Republic of China (PRC)'s distant water fishing (DWF), which several international bodies have decried as not only the single most egregious violator of sovereign fishing rights and laws in the region, but also as a de facto deniable militia that Beijing is using to enforce its self-defined territorial rights in the SCS. Finally, it will look at the "Quad" as a potential multilateral forum for addressing illegal trawling in the wider Indo-Pacific region.

The Scale of IUUF in Southeast Asia

IUUF embraces activities that (1) violate national and international laws; (2) do not fulfil the broader responsibilities of states under the United Nations Law of the Sea Convention to conserve and manage living marine resources; (3) are incompatible with the regulations of a Regional Fishery Management Organization (RFMO); and (4) are either not reported or mis-reported in contravention of domestic legislation or the requirements of a relevant RFMO. [1] As an offense, it can include any of the following practices:

- Operating in another state's territorial waters without authorization;
- Cheating on access agreements;
- Falsifying catch documents;
- Using banned methods or gears such as micro-mesh nets, explosives and poisons;
- Harvesting protected species;
- Trawling in restricted zones;
- Contravening closed area/season stipulations; and
- Transshipping at sea to avoid landing a haul in the same country a trawler fished it ([The Strategist](#), July 17, 2017).

By its nature, IUUF is difficult to quantify. However, certain metrics of the scale of the problem in Southeast Asia do exist. A commonly cited figure notes that the overall catch per unit effort (CPUE) in the Gulf of Thailand has plummeted by 86 percent since 1966, indicating these waters are among the most overfished on the planet ([The Thai Enquirer](#), April 8, 2021). Various sources claim that pirate trawlers in Southeast Asia account for 2.5 million tons of fish a year, or as much as a third of the regional catch ([The ASEAN Post](#), June 27). Maritime agencies in Indonesia estimate that IUUF costs the archipelagic nation at least \$3 billion and possibly as much as \$5 billion a year in lost government revenue ([Reporting Indonesia](#), September 10, 2014). Furthermore, analytical models on the current status of fish populations in the SCS—the source of 12 percent of the world's catch—attribute the 70-95 percent decline in stocks to unregulated trawling ([Channel News Asia](#), February 5, 2022).

Drivers of IUUF in Southeast Asia

The drivers for IUUF in Southeast Asia are multifaceted. Perhaps one of the more important causal factors is the weak fishing regulations of many states in the region. Thailand is a case in point. The country's 2015 Fisheries Act does not outlaw many destructive practices and merely stipulates that law enforcement (LE) authorities fine—rather than arrest—mariners engaged in illegal trawling or other violations ([The Bangkok Post](#), May 13, 2015).

Additionally, there is a dearth of scientific knowledge in Southeast Asia to inform the development of sound exploitation management models. This is particularly true of statistical information on existing fish stocks, the lack of which has severely impeded the ability of coastal authorities to make informed decisions on sustainable and responsible fishing practices. [2]

Consumer demand for seafood in Asia, Europe, and North America—especially for tuna, cod, mackerel, and squid—has also driven rampant overfishing of these species. Declining supplies have led to a progressive rise in market prices, which has further provided financial incentives to poach. Unfortunately, there is a high degree of ignorance over the adverse impact of such actions, with a growing number of fishermen across Southeast Asia resorting to illegal methods to maximize their catches, which has merely served to further reduce the size of already dwindling populations. [3]

A further consideration is the difficulty of regulating flags of convenience (FoCs), which illicit mariners routinely use to disguise industrial trawlers. Recording requirements in these states [4] do not stipulate the owner has to meet any nationality or residency requirements. The absence of such criteria allows criminal actors to evade inspection and control by continually changing the country under which their vessels are registered—a process known as “flag hopping” ([The Food and Agriculture Organization](#), June 11, 2014).

Finally, many states in Southeast Asia lack the resources to comprehensively patrol and secure their sovereign waters. This is particularly true of archipelagic states such as the Philippines and Indonesia. In the latter instance, Jakarta has responsibility for overseeing 0.3 million square kilometers of territorial sea, 2.8 million square kilometers of archipelagic waters, and 2.7 million square kilometers of exclusive economic zone (EEZ). [5] Yet the country's premier maritime security agency, BAKAMLA, has a mere 25 coastguard vessels at its disposal ([Pacific Front](#), December 2022), which is completely at odds with the operational area that it has to cover.

Levels of IUUF in Southeast Asia

IUUF in Southeast Asia encompasses several levels. At the low end of the spectrum are mariners trawling in their own waters or in some instances the EEZs of neighboring states to sustain livelihoods unduly affected by the decline of established fishing grounds. The more severe offense is incidental or regular IUUF, which mostly involves fishermen looking to minimize access costs and maximize profits. Most egregious is industrial IUUF carried out by factory trawlers that deliberately set out to contravene national and international laws governing

legitimate fishing practices. Regional and international maritime environmental bodies commonly cite the PRC at the forefront of this activity, done largely in an effort to make up for reduced availability of stocks in its own waters ([Hong Kong Free Press](#), March 12, 2022).

Impact of IUUF in Southeast Asia

IUUF in Southeast Asia has had far-reaching effects. It has led to significant economic losses, costing governments across the region billions of dollars in unpaid taxes, landing fees, and export revenue. Relatedly, this criminal enterprise endangers widespread coastal communities that rely on the seas both as a key source of sustenance and as a means for earning money ([The ASEAN Post](#), September 17, 2018). Indonesian President Joko Widodo has cast IUUF as his country's greatest internal security challenge for precisely these reasons, and between 2014 and 2019 his administration enacted a controversial "sink the boat" policy that involved blowing up pirate trawlers seized in the country's territorial waters. Overseen by the Minister for Maritime Affairs and Fisheries, Susi Pudjiastuti, Jakarta destroyed well over 500 vessels in this highly visible manner ([Seafood Source](#), November 21, 2019).

Environmentally, illegal and unregulated fishing has caused extensive damage, severely undermining the sanctity of many fragile maritime ecosystems in Southeast Asia. The routine practice of trawling with mechanized "rockhopper" drift nets has been particularly destructive, reducing the topography of the seafloor to a smooth, muddy surface that is incapable of sustaining aquatic life. [6] The use of illegal micro or fine-mesh nets, which can measure as little as 5 millimeters, have been just as harmful, adversely denting the generational sustainability of established seafood stocks by picking up both juveniles in addition to mature fish ([Tuoi Tre News](#), December 24, 2018).

IUUF can also spur other transnational crimes. To cite one such example, intensive IUUF practices often exacerbates human trafficking. Exhausted fish stocks have meant that mariners are venturing farther afield and spending longer periods on the water for ever-diminishing returns. Owner-operators have, as a result, increasingly turned to human slavery as a means for depressing costs, forcing duped or co-opted individuals to work for weeks, months, or even years for little, if any, pay. The practice of transshipment at sea, where reefers resupply factory trawlers offshore with food and fuel, has worsened the problem, effectively transforming these vessels into de-facto floating prisons for abused or indentured laborers. [7]

More broadly, because many illegal operators register their ships under FoCs that generally have extremely lax statutory regulations governing their actual operation, they can easily use these same vessels for other criminal purposes such as drug smuggling, gun running, and sanctions evasion. Given the variability across Southeast Asian states in fisheries management, unscrupulous owner-operators have additionally been able to exploit regulatory loopholes in countries with weak governing structures to set up dummy corporations and shell companies—that they have then used for money laundering and tax avoidance ([Maritime Fairtrade](#), February 22, 2021).

IUUF and the PRC

At an estimated 15,000-17,000 long-haul trawlers, the PRC has the largest DWF fleet of any state in the world. International environmental and fishery bodies routinely cite this “armada,” which some commentators have described as China’s “second navy,” as the international system’s worst violator of sovereign fishing rights and laws. Some of the fishing methods (or equipment) Beijing has employed in Southeast Asia have been especially ruinous. The use of boat propellers to dig up giant clams, for instance, has irreparably destroyed an estimated 100 square kilometers of coral reefs in the SCS ([Hong Kong Free Press](#), March 12, 2022).

Apart from illegal fishing, repeated allegations have charged that Chinese industrial trawlers, working hand-in-glove with associated maritime auxiliary militias, act as a deniable means for enforcing the PRC’s self-defined control over 90 percent of the SCS that it claims as its own ([Radio Free Asia](#), May 1, 2022). [8] There have been repeated instances of these ships directly confronting coastguard and naval units from other claimants in the region—particularly Vietnam and the Philippines—generating growing concern that these clashes could eventually spark a major confrontation in the region.

Though there is no definitive evidence that PRC IUUF is state-sanctioned, several factors do suggest Beijing’s complicity, or at least tolerance, in this criminal enterprise. Many of the DWF vessels sailing in Southeast Asian waters are known to have received generous state subsidies on fuel and shipbuilding equipment that have both incentivized and enabled them to travel overseas to harvest large catches. [9] Additionally, a mere ten companies own nearly half of the country’s long-haul fishing fleet believed to be involved in pirate trawling [10], suggesting that the PRC could, if it wanted, counter and prosecute IUUF. The government’s regulation of its DWF activities is also notably less rigorous of its own domestic fisheries to the extent that it effectively acts as its own FoC for bypassing restrictive controls on extra-territorial trawling. [11]

The Role of the Quadrilateral Security Dialogue’s Indo-Pacific Partnership for Maritime Domain Awareness

In 2022, the Quadrilateral Security Dialogue (aka, the “Quad”)—an informal consultative association between the United States, Australia, Japan, and India—launched the Indo-Pacific Partnership for Maritime Domain Awareness (IPMDA). An integral component of this initiative is to harness and share existing commercial synthetic aperture radar (SAR) satellite data to pinpoint rogue vessels engaged in “dark” shipping and other related tactical-level illicit operations such as rendezvous-at-sea ([The White House](#), May 3, 2022; [The Economic Times](#), May 24, 2022).

The five-year program aims to offer a better alternative to the current regime of tracking offshore mariner activities, which primarily relies on monitoring signals from a ship’s automatic identification system (AIS). Unfortunately, these transponders are not legally mandated for vessels under 300 tons—which many illicit

actors routinely use—and owner-operators can easily turn off or spoof them to both give a false geographic reading of their position and shroud any criminal behavior they may be engaged in. These gaps leave regional law enforcement reliant on land-based coastal radar or ships and planes for garnering real-time situational awareness of the vast Indo-Pacific environment. Problematically, the former drops off quickly the farther from shore authorities direct it, while the latter are highly expensive and inefficient means for continuously surveilling large littoral areas ([War on the Rocks](#), May 24, 2022).

Moreover, the small boats and dhows that regional illicit actors use to perpetrate maritime crimes are hard to detect, either by line of sight or signature trace. This is due to their physical size, and the stipulations contained in the globally binding 1972 Convention on the International Regulations for Prevention of Collisions at Sea, which merely require ships under 12 meters in length have *some* type of lighting and sound-making device to verify their position. These minimal standards make it difficult for maritime agencies to trace and verify suspicious contacts they may hold visually or electronically ([The Diplomat](#), October 11, 2022).

To make up for these various shortfalls, the IPMDA will draw on space-based SAR sensors that image land, marine, and atmospheric features with a high degree of fidelity and spatial resolution, thus allowing for greater granular identification of even small objects independent of weather conditions ([AIDASH](#), n.d.). Importantly, these satellites can also detect vessels that disable or tamper with their AIS, as they pick up and characterize a broad range of wave bands and radio frequencies that all ships use for navigational purposes. The Quad's four member states will buy this data and share it with partners in the Indo-Pacific by distributing it through information fusion centers in Singapore, India, Vanuatu, and the Solomon Islands ([The Economic Times](#), May 24, 2022; [War on the Rocks](#), May 24, 2022).

The US Department of Transportation's Sea Vision will act as the connective tissue between these hubs ([Roles Insights](#), March 29). Nearly every nation in the Indo-Pacific uses the platform, which serves as a low-cost web-based visualization and data management tool to augment offshore operations and security. In January 2023, the Biden Administration's updated National Maritime Domain Awareness Plan specifically highlighted Sea Vision as the preferred means for partner nation unclassified MDA sharing ([The White House](#), January 5).

While the IPMDA offers a potential means for boosting situational awareness in responding to a range of maritime challenges, much of its attention focuses on countering IUUF. This particular threat is inherently difficult to police on account of its transnational character, the diverse nature of the crews that are involved, and as noted, the frequency by which illicit mariners register their trawlers under FoCs. Despite this structural challenge, most countries in the Indo-Pacific view illegal fishing as a major threat and commonly emphasize combating it as a priority. This should ensure a high degree of collective regional buy-in to foster the IPMDA as an effectual means for both delineating pirate trawlers and cueing rapid operational responses to intercept these vessels.

Conclusion

IUUF in Southeast Asia will remain a perennial problem and will likely worsen as already stressed stocks further dwindle from over-exploitation, forcing mariners to fish deeper down the “food chain.” Because much of this criminal activity occurs in the SCS where maritime disputes are already a flashpoint between claimant states, the possibility of illegal trawling leading to a major confrontation will remain an enduring concern. China’s own growing demand for seafood, combined with its continued regional territorial assertiveness, will continue to inform this fear.

By helping to detect, or at least shine a spotlight on the whereabouts of pirate trawlers poaching in the Indo-Pacific, the Quad’s IPMDA has made a potentially significant opening contribution in laying the foundation for a more transparent, rules-based order in the region. The group’s four member states are liable to build on this early progress by developing robust follow-on modalities that help boost partner nation abilities to apprehend and prosecute the crews of these vessels. Support that IPMDA subject matter experts could potentially proffer include training and capacity-building in areas such as forensics, criminal and civil litigation, evidence handling, and counter-network operations. Properly executed, efforts of this kind could serve to deter others from engaging in IUUF, as well as associated transnational offenses and crimes such as human slavery, drug trafficking, and money laundering.

Dr. Peter Chalk is a former senior analyst with the RAND Corporation in Santa Monica, CA and is now a full-time consultant based out of Phoenix, AZ. He is a freelance contributor to Jane’s Intelligence Review, Associate Editor of Studies in Conflict Terrorism and serves as a Subject Matter Expert with the Institute for Security Governance in Monterey, California.

Notes

[1] See, for instance, National Oceanic and Atmospheric Administration (NOAA), *2021 Report to Congress: Improving International Fisheries Management* (Washington D.C.: Department of Commerce, August 2021), p. 8, <https://media.fisheries.noaa.gov/2021-08/2021ReporttoCongressonImprovingInternationalFisheriesManagement.pdf>.

[2] Kim DeRidder and Santi Nindang, “Southeast Asia’s Fisheries Near Collapse from Overfishing,” The Asia Foundation, March 28, 2018, <https://asiafoundation.org/2018/03/28/southeast-asias-fisheries-near-collapse-overfishing/>.

[3] *Pirates and Slaves: How Overfishing in Thailand Fuels Human Trafficking and the Plundering of Our Oceans* (London: Environmental Justice Foundation, February 25, 2015), p. 11, <https://ejfoundation.org/reports/pirates-and-slaves-how-overfishing-in-thailand-fuels-human-trafficking-and-the-plundering-of-our-oceans>.

[4] Over 35 countries run open registries for flagging ships, the most infamous of which is Panama.

[5] Arif Oegroseno, "Indonesia's Maritime Boundaries," in Robert Cribb and Michele Ford eds., *Indonesia Beyond the Water's Edge: Managing an Archipelagic State* (Singapore: ISEAS-Yusof Ishak Institute, 2009), p. 49, <https://www.cambridge.org/core/books/abs/indonesia-beyond-the-waters-edge/indonesias-maritime-boundaries/C950A6EAE31A6E58B0B61F94BC60FD8B>.

[6] DeRidder and Nindang, "Southeast Asia's Fisheries Near Collapse from Overfishing."

[7] *Pirates and Slaves: How Overfishing in Thailand Fuels Human Trafficking and the Plundering of Our Oceans*, p. 25.

[8] Many of the DWF vessels that Beijing has dispatched to the SCS come from Hainan Province, where they allegedly receive basic military training prior to setting sail for the region.

[9] United States Senate Armed Services Committee, "Statement of Admiral Craig S. Faller, Commander U.S. Southern Command, before the 117th Congress, March 16, 2021, pp. 6-7, https://www.southcom.mil/Portals/7/Documents/Posture%20Statements/SOUTHCOM%202021%20Posture%20Statement_FINAL.pdf?ver=qVZdqbYBi_rPgtL2LzDkq%3d%3d.

[10] Miren Gutierrez and Guy Jobbins, "China's Distant Water Fishing Fleet is More Than Five Times Larger Than Estimated – New ODI Report," ODI, May 26, 2020, <https://odi.org/en/press/chinas-distant-water-fishing-fleet-is-more-than-five-times-larger-than-estimated-new-odi-report/>.

[11] Miren Guitérrez and Guy Jobbins., *China's Distant Water Fishing Fleet: Scale, Impact and Governance* (London: Overseas Development Institute, June 2020), pp. 8-9, <https://odi.org/en/publications/chinas-distant-water-fishing-fleet-scale-impact-and-governance/>; Tabitha Mallory, "China's Distant water Fishing Industry: Evolving Policies and Implications," *Marine Policy* 38 (2013): p. 107, https://www.researchgate.net/publications/257163037_China's_distant_water_fishing_industry_Evolving_policies_and_implications.

The PLA Reconceptualizes Control of the Air

By Derek Solen



(Image: J-11 fighters of the PLA Air Force taxi on a runway. The PLA envisions a future in which it relies less on fighters like these to achieve control of the air, **source:** China Military)

Introduction

Some Western analysts argue that the Chinese People's Liberation Army's (PLA) use of the term "command of the air" belies outdated views of control of the air. The term is over a century old, and its original concept has been complicated by technological and tactical innovations since it was coined. Although there is some doubt that the PLA's use of the term has always adhered strictly to the original concept, some of the PLA's recent writings suggest that there was previously a tendency in the PLA to regard control of the air in absolute terms. However, these same writings indicate that the PLA is now promoting a more nuanced and modern understanding of control of the air. Consequently, the PLA is unlikely to seek command of the air in future

military campaigns, and it is likely to reduce its spatial and temporal requirements for control of the air as its capabilities to conduct multi-domain operations improve.

Command and Control of the Air

“Command of the air” was coined in 1921 by Giulio Douhet after Alfred Mahan’s “command of the sea,” and it was defined as preventing “the enemy from flying or from carrying out any aerial action at all.”[1] He later restated the concept as putting “the enemy in a position where he is unable to fly, while preserving for oneself the ability to do so,” implying the absolute control of the airspace above a certain area.[2] This was much more achievable at the time, when ground-based air defenses were less effective and the greatest threat to airpower was fighter aircraft.

The threats to airpower have since multiplied in type and effectiveness. Consequently, the US Air Force (USAF) does not use “command of the air”; instead, it uses “control of the air,” which comprises three states of relative control: parity, air superiority, and air supremacy, the last of which is almost the same as “command of the air” ([Department of the Air Force](#), July 31, 2017). Unlike air supremacy, “air superiority,” does not imply the almost total elimination of threats to friendly air forces; it only refers to a state of control in which those threats are not “prohibitive” ([Department of the Air Force](#), July 31, 2017). “Parity” of course refers to a state in which neither combatant has achieved air superiority or air supremacy ([Department of the Air Force](#), July 31, 2017).

The PLA has made no such distinctions in its doctrinal publications that are publicly available ([China Aerospace Studies Institute](#), October 19, 2020). The latest available edition of the PLA’s dictionary of military terms contains an entry that it translates into English as “command of the air,” *zhikongquan* (制空权), along with similar terms for other domains, including the information and cyber domains—but inexplicably excluding the land. However, “*zhikongquan*” is described much more vaguely than Douhet’s “command of the air.” The dictionary defines it merely as “control over a particular airspace at a particular time during an operation.”[3] Because this definition fails to indicate any degree of control, one could conclude that *zhikongquan* comprises states of less control than its usual English translation implies, states like the USAF’s “air superiority.” After all, “*zhikongquan*” itself does not intrinsically indicate absolute control, which is why “*zhikongquan*” is also the usual Chinese translation of “control of the air.” (Henceforth, in order to avoid the ambiguity of “*zhikongquan*,” “control of the air” will be used to translate “*zhikongquan*” except in cases in which “command of the air” is more appropriate.) However, evidence that “*zhikongquan*” has generally been regarded in the PLA in absolute terms comes from the very sources that indicate that the PLA is promoting an explicitly nuanced view of “*zhikongquan*” that more closely aligns with that of the USAF than that of Douhet.

Reconceptualizing Control of the Air

In May and June 2022 *PLA Daily* published a series of articles about dominance in different domains, from the land to the cyber domain. The series was published in the Military Forum section of the newspaper. *PLA Daily* is the mouthpiece of the Chinese Communist Party's Central Military Commission (CMC), which is equivalent to the US Department of Defense. Unlike traditional newspapers, the primary purpose of *PLA Daily* is to indoctrinate the troops, not to inform them. The Military Forum section is where the PLA conveys rather scholarly ideas about warfare and military science. While the section's content cannot definitively be regarded as doctrine, it does represent orthodoxy because "wrong" ideas would never be published in *PLA Daily*. It is, therefore, an excellent window on the most current ideas carrying the CMC's imprimatur. The series in question was published in a special column within Military Forum, the "Special Column for Researching Military Affairs, Researching War, and Researching the Conduct of War," indicating the importance of the series and the CMC's desire that the series be studied.

The article about dominance in the air is only remarkable because it breaks with Douhet, not because it breaks new ground. It was written by Chai Shan, a frequent contributor to Military Forum whose affiliation is unclear. The article makes five points. First, Chai argues that control of the air still "occupies an important position" in "informationized wars" and will still do so in the "intelligentized wars of the future" ([PLA Daily](#), May 12, 2022). He writes that control of the air is the "foundation" upon which overall dominance in all domains is built ([PLA Daily](#), May 12, 2022). Second, Chai argues that because the struggle for control of the air is no longer one that is exclusively conducted with aircraft, one must also control the "formless" electromagnetic and cognitive domains "before it can be said that one has really seized control of the air" ([PLA Daily](#), May 12, 2022). Chai's fifth point is actually quite similar to his second point. He states that one can only seize control of the air by converging capabilities across multiple domains, including the other physical domains of the land and the sea ([PLA Daily](#), May 12, 2022).

Third, Chai states that the air is no longer a single space because more effective air defenses and new types of aircraft, including helicopters and unmanned aerial vehicles, pose threats at or from different altitudes and distances ([PLA Daily](#), May 12, 2022). Therefore, control of the air is something that one "cannot hope to completely accomplish in one go," Chai remarks ([PLA Daily](#), May 12, 2022). "One can only really seize control of the air" with phased and targeted efforts that consider the airspace at all altitudes as well as the characteristics of the enemy's air defenses, he writes ([PLA Daily](#), May 12, 2022).

Chai's fourth point concerns Douhet's "command of the air." He characterizes it as the "absolute control of the air" ([PLA Daily](#), May 12, 2022). However, subsequent experience with operations to achieve command of the air has caused people to recognize that "seizing absolute control of the air is both difficult to realize and unnecessary; gaining control of the air over several key battlefields and during important stages is more feasible and reliable than gaining command of the air for the entire duration of a war," he remarks ([PLA Daily](#), May 12, 2022). Chai writes that "through a great deal of practical application in war, foreign militaries" therefore divide control of the air into three levels of increasing control: air superiority, air dominance, and air supremacy ([PLA Daily](#), May 12, 2022). Chai thus defines these three terms:

Air superiority usually refers to having a relative advantage over an enemy and possessing the operational initiative; air dominance usually refers to having a greater advantage over the enemy and possessing the operational initiative. However, air supremacy refers to having an overwhelming advantage over the enemy as well as absolute control of the air ([PLA Daily](#), May 12, 2022).

He remarks that such differentiation makes it possible for one to employ forces “scientifically and economically” according to the adversary and operational goals ([PLA Daily](#), May 12, 2022).

Of course, Chai is not merely reporting how “foreign militaries” regard control of the air. Again, the article was intended to be educational, and Chai’s definitions of the levels of control of the air were not cribbed from those of the world’s most experienced air power, at least. Instead, Chai is refuting command of the air and providing a new, more practical concept of control of the air for the PLA, citing unspecified foreign militaries’ greater experience to validate it. This, in turn, could be interpreted as evidence that there was a tendency in the PLA to regard *zhikongquan* as the “absolute control of the air,” i.e., command of the air.

Even more recently, command of the air was refuted in one of the two subsequent articles about airpower to appear in Military Forum. The article was published in April 2023 in the “Special Column for Researching Military Affairs, Researching War, and Researching the Conduct of War,” and its authors were all identified as being affiliated with the Air Force Command College, which is the PLA Air Force’s highest institution of learning, akin to the USAF’s Air War College. It is possible that the identification of the authors’ affiliation indicates that their article represents the views of the college and perhaps the PLA Air Force as a whole.

The authors write that battles between large formations of aircraft and “close-range dogfights” are becoming things of the past ([PLA Daily](#), April 11). “Air battles beyond visual range, strikes from outside defensive perimeters, ultra-long-range air defense, etc., are becoming the primary form of air operations,” they remark ([PLA Daily](#), April 11). When combatants possess an equal amount of long-range offensive weapons, control of the air will be mutually denied, making it “all the more difficult” to “seize absolute control of the air in the traditional sense” ([PLA Daily](#), April 11). Consequently, the authors conclude that “control of the air will transform from [being something sought for] all times over all areas to the pursuit of air superiority for key tasks at key times and over key areas” ([PLA Daily](#), April 11).

Conclusion

The PLA is thus promoting an explicitly nuanced concept of control of the air. Chai’s levels of control and their definitions may not be final, but the PLA is clearly refuting the feasibility and the necessity of achieving command of the air as Douhet originally conceived it. This conceptual change has two implications. First, it is unlikely that the PLA will seek absolute control of the air in future campaigns such as an invasion of Taiwan. Second, the PLA will likely reduce its spatial and temporal requirements for control of the air as its capabilities to conduct multi-domain operations improve.

Given the ineluctability of the trends that the PLA has identified as forcing the conceptual change, it is unlikely that the PLA believes it can do otherwise. These would be necessary adaptations to the proliferation of threats to airpower, and the same logic underlies the PLA's promotion of penetrating counterair operations à la the USAF's *Air Superiority 2030 Flight Plan* (*PLA Daily*, July 19, 2022; *Guangming Daily*, November 21, 2021). Chai and others are paving the way for the PLA to employ airpower in the kind of high-threat environment that some believe has defeated the Russian air force over Ukraine: suppressing enemy air defenses by converging capabilities across domains and only seeking air superiority over limited spaces for brief periods of time. This would offset the advantages of a strategy of air denial for the defense of Taiwan or any other place that the PLA attacks.

Derek Solen is a senior researcher at the US Air Force's China Aerospace Studies Institute. He was a civilian intelligence specialist in the US Army. The opinions and conclusions that are expressed or implied herein are his own and do not necessarily represent the views of Air University, the Department of the Air Force, the Department of Defense, or any other US government agency.

Notes

[1] Giulio Douhet, *The Command of the Air*, trans. Dino Ferrari (Maxwell, AL: Air University Press, 2019), accessed June 8, 2023, https://www.airuniversity.af.edu/Portals/10/AUPress/Books/B_0160_DOUHET_THE_COMMAND_OF_THE_AIR.PDF, 17.

[2] *Ibid.*, 94.

[3] 中国人民解放军军语 [Military Terminology of the Chinese People's Liberation Army], 2nd ed., s.v. “制空权” [command of the air] (Beijing: 军事科学出版社 [Junshi kexue chubanshe], 2011).

The PRC Eyes Vietnam: Chinese Assessments of Vietnam’s Hedging Strategy

By Nathan Waechter



(Image: On June 25, the USS Ronald Reagan, the ninth nuclear-powered aircraft carrier of the US naval fleet, made a rare port call in Vietnam, **source:** Saigon Times)

Introduction

In July, the Barbie movie—an ostensibly apolitical and innocuous film—was banned by the Vietnamese Department of Cinema over real-world tensions between Vietnam and China. According to the state film council, the new Barbie movie was barred from the Vietnamese market over its inclusion of a map purportedly showing China’s preferred territorial “Nine-Dash” line in the South China Sea ([Vietnam News](#), July 7). As the head of the national film evaluation council stated, “Vietnam’s stance has been clear. It does not accept movies that are ambiguous in matters related to territorial sovereignty” ([Vietnam News](#), July 7). The Chinese Foreign Ministry spokesperson Mao Ning responded to the incident by asserting that “China’s territorial sovereignty and maritime rights and interests are solidly grounded in history and law” ([Global Times](#), July 7). Accusing the Vietnamese government of overstating the issue, the Chinese state media outlet Global Times urged all “relevant parties to control domestic hype and nationalist sentiment” ([Global Times](#), July 7).

Viewed within a broader context, the Barbie movie incident is only the most recent expression of the historical baggage between Vietnam and China. Many PRC military officials and academics largely perceive Southeast Asia as China's proverbial "backyard" that should rightfully remain in its sphere of influence. Within Southeast Asia, Vietnam occupies an important position directly on China's periphery. Publicly, China considers Vietnam's governing regime to be close "comrades and brothers" ([Ministry of Foreign Affairs](#), March 28). However, Vietnam has a long, acrimonious history with China. Vietnam has been invaded by China numerous times and subjugated to Chinese rule and the exaction of tribute for thousands of years. The "Vietnam Military Museum in Hanoi ... lists 13 "Vietnamese Resistance Wars Against Invaders," with the majority fought against the Chinese.

To some extent, Vietnam has also benefited from its contact with China. The Chinese written script, ideas of ethics and governance, and even chopsticks were absorbed from China. [1] During America's war in Vietnam, China provided Vietnam with vast amounts of material support. From 1965-1969, a total of 320,000 Chinese troops covertly served in North Vietnam. [2] Despite this, China invaded Vietnam in 1979 in a war that the PRC refers to as the "Self-defensive counterattack against Vietnam" (对越自卫还击保卫边疆作战) ([Baidu Encyclopedia](#)). In more recent years, Vietnam and China have clashed rhetorically over islands in the South China Sea and had a tense standoff over a Chinese oil exploration rig in Vietnamese-claimed waters in 2014 ([CSIS](#), December 23, 2014).

With its historical domination by China and its position as a small, weak, and still developing country, Vietnam has pursued a strategy of hedging. Research by Thi Bich Tran and Yoichiro Sato, Le Hong Hiep, and Tuan Uy Tran provide robust definitions of Vietnam's hedging strategy from Vietnamese and Western perspectives ([Contemporary Southeast Asia](#), December 2013; [Asian Politics and Policy](#), January 2018; [Naval Post-Graduate School Monterey](#), March 1, 2018). However, it is important to understand how China views Vietnam's strategy as well. Further analysis is needed to examine primary Chinese sources and understand Chinese elite perceptions, their conclusions, and what "countermeasures" they believe China should take against Vietnam's approach.

On balance, while Chinese security analysts have a clear understanding of Vietnam's hedging strategy, they exhibit a modern version of historical Chinese paternalism towards Vietnam. Many contemporary Chinese analysts believe that Vietnam, as a developing country, will inevitably fall into China's sphere of influence as it remains dependent on Chinese economic ties for growth. While Vietnam does benefit from its economic relations with China, however, the Chinese analyses fail to fully recognize Hanoi's fundamental apprehensions and insecurity caused by the historical enmity between the two countries, as well as China's modern-day rise and its aggressive actions in the South China Sea. To a certain degree, China is guilty of exhibiting a degree of the same imperial hubris towards Vietnam as it has often accused the US of in the latter's relations with other countries. While PRC strategists appear to have concluded that time is on their side, Beijing's paternalistic complex may ultimately handicap China's ability to pull Vietnam closer into its orbit.

How China Views Vietnam's Grand Strategy

Chinese strategists understand that Vietnam is hedging against the US and China. An academic article on this strategy by Zhu Lubin and Huang Haibin notes that, "Vietnam's current strategy between China and the US is different from balancing and following ... Vietnamese leaders seek to establish a harmonious relationship with China in order to maintain regime stability and promote domestic economic development." While Vietnam looks to China for economic benefits, "Vietnam also seeks ... to prevent a rising China from posing security threats ... and hopes to obtain further military support from the US." [3] Another scholar, Sun Xiaoling, asserts: "Generally speaking, maritime countries are welcoming of the US, while land-based countries are more dependent on China. Geographically, Vietnam is both a land-based and a maritime country thus a 'hedging strategy' is of particular interest" ([Southeast Asian Studies](#), 2012).

These analyses understand that Vietnam sees China as a rising power and that this causes Vietnam to feel insecure. Beijing is fully cognizant that Hanoi has adopted a hedging policy to counterbalance against it. Because Vietnam is wary of both powers and has limited inherent leverage, it seeks to "constrain the behavior of both China and the US through regional multilateral institutions." [4] Chinese analysts note that Vietnam's best option is to avoid "choosing sides." According to Guan Hao, a Chinese scholar at Tsinghua University, "both China and the US hope to win over Vietnam, or at least prevent it from falling to the other side. Vietnam maintains a cautious attitude and has avoided choosing sides" ([Quarterly Journal of International Politics](#), 2021). Seeking economic benefit from China, moving closer to the US to gain security, while avoiding fully siding with either country. These are the building blocks of Vietnam's efforts to thread the needle between its historical foe and its one-time adversary and now possible defender, the US.

The Economic Dimension: To China's Advantage?

Vietnam's economic ties with China are central to both countries' strategies. The Chinese analyses give credit to China for pulling forward Vietnam's economy stating that: "It is obviously difficult to separate Vietnam's huge economic leap from China's economic engine ... China has been Vietnam's largest trading partner since 2004." When it comes to economic interdependence, Zhu and Huang also note the importance of Vietnam for China's greater Southeast Asia strategy and BRI initiatives, stating that "the two sides have agreed to connect Vietnam's 'Two Corridors, One Belt' concept and the 'Belt and Road' initiative together."

Although China sees the win-win benefits of closer economic integration, it also recognizes Vietnam's reticence about being too economically dependent on China. As Zhu and Huang argue, "while Vietnam is relying on the engine of China's economic take-off to achieve economic development, the existence of a trade deficit with China has gradually aggravated Vietnam's concerns." There is, furthermore, an awareness of Vietnam's fear that if it is overly reliant on China economically it will have diminished room to maneuver in other spheres. To

exemplify this point, Zhu and Huang assert that “Vietnam believes...excessive economic dependence on China may weaken its bargaining power in the South China Sea.” [5]

China’s support for Vietnam’s economic growth is also considered to be a way of supporting the legitimacy of the Vietnamese Community Party (VCP) regime itself. Chinese scholars think that “Vietnam sees China as an important external guarantor and economic partner for the legitimacy of Vietnam’s political system” ([Southeast Asian Studies](#), 2012). Notably, this assessment also implies that the VCP regime is highly reliant on the economic goodwill of China, and consequently has significantly diminished strategic leverage.

The Security Dimension: Insecurity

While economic ties have brought a degree of growth, modernization, and increased wealth to Vietnam, Vietnam continues to have fundamental security concerns regarding China. Chinese scholars recognize that China’s rising power and clashes with Vietnam in the South China Sea have provoked strategic concerns from Hanoi. “The disputes over the border and the sea areas between the two countries have intensified Vietnam’s vigilance” ([Southeast Asian Studies](#), 2012). Vietnam’s current South China Sea disputes are only the most recent incarnation of historical friction with China. In a surprisingly blunt critique, Zhu and Huang note that, “as a member of the ancient Chinese tributary system (中国古代朝贡体系中的一个成员国), Vietnam has a real issue of sovereignty disputes with China and Vietnam’s perception of danger has further increased in the face of [foreign espoused] theories that “a strong country will seek hegemony” (国强必霸) and the ‘China threat’ discourses.”

To hedge against China, Vietnam has pursued both internal and external balancing. Internally, it has greatly increased its defense spending. However, Chinese analysts think little of Vietnam’s military, saying that “[Vietnam’s] military defense capabilities are not enough to safeguard the ‘sovereignty’ of its islands in the South China Sea.” [6] Thus, as a weaker power, Vietnam looks towards the US as a partner to hedge against China’s rise and influence.

While Vietnam has established strategic partnerships with 17 nations, its most important partner in hedging against China is the US. Chinese analysts agree and observe that Vietnam’s hedging relationship with the US in the security realm is embodied in the form of both direct and indirect cooperation. Indirectly, Vietnam looks to the US to take measures to “contain” China in the South China Sea, to support more broadly a free and open Indo-Pacific, and to reinforce Vietnam’s efforts to multi-lateralize the South China Sea disputes. Among these, “Vietnam’s biggest strategic expectation for the US is to contain China on the South China Sea issue. Only when the US is more active on the South China Sea issue will Vietnam open up to further US defense cooperation” ([Southeast Asian Studies](#), 2012).

In the realm of more direct cooperation, Chinese scholars give credit to the US for adroitly navigating Vietnam's efforts to set boundaries while gaining maximum advantage, "The US Department of Defense actively promotes US-Vietnam ... bilateral cooperation in less sensitive areas such as peacekeeping operations, maritime security, institutional capacity-building exchanges, disaster management, and personnel training. At the same time, it avoids encroaching on Vietnam's 'red line' of the 'three no's' — [no military alliances, no alignment with one great power against another, and no foreign military bases in Vietnamese territory] — national defense policy" ([South and Southeast Asian Studies](#), 2022). China sees US relationship-building efforts as growing in intensity, frequency, and having a clear end goal focused on the South China Sea. [7] US and Vietnamese cooperation is perceived as an effort to pull Vietnam into the US-led camp:

In the context of the Indo-Pacific strategy, the US has continuously stepped up its efforts to intervene in the South China Sea, trying its best to sell the so-called 'free and open' Indo-Pacific regional order to Vietnam, and publicly supporting Vietnam's South China Sea policy to please Vietnam and achieve the goal of winning over Vietnam in its fight against China ([South and Southeast Asian Studies](#), 2022).

China's Predictions on Successful Outcomes for Vietnam's Strategy

Overall, Chinese analysts are optimistic about China's prospects concerning Vietnam and tend to discount the potential long-term success of Vietnam's hedging strategy. Zhu and Huang point out that Vietnam is fearful "that the US will implement 'peaceful evolution' (和平演变) endangering the stability of the Vietnamese Communist Party (VCP) regime." [8] The US's emphasis on human rights is also seen as a solid roadblock in the path of closer relations between Vietnam and America: "there are still differences in human rights and ideology with the US, it is impossible for Vietnam to completely 'bet' on the US" ([World Economics and Politics](#), 2018). Furthermore, there is a strong belief that direct relations between the two states' respective communist parties are a key point of leverage for China. Chinese observers also see America's Vietnam war as being a source of, "great distrust and vigilance towards US intentions." Ironically, Chinese analysts tend to gloss over China's 1979 invasion of Vietnam. More recently, the US withdrawal under the Trump administration from various treaties and global commitments is touted as having, "weakened the reputation and image of the US." [9]

Countermeasures

Chinese scholars also provide a window into how China believes it should deal with Vietnam's hedging strategy. These countermeasures (应对政策) include both carrots and sticks. It is proposed that China should take a hardline on its sovereignty claims in the South China Sea. The PRC should, in this framework, use its military presence to back up these claims and must, "be vigilant against the joint invasion and plunder of our national sovereignty by Vietnam and the US."

The carrot side of the approach is both economic and ideological in nature. China believes that multilateral economic mechanisms in Southeast Asia can, “raise Vietnam's expectations of China's benefits.” On this theme, China should, “use the Regional Comprehensive Economic Partnership Agreement (RCEP) as the main platform to connect the Belt and Road Initiative with the ‘Two Corridors and One Circle’ to promote economic linkage between China and Vietnam.” [10] On the ideological level, this side of China's strategy involves continued and close contact between the two communist parties. “China should not give up any opportunities to exchange and communicate with Vietnam within the party, political circles, and military circles” ([Southeast Asian Studies](#), 2012). While Chinese scholars point to trade, economics, and elite capture, there is less emphasis placed on developing grassroots interactions, cultural connections, and societal linkages. This is an inherent gap in the Chinese approach that may be relatively insurmountable due to popular anti-China sentiment among many Vietnamese.

Conclusion

This review of Chinese analyses of Vietnam's hedging strategy highlights a number of themes. First, China is confident in its ability to both control and dominate its neighbor. It believes that Vietnam is unable to achieve its South China Sea objectives on its own and that over the long term, economic integration will tilt Vietnam towards China. While China is confident of its ability to control Vietnam, there is uncertainty and concern regarding how US interference might impede China's ability to neutralize Vietnam and consolidate its objectives in the South China Sea.

Missing from China's assessment is a recognition of the historical baggage surrounding the Sino-Vietnamese relationship and the high degree of anti-China sentiment within Vietnam. While China expresses confidence in its ability to develop deeper relations with the VCP, to a certain extent China seems to be committing the very act of hubris it often accuses America of in policy papers such as “US Hegemony and Its Perils” ([Ministry of Foreign Affairs](#), February 20). China's insistence on its sovereignty claims in the South China Sea are consistent with its longstanding policy, but this insistence comes with the price of increasing anti-China sentiment and pushing Vietnam towards the US. China's increased military capabilities, the militarization of the South China Sea, and Chinese economic dominance all deeply concern Vietnam.

While China is confident in its military capabilities, it is conceivable that if the VCP was unable to stand up to Chinese military coercion, Chinese actions could lead to political instability in Vietnam. The irony of this scenario is that while the Chinese Communist Party warns of “peaceful evolution” (gradual regime change) as a peril to the VCP in aligning too closely with the US, Chinese actions also could cause the very destabilization of Vietnam's regime that China warns of—and likely fears.

*Nathan Waechter is a recent graduate of Johns Hopkins School of Advanced International Studies. Fluent in Mandarin Chinese, he lived in China for close to a decade, working in the quantitative market research industry. He has previously published articles in *The Diplomat* and *Nikkei Asia*.*

Notes

[1] Strangio, Sebastian, *In the Dragon's Shadow*, (Yale University Press, London, 2020), p. 67

[2] Xiaoming, Zhang, *Deng Xiaoping's Long War*, (University of North Carolina Press, Chapel Hill, 2015), p. 22

[3] Zhu Lumin and Huang Haibin, "Vietnam's implementation of "Hedging Strategy" between China and the United States and its limitation," *Journal of Qiqihar University (Philosophy & Social Science)*, (May 2021), p. 44
朱陆民 · 黄海滨, "越南对中美"对冲战略"的实施及其限度", 《齐齐哈尔大学学报》(哲学社会科学版), 2021年5月. Hereafter referred to as "Zhu and Huang, Vietnam's Implementation of "Hedging Strategy."

[4] *Ibid*, 44.

[5] *Ibid*, 44.

[6] *Ibid*, 45.

[7] *Ibid*, 45.

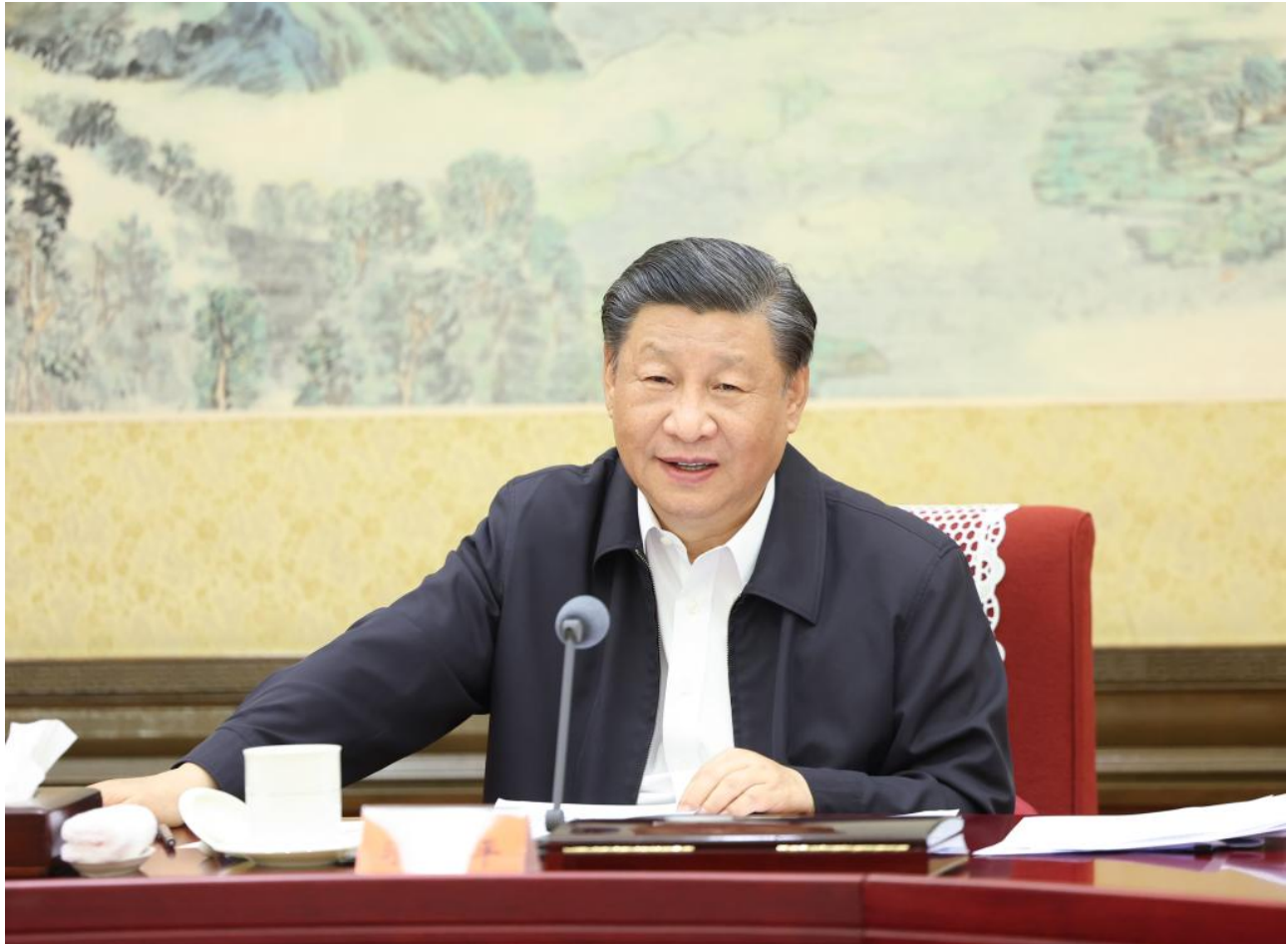
[8] *Ibid*, 46.

[9] *Ibid*, 46.

[10] *Ibid*, 47.

Xi Shifts Blame as Chinese Economy Continues to Falter

By Antonio Graceffo



(Image: In an address to the Central Committee of the Communist Youth League of China, Xi called for Chinese youth to cultivate a sense of “responsibility, grit, and dedication,” **source:** China Daily)

Introduction

In December of last year, China’s central government lifted its stringent “zero-COVID” restrictions, signaling to the public it shifted its principal policy objective from pandemic prevention measures to jump-starting China’s flagging economy ([Japan Times](#), April 16). In the first quarter of 2023, the country seemed to be recovering as growth accelerated to 4.5 percent—compared to only 2.9 percent in the final quarter of last year ([Xinhua](#), April 13).

Looking beyond GDP growth figures, however, China's overall recovery appears to be far slower than previously anticipated. Consumer demand remains stifled and industrial activity has fallen. China, the world's largest manufacturing economy and leading exporter, has experienced its most significant decline in exports in the past three years ([SCMP](#), June 20). Chinese stock indexes are losing value as shareholders move their money to safer investments. Meanwhile, investment in the property sector, a highly consequential industry, is significantly diminished as consumers are afraid of spending ([SCMP](#), July 17). To add to the country's economic woes, youth unemployment is steadily rising.

Given the central government's official position that the zero-COVID policy was a resounding success, Chinese President Xi Jinping may feel compelled to identify alternative explanations for the country's lackluster economic performance. Consequently, state officials will likely externalize accountability onto other actors. This trend is already observable in official state discourse, as the central government points fingers at various demographics, ranging from private entrepreneurs to recent college graduates.

Assessing the Post-Pandemic Recovery

During the pandemic, consumption fell due to nationwide lockdowns coupled with a general economic downturn. "Revenge spending"—expected after the lifting of zero-COVID restrictions—has failed to materialize, with consumer demand missing its target for this year. Initially, some of China's key industries appeared to show promising signs of recovery. The transportation, accommodation, and catering sectors saw revenues rising, with retail sales boasting an 18.4 percent gain in April ([Global Times](#), 2023, June 15). Immediately after the May Day holiday, however, things began to slow down again as the central government only reported a 12.7 percent year-on-year gain ([Global Times](#), 2023, June 15). To put this growth in perspective, it is important to note how poor sales were the previous year. In April 2022, retail sales were down 11.1 percent year-on-year while in May they were down 6.7 percent ([Global Times](#), 2022, June 15). In context, much of this year's growth only represents "catch-up" after three years of a debilitating economic downturn.

As Chinese state media reported, "officials... acknowledged some 'constraint factors' that are dragging domestic consumption" ([Global Times](#), 2023, June 15). After enduring three years of economic uncertainty, Chinese consumers are increasingly hesitant to spend. Moreover, manufacturing activity is struggling to recover to pre-COVID levels. Overall, five key data points seem to indicate that the Chinese economy is struggling to find its footing: a decline in export quantity, a drop in factory gate prices, a fall in China's manufacturing Purchasing Managers' Index (PMI), the devaluation of the yuan, and a strained property market. The first factor indicative of China's faltering economic recovery is a decline in demand for Chinese exports. Despite China's best efforts to revitalize its manufacturing sector, a challenging external environment has hampered the PRC's prospects for an economic rebound. Trade frictions with the several Western countries—along with a tumultuous post-pandemic global economy—has stymied demand for Chinese exports as the country struggles to recover trade volume to its pre-COVID levels. At present, a low global demand invariably

ChinaBrief • Volume 23 • Issue 13 • July 21, 2023

impacts China's domestic manufacturing activity ([Reuters](#), May 31). The PRC's exports fell by 7.5 percent year-on-year in May and by 12.4 percent in June ([Reuters](#), 2023, July 13 and [SCMP](#), July 18).

A second indicator for China's poor economic performance is a severe drop in factory gate prices. Reflecting a downturn in the country's manufacturing sector, China's factory gate prices are falling at the fastest pace in seven years ([Nikkei](#), 2023, July 10). Low factory gate prices suggest that demand has fallen, driving down prices for finished goods. Typically, companies will cut production of goods if the factory gate price falls below the cost of manufacturing, resulting in mass layoffs and a subsequent rise in unemployment. As consumer prices and employment remained flat in June, the Chinese economy is at risk of spiraling into deflation ([National Bureau of Statistics](#), 2023, June 15).

A third strong indicator of China's economic growth is its manufacturing PMI, which indexes the prevailing direction of the country's manufacturing sector. In May, China's manufacturing PMI fell to a five-month low of 48.8—a score below 50 signifies a contraction ([State Council Information Office](#), May 31). Non-manufacturing PMI is also trending downward, falling from 56.4 to 54.5 in the span of one month ([China Daily](#), May 31). In June, the PMI experienced a slight increase of 0.2 coming in at 49 ([National Bureau of Statistics](#), 2023, July 1). However, the Producer Price Index (PPI) for manufactured goods continued to trend downward. The PPI was down 4.6 year-on-year in May ([Xinhua](#), 2023, June 9) and experienced a 5.4 percent drop in June ([National Bureau of Statistics](#), 2023, July 11).

The fourth data point is the devaluation of the yuan. Since the start of last year, the yuan has depreciated by 4.7 percent relative to the US dollar ([SCMP](#), June 20). A key strategic objective of Beijing's monetary policy is keeping the value of the yuan in close proximity to the seven-dollar threshold. This goal was met with significant setbacks as China's economy continued to falter, causing the currency to depreciate well past the seven-dollar threshold in May ([The Business Times](#), May 17). Despite these warning signs, the People's Bank of China (PBOC) still refrained from intervention in the foreign exchange market to stabilize the yuan ([SCMP](#), June 20).

The fifth variable leading to China's considerable economic downturn is the decline of the real estate sector. One of the largest drivers of the economy, the property sector accounts for about one third of China's total investment. In the first half of the year, property investment was down 7.9 percent ([SCMP](#), July 18). In June, China's 100 largest developers saw their property sales fall by an annualized rate of 28.1 percent, while new home prices in most major cities remained largely flat. The S&P Global Ratings forecast this year's property sales to come in 30 percent below their 2021 peak ([SCMP](#), July 17). Even prior to the onset of the pandemic, the property sector in China was grappling with a considerable debt bubble. As China's total debt to GDP ratio was already 280 percent in the first quarter of the year, the continual decline of the property sector will only serve to exacerbate this trend ([SCMP](#), July 17; [Straits Times](#), November 1, 2022). This year, developers are facing \$141 billion worth of bonds coming due ([Caixin](#), January 10). Furthermore, Local Government Financing Vehicles (LGFV)—land sales facilitated by provincial governments—are responsible for an additional \$9 trillion of debt ([Blomberg](#), June 2). Both real estate developers and local governments are at high risk of defaulting.

The Blame Game

As the economy continues to decline, official state discourse has redirected blame onto external actors. China's private sector is a case in point. The central government has already shown signs of scapegoating private enterprises, attributing rising housing prices to greed and speculation, as well as criticizing large corporations for the country's wealth inequality. To promote Xi Jinping's push for "common prosperity" and bridge the wealth gap, Beijing has called for an austerity drive among China's financial firms ([Reuters](#), June 18). Clamping down on bourgeoisie excess, the central government is strongly encouraging the employees of financial firms to dress more "down to earth", refrain from extravagant banquets, and avoid flashy jewelry and designer clothes. Additionally, several finance firms are cutting the salaries and annual bonuses of their employees.

While the financial sector is facing disciplinary measures, technology companies have recently been subject to preferential treatment. On July 12, Premier Li Qiang pledged for the central government to cultivate a direct line of communication with technology firms to "stay up on corporate difficulties and concerns" ([SCMP](#), 2023, July 12). Notably, this statement comes at the same time the National Development and Reform Commission (NDRC) endorsed the investment projects of several leading technology firms ([SCMP](#), 2023, July 12). As the technology sector is one of the largest drivers of economic growth, it is likely China's central leadership wants to maintain international competitiveness by giving these companies a relative degree of maneuverability. Notionally, this development signals that the 2020 regulatory "tech crackdown" that targeted Alibaba and Tencent is coming to an end, at least for the time being ([Reuters](#), July 12).

The central government is also holding young graduates accountable for the country's economic slowdown. Facing major economic headwinds, Chinese youth are struggling to find employment. In May, youth unemployment hit a record 20.8 percent ([National Bureau of Statistics](#), April 19; [SCMP](#), July 18). The Party narrative attributes rising youth unemployment to the supposedly unrealistic expectations of recent graduates. According to this perspective, Chinese youth should be willing to accept blue-collar occupations regardless of their educational credentials ([Global Times](#), June 25). In addition to increasing public sector employment, the government is encouraging college graduates who are struggling to find work to assume manual labor jobs. To this end, Xi has urged the Central Committee of the Communist Youth League of China (CYLC) to rally the young generation, cultivate their "grit," and remind them that they represent China's future ([China Daily](#), June 27).

Policy Tools for Economic Recovery

To address the flagging economy, Xi is calling for consumption-led growth. This solution appears poorly tailored to the Chinese market; household spending accounts for just 38 percent of China's GDP, while the number is closer to 68% in the rest of the world ([Market Insider](#), 2023). If the economy slips into deflation—generally a consequence of unemployment rising and wages falling—household consumption will significantly decline.

Even assuming a more optimistic outlook, altering Chinese consumers' spending habits will likely remain a challenge given China's economic uncertainty. Therefore, it is unlikely that increased consumption and natural market factors will prevent the Chinese economy from further decline. Consequently, Beijing will likely implement some form of state intervention to stimulate growth.

To this end, the central government could engage in open market operations. This approach involves manipulating the money supply and influencing interest rates by buying and selling government bonds on the open market. Additionally, there could be further cuts to bank reserve requirements and key lending rates. The PBOC could also provide medium-term funding to commercial banks in order to manage liquidity and support the country's economy. Zou Lan, the head of the PBOC monetary policy department, said that his group will employ countercyclical adjustments to counteract fluctuations in economic activity and mitigate the negative impact of economic cycles, resulting in sustainable growth ([Reuters](#), July 14). Zou went on to suggest that there might be some changes made in property policies as he felt there was room for "marginal optimization". Special loans worth \$28 billion have been extended to developers to finish pre-sold housing projects. Originally, the cutoff date for these loans was March of this year, but it will be extended to May of 2024 to help keep the property sector afloat ([Reuters](#), July 14).

Another core challenge the central government will have to address is youth unemployment. The State Council released a 15-point plan to help match graduates with jobs. In addition to skills training and entrepreneurship, the plan includes increasing the number of employees at state-owned enterprises ([State Council](#), April 26). Elevating the role of SOEs in the Chinese economy—a relatively inefficient sector compared to private enterprises—will likely fail to address the root cause of China's sluggish growth. While expanding state-run businesses can create new employment opportunities, it will likely struggle to generate sustainable economic growth. In practice, hiring more people to do the same amount of work effectively amounts to an advanced form of welfare. While China has developed to the extent that it can produce over 10 million college graduates per year, successfully providing these graduates with employment outcomes that align with their qualifications remains a systemic challenge.

Conclusion

Despite the promotion of state-led initiatives to accelerate the recovery of China's economy, several structural obstacles to China's economic growth remain. Moving forward, Beijing will continue to struggle with three long term obstacles that will likely impede growth: a declining birthrate, a massive debt bubble, and a global economy that is becoming increasingly less receptive to Chinese trade and investment. Births in China this year are projected to be 8 million, down from 9.4 million last year ([SCMP](#), May 30). Combined public and private debt now exceeds 300 percent of GDP ([South China Morning Post](#), May 30). Additionally, China's external environment is increasingly volatile. A central theme at the recent G7 summit was "de-risking," as the world's largest economies are seeking to decrease investment and trade tied to the Chinese market ([Nikkei](#), May 20).

In conclusion, it appears that the Chinese economy will recover this year, but the recovery will be much more modest than originally anticipated. A slow recovery—coupled with issues such as youth unemployment, a lack of high-value service sector activity, an acute debt crisis, and China’s declining international reputation—suggest that the era of rapid growth is over. Moving forward, rather than experience a robust seven or eight percent GDP growth rate each year, the Chinese economy appears to be transitioning to a new phase of slower, more modest growth. The PRC’s future trajectory will likely be influenced by both the capacity of the central government, and the average Chinese consumer, to navigate this new economic reality.

Antonio Graceffo, PhD is an economic researcher and China analyst based out of Ulaanbaatar, Mongolia.