

Strategic Trends 2020

Key Developments in Global Affairs

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Publication date:

2020-04-30

Permanent link:

<https://doi.org/10.3929/ethz-b-000413615>

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Originally published in:

Strategic Trends

Center for Security Studies

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STRATEGIC TRENDS 2020 is also electronically available at:
www.css.ethz.ch/publications/strategic-trends

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This publication covers events up to 1 March 2020.

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ISSN 1664-0667
ISBN 978-3-905696-71-4

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Acknowledgments

Strategic Trends is an annual publication of the Center for Security Studies (CSS) at ETH Zurich. It offers concise analyses of major developments in world affairs, with a focus on international security. Providing incisive interpretations of key trends, rather than a comprehensive survey of pertinent events, *Strategic Trends* is targeted at a broad audience, ranging from policymakers to academics, the media, and the general public.

Strategic Trends 2020 is the eleventh issue in the series. The entire publication series is available for download at the website of the Center for Security Studies (www.css.ethz.ch/publikationen/strategic-trends.html).

We would like to thank this year's authors, Henrik Larsen, Linda Maduz, Niklas Masuhr, Jack Thompson, and Benno Zogg for the thought and effort they put into their respective chapters. Jack Thompson was also involved in the conception of the volume as a whole and contributed to the editorial process up until his departure from the CSS. In realizing this year's volume, a large part of the burden fell on Miriam Dahinden-Ganzoni (graphic design and layout) and Brita Achberger (data collection and visualization). Ally Chandler provided language editing and proofreading support of the first order. Annabelle Vuille gave valuable feedback to several of the authors. Christoph Elhardt, Carla Güntert, and the CSS communications team supported the publication process throughout. We are extremely grateful to all of them for their valued contributions.

We hope you will enjoy reading *Strategic Trends 2020*. Should you have any feedback, please do not hesitate to contact us at michael.haas@sipo.gess.ethz.ch and oliver.thraenert@sipo.gess.ethz.ch.

With warm regards from Zurich,

Michael Haas
Senior Researcher, Global Security

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China, the Fractured West, and the Prospect of Unrestrained Geopolitical Competition

2020 finds the world in the early stages of a cascading crisis, exacerbated by the ongoing coronavirus pandemic, that has the potential to leave the incumbent international order in tatters. The specific outcomes of this crisis remain impossible to predict with any certainty. One salient aspect of the issue, however, is the possibility of a regional power transition in East Asia, with sweeping implications at both the regional and global levels. If such a transition should come to pass, it would result in at least a partial displacement of American power and the (re)institution of some form of Chinese preeminence in that region. Though it is far from inevitable, the potential for such a shift to occur in the foreseeable future has itself become a catalyst for intense geopolitical competition, with China and the US increasingly jockeying for position on a global scale. In this volume, we examine these momentous developments from several different angles, with a double focus on geo-economics and international security.

As of this writing, the Coronavirus pandemic had hit most political decision-makers and private citizens unprepared, despite the sustained and dire warnings of international health experts over a period lasting almost two decades. The geopolitical dislocations Europe and the world will suffer in the course of the coming decade are likely to be all the more severe, as the knock-on effects of the ongoing pandemic become apparent. Equally significantly, they may be subject to similar patterns of imperfect risk assessment and underreaction at the decisive point. The shape and extent of the next crisis is bound to once again surprise us. However, just as the risk of a high-impact pandemic was



known and understood in general terms, only to be disregarded at great cost, we would do well to read the signs as best we can while meaningful preparation is still possible.

European leaders in particular will have to face the potential maelstrom of an unshackled US-China rivalry with some level of trepidation. The European Union, shaken by the events of the current pandemic and returning to national practices on many fronts, is singularly ill-prepared to counter external influence attempts that are carefully calibrated to exploit its many internal fault lines. As a result, Europe may find itself turning into a playing field on which external actors unfurl their long-term ambitions, unchecked by any effective counter-concentration of power. Instead of actively shaping its environment, Europe may see itself reshaped by others in their image. Whether this unpleasant scenario can still be avoided will be decided, not in the distant future, but in the next five years or so – that is, during the Von der Leyen Commission's current term in office.

It is true that the main actors in this unfolding drama struggle with important challenges of their own and will hardly escape the political and economic consequences of the corona emergency now unfolding in plain sight. China is beset by a range of internal problems, and the suggestion that some unforeseen combination of factors could bring its power structure to its knees is far from implausible. Moreover, China has not been able to rectify its relative lack of soft power appeal abroad and will continue to struggle in this regard. The United States' position, on the other hand, is weakened by the high degree of polarization of its society and political system, the chaotic propensities of the current administration, and its allies' broadly unfavorable view of 'Trumpism'. All of this, however, is cold comfort for a Europe that remains divided against itself and unable to act coherently in the face of mounting threats, both to its position in the world and to its preferred way of life.

For the past 30 years, experts of all stripes have emphasized *ad nauseam* that pervasive uncertainty and increased complexity have made it difficult to understand the dynamics of the international system and to draw appropriate conclusions. The coming decade of intensifying strategic rivalry is likely to distinguish itself not so much by rampant complexity as by the triumph of unwarranted simplification and by a gradual closing of minds. In countering this tendency,



decision-makers and analysts face a dilemma. On the one hand, focusing on one challenge while minimizing others, as strategic rivals often do, may create perverse incentives for further confrontation. On the other hand, there may not be a tolerable alternative to pursuing the competition with China in the most vigorous and focused manner possible. Whether a meaningful balance can be struck to combine effective competitive behavior with prudence and restraint remains to be seen.

The four chapters that follow reflect on the themes outlined above from several different perspectives. In the first chapter, **Jack Thompson** explores the main domestic determinants of the US-China rivalry and their implications at the international level. He argues that pernicious varieties of nationalism have taken hold in both countries and that the current, rules-based international order is bound to suffer further erosion as a result of these tendencies.

In the second chapter, **Michael Haas** and **Niklas Masuhr** show that a military conflict between the US and China is no longer as remote as it once seemed and that both sides are now very actively planning for the eventuality of a major war in the next decade or two. The authors provide an overview of both sides' current military thinking and find significant incongruencies that could render war a more likely outcome than is often supposed. Although nuclear weapons and the economic cost of mobilization militate against a conscious decision for war, they argue that neither of these factors can be relied upon to render a future US-China war unthinkable.

In Chapter 3, **Henrik Larsen** and **Linda Maduz** address the implications of China's targeted influence attempts and of its Belt and Road initiative (BRI) for Europe. They argue that Europe currently finds itself woefully outmatched in its emerging competition with China and that the latter has already become adept at exploiting European disunity to its advantage. In their view, Chinese influence now poses a major stress test for the European project and will continue to do so going forward.

In the final chapter, **Benno Zogg** explores the BRI and its potential effectiveness from a regional perspective, focusing on China's potential Eurasian zone of influence. He shows that the effects and effectiveness of the BRI in this critical theater are somewhat ambiguous and in need of a nuanced assessment. He finds

that the 'Belt' means many things to many different actors in the region and beyond, but that the influence that it grants its architects in Beijing nonetheless can and will be built upon, with important implications far beyond China's immediate Western neighborhood.

CHAPTER 1

China, the US, and World Order

Jack Thompson

US-Chinese rivalry is becoming the prime mover of global affairs. Though the long-term trajectory of this critical relationship is uncertain, several salient factors are already apparent: pernicious variations of nationalism on both sides; foreign policies that are increasingly shaped by domestic problems; and a growing tendency to allow expectations of future competition to drive the development of grand strategy. If current trends continue, the dynamics of the US-China relationship will further imperil the rules-based international order, with far-reaching consequences well beyond East Asia.



Presidents Donald Trump and Xi Jinping pose for a photo during the G20 summit in Osaka, Japan, June 29, 2019. *Kevin Lamarque / Reuters*



The United States has now most probably entered an era of gradual decline. Though the concept is contested, most definitions of decline encompass capabilities in the economic, military, and political-diplomatic sphere relative to other countries. In each of these areas, the United States faces significant challenges. It commands a slowly shrinking percentage of the world economy, even as competitors such as China have continued to grow. Its military instrument has been blunted by years of war in the Middle East and South Asia and its diplomatic corps has been decimated by mismanagement and lack of funding. At home, its political culture is plagued by polarization, radicalization among key constituencies, and income inequality. In addition, as it seeks to counter China's rise, the United States has struggled to coordinate with its allies. Partners in Europe and East Asia, though wary about China's long-term intentions, are loath to forgo the benefits of expanded economic ties to Beijing. They have also been dismayed by the nationalist trade and security policies pursued by Donald Trump's administration since 2016.

In spite of this formidable set of challenges, the United States continues to enjoy many advantages relative to China. Most notably, the United States still remains the world's foremost

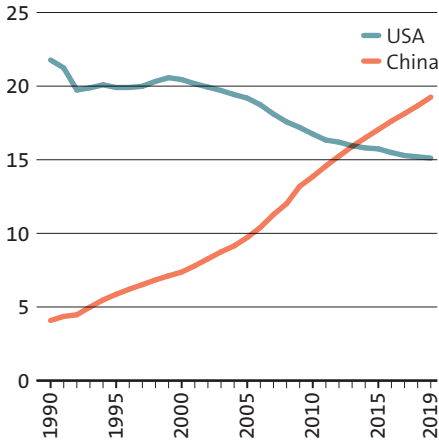
military power. Even allowing for the fact that China's actual level of military expenditure may be higher than the reported figures and that it benefits from a regional focus, whereas US spending must account for global commitments, its defense budget still dwarfs that of China and other major powers. Despite Chinese advances in recent years, the United States will also retain its leadership in most aspects of military technology for years to come.¹

Arguably, the United States remains the only nation in the world with a truly global agenda, able to project power and influence in every corner of the world, even though its political influence and soft power have been damaged by a nationalistic turn in its approach to foreign policy since 2016. China's reach has grown considerably, but it still trails the United States in this regard. Even in the economic sphere, the advantage lies with the United States. Though China has become the world's largest economy in terms of gross domestic product (GDP) based on purchasing power parity, the United States remains far ahead in GDP per capita. Many Western analysts also believe that, as a free-market democracy, the US enjoys long-term advantages over any authoritarian rivals – though this perspective has been challenged in recent years.



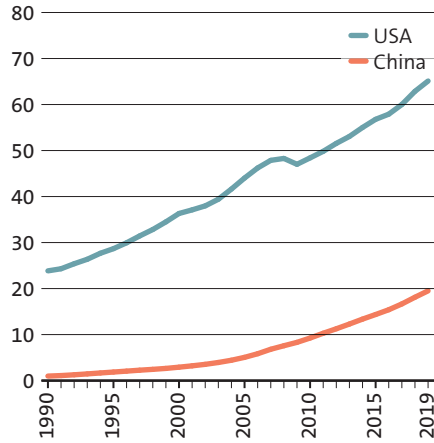
GDP Based on PPP

Share of world, in %



GDP Per Capita Based on PPP

in 1,000 USD



Note: Q4 2019 estimated
Source: IMF 2019

Meanwhile, even as China begins to translate its status as an economic superpower into global political influence and greater military clout, it faces significant internal and external challenges. President Xi Jinping and the Chinese Communist Party (CCP) are attempting a complicated balancing act: running an authoritarian, one-party political system but allowing a market-based economy to operate, albeit with significant state intervention. Conventional wisdom long held that such a straddle was impossible and that, eventually, rising prosperity would force China's rulers to reform the political system. There is an ongoing debate about the extent to which China represents an

example of “resilient authoritarianism”, but Chinese policymakers show no interest whatsoever in relaxing their grip on power. Instead, Xi has orchestrated changes that could allow him to indefinitely remain in control. He is fostering a cult of personality, which now requires many Chinese to study his “Xi Jinping Thought”, and the CCP has greatly expanded its use of advanced technology to extend its sway over Chinese society and to suppress dissent.² It remains to be seen if this increasingly totalitarian approach is sustainable. Other long-term questions facing China include environmental degradation caused by climate change and pollution, debt-driven growth that may not be sustainable,



and a looming demographic crisis caused by the (now discontinued) one-child policy. Although its effects remain unclear at this writing, the coronavirus crisis appears to have further added to the systemic strain the CCP is facing.

In its near abroad, China faces territorial disputes with most of its neighbors. Many of these disagreements are longstanding, but Beijing's recent construction of militarized artificial islands in the South China Sea has exacerbated these existing tensions. Further afield, even as many countries welcome Chinese direct investment and Chinese technology via the Belt and Road Initiative (BRI) and the construction of 5G infrastructure, they express concern about greater vulnerability to Chinese economic and political influence and the possibility that adopting Chinese technology could leave them vulnerable to cyberattacks.³

Ironically, given the divergent historical and geographical contexts in which they operate, many of the same factors shape thinking in both Beijing and Washington. Intense nationalism, often of a pernicious variety, is a key determinant of Chinese and US statecraft. Both have formulated foreign policy agendas that attempt, to one degree or another, to solve significant domestic problems. China and the

United States are also struggling to assuage neighbors and allies concerned about their assertive foreign policies.

To an extent, we can anticipate the probable consequences of US-Chinese competition. One is a heightened threat to the rules-based international order. Both nations have been willing to undercut the normative standards prescribed by this approach to international order when it suits their interests and will likely continue to do so. Ongoing competition will also likely result in increased fragmentation and instability. China and the United States are now competing across all sectors – political, economic, military, and cultural – and are paying special attention to pivot states and regions. China and the United States may or may not engage in direct military conflict, but they are preparing for it and, in doing so, are engaging in multiple forms of destabilizing behavior.

Related to the problem of fragmentation and stability, but more difficult to quantify, is the degree of additional uncertainty that the US-Chinese rivalry is injecting into the interactions that are going to shape the future international system. The current relationship between the US and China looks very different from previous bipolar superpower rivalries, most notably between



the United States and the Soviet Union. China and the United States are much more closely interlinked, economically and even culturally, than the United States and the Soviet Union ever were. This complicates threat perceptions on both sides and makes the prospect of partially de-coupling their economies – something both states are considering – much more difficult. Furthermore, the international status of both countries is more fluid, adding additional uncertainty over how this rivalry might play out in the coming years. The United States is gradually declining but could remain the most powerful nation for decades; China is rising but faces substantial obstacles that could significantly slow or even halt its ascent. Moving forward, there is also the question of how other countries will respond to US-China competition. Thus far, it appears that most countries prefer to avoid alignment with one power or the other and instead seek to maintain good relations with both. This may be a positive dynamic in terms of international stability, but it also makes predicting reactions among third party states difficult.

US Grand Strategy and the China Challenge

Between the end of the Cold War and 2016, US grand strategy – the attempt to coordinate its long-term diplomatic, economic, and military policies – was

centered on three main goals: military predominance; trade liberalization; and spreading democracy, if often imperfectly. Each of these strategies was designed to buttress its vision of a liberal world order – an expansive network of institutions, alliances, and shared values the United States led the way in forging after World War II. US policymakers viewed this approach as the best way to maintain a position of primacy in world affairs.⁴

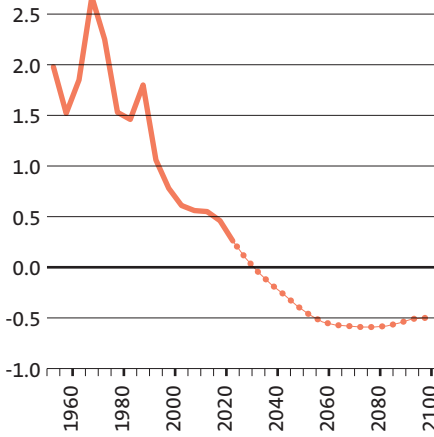
Though there have always been sharp differences in opinion about the most effective approach, in mainstream US political culture there has long been broad agreement about the desirability of predominance. This dovetails with a sense of exceptionalism, present throughout US history, based on a belief in the superiority of US political institutions and of being separate from, and better than, other nations. Even President Barack Obama, seen by many as too sophisticated for crass appeals to nationalist sentiment, frequently spoke of the United States as a special country. In 2014, he told an audience, “I believe in American exceptionalism with every fiber of my being.” In 2016, he argued that “American leadership, in part, comes out of our can-do spirit. We’re the largest, most powerful country on Earth. As I said previously in speeches: when problems happen, they don’t



Internal Challenges

China's Shrinking Population

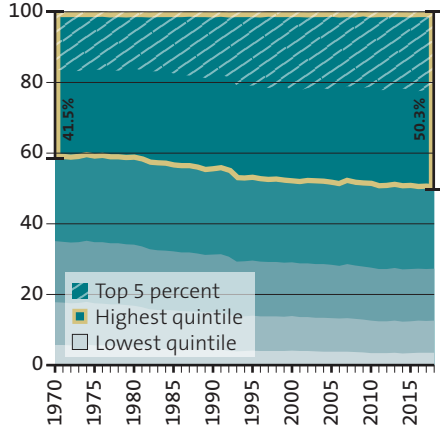
Average annual rate of population change, in %



Note: Medium-variant projection
Source: UN World Population Prospects 2019

Growing US Income Inequality

Share of US aggregate income*, by income quintile



* Equivalence-adjusted household income
Source: US Census Bureau

call Beijing. They don't call Moscow. They call us. And we embrace that responsibility.”⁵

In recent years, support for the strategy of primacy has wavered and Americans have begun assessing alternative approaches, even as the United States' predominant role is being challenged from abroad. At home, the political system is dysfunctional, raising concerns about the ability of the United States to focus on external problems. It is riven by intense polarization and the increasing radicalization of many culturally conservative Americans, who are uneasy about the nation's

growing diversity and many of whom have suffered from the downsides of a globalized economy. Historically high levels of economic inequality further exacerbate the situation. Though most Americans continue to favor US leadership abroad, for the first time since the early Cold War era a large minority advocates at least partial retreat from international engagement. Many culturally conservative or economically deprived whites favor a strong military but are skeptical of multilateralism and lengthy military operations. These voters – sometimes referred to as Jacksonians – prioritize focusing on domestic problems and



tend to agree with Trump's contention that allies have been free riding on US security guarantees. Other observers, many of them academics and career foreign policy analysts, advocate a shift towards offshore balancing – essentially avoiding direct US involvement in regional affairs, eschewing permanent military involvement wherever possible, and relying more on local partners.⁶

Some elements of the post-1990 strategy linger, but in altered form. The official US policy continues to be the maintenance of military supremacy. The 2017 National Security Strategy spoke of “rebuilding our military so that it remains preeminent” and the 2018 National Defense Strategy endorsed the goal of remaining “the preeminent military power in the world.” However, there is growing support among some members of the foreign policy elite for shifting toward some version of offshore balancing, at least in Europe and the Middle East. This is a shift that would, in the long run, necessitate reducing large scale US troop deployments in key regions. Both Obama and Trump's foreign policies appear to incorporate elements of offshore balancing.⁷

Most Americans continue to support the promotion of free trade, but activists on both sides of the political

spectrum have successfully pushed policymakers to embrace a more skeptical perspective. In particular, the Trump administration is hostile to the prevailing multilateral trade architecture and is instead seeking to renegotiate all of its major trade deals on a bilateral or regional basis. One overarching goal in these negotiations is to limit China's access to foreign markets.⁸

The importance of promoting democracy has also been deprioritized in the United States' approach to international affairs. Partly, this is a consequence of the disastrous attempts to impose democratic political systems on Afghanistan and Iraq. These failures coincide with a growing pessimism among the world's democracies and a sense that authoritarianism is on the rise. Even among those that prioritize upholding liberal norms and values, there has been a shift toward consolidating existing democracies rather than creating new ones.

A tentative consensus has emerged among US experts that a return to the main tenets of the liberal world order in its previous incarnation is not in the cards. However, there is little agreement as to what should come next. Influenced by the ascendancy of Trumpism, many conservatives increasingly view the world through a



nationalist lens. They generally value alliances more than President Trump, but like Trump, tend to view allies as extensions of US power rather than as partners in a multilateral order that is mutually beneficial. Meanwhile, many internationalists in the center and on the center-left would concede that the post-1945 order is in need of a partial overhaul. While they generally acknowledge the salience of major power competition, many argue rivalries with authoritarian states make the existence of a multilateral order, including cooperation with countries that can share some of the burden, all the more indispensable.⁹

Uncertainty about the future of US grand strategy is increasingly intertwined with discussions about effective responses to the rise of China. Since the George W. Bush administration began what would later come to be known as the ‘Pivot to Asia’, US strategy has oscillated between two competing impulses. One is a carrot and stick approach designed to encourage China to curb its most troubling behavior and more closely align with liberal values and practices. The proposed Trans-Pacific Partnership – from which the Trump administration withdrew in 2017 – was a trade deal that linked the Americas and East Asia. It was partly intended to bolster US alliances in the region, but it also

sought to encourage Chinese reform and offered the possibility of future membership. President Obama was not naïve about China, but he was optimistic about the resiliency of the rules-based international order. He believed that Chinese reform was still possible and viewed competition between the United States and China from a more fine-grained and conflicted perspective, one that took into account US alliances in Europe and especially Asia.¹⁰

This cautiously optimistic view of relations with China has faded. The Trump administration entertains little hope that the right mix of policies can facilitate the emergence of a more benign China. Instead, a focus on long-term competition with Beijing, the other pole of US thinking, is now clearly predominant. Though it pays lip service to upholding alliances in the region and has urged its European partners to avoid forming closer political and economic ties with Beijing, the administration’s unilateralist and nationalist approach has made the maintenance of any sort of multilateral coalition untenable. In any case, it is more interested in bilateral competition with China.

For the most part, the Trump administration has focused on trade. The architect of its trade strategy vis-à-vis



China, Robert Lighthizer, is a fierce critic of the multilateral trade order and views China's model of state capitalism as a profound threat. He has overseen the imposition of punitive tariffs, which in theory are designed to force Beijing to reform its trade policies. The January 2020 phase one trade deal makes little progress in this respect. The deal ultimately commits China to purchasing 200 billion USD in American goods and services and includes more access for key industries, such as farming. The chief problems with Chinese trade policies are structural, including state subsidies to Chinese businesses, and the accord does nothing to curb those. The agreement includes vows to refrain from forcing technology transfer from US companies, but China has a long history of breaking such promises. The timing and nature of the deal, with its benefits directed toward key US constituencies such as farmers, indicate that it is mainly political in nature, designed to boost the president's electoral prospects, and has limited ambitions in terms of facilitating genuine reform.¹¹

An additional problem with the Trump administration's singular focus on trade is that it has done little to develop a comprehensive strategy for competing with China. The political and military dimensions of the relationship, and how they relate to

broader US foreign policy goals, have not received the attention that they deserve. It will fall to Trump's second term, or more likely to his successor (in 2021 or 2025), to begin thinking strategically about how to leverage US resources to develop a constructive relationship with Beijing. Ideally, this would include elements of competition but also pragmatic cooperation, not only in regard to issues of bilateral importance, but also when it comes to global problems such as climate change or health security.

Chinese Grand Strategy and US Decline

Unlike the United States, where the notion of grand strategy is well established and there is a tradition of public debate about government policy, China is governed by a one-party, authoritarian regime that has long sought to control information and has only recently begun to experiment with greater transparency. As their response to the 2019–2020 coronavirus outbreak demonstrates, when under pressure Chinese officials still tend to revert to a repressive approach to information dissemination. To be sure, Chinese analysts and policymakers are familiar with the concept of a grand strategy and there is an ongoing discussion about its merits among insiders; however, it is considerably less vigorous than in the US.¹²



We do have a good sense of the historical and cultural underpinnings of Chinese thinking about the international system. For most of their history, the Chinese have played a central role in their region, with their neighbors borrowing culturally, linguistically, and politically from China. This has led to a conception of China as the natural hub of East Asia, with responsibility for the entire regional system. This dovetailed with the broader Chinese concept of *tianxia*, sometimes translated as All Under Heaven – a way of theorizing the international system that is in many ways akin to the Western notion of empire – which centered on the Chinese kingdom but also provided a blueprint for thinking about common international interests. However, in the nineteenth century, closer contact with the West led to a series of significant military defeats, beginning with the First Opium War in 1839. Thenceforth, Western imperialism was a recurring challenge to Chinese policymakers, one that often exacerbated domestic divisions. This included Western intervention in the Chinese Civil War. Even though the CCP defeated the Nationalists in 1949, resentment of the humiliation historically inflicted by foreigners – and the fear that hostile outsiders will always seek to exploit internal vulnerabilities – infuses modern Chinese nationalism.¹³

In the mid-1990s, Chinese leaders began to grapple with the implications of the post-Cold War system, including US primacy. They recognized that a rising China would generate suspicion and that the best way to counter this would be to avoid political or military activities that would attract undue attention; in the words of Deng Xiaoping, China would “keep a low profile and bide [its time].” The emphasis instead fell on fostering domestic stability and economic growth, improving relations with neighbors, and exploring opportunities for multilateral action. China joined the World Trade Organization (WTO) in 2001. In 2003, Chinese President Hu Jintao introduced the phrase “China’s peaceful rise,” which he later reformulated as “China’s peaceful development” in order to make it even less threatening. In 2010, Dai Bingguo, a leading foreign policy official, defined China’s “core interests” as: political stability; territorial integrity; unification with the separate, democratically governed Taiwanese state (by force if necessary); and sustainable economic and social development. Aside from their position on Taiwan, Chinese officials mostly avoided rhetoric or actions that might generate tension with other powerful countries.¹⁴

At the same time, Chinese policymakers began to think strategically about



their national security. In no small part, this change in thinking was prompted by the denouement of the so-called 1996 Taiwan Crisis. When China reacted to what it viewed as provocative, pro-independence steps in Taipei by conducting military exercises designed to intimidate its neighbor, including launching missiles in close proximity to the island, two US aircraft carrier groups conducted a major show of force. China was powerless to counter the carriers. In response, it began a long-term program designed to offset US sea power, including a large-scale modernization of its naval forces and the introduction of novel capabilities like the DF-21D anti-ship ballistic missile.¹⁵

The strategy of a “peaceful rise” ended with Xi’s ascension to power. As early as the late 2000s, Chinese policymakers had begun to discuss the need to harness Chinese economic power for political ends. They sought not just to bolster China’s image, or to earn goodwill – though this has been a key goal, especially when it comes to China’s Southeast Asian neighbors – but to compel other countries to reverse unwelcome policies. This is a tactic used by many countries, not least the United States, but it marked a new level of assertiveness in Chinese statecraft.¹⁶

As president, Xi has married China’s growing geo-economic assertiveness

with a much bolder political and military vision. Certainly, there is ample continuity with the emphasis of his predecessors on international stability, economic growth, territorial integrity, and participation in multilateral institutions and initiatives. However, Xi’s China is also increasingly assuming the identity of a major power. Partly, this is a matter of rhetoric. Xi has famously propagated the idea of the so-called ‘Chinese Dream’, perhaps self-consciously echoing the notion of the American Dream, but also framing it within a decidedly Chinese context. The message can vary, but it generally promotes the idea of national restoration and glory as inextricably linked to the CCP. This is part of a broader effort to communicate a message of pride in their past and optimism about the future to the Chinese people. “China’s international standing has risen as never before,” Xi proclaimed at the CCP’s 19th National Congress in 2017, and the “Chinese nation now stands tall and firm in the east.”¹⁷

This nationalist rhetoric reflects a new degree of boldness and ambition for Chinese foreign policy, but it is more than simply an expression of expansionism; it coincides with an increasingly sophisticated grasp of how to wield China’s growing influence, especially in regard to its neighbors, and how regional and global governance



should be organized. This intent was clear in Xi's 2017 speech, in which he declared, "China will continue to play its part as a major and responsible country, take an active part in reforming and developing the global governance system, and keep contributing Chinese wisdom and strength to global governance." The militarization of artificially constructed islands in the South China has generated widespread alarm, but China has worked hard (though with limited success) to assuage its neighbors that there is no malign intent behind the project. The Asian Infrastructure and Investment Bank (AIIB) is intended both as a response to the US Pivot to Asia and as one of several initiatives designed to reshape the prevailing international order in ways that are more favorable to Beijing. The BRI initially was devised for domestic purposes, essentially to find foreign markets for Chinese overcapacity. Yet over time, it has also assumed a degree of strategic importance in Chinese thinking. At the same time, Beijing has shown flexibility in how it manages the individual projects and responsiveness to local needs.¹⁸

The foundation for Beijing's foreign policy is nationalism. In spite of its name, the Chinese Communist Party's focus is not the spread of a utopian vision for universal communism; its foremost goal is maintaining its

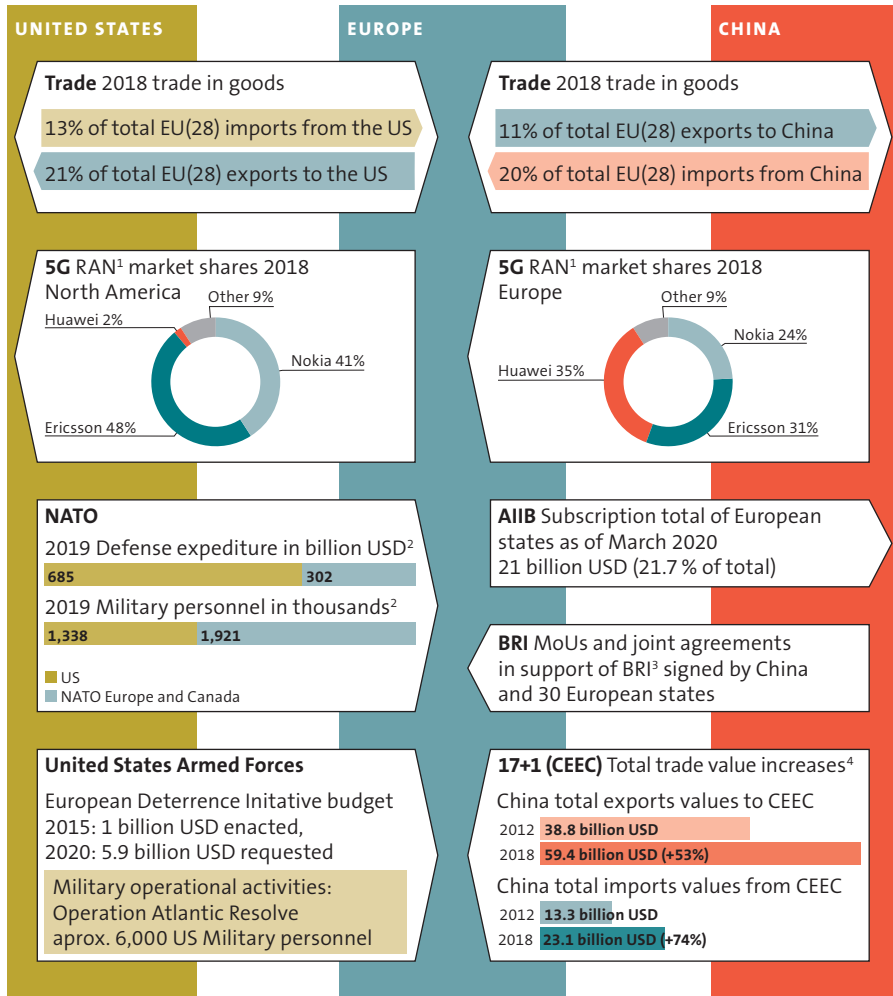
control of an authoritarian, one-party system. Nevertheless, there is a growing internationalist component to Chinese statecraft. China explicitly offers an alternative to the Western model, especially for low- and middle-income countries. In his 2017 speech, Xi argued that the system of "socialism with Chinese characteristics [has] kept developing, blazing a new trail for other developing countries to achieve modernization" and he avowed Chinese support for "the efforts of other developing countries to increase their representation and strengthen their voice in international affairs." According to Xi, China "offers a new option for other countries and nations who want to speed up their development while preserving their independence; and it offers Chinese wisdom and a Chinese approach to solving the problems facing mankind."¹⁹

The extent to which these factors constitute a grand strategy is open to debate, even among Chinese analysts. At the same time, three components of Chinese strategic thinking are evident: reshaping, not revolutionizing, the international order; cognizance of the effect of growing Chinese power on the system, especially when it comes to its neighbors; and the need to strike a delicate balance in the relationship with the United States. As



Security – Political – Economic Competition

US and China: Focus on Europe



1 Radio Access Networks (RAN) provide radio access and assists network resource coordination across wireless devices. RAN is the fundamental architecture for any cellular device to connect to any network. Newest RAN developments are at 5G. Due to rounding, percentages may not add up to 100%.

2 2019 NATO estimates

3 Including MoUs and joint agreements with China for a general framework of cooperation under the BRI as of December 2019 and MoUs with China on transport related issues, infrastructure development, or custom cooperation as of December 2017.

4 Trade calculated for 16+1. Greece joined 16+1 August 2019 (17+1). Trade values are imports (cost, insurance and freight) and exports (free on board). Reporting country is China.

Sources: Eurostat, Dell’Oro in Oxford Economics, NATO, AIIB, Steer Davies Gleave, European Parliament Policy Department for Structural and Cohesion Policies, US Department of Defense, Congressional Research Service, IMF DOTS, CSS research



Michael Haas and Niklas Masuhr discuss in their chapter, China's military strategy has long been dominated by concerns about US capabilities and how best to counter them. Policymakers in Beijing fully understand the importance of US-Chinese competition to the international order and many hope to foster a version of the relationship that is pragmatic and constructive rather than ideological and destabilizing. Yet the likelihood of greater cooperation between the two nations is unclear, undermined further by the Chinese perception that the United States is a declining – if still formidable – power.²⁰

China's increasing willingness to assume a global leadership role is partly a response to counterproductive US policies since 2016. In a 2017 speech at the World Economic Forum, Xi made a thinly veiled effort to position China as an alternative pole of stability. "When encountering difficulties, we should not complain about ourselves, blame others, lose confidence or run away from responsibilities. We should join hands and rise to the challenge," he argued. One of the cornerstones of Chinese nationalism is the fear, routinely stoked by policymakers in Beijing, that Western – especially US – policy is designed to contain China and to encourage internal divisions. Consequently, Chinese officials are engaged

in a constant process of assessing how best to respond to US power. The recent trade deal with Washington, in which Beijing made some short-term concessions, demonstrates the balancing act China is wont to pursue. In the long run, Beijing seeks to create supply chains and economic relationships independent from US control. In part, that reflects a calculation that, as dangerous a foe as the United States is, time is not on its side. For many Chinese officials, the Trump administration's policies are only accelerating the process of decline.²¹

Implications for the Global Order

In many ways, US-Chinese competition has been a key catalyst for the rapid evolution of the international order. We live in an era of resurgent nationalism. The concerns of millions worldwide about the downsides of globalization have fueled a process of political radicalization and, in some instances, given rise to extremist movements. Moreover, this trend of pernicious nationalism is affecting domestic and global affairs decisions in both China and the United States.

Though they have very different origins, these nationalisms manifest similarly in both countries. The Chinese variant is alarming because it draws on a strong sense of grievance, primarily vis-à-vis the West and Japan, and



because there is a tendency to believe that regional and international orders should naturally revolve around China. Meanwhile, in recent years many Americans have also come to believe that they have been treated unjustly, not just by members of the political and economic elite, but also by the rest of the world. There exists the perception that allies have been free-riding on US military might, even as they adopt unfair trade practices, and that it is time to begin demanding that others pay up if they wish to retain US goodwill. Encouraged by its political base, the Trump administration has fashioned this insular and damaging perspective into a cardinal feature of US strategy. Meanwhile, the United States paradoxically continues to pursue a foreign policy based on the assumption that its values and institutions have universal appeal and relevance.

If the world's two most powerful countries continue to nurse nationalistic grudges and to expect that the international system should automatically bend to their needs, this may further exacerbate the nationalist tendencies of other countries. As we have seen, even though extremist nationalists trade on fear of the foreign, they are quick to form international networks and to exchange ideas and tactics. This danger is particularly evident in the West, where Trumpism has both

drawn upon and further encouraged European far-right movements.²²

Chinese and US nationalism are also partly responsible for the growing tendency to link economic and political-security policy. The Trump administration has unabashedly tied concessions from trading partners to security cooperation. Until recently, China had mostly been subtler, because among Chinese strategists there was a belief that forming trading relationships, especially with neighbors but increasingly further afield, would naturally yield political and even security benefits in the long run. However, as China grows more comfortable with its enormous economic power, it is increasingly inclined to use it more bluntly. One striking example is the battle to convince European countries to allow China's national champion, Huawei, to help build their 5G networks. Despite the potential technological advancement, 5G networks remain controversial because of concerns that Chinese intelligence could gain access to communication infrastructure. "If Germany were to make a decision that led to Huawei's exclusion from the German market, there will be consequences," the Chinese ambassador in Berlin warned in December 2019, alluding to private Chinese threats to retaliate against the German car industry.²³



The propensity to weaponize trade relationships is part of a broader threat US-Chinese competition represents to the rules-based international economic order. Both countries have a complicated relationship with the WTO. China has benefited immensely from its accession to the organization. It has enjoyed spectacular growth, partly because it is now deeply integrated into international supply chains and trading networks. In addition, its classification in the WTO as a developing country gives it modest advantages in relation to WTO-classified developed economies, for instance when it comes to subsidies and protection of domestic industries. Yet China has a mixed record when it comes to compliance with WTO rulings.²⁴

The United States did more than any other nation to found the current international economic order and, in aggregate, has benefited enormously from the increased levels of trade that it has made possible. Yet the Trump administration views the WTO, and multilateral trade in general, as liabilities. In particular, it contends that China's accession to the WTO has been disastrous. Though there are some grounds for this belief – the so-called China shock and its harmful effects on some US regions has been amply documented – on the whole the United States continues to enjoy

significant WTO-related benefits. For instance, in the 23 cases the United States has filed against China with the WTO, it has won 19; the other four are pending. Nevertheless, the Trump administration is in the process of dismantling the multilateral trading system in favor of a series of bilateral and regional agreements.²⁵

Beyond international trade, China and the United States are ambivalent about multiple aspects of the rules-based order. Both tend to operate according to established norms when it suits their interests, but are quick to ignore core tenets of the system when convenient. Over the last few years, the United States has withdrawn from a number of international agreements and organizations. By doing this, the United States sought more freedom to maneuver in the international sphere, even if the move damaged both US soft power and its alliances. This strategy is shortsighted, given the growing need for allied support to counter China. For instance, the United States welcomed a 2016 Permanent Court of Arbitration ruling in favor of the Philippines. The decision, which rejected Chinese claims of sovereignty over disputed islands in the South China Sea, should have been a move to bolster the rules-based international order. However, Beijing refused to participate in the



arbitration process and rejected the ruling, which was based in part on the United Nations Convention on the Law of the Sea (UNCLOS). The United States has never ratified UNCLOS, a fact that undercuts US endorsement of the ruling.²⁶

The United States has made it clear to allies that it expects to receive their support in its rivalry with China, but the response has been unenthusiastic. In spite of sustained lobbying during the December 2019 NATO Leaders Meeting in London, the toughest language US officials could convince their European counterparts to include in the joint declaration was a recognition “that China’s growing influence and international policies present both opportunities and challenges that we need to address together as an Alliance.” The US was unable to persuade most of its allies to reject membership in the AIIB. It has had little success in convincing other countries to avoid participation in the BRI. Its warnings about the potential threat posed by Huawei’s 5G infrastructure have gained only modest traction. Yet US struggles to isolate China – always an unrealistic aspiration – do not indicate that Beijing is winning the international battle for hearts and minds. In most soft power indices, China still lags behind the United States. Many countries, especially in East Asia and

in Europe, are wary of Chinese intentions and would like US support in balancing Chinese power.

One of the key features of US-Chinese rivalry is its increasingly global nature, with key arenas of competition in Europe and East Asia. There is considerable fear that in any conflict between the two major powers, smaller states will inevitably be caught in the crossfire. Instead of choosing one side or the other, many countries seem to be inclined to remain, at least to some degree, unaligned. They want to trade with both countries and they want to avert conflict with both countries. Above all, they desire that China and the United States maintain a constructive relationship and avoid a military confrontation.



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CHAPTER 2

US-China Relations and the Specter of Great Power War

Michael Haas and Niklas Masuhr

As the strategic rivalry between the US and China intensifies, militarized crises are becoming more likely and a major military conflict is no longer as remote as it once seemed. The far-reaching modernization of its armed forces has already led China to embrace a more sanguine view of how such a conflict might play out. Meanwhile, the United States is struggling to formulate a coherent response to a potential Chinese attempt to recast the regional order by force. Although war remains unlikely, the need to get real about the possibility is now more urgent than at any point in recent decades.



US Navy ordnance handlers are arming an F/A-18 fighter jet aboard the carrier USS Carl Vinson in the South China Sea, March 3, 2017. *Erik De Castro / Reuters*



After going through a period of uncertainty that lasted into the 2010s, the relationship between the US and China has been transitioning toward a new phase of openly declared and manifest strategic rivalry. Though the geo-economic aspects of this escalating competition currently dominate the public discourse, a growing body of literature points toward a further deterioration of US-China relations as a potential catalyst for militarized crises and, eventually, great power war.¹ The main structural cause that would drive such a development is easily identified: although the United States remains significantly more powerful globally, the two leading powers in the international system are inching towards a potential power transition in East Asia, spurred on by their fundamentally incompatible strategic visions for the future of the region. Irrespective of the eventual outcome of such a transition, which we cannot predict with any certainty, broadly similar situations have frequently – though not invariably – resulted in major wars in the past and there is reason to believe that this risk remains with us today.

While many Western observers continue to naively discount the possibility that several decades of ‘deep peace’² might come to a violent end, such hopes have been unceremoniously shattered in the past. The reality is

that war between the US and China has not only become thinkable, but it is now actively being considered and prepared for on both sides of a solidifying strategic divide. Furthermore, although the main impetus for a US-China conflict may be structural, there is no lack of potential triggers for war. Given Beijing’s firm commitment to use force to uphold its ‘One-China policy’ and the implications for Washington’s international reputation if it should fail to respond, a dispute over the future status of Taiwan is still the shortest and most direct path to major conflict. Nevertheless, a collapse of the North Korean regime, China’s highly assertive approach in the South China Sea, or a string of incidents in the East China Sea could all plausibly lead to a military confrontation between the two great powers. Regardless of the exact trigger, the consequences of such a confrontation would extend far beyond East Asia. Even if military clashes remain limited to the region, significant second and third order effects should be expected around the globe as a result of high levels of economic integration.

This chapter will contend that, based on a review of past research findings and observable trends, a US-China war can no longer be treated as a remote and implausible prospect.



Although a major conflict currently remains unlikely, the US-China relationship is set to pass through a period of maximum danger that will extend into the 2030s and likely beyond. Increased military preparations are both a rational response to that prospect and an additional source of tension going forward. As the strategic rivalry in East Asia intensifies, militarized crises will become increasingly likely and path dependencies will solidify. While early attempts at strategic conciliation or repeated successes in crisis management could render conflict a less likely outcome over time, the current trajectory of US-China relations does not evince optimism.

This chapter will firstly consider the empirical record of strategic rivalries and potential power transitions. Secondly, it will explore Beijing's evolving military calculus and analyze both US and Chinese thinking about a great power war more broadly. This review will focus on how a conflict could arise and how it might be fought. Thirdly, the chapter will also investigate factors that might mitigate the likelihood of escalation, specifically the role of nuclear weapons and the difficulty of mobilization under 21st century conditions. Finally, the chapter will close with a preliminary assessment of what to expect in the coming decade.

Entrenched Rivalries and Major Wars

Wars are overwhelmingly fought among states that are already engaged in long-standing strategic rivalries. This is one of the few clear-cut empirical findings in the conflict studies literature. Like other types of international conflicts, such rivalries are marked by an incompatibility of spatial, ideological or other interests. What sets them apart, however, is their intense, enduring and most often militarized nature. As rivalries become increasingly entrenched over time, the view of one's opponent as a significant threat is cemented and both sides settle into an expectation of future antagonism. In other words, the objective and subjective foundations of the conflict have become so entangled as to render a resolution both extremely difficult and ever more unlikely in practice. It also creates a dynamic in which both sides may be more concerned with their regional and global credibility, as opposed to settling tangible points of contention. As a result, confrontations might escalate beyond what would otherwise be considered reasonable.

The effects of entrenched rivalries on the likelihood of military conflict between states are indisputable. To provide some illustrative examples of research findings in this area, a review



of 95 interstate wars fought since the 1820s demonstrates that 78% of those conflicts included states that had previously been embroiled in long-standing, militarized rivalries.³ Another major quantitative study shows that of 47 interstate wars that took place in the 20th century, 87% were preceded by such entrenched rivalries.⁴ Another foundational work in this area found that long-term strategic rivalries are easily the most war-prone of interstate relationships – a small fraction of cases that accounts “for a disproportionately large number of conflicts and wars.”⁵ Many of these strategic rivals face off against each other in militarized crises and incidents before they end up fighting a war. And, having fought each other once, they often clash again in the years and decades that follow.

At the same time, it is also true that not all strategic rivalries result in war. In fact, while the vast majority do result in some kind of militarized dispute, only about half of those rivalries actually led to war.⁶ At first glance, this may sound like strategic rivalry is only a weak predictor for interstate war. Upon further reflection, the proposition that a US-China war could ultimately be as likely as a coin toss should be deeply disconcerting. Recent research into a smaller subset of cases, where one of the rivals is challenging a leading power for precedence

in the international order, found even higher rates of military conflict. Of sixteen such cases examined in a research project on the so-called ‘Thucydides Trap’ – based on the Ancient Greek historian’s theory that “[t]he growth of the power of Athens, and the alarm which this inspired in Sparta”⁷ caused the Peloponnesian War of 431–404 BC – twelve eventually resulted in war.⁸

None of this is to suggest that a US-China war is becoming inevitable or that it is as likely as statistical analyses of the historical record would intimate. All wars are individually preventable, at least in principle. Yet a manifest strategic rivalry, a looming power transition, increasingly militarized patterns of interaction, and a significant probability of future crises over stakes large and small all point to a substantial risk of military conflict between US and China. Nuclear weapons and the certainty of major economic dislocations still provide extremely powerful disincentives, but it is not clear that either of them can prevent states from engaging in conflict in all cases. This is still an uncomfortable admission to make for Western political leaders and intellectuals, who have long assured the public that great power war has been consigned to the ash heap of history. But such qualms do not make the possibility



any less real. As a result, ongoing shifts in US and Chinese military thought and increased preparations for war should be taken extremely seriously – both as a symptom of how the relationship is developing and as a potential harbinger of heightened tensions in years to come.

Embracing Victory

While much has been written about China's meteoric rise from impoverished agrarian state to global economic powerhouse, the impact of its development on the military balance in East Asia has only recently begun to seep into mainstream Western public discourse. In summarizing the cumulative effects of China's military modernization since the Third Taiwan Strait Crisis in 1996, one recent study concludes that "the military equation in East Asia has changed dramatically."⁹ Starting with very limited capacity, "the PLA has made tremendous strides, and the overall capability trend lines are moving against the United States. In some areas, such as ballistic missiles, fighter aircraft, and attack submarines, improvements have come with breathtaking speed by most historical standards."¹⁰ Although some experts may seek to amend or qualify this statement, the basic trend is difficult to dispute: with no end in sight for the remarkable advancement of Chinese military capacity, the PLA will

soon rank in the top tier of the world's most capable military organizations. Although much work remains to be done, President Xi's publicly stated aims of "basically completing"¹¹ the PLA's modernization program by 2035 and fielding "world-class forces"¹² across the board by 2050 is no longer out of reach. If the situation in the region should deteriorate and military spending increases accordingly, the Chinese leadership may attempt to accelerate this process even further. This is particularly likely if China deems militarized nationalism and repeated shows of force as better insurance policies for its own survival than domestic liberalization.

Given China's recent history of unprecedented economic growth, none of this is surprising in itself. Though China's military budgets have grown considerably faster than its civilian economy, it is hardly unusual for a rising power to prioritize its security concerns. What is remarkable, however, is the extent of the corresponding shift in China's ambition. To state it bluntly, Chinese leadership is no longer seeking to merely contest US military superiority in the region or to impose costs on the leading power in case of war. Instead, the PLA has embraced outright military victory as the new benchmark for its force design, capability development, and



operational planning.¹³ The aim of China's defense program for the 2020s and beyond is to be able to defeat the United States and its allies in a potential regional conflict. This is a highly consequential development, with implications that reach far beyond the region itself. A Chinese ability to defeat the United States militarily in regional contingencies would have momentous implications for a security order built on a US-led alliance system. It is also worrisome as we have reason to believe that "leaders select themselves into conflicts that they think they can win."¹⁴ Thus, how each side *perceives* its military prowess in relation to its opponent's capabilities can have a significant shaping effect at all levels of decision-making. Perhaps the most dangerous setup, then, is one in which the US concludes that it can *still* engage in decisive military action, but not for much longer, and Chinese leaders believe that they are *already* in a position to engage in such action and overestimate their military leverage as a consequence.

As things stand, there is every reason to believe that the CCP leadership would like to avoid a military confrontation with the United States. However, the likelihood of a military clash will ultimately be shaped by the stakes of the specific conflict, not least in terms of regime security and

survival, and the degree to which the political and military top echelons see certain types of regional military conflicts as winnable. For conflicts over the most important Chinese interests, like Taiwan, the leadership's confidence will continue to grow in line with PLA capabilities. While war over Taiwan remains at the heart of Chinese military planning, the PLA is now actively preparing for a number of different contingencies. Preparations for regional wars in the South and East China Seas unrelated to the 'One-China policy' have advanced dramatically since the early 2010s. Furthermore, the danger of war on the Korean Peninsula should not be underestimated. In all of these scenarios, China's red lines are less clearly defined, and its stated interests leave greater room for interpretation.

Western observers' understanding of key Chinese strategic and military concepts, and of the operational approaches that the PLA may rely on in a major conflict, are also subject to significant limitations. For one thing, Chinese ideas about warfare appear to center on political pressure points and effects, with regime security never far from the planners' minds. The 'Three Warfares'¹⁵ concept, which has made some ripples in Western strategic debate, is paradigmatic of this outlook. The concept proffers three generic



courses of action to the PLA and other instruments of state power: engage in extensive ‘shaping’ operations to steer public opinion; target the opponent’s psychological vulnerabilities; and exploit legal frameworks and norms to create a favorable context for further military or non-military initiatives. While this has been interpreted as a type of ‘hybrid warfare’, the subtleties of the Chinese approach are deserving of further examination.

With a view to high intensity conflict, the PLA appears to have embraced a paradigm of ‘systems destruction warfare’¹⁶ inspired by the operational experience of Western armed forces in the 1990s – specifically the 1991 Gulf War and the 1999 Kosovo War. As such, the PLA’s doctrinal precepts are reminiscent of the effects-based operations (EBO) thinking that was prevalent in Western armed forces at the time, with some significant modifications. The PLA’s theory of victory appears to rely on the ability to induce paralysis in the opponent’s ‘system-of-systems’ architecture by disrupting key functions across all operational domains – including less traditional ones, such as space and cyberspace. Not unlike the ‘Three Warfares’ paradigm, the focus is on the informational dimension of warfare; in this case on command systems, communications, networks, and the opponent’s

will to fight. At the same time, the extent to which various other military and non-military activities would be integrated into this approach in practice remains unclear.

Assuming that a conflict with China would end up being fought primarily along conventional lines, predicting the eventual outcome has become a rather difficult proposition. There are major gaps, not only in our current assessment of the strategies and operational approaches China may employ in an East Asia conflict, but also in our understanding of potential combat outcomes across the board.¹⁷ In fact, a lack of truly relevant combat experience affects not only the PLA, which has not been involved in a large-scale conflict since the 1979 Sino-Vietnamese War. If one is prepared to concede that the United States fought Operation *Desert Storm* against a deeply inferior opponent, the US armed forces’ understanding of what a conflict against a near-peer opponent would entail is almost equally rudimentary. As a result, there is considerable potential for faulty assumptions and misperceptions of the opponent’s relative strength (or weakness) on both sides. In fact, current expectations of what such a conflict would look like may well turn out to have been totally inaccurate. While wargaming, red teaming,



experimentation, and field exercises can all be very useful in laying bare inaccurate assumptions and dispelling dangerous myths, they can only ever produce tentative results. Ultimately, these activities require that the integration of unorthodox, out-of-the-box thinking be encouraged and embraced throughout the military hierarchy – a tall order for any military organization in peacetime. Reliably predicting the capabilities and intentions of one's enemy is further complicated by the fact that military adaptation processes on both sides are creating a dynamic and fluid situation in which organizational structures, equipment, doctrine, and planning will keep evolving at least partially out of the opponent's view.

Another variable in the equation concerns how the two sides' ideas about crisis stability and escalation control will interact under pressure. US views on these matters are still shaped by Cold War experiences and take a technology-focused approach to managing instabilities. It is not clear that these traditions and preferences are neatly transferable to crises and conflicts involving China. Meanwhile, the Chinese views on managing crises have long been described as “undertheorized”¹⁸, although that may slowly be changing. It still appears, however, that Chinese observers are considerably more sanguine about actors' ability to

control escalation and stabilize crises than most Western theorists. What can be stated with some confidence is that the incumbent Chinese views embody a different set of experiences and traditions that are in no way coextensive with Cold War frameworks developed in the West. As far as conflict initiation is concerned, the impact of increasingly bullish Chinese self-perceptions should not be underestimated; as their national interests expand further into contested spheres, escalation risks are likely to further increase. As one official PLA publication has put it, if an opponent “offends our national interests, it means the enemy has already fired the first shot.”¹⁹

Maintaining the Balance

From the US perspective, the PLA's modernization has already significantly weakened the US position in the Western Pacific, and undermined allies' trust in Washington's military toolbox, all without a shot being fired. At least, this is the sentiment espoused by a variety of comments and publications on the current security dynamic. This is somewhat surprising, given that governments, militaries, and analysts are largely operating in an empirical vacuum. In fact, the most recent case of an approximately symmetrical air-sea campaign – the 1982 Falklands War – is now almost



40 years in the past. As such, investment priorities, published doctrines, and declaratory strategies by necessity can provide only a very rough guide to how a potential escalation may play out. They are also of limited use in revealing how exactly the two sides' strengths and weaknesses may interact. Having said that, on the virtual scoresheet of military analysis, the US is currently in danger of finding itself outmaneuvered.

The reasons for the US' perceived decline in military advantages vis-à-vis China are difficult to explain without reference to multiple analytical levels. The *US Army Training and Doctrine Command* argues that Russia and China in particular have found ways to leverage broader societal global trends, such as increased interconnectedness and a diffusion of military technology.²⁰ Other analysts isolate a critical weakness in the US military system: an entrenched lack of willpower to deploy armed forces abroad in more intensive combat operations. They argue that, when deterrence failed in the past, it was not so much due to a perceived lack of US military capability but a lack of political will.²¹

Focusing mainly on military factors, one can distinguish three problem clusters for the US, both self-inflicted and at least partly induced by Chinese

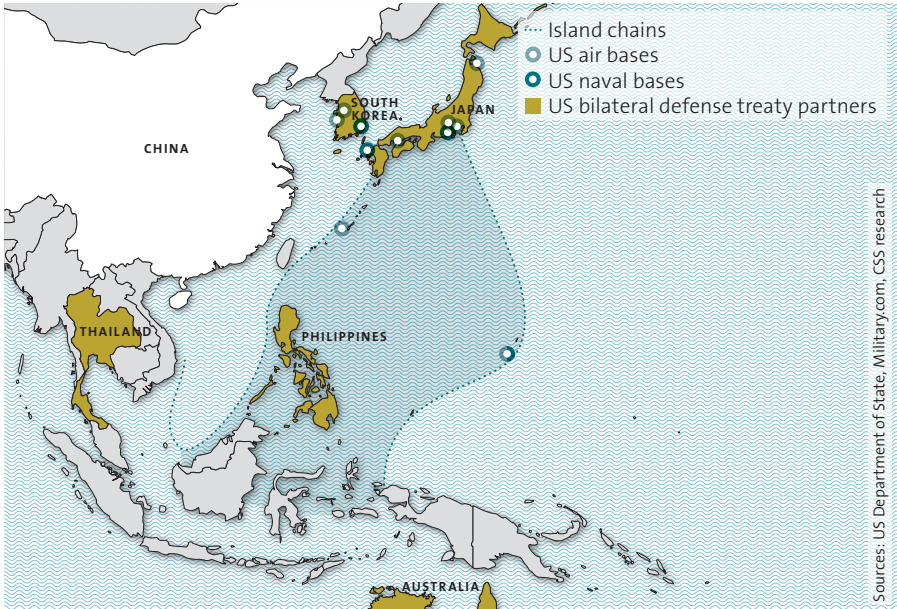
modernization efforts. The first is the atrophy of peer-on-peer combat capabilities, primarily due to aging equipment and a lack of training for high-intensity confrontations. Most major US conventional weapons systems in use have their origins in the 1970s and 1980s, designed with the challenges of that era in mind. Likewise, training and tactical innovation in support of conventional campaigns within the Navy and Air Force was heavily downgraded while the US fought two extended counterinsurgency campaigns in the Middle East.²²

The second cluster concerns how the PLA leverages these weaknesses and exploits temporary blind spots, in a way seeking to become 'specialists' in fighting the United States. Thanks to China's acquisition of considerable long-range precision capabilities, many assumptions underpinning American military power (and thus strategic credibility) have been undermined. For instance, China has invested significant resources toward developing the capability to strike US bases in Japan and the Western Pacific with both ballistic and cruise missiles. It has also developed capabilities to paralyze the United States' ability to react and introduce follow-on forces into the area, including – but not limited to – the DF-21D anti-ship ballistic missile.²³ Current technological

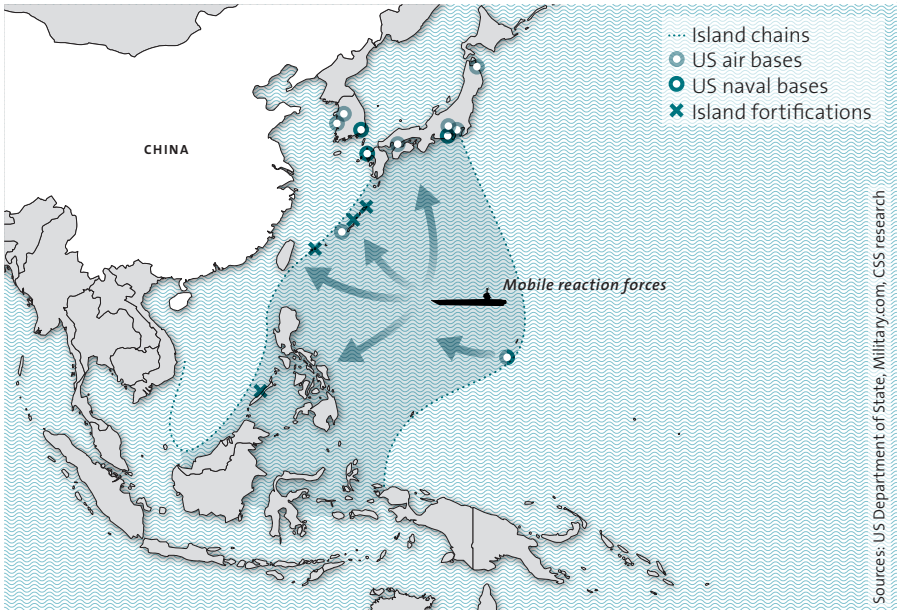


US Strategic Options in the Western Pacific

Strategic setting

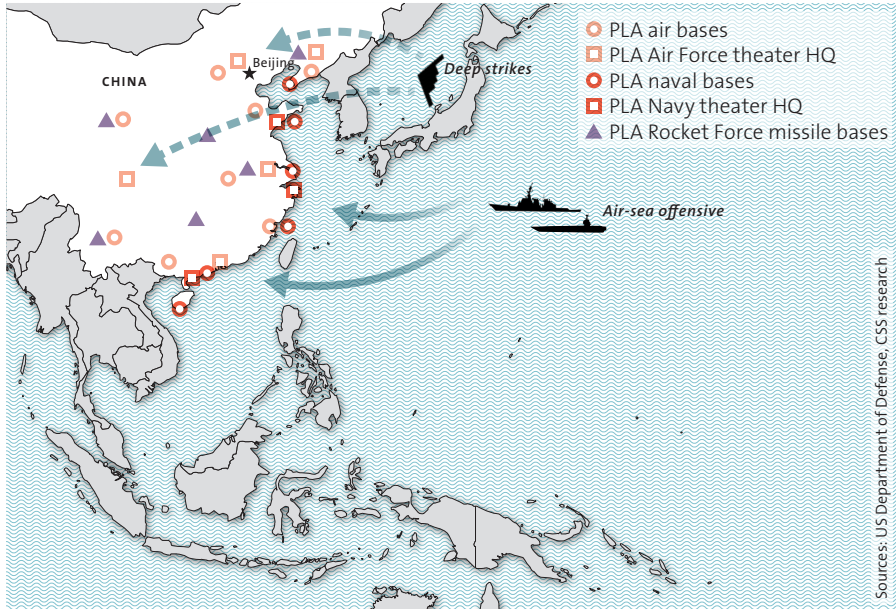


Maritime containment

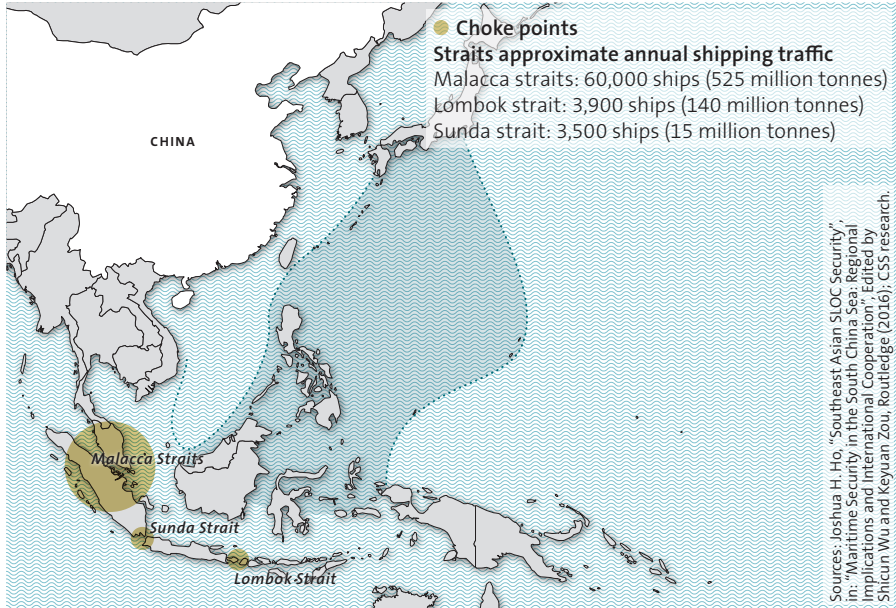




At-source offensive



Offshore control





developments are likely to reinforce this dynamic, as the People's Republic is investing heavily in research and testing of hypersonic glide vehicles and other advanced missile designs.²⁴

This undermines a key component of Washington's preferred way to fight wars; namely, to assemble sufficient forces in a sanctuary and then overwhelm a regional enemy at a time of its own choosing.²⁵ There are many more examples of Chinese strategy that removes or threatens some of the advantages US (and allied) forces have gotten accustomed to after the Cold War. Such luxuries include the freedom from electronic interference, largely uncontested air dominance, and opponents that lack modern intelligence, reconnaissance, and surveillance capabilities.

The third problem cluster combines these elements. In isolation, remedies for the impediments discussed above appear straight-forward: bases can be hardened against Chinese strikes, training procedures can be modified, and new conventional weapons systems can be designed to meet contemporary challenges. However, there is no clean slate in military adaptation – it is not possible to design a 'peer-on-peer' force from scratch. Instead, a legacy force has to be retooled within an increasingly uncertain international and

domestic environment. In this shifting context, Middle Eastern counterinsurgencies and other lower-end contingencies are increasingly viewed as voluntary distractions from the natural task of confronting China.²⁶ Notwithstanding the validity of this claim, it is a fact that US armed forces remain heavily engaged in Europe, the Middle East and Africa – regions that may be of secondary importance relative to the Western Pacific but of increasing interest to Beijing as well. Ushering in a new era of focused military adaptation while engaging in security provision and deterrence operations elsewhere is a challenge that requires far more than new military hardware.

Within the US defense and security establishment, discussions over the most effective way to respond to a military escalation with China center on three main options. The approaches vary in terms of their proximity to the Chinese mainland and in terms of the mechanisms that are expected to succeed in deterring, or in a worst case scenario winning, a conflict. The first solution advances paralyzing the PLA's military potential by striking its command and control infrastructure on the mainland. The second presupposes that it is sufficient to contain Beijing's forces within the First Island Chain, as the PLA may not be able to



achieve its ambitious objectives even without offensive US interference. The third option focuses on strangling China's economy by enacting a distant blockade that leverages US global maritime superiority and its existing political and military footprint.

To paralyze the PLA's military potential, the US may choose to launch operations into the near seas bordering the Chinese mainland, in order to defeat (or sufficiently decimate) China's naval capabilities close to or in its ports. Concurrently, this approach necessitates disabling the PLA's assumed high degree of centralized planning and operational execution by targeting command, control, communications, and selected offensive capabilities that are located on the mainland. In theory, such strikes would both impede or eliminate the ability of PLA front-line forces to coordinate their efforts across the theatre and disrupt the flow of information from sensors to counter-intervention systems stationed in the interior. US planners espousing this approach argue for the operational and tactical superiority of US forces over their Chinese counterparts once the PLA is deprived of centralized leadership and coordination. The strategy also appears to mirror some prominent aspects of previous US interventions, principally against Saddam Hussein's Iraq in 1990 and 2003.

In both cases, deep strikes depriving the adversary's high command of its ability to meaningfully coordinate and react were considered key to asserting operational dominance early in the conflicts. By striking the mainland, the US would hope to inflict unacceptable damage to China's immediate military prospects and potentially cripple the PLA's ability to engage in any further aggression.

Another appealing characteristic of this offensive approach is its clear signaling value – allies such as Japan and Taiwan would, in theory, be reassured by US plans to penetrate the First Island Chain and galvanized to engage Chinese forces themselves. That being said, the offensive strike option is regarded as highly escalatory and would actually undermine US deterrence efforts. For one, the PLA has fused the command architectures of its conventional and nuclear long-range strike forces, meaning that degrading its counter-intervention and interdiction capabilities would also weaken its nuclear deterrent. As a result, Beijing might feel forced to employ nuclear weapons against the US or its allies for fear of losing their ability to do so permanently. Secondly, this approach could undermine the United States' broader political objectives given its potential disproportionality; it cannot be scaled down



to react to sub-conventional or covert aggression. It is a package deal that relies on overwhelming firepower and swift execution.

The second approach to a conflict with China deliberately avoids such deep, offensive strikes and instead seeks to contain Chinese naval forces between the mainland and the First Island Chain. In part, this approach aims to render China's counter-intervention arsenal moot by staying outside the Chinese navy's most effective ranges. As a result, the First Island Chain would form the main frontline of US forces, consisting of Marine and ground forces seizing islands and atolls and swiftly turning them into anti-air and anti-ship 'firing bases' in their own right, thereby constraining PLA movements. In such a scenario, the area up to the Second Island Chain would be somewhat protected from incursions by Chinese surface and air assets and allow US and allied forces to organize a mobile reserve.²⁷ Both the US Army and Marine Corps are presently in the process of rebuilding their ability to seize, build up and defend small islands and atolls in support of a wider naval campaign.²⁸

The third option, offshore control, relies on a similar logic as the defensive strategy described above. Its main assumption is that China's economy,

and consequently its long-term prospects and political stability, are tied to maritime trade routes that help satisfy its hunger for energy resources. This would widen the contest beyond the contested area, in a strategy of 'horizontal escalation.' It takes a wider geographic view, seeking to leverage the US' global superiority in order to directly or indirectly block China-bound deliveries. China's dependence on a series of maritime chokepoints of global importance is well known, with an estimated 70% of its oil imports transiting through Singapore and the Malacca Strait. For some analysts, these chokepoints are seen as a major driving force behind the continental component of the Belt and Road Initiative (BRI).²⁹ While horizontal escalation is considered appealing by some, predominantly civilian analysts note serious problems with the strategy. Firstly, relying on the Chinese economy to run out of gas before the PLA has achieved its military objectives may not be viable if the stakes are high enough. Secondly, it assumes a degree of discrimination and sophistication in economic warfare that seems unrealistic. The prospect of surgically removing China from the global energy market via naval boarding parties and political pressure on third countries, without incurring diplomatic backlash elsewhere or causing



economic dislocation in potentially unstable regions, appears particularly far-fetched.³⁰ This does not imply that economic warfare and offshore control could not play a meaningful role in US containment or wartime measures. However, the political cost associated with rash and unilateral economic blockades could prove prohibitive.

Nuclear Weapons and Future Crises

Even if the substantial human, economic, and political costs both sides would incur in a conventional conflict are disregarded, nuclear escalation resulting in catastrophic damage to both societies as well as those of regional allies is still a possibility. It has long been argued that even a moderate risk of nuclear war should be sufficient to make the deliberate initiation of major wars between nuclear-armed states highly unlikely.³¹ China's nuclear posture rests on the related concept of minimum nuclear deterrence. In other words, while US planners are convinced that nuclear deterrence is difficult to maintain and requires a large and diversified nuclear arsenal, Chinese planners have assumed that it is relatively easy. This is reflected in the small number of nuclear weapons that the PLA has produced. According to a recent estimate, the Chinese have roughly 290 warheads, less than half of which are believed to be assigned to intercontinental-range delivery

systems.³² Although China has begun to modernize and diversify its nuclear forces and may well end up doubling the number of warheads in its arsenal, the United States will still enjoy a considerable margin of nuclear superiority even in the longer term.

At its most basic, this state of affairs can be interpreted in two ways: If China's relative confidence in its limited deterrent is justified, the United States' advantage in strategic nuclear weapons would be largely immaterial. As long as even a few weapons survive an attack, nuclear deterrence will be maintained. On the other hand, if such optimism is misplaced and nuclear deterrence is more fragile than Chinese planners have long believed, US nuclear superiority matters, and China may find itself in a more vulnerable position than its leadership has generally believed. The United States may consequently enjoy a degree of escalation dominance over its potential adversary and the deterrent effect of the PLA's nuclear capabilities would be attenuated accordingly. This could allow the US armed forces to operate with more latitude than would otherwise be possible and to cross some Chinese red lines without triggering a nuclear response, perhaps including attacks against targets on the Chinese mainland. In such a scenario, the ability of the Chinese arsenal to



stabilize crises or to provide interwar deterrence looks much more dubious.

To further complicate matters, if China's minimum deterrent is robust and the asymmetries between the two actors' nuclear postures do not matter greatly, the risk of sub-conventional or conventional military action still remains. This would be a result of the so-called 'stability-instability paradox', which purports that stable and mutual nuclear deterrence could allow both sides to get away with risky crisis behavior and military initiatives that remain below the threshold for a full-scale nuclear response. This threshold may be high enough to allow for high-intensity conventional operations – and even if it ultimately is not, one or both sides might mistakenly assume that it is. In fact, Chinese planners appear to believe that most plausible military conflicts in East Asia would not warrant the use of nuclear weapons by either side, and that escalation risks during conventional conflict can be controlled.³³ US planners are more reluctant to openly state their belief that conventional war between nuclear powers is possible, but given the relative lack of attention to nuclear matters in the US debate about military options in a war with China, they seem to implicitly agree with this assessment. In other words, there is a marked tendency on both

sides to think about a future great power war in primarily conventional terms and to view the nuclear realm as separate from, and by and large unrelated to, conventional war-fighting approaches.

Given the persistent asymmetries between US and Chinese approaches to nuclear deterrence and their very different nuclear 'traditions', which remain largely unsynchronized, nuclear deterrence is not necessarily the dependable mechanism for war prevention and crisis management than the Cold War experience would suggest. This is actually further accentuated by the increased prominence of 'grey zone' scenarios just short of war, which are now seen as a logical 'entry level' stage of escalation, with more conventional military operations as a potential next step. In such a scenario, a major conflict might get underway with both sides believing that they are embarking on something less than a full-scale war, only to discover that the remaining off-ramps have been missed and further escalation has become the only politically viable course of action for at least one of them.

The Challenge of Mobilization

Both actors' limited ability to mobilize a 21st century, globalized economy for long-term war may also shape















the decision to engage in sustained combat operations. In a great power war characterized by high lethality and concomitant attrition rates, the task of marshalling and deploying the next wave of combat forces, and the wave after that, becomes increasingly more complex. Here fundamental issues of how the war effort is managed come into play: who replaces veteran forces and how quickly can reserves be trained and brought up? How quickly can complex platforms such as aircraft carriers and intricate organizations like armored brigades be replaced? And how does one ensure a steady flow of adapted and improved technologies from the civilian industry to the front lines? Since at least the later stages of the Cold War, a key tenet of US and allied military planning has been to offset the importance of mass – that is, the number of troops and platforms – with a much higher quality per system. A core element of this task is increasing weapons accuracy and sensor fidelity in order to engage and destroy targets further away, quicker, and with less ammunition. Yet, as has been demonstrated in preceding sections, precision-guided munitions and elaborate reconnaissance and targeting complexes are no longer the exclusive domain of the US armed forces. Accordingly, unprecedented attrition on both sides would have to be expected.

Economic interdependence and globalization massively complicate the issue in this regard. The situation appears to favor the Chinese, based on the decline of the US manufacturing sector (including arms) and the increasing complexity of major conventional weapons systems. The Pentagon is now relying on a highly consolidated and specialized industrial base that may lack the ability to fulfill all the US armed forces' needs in a conventional war. This is not limited to heavy industry, though the drawbacks of a liberalized and consolidated arms manufacturing market are particularly salient here. With the requisite infrastructure in fields such as shipbuilding at a low, the available workforce has also declined. The United States would not be able to replace major weapons systems on a directly proportional basis, unlike during the Second World War when a large civilian industrial sector could be converted to producing military supplies and platforms. Instead, the US might have to rely on rapidly produced stop-gap systems, including cheap platforms such as missile boats and up-armored and up-gunned wheeled vehicles.










The same logic applies not only to major conventional platforms but also to long-range precision-guided munitions. While the US government aims to increase its stockpiles

**US and Chinese Military Capabilities 2010 – 2020**














2020 numbers represent total legacy and newly commissioned systems minus decommissioned and lost systems

US Naval Capabilities		2010	2020
	Cruisers	22	22
	Destroyers	56	69
	Frigates	23	19
	Aircraft carriers	11	11
	Tactical submarines	57	53
	Strategic submarines	14	14
	Amphibious assault ships	31	32
	Fighter aircraft ¹	1,158	1,133
	5th Gen fighter aircraft ¹	0	111
	Maritime patrol aircraft	159	119
	Airborne early warning and control	72	82
	Marines ²	170,000	152,000








US Air Force Capabilities³

	Fighter and ground attack aircraft	2,383	1,566
	5th Gen fighter aircraft	139	393
	Intelligence and reconnaissance	106	86
	Bombers	135	119
	Stealth bombers	19	20
	Strategic transport	285	232
	Tactical transport	435	257
	Tankers	512	411
	Airborne early warning and control	54	31



Chinese Naval Capabilities		2010	2020
	Cruisers	0	1
	Destroyers	28	33
	Frigates	52	52
	Corvettes	0	42
	Aircraft carriers	0	2
	Tactical submarines	62	56
	Strategic submarines	3	4
	Amphibious assault ships	1	6
	Coastal patrol and attack craft ⁴	n/a	690
	Militarized fishing vessels	0	84
	Fighter aircraft	222	283
	Maritime patrol aircraft	4	18
	Marines	10,000	25,000

Chinese Air Force Capabilities

	Fighter and ground attack aircraft	1,383	1,671
	5th Gen fighter aircraft	0	22
	Intelligence and reconnaissance	120	55
	Bombers ⁵	132	211
	Strategic transport	20	28
	Tactical transport	68	42
	Tankers	10	13
	Airborne early warning and control	8	13

- 1 Including USMC aviation
- 2 Excluding aviation
- 3 Including US Air National Guard
- 4 Excluding corvettes
- 5 Including naval bombers

Sources: IISS, US Congressional Research Service, CSS research



of land-attack and anti-ship missiles, they also require an elaborate support system of sensing, command, and launch platforms. The costs associated with guided munitions also increase very substantially at longer ranges. As part of the modernization of the PLA, the People's Republic already benefits from a strong industrial base, in part because it has absorbed US manufacturing capability, in the area of heavy industries in particular. It would thus be in a much better position to replace frontline systems, at least as far as deploying additional units was concerned. In addition, as a result of its whole-of-government approach to war and the legacy of Mao's 'People's War', Beijing is continuously improving upon its national mobilization model. While this does not mean that it would out-mobilize the US during a given conflict, the authoritarian nature of its state-capitalist system may provide an advantage.

The major disadvantage for the United States, however, is only revealed once strategic geography is considered. As its currently conceived, a war would not seek the destruction or unconditional surrender of the adversary but to secure a favorable hierarchy of powers and its mechanisms in maritime East Asia. As such, mobilization concerns do give an advantage to the People's Republic, as its forces would

be regenerated in proximity to the contested zones. In other words, once US forces had been depleted through attrition, its replacements would first have to be assembled and then transferred across the Pacific Ocean. This delay would provide the PLA with time to regenerate and reassemble, and to pressure Washington's regional allies. As a result, the US would find itself overly reliant on strategic assets like its nuclear arsenal and cyber capabilities. Unfortunately, they alone may prove ill-suited to flexibly and meaningfully affect a multi-faceted conflict.

Its geographic proximity to the most probable theaters also advantages the PLA, as the Chinese do not rely as heavily on highly exposed air and naval assets. In a missile-based conflict, reconnaissance and launch sites based on the Chinese mainland have numerous advantages over expensive, mobile platforms – ranging from easier hardening and concealment to larger stockpiles of munitions. As a result, China's coastal and inland territory offer a more reliable base for conducting long-range exchanges, especially given the volume of missiles that will likely be required to saturate American targets in the region.³⁴

Will Great Power War Return?

This chapter has made the case that a US-China war can no longer be



treated only as a theoretical possibility and that any complacency in this regard should be reexamined in light of recent events and well-documented historical patterns. In Europe, in particular, such complacency remains widespread. While it is entirely possible that the current period of relative peace among the great powers will survive into the 2030s and beyond, such an outcome cannot be taken for granted. Even today, the US-China rivalry shares key features of earlier war-prone geopolitical constellations, including structural pressures for more confrontational behavior, a looming power transition phase with a highly uncertain outcome, and a range of potential triggers for military conflict. While war still remains unlikely, there are a number of plausible pathways ending in military conflict in the next two decades. Some of these pathways do not require a deliberate decision to escalate to a full-scale military confrontation – even a series of minor miscalculations could eventually lead to a disastrous outcome.

China will continue to see a war against the US and its regional allies as the pacing scenario for its military expansion and will prepare accordingly. Even if the United States were to embrace a more isolationist course of action, the PLA might instead pivot to strengthen its offensive capabilities

vis-à-vis Taiwan, Japan, and Vietnam in particular. In either case, the coming decade will see the PLA inching closer towards its stated aim of becoming a fully modern force, enabled by its own version of a networked, ‘system-of-systems’ paradigm. At the very least, it is likely to attain the ability to disrupt US influence and effectively counter military operations occurring within reach of the Chinese mainland. This in turn will increase the Chinese leadership’s confidence that US forces in the region can be neutralized. At the same time, continued modernization will create new vulnerabilities that may not be immediately apparent to the Chinese side, but that may in turn increase US commanders’ confidence that the threat posed by the PLA can still be countered. Episodic military standoffs and potentially lethal incidents may come to serve as an indicator of readiness, and will influence future force design on both sides.

US force planning remains preoccupied with the current generation of PLA capabilities but has yet to prepare for a future incarnation of the PLA that is able to field first-rate forces and could seek to defeat in-theater US forces outright. The US will likely move towards a military posture that is even more squarely focused on China to counter this emerging threat. In



doing so, it may degrade its military superiority on a global scale, with implications for other theaters like in the Middle East, Europe, Sub-Saharan and Northern Africa, and Latin America. Simultaneously, a weakening global position may feed into a 'power transition paranoia' in Washington, which may have the most pernicious consequences of all.

As a result of these overlapping and closely interrelated developments, the probability of militarized crises will further increase. With every such crisis, the possibility of war will loom larger, even if it is followed by a period of apparent détente. This can prompt the installation of effective crisis management mechanisms, and a recognition that war must be avoided even at the cost of sacrificing or compromising cherished interests. However, repeated crises can also lead to the assumption that war is ultimately unavoidable. While European observers in particular appear to have forgotten just how quickly such scenarios can turn from theoretical possibility into brutal reality, their own history offers little comfort in this regard.

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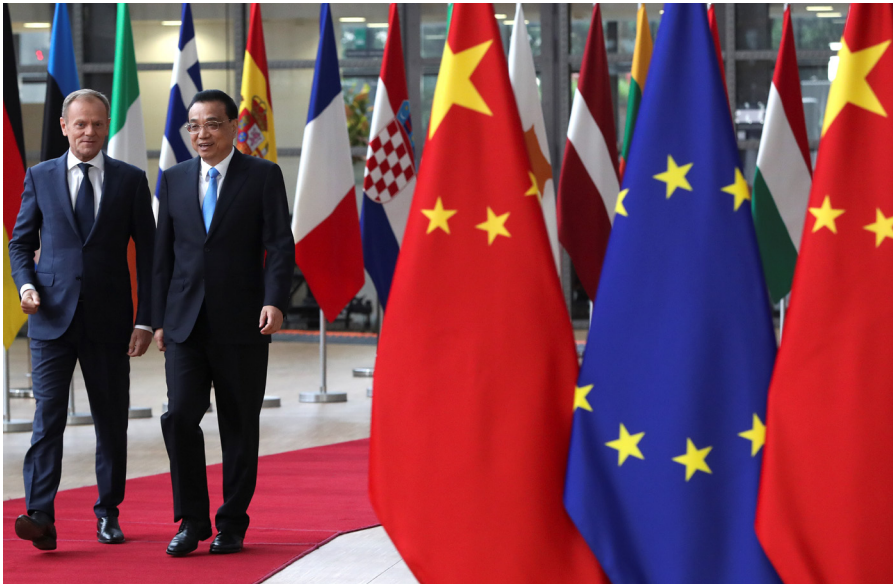
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CHAPTER 3

China as a Stress Test for Europe's Coherence

Henrik Larsen and Linda Maduz

China's growing influence in Europe has the potential to create new geo-economic divides. Its purchase of critical infrastructures and successful promotion of national high-tech giants hold long-term security implications for Europe and the world order. As always, Europe's first and most vexing challenge is to find unity. To promote coherence across the continent, the EU will have to implement an activist industrial policy to boost its own high-tech competitive advantage and take all necessary measures to prevent growing economic dependencies on China.



Chinese Premier Li Keqiang and European Council President Donald Tusk at the EU-China summit in Brussels, April 9, 2019. *Yves Herman / Reuters*



China is rapidly emerging as one of the most relevant stress tests for European coherence. As an economic global power, and an aspiring technological one, China is in a new position of strength and is increasingly able to challenge Europe's ability to act cohesively. China's technological prowess may undermine the EU's competitiveness in global markets, which in turn could have long-term negative effects for the continent. Furthermore, Chinese investments and loans exploit differing economic, political, and security needs within Europe. This fosters growing politico-economic dependencies, which can be far more significant for some countries. China's economic policy in Europe proves particularly controversial as some nations benefit from the influx of funds, while China's preference for bilateral dialogue and trade sidelines existing pan-European institutions and norms.

Crucially, 'Europe' is not a unified actor but rather a complex set of actors and relationships involving different levels of decision-making. The European Union (EU) stands out as a central actor in the trade relationship with China. Its task is extremely complicated, as any trade deal must both represent the interests of EU member states and ensure the EU retains important powers, particularly in reference to common trade and investment policy.

Moreover, Europe contains a number of countries that are not members of the EU (i.e., United Kingdom, Switzerland, Norway and parts of the Western Balkans), which may seek to benefit from strengthening relations with China. The multitude of actors makes European trade and security politics extraordinarily complicated, with no clear-cut policy response.

Though China is not likely to pose a military security threat to Europe in the foreseeable future, Europe nevertheless faces a new reality. China will challenge both Europe and the United States' status as global economic powers, all while defining technological standards for the next generation of wireless telecommunication (5G). China has both the financial means and the political will to assert itself as a global economic and technological leader, consequently weakening Europe's traditionally strong role in international trade. This will force Europe to adapt. If it proves unable to unite around appropriate and effective policy, European nations stand to lose their technological edge and privileged position in global markets. As the world's second largest economy striving for high-tech supremacy, China is in a position to shape norms at the global level. Its promotion of new technologies impacts societal norms (e.g., surveillance) as well as



intelligence-sharing between Western allies, which puts China at a competitive advantage.¹

China's presence in Europe and the surrounding area has been increasing, and consequently laying bare its divisive effect on European cohesion. Through buying, funding, and building infrastructure, China has expanded its geo-economic footprint, particularly in Europe's South and East. However, Chinese involvement in Europe also has a political, cultural, and security dimension. Taken together, Chinese activities in Europe, including regional cooperation formats or attempts to influence media and politics in China's interest, seem concerted and politically guided. Through its multi-layered approach, China has gradually increased its influence in Europe. European decision-makers therefore must attempt to manage the political and technological risks related to the growing Chinese investments.

China's increased engagement also works to exacerbate Europe's many internal divisions. In essence, we see a strong divergence between the needs and interests in the so-called 'core' as opposed to the 'periphery' of Europe. On the one hand, powerful EU member states like France and Germany (the 'core') generally align with the European Commission on the need for a

common European response to Chinese influence. Conversely, a number of smaller 'periphery' countries in Central, Eastern, and Southern Europe are open to closer cooperation with China for both financial and political reasons. The United Kingdom and Italy stand somewhere between the two positions, the former having left the EU and the latter's changing governments casting doubt on the nation's commitment to coordinated European policies and action.

In the face of a highly centralized and evermore powerful economic partner and competitor, it is in all Europeans' best interest to find unity and develop joint transnational responses. Europe should not necessarily develop a 'China strategy', but instead work to address the sectors where China challenges the broader European economic systems and where it has potential to deepen existing political divides between European nations. With its authoritarian, one-party system, China is a highly unified actor with no clear lines between the economic and political realms. By contrast, Europe consists of a number of supranational and national state actors. In addition, sub-national and private actors have their own interests they may pursue in relation to China. Policy responses to China have so far centered on economic initiatives (e.g., investment



screenings, industrial policy, trade rules, and infrastructure financing), though they have also sought to address broader security concerns.

This chapter will firstly outline six key areas in which Chinese power challenges Europe and how it impedes European unity. Secondly, it will highlight the instruments Europe has thus far employed to counter the Chinese challenge. Lastly, it will discuss the need for further reform to European policy priorities in an age of geo-economic rivalry.

Six Methods of Chinese Power

European states have consistently accused China of benefitting from unfair trade and competition practices due to the role of the Chinese state in its economy. These fears are exacerbated further by China's unprecedented economic strength, which puts it into a new position of power both globally and in relation to Europe. A key driver of its success is China's expansive and strategic investment practices. In the aftermath of the global economic recession, China capitalized on crises in Southern European countries to take advantage of new investment opportunities. Under the framework of the Belt and Road Initiative (BRI) launched in 2013, Chinese companies started to invest more systematically in infrastructure in Southern as well

as Central and Eastern Europe. Five years ago, likely motivated by its *Made in China 2025* plan, China's investments in Europe increasingly shifted to high-tech and research-intensive sectors in Western Europe. These developments raise security concerns and risk further dividing European actors. The table opposite summarizes the six main methods of Chinese power in Europe and describes how they present a challenge to European unity.

Innovate and Rule

China's tech industry now rivals its European counterparts, which puts pressure on European nations to engage in constant economic innovation in order to uphold Europe's long-held comparative advantage. As seen in the figure on page 60, since 2011 China has increased its investments in innovation to great effect. In 2015, China published the *Made in China 2025* plan, which essentially is a blueprint to upgrade the manufacturing capabilities of its high-tech industries. The strategy drew inspiration from Germany's 2013 *Industry 4.0* strategy for industrial digitalization and automation, but its main focus is on reducing China's dependence on foreign technology while establishing targets for domestic production and replacement of imports. *Made in China 2025* continues to draw significant interest in Europe as an indication of



Divide and Rule: 6 Methods of Chinese Power in Europe

Actors	Challenge
EU/State	<p>“Innovate and Rule”</p> <ul style="list-style-type: none"> – <i>Made in China 2025</i>: China declares its ambition to become a high-tech manufacturing powerhouse – The Chinese high-tech giant Huawei has gained a competitive advantage in rolling out 5G networks faster and cheaper than any other provider – China’s ascension challenges Europe in other high-tech areas such as robotics and high-speed railways
EU	<p>“Cheat and Rule”</p> <ul style="list-style-type: none"> – Unequal access to the Chinese markets put European exporters to and investors in China at a significant disadvantage – China seeks domestic growth by favouring Chinese companies through opaque regulatory regimes and transfer of technology through joint ventures with foreign companies – China promotes exports through state subsidies and increasingly so in high-tech areas
State	<p>“Buy and Rule”</p> <ul style="list-style-type: none"> – China acquires strategic assets in European countries and thereby increases its geo-economic presence in Europe: – Chinese investments are diversified and region-specific: they target high-tech sectors in Western Europe, and infrastructure, such as ports, airports, rails and roads, in Southern as well as in Central and Eastern Europe.
State	<p>“Befriend and Rule”</p> <ul style="list-style-type: none"> – China promotes region-specific cooperation formats, often bypassing established institutions and practices, e.g. 17+1 with CEE
State	<p>“Infiltrate and Rule”</p> <ul style="list-style-type: none"> – China attempts to shape European public opinion. Activities range from cultural and language programs to more intrusive activities, such as paying journalists and politicians to act in China’s interest.
State	<p>“Protect and Rule”</p> <ul style="list-style-type: none"> – China seeks a more active role in protecting and securing trade flows, investments, and citizens abroad. – Originally a response to situations faced in politically fragile contexts, China has extended its efforts to the European context, like in the Western Balkans.

China’s ambition to become a high-tech global leader within the decade.

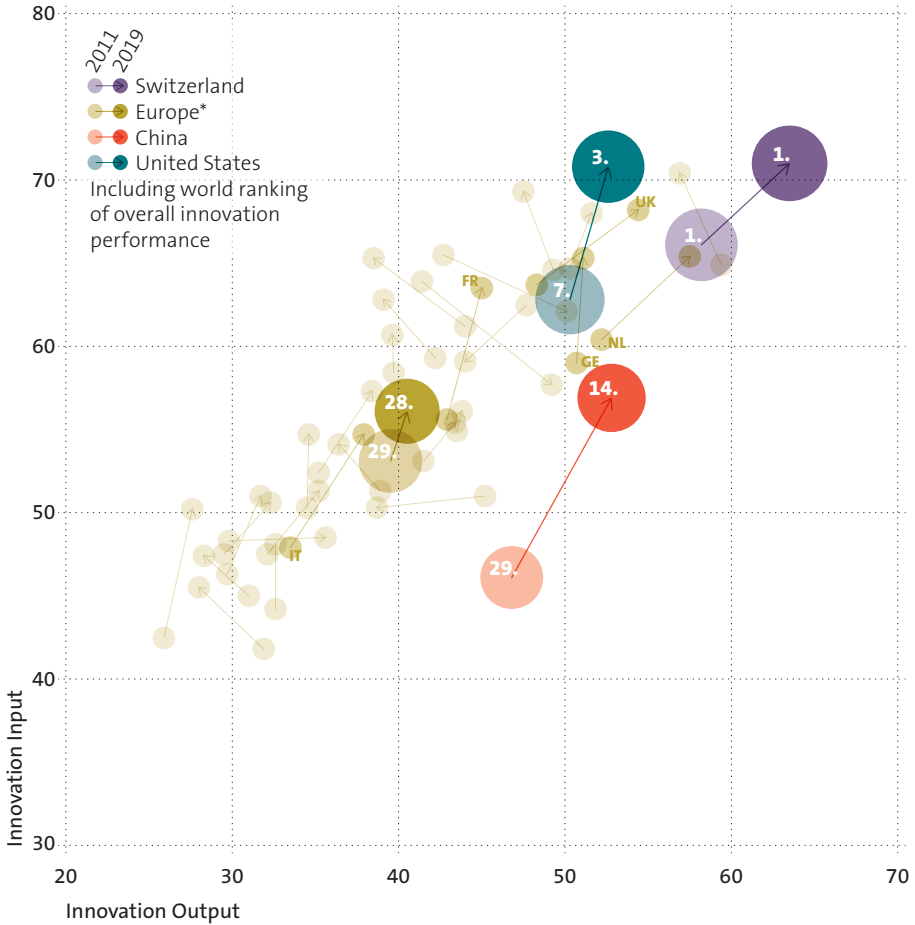
Some aspects of the trade relationship between Europe and China will

remain largely untouched. Europe’s dependence on low-value Chinese products is likely to continue through the coming decade, not least because readily available cheap products



WIPO Global Innovation Index (GII)

Comparative innovation advances



* EU(28) including UK + Norway + Switzerland + Iceland. World ranking position of overall innovation based on rank corresponding to median value of Europe aggregate.
 Note: Innovation input- and output-subindexes measured on a 0–100 scale. Data for Malta not available for the GII 2011.
 Source: WIPO Global Innovation Index (GII)

continue to compensate for wage stagnation in many European countries. China, on the other hand, will continue to depend on exports to the European markets for the sake of its own

economic growth. However, China’s advancements in the technological sector, combined with its mass manufacturing capabilities, may eventually pose a huge challenge as no European



producer can match low Chinese labor and domestic production costs.

China's development of fifth generation wireless communication technology (5G) is the frontline for the new high-tech competition. The Chinese technology giant Huawei is a popular choice among operators that wish to offer the 5G network in Europe, because it can upgrade the networks faster and for a lower price than any of its European competitors. 5G networks will better meet the requirements for large-scale machine-to-machine communication (e.g., autonomous cars, ride-hailing services) in terms of both latency and speed, and has therefore been dubbed the foundation of the fourth industrial revolution. Giving Huawei the competitive edge in rolling out the 5G network may impact European competitiveness in other areas.

Adopting Huawei 5G technology has also become a flashpoint in geopolitics, as the company may be able to insert Chinese backdoors into a system that will presumably become an essential part of Europe's future critical infrastructure. There are objective reasons to question the safety of Chinese high-tech solutions. Chinese legislation obliges companies to comply with Communist Party requests to turn over data or collaborate in disruptive activities. The risk is not merely

theoretical; Chinese companies have already been complicit in a series of major cyber thefts in the West. State interference in Chinese companies' operations is so entrenched that it is highly unlikely China can become a reliable provider of technological products in sectors related to national security. The United Kingdom has recently attempted to work around these limitations by granting Huawei limited access to their networks. The company has been classified as a supplier of secondary components of the 5G networks, and thus excluded from critical operations relevant to security.

Nevertheless, the European Commission highlighted the danger of hostile actors pressuring a 5G supplier under its jurisdiction, as the supplier could disrupt critical infrastructure systems in Europe including health, autonomous vehicles, and gas and water supply. Being on the forefront of 5G development will also allow companies to define telecommunication standards at the global level. This includes shaping how new technologies impact Western societies on issues such as surveillance, facial recognition, transportation, and intelligence sharing between friendly states. On a European level, Huawei's presence has proved divisive, as countries must balance the benefits of its 5G network



against the need to mitigate some of the risks. Furthermore, countries must choose how best to proceed, either by limiting Huawei's influence to secondary network elements, or following the United States' lead and banning it altogether.

The souring US-China relationship sharpens this dilemma. Beijing has warned that banning Huawei may have negative consequences for other economic relations; in 2019, the Chinese ambassador to Germany threatened retaliation against the German car industry if Berlin were to reject Huawei as a 5G solution. Similarly, China's ambassador to Denmark privately threatened to scuttle future trade deals with the Faroe Islands if Huawei equipment was barred from the Faroese 5G network. Many European countries – and the United Kingdom in particular – do have an interest in continued intelligence sharing with the United States, which would necessarily conflict with adopting Huawei technology. Furthermore, European countries tend to value data privacy and are opposed to Chinese practices like using extensive facial recognition and social credit systems to improve domestic security. Nonetheless, the EU and the United States are significant trade competitors, particularly with reference to high-tech (e.g., Google), where the EU exerted its regulatory power.

Cheat and Rule

China's precipitous technological and economic growth has concurrently drawn increased attention to its circumvention of the rules of the very trade regime that facilitated China's rise in the first place. Beijing takes advantage of the open international economy to maximize exports and outgoing investment, while minimizing imports and complicating the conditions for foreign investors in China. The EU's open market contributed greatly to China's export-driven growth in the past 20 years, whereas Europe by and large (with a few exceptions like Switzerland) does not benefit equally from access to the rapidly growing Chinese consumer market. Europe thus far has not sought to limit China's rise, though it does take an interest in ensuring China follows trade rules. This is framed as both a matter of fairness and as a necessity to maintain a rules-based international trade system, which is inherent to how the EU operates.

China's preferential treatment of national companies, which is a natural consequence of an economy that combines socialist planning with elements of private enterprise, is the biggest obstacle to a rules-based trade relationship. The subsidization of Chinese national companies provides a significant



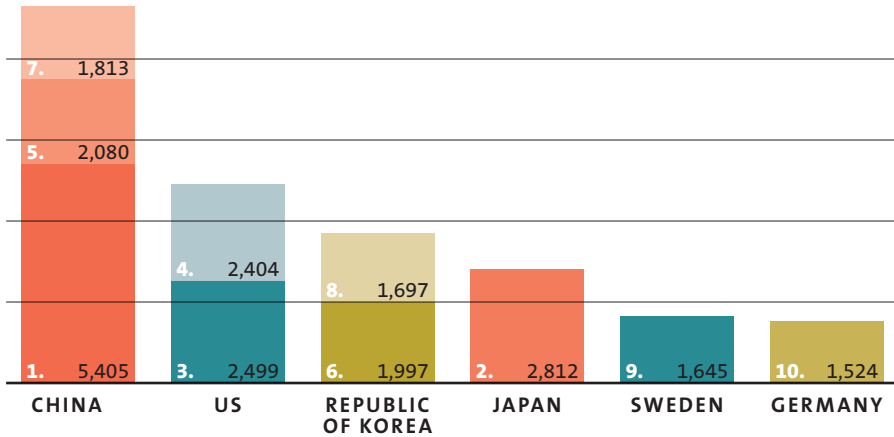
advantage both at home and abroad. State-owned enterprises account for a third of China's GDP and an estimated two-thirds of its outbound investment. The Chinese state subsidizes national champions in energy, banking, and telecommunications, and further favors domestic production and exports through its industrial and taxation policies. As much as 75 billion USD in Chinese state subsidies were allegedly used to boost Huawei's rise.²

China's preferential treatment of national companies comes in many shapes. Despite China's World Trade Organization (WTO) commitments, its licensing requirements are so opaque and so localized that they raise suspicion of systematic discrimination against non-Chinese companies across all sectors. China's procurement market also allows very limited foreign access. Ultimately, the Chinese Communist Party's control over the financial system represents a significant market distortion incompatible with Western market economies. Small and medium-sized enterprises, which make up the backbone of economic growth in Europe, suffer disproportionately from the Chinese market's high compliance costs.

When considering Europe's competitive position, it is particularly problematic that China requires

European companies to operate as joint ventures with Chinese companies, rather than establishing themselves as foreign enterprises. Under these terms, European companies are often required to share their technology and advanced knowledge with their Chinese counterparts. In a survey conducted by the European Chamber of Commerce, pharmaceutical companies and ventures dealing in high-end technologies felt the greatest pressure to transfer technology and disclose trade secrets.³ China's use of joint venture rules to acquire outside technologies is a key driver of China's rapid advancement in manufacturing competitiveness.

China's favoring of its national companies gives the EU reason to nourish its own industrial and high-tech giants, while limiting the access of Chinese investments and exports. On the other hand, it is also worth considering some positive aspects of China's recent policies. China's ascension on the technological ladder means that it has tightened the rules and enforcement of intellectual property rights in recent years. As seen in the figure on page 64, in 2018 China (and Huawei) was the largest filer of patents worldwide. As China itself becomes a source of expertise, it has become increasingly interested in the protection of intellectual property. In addition,

**Top Ten PCT* Applicants 2018**

- | | |
|------------------------------------|---|
| 1. Huawei Technologies Co., Ltd. | 6. Samsung Electronics Co., Ltd. |
| 2. Mitsubishi Electric Corporation | 7. Boe Technology Group Co., Ltd. |
| 3. Intel Corporation | 8. LG Electronics Inc. |
| 4. Qualcomm Incorporated | 9. Telefonaktiebolaget Lm Ericsson (Publ) |
| 5. ZTE Corporation | 10. Robert Bosch Corporation |

* WIPO Patent Cooperation Treaty (153 contracting states)

Source: WIPO Statistics Database 2019

China has abandoned another central part of its mercantilist strategy, namely boosting exports through currency depreciation, as China attempts to have the Renminbi accepted as a world reserve currency.⁴

Buy and Rule

Europe has recently become an important strategic priority in China's expansive investment policy framework. For some time, Beijing's investments were mainly driven by its search for natural resources and focused on Africa, Asia, and Latin America. China's

focus has now shifted to Europe and the United States, and to new fields of investment. China appears particularly interested in strategic sectors in Europe such as transport, communication technology, real estate, and the heavy industries. The bulk of Chinese foreign direct investments (FDI), which hit a record high in 2016, went to large and economically advanced EU member states in Western Europe. This included the United Kingdom, Germany, Italy, and France. In these countries, Chinese investors have targeted high-technology sectors



as well as research and development networks. The logic of profit-maximization through a positive return on investments and gaining global technological leadership as stated in the *Made in China 2025* plan is particularly apparent.

Before Chinese investors turned to high-tech sectors in Western Europe, China's engagement with Europe centered on new investment and financial opportunities in Southern as well as Central and Eastern Europe (CEE). In Southern Europe, restructuring after the global economic recession and the subsequent privatization processes opened new doors for Chinese companies. In Portugal, for example, Chinese companies acquired significant interests in the energy and finance sectors starting in 2010. Since the launching of the BRI in 2013, China has targeted Southern Europe and CEE more systematically. Under this massive initiative, Chinese companies have invested in ports around the Mediterranean, including Greece, Italy, and Spain (see map). China's state-owned shipping and logistics company, COSCO, also famously acquired a majority stake of Athens' Piraeus port in 2016.

In Central and Eastern Europe, China's spending on infrastructure has significantly increased since the BRI was launched. China is financing

large construction projects across the continent (see map), such as bridges (e.g., the Pelješac Bridge in Croatia), motorways (e.g., in Montenegro and North Macedonia), and high-speed rail lines (e.g., between Belgrade and Budapest). China announced over 12 billion EUR in loans for construction projects in CEE between 2007 and 2017.⁵ Over half of these loans had been earmarked for the Western Balkans, with a majority of the loans going to the energy or transport sectors. Montenegro and Bosnia and Herzegovina recently awarded the largest construction contracts in their history to Chinese companies. Even if some BRI projects in Europe under negotiation have been cancelled or delayed, many projects are materializing. At a minimum, the value of projects in the Western Balkans financed by China is 6.2 billion EUR.⁶

European reactions to China's BRI show that policy needs in the European periphery and the interests and principles of the European core may critically diverge. On one hand, the BRI opens up new trade development opportunities to participating countries by creating or modernizing infrastructure linking Asia and Europe. The initiative also helps countries address significant infrastructure investment gaps. On the other hand, it is a concern that the Chinese state deliberately



seeks to purchase critical infrastructure abroad and establish relationships based on debt dependency with financially weaker countries. For the construction of its highway, Montenegro took a loan with China's Export-Import bank that caused its GDP-to-debt ratio to increase to over 80%. Some EU officials criticize Chinese practices, particularly the environmental impact of BRI's investments and its opaque public procurement procedures. They also warn of the "socioeconomic and financial effects" of some investments, saying they would often come "with strings attached."⁷

There is good reason for European policymakers to distrust China's lending and investment practices. Enterprises owned by the Chinese state play a key role in buying and financing infrastructure in Europe, and some states come to rely on that financial support. They also do not follow a strict market logic in terms of profit-maximization. This means that the standard criteria of economic and financial viability are not uniformly applied. Chinese investments in Mediterranean ports or construction projects in the Western Balkans are illustrative examples of this. These projects suggest that Chinese investments are motivated at least partly by geopolitical reasoning and not by purely commercial interests.

Befriend and Rule

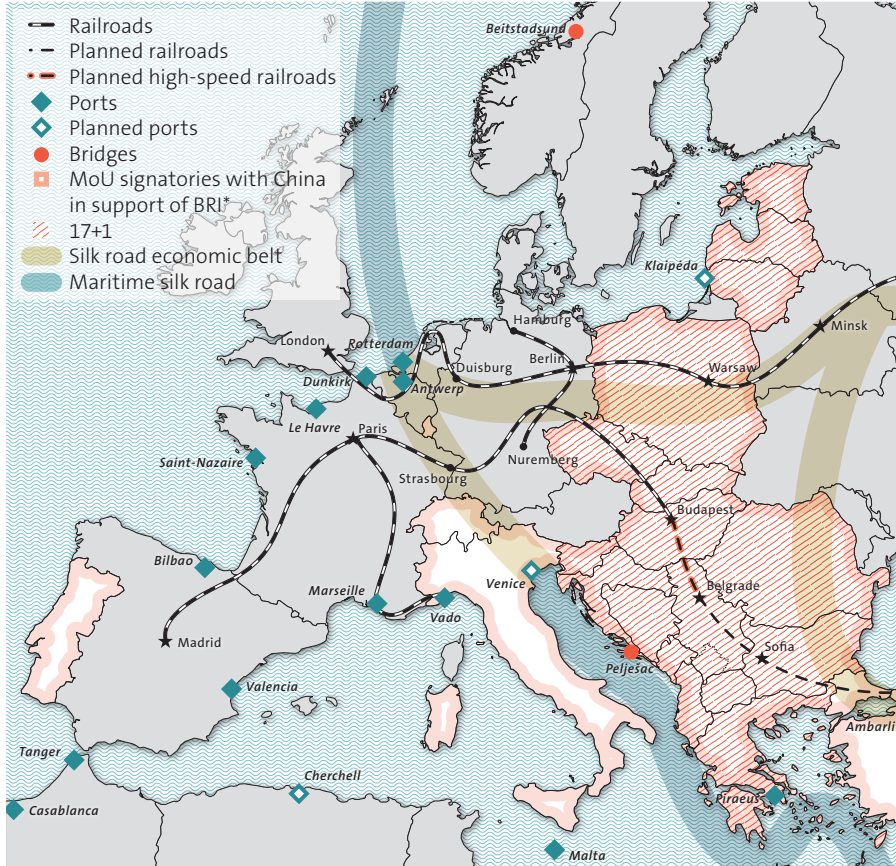
In concert with its growing European investment portfolio, China has escalated its diplomatic activities in European states. As of today, it maintains comprehensive strategic partnerships with most European countries.⁸ These relations are typically tailored to specific countries and regions. For example, China has held targeted forums and conferences on specific topics with Southern European states since 2013, pushing for sectoral cooperation in the fields of agriculture and maritime cooperation.⁹ Furthermore, China launched a CEE-specific cooperation format in 2012: the "16+1" mechanism, which involves both EU and non-EU member states.¹⁰ Through this, leaders of 16 CEE states and the Chinese Premier meet in annual summits. In 2019, Greece joined the group to form what is now referred to as 17+1. Notably, the 17+1 format is about more than economic partnership: it implicitly institutionalizes a more pro-Chinese group of states, which could be used to weaken European criticism of China on human rights and other global issues.¹¹

The appeal of Chinese-led international cooperation efforts lies in the flexibility, openness, and the non-formal, non-binding, and non-conditional character of interactions. Since the early 2000s, China has promoted



The Belt and Road Initiative in Europe

Chinese infrastructure investment in Europe



* MoUs with China for a general framework of cooperation under the BRI as of December 2019.

Sources: Merics, CSIS Reconnecting Asia, Steer Davies Gleave, European Parliament Policy Department for Structural and Cohesion Policies, Republik, CSS research

regional cooperation formats with African, Arab or Latin American countries to complement its bilateral relations with those countries. These cooperation arrangements are generally loose and minimally regulated. Since 2014, China and European

countries have been signing Memorandums of Understanding (MoUs) in the BRI Framework.¹² This includes both EU member states and non-member states (particularly in the CEE region). Yet, when Italy and Switzerland signed a similar MoU in



2019, they were criticized by some European countries. It is important to note, however, that these declarations are not legally binding. China's preparedness to supply vital medical equipment and doctors during the Covid-19 pandemic may be its so far most effective measure to befriend a number of European countries, notably Italy. By doing so, China also proved itself a reliable actor in contrast to the EU, which has proved incapable of assisting the European countries during such an important crisis.

With these cooperation initiatives, China brings not only money but also diplomatic attention to regions in Europe that feel in need of both. The Western Balkans is a region where Chinese advances have been particularly successful. Within a decade, China has become a key economic actor in the region funding "everything from energy and infrastructure projects to arms procurement."¹³ The EU's engagement with the region is wavering, as best shown by its refusal to start accession negotiations with Montenegro and North Macedonia. By contrast, China is deepening its ties with individual states in the region, building on the billions it has already invested. Chinese initiatives not only have the potential to redirect trade and investment flows, but also to redraw the map of political influence in Europe.

China's initiatives in Europe are divisive as they often circumvent existing institutions and practices. National power centers that have held historical importance, like capitals, do not necessarily have a key role in shaping China-Europe relations. China engages individual countries on the BRI through bilateral discussions rather than through EU institutions. It also seeks to create partnerships and dependencies among sub-national actors. The city of Duisburg is an excellent example. Duisburg, which hosts the world's largest inland port, is quickly becoming China's central logistics hub in Europe. The multi-level, multi-actor, and multi-issue nature of China-led cooperation makes it difficult for national or EU policymakers to intervene and coordinate to formulate joint positions and policies. Even if fundamental strategic shifts occur at the EU or national levels, competition over and openness towards Chinese investments and money will continue to persist in smaller European countries and at lower political levels.

Infiltrate and Rule

The perceived threat to Europe that China poses also has an ideological dimension. Beyond promoting economic and political cooperation, China has taken steps to foster cultural exchange and people-to-people contacts with Europe. Some of these



activities seek to nurture favorable opinion towards China among the European publics. As part of broader efforts to increase China's soft power in the world and raise its international reputation, beginning in 2004 the Chinese government opened hundreds of Confucius Institutes around the world. It is currently operating 187 of these language and cultural centers in Europe, seven of which are located in the Western Balkans. China has also pursued partnerships with foreign news outlets to expand its international media network and exert additional influence.

There are additional, insidious ways in which China is attempting to bolster its position relative to Europe. In part, Chinese activities aim at penetrating civic and political organizations in other countries. Under President Xi Jinping, the Communist Party's United Work Front Department (UFWF) – the party's propaganda machine – has expanded its role and consequently the Party's influence abroad. In particular, the UFWF exploits both Chinese-language media as well as Chinese community and student associations to deliver its messages. Chinese attempts to influence public opinion even include financially supporting academics and local politicians that promote Chinese interests, as revealed in the Czech Republic.¹⁴

These tactics constitute an infringement of civil liberties (e.g., free expression, including at universities and think tanks) as well as political rights (e.g., through political corruption).

Whilst China's influence efforts are a global undertaking, their regional foci vary. Comparatively, European countries have not been a major focus of Chinese influence activities abroad. Nevertheless, China has attempted to shape political and public debates in Europe over conflicts in Hong Kong, Xinjiang and the South China Sea. Furthermore, given its growing capabilities, Chinese attempts at infiltrating civic and political institutions in Europe can be expected to increase.

Some countries and regions have shown more acceptance of Chinese interest than others, which has negative repercussions for European unity. Common EU positions and policy decisions vis-à-vis China – be it criticism of China's incursions into the South China Sea, human rights concerns, or the coordination of investment controls – are becoming more difficult, as recent examples show. Countries like Greece and Portugal, which strongly benefit from Chinese investments, no longer can be counted on to stand in solidarity with the EU. Additionally, some Euro-skeptic leaders like Hungarian Prime Minister Viktor Orban



show outward support for the Chinese economic and political model.¹⁵

Protect and Rule

Finally, China has been successful in buying influence by offering some countries security cooperation as well as economic and cultural partnership. Serbia, the biggest country in the Western Balkans, has participated in several security-related arrangements. This includes joint police patrols in Serbian cities and joint anti-terror drills; arms procurement deals; and the Huawei pilot project Safe City Solution, which employs facial recognition technology.¹⁶ China-Serbia cooperation is particularly relevant when examined in the context of China's global efforts to build security ties with other countries. Typically, the Chinese engage in activities related to disaster management and crime prevention and offer its partner countries its police and military capabilities, technological equipment, and knowledge. It exports security technology and engages in capacity building of security forces in partner countries.¹⁷ China has also been active in promoting its knowledge and views with regard to counterterrorism and cyber security.

China has been successful in expanding its capacity and presence as a security actor beyond the East Asian region. The country opened its first military

base abroad in Djibouti on the Horn of Africa, a strategically important location for commerce between the Suez Canal and the Indian Ocean. Having developed a range of modern weapon systems, it now figures among the major arms sellers globally.¹⁸ Simultaneously, China undertook a widespread modernization of its army, which included training for conducting operations abroad. In recent years, China has increasingly exerted a naval presence and conducted military exercises internationally, including in the Mediterranean and the Atlantic.

What should perhaps be European policymakers' biggest concern is China's apparent preparedness to secure its investments and citizens abroad. In some instances, as many BRI projects are located in politically fragile countries, China was specifically asked to provide security assistance. Joint police and military patrols in continental Europe, including in Italy, prompt questions about the extent of China's ambitions. Such initiatives have, so far, been topic- and site-specific. However, as Chinese BRI investments in Europe continue to grow, it remains to be seen how decisively China will act to ensure its security presence. It will almost certainly encounter resistance from the core European countries if it attempts to expand its security presence further.



Europe's Response to China: Laggard and Piecemeal

The clearest positioning vis-à-vis China is taking place at the EU level and at the national level in its large member states. It took the EU almost five years from the publication of *Made in China 2025* to acknowledge the need to respond to China's growing ambitions on the continent. In 2019, the European Commission acknowledged China as a "systemic rival promoting alternative models of governance", and an "economic competitor in the pursuit of technological leadership." European leadership also expressed regret over the use of China's increasingly protectionist practices to fulfill its economic ambitions.¹⁹ Only in recent years has Germany come to understand China as an economic and possibly political rival, compared to the early 2010s when it was able to successfully advance opportunities for German businesses in the Chinese market. China's centralization of power, human rights abuses at home, industrial espionage abroad, and its attempts to play Europe off against the United States in trade disputes have started to alarm Berlin. The French, whose economy is less dependent on Chinese markets, more readily saw Chinese investments and trade as a potential source of Chinese power. France in 2019 called for an end to European 'naïveté' regarding China and highlighted the need to

join forces within the EU to establish a balanced relationship. Conversely, other economically important countries have reacted much more warmly to Chinese intervention; as the United Kingdom has grappled with Brexit and Switzerland has taken heart in its trade surplus, the 'threat' of China seems less present. Finally, economically weaker countries in Central, Eastern, and Southern Europe appear to be the least opposed to Chinese economic and political action in the region. Evidently, the European response to China has been piecemeal and passive.

Chinese interference takes many forms, including many tangible reactions like specific trade policies. Of particular relevance to this discussion are the use of investment screenings as a security measure, industrial policy as a way to boost competitiveness, reforming trade rules, and seeking further infrastructure funding.

Investment Screenings as a Security Measure

Ensuring secure and independent critical infrastructure stands out as perhaps the most pertinent challenge facing Europe. However, European capitals are unable to come to consensus about the utility and pitfalls of growing Chinese investment in their nations. An EU-wide framework for



foreign direct investment screening was adopted in March 2019 but was weakened considerably from the Commission's original proposal. Southern and Eastern Europe, which benefits economically from ties with China, opposed the framing of China as a security threat while Italy abstained from the vote. The EU framework defines minimum common requirements for the national screening mechanisms and gives the Commission the right to issue an opinion when it believes a foreign investment threatens security or public order.

However, investment screenings only become a useful tool if they have the backing of member states and can be implemented. Currently, actions vary across the continent; some European countries have tightened or introduced investment screenings to address security concerns related to the recent inflow of Chinese FDI, while others are still discussing such policy changes. The choice of 5G supplier across all the European countries stands out as an imminent subject of screening. European countries still vary in their determination of the level of risk, from considering reliance on foreign-made high-tech systems in the digital age a risk to national security or merely to critical infrastructure. The fact that like-minded countries with greater exposure to an increasingly powerful

China in the Pacific (i.e., Japan, Australia, New Zealand) have opted to ban Huawei rather than mitigate its risks underlines the strong geopolitical dimension of who supplies the 5G networks. Furthermore, European NATO members have to consider the fact that the United States has threatened allowing Huawei access may have implications for its ability to share intelligence. Most European countries are likely to drift toward the EU Commission's recommendation to diversify the number of suppliers, and perhaps cut Huawei out of the central components of the 5G rollout, rather than impose an outright ban against the company.

For many of the key member states of the EU, there are sharp drawbacks to resisting Huawei's 5G network in particular. As Europe's economic powerhouse, Germany has struggled to balance its trade interests and its security concerns over the new network. At first, Chancellor Angela Merkel sought the approval of Huawei as Germany's 5G provider, likely in anticipation of Chinese retribution against German businesses. However, she quickly faced backlash from a majority in the German Bundestag. This contingent believed the Chinese Communist Party cannot be trusted, and now wishes to legislate to ban Huawei from the core of the



5G network rollout. As for France, it considers the US pressure to ban Huawei altogether “unhelpful” and opted to improve oversight over the activities of foreign firms, both Chinese and American, in high-tech sectors and to introduce safeguards in critical parts of its telecommunications network.²⁰ The United Kingdom approved Huawei’s restricted role in its 5G networks, despite Washington’s warnings that this would threaten the intelligence-sharing special relationship. Hungary stands out as an EU country that blatantly stated it does not see any security risk to involve Huawei in its 5G rollout.

Investment screening is a policy also relevant to other strategic industries. Germany once again assumes a central role in shaping the response to Chinese industrial investments; maintaining a nearly equal trade balance with China no longer suffices as Berlin’s main ambition. In 2018, Germany vetoed a Chinese takeover of a national company, Leifeld, which produces metals for the automobile, space, and nuclear industry. Germany subsequently adopted legislation banning non-European purchases of more than ten percent of a German business (down from 20 percent). This is believed to have been an attempt to contain Chinese purchases of mass media in particular, which would have allowed it to

influence the information industry to its advantage.²¹ Chinese involvement in other German industrial giants, including Daimler and Kuka, which develop new battery technologies and robotics respectively, has pushed Berlin to call for the establishment of an EU-wide investment review body. As for France, its prescient position on China manifested primarily as foreign investment restrictions to stop what it calls the ‘looting’ of sensitive technologies. France requires foreign companies to get permission from the French state before taking control of French firms in the energy, telecoms, transport, water, and health sectors.

The situation is more complicated when it comes to measures against the Chinese purchase of transportation hubs like ports and airports. It is this situation in particular where the European ‘core’ and ‘periphery’ fail to come to an agreement. Germany, France, and the Netherlands have publicly criticized Italy’s endorsement of the BRI, which they say allows China to take advantage of Europe’s divisions and inequalities. Italy is domestically split on the issue: the government at the time argued that other EU member states already loosely cooperate within the bounds of the BRI (not least of which Germany, with Chinese transportation hubs in Duisburg and Hamburg),



whereas the new government in 2019 stressed the need for coordination with the EU. As for Hungary, it refused to echo EU language denouncing BRI as hindering free trade and putting Chinese companies at an advantage. Despite the varied national responses to Chinese investments, EU regulations have thus far been successful in imposing bottlenecks on Chinese investment and financing, like in cases where loans conflicted with EU debt ceilings.²²

Boosting Competitiveness through Industrial Policy

To truly rival China on the world stage, the EU would need to develop its own approach to innovate at scale. China's active state support of national champions, including high-tech manufacturing enterprises, undermines the EU's original function to create the best possible conditions for competition on the internal market. In 2019, when the European Commission blocked a merger between a German and a French rail manufacturing company (Siemens/Alstom), the event was symptomatic of this tension. Taking into account Europe's desire to remain competitive with the Chinese, the decision was arguably particularly limiting as the *Made in China 2025* plan highlighted railways as part of China's industrial strategy. The decision prompted 19 EU countries to call for a revision of the existing EU

antitrust rules to better facilitate mergers between large European groups, and to develop an industrial strategy targeting investments in innovative technologies.

It seems clear that Europe (and the United States) did not anticipate the full extent to which China gained a strategic advantage in becoming the world's number one supplier of 5G technology through heavy state investments and subsidies. China has made a credible bid to establish a global 5G standard, which can have particularly large ramifications for developing nations. That being said, 5G non-stand-alone systems are likely to operate alongside 4G for at least a decade. This gives European companies the time and opportunity to regain an advantage. Admittedly, the EU and the leading European economies cannot promote the emergence of industrial champions in the way China subsidizes its own companies. However, they can work to empower and incentivize European companies to be innovative on their own by optimizing conditions. Nowhere is this need more pertinent than the high-tech communications industry.

The discussion around 5G pushes the EU debate in favor of a Europe-wide industrial policy, even if the potentially large scope of market intervention



would push the EU out of its comfort zone. Europe is China's closest competitor on global telecommunications technology. In terms of world market shares, Ericsson represents 13% and Nokia 16% against Huawei at 28%. However, neither of the two is able to match Huawei's prices and rollout speed. The European Commission has allocated 700 million EUR for research, which EU industries are set to complement, reaching an overall amount of more than 3 billion EUR. Complaints from Ericsson about the lack of European support and the practice of moving industry to non-European countries highlight the need to abandon purist free trade principles to prevent Europe from falling further behind in the global tech competition.²³

The question of whether to boost Europe's existing high-tech industries cannot be isolated from US pressure. US government officials have suggested that European countries issue credit to Nokia and Ericsson to enable them to match Huawei's artificially low prices. By contrast, no American company has the capacity to build the equipment needed to transfer signals between receivers (i.e., mobile phones) nor the towers or sites that make up the network.²⁴ Although refusing Huawei will be costlier and slow the 5G rollout, European

companies have one big advantage on the world market: a high level of transparency and credible guarantees of state non-interference into their operations. Moreover, as opposed to Chinese disregard for personal liberties, European companies can emphasize their obligation to protect personal data in accordance with EU regulations ('General Data Protection Regulation'). Wealthy countries that can afford safety over rollout speed and price are a key opportunity for European 5G providers.

Trade Rules: Old Measures for an Old Challenge

China's unfair trade practices give it a distinct advantage over market economies, and as such the nation may be unlikely to revise its policies. To prompt change, there must be either a domestic benefit or the threat of damaging external sanctions. Yet this is a particularly important goal for the international community, as the open global economy cannot be upheld if one economic power uses mercantilist strategies to dominate other economic powers.

The EU has taken piecemeal measures to correct the competition imbalances. For example, it has tried to negotiate an investment strategy that would increase the low levels of European FDI in China and vice versa.



However, ongoing negotiations over investments since 2013 have yielded little progress. However, some policies have been enacted that both attempt to limit China's advantage and advance the EU's normative aims – namely, free and fair markets. The EU and the United States successfully uphold anti-dumping tariffs on Chinese goods, particularly commodities like steel and aluminum, in response to Chinese state subsidies and state-backed oversupply. Under WTO rules, the EU and the United States refuse to grant China the status of a 'market economy' due to the deep level of state intervention. While underpriced Chinese exports can thus be successfully contained within the existing trade system, a significant problem remains regarding how to respond to China's unequal market access.

Compared to five years ago, the political realities in Europe are changing and the environment is increasingly conducive to countersanctions against China. In Germany, although large companies like Volkswagen, Siemens and Daimler depend on the Chinese market, it has a broader business interest in safeguarding equal treatment. In France, several industrial groups (Auchan, Alstom, Carrefour) have left or vastly reduced their presence in China due to the difficult investment climate. As part of its response

to unfair trade practices around the world, the EU lowered the threshold for instituting and raising the maximum countervailing tariffs in 2018. Two-thirds of all of the EU's trade defense measures during 2014–18 targeted imports from China. France and the European Commission proposed limiting foreign tenders in public procurement, but not all member states agree that this would force China to open up its own procurement markets.

The competition for high-tech supremacy highlights the importance of protecting intellectual property if companies are to have an economic incentive to drive innovation forward. In 2018, the European Commission challenged China's practice that forces European companies to give up sensitive technology and know-how as a precondition for doing business in China in the WTO. It specifically challenged Chinese laws that regulate strategic sectors under the *Made in China 2025* strategy and the approval of joint ventures that compel technology transfers. (The United States later joined the EU's dispute settlement case.) A favorable WTO ruling would naturally support the EU's attempt to maintain the international trade system, but it remains to be seen what impact this would have on the Chinese regulatory regime.



Seeking Active Competition: Infrastructure Financing

While reactions to China's BRI vary at the national level, the EU has started to coordinate a joint response. It launched its own connectivity strategy in 2018²⁵ and appointed an Ambassador-at-large for Connectivity in 2019. Building on its EU-Asia connectivity strategy, the European Commission organized an EU-Asia Connectivity Forum in 2019. Statements and discussions by EU officials at the Forum showed that the EU increasingly sees itself in a competition with China over political influence, and connectivity investments play a key role in the fight. The EU policy proposals and initiatives reflect a political will to globally engage and deepen ties with Asia, but they also seek to promote "the European way" of connectivity. Connectivity projects should be "economically, fiscally, environmentally and socially sustainable in the long term" and "international rules-based."²⁶ The criticism of China's approach is implicit, but clearly identifiable.

To match Chinese connectivity efforts in the EU, its neighborhood, and beyond, the EU wants to strengthen its own efforts in infrastructure financing and seeks to collaborate with like-minded countries for this purpose. At the core of this effort is the recognition that infrastructure investment

needs are high and increasing in some countries, and that policymakers need to address existing gaps. China has proven quick to respond to these needs. Moreover, the EU wants to leverage the strengths of existing multilateral financial institutions, such as the European Investment Bank or the European Bank for Reconstruction and Development. According to the EU-Asia connectivity strategy, these institutions – in addition to private investors – will have a significant role to play in the funding and managing of infrastructure projects.

Simultaneously, the EU has intensified its cooperation with Japan, a key partner in Asia, by signing a trade agreement and a Strategic Partnership Agreement. The latter adds a political dimension to the partnership and is designed to promote shared political values including democracy, human rights, and the rule of law. Japan, as Asia's number one moneylender until a few years ago, has been systematic in trying to balance Chinese engagement in infrastructure financing regionally and globally. As such, they are a particularly helpful ally to the EU, particularly in reference to engagement in the Western Balkans and Africa.

More Competition Ahead

The coordinated efforts of the EU have already resulted in significant



policy responses to the challenges that China poses, though it failed to come to agreement in others. Moving forward, Europe as a whole will have to come to terms with the need for even more active policy responses, some of which will require a rethinking of existing orthodoxies. To re-establish its role in the international system, European states need to stand up to China and confront it in areas where Chinese policy bestows an unfair advantage on Chinese companies and undermines European unity.

Europe, as always, is at its best when united in solving international disputes through the established rules. The China-Europe trade imbalance must be addressed through the WTO legal mechanisms and the counter-sanctions allowed therein. The market distortions of China's opaque regulatory regime and state-owned enterprises are a direct result of the power of the Chinese Communist Party and its control over the Chinese economy. China has thus far remained focused on its pursuit of growth through state-supported investments and exports. Nevertheless, the nation may reach a point where regulatory and legal reforms become necessary to avoid the 'middle-income trap', a fate that befalls many former communist countries. In the meantime, China's heavy dependency on continued access to

foreign markets makes it vulnerable to external trade sanctions. For the EU in particular, that may represent its best chance to counter China.

In essence, the pursuit of technological dominance is driven not only by financial ambitions, but also by concerns that the autonomy of Europe's critical infrastructure may be undermined by a foreign power. The reality of Chinese state subsidies forces Europe to prioritize its external competition policy. Industrial support in reasonable measures may be a necessary precondition for Europe to secure its own technological platform and critical infrastructure. Research funding, launch aid and low-interest loans benefiting the consolidated European aerospace industry (*Airbus*) serves as an excellent example of legitimate elements of a new European industrial strategy that does not even compare to the extent of the Chinese state subsidies to its own national champions. Going forward, perhaps the EU's ambition should be to lead the rollout of 6G, which is expected to arrive at the earliest in 2030.²⁷

Finally, industrial policy interplays with the crucial issue of Europe's unity. In pursuit of this goal, the EU would do well to ensure that the successes of some of its highest-performing industries are shared



with less advanced economies within Europe. By ignoring this factor, ‘peripheral’ countries may feel alienated from any economic boost and may be more receptive to competing offers from China. As of yet, the securitization of China mostly happens in the ‘core’ European countries. Yet policymakers must guard against the urge to see all areas of trade as an extension of its rivalry with China. It may lead to the greater isolation of some Southern and Eastern European countries, which have indicated discomfort over the role of having to choose a side in the intensifying China-Europe competition. Despite limited success thus far, Europe’s best chance of continued success lies in pursuing economic cooperation with China where it remains possible, particularly within existing frameworks (e.g., EU-China Connectivity Platform, EU-China Co-Investment Fund). In short, European nations must work together towards a geo-economic policy that is fundamentally intertwined with its geopolitical strategy to prevent China from undermining the foundations of Europe.

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CHAPTER 4

On the Belt, on the Road: China's Pivot to Eurasia

Benno Zogg

Nowhere is China's Belt and Road Initiative (BRI) more evident than in Eurasia, which spans from Central Asia to Eastern Europe. China is transforming this space with physical infrastructure, but also through political and societal engagement. China's economic clout and the BRI's land-based component, the 'Belt', have already yielded considerable leverage and may allow Beijing significant leeway in shaping the region's future. But only an assessment of China's conduct on the ground will help reveal its true intentions and the effects of the transformation it has wrought.



A train waiting at a container yard at the Khorgos border crossing point in Kazakhstan, October 19, 2015. *Shamil Zhumatov / Reuters*



China's growing role as a global economic powerhouse and the magnitude of its Belt and Road Initiative (BRI) have invoked both grand hopes and grand fears. The BRI is framed as an attempt to foster connectivity, cooperation, and trade. Countless studies on the BRI start with the following staggering numbers: announced in Kazakhstan in 2013, it is supposed to cover more than 70 countries of the world, representing $\frac{1}{3}$ of the global economy and $\frac{2}{3}$ of the global population. Six economic corridors seek to traverse both land (the 'Belt') and sea (the 'Road') with the aim of connecting Asia, Europe, and Africa. Through various funds, China seeks to invest at least *1 trillion* USD towards building infrastructure in particular.

The BRI represents an unprecedented economic endeavor based on the logic of 'stability through development,' with potentially far-reaching geopolitical consequences. Having said that, the initiative is inherently vague: both its scope and goals are ill defined. As a state-driven initiative, it inevitably blurs economic and political logic. The BRI is a multi-level strategy that, while ostensibly an economic undertaking, also has political and societal dimensions pursued through multi-lateral formats and people-to-people contacts.

At the heart of China's economic and political outreach lies Eurasia, forming the core of the 'Belt'. 'Eurasia' entails the Central Asian states bordering China's west (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan); Russia, China's neighbor to the north and a hitherto dominating power in Eurasia; the South Caucasus (Armenia, Azerbaijan, and Georgia); and the EU's eastern neighbors (Belarus, Moldova, and Ukraine). It is a region rich in natural resources and a bridge between China and Europe.

The implications of China's influence and the BRI are manifest there. Consequently, Eurasia is an important site of inquiry into the motivations behind China's growing international involvement and the BRI, how states along the Belt have received and shaped the initiative, and what (geo)political consequences this has brought about. Analyzing China's conduct in Eurasia will further shed light on the interaction between politics and economics, between economics and security – and on China's transformative power and ability to exercise soft power overall.

While skepticism towards China is widespread, particularly among the target states' populations, the diverse successor states of the USSR are all



receptive to economic opportunities. Other powers like the US, the EU, and Japan have also invested billions in Eurasian projects with similar aims to the Belt: to promote connectivity, trade, and security. However, China appears to have a more comprehensive vision for Eurasia and dedicates unmatched financial and political capital towards it, promising a transformed, connected, and prosperous space. Consistent with the pattern in other target nations, Chinese investments in Eurasia surged as the hype around the BRI peaked in 2015, and then normalized. Touted as investments, most Chinese funds are actually loans, which states have to pay back. Additionally, there is still a significant discrepancy between the projects that were announced and those that have been implemented.

Though the BRI is only seven years old, a preliminary assessment of the Belt in Eurasia is still possible. China emerged as a major trading partner and investor in Eurasia. Its economic weight gives the nation considerable leverage that extends into the political and security realms. While increased leverage in Eurasia is a desired consequence of the BRI, it remains unclear – possibly even to the Chinese leadership – how, when, and to what ends such leverage may be used. Furthermore, the Belt has considerable geopolitical implications, not least of which

due to China's strategic partnership with Russia. Their opposition against the US-led international order unites the two powers.

This chapter describes China's motivations, the strategy, and the fundamental logic behind the Belt in Eurasia. It will then elaborate on how China's role in Eurasia and the significance of the Belt manifest in the economic, political, societal, and security dimensions. Furthermore, it will capture how Eurasian states themselves have adopted and adapted the Belt. To conclude, the chapter will draw lessons from China's approach in general and consider its implications both for Eurasia and for the geopolitical balance.

Economic Interests in Eurasia

Despite a broad range of motivations for launching the BRI, it is undeniably and overwhelmingly an economic initiative at this stage. The official Chinese rhetoric vaguely frames the motivations for the BRI and its 'spirit' as promoting prosperity and cooperation among a "community of common destiny," and strengthening economic, political and societal interactions between participating states and China.¹ The BRI is a flagship of Chinese President Xi Jinping's foreign policy and, since 2017, even an explicit part of the Chinese constitution



as a means to achieve “shared growth.”² It is a truly massive endeavor, incorporating all foreign policy actors in China, including at the provincial level, as well as state-sponsored development funds, state-owned enterprises, and commercial actors. Several high-ranking committees oversee and coordinate various aspects of the BRI’s implementation.³ This has naturally led Western observers to classify the initiative as a political tool as well as an economic one.

Chinese policymakers reject the notion that the BRI is geopolitical, ideological, or – as some have characterized it – the Chinese equivalent of the Marshall Plan. China does not publish maps clearly delineating the BRI, nor clear indicators for the success or failure of the initiative.⁴ Consequently, BRI investment volumes are hard to quantify, and the initiative does not have clear parameters nor end goals. Under the guise of the BRI, projects initiated before the BRI’s announcement or not involving Chinese funding are included. The concept is purposefully vague, to encourage the participation of any actor. It is thus organic, flexible, and constantly evolving. Most scholars agree that one of the main motivations behind the Belt is helping sustain – or rather change the model of – China’s economic growth. It aims to do so in several ways.

Efforts along the Belt in Eurasia allow for a diversification of trade routes through overland transit. On their most likely route across Eurasia, goods cross only two customs borders: between China and Kazakhstan entering the Eurasian Economic Union (EAEU), and between Belarus and Poland entering the EU. The Belt thus connects the mature economic area of the EU with the world’s largest manufacturing economy, China, via countries that are heavily involved in exporting natural resources. This suggests complementarity. Through its investments, China is diversifying its energy sources, taking advantage of Central Asian and Russian natural resource deposits. An overland connection also helps to expand China’s supply of other commodities and helps decrease its reliance on coal.

Apart from connecting markets, the Belt also seeks to create new markets – for example in Central Asia, where intra-regional trade is low – and to incorporate them into Chinese-led value chains. Moreover, the Belt is an opportunity to reduce excess industrial capacity in China, which is a consequence of stimulus packages that boosted heavy industry and infrastructure construction in the wake of the 2008 financial crisis. Labor costs are increasing and China is running out of ways to use the output of



these factories productively for new domestic infrastructure. Consequently, the Chinese leadership encourages companies to use excess stocks of steel or cement to construct the Belt, as well as to export actual production facilities abroad.⁵ As it reduces its reliance on heavy industry, China seeks to capture the higher end of the global value chain. Furthermore, through its important economic role in Eurasia, the use of the Chinese currency, the Renminbi, will increase.

Lastly, decades of Chinese export surpluses have led to an unprecedented accumulation of capital. Lending within China by companies, public entities, and households has soared – often unsustainably and through shadow banks.⁶ The Belt may offer more profitable investment opportunities and a diversification of China's debts.

In Search of the Belt's Objectives

These interests, while ostensibly economic, have a considerable political dimension. The logic of 'stability and security through development', which espouses the pacifying effect of economic development and job creation, underlies much of China's foreign initiatives. Based on China's own economic development over the past decades, the Chinese leadership deeply believes in this logic. China's underlying desire to foster stability, both

domestically and in its near abroad, cannot be overstated.

The Chinese leadership pursues stability through development both in China, where economic growth is a vital element of an implicit social contract with the population, and in its neighborhood. Domestically, the Chinese government seeks to reduce inequality between its provinces. Its 'Go West' strategy has prioritized investments in China's less developed western provinces, including its Xinjiang Uyghur Region, which borders on three Central Asian states. The Belt represents an extension of China's push to develop its west through new transport and trade outlets; the 'Go Further West', so to speak, after 'Go West'. For the Chinese leadership, the Belt also serves as an important complement to its oppressive approach in Xinjiang, where it heavily surveils, polices, and 're-educates' the local Muslim population in the name of quelling unrest and separatism.

Beyond the economic and domestic motivations, the Belt has important geopolitical ramifications. Denying its implications for the global order, President Xi said "the BRI does not repeat the old geopolitical competition game but open[s] [a] new approach for win-win cooperation."⁷ However, a transformation of the geopolitical



landscape along the Belt is clearly part of China's underlying motivations. Overland trade routes decrease China's dependence on insecure maritime routes, which are largely controlled by the US and its allies or are bottlenecks like the Strait of Malacca. It also allows China to decrease its reliance on energy supplies from the unstable Middle East. As such, the Belt offers China a myriad of options in the face of a potentially escalating trade war.

The geopolitical benefits of the BRI also extend to norms and institutions. China co-founded several institutions, such as the multinational Asian Infrastructure Investment Bank (AIIB), that help execute and finance aspects of the BRI and may serve as an alternative or a complement to existing Bretton Woods institutions. Furthermore, the BRI's goal of trade facilitation necessitates not only physical infrastructure but regulation as well. As a consequence, China's influence on policymaking along the Belt will increase, as more trade and supply chains evolve around China. The BRI will also allow China to shape global standards, for example in high-speed rail or telecommunications.⁸

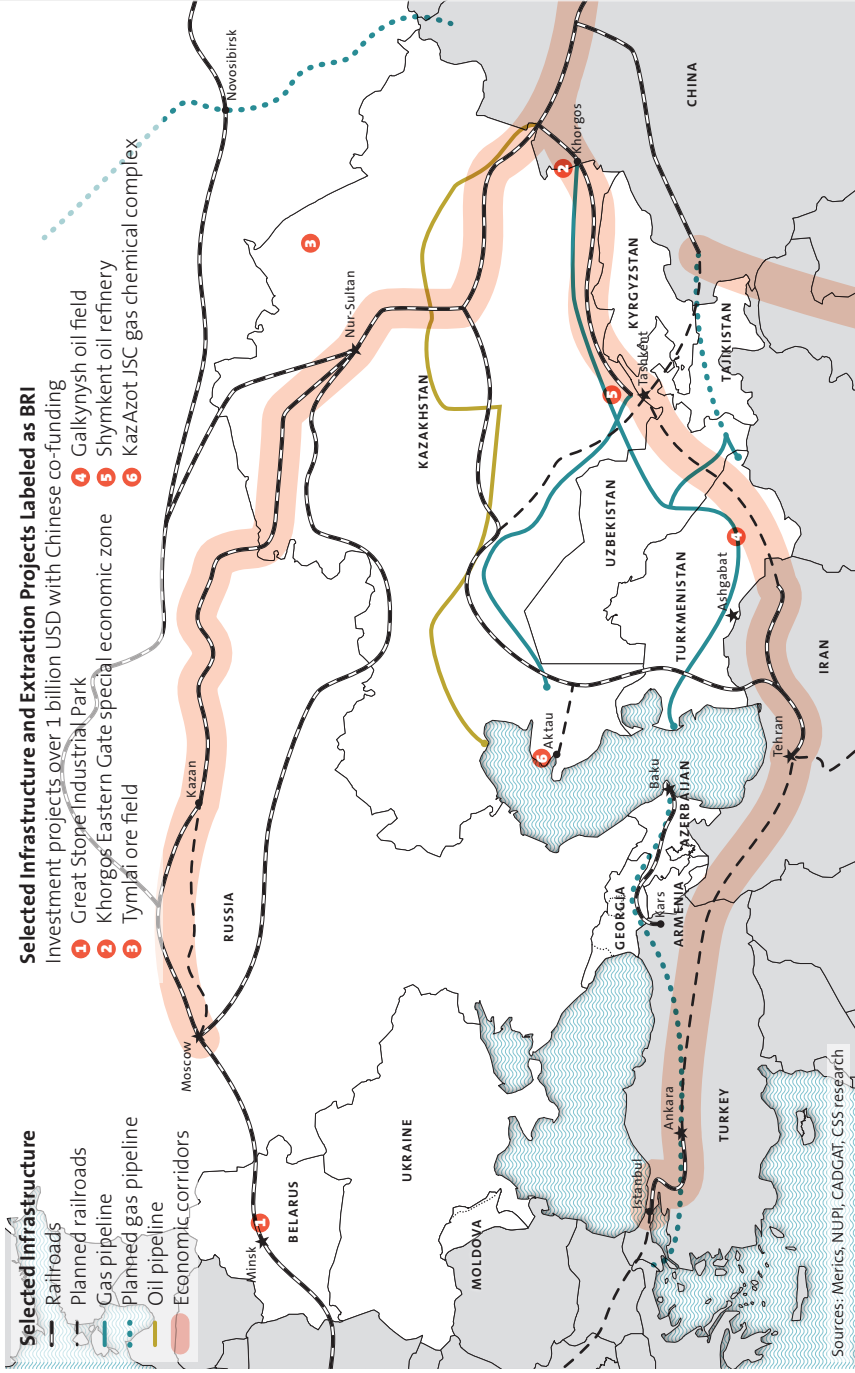
By increasing both China's stakes and its influence level in Eurasian states, other means of interaction become increasingly viable. Through deepened

relationships, China can push more strongly for greater security cooperation and the establishment of more "people-to-people contacts", like student exchanges, which informally target society at large. Yet analysts disagree over whether China wants to establish dominance over its partners. Some observers have labelled China's strategy "debt trap diplomacy"⁹: a plan to create excessive and unsustainable dependence on Chinese loans, which may be repaid through political concessions or relinquishing key assets.

In light of the Belt's enormous transformative potential and China's own state- and investment-driven model for economic development, there is talk of a new international order driven by China. A necessary element of both the so-called 'Beijing Consensus' and of the Belt is developing China's partnership with Russia. Russia's geopolitical clout makes it distinct among all other Eurasian states. An amicable arrangement with Russia secures China's northern border, which is a prerequisite for China's focus on the Pacific and the US. The strategic Russian-Chinese partnership also represents powerful opposition to the US-led liberal order. China's conduct in Eurasia and its willingness to accommodate some of Russia's concerns is an indicator of the significance of this partnership.



The Belt and Road Initiative in Eurasia





The Belt on the Ground

Both Chinese rhetoric, such as President Xi first announcing the BRI in Kazakhstan, and the volume of investments on the ground prove that Eurasia is destined to take a central role in the Belt. To be sure, the Belt are actually ‘Belts’. Of the six BRI corridors, three pass through Eurasia: the China-Mongolia-Russia Corridor, the New Eurasia Land Bridge, and the China-Central Asia-West Asia Corridor. In addition, a sea lane – the Arctic Northeast Passage north of Siberia – and the ‘Digital Silk Road’ also form part of this Eurasian network.

States in Eurasia share a common history, including Soviet and Russian domination, as well as a long-standing lack of economic opportunity. At the same time, they vary considerably; Russia is almost 600 times larger than Armenia and has an income level 13 times that of Tajikistan.¹⁰ Fairly free political systems in Armenia and Georgia are juxtaposed with totalitarian regimes in Turkmenistan. Furthermore, the states’ foreign policy orientations also differ. Some Eurasian states seek to join NATO (Georgia, Ukraine), some seek to remain neutral (Moldova, Turkmenistan), and some are part of a Russian-led military alliance, the Collective Security Treaty Organization (CSTO; Armenia, Belarus, Kazakhstan, Kyrgyzstan).

Accordingly, China’s approaches to and interests in these states are diverse and selective. By tailoring its support to address individual states’ needs, China has become an important trading partner for all countries in Eurasia (see graphic on page 90). Even though the EU, the US and Japan have also invested billions in infrastructure and trade promotion in recent decades, no single actor can match the funds or commitment China has dedicated to Eurasia. While China’s important economic role in the region is undisputed, some caveats apply. Chinese investments reached a peak in 2015 and, after the initial hype around BRI died down, have since stabilized at lower levels. Seven years into the BRI, there remains a large gap between announced projects and actual spending. Furthermore, Chinese funding mostly takes the shape of concessional loans at low interest rates, which states will have to pay back.

The two key sectors for China’s economic activities in Eurasia are transportation and energy, which are the target of around 70% of BRI investments overall.¹¹ Eurasia’s infrastructure gap in these areas is widely acknowledged. Currently, the majority of China’s imports from Russia and Kazakhstan do not pass overland, but through the ports of St. Petersburg and Vladivostok.¹² Landlocked



Central Asia is estimated to gain up to 7% in foreign direct investment flows and 2% in exports through the Belt's infrastructure alone.¹³ Investments thus aim at boosting transportation within countries and regions.

For transit between China and Europe, railway links are paramount. Albeit at least three times more expensive than shipping, overland rail transport can cut transportation times in half to around two weeks.¹⁴ The most established routes are the Trans-Siberian Railway through Russia and a route entering Kazakhstan at Khorgos, a joint Chinese-Kazakhstani free trade zone, dry port, and flagship project of the Belt. At Khorgos, containers are reloaded onto trains using the gauge of the post-Soviet space for their onward journey through Russia and Belarus. Commercial actors established this railway link between the Chinese city of Chongqing and Duisburg in Germany in 2011, prior to the announcement of the Belt.

Other routes of lesser significance at this stage include a railway corridor through Kyrgyzstan, Uzbekistan, Turkmenistan, and Iran to Turkey. In 2016, Chinese companies completed a section in Uzbekistan, including Central Asia's longest railway tunnel. Its final costs, roughly 455 million USD, were mostly financed through Chinese

loans.¹⁵ The corridor currently lacks its Kyrgyz section, as Kyrgyzstan insists on a route that better connects the country internally. The corridor with the highest transportation costs connects the Kazakhstani port of Aktau with the Azerbaijani port of Baku at the Caspian Sea, to continue overland through Georgia to the Black Sea. Even Ukraine stands to benefit from Chinese investments. Despite the fact that many plans were put on hold after the outbreak of the Ukraine conflict in 2014, China is still targeting the Black Sea ports of Mariupol and Yuzhny for further investment.¹⁶

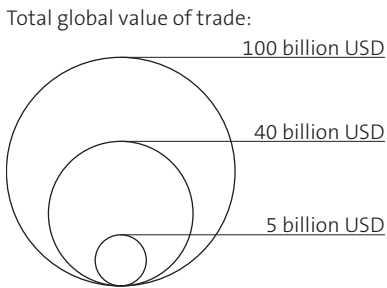
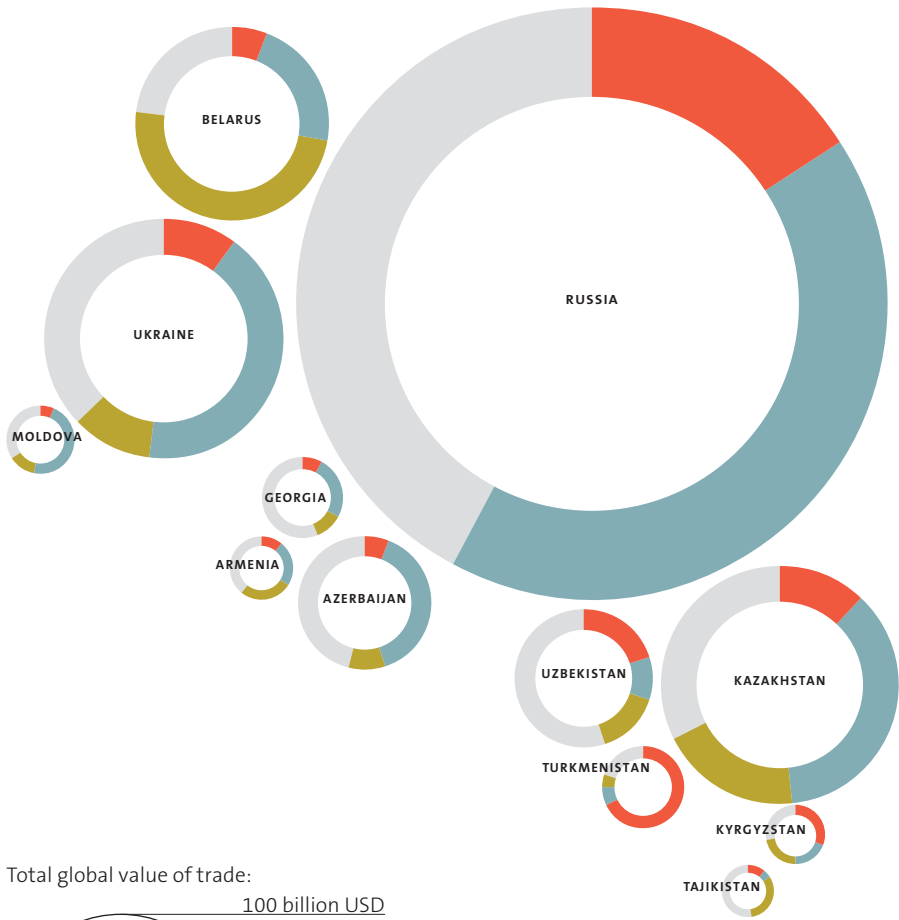
Currently, despite China's emphasis on overland corridors, only between 1–2% of China's exports to Europe pass through Eurasia. China prioritizes shorter transportation times when shipping high-end goods. Accordingly, the Chinese central and provincial governments heavily subsidize rail freight. Furthermore, the transportation of goods is currently mostly unidirectional. Trains returning from Europe run largely empty, as too few exports are deemed financially viable to merit the expensive journey to China.

In the energy sector, some Eurasian states rank among the world's largest producers of hydrocarbons and minerals. Accordingly, China invested vast



Eurasia's Trade Partners

Trade values from October 2018 to September 2019



Share of total value of trade with

- China
- EU(28)
- Russia
- Rest of the world

Note: Total value of trade calculated from imports (cost, insurance and freight) and exports (free on board).

Source: IMF DOTS



sums in their extractive sectors, much of which predates the BRI. Kazakhstan is China's biggest uranium supplier and delivers oil through a 2,800 km pipeline co-financed by Kazakhstani and Chinese state-owned enterprises. Chinese companies control around 40% of Kazakhstan's oil production.¹⁷ Turkmenistan exports 80% of its natural gas production, its major source of income, to China. Ironically, Turkmenistan uses a substantial part of its revenues to pay back Chinese loans that financed the gas pipeline to China in the first place.

As China's biggest oil supplier, Russia is an increasingly important energy source for China. Perhaps predictably, weeks after Russia's invasion of Crimea, China and Russia announced an historic deal for gas deliveries worth 400 billion USD over 30 years through new 'Power of Siberia' pipelines.¹⁸ Furthermore, China's Silk Road Fund secured a 10% stake in a major Russian project processing liquefied natural gas on the Arctic Yamal peninsula. That project relies substantially on Chinese drilling technology, substituting for Western technology used prior to the sanctions regime.

Apart from transport and energy, Eurasia is also home to other areas of Chinese economic activity. There is evidence of China shifting production

capacity to Eurasia. One of the Belt's most ambitious projects, the joint Belarusian-Chinese Great Stone Industrial Park, is a mix of a free trade zone, industrial area, and financial and logistics hub near the capital Minsk. It is intended to be the site of high-tech industries and is expected to benefit from low labor costs, a skilled population, EAEU access, and proximity to the EU. With the number of companies taking advantage of the Park only slowly increasing, the concept has yet to prove itself. Kazakhstan, meanwhile, concluded agreements with China on 55 projects in industries such as metallurgy, engineering, and chemicals, worth 28 billion USD in total. To date, 15 have been completed.¹⁹ There is skepticism, among Western as well as Eurasian observers, whether such facilities will fully meet market requirements or whether China is outsourcing polluting, outdated facilities to essentially create a new 'Rust Belt'.

The Belt as a Political Tool

Observers and Eurasian states often neglect to consider the political component of trade and economic cooperation. Eurasia has long suffered from not only a lack of infrastructure, but a will to cooperate or to harmonize trade regimes. This is the result of underdeveloped bilateral relations, competition over primacy in



the region – for example between Kazakhstan and Uzbekistan – or outright conflict. For instance, Ukraine is a major grain and corn exporter to China, but Russia and Ukraine installed mutual sanctions on trade and transit of food and agricultural produce in recent years.

The Belt cannot succeed without pursuing an openly political agenda in addressing these issues. A World Bank study concluded that Eurasia stands to gain more in trade volume and GDP through policy reforms as opposed to infrastructure investments.²⁰ China has not been shy about encouraging such reforms and has taken some direct steps to ease trade in the region, for example by joining the TIR (International Road Transports) convention.²¹ At the same time, China's average tariffs of 9.5% are still higher than in developed economies.²²

China has signed various political agreements with countries along the Belt. China has a pattern of capitalizing on these agreements by evoking the language of 'friendships' and 'comprehensive strategic partnerships'. They are natural rallying points that China can use to bolster its reputation and the BRI around the world. Beyond the favorable optics, China's strategic partnerships can also have important global implications. While Russia is an

equal beneficiary of the BRI to other Eurasian states, it is a political juggernaut as a nuclear power, permanent UN Security Council member, and a nation unrivaled in both size and natural resource deposits. It exerts considerable influence in Eurasia through the wide use of Russian language and media. Millions of Central Asian migrant workers make a living in Russia and the Russian military has a sizeable presence in Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and – through its occupation of territories – Georgia and Ukraine.

In 2015, China and Russia agreed to harmonize Russia's Eurasian integration project, which entails the EAEU in particular, with the Belt. After hesitating previously, Russia also started providing China with some of its most modern arms and military technology. In turn, Russia increasingly relies on Chinese technology, including in defense, to circumvent Western sanctions. The two countries are growing physically closer too, beyond the brotherly handshakes between Xi Jinping and Vladimir Putin. Projects like a 350 million USD bridge across the Amur River and the draft plans for an estimated 240 billion USD (!) high-speed rail connection between Beijing and Moscow would physically link Russia and China as never before.



In its approach to the other former Soviet states in Eurasia, China can benefit from Russia's influence and role as a security actor. Accordingly, China appears willing to take Russian sensitivities into account.²³ Russia, meanwhile, is determined to maintain its influential position in the former Soviet Union. Russia has increased the number of summits with political leaders and encouraged companies to invest in Eurasia. For example, to lure Kyrgyzstan into joining the EAEU, Russia set up a 1 billion USD investment fund.

As opposed to investments from the West or Russia, recipient states often view cooperation with and loans from China as favorable since they do not come with strings attached. China does not insist on transparency, democratic standards, or economic liberalization as the West does, nor does it call for immediate political concessions as Russia does. However, China does implicitly expect some political support. It insists on the 'One-China policy' and refuses to allow criticism of its repressive policies and human rights abuses in Xinjiang or Tibet.

Despite improvement in recent years, skepticism and outright Sinophobia persist throughout Central Asian and Russian societies. In an effort to improve its image in Eurasia, China aims to foster deeper societal and cultural

ties with Eurasian states and boost its soft power. It grants scholarships to study the Chinese language or enroll in Chinese educational institutions; 30,000 Central Asians alone are studying in China. It also runs approximately 40 Confucius Institutes – educational centers aimed at promoting Chinese language and culture – in Eurasia.

As another stated political goal of the Belt, China encourages cooperation among Eurasian states. High-level summits and nascent multilateral institutions serve that purpose, namely the Quadrilateral Cooperation and Coordination Mechanism with Afghanistan, Tajikistan, and Pakistan, or the Shanghai Cooperation Organization (SCO). The SCO serves as a platform on regional security in Eurasia and organizes regular exercises of security forces to counter what China deems the "three evils": terrorism, separatism, and extremism. In particular, jihadist radicalization, militant incursions, and trafficking from Afghanistan have been common concerns addressed at the forum. The SCO also seeks to shape norms and concepts on a larger scale. Its mostly authoritarian member states share an overly broad definition of terrorism, for example, which may capture a range of acts including political opposition or separatism.²⁴



As a result of its growing engagement with Eurasia, China is increasingly active in the security sphere as well. The impetus to secure its investments and its immediate neighborhood through more than boosting trade or relying on Russia was inevitable. China strengthens ties with security forces across Eurasia through joint training, military exercises, and donating or selling military equipment. With Russia's closest ally in Europe, Belarus, China took it one step further. After Russia declined to deliver the latest multiple launch rocket system to the Belarusian armed forces, a Belarusian-Chinese joint venture developed its own, the *Polonez*.²⁵ Furthermore, Chinese private security companies are an increasingly common part of engagement abroad, and China unofficially even runs a small permanent military base near the border in Tajikistan.

Reception in Eurasia

The level of Chinese engagement has invoked great expectations across Eurasia. States were eager to subscribe to the Belt and access seemingly unconditional Chinese funds, hoping to become a keystone of the initiative and trigger economic development. In their responses to the Belt, however, states have proven to be more than mere recipients of aid. Always balancing between major powers and situated at geopolitical fault lines, Eurasian

states have long been skilled at capitalizing on the activities of outside powers. As such, participating states also shape the implementation of the Belt in Eurasia.

Many benefits of the Belt in Eurasia are inarguable, such as improvements in road and rail infrastructure.²⁶ Data analyses assume that Chinese-led infrastructure investments lead to substantial gains, particularly in urban centers, and even reduce inequalities between regions.²⁷ A number of Eurasian states regard strengthening ties with China as a way to diversify their foreign policy relations, and particularly to decrease dependence on Russia. Belarus, amidst bilateral disputes with Russia, happily accepted a large loan from China in 2019, to the tune of 500 million USD.²⁸ Similarly, Armenia seeks closer ties with China in terms of trade and security cooperation.²⁹

For some Eurasian states, the Belt has proved a significant opportunity to advance their interests. Kazakhstan stands out in particular for its role in shaping the Belt. It enjoys a strong position from which to negotiate, thanks to its hydrocarbon revenues. While it has attracted sizeable Chinese investments in a range of sectors, Kazakhstan funds many BRI projects itself, such as the Khorgos dry port. Kazakhstan



even officially declared its desire to harmonize its national development strategy, aimed at diversifying its economy, with the Belt. Through that decision, it assumed a certain degree of ownership over the Belt in its territory. However, there is a danger that the authoritarian Kazakhstani government may waste funds on ‘white elephants’. Much of Kazakhstan’s growth potential lies in agriculture, for example, which requires complex interventions including storage facilities, supply chains, a revised land code, and a banking sector providing small loans.³⁰

As a contrasting example, Tajikistan largely lacks both funds and alternate investors. Its authoritarian political elite eagerly accepts any Chinese assistance to strengthen the regime’s stability and security forces. There appear to be no reservations about the fact that China is donating the construction of a vast government complex in the capital, worth 350 million USD, without indicating what it expects in return. Tajikistan is further accepting 545 million USD from China to upgrade its largest aluminum processing plant, which accounts for a major portion of its exports. Incidentally, the plant is controlled by the Tajik president’s brother-in-law.³¹

These examples underscore that structural issues like a weak rule of law, a

lack of institutional capacity, and rampant nepotism have impaired growth and modernization in Eurasia. In Central Asia, Chinese officials allegedly expect to lose around 30% of their investments due to corruption.³² In one recent example, the Chinese Bank of International Development stopped funding the construction of the Light Railway in the Kazakhstani capital Nur-sultan after funds started disappearing. As corruption is also widespread in China’s public and private sectors, though, it may be naturally assumed that megaprojects will involve side payments or overcharging by either side.

Particularly in Central Asia, the least interconnected region in Eurasia, regional harmonization and cooperation would substantially boost benefits from investments. States have undertaken some joint efforts at facilitating customs clearance and border crossings. However, distrust between leaders and between ethnic groups, combined with a lack of regional fora, have inhibited such endeavors to date. Despite the Belt, disputes at borders in Central Asia and trade wars with Russia continue to flare up occasionally. This is exacerbated by the fact that increased connectivity in turn creates more competition, namely from Chinese manufacturers. If Eurasian states cannot cooperate to



utilize their competitive advantages, they may cement their role as merely a transit space or resource supplier.

Eurasian states' structural political shortcomings, dependence on Chinese or Russian funds, and lack of coordination constrain their bargaining position. China may plan and finance BRI projects unilaterally, and smaller states may feel powerless to renegotiate or resist explicit Chinese directives.³³ The seemingly easy availability of Chinese funds, particularly during the early years of the BRI, has led to a large accumulation of debt and a number of projects where profitability is questionable. Kyrgyzstan and Tajikistan, for example, already owe more than half of their external debt to China, and face a high risk of debt distress.³⁴ Tajikistan ceded 1% of its land to China to settle a border dispute and to cover a debt in 2011, and granted gold mining rights to pay off another Chinese loan.

Such instances feed into the narrative of debt trap diplomacy and the already widespread skepticism about China. Popular and expert concerns revolve around three primary issues. Firstly, reliance on China is seen both as inviting risk and the exacerbation of existing inequalities. Secondly, collaborating with corrupt local elites has undermined the reputation of Chinese

investors and frustrated observers. Finally, much of the commentary reveals a fundamental skepticism about China and the Chinese. While on a person-to-person basis Chinese are visible in Eurasia, on the broader level there is often little knowledge about the strategy behind China's engagement.³⁵ Few China experts exist in Eurasia who could bridge cultural gaps.

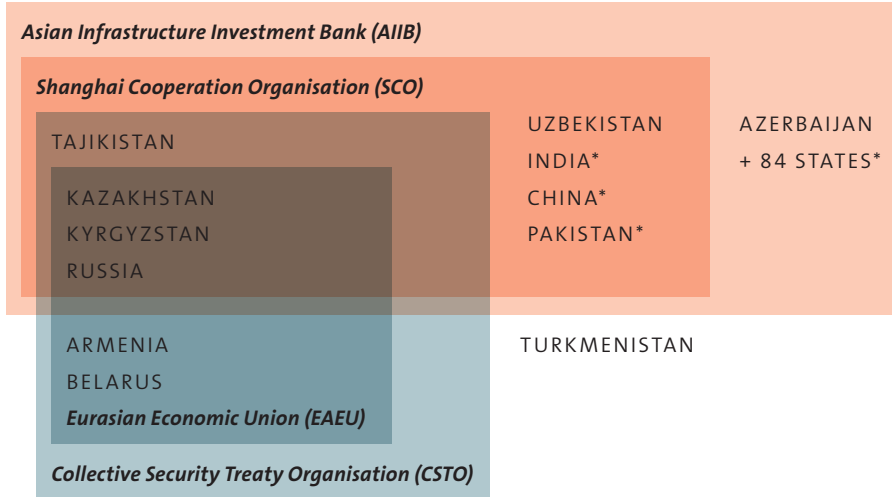
China's repressive measures against Muslims in Xinjiang is a particular source of discontent in the Muslim states of Central Asia, as some Uyghurs flee to Kazakhstan and Kyrgyzstan. Around one million ethnic Kazakhs and 200,000 Kyrgyz live in Xinjiang, many of whom the Chinese government forced into so-called 're-education camps'. Political elites in Central Asia avoid the topic or declare it internal Chinese affairs.³⁶

A further source of grievance across Eurasia has been the fact that BRI projects often employ Chinese companies and workers. Additional concerns revolve around the environmental damage caused by many of these initiatives. This includes both mining projects and concerns over Chinese claims to water and land, as exemplified by protests over a land reform in Kazakhstan in 2016. Moreover, there are long-standing fears of an influx of



International Organizations in Eurasia

As of March 2020



* Non-Eurasian states

Sources: AIIB, CSTO, Eurasian Economic Commission, SCO

Chinese migrants to its more sparsely populated Eurasian neighbors. A fundamental lack of trust in their political elites cause many Eurasian populations to suspect that they may serve Chinese money more than national interests.

China has made a concerted effort to respond to the BRI's reception and to the countries' particular political economies in this critical corridor. China had to pull out of some projects after they were beset by fraud, and consequently worked to strengthen risk assessment and mitigation. Ultimately, China struggles no differently than

other actors who have engaged and, more often than not, become frustrated by working in Eurasia. That being said, China must also contend with particular challenges as it still lacks in-depth expertise and a heavy footprint in the region.³⁷

China's soft power efforts, such as increasing people-to-people interactions, aim at improving its image in Eurasia. Unfortunately for China, some may have backfired and actually contributed to suspicion. There are allegations that Chinese actors have tried to influence public opinion through intelligence gathering,



buying decision-makers, supporting media, or sponsoring academics in exchange for favorable research.³⁸ While tens of thousands of students from across Eurasia study in China or learn Chinese, many may do so expecting to gain immediate material benefits. It remains to be seen whether they are also prompted by a cultural affinity for China. However, over the course of a generation or two, perceptions may shift and China may become an important reference point among Eurasian states and societies beyond economy and trade.

Learning from the Belt in Eurasia

Eurasia has been an early focus of China's outreach – its 'Pivot to Eurasia'. It serves as a laboratory for China's new, more outward-looking foreign policy in general and the BRI specifically. In that regard, Europe should watch China's conduct in Eurasia closely. China will not copy and paste policies, but its experience in Eurasia will undoubtedly inform China's approach to other regions of the world, including Europe.

Unlike most other actors, China has put forward an overarching vision for Eurasia: to transform it into a connected space, build new markets, and foster stability. To that end, the Belt combines elements like infrastructure construction, trade promotion,

people-to-people exchanges as well as political and security cooperation, both bilaterally and multilaterally. By watching how the Belt plays out in Eurasia, the unknown parameters of the Belt increasingly reveal themselves. The Belt includes projects predating its announcement, such as the China-Germany railway connection, and projects without Chinese funding, like a number of projects funded by national governments or multilateral development banks. However, the air of uncertainty surrounding the BRI was by design. It reflects China's pragmatic stance and allowed states to project a wide range of hopes and intentions onto the Belt. Kazakhstan, for example, presented its national development strategy and Russia framed its Eurasian integration project as harmonizing with the Belt.

In Eurasia, China has decisively demonstrated how economic power translates into leverage and influence. At the same time, Eurasia also proved the primacy of national politics. In 2019 alone, tensions at the border between Kazakhstan and Kyrgyzstan, and between Belarus and Russia over energy subsidies, appeared to trump pure pro-growth logics. States often compete for key roles in the Belt and pursue their national interests, as opposed to strengthening intra-regional cooperation.



Though it presents the Belt as a win-win situation, China – no different from most other powers in other regions of the world – is motivated by its national interests. It seeks resources, stability, and favorable political ties with its neighbors. In addition, China seeks to create and pursue investment opportunities to foster its own economic growth. China sends loans and investments, not development aid. To date, the states of Eurasia have been willing to pay the immediate political price necessary to join the Belt, such as endorsing the ‘One-China policy’ or remaining silent about Xinjiang or Tibet. Unlike other economic opportunities presented to Eurasia, China has been willing to interact with any state irrespective of political system. Thus far, it has not shown signs of attempting to export the authoritarian Chinese political system.

The concern surrounding ‘debt trap diplomacy’ cannot be disregarded, as a number of countries owe substantial shares of debts to China. However, China has thus far approached the debt issue on a case-by-case basis, and has no interest in appearing colonialist and triggering popular backlash. In fact, some states have come to expect debt relief in exchange for political favors in the first place – poorer countries of the former Soviet Union have long played this game with their

previous sponsor, Russia. This fact also emphasizes that debts are a two-way street, as local leaders willfully accept the loans China offers.

Overall, while the endeavor is still ongoing and no clear criteria for success exist, China appears to have reached a number of goals in Eurasia. Stability is largely maintained, states have overwhelmingly endorsed the Belt, Chinese transport and energy routes were diversified, and China’s influence in the region has grown. That being said, assessing the Belt’s long-term success will take decades. 2020 should prove a telling year for the future direction of the BRI. Subsidies for railway cargo to Europe, for example, are due to be halved from the current 10 billion USD. Overall, the economic slowdown due to the effects of the global coronavirus crisis will force China and Eurasian states to prioritize in how they spend their funds.

Getting involved in the Belt also entails considerable risk for Eurasian states. A persistent challenge is the opaqueness of Chinese investments. Without the ability to properly assess their economic viability and sustainability, recipient countries may be disadvantaged by the partnership and the lack of clarity can foster suspicion. Risks also concern China itself. As China already faces domestic debt



problems, there will be severe repercussions if outward investments fail to produce revenue and if China proves to have overstretched its resources by pouring hundreds of billions into the Belt.

The political risks associated with the BRI also cannot be ignored. While its goal to foster stability sounds positive, China and its state-centric approach strengthens incumbent regimes. Yet many regimes across Eurasia have proven to be inefficient and corrupt, thus planting the seeds for future instability. Furthermore, China is often unwilling to acknowledge that sustainability and long-term growth in Eurasia require institutional reforms.

Through the establishment of the Belt and China's economic weight, the geopolitical landscape in Eurasia is tilting towards China. The Belt has been geopolitical all along and provides China with options should a confrontation with the US ever occur. With increased investments over land and additional sea lanes opening, China's influence even reaches the Arctic. The EU, the US, and Japan are likely to retain their limited collective influence in Central Asia, as well as their considerable influence in Eastern Europe and the South Caucasus. To date, China has not threatened the existing pecking order or multilateral institutions,

but the AIIB, the SCO, and future formats may increasingly do so.

Geopolitically, Russia stands to lose the most from China's rise, particularly in its Central Asian backyard. However, Russia's persistent cultural ties to Eurasia and the Chinese-Russian partnership alleviate this concern. The latter is likely to remain stable in the medium term, as the two lack allies and jointly oppose the US-led liberal international order. China appears willing to take into account Russian sensitivities and its self-perception as a great power. As such, no 'New Great Game' is occurring in Eurasia. In the long run, however, as China becomes even more powerful and capable, the asymmetry of their partnership and cultural differences will exacerbate tensions.

With greater leverage comes greater responsibility. While China has established the basis for a more active role in Eurasia, it is still hesitant to be too heavy-handed at exerting 'influence with Chinese characteristics.' However, with domestic calls to be more assertive and the necessary leverage to do so, China will be increasingly likely to exploit its position to create a favorable political environment and to secure its investments. In the future, China may try to ensure the deportation of Uyghurs or alleged terrorists to



China. Based on the foundation laid now, China's competitive advantage may be further cemented, and its political lobbying could lead to an increasing number of tenders for Chinese companies. Through platforms like the SCO and additional support at the UN through BRI states' votes, China will increasingly try to shape norms and concepts on the global level. Moreover, the use of its currency and technology, including for surveillance, are expected to increase around the world.

China's security presence in Eurasia is also likely to rise, particularly so if threats to stability and security mount. Many Asian states in Eurasia may increasingly look to Beijing to mediate or exert pressure in cases of tension over trade, borders or water. In the event where China's immediate neighborhood becomes unstable and the borders porous, China will be increasingly likely to act. Though Chinese military measures would likely be in consultation with Russia, the opening of the first *official* permanent military base in Eurasia will both be evidence of China's increased assertiveness and a serious test for Chinese-Russian relations.

China's engagement has one final geopolitical consequence. The Belt forces other actors to think more comprehensively about that space. Prompted by the BRI, outside actors like the EU,

US and Japan have increased their visits and investments despite historically prioritizing only energy and security in the region. Moreover, albeit lacking a vision and brand as catchy as the Belt, it pushes these actors to make their efforts more visible and to emphasize the advantages of their approaches; namely, sustainability, quality of infrastructure, and transparency. As such, the Belt has helped put Eurasia on the map as more than an 'in between'.

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STRATEGIC TRENDS 2020 is the eleventh issue in the series. It features chapters on China, the US and World Order, US-China Relations and the Specter of Great Power War, China as a Stress Test for Europe's Coherence, and on China's Belt and Road and its Pivot to Eurasia.

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