

## **ASSERTIVE CHINA AFTER THE RISE OF XI JINPING**

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DOI: <http://dx.doi.org/10.31439/UNISCI-197>

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# 1. Introduction

## 1.1 Methodology

The approach to the dimensions of the China threat and the perceived slow reactions of NATO allies will be realistic and pragmatic. This inductive research, of an exploratory nature, will be based on the triangulation of multidimensional secondary data through open-source academic sources, statistics, official reports and press articles widely available to the general public. The researcher's experience in Asian economic contexts contributes with qualitative input to the interpretation of the narratives considered.

In terms of China's internationalisation and economic policy, the Chinese economic miracle, which supports visions of China as a global hegemon, would correspond to a coherent long-term grand strategy.

First, we analyse the key drivers along China's partial liberalisation processes. Second, the focus will shift to recent political developments in the West, as a late reaction to a more assertive China and its 'wolf diplomacy', taking into account the weakness of the free world in the face of the China threat, given the apparent strengths identified in the examination of China's strategy. Finally, a brief section will be devoted to general conclusions integrating the results of the two perspectives.

## 1.2 Western Decadence as seen from Beijing

Xi Jing Ping's ideological vision since 2011 stands in marked contrast to Deng Xiao Ping's pragmatic, non-ideological practice of China's economic and political development.

The People's Republic of China was poor under Mao Zedong. He isolated his country by promoting forced collectivisation at home and 'anti-imperialist' revolutions abroad<sup>23</sup>. The first years of communist rule (1948-1956) saw some improvement for the poor peasants<sup>4</sup>. Later, the aggressive PRC of the Four Pests Campaign, the Great Leap Forward and the Cultural Revolution (1958-1972)<sup>5</sup> became economically weak and unpopular. It even promoted wars and exported its own communist policies abroad, whether in the PRC's immediate Asian hinterland or in countries in the process of Western decolonisation: Famines broke out not only in China but also in countries such as Cambodia and Indonesia, killing tens of millions of people.

The end of Maoism (1948-1983) precipitated a new strategic paradigm: Nixon's visit to PR China (1972), followed by the interruption of formal US-Taiwan diplomatic relations and the fall of the Berlin Wall, opened new avenues for reform and the internationalisation of the economy. An "aggressive" PR China would give way to an apparently peaceful, low-profile one, focused on economic development.

After China's humbling defeat in Cambodia (1979) at the hands of the Vietnamese<sup>67</sup>, to guarantee Chinese Communist Party survival required drastic changes: This started in the countryside with the introduction of market incentives and effective governance, propping up productivity by fostering a myriad of SMEs in low skilled, labour-intensive industries, visible in all small rural cities, while the

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<sup>2</sup> Stuart-Fox, Martin (2003): *A Short History of PR China and South East Asia, Tribute, Trade and Influence*, Crow's Nest, Allen & Unwin, 278 pages, pp.184-186, 188 and 200.

<sup>3</sup> Gelber, Harry G (2007): *The Dragon and the Foreign Devils, PR China and the World, 1100 BC to the present*, London, Bloomsbury Publishing, 494 pages, p. 377.

<sup>4</sup> Tamames, Ramón (2013): *China, tercer milenio, el dragón omnipotente*, Barcelona, Planeta, pp. 15-22, 528 pages.

<sup>5</sup> Fenby, Jonathan (2009): *The Penguin History of Modern China*, London, Penguin Books, pp. 353-508, 763 pages,

<sup>6</sup> See Stuart-Fox, *op. cit.*, pp. 185-186.

<sup>7</sup> See Gelber, *op. cit.*, pp. 378-379.

development of infrastructures connected rural areas with markets. In parallel, China opened up to international trade, foreign direct investment (FDI), official development aid<sup>8</sup> (ODA), and highly beneficial Western technology transfers. These would all help lift 778 million citizens from poverty since 1978<sup>9,10</sup>.

These changes transformed China into an export-led (never import-led), extroverted but protectionist economic system called "hybrid capitalism" or "market socialism" that benefited from the opportunities of the US-led international trading system and liberal order: Even with the emergence of huge private-sector companies offering the appearance of a competitive market economy, liberalisation was only partial. This was due to the importance of state intervention, mainly through trade, investment, subsidies and state-owned enterprises (SOEs) (see sections 2.1 and 2.5).

After the Tiananmen protests, a strong PLA was the main guarantee of survival of the Party (1987): The resulting economic growth allowed for the technology and resources to modernise the People's Liberation Army (PLA). High annual rates of GDP growth went in tandem with extremely high increases in defence expenditure: From 11 US\$ billion in 1990 to 298 billion in 2022<sup>11,12</sup>, it reached double-digit growth in the 1990s and 2000s, giving a clear idea of strategic priorities<sup>13</sup>. In 2023, China's defence spending grew by 7%, well above GDP growth.

Trade, investment and technology exchanges between China, Taiwan and the US increased exponentially (1980-2015). In compensation, the PR China<sup>14</sup> contributed to American Foreign Policy against the USSR. The US took advantage of China-USSR dissensions since the times of Khrushchev, opposed to the excesses Maoism<sup>15</sup> and Stalinism<sup>16</sup>: Following this line of thought, fostering divisions between China and Russia and ending the Vietnam War, would be the fundamental American objectives in Nixon's approach to China.

'*Black cat or white cat, if it can catch mice, it's a good cat*', sagely said the father of the reforms, Deng Xiao Ping. These were an outstanding success: The 10%<sup>17</sup> annual GDP growth rate of the "Elder Brother"<sup>18</sup> (China), doubled, even tripled, that of the "Little Brothers": The neighbouring vassal kingdoms of yore in East and South East Asia, buffer states for China, whose growth rate moved from 3,3% to 7,5% (ASEAN, South Korea and Taiwan). China became the 6<sup>th</sup> world economy by 2000, and the 2<sup>nd</sup> in 2012, boasting an already strong services sector (40% of GDP)<sup>19</sup>. By 2020, it was

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<sup>8</sup> *European Business in China, Position Paper 2022/2023* (2022): European Union Chamber of Commerce, Beijing, p.4, at [https://www.europeanchamber.com.cn/en/publications-archive/1068/European\\_Business\\_in\\_China\\_Position\\_Paper\\_2022\\_2023](https://www.europeanchamber.com.cn/en/publications-archive/1068/European_Business_in_China_Position_Paper_2022_2023)

<sup>9</sup> Parepa, Laura-Anca: "The Belt and Road Initiative as Continuity in Chinese Foreign Policy", *Journal of Contemporary East Asian Studies*, Waseda Institute of Contemporary Chinese Studies, Vol. 9, No. 2, (2020), pp. 175–201, in pp.179-180.

<sup>10</sup> *The World Bank and The Development Research Center of the State Council of the People's Republic of China. Four decades of Poverty Reduction in China, Drivers, Insights for the World and the Road Ahead* (2022): World Bank Publications, Washington, 70 pages, pp. xiii-xv, at <https://thedocs.worldbank.org/en/doc/bdadc16a4f5c1c88a839c0f905cde802-0070012022/original/Poverty-Synthesis-Report-final.pdf>

<sup>11</sup> *China, Military Expenditure*, at <https://data.worldbank.org/indicator/MS.MIL.XPND.CD?locations=CN>

<sup>12</sup> *What Does China Really Spend on its Military*, at <https://chinapower.csis.org/military-spending/>.

<sup>13</sup> Nan Tian and Fen Sui (2021): *A new estimate of China's Military Expenditure*, SIPRI, Solna, pp. vii-ix, 21, at [https://www.sipri.org/sites/default/files/2021-01/2101\\_sipri\\_report\\_a\\_new\\_estimate\\_of\\_chinas\\_military\\_expenditure.pdf](https://www.sipri.org/sites/default/files/2021-01/2101_sipri_report_a_new_estimate_of_chinas_military_expenditure.pdf)

<sup>14</sup> See Gelber, *op. cit.*, pp. 380-381.

<sup>15</sup> Gaddis, John Lewis (1997): *We Know Now, Rethinking of Cold War History*, Oxford, Clarendon Press, p. 216.

<sup>16</sup> Zоргbibe, Charles (1997): *Historia de las relaciones internacionales desde 1945*, Madrid, Alianza Editorial, pp. 319-321,382-389, 693 pages.

<sup>17</sup> Wong, John: "PR China-ASEAN relations", in Wade, Geoff (ed.) (2009): *The Chinese in South East Asia*, volume VI, 1<sup>st</sup> edition, Routledge Library on South East Asia collection, Abingdon, Routledge, pp. 321-336, 348 pages.

<sup>18</sup> See Stuart-Fox, *op. cit.*, p. 188.

<sup>19</sup> See Gelber, *op. cit.*, p. 401.

already the largest in the world in terms of adjusted PPP (power purchasing parity), foreign exchange reserves and manufacturing<sup>20</sup>.

Deng's "*Hide your strength, bide your time, never take the lead*" (韬光养晦 决不当头)<sup>21</sup>, would characterise the 1983-2003 period when China focused on domestic economic reconstruction. The "*One China, Two Systems*" agreement with Thatcher's Britain, shaped the institutional arrangements to integrate Taiwan and Hong Kong into a nascent China-centric regional trade system. Deng gave birth to an apparently less aggressive, stable China that was "hiding its strength" internationally, to reinforce its domestic economic and military base, with "[...] *a preference for bilateral dialogue and certain reticence for joining or creating multilateral initiatives, by economic pragmatism and a desire to avoid confrontation in shelving disputes*"<sup>22</sup>.

But with the rise of Xi Jing Ping (2011), China had become one of the world's two leading economic, political and military powers. Was it time to return to Maoist essentials? According to Rudd<sup>23</sup>, Xi's nationalist ideology was the main driver: "[...] *Xi has pushed politics to the Leninist left and economics to the Marxist left*". In other words, although there is a desire to return to the "purity" of communist revolutionary ideals, Xi's thinking is more technocratic, introducing contradictions between the political and ideological spheres and the realities of the Chinese economy.

Nevertheless, Xi would have centralised power in his own person (like Mao), reasserted the power of the Communist Party of China (CPC) over civil society and the corporate world, inspired by his belief that China would become the pre-eminent power and create a more just international order than the US. Xi's ideology would be heavily influenced by Marxist historical materialism and dialectical materialism. Ergo, in Xi's view, the Chinese revolution's achievement of a more advanced stage of socialism would be the result of the decline of Western capitalist systems.

In Rudd's interpretation of Xi's influential and wide-ranging thought, the CPC would triumph in an "*ever intensifying*" (sic.) struggle between the CPC and reactionary forces, either domestic (the private sector, Western-influenced NGOs and religious movements) or foreign (the US, NATO and allies). Fearing the fate of the USSR, the party should be concerned with ideological purity. So, Xi would have emphasised the role of the West in fomenting ideological divisions in China with the aim of dismantling the CCP regime. This would be the reason for Xi's authoritarian policies, censorship and constant rounds of purges in the CPC, PLA and leading Chinese institutions to stifle dissent and discord.

Xi Jin Ping's policies (2012) were favoured by the pervasive high-level corruption, the financial crises - 2008 (global) and 2015 (in China) -, but mainly unbalanced economic growth in China since Deng, a source of inequality and resentment (see section 2.1). During 2015, the stock market indexes in China fell 50% and had to be costly bailed out; the same happened with the cyclical rescue packages for the speculative bubbles in the Real Estate sector (see section 2.5).

The result was Xi's loss of faith in the market economy: Social inequality from a Marxist perspective was now a priority, and Party members would enter and have a greater say in the boardrooms of

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<sup>20</sup> Macikenaite, Vida: "China's economic statecraft: the use of economic power in an interdependent world", *Journal of Contemporary East Asia Studies*, Waseda Institute of Contemporary Chinese Studies, Vol. 9, No. 2 (Nov. 2020), pp. 108–126.

<sup>21</sup> *A New Sinology for a New Period, Kevin Rudd's Address at the Seventh World Forum on PR China Studies, Asia Society Policy Institute*, at <https://asiasociety.org/policy-institute/new-sinology-new-period>

<sup>22</sup> See Parepa, *op. cit.*, page 3.

<sup>23</sup> Rudd, Kevin: "The World According to Xi Jinping, What China's Ideologue in Chief Really Believes", *Foreign Affairs*, Vol. 101, Issue. 6 (November /December 2022), p.2, at <https://www.foreignaffairs.com/china/world-according-xi-jinping-china-ideologue-kevin-rudd>

private companies, introducing opacity and unaccountability (see section 3.8), ergo interfering with the optimal allocation of resources. The private sector would lose out and be discriminated against: Trillions of Yuan Renminbi (2015-2023) would be channelled to the public sector via state-owned enterprises (SOEs) through "*industrial guidance funds*".

Xi would consolidate industrial policies that create domestic and global distortions through unfair licensing, preferential credit, subsidies and price controls (see sections 2.3, 2.4 and 2.5). At the same time, China would introduce the concept of the "*dual economy*", a step forward in the line of its traditionally protectionist policies, infused with Colbertism (see sections 2.1 and 2.3), so as to become less dependent on the world economy while making the rest of the world even more dependent on China.

Xi saw China in "*The Road to Rejuvenation*", which would have overcome the "*Hundred Years of Humiliation*" under Western colonialism in Asia (see section 2.2). This would be an over-nationalistic, risk-taking China, willing to exercise its power by not bowing to Western rules.

Xi would promote a technological competition with the West, so that China would attain superiority in the industries of the future, from EVs to AI, clean energy, telecommunications, biotechnology, advanced materials or microchips. Here Chinese SOEs protectionism and industrial policy would play a definitive role in the line of the "Rule of Men", versus the rules based Western order: Unfair competition against Western industries via subsidies, social, environmental dumping or IP theft (see subchapters 2.1 and 2.8) would be some of the contentious differences with the West. This would lead to a battery of post Covid-19 "*counter protectionism*" sanctions applied by the US/EU to China from the Trump era, reinforced under Biden (see subchapters 3.4, 3.5 and 3.6), to try to retard the fast pace of PR China's technological advancement, and protect Western national interests.

According to Rudd<sup>24</sup>, in order to achieve its goals, China would suppress all references to human rights and praise of the Western order in the UN. It would also create its own multilateral institutions to counter the Breton Woods institutions (IMF, World Bank) controlled by the West, while promoting the virtues of the Chinese authoritarian model among the developing countries, as opposed to the allegedly decadent Western democratic free market capitalism. All this was done with special attention to the BRIC countries, inspired by a Marxist belief in the justice and fairness of Chinese hegemony and its political and economic institutions for the developing world.

Since the 1980s, Chinese propaganda has evolved. Today, it is not just Maoist revolutionary proclamations against the "bourgeois West" and capitalism; historical, logical grievances or, more recently, the West "*limiting China's global expansion*" in victim narratives. Paradoxically, and in conjunction with the new Chinese mainland bourgeois capitalism, hedonistic individualism would be identified with selfishness (a sin) and the West, where people did not care about their communities and social "harmony", so Western influences would destabilise the social order<sup>25</sup>.

Moreover, in Xi Jin Ping's China, narratives of Western decadence and the superiority of the Chinese model would proliferate. The following is a sample of articles selected by CSIS<sup>26</sup>:

1. Li Yunlong<sup>27</sup> examines the alleged inferiority of the US democratic model, which is being forcibly exported to developing countries: 'flaws in the electoral system and the political system steeped in

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<sup>24</sup> See Rudd, *op. cit.*, p. 9.

<sup>25</sup> Yunxiang Yan: "The Politics of Moral Crisis in Contemporary China", *The China Journal*, No. 85 (Jan 2021), pp. 96-120.

<sup>26</sup> *Beijing's New Narrative of U.S. Decline* at <https://opensource.csis.org/features/beijing-narrative-us-decline/>

<sup>27</sup> Li Yunlong: "'American Democracy' – The End of the Myth" ["美式民主'神话的终结"], *People's Daily*, 13 January 2021

Li is Professor of the Institute of International Strategy, Party School of the Central Committee of the Communist Party of China.

money politics, low voter turnout, unfairness and lack of political representation - '*one man, one vote*' would be an unfounded claim'. The events that followed the sad aftermath of the presidential election, when Trump supporters took over the Capitol in Washington, the violence that ensued would prove that the American political system does not guarantee a flawless, peaceful transfer of power. The perception of the desirability of political stability and development in China, embodied by the survival and primacy of the CCP, seems obvious.

Li would point to other contentious factors, such as the delicate race relations in the US, which might prove that democracy does not guarantee the necessary stability and conflict avoidance. Critical views of China, where premiers are not elected, would therefore be unfounded. Li would also negate the premise of accountability of elected leaders in democratic societies as a guarantee of good governance: Poor decisions such as the Vietnam or Iraq wars, or the poor American performance in terms of mortality rates during Covid-19 would be evidence of this.

However, there seems to be no objective assessment of mortality rates in China, which are probably much higher than officially recorded, with estimates pointing to more than one million deaths<sup>28,29</sup>: Hong Kong, China since 1997<sup>30</sup>, registered the highest number Covid-19 of deaths per population size in the world in 2022.

2. According to Zhang Jian<sup>31</sup>, US values such as democracy, human rights and freedom would not have been able to guarantee "*good economic effects*". However, these would have led to massive social inequality and clashes between different social groups (ergo not applicable to other nations like China), and lack of trust in their leaders and lack of optimism among the electorate as factors behind the rise of US populism. Human rights would only apply to certain groups in the US - African Americans would be marginalised, in Biden's words, recalling Black Lives Matter - and would not be respected either in the US or abroad.

The US would have interfered in the internal affairs of countries like Syria, Libya or Afghanistan, and would have behaved hypocritically and inappropriately: "[...] *the global mentor of democracy and human rights*", calling Hong Kong rioters "*heroes of democracy*" does not prevent it from calling Trump supporters who seized the Capitol rioters". Human rights would be a tool to interfere in the political affairs of other nations to advance American national interests. US values would have been influential globally, given America's strength, especially in technology and economics. However, financial and sovereign debt crises would dent US power, challenging the myth of the superiority of liberal values.

However, from the traditional materialist and utilitarian perspective of Chinese CPC members, it is precisely those Chinese enclaves such as Taiwan and Hong Kong - where combinations of these US/Western liberal ideas have been applied, particularly in the economic system - that have achieved the highest standards of economic performance<sup>32</sup>, well ahead of some of the most advanced regions of mainland China today. Moreover, US GDP growth rates during the supposedly populist Trump presidency have also been phenomenal.

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<sup>28</sup> Nearly 2 million excess deaths followed China's sudden end of COVID curbs, at <https://www.reuters.com/world/china/nearly-2-million-excess-deaths-followed-chinas-sudden-end-covid-curbs-study-2023-08-25/>

<sup>29</sup> Xiao H, Wang Z, Liu F, Unger JM: "Excess All-Cause Mortality in China After Ending the Zero COVID Policy". *JAMA Network Open*, 2023 (24.08.2023), at <https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2808734>

<sup>30</sup> Taylor, Luke: "Covid-19: Hong Kong reports world's highest death rate as zero covid strategy fails", *BMJ* (March 2022), at <https://doi.org/10.1136/bmj.o707>

<sup>31</sup> Zhang Jian: "Behind the Political Chaos: The Decline of American Values" ["政治乱象的背后: 美式价值观的衰落"], *Guangming Daily*, 12 January 2021. Zhang Jian (张健) is Vice President of China Institutes of Contemporary International Relations (CICIR), and Director of the CICIR Institute of European Studies.

<sup>32</sup> Source: CIA (2022). China's income per-capita in PPP would be 17.600 US\$ dollars, Hong Kong (60.000) and Taiwan (47.000).

3. Following He Jiting<sup>33</sup> and Xi's interpretation of dialectical materialism against "*reactionary forces*", scientific and technological innovation and industrial transformation would be essential in competing with the West to ensure China's pre-eminence: The recent restrictions imposed by the US and the EU on the export of advanced Western technologies to China would be a limiting factor for Chinese expansion (see section 3.7). They would block the "*Road to Rejuvenation*" leading to China's natural and just position as the undisputed global leader, a goal that has never been so close in recent history.

4. Reinforcing these views, Zhang Shuhua points to the responsibility of the West and its politicians in using national security induced sanctions to deter globalisation and halt the economic growth of developing countries, supposedly applied to China (see subchapters 3.6, 2.7 and 2.8 for alternative explanations).

*"[...]Western democracy, with its alienation and deterioration, has backfired. In recent years, the West has continued to force political transformation in other countries, taking advantage of political expansion, advocating democratic bubbles, inciting street violence, instigating "color revolutions," infringing upon the sovereignty and security of other countries, and spreading clashes of civilizations and instigating a rise in terrorism".*

The West would be a source of chaos and disorder: Democracy as an ideology would be imposed by the US in developing countries as a tool for global expansion, but without achieving real democratisation" - the spectre of the Iraq war or the Arab Spring always seems to lurk in the background for Chinese critics. Human rights would apply only to the West, while countries that did not share them would be sanctioned. Western think tanks would be promoting democratic values on the one hand, but on the other instigating "*controlled chaos*" in "*offshore balancing*" and "*hybrid wars*" in non-Western countries with different values. The West would be in a process of political decadence, the people would be dissatisfied with money politics, politicians would be intermediaries of the rich and powerful, xenophobia and isolationism would be pervasive, and political discrimination - religious extremism would be the proof - see section 2.7 for alternative interpretations.

5. Wu Xinbo<sup>34</sup> pointed to the failures under the Trump administration in managing Covid-19, which led to a contraction in US (and European) GDP, on a scale not seen since the 1927 financial crises. The US\$3.13 trillion debt in 2021 to fund the bailout (feeding a deficit of 15.3% of GDP year-on-year) had serious implications for US sovereign debt. China is a leading stakeholder in the US economy, so its performance matters (see sub-section 2.3). Trump's divisive policies would have led to extreme polarisation and political tensions in American society, a precipitating factor in the subsequent nationwide Black Lives Matter demonstrations linked to George Floyd. Wu would virtually agree with left-leaning CNN journalists on Trump, on everything from his contempt for the press and his personal character, to his alleged interference in the US judicial process and election campaigns (damaging the reputation of the US).

Wu points to Trump's allegedly damaging "*America First*" policy, the withdrawal of the US from a wide range of multilateral institutions: "*From the Intermediate Range Nuclear Forces Treaty to the World Health Organisation*", which weakens international cooperation and damages the

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<sup>33</sup> He Yiting: "China's Development Environment is Facing Profound and Complex Changes" ["我国发展环境面临深刻复杂变化"], *People's Daily*, 8 December 2020. He Yiting is Executive Vice President of the Central Party School of the Communist Party of China, at <https://interpret.csis.org/translations/chinas-development-environment-is-facing-profound-and-complex-changes>.

<sup>34</sup> Wu Xinbo: "Trump's Failures and Their Consequences" ["特朗普的失败及其后果"], Fudan University International Strategy Report, (2020). Wu Xinbo (吴心伯) is Dean of the Institute of International Studies, Fudan University, at [https://opensource.csis.org/assets/documents/trump-failures/Open\\_Source\\_Trumps\\_Failures\\_Chinese.pdf](https://opensource.csis.org/assets/documents/trump-failures/Open_Source_Trumps_Failures_Chinese.pdf).

international system, with particular attention to the WHO (which was constantly questioned during the pandemic due to its proximity to the PRC<sup>35</sup>).

Moreover, Wu argues, Trump has endangered America's international alliances through a series of misguided policies that have devalued America's global leadership: The post-Brexit transatlantic split between the US and the EU as a result of Trump's trade war on Europe; sanctions against the German-Russian effort to build the Nordstream II pipeline, which was mysteriously destroyed months ago during Russia's invasion of Ukraine.

Wu's main economic concern would be the US-China strategic competition and trade war under Trump: The "counter-protectionist" policy against Chinese goods and export restrictions on sensitive technologies to China, as well as its damaging impact on China's export-oriented economic structure in the form of Chinese import tariffs (see sections 3.5 and 3.6 for alternative explanations). Trump's unilateral decision to withdraw US troops from Germany and Washington's pressure on South Korea and Japan to increase their defence budgets, were among Trump's allegedly disastrous decisions. According to Wu:

*“In a multi-polar world, the pace of decentralization is accelerating, and the world needs new forces to promote cooperation and governance. In the next decade, the development of regional and cross-regional cooperation, the further growth of emerging economies and their more active role on the international stage, Europe’s pursuit of “strategic autonomy,” and the creation of new mechanisms of cooperation will accelerate the pace of international political and economic restructuring in the post-hegemony era.”*

Trump's "*America First*" would move against this predicament by challenging US hegemony, and Biden's efforts to rebuild these alliances would be a futile effort. However, given America's financial constraints, the defence budgets of the EU and Asian allies grew automatically under Biden, without American pressure, on the eve of the Ukrainian war and in the face of China's decisive events in Taiwan. Moreover, in 2023 America's alliances in the Atlantic and Pacific seem stronger than ever (see section 3.7).

Under Xi, the Belt and Road Initiative (BRI) would be the privileged channel for exerting influence in the developing world, in China's insatiable quest for natural resources to feed the "factory of the world" (see sections 2.3, 2.4 and 2.5) and in the use of all its economic, trade, financial and international aid levers ("*power trade*") to promote China's worldview and interests. This has had an obvious impact on world prices and Western markets (see section 2.4) in the global competition for scarce resources, especially where large Chinese companies control the supply of strategic inputs such as rare earths. Logically, the promotion of Chinese interests globally through the infrastructure and projects financed by the BRI meant that these could have a dual defensive use, facilitating the expansion of Chinese military agreements and bases abroad in its spheres of influence, the "*string of pearls*" (see section 2.6).

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<sup>35</sup> Feldwisch-Drentrup, Hinnerk: “How WHO Became China’s Coronavirus Accomplice: Beijing is pushing to become a public health superpower—and quickly found a willing international partner”, *Foreign Policy*, 2 April 2022, at <https://foreignpolicy.com/2020/04/02/china-coronavirus-who-health-soft-power/>

### 1.3 Wolf Diplomacy and the Global Security Initiative

According to Thayer<sup>3637</sup>, Wolf Diplomacy would be understandable in the ideological context of Xi's present-day China: We would be contemplating a nationalistic; authoritarian; elitist; chauvinistic; anti-Japanese country (anti-foreigners), driven by populist propaganda, censorship and cyber-hacking, pervasive under the Internet Wall of China. New technologies gave unparalleled surveillance and censorship capacities to control dissenters, guaranteeing “*selective isolation*” from the rest of the world, making China impervious to foreign influences (see section 1.7).

This entailed the concentration of power in Xi Jing Ping's persona: The leading military, security, and intelligence services, and the key political institutions, were put under his direct command. From then on, national unity and territorial integrity would be paramount to PR China's interests (Hong Kong, Taiwan, Xinjiang, and Tibet), and the BRI central to their expansion plans:

*“The CPC believes that China is threatened by ‘Western hostile forces,’ led by the United States and that those forces are attempting to Westernize, divide and overthrow the CCP by supporting democracy activists, religious groups (including practitioners of Falun Gong), separatists (Tibetans, Uighurs, and Taiwan), and political dissidents”<sup>38</sup>.*

Following Susan Shirk<sup>39</sup>, decades old propaganda induced domestic, nationalist support for China's militarism. This could have unforeseen consequences today in the South China Sea, with special attention to the Senkaku islands under Japan, and Taiwan. The Party might have lost control of propaganda dynamics, so xenophobic anti Western/Japanese tendencies would have a life of their own.

In the particular “*low-trust*” Chinese culture<sup>4041</sup> settings, citizens are suspicious of anything coming from the state. Here, Xi Jin Ping China's authoritarian and nationalistic response to a crisis of trust in the system would ultimately reinforce what is now a trend in China: This is the periodical bouts of unrestrained online expressions of hatred towards the West, resulting in blame of those providing direct criticism. This pattern is reinforced by doubtful official propaganda, and it uses foreigners as a scapegoat, redirecting the persistent frustration of Chinese citizens over ineffective policies, inequality, corruption and nepotism affecting their daily lives.

Xi's vision of a preeminent China clashed frontally with the institutional realities. It was exposed by the extreme reaction to the Covid-19 pandemic. These were the Covid-0 draconian confinements that resulted in massive social unrest: Failure would have been ideologically and culturally unacceptable. For decades, the CCP put nationalist global influence campaigns in motion, to dispel the opinion that the rise of China might affect the International System negatively, while promoting national interests

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<sup>36</sup> Thayer, Carlyle A. (2022): “China's One-Party Regime Under Xi Jinping- an Australian Perspective”, presentation for the conference “China's Ruling Party at 101: History and Challenges for the World”, Center for South East Asian Studies (CSEAS), Jakarta, Indonesia, 1 July. Emeritus Professor Carlyle A. Thayer, of the University of New South Wales is one of the leading Australian specialists in the Indo Pacific

<sup>37</sup> US-China Economic and Security Review Commission (November 2022), *2022 Report to Congress of the US-China Economic and Security Review Commission, One Hundred Seventeenth Congress Second Session*”, Congressional Research Service, Washington, pp. 22-26, 773 pages.

<sup>38</sup> Xuezhi Guo (2012): *China's Security State: Philosophy, Evolution, and Politics*, Cambridge, Cambridge University Press, 502 pages, reviewed by Thayer, Carlyle A. (2013), *Nordic Journal of Human Rights*, Vol. 31 (No.2), pp. 279-283.

<sup>39</sup> *Conversations with History: Susan Shirk (01.02.2008*, at <https://www.youtube.com/watch?v=QgIqfqrMrQU>.

<sup>40</sup> McCarthy, *op. cit.*, p. 73.

<sup>41</sup> Sánchez Cánovas, Manuel; Morillas, Javier and Crawley, Eileen Marie: “La diáspora china en las relaciones económicas de España: Los casos de Malasia y Singapur”, *UNISCI Journal*, No. 44 (May 2017), pp. 190-195, at <https://www.redalyc.org/pdf/767/76751046010.pdf>

abroad. In the line of Chinese “wisdom”, and “cultural excellence”<sup>42</sup>, narratives portrayed China as the centre of the world, recovering its “legitimate” position in the family of nations. Therefore, it would be simply “impossible” that the American-centric international system would be preeminent or superior. For example, in the production of viable Covid-19 vaccines<sup>43</sup>, or for the PRC to accept the errors made during the pandemic. China could not in any way be belittled or allow its leaders to be ridiculed. Cultural distance, as the relative importance of “face” in Asian contexts, could be operating in high level Chinese environments.

In sum, these are symptoms of an insecure and unpredictable nationalism, acting in a very defensive manner in an Asian context, particularly after the great advances experienced by the PR China in the previous decades. China had never had it so good. It had never been nearer reaching developed country status, as appearances in the East matter much more than in the West.

The CCP would also have invested substantial resources, in trying to shape perceptions of China among foreign elites, publics and governments in Western and other affluent countries<sup>44</sup>. This process was geared to advancing the interests of Chinese businesses (the United Front), by exporting guanxi and dubious Chinese business practices to developing or Western countries. This process is becoming an obvious threat to Western Freedom of Speech and Academic Freedom and it might result in affecting economic stability in the West: Facing an assertive China that does not play by the rules, can result in a direct threat to Western prosperity. Anyone critical of Beijing’s policies, may suffer retribution from the CCP, nationally or internationally. This has implications for academia, journalists and business consultants, as well as the Legal Security of investing in China, conditioning FDI and economic performance in the future (see sections 3.4 and 3.8).

Many of the relative liberties gained by the Chinese in Deng’s era have disappeared. Theoretically, Xi would be getting rid of political opponents to reduce corruption, by organising his own dominant faction and centralising power in the style of Mao Tse Tung. However, according to Ang<sup>45</sup>, corruption would have given a perfect excuse to silence critics on the Mainland, eliminating the already limited Freedom of Speech and Academic Freedom, while incarcerating dissenters: 1.5 million civil servants were disciplined. Xi Jing Ping would not have tackled the roots of corruption: The enormous power of the government over the economy and the patronage system in the bureaucracy.

Although transparency ratings have improved in China in the years before of Xi, initial successes (2012-2015), would have anticipated a rebound in corruption since 2015, suggesting that in the absence of freedoms and political accountability, authoritarian solutions were not the best cure for the country’s ills or help to overcome the Middle-Income trap. Hong Kong was a very different success story, and this could easily be seen by comparing the corruption ratings (CPI) of Hong Kong or Taiwan with those of the Mainland<sup>46</sup>, before the draconian, continental style laws imposed in Hong Kong by Xi Jin Ping<sup>47</sup>.

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<sup>42</sup> Nadège, Rolland (January 2020): *China’s vision of a new order*, National Bureau of Asian Research, Seattle, Washington, US, NBR Special Report No. 83, pp. 3 and 5, at <https://www.nbr.org/publication/chinas-vision-for-a-new-world-order>

<sup>43</sup> “China’s Xi unwilling to accept western vaccines, U.S. official says”, at <https://www.reuters.com/world/china/chinas-xi-unwilling-accept-vaccines-despite-threat-protests-us-intel-2022-12-04/>

<sup>44</sup> Boustany Jr., Charles W. and Friedberg, Aaron L. (02.2019): *Answering China’s Economic Challenge: Preserving Power, Enhancing Prosperity*, Washington, National Bureau of Asian Research, NBR Special Report 76, 31 pages. at <https://www.nbr.org/publication/answering-chinas-economic-challenge-preserving-power-enhancing-prosperity/>

<sup>45</sup> Ang, Yuen Yuen: “The Robber Barons of Beijing Can China Survive Its Gilded Age?”, *Foreign Affairs*, Vol. 100, Issue. 4, (July/August 2021), pp. 30-39.

<sup>46</sup> *Transparency International, Corruption Perceptions Index 2002-2022*, at <https://www.transparency.org/en/cpi/2022>.

Choosing the year in the series allows for inter-temporal comparisons, proving slight but not definitive improvements in China.

<sup>47</sup> *The Law of the People’s Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region*, at [https://www.elegislation.gov.hk/fwddoc/hk/a406/eng\\_translation\\_\(a406\)\\_en.pdf](https://www.elegislation.gov.hk/fwddoc/hk/a406/eng_translation_(a406)_en.pdf)

This was the end of Freedom in Hong Kong (see section 3.2) and it clashed frontally with Western interests in China, culminating in the choreographed removal of Hu Jin Tao from the 2022 National Congress of the Communist Party. The purge of Hu's acolytes from the high echelons of the Party followed: Li Keqiang, Wang Yang and Hu Chunhua were relieved, while 12 new members, favoured by Xi, were appointed to the Politburo<sup>48</sup>. This sent a clear signal of the determination of the party to leave behind the excesses of the international overture and partial liberalisation processes, under Deng, Jiang and Hu. Li Keqiang<sup>49</sup>, the apparent heir of Hu Jin Tao during his tenure, died mysteriously of a heart attack on October 2023.

Globalisation and dependency on foreign markets gave wings to a more confrontational, aggressive positioning on the world scene<sup>50</sup>, so the prudence and restraint after Deng was abandoned. Wolf Diplomacy under Xi meant China was overconfident of its own strengths, willing to reinforce its position as a great power, by defending its interests globally without negotiating them. China even intensified the application of trade and other economic sanctions, against critics and countries who did not share their worldview (see section 3.3).

Therefore, since 2011 a chain of events has led to increasing tensions with the West and the risk of conflict<sup>51</sup>. These include:

The constant displays of military power, received gladly by domestic audiences in China; pressures over South Korea after the decision to install the THAAD anti-missile system (2015); Beijing's building of artificial islands and military bases in the South China Sea, and the intensification of the long term process of appropriation of ASEAN nations waters and their resources; constant incursions into the Exclusive Economic Zones of ASEAN nations, under dubious *Nine Dash Line* historical pretences<sup>52</sup>, including attacks against Vietnamese or Filipino fishermen in the Paracel Islands or the Scarborough Shoal; the increase of military hardware utilised in threatening flights over Taiwan's airspace, used with increasing frequency, including the firing of missiles around Taiwanese coasts, as well as the intensification of Beijing's grey zone tactics; even violent attacks against India in disputed regions in the Himalayas like Arunachal Pradesh (2022), posing risks of future nuclear confrontation and proliferation.

Finally, China sided with Russia in a “*no limits friendship*” during the Ukrainian War, in direct opposition to Western interests, expanding its influence and reinstating fears of a Cold War II (see section 3.7), thus confirming the aggressive international security positioning since Xi's ascension to power.

This geopolitical stance, in combination with China's “*Colbertisme*” (section 2.1), are in conflict with the naturally kind, well intentioned wording of Xi Jin Ping's *Global Security Initiative*<sup>53</sup>:

1. To “*Stay committed to respecting the sovereignty and territorial integrity of all countries*”, is difficult given the consistent behaviour of the PLA and the CPC that fosters exactly the opposite. As

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<sup>48</sup> Brødsgaard, K. E., and Beck, K. I. (2023): *The 20th Congress of the CCP: Personnel Appointments and Policy Directions*, Department of International Economics, Government and Business, Copenhagen Business School, pp.3-4, 15 pages.

<sup>49</sup> Davison, Helen: “Li Keqiang, former premier of China, dies aged 68”, *The Guardian*, 27<sup>th</sup> October 2023.

<sup>50</sup> US-China Economic and Security and Review Commission, *op. cit.*, pp. 22-26.

<sup>51</sup> Goldstein, Avery: “China's Grand Strategy under Xi Jinping: Reassurance, Reform, and Resistance”, *International Security*, Belfer Center for Science and International Affairs, Harvard University, Vol. 45, No. 1(Summer 2020), pp. 199-201.

<sup>52</sup> Bader, Jeffrey A.: “The U.S. and China's Nine-Dash Line: Ending the Ambiguity”, *Brookings*, (February 6, 2014), at <https://www.brookings.edu/articles/the-u-s-and-chinas-nine-dash-line-ending-the-ambiguity>

<sup>53</sup> *Ministry of Foreign Affairs of the PR China, The Global Security Initiative Concept Paper*; at [https://www.fmprc.gov.cn/mfa\\_eng/wjbxw/202302/t20230221\\_11028348.html](https://www.fmprc.gov.cn/mfa_eng/wjbxw/202302/t20230221_11028348.html)

mentioned above, for example in the South China Sea (see section 3.3), Taiwan, Aruchanadal Pradesh, and in the “*no limits*” partnership with Russia after Putin invaded Ukraine.

*“Their internal affairs brook no external interference, their sovereignty and dignity must be respected, and their right to independently choose social systems and development paths must be upheld”*. According to the Chinese experts considered, this would make sense in view of the consequences of the Iraq War, the Arab Spring, given Beijing’s claims of alleged undue Western interference in the MENA region.

However, it probably answers to the obsession of the CPC with neutralising at all costs Western Liberalism, allegedly challenging the Party survival in the Sinosphere. This is reflected in the anti democratic stance taken against Hong Kong and Taiwan: When Beijing unilaterally suspended Hong Kong’s “*One Country, Two Systems*” agreements (see sections 2.2 and 3.2). The rights of the citizens of Hong Kong were not respected, as China considers the SAR their own province. Besides, sovereignty claims in Taiwan could be challenged, given long term historical differential realities and the will of its peoples.

2. To “*Stay committed to peacefully resolving differences and disputes between countries through dialogue and consultation*”. A predicament that seems to reflect long term soft power, propaganda and influence strategies geared to the developing world, as pure pragmatism informs Beijing’s policies. In addition, this is imbued with Chinese cultural overtones (see section 2.5, on how Beijing promotes the benignity of the Belt and Road).

3. “*Stay committed to abiding by the purposes and principles of the UN Charter*” and “*We call on all countries to practice true multilateralism; firmly uphold the international system with the UN at its core, the international order underpinned by international law and the basic norms of international relations underpinned by the UN Charter*”. The Initiative could be framed in the Trump Presidency timeline, and the disdain of his administration for multilateralism. Nevertheless, these are unrealistic predicaments, given the intensification of breaches of Human Rights in China: (see the UN Charter, in Chapter 1, Article 2.1<sup>54</sup>), particularly in the cases of Xinjiang<sup>55</sup>, Hong Kong or Tibet.

Difficulties also arise in other tenets of the Global Initiative, such as: “*We call on all countries to practice true multilateralism; firmly uphold the international system with the UN at its core, the international order underpinned by international law and the basic norms of international relations underpinned by the UN Charter; and uphold the authority of the UN and its status as the main platform for global security governance*”, and “*Major countries must uphold justice, fulfil their due responsibilities, support consultation on an equal footing, and facilitate talks for peace, play good offices and mediate in light of the needs and will of the countries concerned*”.

These difficulties are significant in the bilateral commercial and economic spheres. In situations of “Power trade”, given the pattern of China’s internationalisation under artificial competitiveness and China’s unequal trade negotiation capacities, especially against small developing nations. China consistently breached the rules and liberal trading system principles of the WTO (World Trade Organisation): Promoting fair competition and undue protectionism, among others<sup>56</sup>.

Thus, multilateral frameworks like the WTO would seem perfect for promoting Chinese interests, to the detriment of OECD nations (see sections 2.2, 2.3 and 2.4). Besides, opening trade to China, a

<sup>54</sup> *United Nations Charter (full text)*, at <https://www.un.org/en/about-us/un-charter/chapter-1>

<sup>55</sup> *Amnesty International, China, 2022*, at <https://www.amnesty.org/en/location/asia-and-the-pacific/east-asia/china/report-china/>

<sup>56</sup> *World Trade Organisation: Principles of the trading system*, at [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact2\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm)

country that does not play by the rules, has additional pernicious effects, affecting value chains in the West. For example, during Covid-0 and the politically motivated confinements that brought key international value chains to a halt (see section 3.6).

China makes good use of its home-grown economic multilateral institutions, like the Asia Infrastructure Investment Bank (AIIB), where Japan and the US are notoriously absent, as an alternative to those of the Bretton Woods consensus. However, it also takes advantage of the traditional Western-centric ones. China has been placing an army of civil servants in top positions in the United Nations, the World Bank, the IMF, and any other multilateral organisation to promote its national interests. For example, according to the US Government Accountability Office (GAO)<sup>57</sup>, from 2017 to 2021, PR China and its state-owned enterprises (SOEs), won the largest percentage of contracts for economic development projects financed with World Bank loans, around 30% of all amounts conceded. Even the Belt and Road Initiative sought legitimacy by cooperating with the United Nations Development Programme (see section 2.5).

4, To “*Stay committed to taking the legitimate security concerns of all countries seriously*”, and “*Any country, while pursuing its own security, should take into account the reasonable security concerns of others*”. This predicament does not seem to operate in terms of Western economic security, as proven by the consistent process of massive Western IP theft, as well as the cyber hacking of Western institutions to steal military and commercial secrets, to degrade US competitiveness and military prowess (see chapter 3.6).

## **2. Evolution of the grand strategy of the PR China to displace the West:**

### **2.1 Protectionist China (1983-2004)**

Among the positive domestic factors behind the initial phases of the export oriented Chinese economic miracle, we would find: High savings and investment rates; the competitiveness of clusters of very dynamic SMEs<sup>58</sup>; minimal initial labour costs of production; large public investments in infrastructures, integrating distant markets; large increases in capital productivity and substantial human capital accumulation<sup>59</sup>; rapid technology improvements, partially because of pervasive Western IP theft<sup>60</sup>; R&D investment, market discipline and large economies of scale<sup>61</sup>, arising from the growth of gigantic Chinese corporate public concerns, thanks to the gigantic size of untapped markets and corporate concerns.

Nevertheless, Beijing continued distorting market mechanisms throughout the period (until today), by subsidising state-owned enterprises with the resources produced by a very successful private sector, which was interfered with by the Party at all levels. Liberalisations were only going to be partial and under protectionist, strategic conditions. For example, China’s average import tariffs (1996-2016) doubled or even tripled those of the West. In 2006, these were 8.6% in China, 3.2% in the US and 2.8% in the EU<sup>62</sup>: China’s tariffs have gone down since then, but were always set above the Western ones (2023), notwithstanding technical, bureaucratic or administrative trade barriers laid

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<sup>57</sup> United States Government Accountability Office (GAO) (05.2023): *World Bank, Borrower Countries’ Contracts to Businesses in the U.S. and to Entities Potentially on U.S. Sanctions or Other Lists of Concern*, World Bank, Washington, 59 pages.

<sup>58</sup> Trápaga, Yolanda: “¿Es importante la comida en China? Cuestiones de política agrícola moderna”, *Economía Informa*, No. 384 (Jan/Feb 2014), Pages 70-90, pp. 87-88, at <https://www.elsevier.es/es-revista-economia-informa-114-articulo-es-importante-comida-china-cuestiones-S0185084914704116>

<sup>59</sup> The World Bank and The Development Research Center of the State Council, the People’s Republic of China, *op. cit.*, p. xiii-xv.

<sup>60</sup> Gelber, *op. cit.*, p. 405.

<sup>61</sup> Gereffi, Gary: “Development Models and Industrial Upgrading in China and Mexico”, *European Sociological Review*, Volume 25, No 1 (Feb 2009), Pages 37–51. <https://doi.org/10.1093/esr/jcn034>

<sup>62</sup> Source: World Bank, 2022

out by Beijing, of any other nature. The artificial competitiveness of China's corporations was reinforced by social and environmental dumping<sup>63</sup>, oligopolistic situations, subsidies and the absence of Human Rights<sup>64</sup>.

Pervasive corruption, institutional underdevelopment, cultural distance (high power distance, collectivism and high context culture in hierarchical settings)<sup>65</sup> and lack of administrative capacity, made China an obstacle course for Western investors wishing to sell their products in the country. Following Gerber<sup>66</sup>, in a holistic China deprived of Judaeo-Christian values, the *Rule of Men* and the use that government officers and politicians can make of it, is predominant versus the individualistic, Western *Rule of Law*, highly impersonal, predictable, and fair in its application<sup>67</sup>. In the first stages of Western FDI in China, little was understood or respected by civil servants about the labour and commercial practices in the West. For example, in agreements and contracts, setting and respecting conditions, wages, profits and financial yields: Even if contracts were signed, Chinese counterparts changed them unexpectedly, hundreds of times, when it suited their interests.

The interests of Chinese nationals would be imposed over foreigners arbitrarily. Authentic Chinese clones of Western factories in China were set up, financed with cheap credit and subsidies for Chinese competitors, aided by sheer nationalistic discrimination in public procurement in their favour<sup>6869</sup>. Foreigners were simply stripped of their knowledge and intellectual property, and their companies could not operate in a plethora of economic sectors<sup>70</sup>, while facing substantial trade and access barriers<sup>71</sup>. To set up shop in China (to sell in China) was even more difficult than doing so in Japan<sup>72</sup>, or in the protectionist countries of ASEAN<sup>73</sup>, well before Japan's (2018)<sup>74</sup> or Singapore's (2019)<sup>75</sup> counter-Trump protectionism so-called "free trade" agreements with Europe.

During the first stages of China's partial opening, profits were made by Western corporations exporting products made in China to developed nations. In many cases, the only way to avoid protectionist barriers and grab the opportunities of their rapidly growing markets was foreign direct investment (FDI) in PR China. Only a minority, mostly very large Western companies like BASF, Apple, McDonald's or Volkswagen, made money in China. This was possible by tapping domestic markets thanks to their "guanxi" and large pockets, their ability to negotiate at the highest echelons of the Party, and the management of high-level corruption. Other factors were their size, and the

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<sup>63</sup> Smil, V: "Poor Visibility on China's Air Pollution", *Far Eastern Economic Review*, December 2007, p. 35.

<sup>64</sup> Mann, James (2007): *The China Fantasy: How Our Leaders Explain Away Chinese Repression*, London, Penguin, 127 pages.

<sup>65</sup> Ronen, S. and Shenkar: "Mapping world cultures: Cluster formation, sources and implications", *Journal of International Business Studies*, Vol. 44, No 9 (2013), pp. 867-897.

<sup>66</sup> Gelber, *op. cit.*, 2007, pp. 388-393, and 404-405.

<sup>67</sup> Sánchez Cánovas et al., *op. cit.*, pp. 185-210.

<sup>68</sup> Directorate-General for Trade (2017): *Commission Staff Working Document on Significant Distortions in the Economy of the People's Republic of China, for the purpose of trade Defence Investigations*, European Commission, Brussels, document SWD (2017) 483 final/2, pp. 108-109, 149-150, 167-168, 465 pages, at [https://ec.europa.eu/transparency/documents-register/detail?ref=SWD\(2017\)483&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=SWD(2017)483&lang=en)

<sup>69</sup> See Parepa, *op. cit.*, p. 191.

<sup>70</sup> *China Issues New Versions of Negative Lists for Foreign Investment*, at [https://www.garrigues.com/en\\_GB/new/china-issues-new-versions-negative-lists-foreign-investment](https://www.garrigues.com/en_GB/new/china-issues-new-versions-negative-lists-foreign-investment). It is interesting to read the 2003 list with a critical perspective. In 2011 the list was stricter, as it limited substantially the number of sectors in which Western corporations could operate.

<sup>71</sup> See Boustany and Friedberg, *op. cit.*, pp 1-31.

<sup>72</sup> *Japan Country Commercial Guide: Trade Barriers*, at <https://www.trade.gov/country-commercial-guides/japan-trade-barriers>

<sup>73</sup> Thompson, Philip (2023): *International Trade Barrier Index 2023*, Tholos Foundation, Washington, at <https://www.tradebarrierindex.org/full-report>. Indonesia and Thailand are among the most trade barrier prone countries in the Index, and Malaysia does not fare well in this report.

<sup>74</sup> Hosoi, Yuko: "Japan-EU relations after World War II and strategic partnership", *Asia Europe Journal*, Vol.17, No 3 (2019), pp. 295-307, at <https://link.springer.com/article/10.1007/s10308-019-00555-1>

<sup>75</sup> *Agreement with Singapore set to give a boost to EU-Asia trade*, at [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_19\\_906](https://ec.europa.eu/commission/presscorner/detail/en/IP_19_906)

quality of their products, their advanced technology, know-how or other organisational capacities of interest for Beijing.

The sheer gravitational global mass of the Chinese economy made it imperative for certain foreign multinationals to set up subsidiaries in the country, to gain global economies of scale. In this sense size also mattered to reach top level *guanxi*<sup>7677</sup>, as only foreign companies, who had large resources to foster their political and bureaucratic networks, could get this done. In sum, a very high level of corruption, involving the collusion between Communist Party officials, corrupt bureaucrats, and businesspeople, accompanied many Western corporate heroes who ventured into much less of an Eldorado, probably more of the Wild West<sup>78</sup>.

Artificial Competiveness, corruption and institutional underdevelopment, were the determinants of the large trade deficits with China, in a variety of Western nations and sectors, and the global economy at large: China was only interested in Western money and technology to produce its own miracle.

The events in Tiananmen Square in 1989 would be an early wakeup call for those looking for wider political reforms, as the CPC made sure the Russian disaster under Yeltsin was never going to happen in China. Besides, there were certain geographic areas and economic sectors (mainly in services) off-limits to foreigners<sup>79</sup>. Subsequent, timid political liberalisations were partial, even if China experienced unparalleled, consequential improvements in material prosperity. Even if there was more limited Freedom of Speech and an embryo of democratic institutions until the rise of Xi Jin Ping (2012), discontent in the countryside was visible and has been periodically repressed.

However, personal life was not subject to Maoist restrictions anymore: Even dancing was impossible during the Cultural Revolution<sup>80</sup>. The open doors policy of Jiang Ze Minh and Hu Jin Tao dazzled Westerners, impressed by the gigantic skyscrapers of Shanghai or Shenzhen, and the glamorous nightlife trying to mimic the Shanghai of the roaring 1920s<sup>81</sup> (the “Paris of Asia”), instilling a brief sense of optimistic unrestrained freedom, but it was all a mirage.

Rural areas under the Hukou system of immigration to cities, are still a real reserve army of poor, undertrained workers, discriminated against in terms of urban social, health, and education services<sup>82</sup> (2021), while massive income inequalities exist between the rural and the successful coastal regions and interior cities<sup>83</sup>. This could be the Achilles Heel of China’s modernization, given the constraints that an old population, and the need to provide social services, might inflict on capital accumulation (see section 3.8).

Fast growth showed the cracks in an ineffectual Justice System<sup>84</sup>, where millions of displaced or aggrieved poor Chinese could not get redress for the impacts of insensitive, unbalanced economic

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<sup>76</sup> Clissold, Tim (2004): *Mr China: A Memoir*, 1<sup>st</sup> edition, London, Robinson Publishing, 306 pages. It is suggested to be read in its entirety. Twenty years are not much in China’s history, so the hurdles experienced by foreign business have not changed much.

<sup>77</sup> See *Henry Kissinger on China*, at <https://www.youtube.com/watch?v=eosIoso8DWU>.

<sup>78</sup> Ang, Yuen Yuen, *op. cit.*, pp. 30-39.

<sup>79</sup> Directorate-General for Trade, *op. cit.*, pp. 343-344.

<sup>80</sup> *The Chairman Had No Rhythm: What It Meant to Dance with Mao Zedong*, at <https://lithub.com/the-chairman-had-no-rhythm-what-it-meant-to-dance-with-mao-zedong/>

<sup>81</sup> *Shanghai dance hall evokes vanished era of glamour*, at <https://www.bbc.com/news/magazine-18457600>.

<sup>82</sup> Rozelle, Scott and Boswell, Matthew: “Complicating China’s Rise: Rural Underemployment”, *The Washington Quarterly*, Vol. 44, Issue 2 (Jun 2021), pp. 61-74, at <https://doi.org/10.1080/0163660X.2021.1932097>

<sup>83</sup> *Income and Living Standards across China*, at <https://www.stlouisfed.org/on-the-economy/2018/january/income-living-standards-china>.

<sup>84</sup> Murphy, D: “When Courts Don’t Work”, *Far Eastern Economic Review*, October 2004, pp. 26-30.

growth, and dissenters were threatened with the Chinese gulag (the laogai)<sup>85</sup>. The suspension of Human Rights is still a habitual practice, in the coercion of citizens to make them compliant with contentious party decisions. This occurs very frequently in expropriations of lands of farmers, evictions of home owners or to quell protests<sup>86</sup>.

## 2.2 ASEAN, the Diaspora Chinese and soft power in developing countries (1983-2004)

A second strategic priority for Beijing, was gaining economic control of China's regional Asian hinterland. This would be the first step to expel the "White Devils" (Gweilou)<sup>87</sup>, the Japanese and the Russians, that would have imposed a "Century of Humiliation" on China after the First Opium War. This refers to Western, Russian and even Japanese exploitative trade concessions on Turkish, Arab, Malay, Chinese or Japanese territory, and the racist<sup>88</sup> treatment of Asian subjects (1839-1948)<sup>89</sup>. The Chinese felt the economy of Asia had been progressively devastated and their peoples marginalised by Europeans, from the victory of the British East India Company in Bengal's Battle of Plassey (1751)<sup>90</sup>, until the Fall of Singapore (1942) or Churchill's Bengal Famine (1943).

The latter were perceived in Asia as expressions of British colonial incompetence, imbued with hubris: The Japanese conquered Singapore by accessing the city easily by bike<sup>91</sup>, and were extremely helpful in 1945 in assisting the British "reconquer" Malaya (present day Malaysia and Singapore), by pushing their jeeps stuck in the sands of Port Dickson<sup>92</sup>. Historical events would have consequences in the future, given the hierarchical worldview of the Chinese, Lee Kuan Yew and Xi Jin Ping in particular<sup>93</sup>.

The loss of Hong Kong in (1997) would mark<sup>95</sup> the eclipse of European power in Asia. From then on, the United States would be the only Western power with substantial military and negotiation capabilities in the region. Well before that (1983-1998), Chinese Diaspora minorities in ASEAN, traditionally protected by Beijing<sup>96</sup>, had already provided the essential business expertise and capital

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<sup>85</sup> Kempton, Nicole and Richardson, Nan (eds.) (2009): *Laogai The Machine of Repression in China*, 1<sup>st</sup> edition, New York, Umbrage Editions, 160 Pages, at <https://laogairesearch.org/wp-content/uploads/2019/01/24-Laogai-The-Machinery-of-Repression-in-China.pdf>

<sup>86</sup> Ong, Lynette H: "Thugs and Outsourcing of State Repression in China", *The China Journal*, Vol. 80 (Feb 2018), pages 94-110, at <https://www.journals.uchicago.edu/doi/abs/10.1086/696156>.

<sup>87</sup> *Is Using the Term "Gweilo" Discriminatory in the Hong Kong Workplace?*, at <https://www.mayerbrown.com/en/perspectives-events/publications/2022/02/is-using-the-term-gweilo-discriminatory-in-the-hong-kong-workplace>

<sup>88</sup> Barr, Michael D. (2009): *Lee Kwan Yew, The Beliefs Behind the Man*, 2<sup>nd</sup> edition, New Asian Library, Kuala Lumpur, pp. 13; 51; 103; 105-107; 189 and 193. Even in the latest stages of colonialism, the British in Asia enjoyed much higher wages than Asians, ate in different dining rooms in educational institutions, and marrying an Asian woman was discouraged.

<sup>89</sup> Wood, Frances (1998): *No dogs and not many Chinese*, London, Murray, pp. 1-9.

<sup>90</sup> Dalrymple, William (2019): *The East India Company, Corporate Violence and the Pillage of an Empire*, 1<sup>st</sup> edition, London, Bloomsbury Publishing, 522 pages, pp. 133-135, 141-147.

<sup>91</sup> Mauzy, Diane K. and Milne, R. S. (2002): *Singapore Politics under the PAP*, 1<sup>st</sup> edition, Politics in Asia, London, Routledge, 288 pages, p. 14.

<sup>92</sup> Baily, Christopher and Harper, Tim (2008): *Forgotten Wars: The End of Britain's Asian Empire*, 1<sup>st</sup> edition, London, Penguin Books Ltd., 720 pages, pp. 49-59.

<sup>93</sup> Jinghao Zhou: "Intention and Objective of Chinese Foreign Policy: A Perspective of Chinese Culture and History", *Contemporary Chinese Political Economy and Strategic Relations*, Kaohsiung, Sun Yat-sen University, Vol. 7, No. 3 (Dec 2021), pp. 1191-1225.

<sup>94</sup> Ogden, Chris and Jones, Catherine (2023): "Chinese conceptions of the Indo-Pacific, The impact of identity and history", in Kratiuk, Barbara; Van den Bosch, Jeroen; Jarkólska, Aleksandra and Sato, Yoichiro (eds.) (2023), *Handbook of Indo-Pacific Studies*, 1<sup>st</sup> edition, Indo Pacific in Context, Abingdon, Routledge, 473 pages, pp. 343-365.

<sup>95</sup> Gelber, *op. cit.*, 2007, pp. 377-393.

<sup>96</sup> Thant Myint-U (2011): *Where China Meets India. Burma and the New Crossroads of Asia*, 1<sup>st</sup> edition, London, Faber and Faber Ltd, 366 pages, pp. 89-91.

<sup>97</sup> Owen, Norman G. (ed.) (2005): *The Emergence of Modern South East Asia, A New History*, 1<sup>st</sup> edition, Singapore, Singapore University Press, 2005, 547 pages, pp. 448-449.

to finance Mainland China's economic miracle<sup>98</sup>. The underdeveloped China of the “*Rule of Men*” made use of the “*Rule of Law*”. The modern British Common Law practised by Singapore and Hong Kong lawyers and bankers, was instrumental in channelling Western/Diaspora Chinese investments and technology to China, so that trade with ASEAN grew exponentially.

The Japanese Invasion of 1941 and postcolonial arrangements paved the way for these racially mixed, cosmopolitan, multicultural ASEAN minorities<sup>99</sup> operating internationally, to take control of South East Asian economies. Their influence grew quietly, thanks to their corrupt symbiosis with local native political elites and «*structural anomalies*». These were economic policy opportunities to benefit Godfathers' businesses, by the political suppression of free markets and transparency.

Therefore, the “Godfathers” of Joe Studwell<sup>100</sup> who had Chinese origins, immigrants to Indochina of yore<sup>101</sup>, played a central role by becoming a privileged channel for China's influence, benefiting from British Commonwealth modern institutions (absent in China), and the enormous flows of bilateral trade and capital between PR China and South East Asia. The political and corporate ethnic patronage and trade networks (guanxi) of these 500 families, that already controlled what is the ASEAN today, allowed them the once-in-a-lifetime opportunity to acquire fabulous riches in China.

China's overture entailed an “*open doors, all smiles*” deliberate, multi-pronged soft power strategy<sup>102103</sup>, taking advantage of Japan's relative regional decline after the 1990s economic crisis<sup>104</sup>, and America's unpopularity after Saddam Hussein's war. China put in motion a deliberate, peaceful and good neighbourly approach to ex-vassal states in Asia, reinforcing its prestige with bouts of apparent generosity. Japan's atrocities in World War II against China and its Diaspora (for example, the Sook Qing and Nanjing massacres<sup>105106107108</sup>); the fear of a resurgence of Japan's military power under the conservatives of Abe Shinzo (who visited the Yasukuni Shrine to honour Japanese war heroes in 2013), cultural differences with Japan and their sense of racial superiority over other Asian peoples, also played an important part<sup>109</sup>. A combination of unfair, Communist Party reiterated propaganda<sup>110</sup>, and the denial of the massacres among conservative factions of the Japanese Liberal Democrat Party, did not help Japan.

From 1997 to 1999, during the terrible South East Asian financial crisis, China decided not to devalue its currency, the Yuan, giving a break to the “Little Brothers” in South Korea and ASEAN, allowing

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<sup>98</sup> Mackie, J.A.C: "Overseas Chinese Entrepreneurship", in Hong Liu (ed.) (2006), *The Chinese Overseas*, 1<sup>st</sup> edition, Routledge Library of Modern China collection, Vol. 2, Abingdon, Routledge, 450 pages, pp. 185-218, in pp. 185-186, 190, at <https://www.amazon.es/Chinese-Overseas-Routledge-Library-Modern/dp/0415338581>

<sup>99</sup> Studwell, Joe (2007): *Asian Godfathers, Money and Power in Hong Kong and South East Asia*, Nueva York, Grove Press, 328 pages, pp. 22-23.

<sup>100</sup> Studwell, *op. cit.*, pp. xix- xxiv, pp. 65-67, 69, 72, 75-78.

<sup>101</sup> Ibid, Studwell, pp. 1-48.

<sup>102</sup> Kurlantzick, Joshua: "China's Charm Offensive in Southeast Asia", *Current History*, Vol. 105, No. 692 (Sep. 2006), pp. 270-276, at <https://doi.org/10.1525/curh.2006.105.692.270>

<sup>103</sup> Kurlantzick, Joshua: "PR China's Charm: Implications of Chinese Soft Power", *Carnegie Endowment for International Peace, Policy Brief No. 46* (June 2006), at [https://carnegieendowment.org/files/PB\\_47\\_FINAL.pdf](https://carnegieendowment.org/files/PB_47_FINAL.pdf).

<sup>104</sup> Chanlett-Avery, Emma (June, 2019): *Japan-U.S. Relations: Issues for Congress* at, Congressional Research Service, Washington, at <http://fas.org/sgp/crs/row/RL33436.pdf>. Japan's national debt reached 256% of GDP in 2015, and GDP growth is anaemic.

<sup>105</sup> Mauzy, Diane K. and Milne, R. S. (1999): *Malaysian Politics Under Mahathir*, 1st edition, Politics in Asia, London, Routledge, 224 pages, p. 10.

<sup>106</sup> Mauzy and Milne, *op.cit.* (2002), p. 14.

<sup>107</sup> See Fenby, *op. cit.*, pp. 280-283.

<sup>108</sup> See Bayley and Harper, *op. cit.*, pp. 24-25.

<sup>109</sup> See Stuart-Fox, *op. cit.*, pp. 5-7.

<sup>110</sup> Gustafsson, K.: “Understanding the persistence of history-related issues in Sino–Japanese relations: from memory to forgetting”, *International Politics*, No. 57 (2020), pp 1047–1062, in pp. 1047-1049, at <https://link.springer.com/article/10.1057/s41311-020-00219-7> .

them to restructure their export-oriented economies thanks to steep devaluations<sup>111112</sup>. America also lost substantial reputational capital, by not bringing support to these South East Asian economies in distress. By 2003, the Development Aid of China to the Philippines was four times the amounts disbursed by the US, two times in the case of Laos and Indonesia<sup>113</sup>.

Chinese soft power instruments improved markedly in this period: Be it by buying Thai farmers' excess production in moments of distress; by perfectly choreographed inverse missions to China, so that ASEAN businessmen could attend conferences carefully devised to promote Chinese corporations' interests<sup>114</sup>. It was also achieved by spectacular Chinese government visits to developing countries like Cambodia, with tens of officials and a plethora of photo opportunities, promising investments that rarely materialised in sound industrial projects, as industrial investment was not prominent in Chinese plans.

However, Japan, the US and the EU were the leading investors in modern sectors in the region. According to Lim<sup>115</sup>, China did not invest much in industrial sectors in ASEAN. Instead, Chinese investment (FDI) was mostly concentrated in luxurious, speculative Real Estate (like in Singapore), without positive linkages to the domestic population (2019).

China opened hundreds of Confucius Institutes<sup>116</sup> worldwide, to promote the Chinese language and culture while offering a plethora of grants to developing country students, creating international TV stations, or through the network of United Front associations, particularly in Diaspora countries, to encourage “friendship” and “Chinese unification”<sup>117</sup> (in reference to Taiwan). It expanded the reach of *China Daily*, and the free official English newspaper and *Xinhua* news editions appeared in various languages. It also created new CCTV international channels to encourage persuasive, never coercive, sweet versions of a charming, non-militarily aggressive China, solely interested in promoting business, to complement the actions of the United Front.

To suit developing countries' tastes (BRICS), messages were imbued with South-South cooperation rhetoric as an alternative to the West; for example, by enhancing China's extraordinary achievements in poverty reduction<sup>118</sup>. Therefore, China's message was music to the ears of the ASEAN public and leaders like Lee Kuan Yew<sup>119120</sup> in Singapore. After forced “westernisation”, this Island State experienced a “re-sinicization”<sup>121</sup> process. China's message also had wide appeal in Mahathir's<sup>122123</sup> Malaysia, notwithstanding its delicate multi-ethnic relations between Chinese and Malays (Islamic).

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<sup>111</sup> See Gelber, *op. cit.*, p. 390.

<sup>112</sup> Kurlantzick, *op. cit.* (June 2006), pp. 270-276.

<sup>113</sup> Ibid. Kurlantzick, p. 3.

<sup>114</sup> Kurlantzick, *op. cit.* (September 2006), p. 274.

<sup>115</sup> Lim, Guan (2019): "China's investment in ASEAN: Paradigm Shift of Hot Air", *Grips Discussion Papers*, 19-04, Tokyo, National Graduate Institute for Policy Studies, 18 pages, at <https://ideas.repec.org/p/ngi/dpaper/19-04.html>.

<sup>116</sup> Johannes Caesario, Martin, and Elias, Rangga Aditya: “China's Educational Soft Power through Confucius Institutes: A Case Study of South Africa”, *Contemporary Chinese Political Economy and Strategic Relations*, Vol. 7, N° 3 (Dec. 2021), pp. 1633-1663, at

<sup>117</sup> Tan Chee-Beng: “China and Chinese Overseas: A softer soft power [?] policy needed?”, *Perspective*, ISEAS Yusof Ishak Institute, Singapore, No. 22 (March 2022), pp. 1-9.

<sup>118</sup> *The State of the Poor: Where are the Poor and where are they Poorest*, at

[http://www.worldbank.org/content/dam/Worldbank/document/State\\_of\\_the\\_poor\\_paper\\_April17.pdf](http://www.worldbank.org/content/dam/Worldbank/document/State_of_the_poor_paper_April17.pdf).

<sup>119</sup> McCarthy, Stephen (2006): *The Political Theory of Tyranny in Singapore and Burma: Aristotle and the Rhetoric of Benevolent Despotism*, 1<sup>st</sup> edition, Routledge Contemporary Southeast Asia Series, Abingdon, Routledge, 2006, 285 pages, p. 108.

<sup>120</sup> Mauzy and Milne, *op. cit.* (2022), pp. 11-35, 40-43.

<sup>121</sup> Suryadinata, Leo (2006): "Ethnic Chinese in South East Asia: Overseas Chinese, Chinese overseas or South East Asians?", in Liu, Hong (ed.) (2006): *The Chinese Overseas*, 1<sup>st</sup> edition, Routledge Library of Modern China collection, Vol. III, Abingdon, Routledge, pp. 99-100.

<sup>122</sup> See Mauzy, and Milne, *op. cit.* (1999), pp.132-133.

<sup>123</sup> Gerstl, Alfred: “Malaysia's Hedging Strategy Towards China Under Mahathir Mohamad (2018–2020): Direct Engagement, Limited Balancing, and Limited Bandwagoning”, *Journal of Current Chinese Affairs*, Sage Publications, Vol. 49, No 1,

These are countries with large Diaspora Chinese populations, where the old traditions that had already disappeared in Mainland China were kept, so the rise of China enhanced the myth of the superiority of the Chinese civilisation<sup>124</sup>, improving the influence of the Diaspora Chinese in ASEAN, traditionally marginalised in politics<sup>125</sup><sup>126</sup>. The authoritarian<sup>127</sup><sup>128</sup> paternalistic Asianism of Lee Kuan Yew<sup>129</sup>, a return to traditional, hierarchical Asian values, would be useful for the interests of the Communist Party. Asian leaders alleged that Human Rights and Democracy would impair the economic growth potential of their counties, and open the door to “chaos” in multicultural societies.

On the one hand, China was a gigantic market for ASEAN countries, and Diaspora Chinese businesses were empowered by Beijing<sup>130</sup><sup>131</sup>, so they were going to make much more money trading with China than with the West and Japan<sup>132</sup>. From 2010 to 2019, during the latest stages of Asian regional trade integration, ASEAN exports to China almost doubled from 235 US\$ billion to 507 billion, while exports to the EU only grew 37%, and stood at 280 billion in 2019. American exports to ASEAN, more dynamic, reached the 290 billion mark<sup>133</sup>.

On the other hand, the authoritarian Chinese model, combined with the determinants of artificial Chinese competitiveness, suited the native political elites (Malay, Thai and Burmese in particular), to keep nurturing their traditional patronage networks and clientelism. The benefits of the sudden, gigantic gravitas of China’s economy saved the inconvenience of introducing necessary reforms that would make their leaders accountable, while guaranteeing stability in the least advanced countries<sup>134</sup>. However, while FDI in ASEAN was double the FDI in China in the early 90s, in the early 2000s it was exactly the contrary: Investment had moved from ASEAN to China, massively, possibly retarding economic growth in ASEAN, as large investments in new technologies in China fostered gigantic productivity leaps unseen in most of South East Asia.

PR China’s main strategic objective was to keep the 96 million strong Communist Party’s grip on power. So fast, export-oriented GDP growth was the key guarantor of Party power, probably their only source of legitimacy. If Beijing’s bureaucrats and party members infiltrating the corporate world were unable to provide high rates of GDP growth, and sustained improvements in the material quality of life of the people, the CCP would lose its *Mandate of Heaven* as in the times of the Ming and Qing. The people would have a right to depose the “Emperor”<sup>135</sup>. Hence, long-term Western liberal or democratic institutions adopted by post-colonial ASEAN regimes, would threaten the Party’s influence via the Chinese Diaspora, particularly those in Malaysia and Singapore, where the brunt of the Chinese Diaspora settled.

From the 1940s to the 1990s and under the American umbrella, Japanese industrial delocalisation brought unprecedented prosperity to the Four Tigers (South Korea, Singapore, Hong Kong, and

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(2020), at <https://doi.org/10.1177/18681026209642>

<sup>124</sup> Suryadinata, *op. cit.*, pp. 90, 95-96, 98, 99,102-104.

<sup>125</sup> Mauzy and Milne, *op. cit.* (2002), p. 35, 40-43.

<sup>126</sup> Lum, Thomas; Morrison, Wayne M. and Vaughn, Bruce (04.012008): *China’s “Soft Power” in Southeast Asia*, Foreign Affairs, Defense, and Trade Division, Congressional Research Service, Washington, pp. 4-7, at <https://sgp.fas.org/crs/row/RL34310.pdf>.

<sup>127</sup> See McCarthy, *op. cit.*, pp. 70, 99,109.

<sup>128</sup> See Barr, *op. cit.*, pp. 32, 85, 150.

<sup>129</sup> Mauzy and Milne (2002), *op. cit.*, pp. 6-7, 35, 40-43.

<sup>130</sup> Kurlantzick, *op. cit.* (June 2006), p. 1.

<sup>131</sup> Kurlantzick, *op. cit.* (September 2006), p. 274.

<sup>132</sup> Sun Jin: "Japan's Shrinking ASEAN Soft Power", *The Diplomat*, 8 August 2012, at <https://thediplomat.com/2012/08/japans-shrinking-asean-soft-power/>

<sup>133</sup> *ASEAN Statistical Yearbook, 2021*, at <https://www.aseanstats.org/publication/asyb-2021/>.

<sup>134</sup> Kurlantzick, Joshua: "Southeast Asia: Democracy Under Siege", *The Diplomat*, 20 October 2014, at [https://thediplomat.com/2014/11/southeast-asia-d\\*emocracy-under-siege](https://thediplomat.com/2014/11/southeast-asia-d*emocracy-under-siege)

<sup>135</sup> Gelber, *op. cit.*, p. 14.

Taiwan). After Japan and thanks to international free trade, the tigers became rich, especially by trading with the West. However, these countries also applied purely interventionist, protectionist policies in their internationalisation and industrialisation processes. This also strengthened the Chinese Diaspora business families in Indochina<sup>136</sup>, a process explained by the *Flying Geese Model*<sup>137</sup>, partly based on neoclassical theories of International trade<sup>138</sup>.

During this first generation of East Asian tigers, Japanese corporate production and investment would progressively move from the more advanced to the less advanced ASEAN countries. These were processes entailing different and successive batches of industrial delocalisation, based on labour costs, technology and competitive advantage in recipient countries, as the source of net wealth creation trade effects in the long term, and on a regional scale. The processes were organised hierarchically, in relation to the capabilities of the industrial clusters of “*Bamboo Curtain*” Asian nations, allies of America, classed according to their technological and organisational capabilities. Money, technology and ideas, were moving first from the US to Japan, then to the Four Tigers, and finally to the ASEAN.

However, with the second generation of ASEAN tigers, the “*geese*” also brought winds of change and demands for freedom. Beijing started seeing the danger of the successful political experiences in liberal or semi-liberal S Korea, Taiwan or Hong Kong, as these could affect Mainland China. Stopping the spread of Western ideas in countries or regions with a strong Diaspora Chinese presence was of paramount importance for the Communist Party’s survival. As seen from Beijing, these might break the monolithic unity of the Chinese people.

Chinese influence on political and corporate governance would contribute to halting liberalisation processes in the ASEAN, as China resolutely backed their authoritarian governments<sup>139</sup> and corporations. The abovementioned period of re-sinicization in Singapore, following a process of forced Westernisation since the 60s, was conceived to tap opportunities in China.

Even though authoritarian economic and business models<sup>140141</sup> produced economic stability, as a guarantee of sustained growth, these ended up being ill-suited for a modern economy based on knowledge industries and creativity<sup>142</sup>. Nevertheless, they had been useful in the processes of mobilisation of economic resources during the first stages of the ASEAN and Chinese miracles.

The perpetuation of situations of authoritarian cultural, social, and political underdevelopment, contributed to install countries like Malaysia or Thailand, which were high in the development curve before China’s ascent, in a *Middle-Income Trap* during the last twenty five years. Low labour productivity levels in ASEAN<sup>143</sup>, particularly in services<sup>144</sup>, reflected those in China.

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<sup>136</sup> Wong, *op. cit.* (2009), p. 324.

<sup>137</sup> Kasahara, Shigehisa: “The Flying Geese Paradigm. A critical Study of Its Application to East Asian Regional Development”, *UNCTAD Discussion Papers*, No. 169 (April 2004), 27 pages, pp. 1-5, at <https://ideas.repec.org/p/unc/disppap/169.html>

<sup>138</sup> González Blanco, Raquel: “Diferentes teorías del comercio internacional”, *Información Comercial Española, Revista de Economía*, No. 858 (February 2011), pp. 103-118, at <https://revistasice.com/index.php/ICE/article/view/1393>

<sup>139</sup> Kurlantzick, *op. cit.* (September 2006), p. 276.

<sup>140</sup> Dent, Christopher (2002): *The Foreign Economic Policies of Singapore, South Korea and Taiwan*, 1<sup>st</sup> edition, Cheltenham, Edward Edgar Publishing Ltd, 2002, p. 89, 352 pages.

<sup>141</sup> Mauzy and Milne, *op. cit.*, pp. 136-138.

<sup>142</sup> King, Rodney (2008): *The Singapore Miracle, Myth and Reality*, 2<sup>nd</sup> edition, Insight Press, Inglewood, Western Australia, pp. 8-11, 536 pages, at <https://catalogue.nla.gov.au/catalog/3899348>

<sup>143</sup> West, John: “China, a low-productivity superpower”, *The Interpreter*; Lowly Institute (27 April 2023), at <https://www.lowlyinstitute.org/the-interpreter/china-low-productivity-superpower>

<sup>144</sup> Donghun Kim and Kin Chung Woon (Dec 2020): *Regional Study on Labor Productivity in ASEAN*, ASEAN, Jakarta, Indonesia, p. 10, at <https://asean.org/wp-content/uploads/2021/03/22.pdf>

While policies aimed at the richer nations of ASEAN were indirect and trade related, in the poorest countries like Myanmar, Cambodia<sup>145</sup> or Laos, China took more of a neo-colonial approach, by backing their authoritarian regimes directly<sup>146</sup> and massively favouring the increase in the presence of Continental Chinese expatriates<sup>147</sup>. One million non-Diaspora Chinese already live in Myanmar today<sup>148</sup>, and exploit the abundant natural resources of the country, without much respect for the environment. Sixty percent of the private business sector is controlled by Mainland or Diaspora Chinese, a source of resentment among the Burmese, the dominant ethnic group. In insular ASEAN and Malaysia options were reduced, particularly in wealthier Malaysia and Indonesia where the frontiers and rise of Islam constrained Chinese expansion.

China's economic, political, and corporate influence over the weaker nations in Continental South East Asia (Burma, Cambodia), gave it enormous leverage to condition decisions in ASEAN institutions, taken by slow, ineffective Asianist consensus<sup>149</sup>. This implies a veiled national power of veto that made ASEAN amenable to China's foreign policy interests, blocking positive change. However, the US (328 US billion) and the EU (313 US billion)<sup>150151</sup> held the largest stocks of FDI in the ASEAN, way ahead of the minimal investments of the PR China.

### 2.3 Colbertisme and MAD (Mutually Assured Destruction), (2002-2020)

“Colbertisme” with Chinese characteristics, was obvious well before Xi. Thanks to artificial competitiveness China treasured gigantic trade surpluses, resembling the US economic expansion during the last quarter of the XIX century<sup>152</sup>, under conditions of protectionism and oligopoly concentration but never playing by the rules.

Chinese exports grew at an average of 20% per year from 1980 to 2003<sup>153</sup>.

From 1998 to 2008 Beijing's low, protectionist US dollar/RMB exchange rates, aided Chinese balance of trade surpluses substantially in a fixed exchange regime. On the one hand, there was a group of countries experiencing massive trade deficits with China, such as the United States, the United Kingdom and Spain<sup>154</sup>. On the other, there were nations such as Germany, Austria, the Scandinavian countries and Switzerland, that registered sizeable surpluses in their China trade. As early as 2000, China was already Germany's fifth client<sup>155</sup>, and France was China's preferred European supplier of high technology. Germany became the leading EU investor in China. In 2021, German trade with China amounted to 6.2% of Chinese imports in 2021<sup>156</sup>, and German FDI in China, dwarfed all other European countries combined.

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<sup>145</sup> Vannarith, Cheang: “Strong Party-to-Party Relations Cement Cambodia-China Bilateral Ties”, *Perspectives*, No. 46 (June 2023), at [https://www.iseas.edu.sg/wp-content/uploads/2023/04/ISEAS\\_Perspective\\_2023\\_46.pdf](https://www.iseas.edu.sg/wp-content/uploads/2023/04/ISEAS_Perspective_2023_46.pdf)

<sup>146</sup> Gelber, *op. cit.*, pp. 391-393.

<sup>147</sup> Kurlantzick, *op. cit.* (September 2006), p. 276.

<sup>148</sup> See Suryadinata, *op. cit.*, pp. 347-378.

<sup>149</sup> Aggarwal, Vinod K. and Chow, Jonathan T.: “The perils of consensus: How ASEAN's meta-regime undermines economic and environmental cooperation”, *Review of International Political Economy*, Volume 17, Issue 2( 2010), pp. 262-290

<sup>150</sup> Source: United States Trade Representative Office, 2020.

<sup>151</sup> Source: European Commission, 2020

<sup>152</sup> See Ang, Yuen Yuen, *op. cit.*, pp. 30-39.

<sup>153</sup> *Ibid.* Gelber, pp. 402-405.

<sup>154</sup> *Trademap*, at <https://www.trademap.org/Index.aspx?lang=es&AspxAutoDetectCookieSupport=1>

See the bilateral trade statistic series by country, between China and the US, Spain and the UK, from 2012 to 2021.

<sup>155</sup> See Gelber, *op. cit.*, p. 420.

<sup>156</sup> *Observatory of Economic Complexity (OEC)*, at <https://oec.world/en/profile/countrand/chn?andearlandTradeFlowSelector=flow1>  
The data is in the imports section. See the bilateral trade statistic series by country, between China and the US, Spain and the UK, from 2012 to 2021, by selecting the years online.

By 2012 North America and certain countries in Western Europe had already experienced enormous trade deficits with China, a trade trend that roughly persists until today (2012-2023)<sup>157</sup>. Overall, the trade deficit of the West with China has persisted.

According to Gelber (2007)<sup>158</sup>, China’s opening to the world economy induced a profound alteration in the relative international costs of labour, land, and capital (1980-2008), fostering additional waves of industrial delocalisation to the East, and the elimination of complete economic sectors that harmed workers in the West<sup>159</sup>. The prices of inputs and final goods would be locally distorted<sup>160</sup> in China, through a variety of government interventions, subsidies and industrial policies, enhancing the artificial international competitiveness of Chinese corporations, while fostering the rapid growth of new industries at the expense of Western ones.

By 2017, subsidised credit was channelled to SOEs for political reasons. Lending below market benchmark rates was 45% of the total, while SOEs absorbed 40% of total industrial corporate assets and 50% of bank credits. Shadow banking meant 20-30% of GDP and Western investors were barred from China’s banking sector, compromising the independent finance of their corporations in China<sup>161</sup>. According to Garlick<sup>162</sup>, lending to national champions to “*take over the world*” (for the purpose of outward FDI) by Chinese state banks, mainly to Chinese SOEs, was three times higher than that offered by Japanese and Korean banks in their international economic expansion processes.

The influx of cheap Chinese products to the West incorporated other artificial competitiveness variables: China’s social and environmental dumping and Western IP theft was behind the growing EU/US trade deficits with China<sup>163</sup>. In the initial phases of Chinese opening up, cheap imports from China enabled inflation to remain subdued in the West, encouraging mass consumption.

**Table 1 - US Imports from China by HS Code in US\$ thousands**

Code	Description	2003	2012	2022
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, parts and accessories of such articles	30000	296413	477,145
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	31065	102177	112000

<sup>157</sup> WITS, *World Integrated Trade Solution (WITS)*, at <https://wits.worldbank.org/WITS/WITS/Restricted/Login.aspx> As in the previous notes, the years 2012 and 2021 have been taken as reference.

<sup>158</sup> Gelber, *op. cit.*, pp. 400-402.

<sup>159</sup> U.S.-China Economic and Security and Review Commission, *op. cit.*, pp. 175-176.

<sup>160</sup> Directorate-General for Trade, *op. cit.*, pp. 216 (land); 234 (energy); 260 (capital); 325-326 (raw materials), 343-344 (wages and labour)

<sup>161</sup> *China’s 2022 Negative List for Market Access: Restrictions Cut, Financial Sector Opening*, Shanghai, *China Briefing*, 12 April 2022, at <https://www.china-briefing.com/news/chinas-2022-negative-list-for-market-access-restrictions-cut-financial-sector-opening/>. By 2022, the Government announced through their “Negative List” of foreign investments, the end of certain restrictions over the Banking sector in China. Foreign investors in China took it with a pinch of salt, as well as any other apparent move towards a rules-based economic system in China: The financial sector is controlled through a network of government banks.

<sup>162</sup> Garlick, Jeremy: “China’s Economic Diplomacy in Central and Eastern Europe: A Case of Offensive Mercantilism?”, *Europe-Asia*, Vol. 71, No. 8 (October 2019), pp. 1390-1414, 1408-1409.

<sup>163</sup> *China-EU trade, international trade in goods statistics*, at [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=China-EU\\_international\\_trade\\_in\\_goods\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=China-EU_international_trade_in_goods_statistics).

87	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical,	3386	9,045	115032
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**Source: Trademap, 2003**

Consequently, resources amassed by Chinese corporations through trade with the West, were the key variable behind the heavy indebtedness of certain Western nations with China. This contributed to the external financing of living standards of ageing populations, beyond their short-term economic capabilities. Chinese resources covered US trade deficits with China, contributing to higher levels of sovereign debt in the US and certain European nations, as China invested massively in simple, safe financial instruments like US treasuries<sup>164</sup>.

Cheap imports would encourage decreasing inflation rates, and this would restrain interest rate hikes and/or favour low interest rates, allowing for the avoidance of the crowding-out effects of higher Government indebtedness. When Governments in the West increased their debts, competing for financial resources with the private sector, this would result in lower interest rate hikes to control inflation, affecting the cost of private and public debt financing. So the low relative “price” of getting more debt, induced by the China trade - while China financed Western trade deficits -, was an incentive for increasing debt itself.

International trade with China under competitive advantage or unit costs trade specialisation<sup>165</sup>, or gained through artificial competitiveness, delivered excellent world GDP growth results on paper. China’s star economic performance corroborated the triumph of the Western model, democratic institutions and its liberal, multilateral, rules-based global economic order. However, China was breaking every other rule in the book from Intellectual Property (IP) theft to Human Rights.

This all changed with the 2008 Financial Crisis<sup>166</sup>. China gained enormous leverage over Western economies thanks to massive lending to the US and the EU in view of the 2008 Greek sovereign debt and world financial crises. China had already accumulated 2 trillion US\$ in foreign currency reserves by 2011, so it already had immense resources to exert pressure on the West and influence its economic decisions. In the meantime, China rapidly gained positions in the high-tech ladder, intra-industrial OECD trade, particularly in the machinery and capital goods sectors. American and European imports of middle to high tech machinery from China grew exponentially from 2002 to 2022 (see table 1, above).

A mountain of debt accumulated in the unregulated financial markets of the US, and a great proportion of it ended up in China’s hands, contributing indirectly to the 2008 real estate and financial bubble bursts. In 2008-2009, while the US GDP contracted 2%, the economy of China grew at a 9% rate. By 2007 the US had become the first debtor empire<sup>167</sup>: Twin deficits (current and capital account) became strategically crucial as America required foreign savings of around 6.1%<sup>168</sup> of its GDP to finance them. China, Japan and the Middle East were America’s main short term creditors in order of importance.

<sup>164</sup> Labonte, Marc, and Nagel, Jared C. (16 June 2014): *Foreign Holdings of Federal Debt*, Congressional Research Service, Washington, at [https://www.everycrsreport.com/files/20140616\\_RS22331\\_523df9d2032d0d3c444cbff21fe32d454c161ea8.pdf](https://www.everycrsreport.com/files/20140616_RS22331_523df9d2032d0d3c444cbff21fe32d454c161ea8.pdf).

<sup>165</sup> See González Blanco, *op. cit.*, pp. 103-118

<sup>166</sup> Altman, Roger C.: "The Great Crash, 2008. A Geopolitical Setback for the West", *Foreign Affairs*, vol. 88, No.1 (January/February, 2009), pp. 2-14.

<sup>167</sup> See Gelber, *op. cit.* 2007, pp. 402-405.

<sup>168</sup> *Speech of Rodrigo Rato, Director of the IMF, in the Annual Dinner of Harvard Business School Alumni (26.02.2007)*, at <http://www.imf.org/external/np/speeches/2007/022607.htm>

Even today (2023), the amounts owed to China are enormous, even if a relative process of financial decoupling is taking place, and China is getting rid of US treasuries.

American trade deficits with China financed via Chinese investments in US short-term, low risk and yield instruments (treasuries), was what gave Beijing strategic leverage over economic policy decisions in Washington. These were enormous investments<sup>169</sup> in sovereign debt assets, while China had no Security agreements with the US like NATO. Other Western countries like Spain experienced the same situation: For example, in 2012 China already held 12% of Spain's sovereign debt<sup>170171</sup>. Financial crisis-ridden Spain was also prey to opportunistic Chinese investors looking for corporate bargains in key economic sectors and, of course, energy was on the cards<sup>172</sup>.

Western politicians supporting fiscal profligacy had become Beijing's unwilling best allies (2019)<sup>173</sup>. Even if there were attempts to reduce the high levels of debt after the financial crisis of 2008, a decade later the West would be strategically drifting into a *'fiscal fantasyland'*<sup>174</sup>. By 2008, had China suddenly decided to stop financing the US federal deficit, the economic consequences of rising Federal Reserve interest rates<sup>175</sup> to attract alternative finance, would have been devastating for the global economy.

As early as 2007, critics like Roche<sup>176</sup> and Dorn<sup>177</sup> had already stressed the dangers of "MAD" *'Mutually Assured Destruction (MAD)'*, in a US-China financial *"marriage of convenience"*, and the importance of Western *'decoupling'* from the Middle Kingdom. China's dysfunctionally high investment rates of 40-50% of GDP (2010-21), were partially channelled to Western sovereign debt and were used to uphold the Chinese economy, while China was over-dependent on exports and the foreign sector. China needed (2012) and needs (2021) Western markets to place their enormous volumes of merchandise, almost a third of their total exports in the period<sup>178</sup>. Even if China's exports/GDP rate declined from almost 30% of GDP in 2012 to 20% in 2022, the importance of the foreign sector remains paramount, as exports in 2022 (3.5 trillion US\$) practically doubled exports in 2010 (1.6 trillion).

**Table 2**

Percentage % of total exports	2002	2021
Japan: Total exports to the US	27.8%	17,6%
Japan: Total exports to China	9,38%	21%

<sup>169</sup> *Major Foreign Holders of Treasury Securities (2022)*, at <https://ticdata.treasurand.gov/Publish/mfh.txt>

<sup>170</sup> *¿Cuánta deuda española tiene el gobierno chino?*, at <https://www.realinstitutoelcano.org/blog/cuanta-deuda-espanola-tiene-el-gobierno-chino>.

<sup>171</sup> Mario Esteban (ed.) (10.2018): *Relaciones España – China*, Real Instituto Elcano, Madrid, Report No. 24, pp. 28 and 57, at <https://media.realinstitutoelcano.org/wp-content/uploads/2021/10/informe-elcano-24-relaciones-espana-china.pdf>

<sup>172</sup> González, Emma (14.09.2012): *La Imagen de España en PR China*, Real Instituto Elcano, Madrid, Ref. ARI 59/2012, 6 pages.

<sup>173</sup> Summers, Larry, Furman, Jason), "Who's afraid of budget deficits?", *Mossavar-Rahmani Center for Business and Government*, Harvard Kennedy School (01/28/2019). Larry Summers was Obama's Secretary of the Treasury). at <https://www.hks.harvard.edu/centers/mrcbg/programs/growthpolicand/whos-afraid-budget-deficits>

<sup>174</sup> Anonymous: "Governments are living in a fiscal fantasyland", London, *The Economist*, 4<sup>th</sup> March 2023, at <https://www.economist.com/leaders/2023/05/04/governments-are-living-in-a-fiscal-fantasland>

<sup>175</sup> *HBO History Makers Series: James A. Baker III (Interview to James Baker III, 15.06.2006)*, at <https://www.youtube.com/watch?v=j2uctszbl8g>

<sup>176</sup> Roche, S: "Can China Brave a U.S. Downturn?", *Far Eastern Economic Review*, January 2007, page 39.

<sup>177</sup> Dorn, James A.: "The Role of China in the U.S. Debt Crisis", *Cato Journal*, Vol. 33, No. 1 (Winter 2013), pp. 77-89, at <https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2013/1/cj33n1-4.pdf>.

<sup>178</sup> *China: Observatory of Economic Complexity (OEC) 2023* at <https://oec.world/es/profile/countrand/chn>.

Click on "Exports" to tracks the destination of China's exports by country, including Western ones (2012-2022).

South Korea: total exports to the US	19,7%	14,7%
South Korea: Total exports to China	14,2%	24,1%

Source: Observatory of Economic Complexity (OEC), 2023

In such a “MAD” setting, the dollar exchange rate depended on the Bank of China, so the consequences of a depreciation of the dollar would automatically reduce the value of the enormous Chinese hard currency reserves and assets in the US. However, even if Chinese holdings of US treasuries are lower than in 2004, in a post Covid-19 highly politicised world (see section 1.2), it is possible to foresee scenarios in which political considerations supersede pragmatic, economic ones.

If Beijing decided to stop financing the US sovereign debt, a global economic contraction would follow. In this case, after decades of incremental material progress, the indoctrinated population of China would have been able to cope with the economic blow much better than Western citizens. In China, toughened by hunger and repression during the Cultural Revolution, memories of extreme hardship are still recent, and the CCP that successfully managed the economic miracle is popular. Once again, the political nature of Covid-0 during the thick of the Covid-19 confinements should have been a warning (see subchapter 3.6). However, the West is used to decades of sustained prosperity, and is only just coming out of the worst financial and economic crises since 1929.

The coupling with Western economies had already become politically unbearable during the 2008 financial crisis, given China’s breaches of Human Rights, colonial processes of resource appropriation and the elimination of cultural identities in Tibet or Xinjiang, including the use of forced labour<sup>179</sup>. By 2007 there were already enormous difficulties in switching from export demand (X) to domestic (C) consumption demand, as an engine of GDP growth, and moving from a purely traditional industries-led economy to high tech and services<sup>180</sup>. Zeihan (2015)<sup>181</sup>, sustained that consumer demand could not be a fast substitute for Chinese export growth, given China's diminishing population and birth rates, in order to equilibrate Western trade with China; while Roach<sup>182</sup>, stressed the importance of China fostering imports from Western countries, to rebalance trade surpluses and improve the low standards of living of Chinese workers.

By 2002, not including re-exports via Hong Kong, South Korea’s percentage of total exports to China and the US were, respectively 14% and 19% of total national exports. By 2021, the tables had turned, now China absorbed 24.1% and the US 14.4% (see Table 2, above). It wasn’t just a matter of proximity, geography, competitive advantage, culture or logistics, managed free trade under artificial competitiveness would also have been instrumental. First it was closer ties between China Taiwan, and South Korea. Later, it was the growing trade influence of China on the ASEAN. These were the natural markets of Japan in the original “*Flying Geese*” model. By reducing barriers to trade, East Asia was gradually drawn towards a Sino-centric regional trade hub, in a regional trade liberalisation process that mainly benefited China.

<sup>179</sup> Zenz, Adrian: "Coercive Labor in the Cotton Harvest in the Xinjiang Uyghur Autonomous Region and Uzbekistan", *Communist and Post Communist Studies*, Vol. 56, Issue 2, (May 2023), pp. 24-25, at <https://doi.org/10.1525/cpcs.2023.1822939>

<sup>180</sup> Inoue, Keiji and Stumpo, Giovanni (eds.) (2018): *Explorando nuevos espacios de cooperación entre América Latina y el Caribe y China*, Santiago de Chile, CEPAL, p.16, 98 pages.

<sup>181</sup> *The Future of American Power and Influence: Interview with Joseph Nye and Peter Zeihan, 04.03.2015*, at <https://www.cfr.org/event/future-american-power-and-influence>.

<sup>182</sup> *Stephen Roach on the Consumer Opportunity in China: Interview with Stephen Roach, March 2012*, at <https://www.mckinsey.com/featured-insights/asia-pacific/stephen-roach-on-the-consumer-opportunity-in-china>.

According to Gelber<sup>183</sup>, the initial phases of the Chinese ascent would have benefited American allies (Japan and South Korea). Both countries cartelised their corporations to export high-value-added manufactured, technology-intensive goods to China, in exchange for abundant Chinese raw materials (1983-1993). As China gained positions in the “social technological ladder” (2002-2021), this all changed progressively into an industrial bilateral tech-intensive trade. China moved rapidly from exchanging simple industrial, electrical and electronics products, such as basic components of TVs or fridges in low and medium tech industries, to exporting advanced computers, software and microchips to East Asia. The latter were the products reciprocally exported by Japan, Korea or Taiwan to China<sup>184185186187188</sup>.

In the case of Taiwan, the stronger and more productive the links with Mainland China, the less interest there would be for formal political independence from the Mainland<sup>189</sup>. Low interest rates in Japan and Korea fostered economies of scale in industrial sectors, and the consolidation of large corporate export corporate groups, *keiretsus* and *chaebols*. However, in Taiwan higher interest rates defined a corporate landscape that relied more on productivity gains, attained via technological change. It wasn't just capital and expertise that China wanted from Taiwan; it was mainly know-how and technology, accessible in Mandarin Chinese.

## 2.4 Power trade, world resource and land grabbing (2002-2023)

In the view of Atkinson<sup>190</sup>, China's trade policy would not be exactly protectionist or free trade leaning, but “*power trade*” as it “[...] *Manipulated the global trading system to degrade its adversaries' capabilities, entrap nations as reluctant allies, and build up its own industries for commercial and military advantage.*”

Another viewpoint would be Boustany and Friedberg's<sup>191</sup>: “*China's strategy has been to engage economically with the world, while resisting pressure to transform its political system and economic system*”. In this interpretation, economic policy would have been used as a tool to guarantee global hegemony for China, reinstating its perceived centrality as in ancient times.

However, multiple factors led to the rise of food imports and had significant impacts on the quantity and quality of arable land and water systems in China<sup>192</sup>: The underperformance of the agricultural sector<sup>193</sup>; the elimination of scarce arable land to give way to industrial or real estate speculative concerns<sup>194</sup>; the excessive use of pesticides and fertilisers in fast-growth food production strategies; the mismanagement of agricultural waste, resulting in widespread pollution and other forms of

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<sup>183</sup> Gelber, *op. cit.*, pp. 388- 390, p. 401 and p. 417.

<sup>184</sup> *What does China export to South Korea?*, at [https://oec.world/en/visualize/tree\\_map/hs92/export/chn/kor/show/2011](https://oec.world/en/visualize/tree_map/hs92/export/chn/kor/show/2011)

<sup>185</sup> *What does China export to Japan?*, at [https://oec.world/en/visualize/tree\\_map/hs92/export/chn/jpn/show/2011.2021](https://oec.world/en/visualize/tree_map/hs92/export/chn/jpn/show/2011.2021)

<sup>186</sup> *China, exports, imports and trade partners*, at <https://oec.world/en/profile/country/chn>

<sup>187</sup> *Japan, exports, imports and trade partners*, at <https://oec.world/en/profile/country/jpn>

<sup>188</sup> *South Korea, exports, imports and trade partners*, at <https://oec.world/en/profile/country/kor>

In the OEC website it is possible to extract exact data by year, country to country. The last five notes are just examples for a general assessment of bilateral trade between Japan, South Korea and China

<sup>189</sup> Gelber, *op. cit.*, p. 386.

<sup>190</sup> Atkinson, Robert D.: “A remarkable resemblance: Germany from 1900 to 1945 and China today. Time for a NATO for trade?”, Washington, *The International Economy*, (Fall 2020), pp. 14-56, at <https://www.international-economy.com/Fall2020archive.htm>

<sup>191</sup> See Boustany Jr. and Friedberg, *op. cit.*, p.2.

<sup>192</sup> Cassou, Emilie; Jaffee Steven M. and Jiang Ru (2017): *The Challenge of Agricultural Pollution Evidence from China, Vietnam, and the Philippines*, World Bank, Washington, pp. 1-4, 41, 54-57, 110-112, 119 pages

<sup>193</sup> Fukase, Emiko and Martin, Will (June 2014): *Who Will Feed China in the 21st Century? Income Growth and Food Demand and Supply in China*, The World Bank Development Research Group, Washington, 50 pages.

<sup>194</sup> Cartier, Carolyn: “Zone Fever, the Arable Land Debate, and Real Estate Speculation: China's evolving land use regime and its geographical contradictions”, *Journal of Contemporary China*, Routledge, Vol. 10, No. 28 (Aug. 2001), pp. 445-469.

environmental dumping, that also added to an enormous loss of arable land, and the changing improved dietary requirements of the Chinese people (proteins in the form of meat requiring massive agricultural feeds imports), as well as other forms of environmental dumping.

China needed food and agrifood sector inputs which had to be imported, so a process of world resource and land grabbing, to ensure the satisfaction of the needs of China, ensued: Latin American and East Russian investments provided soya, while rice and sugarcane were sourced from Africa or Asia<sup>195</sup>. The agricultural sector structure of Mercosur was distorted to cope with the meat production needs of the Chinese markets. Large swathes of arable land in the MERCOSUR were transformed into a gigantic soya farm, to be used as cattle feed exported to China: 54% of Argentinean exports of products of the HS4 category in 2021<sup>196</sup> were soya, and 69% of Brazil's.

Cattle feed production oriented to the international markets, had environmental effects, reducing biodiversity and agricultural product and market diversification. China became their most important customer, gaining enormous trade power over these countries, in economic sectors with low worker intensity needs and nimble trickle-down effects over large unemployed populations, such as in Argentina<sup>197</sup>.

China became the “*factory of the world*”, so growing food and primary sector agricultural inputs, and its needs for minerals and raw materials, strongly impacted global prices. Now the Western world had to compete in tensioned markets for scarce and diminishing natural resources, so environmental crises multiplied.

Domestic raw materials factor, price and quantity distortions gave strategic acquisition leverage to PR China through SOEs (State Owned Enterprises), planning boards, industrial and foreign trade policy<sup>198</sup>, especially in the case of BRICS. Their leverage increased when China came to the rescue: China compensated for cycles of demand contraction in the West during the 2008 financial crises, absorbing BRICS' primary sector exports<sup>199200</sup>. As in 1998 with the ASEAN financial crisis, foreign economic policy measures contributed to the substantial increase of the soft power of China in middle income developing countries, such as the BRICS. Back then, China refrained from devaluing its currency, the Yuan Renminbi, and absorbed ASEAN exports at discounted prices, given the gigantic fall of ASEAN currencies' exchange rates as a macroeconomic correction of imbalances in the current and capital accounts.

According to Vekasi<sup>201</sup>, Ferreira and Critelli<sup>202</sup>, stocks of “*not so rare earths*” are elements essential for the supply chains of key US manufacturing and defence sectors. Among the products requiring these strategic minerals are: Semiconductors, batteries and defence systems, hybrid vehicles, wind

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<sup>195</sup> Yamila Mora, Sol: “El acaparamiento de tierras de China desde la ecología-mundo: la búsqueda de soja, arroz and caña de azúcar baratos and los límites a la acumulación de capital”, *Relaciones Internacionales*, No. 46 (February 2021), pp. 119-138, at <https://revistas.uam.es/relacionesinternacionales/article/view/12760>

<sup>196</sup> *Trademap* (2021), at <https://www.trademap.org/Index.aspx>. The stats can be produced introducing partner countries and “all products”: First China and Argentina, and then China and Brazil (exports & imports), it is interesting to check the 20 year series.

<sup>197</sup> Constantino, Agustina, and Mora, Sol: “El acaparamiento de tierras por parte de China en Argentina: una mirada desde la ecología política”, *Estudios sociales*, Vol. 60, No.1 (January 2021), pp. 183–206, at <https://dialnet.unirioja.es/servlet/articulo?codigo=8023497>

<sup>198</sup> Directorate-General for Trade, *op. cit.*, pp. 325-326.

<sup>199</sup> Rosales, Osvaldo, and Kuwayana, Miko (2012): *China y América Latina y el Caribe Hacia una relación económica y comercial estratégica*, No. 114, Santiago de Chile, CEPAL, p.87, 251 pages, at [https://repositorio.cepal.org/bitstream/handle/11362/2598/S1100769\\_es.pdf?sequence=1&isAllowed=y](https://repositorio.cepal.org/bitstream/handle/11362/2598/S1100769_es.pdf?sequence=1&isAllowed=y)

<sup>200</sup> Inoue and Stumpo, Giovanni, *op. cit.* (2018), p. 14.

<sup>201</sup> *Testimony of Kirstin Vekasi (09.06.2022)*, at the United States-China Economic and Security and Review Commission Hearing on U.S.-China Competition in Global Supply Chains, at [https://www.uscc.gov/sites/default/files/2022-06/Kristin\\_Vekasi\\_Testimonand.pdf](https://www.uscc.gov/sites/default/files/2022-06/Kristin_Vekasi_Testimonand.pdf). Kirstin Vekasi is an Associate Professor of Political Science at the University of Maine.

<sup>202</sup> Gustavo, Ferreira and Critelli, Jamie: “China's Global Monopoly on Rare-Earth Elements,” *Parameters*, US Army War College Quarterly, Vol. 52, No. 1 (2022), pp. 57-72.

turbines, magnets, and catalysts. China has world market dominance of supplies of rare earths, dumped at deliberately low subsidised prices. China could flood the market and eliminate Western competitors, acquiring bargaining power against the US, thanks to its aggressive industrial and trade policies, as well as environmental dumping tactics. For example, China would have military or corporate strategic advantage in a protracted conflict in Taiwan, where the US would have to replace military hardware, or in the EVs market, where China is a leader by controlling 70% of the production of car batteries.

The sudden rise of China would help install key Latin American<sup>203</sup><sup>204</sup> and African<sup>205</sup> developing nations in a neo-colonial primary sector-led export structure, in exchange for the growing imports of Chinese industrial goods (2012-2021). These are strategic internationalisation regions for the EU, after trade decoupling with Russia in the aftermath of the Ukrainian war. Indigenous low to medium tech-intensive industries could do little against Chinese competitors in developing countries' markets, as the artificial determinants of Chinese competitiveness and protectionism would hurt the most here, in parallel with China's rise in the technological ladder, and the technology intensity of its exports.

The evolution of this pattern can be clearly seen in the BRICS trade with China from 2011 to 2022<sup>206</sup><sup>207</sup><sup>208</sup>. In this period all BRICS suppliers follow the same pattern, only India's industrial exports to China increased, minimally, in the period. All BRICS became suppliers of primary goods and importers of industrial Chinese goods. Intermediate goods in the China trade are also important, but what is always certain is that exports to China of industrial goods, especially those with high technology content, are minimal on average.

The exponential growth of bilateral trade with China, delayed structural transformation towards more advanced models in developing countries. Besides, China invested 2.2% of GDP in R&D, while Latin America only devoted 0.7% in the period. According to CEPAL, industrial development stalled in the region while China placed itself in the forefront of advanced manufacturing, ahead of leading OECD nations (US, UK, Germany) in certain IT sectors. The list includes Industry 4.0's advanced automatisisation and hardware, combined with software, the Internet of Things and cloud computing, sensors, big data analytics<sup>209</sup>, AI, nanotechnology, and quantum computers<sup>210</sup>.

From the 2008 financial crisis to 2017, China's merchandise trade was already much larger than India's, and China overtook India as the leading supplier for Africa<sup>211</sup>. In addition, China became the leading trade partner of BRICS, while their FDI in BRICS' key tech-intensive industrial sectors was

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<sup>203</sup> Osvaldo Rosales (ed.) (2011): *La República Popular China and América Latina and el Caribe, Hacia una nueva fase en el vínculo económico and comercial*, Santiago de Chile, CEPAL, 32 pages, pp. 18-24, 29-32.

<sup>204</sup> See Parepa, *op. cit.*, p. 185.

<sup>205</sup> Alden, Cris; Aggad Clerx, Fateh "Chinese Investments and Employment Creation in Algeria and Egypt", Abidjan, Cote D'Ivoire, African Development Bank, *AFDB Brief* (5 April 2012), p. 15, 23 pages, at <https://www.afdb.org/en/documents/document/economic-brief-chinese-investments-and-employment-creation-in-algeria-and-egypt-26744>

<sup>206</sup> *What does South Africa Export to China*, at [https://oec.world/en/visualize/tree\\_map/hs92/export/zaf/chn/show/2021](https://oec.world/en/visualize/tree_map/hs92/export/zaf/chn/show/2021)

<sup>207</sup> *What does Brazil Export to China*, at [https://oec.world/en/visualize/tree\\_map/hs92/export/bra/chn/show/2021](https://oec.world/en/visualize/tree_map/hs92/export/bra/chn/show/2021)

<sup>208</sup> *What does India export to China*, at [https://oec.world/en/visualize/tree\\_map/hs92/export/ind/chn/show/2021](https://oec.world/en/visualize/tree_map/hs92/export/ind/chn/show/2021)

The comparisons in the last three notes were made using as reference the years 2011 and 2021, and introducing these dates in the OEC utility, as it offers a visual perspective of the products exported to China, from low to middle-low technological sectors all over the period. The same analysis can be performed using the same tools, to observe the average higher technology intensity in Chinese exports to the other BRICS.

<sup>209</sup> See Inoue and Stumpo, *op. cit* (2018), pp. 82-90.

<sup>210</sup> Asei, Ito: "Digital China: A Fourth Industrial Revolution with Chinese Characteristics?", *Asia-Pacific Review*, Vol. 26, No. 2, (2019), pp. 50-75, at <https://doi.org/10.1080/13439006.2019.1691836>.

<sup>211</sup> Nowak, Wioletta: "Trade of China and India with Africa after the 2008 Financial Crisis", *Insight Turkey*, Vol. 21, No. 1 (Winter 2019), pp. 41-51.

minimal, and middle-high and high-tech global exports from China to BRICS grew exponentially, as stated. Moreover, like in the case ASEAN, BRICS (excepting most regions of India) and many other developing countries trading with China, had been ahead of China in the developmental curve before China's rise<sup>212</sup>.

It did not end there, the US and East Russia (soya) or Australia (32% of Australian total exports go to China and 69% of which is Iron<sup>213</sup>), became leading suppliers of China, given their relative larger endowments of land and natural resources. Free trade agreements between China and weak nations, like the ones signed with Argentina<sup>214</sup> and Ecuador, before President Milei was elected<sup>215</sup>, would be important predictors of the agreements to come. The Latin American trade deficit with China skyrocketed from 2 billion US\$ in 2000 to 78 billion in 2018. Most of that deficit with China, 64 billion, was incurred by Mexico. As a member of NAFTA, Mexico, the land of “maquiladoras”, has substantial trade relations with Canada and the US. Mexico was the back door through which Chinese products could be traded in NAFTA, to avoid the increasing tariffs on Chinese goods<sup>216</sup> in the US since Trump became President, contributing to the gigantic US trade deficit<sup>217</sup>.

China showed an obvious lack of interest of China in FDI in middle to high-tech Latin American<sup>218</sup> and African industries<sup>219</sup> (2018). Besides, trade and investment between Latin America and China, based on a few lines of raw materials, is much less sophisticated than trade with other regions of the planet, as indicated by the following statistics (the results are similar for Sub-Saharan Africa, these are countries with lower economic development levels<sup>220</sup>):

1. Primary products: 72% of Latin American exports went to China, while only 26% of these exports went to the rest of the world.
2. Low to Middle tech industrial exports to China were 8% of total Latin American exports to China, but 57% went to the rest of the world.
3. Latin American imports from China concentrated in industrial products (98%), particularly middle and high-tech ones, while their imports from the rest of the world only comprised 68% of the total.

First, China's growing mineral and energy needs would have intense global effects on rising prices<sup>221</sup> and C20 emissions (326% growth, 1990-2020 in China), as well as its environmental consequences,

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<sup>212</sup> Klugman, Jeni (2013): *Human Development Report 2010. 20th Anniversary Edition*, United Nations Development Program-Palgrave-McMillan, Basingstoke, Hampshire, United Kingdom, 229 pages, p. 143. It is not just leading countries like Argentina, Chile, Brazil, Peru, or Mexico that had higher HDI development index levels in 2010 than China, before China's rise most Latin American countries were ahead of China, at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2294686](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2294686).

<sup>213</sup> Gunter, Jacob; Francesca, Ghiretti and Adachi, Aya: MERICS China Global Competition Tracker, MERICs, No. 4 (December 2022), pp. 3-8., at <https://merics.org/en/tracker/europes-competition-china-third-markets>.

China depends on Brazilian and Australian imports of Iron.

<sup>214</sup> *Acuerdo con China: la Argentina obtiene financiamiento para obras de infraestructura estratégicas and se incorpora a la Franja and la Ruta de la Seda*, at <https://www.cancilleria.gob.ar/es/actualidad/noticias/acuerdo-con-china-la-argentina-obtiene-financiamiento-para-obras-de>.

<sup>215</sup> *Nota de Prensa, “Tratado de Libre Comercio Ecuador –China”*, at <https://www.produccion.gob.ec/tratado-de-libre-comercio-ecuador-china/>.

<sup>216</sup> Gachuz Maya, J. C.: “Mexico's Trade Relationship with China in the Context of the United States-China Trade war”, *Journal of Current Chinese Affairs*, Vol. 51, Issue 1 (Oct 2022), pp. 83–107, at <https://doi.org/10.1177/18681026211038339>

<sup>217</sup> “Mexico and China: trade conditions and challenges in the short, medium and long term” at <https://www.revistacomercioexterior.com/mexico-and-china-trade-conditions-and-challenges-in-the-short-medium-and-long-term>

<sup>218</sup> See Inoue and Stumpo, *op. cit.* (2018), p. 21 and pp. 40-46, and p. 96.

<sup>219</sup> Alden, Chris and Lu Jiang: “Brave new world: debt, industrialization and security in China–Africa relations”, *International Affairs*, Volume 95, Issue 3 (May 2019), pp. 641–657, in pp. 656-657.

<sup>220</sup> *Sub-Saharan Africa Product Exports to China in US\$ Thousand (2017-2021)* at <https://wits.worldbank.org/CountryProfile/en/Country/SSF/StartYear/2017/EndYear/2021/TradeFlow/Export/Indicator/XPRT-TRD-VL/Partner/CHN/Product/all-groups>

<sup>221</sup> Tian Wang, Cangfeng Wang: “The spillover effects of China's industrial growth on price changes of base metal”, *Resources Policy*,

as reflected in comparative world air pollution indexes<sup>222</sup>. However, the growing dependency on Chinese markets has lately resulted in an intense fall in metal prices, as a consequence of the fall in the demand during the 2020-23 economic crises in China<sup>223</sup>. Whatever happens in China has immediate global effects in the commodities markets<sup>224</sup>, generating additional uncertainties.

China's energy production went up 220% from 1990 to 2020<sup>225</sup>, and generated 24% of global C20 emissions in 2018<sup>226</sup>. However, that was not enough to satisfy its increasing energy needs, China's energy demand added to the traditional OECD countries high demand of hydrocarbons (coal in particular), and pushed up world prices. In Latin America, exports from Brazil (Iron ore and crude oil), Chile and Peru (copper) to China grew exponentially.

By 2022, while OECD countries were devising policies to foster global decarbonisation, China kept building new coal-powered stations at a surprising speed, and there are no serious remedial policies in sight for China's and India's increasing emissions. China postponed its net-zero targets for C20 emissions to 2060<sup>227</sup>.

Paradoxically, Beijing would be promoting leadership in the next generation of clean technologies, to secure future markets and supply chains, so as to become their central manufacturing hub. Through its artificial competitiveness and control gained over the market for rare earths<sup>228229</sup> and metals<sup>230</sup>, China controls many of the building blocks of these new technologies.

In the state owned enterprises (SOEs) energy sector<sup>231</sup>, Beijing applied the same nationalistic, price and factor price distorting<sup>232</sup>, protectionist policies as those withstood by the GAFAM (see section 2.7); according to Eaton and Kostka<sup>233</sup>, "[...] Above all, to increase their scale and improve profitability to "go big and go strong" in global markets". Energy price controls and subsidies in China would have pernicious effects during energy crises, fostering global processes of misallocation and appropriation of energy resources.

China would be gaining increasing control of global energy supplies, through direct acquisitions in countries benefiting from Belt & Road initiatives, or via loans conditioned to oil & gas supplies. By 2018, China's investment (FDI) in key natural resource, like hydrocarbons in the Latin American, region had grown exponentially. China started financing their debts in exchange for energy supplies. The leading debtors were: Venezuela (62.2 US\$ billion), Brazil (36.8 billion), Ecuador (17.4 billion) and Argentina (15.3 billion)<sup>234</sup>. Chinese national oil corporations (SOEs), developed close relations

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Volume 61 (June 2019), pages 375-384, at <https://doi.org/10.1016/j.resourpol.2017.11.007>.

<sup>222</sup>World's Air Pollution: Real-time Air Quality Index, at [www.waqi.info](http://www.waqi.info)

<sup>223</sup>Industrial Metals Monthly: Metals assess China's fragile recovery, at <https://think.ing.com/articles/industrial-metals-monthly-chinas-fragile-recovery-hangs-over-industrial-metals/>

<sup>224</sup> Ghoshray A., Pundit M.: "Economic growth in China and its impact on international commodity prices", *International Journal of Financial & Economics*, Vol. 26, Issue 2 (2 April 2021), pp. 2776-2789, at <https://doi.org/10.1002/ijfe.1933>

<sup>225</sup> China, *International Energy Agency (2023)* at <https://www.iea.org/countries/china>

<sup>226</sup>See Inoue and Stumpo, *op. cit.* 2018, p. 72.

<sup>227</sup> *Climate Action Tracker (2023), China (2023)*, at <https://climateactiontracker.org/countries/china/>

<sup>228</sup> Ferreira and Critelli, *op. cit.*, pp. 57-72.

<sup>229</sup> White, Edward: "How China cornered the market for clean tech", *Financial Times*, 2<sup>nd</sup> August 2023, at <https://www.ft.com/content/6d2ed4d3-c6d3-4dbd-8566-3b0df9e9c5c6>

<sup>230</sup> Dempsey, Harry and Lockett Hudson: "China pushes to dominate trading in clean energy metals", *Financial Times*, 11<sup>th</sup> August 2023, at <https://www.ft.com/content/dcec0b54-d198-42d5-877e-466e751d4287>

<sup>231</sup> China Economic and Security Review Commission, *op. cit.*, pp. 234-235.

<sup>232</sup> See Boustany Jr. and Friedberg, *op. cit.*, p. 13. Inversely, it might entail mechanisms such as export and production quotas to create scarcity, and affect prices.

<sup>233</sup> Eaton, S., and Kostka, G.: "Central Protectionism in China: The "Central SOE Problem in Environmental Governance", *The China Quarterly*, Vol. 231 (18.08.2017), pp. 685-704, at <https://doi.org/10.1017/S0305741017000881>

<sup>234</sup> See Inoue and Stumpo, *op. cit.* (2018), p. 22.

with those countries endowed with substantial hydrocarbon resources, fostering corruption in low transparency settings (guanxi).

Until very recently, planners in Beijing did not consider the long term international environmental implications of their fast growth strategies; as stated, economic growth, party survival and the short-term improvement of the condition of China's workers were the main objectives. Besides, while environmental degradation in China is well documented, China is exporting its environmental dumping-based model to its areas of influence. China simply does not play by the rules<sup>235</sup>. For example, legal or illegal overfishing by the gigantic Chinese fleet is also a threat to world fish stocks<sup>236</sup>, quite especially in the self-attributed 9 Dash Line in the South China Sea. Another example would be logging in Siberia<sup>237</sup>, where China's hunger for timber put in motion large deforestation processes, and induced social tensions in those areas where forests disappeared.

China's economic activities also had sad environmental consequences for ASEAN nations. In the energy sector, forty-six Chinese dams in the Mekong River basin have contributed to a drastic reduction of the precious fish catch, and were behind a substantial contraction in the production of rice and maize, causing a decrease of 3.7% of the GDP of Cambodia<sup>238</sup> and 0.3% of the GDP of Vietnam.

## 2.5 The Belt and Road initiative, the China that “takes over the world” (2002-2023)

The shortcomings in the management of the SARS-I virus epidemic in China (2002-2003)<sup>239,240</sup>, combined with pervasive censorship and disinformation, were an eye-opener. This proved China was only a gigantic developing nation, suddenly irrupting in the world scene. From then on, the collateral international security consequences of China's periodic crises would become prominent.

It was not just the sheer size and gravitas of their economy, SARS-I only anticipated what was going to happen in Wuhan in 2020 with the SARS-II virus epidemic (Covid-19). SARS-I proved that China had strengthened its armed forces, infrastructures and industrial capabilities, and reached developed nation economic levels in coastal regions, but their health and social welfare systems were underdeveloped, showing high levels of inequality and inefficiency<sup>241,242,243</sup>.

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<sup>235</sup> *US Embassy in Brazil: China's Environmental Abuses Fact Sheet*, at <https://br.usembassy.gov/chinas-environmental-abuses-fact-sheet/>

<sup>236</sup> Yu, Chengayong, and Yen-Chiang, Chang: “China's Incentives and Efforts against IUU Fishing in the South China Sea”, *Sustainability*, Vol. 15, No. 9 (27<sup>th</sup> April 2023), 11 pages, at <https://www.mdpi.com/2071-1050/15/9/7255> .

<sup>237</sup> Kramer, Andrew E.: “As the Chinese Cut Down Siberia's Forests, Tensions With Russians Rise”, *New York Times*, 25 July 2019, at <https://www.nytimes.com/2019/07/25/world/europe/russia-china-siberia-logging.html>.

<sup>238</sup> *Left With Fish Too Small to Sell in Cambodia's Mekong River Basin: How a China-Built Dam Destroyed an Ecosystem and Livelihoods*, at <https://www.hrw.org/news/2021/08/11/left-fish-too-small-sell-cambodias-mekong-river-basin>

<sup>239</sup> *WHO: SARS*, at [https://www.who.int/health-topics/severe-acute-respiratory-syndrome#tab=tab\\_1](https://www.who.int/health-topics/severe-acute-respiratory-syndrome#tab=tab_1)

<sup>240</sup> Huang Y.: “The SARS Epidemic and Its Aftermath in China: A Political Perspective”, in Knobler, Stace; Mahmoud, Adel; Lemon, Stanley, Mack, Alison; Sivitz, Laura, and Oberholtzer, Katherine (eds.) (2004), *Learning from SARS, Preparing for the Next Disease Outbreak -- Workshop Summary*, Washington, National Academies Press, 359 pages, pp. 117-136, at <https://www.ncbi.nlm.nih.gov/books/NBK92479/>

<sup>241</sup> Wang, Yuxi; Castelli, Adriana; Cao, Qi and Liu, Dan (2020): “Assessing the design of China's complex health system. Concerns on equity and efficiency”, *Health Policy*, Volume 1 (Dec. 2020), at <https://www.sciencedirect.com/science/article/pii/S2590229620300198>.

<sup>242</sup> *OECD Health Statistics 2014, How does China compare (2014)*, at <https://www.oecd.org/els/health-systems/Briefing-Note-CHINA-2014.pdf>.

<sup>243</sup> Inoue and Stumpo, *op. cit.* (2018), p. 35.

Before the Covid-19 (SARS-II) pandemic, the 2019 Swine Fever epidemic in China<sup>244</sup> destroyed more than a quarter of the world's pig population<sup>245</sup>, pushing up global prices of pork meat. The consequences were felt in other parts of the world, as the ensuing short term pork price rises in China, induced an over expansion of fixed capital investment in meat processing in countries like Spain, and a substantial increase in exports to China (2019-2021). The structure of Spanish exports to China was affected and distorted in the short term. By 2023, Spanish pork meats exports to China and its prices fell markedly.

Pork meats are Spain's leading sector in Spain's agrifood exports to China, the only sector where Spain registered a surplus in 2022, even if, paradoxically, Spanish global exports are concentrated in middle-high technology intensity sectors. Spain registered an overall gigantic trade deficit with China of almost 40 billion Euros, while exports only covered 19% of imports<sup>246</sup>.

In sum, periodic SARS-II style catastrophes in China have had regular regional and even planetary economic effects, independent from those caused by dubious economic interventions.

The 2008 and 2015 stock market crashes in China induced fears of a global financial collapse<sup>247</sup>. In both cases, the bailouts of China's public institutions dispelled panic, but uncertainties<sup>248</sup> resurfaced as late as 2022 with the Real Estate sector debacle<sup>249</sup>. This was so after the Government decided to tighten credit for over-leveraged residential building giants, such as the collapsing Evergrande or Country Garden, giving a hint that Beijing was willing to stop supporting the sector and let the Real Estate bubble burst.

China's lack of a Social Safety Net (SSN), helped prop up a dysfunctional savings rate (45-50% of GDP). Savings were channelled massively into the building and infrastructure sectors, while residential property was where the personal savings of Chinese citizens were invested. Real Estate amounted to 28% of GDP in 2021, while construction companies and second-home buyers were involved in pure speculative cycles, resulting in oversupply and an ulterior investment contraction.

This was manifested in a plethora of empty "ghost cities" in China, built well before there was any demand for them<sup>250</sup>: Periodical bailouts of the financial and real estate sector (the latter fostered by cycles of bureaucratic-political corruption), contributed to a massive total debt in China of around 286% of GDP (2021)<sup>251</sup>, larger than that in the US or the EU. The only comparable country, in terms of debt related to GDP, would be Japan.

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<sup>244</sup> Liu J, Liu B, Shan B, Wei S, An T, Shen G, Chen Z. (26.10.2019), "Prevalence of African Swine Fever in China 2018-2019", *Journal of Medical Virology* (26 November 2019), at <https://onlinelibrary.wiley.com/doi/abs/10.1002/jmv.25638>

<sup>245</sup> Sánchez Vizcaíno J.M.; Laddomada A. and Martínez Avilés, M.: "The Evolution of African Swine Fever in China: A Global Threat?", *Frontiers of Veterinary Science*, Vol. 9 (March 2022), at <https://www.frontiersin.org/articles/10.3389/fvets.2022.828498/full>

<sup>246</sup> Source: Ministry of Agriculture Fisheries and Nutrition of Spain, 2022.

<sup>247</sup> *Global Systemic Risk by Country*, at <https://vlab.stern.nyu.edu/srisk>

The American economy, of a similar size to China's in GDP terms, registers a much lower risk exposure than China.

<sup>248</sup> Huang, Q., De Haan, J., and Scholtens, B.: "Analysing Systemic Risk in the Chinese Banking System". *Pacific Economic Review*, Vol. 24, Issue 2 (Mar 2017), pp. 348-372, at <https://onlinelibrary.wiley.com/doi/10.1111/1468-0106.12212>

<sup>249</sup> Zixuan, Liang: "'Squeezing the Bubble' rather than 'Bursting It' to Solve the Overheated Real Estates in China", *Advances in Economics, Business and Management Research*, Vol. 652 (20<sup>th</sup> April 2022), pp. 685-690, at <https://www.atlantis-press.com/article/125973680.pdf>

<sup>250</sup> *ABC News (Australia)* (27.6.2018), "Why are there dozens of 'ghost cities' in China? at <https://www.andoutube.com/watch?v=TiTDU8MZRANdW>

<sup>251</sup> *China's Debt-to-GDP Ratio Rises to Fresh Record of 286.1%*, at <https://www.bloomberg.com/news/articles/2024-01-17/china-s-debt-to-gdp-ratio-rises-to-fresh-record-of-286-1>

The financial burden would have been induced directly by SOEs, involved in the massive building of infrastructures at local level, putting municipal debt and corruption in the spotlight<sup>252</sup>. Evergrande's demise, a consequence of Beijing's credit contraction, was only the tip of the iceberg. A collapse in real estate prices would wipe out a generation of workers' savings, something the CCP could not afford, so it supported policies to "squeeze the bubble" rather than "bursting it"<sup>253</sup>. This is now a trend, given the leverage Beijing has over the banking sector.

China became concerned about the consequences of globalisation. Controlling the BRICS trade, gave China leverage in their competition with the US, however, China's miracle would be at the mercy of Western powers. China was building the same type of infrastructure utilised by European powers in the XIX century Scramble for Africa and Asia. China's politically export-oriented economy required ever-growing foreign markets to place surplus manufacturing production, as well as access to raw materials (from the "colonies") to keep the wheels of their economies turning.

Domestic economic dysfunctions and the dependency on imports from the primary sector, gave wings to the Belt & Road Initiative (BRI) and the Chain of Pearls (see section 2.6). Besides, BRI projects themselves created a demand for surplus Chinese industrial products. Finally, the massive foreign exchange reserves accumulated in China's trade with OECD nations, gave the BRI the necessary financial muscle; Xi Jin Ping's China was a country with deep pockets, ready to conquer the world.

As a result, by the late 1990s the over-dimension of the building, energy, and telecommunications sectors, left spare capacity to focus on international expansion. The BRI was an opportunity to redirect it as exports, to keep the non-stop wheels of the Chinese "nervous capitalism" turning. The BRI would naturally<sup>254</sup> take the form of telecommunications networks, logistic corridors, roads, railroads, ports, and pipelines, as well as optical fibre and satellite networks. These interconnected China with its main strategic markets and trade partners, through land and sea lanes of communications (SLOC). One hundred and thirty-eight (138) countries, most of them developing nations in need of investment, were willing to receive help in the form of Chinese finance to upgrade their scarce infrastructures.

According to Parepa<sup>255</sup>, China had learnt the lessons of the Opium War. The BRI placed China in the centre of an international trade and production hub that would contribute to the development of weak nations. Thus, long term, these countries would shift their Security cooperation from the US to China, thanks to a "Marshall Plan" that would enhance China's soft power, and attract recipient nations to their authoritarian views on the international and national order, by "Socialising others into the Chinese way of doing things".

By creating parallel financial institutions and global networks of transport and communication, China would be challenging the current Western-centric economic system, promoting alternative Chinese values and norms in the international arena. This would be a "harmonious world" that could provide its members "continuous peace and common prosperity" in "win-win" collaboration situations<sup>256</sup>. These values, that imbued the intellectual foundations of the BRI during Jiang Ze Minh and Hu Jin Tao, can be contrasted with the worst extremes of Wolf Diplomacy under Xi.

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<sup>252</sup> Xun, Wu: "China's Growing Local Government Debt Levels", *Policy Brief, MIT Center for Finance and Policy*, (January 2016), at <https://mitsloan.mit.edu/sites/default/files/inline-files/China-Local-Govt-Debt-CFP-policy-brief-final.pdf>

<sup>253</sup> Zixuan Liang, *op. cit.*, p. 690.

<sup>254</sup> Serrano Moreno, Juan Enrique; Telias, Diego and Urdínez, Francisco: "Deconstructing the Belt and Road Initiative in Latin America", *Asian Education and Development Studies*, Vol. 10, No. 3 (April 2021), pp. 337-347.

<sup>255</sup> See Parepa, *op. cit.*, pp. 175-201.

<sup>256</sup> *Ibid.* Parepa, pp. 179-182.

The BRI would “[...] complement its rising economic and geopolitical dominance with a “soft power” narrative portraying China as a viable alternative to the United States’ global hegemony<sup>257</sup>.” This had an oriental allure of the Silk Road of yore: Marco Polo, Ibn Battuta, and Arab traders camel caravans. From this perspective, the BRI would have been a convenient diplomatic “*mise en scene*”<sup>258</sup> to produce an amenable discourse in accordance with Beijing’s political ambitions. It only reflected the natural development of infrastructures abroad, to suit pragmatic trade and investment interests, prior to the official launch of the BRI itself (2013). These were domestic interests as well as internationalisation ones, to promote economic growth.

Asymmetric partnerships under the BRI, would give China strategic control over infrastructures and political leverage over recipient countries, generating dependencies over the weakest ones, improving China’s access to resources, and enhancing China’s strategic autonomy. So as to advance its massive economic power to advance its own economic and security interests abroad, China conceded expensive loans to finance BRI projects, with no political strings attached.

Loans were granted with no obligation for recipient governments to respect Human Rights’ or Democracy<sup>259</sup>, thus China promoted the BRI where Western countries could not. Besides, recipient countries unable to pay China back for infrastructure loans would be in the hands of Beijing, in a “*debt trap*”. Beijing would lure developing countries to get indebted to build extravagant, unfeasible projects. This way China could condition their future domestic political decisions, and interfere in academic and social life in favour of Beijing. Sri Lanka became the poster country supporting this claim<sup>260</sup>:

Nevertheless, Mahbubani<sup>261</sup>, in the line of the Singaporean PAP, contended that China exerts no “*debt-trap diplomacy*”, and supported this view citing the recent BRI related bailouts<sup>262</sup> to help countries in distress, worth hundreds of billions of US\$. Beijing’s palliative measures could be interpreted in the context of the Covid-19 induced GDP contraction in developing countries, and rising dollar interest rates (2023)<sup>263</sup>. However, bailouts had been preceded in 2022 by a substantial reduction in lending to developing countries<sup>264</sup>, reinforcing the impression that China had gained political and economic leverage over these countries, in the devastating context of Covid-19.

However, experts like Goldstein<sup>265</sup>, questioned the wisdom of Mahbubani, given the lack of transparency in BRI Chinese institutions concessions to validate analyses. This is the view shared by many US government officials. Whatever this is, in the best-case scenario for Beijing it was probably excessive prudence in lending, and it is obvious the BRI has been consistently utilised as a tool to exert political pressure and promote positive views of China as follows:

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<sup>257</sup> Fakhar, Hussain; Asif Shamim, Muhammad; Imran, Ali; Zya, Sayma; Munir, Amina; Hussain, Sarfraz: “Strategic Implications of the Belt and Road Initiative”, *Journal of Legal, Ethical and Regulatory Issues*, Volume 24, Special Issue 6 (2021), 6 pages.

<sup>258</sup> See Moreno et al., *op. cit.*, p. 337.

<sup>259</sup> Jerabek, M.: “Democracy and Human Rights in the Context of the Belt and Road Initiative”, in Mihr, A.; Sorbello, P., Weiffen, B. (eds.) (2023): *Securitization and Democracy in Eurasia*, Cham, Switzerland, Springer Nature, 461 pages, pp. 345-361, at [https://link.springer.com/chapter/10.1007/978-3-031-16659-4\\_24](https://link.springer.com/chapter/10.1007/978-3-031-16659-4_24)

<sup>260</sup> Sri Lanka’s China ‘debt trap’ fears grow as Beijing keeps investing, at <https://asia.nikkei.com/Spotlight/Asia-Insight/Sri-Lanka-s-China-debt-trap-fears-grow-as-Beijing-keeps-investing>

<sup>261</sup> “As US and China part ways, China and the Global South finds its own path”, at <https://thechinaproject.com/2023/04/13/as-the-u-s-and-china-part-ways-the-global-south-finds-its-own-path/>.

<sup>262</sup> “Belt and Road Bailout Lending Reaches Record Levels”, at <https://www.ifw-kiel.de/publications/media-information/2023/belt-and-road-bailout-lending-reaches-record-levels>.

<sup>263</sup> Horn, Sebastian; Parks, Bradley C; Reinhart, Carmen M and Trebesch, Christoph: “China as an International Lender of Last Resort”, *Kiel Institute of Economics- Kiel Working Paper*, No. 2244 (Mar 2023), at <https://ideas.repec.org/p/zbw/ifwkwp/2244.html>

<sup>264</sup> China Economic and Security Review Commission, *op. cit.*, pp. 589-590.

<sup>265</sup> See Goldstein, *op. cit.*, pages 164-201.

a. Loans would have carried high-interest rates to cover the high risk of developing countries projects, nowhere near generosity. So institutions like the CDB (China Development Bank) behaved like other commercial lenders, looking for the most creative ways to maximise the repayment of their debts<sup>266</sup>.

b. Lending terms were more onerous than those of US creditors or the International Monetary Fund<sup>267</sup>.

c. BRI finance naturally benefited Chinese corporations, normally SOEs that already had access to easy finance, back home in PR China proper that, in many cases, barred domestic and international competitors in infrastructures' tenders. Thus, lower interest rates for SOEs and privileged access to finance could be seen as artificial international competitiveness enhancing measures.

Exim Bank, the most important lender in China, conceded 60 US\$ billion in concessional loans in Africa (2000-2014). These were conditional upon importing 50% of the materials, as well as hiring most of the relevant workforce, from China. Small armies of Chinese workers built low-quality highways or housing projects in countries with massive unemployment like Algeria<sup>268</sup>. In some cases, these projects neither created good jobs nor positive economic benefits for local workers, while Chinese workers lived a parallel existence, completely isolated from the people of the country they were supposed to be helping.

d. BRI loans concentrated on projects benefiting the Chinese infrastructure, energy and transport sectors<sup>269</sup>. As stated, financial help tended to be conditioned to China's secure access to hydrocarbons and other mineral resources, be it in Africa, Latin America, Central Asia or very specially Russia. An agreement signed in 2009 between CNOC, the leading oil and gas Chinese corporation, and Gazprom, its Russian equivalent, guaranteed Russian gas supplies for China for 20 years; this was reinforced in 2014 by a subsequent 30 year long agreement<sup>270</sup>.

e. The volatility of energy and agricultural prices regularly left developing nations' debtors in default, when prices went down or, as seen with Covid-19, when the flow of services exports, like tourism, stalled.

Ninety-one percent (91%) of Chinese investment in Latin America focused on three sectors: Energy, infrastructures, and mining<sup>271</sup>, with almost two-thirds of resources concentrated on energy. Even if BRI investment in Latin America was moving towards telecommunications (the Digital Silk Road), and in countries like Brazil or Mexico, China has made investments in a few selected high-tech sectors, like Brazil's aerospace<sup>272</sup>, hopes that new lines of Belt and Road foreign direct investment (FDI), official development aid (ODA), loans and bilateral trade with China, would help modern industrial sectors in the region, seem overblown.

Between 2011-2016 Chinese building and infrastructures firms gained 40 US\$ billion in contracts in Latin America<sup>273</sup>. Therefore, the Chinese expansion into utilities, and the telecommunications,

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<sup>266</sup> Gelpern, Anna; Horn, Sebastian; Morris, Scott Parks, Brad and Trebesch, Christoph (02.2021): *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments*, AidDATA/Center for the Global Economy /Kiel Institute for the World Economy/ Peterson Institute for International Economics, 85 pages, at [https://docs.aiddata.org/ad4/pdfs/How\\_China\\_Lends\\_A\\_Rare\\_Look\\_into\\_100\\_Debt\\_Contracts\\_with\\_Foreign\\_Governments.pdf](https://docs.aiddata.org/ad4/pdfs/How_China_Lends_A_Rare_Look_into_100_Debt_Contracts_with_Foreign_Governments.pdf).

<sup>267</sup> See China Economic and Security Review Commission, *op. cit.*, pp. 519-520.

<sup>268</sup> See Alden et al. (2012), *op. cit.*, pp. 14-15.

<sup>269</sup> See Parepa, *op. cit.*, p. 185.

<sup>270</sup> Weitz, Richard. "The Russia-China Gas Deal: Implications and Ramifications", *World Affairs*, Vol. 177, No. 3 (2014), pp. 80-86.

<sup>271</sup> See Inoue and Stumpo, *op. cit.* (2018), pp. 23, 58, 95-98.

<sup>272</sup> See Rosales and Kuwayana, *op. cit.*, p. 119.

<sup>273</sup> See Boustany Jr. and Friedberg, *op. cit.*, p. 11.

infrastructures and energy sectors, touched a traditional area of investment of Spanish corporations, which had previously been very successful in this region (1982-2004). Given the chronic dearth of infrastructures, in a traditional region for Spain's exports, the EU and the US, should possibly be considering taking advantage of the potential of the very competitive corporations from Spain<sup>274,275</sup>, in their new plans to compete with the BRI globally. Spanish corporations should be considered in their programmes to provide similar lines of finance to those received by Chinese corporations, under the Belt and Road Initiative.

These new plans are Biden's *Build Back Better* initiative<sup>276</sup>, geared to put projects worth 600 billion dollars in motion (similar to those of the BRI); and the *European Global Gateway*, announced by Ursula von der Leyen, with a promise to mobilise 300 billion<sup>277</sup>. However, by 2018 the BRI would have already invested almost 600 billion. At present (2023), the BRI is much larger, while Western initiatives have not produced substantial results yet. Post Covid-19 budgetary constraints and inflationary scenarios in the West, in the thick of the Ukraine war, do not favour an immediate and significant mobilisation of resources.

Several institutions made it possible for the PR China to discretely and gradually penetrate developing countries, militarily and economically. The list included the Shanghai Cooperation Organisation (SCO), geared strategically towards Central Asia and Russia; the Forum on China-Africa Cooperation (FOCAC); Europe 17 + 1, the Asian Infrastructure Investment Bank (AIIB), and the New Development Bank (BRICS Bank). These alternative Chinese institutions would serve as a counterweight to NATO and the Bretton Woods consensus (IMF and World Bank). Its influence could be particularly felt in South East Asia and Africa, where the American presence was overwhelming before the BRI. In these geographic areas, Chinese multilaterals increased their participation and engagement with regional Security and Development institutions considerably.

In the EU, China was more successful with ex-Iron Curtain Eastern European countries, which were relatively backwards compared to their Western counterparts<sup>278</sup>.

These countries required large investments in fixed capital and the BRI could provide the resources to finance them. During the first phases of the BRI, Hungary's logistical advantages in Central and Eastern Europe (CEE) and Orbán's policies, allowed for Beijing's most successful inroads of the BRI in the EU<sup>279</sup>: Serbia, given its proximity to Moscow, and those states of the ex-Federation of Yugoslavia that do not belong to the European Union, received substantial financial help from China (Albania, Bosnia & Herzegovina, Montenegro, and Macedonia).

According to Garlick<sup>280</sup>, "*China's activity in CEE seems to mirror its approach in Asia and Africa, where it is seeking to stimulate economic growth in order to create interdependencies with China*". The BRI helped revitalise the Balkans moribund economies. This would have allowed the PR China

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<sup>274</sup> Chislett, William (2007): *Principales multinacionales de España: una fuerza cada vez mayor en la economía*, Real Instituto Elcano, Madrid, Working Paper No.32/2007, 60 pages.

<sup>275</sup> Chislett, William (05.11.2014): *Spain leads the world market for infrastructure development*, Real Instituto Elcano, Madrid, Working Paper ARI 52/2014

<sup>276</sup> Zhao, M: "The Belt and Road Initiative and China-US strategic competition", *China International Strategy*, Vol. 3, Issue, 2 (Dec 2021), pp. 248–260, at <https://link.springer.com/article/10.1007/s42533-021-00087-7>

<sup>277</sup> "Global Gateway" (*European Commission*) at [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway_en)

<sup>278</sup> See Parepa, *op. cit.*, pp.188-194, and 195.

<sup>279</sup> Matura, Tamas (2019): "China-CEE Trade, Investment and Politics", *Europe-Asia Studies* Vol. 71, No. 3 (April 2019), pp. 388–407, p. 405-406.

<sup>280</sup> Garlick, Jeremy, *op. cit.*, pp. 1409-1410.

gain regional Security leverage, in the line of the String of Pearls. For example, through the Tirana port project.

The declaration by the EU of China as a systemic competitor in 2016, combined with protectionism and discrimination against EU companies in China, resulted in the EU positioning against the BRI in Europe. Beijing would aim to reinforce internal divisions in the Union, to counter any initiatives geared to retard China's rise and its modalities of insertion in the world economy. Before the war in Ukraine, Angela Merkel's naïve policy of economic integration between Germany, Russia and the PR China, given Germany's exposure to Chinese markets and Russian hydrocarbons, would have defined the main channels of influence in Beijing's divide-and-rule strategy in Europe.

In a second phase of the BRI, cooperation also affected the Visegrad group (V4+ China) in the EU. These are Poland, Hungary, Czech Republic and Slovakia. Recipient countries like Greece (after the terrible 2008 crisis and EU bailout) and Hungary, voted regularly in EU institutions in line with China's interests and authoritarian policies. Their positions on delicate issues such as the South China Sea or Human Rights in Hong Kong<sup>281</sup>, provides a hint of Beijing's growing political influence. Europe is the priority for China, given its political significance, its sheer market size, technological capabilities and global influence. It is not strange that the largest effort of the BRI investments is concentrated in Europe.

After Trump became president of the USA (2016), the BRI would be a bargaining chip to use in Central and Eastern Europe in the competition between China and the US. Even if the US under Trump became vocal in his critics to Chinese artificial competitiveness, Europe would delay any common defensive positioning against the China threat until the 2020s. In view of the China threat, national interests in bilateral economic relations with China would be preeminent versus common European and Western interests.

## **2.6 The BRI and the Chain of Pearls, defending and promoting China's global interests**

The *String of Pearls* (one pearl, one port) would complement China's growing naval power, following the steps of global empires such as Britain or the US, be it in the form of its new blue waters navy, or the purely commercial sort. The PLA Djibouti military base would have served as a testing ground for military and naval activities. In 15 years (2007-2022), China added 240 warships to its naval forces, 131 of which are blue-water-capable<sup>282</sup>, including carriers such as the Liaoning (a refurbished Soviet-era carrier) and the most modern, the Shandong. Though they are far from American capabilities, the Chinese seem to be catching up fast.

According to the US Department of Defense<sup>283</sup>, the PLA would use commercial infrastructures, in many cases controlled by Chinese corporations, to support distant naval deployments as far as the Mediterranean, the Indian Ocean or the Atlantic. As such, the purely commercial projects of the BRI, gave ample opportunities for military expansion. The PLA would be gaining substantial force projection capabilities (logistics and bases) to protect and sustain military power at greater distances, and defend Chinese interests abroad. In terms of logistics, it would tend to be through preferred access

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<sup>281</sup> "German official slams Hungary over China-Hong Kong stance (06/04/2021)", at

<https://www.dw.com/en/hungary-blocks-eu-hong-kong-statement-germany-calls-for-change/a-57776786>

<sup>282</sup> Miyata, Francis and McDevitt, Michael A.: "China as a Twenty First Century Naval Power: Theory, Practice, and Implications," *Naval War College Review*, Vol. 75, No. 2, Article 14 (2022), available at <https://digital-commons.usnwc.edu/nwc-review/vol75/iss2/14>.

<sup>283</sup> *Military and Security Developments Concerning the PR China, 2022, Annual Report to Congress (2022)*: US Department of Defense, pp 143-145, at <https://www.defense.gov/News/Releases/Release/Article/3230516/2022-report-on-military-and-security-developments-involving-the-peoples-republi/>

to commercial facilities, exclusive PLA logistics facilities with prepositioned supplies collocated with commercial infrastructure, and bases with permanent forces.

Among the key objectives of the expansion of military bases and logistical arrangements, would be securing lines of communications, the personal security of Chinese citizens, as well as that of commercial and military assets abroad. Bases would logically facilitate deployment of PLA forces at long distance, as well as help support military conflicts, diplomatic cooperation and political change in host economic countries or areas. Bases could also potentially favour intelligence monitoring of US forces in contested areas.

Access to raw materials imports and markets, and the protection of Chinese corporate concerns was of paramount importance: In Africa, it led to an intensive collaboration with government military forces and the African Union, particularly in situations when Chinese oil fields, mines or infrastructures were near conflict locations. However, today it is customary for Chinese corporations in Africa to rely on private armies or security personnel. This has all led to China establishing the strategically located military base in Djibouti (2016) staffed by 1000 military personnel, with reach to the Band-El-Mandeb Strait in the Gulf of Aden (Suez Canal). The base is also useful for piracy control activities in Somalia and access to Sudan, as a counterweight to America's Camp Lemmonier, the most important US base in Africa (4000 military personnel), as well as French, Japanese and Italian bases in the region. PLA activities in the Djibouti base, regularly interfere with US flights in Camp Lemmonier.

Advances in the production of blue water navy military hardware, corresponded with advances in logistical force deployment. Given their lack of expertise, PLA forces in Djibouti initially relied on commercial port infrastructures (2016). However, by 2022 it was planned that there would be a fully operational ad-hoc pier in this base, allowing for military resupplies and able to accommodate submarines, China's new carriers, and other military vessels, that might serve as support for the permanent wheeled armoured vehicles and artillery stationed in the base<sup>284</sup>. The BRI 752 km. rail line from Djibouti to Addis Ababa (Ethiopia) would confer strategic depth to the PLA on the African continent.

The key interest of the PLA in terms of base locations is access along sea lanes of communication (SLOC) to the Straits of Hormuz, Africa and the Pacific Islands. Djibouti would only be the first step, as the PLA would be planning additional military logistics facilities and bases<sup>285286</sup> to support naval, ground and air force projection: BRI Investments in the Duqm port in Oman are of utmost strategic importance for energy security (see subchapter 3.6).

Cambodia also gave the PLA Navy access to The Ream Naval Base. This will be the first PRC base in the Indo Pacific with substantial port and military logistics capacities, even though both the Cambodian and Chinese governments deny specific agreements to provide the PLA with exclusive access to this base. Cambodia, Pakistan, Myanmar, Sri Lanka, Seychelles, Angola and Tajikistan, are among the most promising locations, where China could be putting in motion influence operations and negotiating a substantial permanent military presence, given the proximity and the intensity of long-term economic relations and BRI projects in these countries.

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<sup>284</sup> O'Rourke, Ronald (19 October 2023): *China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress*, Congressional Research Service, Washington, 66 pages, p. 42, at <https://sgp.fas.org/crs/row/RL33153.pdf>

<sup>285</sup> *China Global: China's Military Diplomacy and its Quest for Bases Abroad*, at <https://www.gmfus.org/news/chinas-military-diplomacy-and-its-quest-bases-abroad>

<sup>286</sup> *Military and Security Developments Concerning the PR China*, *op. cit.*, pp 143-145

Other potential options would be Emirates, Nigeria, Mozambique, Kenya, Tanzania and Papua New Guinea. Singapore, Indonesia and Thailand are also considered as potential locations. However, these intentions would clash with extensive American interests, particularly in the insular ASEAN. The Solomon Islands<sup>287</sup> recently granted access and transit rights for China's military forces in the country. China is also trying to gain influence in other Pacific Islands such as Vanuatu, a traditional sphere of influence of Western powers and allies (Australia, New Zealand, France and the US).

Such was the close relationship between China and African governments, that according to the Heritage Foundation (2018)<sup>288289</sup>, *The Times* and *Le Monde*, the African Union building, a 200 million US\$ present from the PR China to the African peoples, came with a plethora of microphones included, and devices would have been installed to upload the content of its servers daily to Beijing. Another 186 key institutional African buildings might be experiencing similar situations. Certain Chinese IT, electronics and telecommunications corporations in Africa (*Huawei, Bouysec, Hikvision*) would collaborate with Chinese secret services to help gain BRI-privileged sectors tenders, assisting in intelligence gathering of a political and military nature. Even if denied by African and Chinese sources, the intensity of these standard practices of espionage gives clues to the importance of the region for China.

The potential dual economic and military use of BRI infrastructures, is what was labelled the “*String of Pearls strategy*”, that is the network of ports from Shanghai to Hamburg built and/or owned by Chinese corporations. Beijing has built ports in more than 40 countries along BRI corridors. Hambantota in Sri Lanka, Gwadar in Pakistan, Piraeus in Greece, and the future port of El Hamdamia in Algeria, are among the most important “*pearls*” in Chinese transport corridors with potential implications for Europe, in terms of strategic commercial and military value. The project of El Hamdamia contemplates half as much container capacity as the port of Rotterdam, the most important port in Europe.

As stated in different sections of this research, Chinese SOEs were mainly behind the BRI expansion. These state-owned companies were unduly favoured by protectionism, subsidies, licensing requirements in China's market, as well as other industrial policies giving hints about the political nature of the BRI, and also in their internationalisation efforts.

The same happened with SOEs in shipping, container transport and port terminal operation like COSCO, China Merchant Port Holdings or Hutchison Port Holdings, which control the brunt of physical merchandise transport from Asia, and are among the largest in the world<sup>290291</sup>. For example, COSCO is the world's leading shipping company. Large Chinese companies control or have stakes in ports and container terminals in coastal European cities like: Thessaloniki, Piraeus, Malta, Vado Ligure, Naples, Barcelona, Valencia and Bilbao, Dunkirk, Zeebrugge, Antwerp, Willebroek, Rotterdam, Duisburg, Hamburg, Stockholm, and Gdynia.

China's mostly state enterprises (SOEs), built the ports, managed the port facilities and also transported most of the merchandises passing through them. The first consequences of a conflict

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<sup>287</sup> Paskal, Cleo (2021): *Indo-Pacific strategies, perceptions and partnerships. The view from seven countries*, Chatham House, London, pp. 6-7, at <https://www.chathamhouse.org/sites/default/files/2021-03/2021-03-22-indo-pacific-strategies-paskal.pdf>

<sup>288</sup> Meservey, Joshua: “Government Buildings in Africa Are a Likely Vector for Chinese Spying”, *Backgrounder*, No. 3476 (May 2020), at <https://www.heritage.org/sites/default/files/2020-06/BG3476.pdf>

<sup>289</sup> “*African Union Bugged by China: Cyber Espionage as Evidence of Strategic Shift*”, at <https://www.cfr.org/blog/african-union-bugged-china-cyber-espionage-evidence-strategic-shifts>.

<sup>290</sup> Smit Jacobs, Karin, (02.2023): *Chinese strategic interests in European ports*, European Parliamentary Research Service (EPRS), at [https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/739367/EPRS\\_ATA\(2023\)739367\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/739367/EPRS_ATA(2023)739367_EN.pdf).

<sup>291</sup> See Parepa, *op. cit.*, pp. 193-194.

between China and the West in the present Ukrainian and Gaza war settings could be devastating. These might include immediate shortages of essential Asian inputs and end-user products in general, not just from China.

Controlling routes and infrastructures, especially SLOC and telecommunications (prominent in the BRI), would allow for the mobility of the People's Liberation Army (PLA) all over the world to intervene, by blocking Freedom of Navigation or restricting land routes if a country did not agree with China's views. Merchandise from China flowing to Europe overland would arrive faster and cheaper, being more competitive thanks to new or upgraded BRI infrastructures (physical and digital). However, it would also facilitate the fast movement of PLA troops into Eurasia, aided by China's state of the art high-speed train network from Xinjiang<sup>292</sup>, only comparable to those in Spain<sup>293</sup> and Japan.

Inversely, US military bases and agreements with East Asian allies, the Philippines, and the Five Power Defence Agreement (FPDA)<sup>294295</sup> of the British Commonwealth (Singapore, Malaysia, Australia, New Zealand, and the United Kingdom), meant Western powers had the strategic capability to stop the essential flow of Latin American, African, and Middle Eastern energy and merchandises to and from China through the Straits of Malacca.

This was also true in the Straits of Hormuz, Taiwan, and Luzon. By 1993, China had become a net crude oil importer, and today (2022) imports account for 72% of oil consumption<sup>296</sup>. As most supplies pass through maritime chokepoints where the US has substantial leverage, Beijing has put in motion the construction of a national fleet of tankers, and pipelines. This is a national security priority in BRI terms from the defensive as well as the offensive sense. BRI investments in Oman, in the oil & gas transit chokepoint of the Strait of Hormuz, are of particular concern, as stated.

This explains the importance Beijing has given to connecting South and West China with the Indian Ocean via the China Pakistan Economic Corridor (CPEC), using BRI-funded infrastructures and ports (Gwadar), bypassing the Straits of Malacca. This is in line with the long-term close ties between Beijing and Islamabad, while paradoxically stopping Central Asian Islamism in the CPEC that might affect Xinjiang province, given its strategic importance in mainland Asian trade routes<sup>297</sup>.

China's growing presence (be it with using the BRI or the military, or both) would potentially be related to the withdrawal of US led forces from Afghanistan under Biden, as well the loss of presence of Russia in the region, being overstretched with the Ukraine War. Besides, China also has an eye on Afghanistan's notable mineral resources. Thailand, Bangladesh, Myanmar<sup>298</sup>, Sri Lanka and Maldives

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<sup>292</sup> *Ibid.*, Parepa, p. 187.

<sup>293</sup> "The Spanish High Speed Rail: A Success Story" at <https://www.thalesgroup.com/en/spanish-high-speed-rail-network-success-story>

<sup>294</sup> Storey, Ian; Emmers, Ralf, and Singh, Daljit (eds.), (2012): *Five Power Agreements at Forty*, 1<sup>st</sup> edition, Singapore, Institute of South East Asian Studies (ISEAS), 129 pages, in pp. xv-xxi.

<sup>295</sup> Huxley, Tim: "The Future of the FPDA in an Evolving Regional Security Environment" in Storey, Ian; Emmers, Ralf, and Singh, Daljit (eds.), (2012): *Five Power Agreements at Forty*, 1<sup>st</sup> edition, Singapore, Institute of South East Asian Studies (ISEAS), 129 pages, pp. 118-121.

<sup>296</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 234-235.

<sup>297</sup> "Embassy of the People's Republic of China in Pakistan "Chinese Embassy held the Reception with Pakistani Diplomats in celebration of the 72nd anniversary of the establishment of diplomatic relations between China and Pakistan (2023-05-21)", at <http://pk.china-embassy.gov.cn/eng>.

<sup>298</sup> See Stuart-Fox, *op. cit.*, pp. 213-215. China collaborated with the government in the building of military bases in Myanmar. The Burmese port of Bhamo in the natural conduit for merchandises produced in the Chinese province of Yunnan.

were also recipients of substantial investments in a parallel BRI. These projects also gave China an alternative access to the Indian Ocean<sup>299</sup>, Africa and the Middle East.

Through both corridors, China has also tried to reduce India's influence in South and Central Asia, and increase its own sway over the region. This situation has increased tensions in the Indian Ocean, patrolled regularly by the Peoples Liberation Army Navy (PLA), under pirate prevention pretences and in competition with the US Navy. As such, China logically perceives the American presence in the Indian Ocean as its main regional challenge, given the context of rising tensions in the China-India border (Himalayas)<sup>300</sup>. Finally, there were even plans to build a canal in the Isthmus of Kra to circumvent the Straits of Malacca via Thailand, hence reducing the fuel costs for tankers.

In this way, Beijing would break the alleged American “*encirclement*”<sup>301</sup> and contain the rise of Indian influence in the region, becoming the leading regional power. Consequently, Middle East and Central Asian oil and resources (Kazakhstan and Turkmenistan) would flow directly to China unimpeded by land or from the Indian Ocean, without potential interference from NATO-led alliances. Besides, also thanks to the African and South East Asian BRI corridors, China could reduce the over dependency on Middle East Oil<sup>302</sup>, while being confident that essential energy supplies (oil & gas) from this region for the Chinese economy, would not be interrupted in the Malacca Straits. The CPEC would also connect Pakistan with the Xinjiang Province in China. As explained above.

In tandem with the physical Silk Road, there would be worrying developments in the “*Digital Silk Road*”. Data control, ownership and alleged manipulation would give Beijing the edge in becoming the new global economic hegemon.

Global trade has seen an escalation in smart digital supply chains, ports, and logistics. Improved technology has made buying and selling between borders much easier, as consumers and producers became more adept at using digital wallets and exchanging their data through the Internet or Intranets. As a result, there are growing risks in sharing personal or commercial information online. In China, this phenomenon was understood very rapidly. Information generated data in online platforms, and this data confers power on those who gather, store, buy or sell them. According to Wheeler<sup>303304</sup>, this would have led to the development of China's digital trade platform, *Loglink*, controlled by Beijing.

It would give China great influence and control over international trade, as data could be used to coerce and manipulate supply chains and trade for the benefit of Chinese corporations. This would have substantial security consequences for the West, of an economic or hard power nature.

Loglink would be integrated into the Belt and Road initiative, combining data from multiple sources and devices. Besides, it would be moving towards a cloud based IOT system<sup>305</sup>, which is accessible globally through the Internet in real time. In this system, the data that is shared by microchips, like those in our mobiles, would have become the “*lungs and brains*” of the household products we use.

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<sup>299</sup> Malik, J. Mohan: “Myanmar's Role in China's Maritime Silk Road Initiative”, *Journal of Contemporary China*, Volume 27, Issue 111(2018), pp. 362-378, at <https://doi.org/10.1080/10670564.2018.1410969>.

<sup>300</sup> See China Economic and Security Review Commission, *op. cit.*, pp. 519-520.

<sup>301</sup> See Fakhar et al., *op. cit.*, pp. 4-6, 8.

<sup>302</sup> See Parepa, *op. cit.*, pp. 187-189.

<sup>303</sup> Wheeler, Andre, “Global smart supply chain integration: is a trap being laid with the Logink platform?”, *Asia Power Watch*, 26<sup>th</sup> August 2021, at <https://asiapowerwatch.com/global-smart-supply-chain-integration-is-a-trap-being-laid-with-the-logink-platform/>. Andrew Wheeler was Chief Executive Officer of Asia Pacific Connex, a provider of Oil & Gas logistics services.

<sup>304</sup> Wheeler, Andre: “Implications of integration in global digital supply chains”, *Smart Maritime Network*, 31<sup>st</sup> August 2019, at <https://smartmaritimetwork.com/2021/08/31/implications-of-integration-in-global-digital-supply-chains/>

<sup>305</sup> Note: IOT stands for Internet of Things: A cloud based system relying on global networks of physical devices, appliances and physical objects, with sensors embedded, software and network connectivity.

And these are sectors in which China has a competitive edge. The list includes not just mobile phones, but smart TVs, cars, even washing machines in smart homes are driven by microchips that analyse and transmit data, conferring incredible power on those who own and control these data.

In the case of data created by Chinese microchips or in the manufacture of a product, all of it would be owned by the Chinese government. If a consumer uses a common pay system like China's *Alipay*, Loglink ensures that the CCP knows when he or she buys something, how often they buy it, where they live, and what their preferences are. Anything from your printer ink consumption to your Internet searches online can potentially be monitored.

In addition, while in Western digital international trade platforms, data tends to be openly accessible by international traders, in the new Chinese one, Logink, it would be for "Beijing's eyes only", and for the benefit of Chinese traders (see section 3.6 for recent operation restrictions in Western nations for telecommunications hardware companies such as Huawei, behind Internet 5.0 and IOT)<sup>306</sup>:

*"Making matters more problematic is the International Port Community Systems Association (IPCSA), which has joined with LOGINK to create the "Network of Trusted Networks". This gives China access to data and information across 70 Ports and ten airports as well as setting data standards. A new LOGINK, adapted to be used as a weapon, has given China greater leverage in defining technology standards, exporting the technology system and mining the data from those systems to create an advantage for China. With China now investing heavily in data warehousing and associated data interrogation, it is inevitable that LOGINK will increasingly creep into the very fabric of the global trade network design.*

*It has given China a substantial advantage in that it has access to data and information that can be manipulated. This does not bode well for sustainable supply chains. When talking of economic coercion, LOGINK is capable of disrupting trade in favour of Chinese suppliers. China could use the market data to target a country's partner.*

*Having access to price, quantities and transport it could use this data to undercut prices and replace current suppliers with a Chinese supplier. It would also have the capability of disrupting supply lines. For example, it can re-route vessels, giving docking priority to "favoured" shipping lines and reduce supplies / constrain supplies into and out of a country. In the extreme, data manipulation could be used to cut off a country's strategic supplies or disrupt the transport of sensitive and listed products across international borders."*

## **2.7 "Selective isolation", censorship, GAFAM, IT protectionism and internationalisation**

*"Chinese Learning as Substance, Western Learning for Application" said Zhang Zhidong<sup>307</sup>, the mandarin of the late Qing Empire who aspired to emulate the Japanese Meiji Revolution in China. Similarly, XXIst century China has designed a multipurpose strategy to conquer the world markets in advanced industries, while taking advantage of Western technology and isolating their citizens from "undesirable" liberal influences coming from the West, as follows:*

a. China would favour the creation of corporate global telecommunications; IT, software and electronics giants at the expense of American or European ones, and Western companies were

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<sup>306</sup> Source: Personal Interview with Andre Wheeler, Madrid (22.08.2023).

<sup>307</sup> Source: Encyclopaedia Britannica.

excluded from a variety of tenders and subsectors in the Chinese domestic market<sup>308</sup>. These companies were, once again, subsidised, protected and given preferential access to credit in China, like in the energy or infrastructures markets:

In the typical East Asian protectionist industrial policy pattern, applied in Japan or Korea before China's rise: First, they took advantage of the progressively affluent, large, protected Chinese market, and appropriated, legally or illegally, the advanced IP from Western competitors in China. Once Chinese companies were strong enough domestically, they internationalised to “*take over the world*”. By the 2020s, this was done by taking the lead in strategic economic sectors such as 5G, the latest generation of data-enhanced telecommunications networks, where Huawei, banned in various Western countries today, is a corporate leader.

The key examples of this process are the American GAFAM, which were practically barred from many strategic segments in the Chinese market, even though Apple relied on China for their essential export value chains. The GAFAM were Google (web search), Amazon (e-commerce), Facebook (social networks), Apple and Microsoft (electronics, software, and IT hardware). These American multinationals were practically substituted by Chinese giants like Baidu, Alibaba, Tencent (BAT) and Huawei, as the backbone of “*China's Online Big Brother*”. The American free world corporations (GAFAM) were not willing to comply with Communist Party restrictions, as on Freedom of Speech and free trade, among other aspects.

The fast technological, functional progression of the Chinese industries, displacing Western ones, can easily be perceived in the Smartphone market, for phones below 300 US\$. In 2012, Nokia, a European giant, was the leader of the global market, but by 2023 the leaders are Chinese. These were corporations such as Lenovo, Xiaomi, ZTE or Huawei, whose economies of scale would be realised by exporting massively to developing countries<sup>309</sup>.

b. In parallel with industrial policy and censorship, the pioneer research of David Bandurski about the *Internet Wall of China* (since 2007)<sup>310</sup>, documented during two decades in his *China Media Project*<sup>311</sup>, became relevant. An army of online spies and trolls (the '50 Cent army')<sup>312</sup>, controlled and censored communications on the Internet, deterred activists, and produced amenable narratives to suit Beijing's policy. They also produced abundant propaganda online, and this occurred domestically or to complement that of the United Front abroad, in those countries that were a priority for China. Online spying and reprimands, as in other authoritarian countries such as Iran or Russia, resulted frequently in incarcerations, visits of the Communist Party officials to the personal domicile of dissenters, and even physical punishment at their front doors.

Blocking social networks such as Facebook (substituting it with Weibo or Wechat), or any other ‘*unfriendly*’ Internet portal or source that might question or criticise the Communist Party or Chinese policy, was the norm. From the *Internet Wall of China* to the *Social Credit System*, rapidly evolving technologies have allowed for the integration of cameras, software, and the Internet in new unthinkable manners in the last decade. Citizens receive electronic ratings and are rewarded for good

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<sup>308</sup> Directorate-General for Trade (2017), *op. cit.* (2017), pp. 20-21, 39, 83-84, 108-109, 149-150, 216 (land); 234 (energy); 260 (capital); 325- 326 (raw materials), 343-344 (wages and labour).

<sup>309</sup> Asei Ito, *op. cit.*, p. 66.

<sup>310</sup> Bandurski, D: “Pulling the Strings of China's Internet”, *Far Eastern Economic Review*, December 2007, pp. 18-21.

<sup>311</sup> *The China Media Project* at, URL: <https://chinamediaproject.org/>. Fifteen years before Hong Kong's crackdown, this portal had already been documenting censorship and propaganda from the Communist Party. David Bandurski is the Director of the China Media Project and Honorary Lecturer of the School of Journalism of the University of Hong Kong.

<sup>312</sup> Earl J., Maher T.V., Pan J.: “The digital repression of social movements, protest, and activism: A synthetic review”, *Science Advances*, Washington, Vol. 8, Issue 2 (March 2022), p. 3, at <https://www.science.org/doi/10.1126/sciadv.abl8198>

behaviour. On the other hand, certain personal activities are penalised, from alcohol consumption to participation in protests or small offences in the subway.

Punishments varied from blocking access to public housing to discrimination in the job market or denial of credit. Face recognition-enhanced cameras would record the online and offline activities of their citizens, without regard for privacy or their personal data, thus nurturing the AI industries of the future and ignoring Human Rights<sup>313</sup>. China would also use the BRI to set technical standards, to the detriment of foreign competitors in global markets, to benefit Chinese exports and gain access to the billions of data produced through imported Chinese computers, mobile phones and cars, mainly in BRICS<sup>314</sup> (see section 2.6).

According to MERICS<sup>315</sup>, the Social Credit System, in its infancy<sup>316</sup>, would only be a small visible part of a much larger problem. This is the massive surveillance capacities that Beijing has to control its citizens, nationally and internationally. Seventeen Chinese cities<sup>317</sup> were among the most surveilled cities in the world, to judge by the number of cameras installed per 1000 inhabitants. However, the system would receive the support of the most affluent citizens to foster ‘discipline’, particularly by those near to, or benefiting from the Party<sup>318319</sup>.

The new 2022 China Personal Information Data Protection Law<sup>320</sup> does not seem to solve the data privacy problem. Although it is a step in the right direction, as with many regulatory promises in the past the reactions of foreigners are not positive, like in the Corporate Data Protection Act itself<sup>321322</sup>. Be it in foreign investment laws, services, IP protection or environmental matters, the credibility of Beijing’s reforms among international investors is minimal.

c. The CCP digitally filters and censors the information coming in and out of the country through social networks<sup>323324325</sup>, to prevent criticism at home and abroad. The Party also periodically disseminates ad-hoc nationalistic propaganda online against foreigners for domestic consumption. Even LinkedIn, after being censored repeatedly, has recently been forbidden in China. The last large

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<sup>313</sup> De Hert, Paul and Papakonstantinou, Vagelis (2015): *The data protection regime in China*, Directorate General for Internal Policies, European Parliament, at [https://www.europarl.europa.eu/RegData/etudes/IDAN/2015/536472/IPOL\\_IDA\(2015\)536472\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2015/536472/IPOL_IDA(2015)536472_EN.pdf)

<sup>314</sup> Boustany Jr. and Friedberg, *op. cit.*, p. 16. Who supports expanding surveillance? Exploring public opinion of Chinese social credit systems

<sup>315</sup> Brussee, Vincent and Drinhausen, Katja (March 2023): “China’s Social Credit System: From fragmentation towards integration”, *MERICS China Monitor* (May 2022), 22 pages, pp. 19-20. at <https://merics.org/sites/default/files/2022-05/MERICS-China-Monitor67-Social-Credit-System-final-4.pdf>

<sup>316</sup> Wu Shang-su and Hacıyakupoglu, Gulizar: “China’s Social Credit System: the black market and inequalities”, *ASPI The Interpreter* (18.03.2019), at <https://www.lowyinstitute.org/the-interpreter/china-s-social-credit-system-black-market-inequalities>

<sup>317</sup> Curtis, Lisa; Fitt, Joshua and Stokes, Jacob (2021): *Advancing a Liberal Digital Order in the Indo-Pacific*, Center for a New American Security (CNAS), Washington D.C., 24 pages, p. 4, at <https://view.ckcest.cn/AllFiles/ZKBG/Pages/315/2354cb2a5486ef8724d0cfc74aef5edbe57ab937.pdf> >.

<sup>318</sup> Chuncheng Liu: “Who Supports Social Credit Systems in China?”, *SCCEI Briefs* (15.09.2022), 2 pages, at [https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2023\\_01/surveillance\\_and\\_social\\_credit\\_9.15.22.pdf](https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2023_01/surveillance_and_social_credit_9.15.22.pdf)

<sup>319</sup> Chuncheng Liu: “Who supports expanding surveillance? Exploring public opinion of Chinese social credit systems”, *International Sociology*, Volume 37, Issue 3 (May 2022), pp. 391-412, at <https://doi.org/10.1177/02685809221084446>

<sup>320</sup> *Mainland’s Personal Information Protection Law*” *Office of the Privacy Commissioner of Private Data, Government of Hong Kong*, at [https://www.pcpd.org.hk/english/data\\_privacy\\_law/mainland\\_law/mainland\\_law.html](https://www.pcpd.org.hk/english/data_privacy_law/mainland_law/mainland_law.html).

<sup>321</sup> *How China’s data privacy and security rules could impact your business*, at [https://www.ey.com/en\\_jp/forensic-integrity-services/how-chinas-data-privacy-y-security-rules-could-impact-your-business](https://www.ey.com/en_jp/forensic-integrity-services/how-chinas-data-privacy-y-security-rules-could-impact-your-business)

<sup>322</sup> *China draft Personal Information Protection Law (PIPL) General introduction and impact analysis*, at <https://www2.deloitte.com/cn/en/pages/risk/articles/personal-information-protection-law.html>.

<sup>323</sup> Stevenson-Yang, Anne: “The Curse of the Chinese Internet”, *Far Eastern Economic Review*, April 2007, pp. 41-44.

<sup>324</sup> Lu, Yingdan; Schaefer, Jack; Park, Kunwoo; Joo, Jungseock and Pan, Jennifer: “How Information Flows from the World to China”, *The International Journal of Press/Politics* (8, August 2022), pp 1-23a, at <https://journals.sagepub.com/doi/10.1177/19401612221117470>

<sup>325</sup> Morris, David: “The Huawei Paradox: Future Tech Risks and Unravelling Interdependence”, *Contemporary Chinese Political Economy and Strategic Relations: An International Journal*, Vol. 7, No. 2 (Aug 2021), pp. 887-924.

international uncensored, social network for Chinese professionals to stay in touch with their colleagues in Western nations<sup>326</sup> has disappeared.

In sum, China would like to keep on having unrestrained access to Western markets, their real estate, educational services and technology, while blocking the access of foreign products, investments and ideas into Mainland China. A “selective” globalisation thus enabled the perfect isolation of PRC citizens from “*pernicious Western or foreign influences*”<sup>327</sup>, while it was acquiring and developing, legally or illegally, those technologies from developed countries in the West that suited its interests.

Foreign influences were definitely limited: There were 44.7 million foreign-born citizens in the US (2021), 23.8 million in the EU (2022) and less than 1 million in China, while its population (1412 million) is almost three times that of the US and almost four times that of the EU<sup>328</sup>. Besides, the foreign influences in Shanghai, Hong Kong or Beijing, where most of the expatriate population is concentrated, were going to be severely constrained.

As with certain ASEAN countries, in which censorship is also pervasive, filtering foreign information contributed to a resulting culture of materialist excess<sup>329</sup>. In China, we would witness the birth of a generation of pampered nihilistic “*princelings*”, driven by consumerism and hedonism in a setting of intense environmental degradation. Impersonal cities plagued with skyscrapers, filled with concrete and permanent traffic jams, would be mineralised like in Japan or Taiwan<sup>330</sup>, while in the early phases of the Chinese miracle, in the Maoist line, Heritage destruction was rampant. “*Down with the old, up with the new*”, as jewels like complete Ming era cities were bulldozed in weeks all over the country.

Most provincial governments’ understanding of heritage revitalization was nearer to “*Ming-Disney*” than the Qin Dynasty. Intense Economic development combining cultural and political underdevelopment would be obvious. It was only money, the business possibilities of tourism, that stalled the fast pace of demolition<sup>331332</sup>.

d. Nevertheless, ASEAN countries were relatively more open to the world as they relied on long-term Western institutions and networks, a by-product of colonial history and a shared past. There was nothing similar in China. Therefore, CCP censorship and influence strategies had to be different in South East Asia, so a special army of online Chinese trolls was utilised against influencers in the social networks of the Chinese Diaspora. This took place in the context of the great creativity and pre-eminence of Western cultural industries in the ASEAN region.

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<sup>326</sup> Oi, Mariko: “*Tech layoffs: LinkedIn cuts 700 jobs and closes China app (09.05.2023)*”, at <https://www.bbc.com/news/business-65529664>

<sup>327</sup> See Boustany Jr., and Friedberg, *op. cit.*, p. 15.

<sup>328</sup> Source: European Union, China National Bureau of Statistics (NBS) and United States Census Bureau.

<sup>329</sup> See McCarthy, *op. cit.*, pp. 117-118.

<sup>330</sup> Kerr, Alex (2001): *Dogs and Demons, Tales from the Dark Side of Modern Japan*, New York, Hill and Wang Editors, 432 pages, pp. 3-51. The absence of concrete, modern buildings and pavements is perceived in Japan as an indication of poverty. The book reflects the general bad quality of housing in suburbs, as in Taiwan, China, and in many ASEAN cities the researched visited during 10 years of residence in various Asian countries.

<sup>331</sup> Source: Personal experience of the researcher in China 2002-3, as Assistant Translator for World Bank-financed UNESCO Heritage projects in China (for AUC at [www.aucoffice.com](http://www.aucoffice.com)). Bulldozers destroyed a complete Ming-era small city with its neighbourhoods in weeks. These were buildings with great architectural, aesthetic, and historical value (Jiaxing, Zhejiang, 2003). The perception of Heritage as theme parks, was reinforced by visits to the most important Heritage sites in Hangzhou, Shanghai, Beijing, Nanjing, Suzhou (2004), Hong Kong and Macau (2016). Finding a Starbucks coffee shop inside the Forbidden City was explanatory enough.

<sup>332</sup> Ang, Yuen Yuen, *op. cit.*, pp. 30-39. The story of “*Bulldozer Ji*” in Yangzhou combines the two situations, demolition and historic city centre revitalisation.

Chinese censorship of opinions about Taiwan's independence gave birth to the *China Milk Tea Alliance*<sup>333</sup>, informal online associations of mostly English speaking Taiwanese, Thai, Myanmar, Malaysian and Hong Kong students. Here it is possible to find Christian, and Buddhist, as well as Chinese religious influences. The drink, milk tea, and the modalities of its consumption were a binding rite. This is a non confrontational, bourgeois, urban movement of the middle classes.

The Milk Tea Alliance members were opposed to Chinese trolls chiding young Asian people online, while interfering with their freedoms, and the internal national politics of their ASEAN nations in social networks, and promoting the authoritarian modalities of Chinese led globalisation<sup>334</sup>. American soft power is intense in Indochina, and these youngsters only wanted to enjoy Freedoms more widely available in the West. In ASEAN countries, a multicultural, sophisticated youth had enjoyed the fruits of modern capitalism for a longer period than China, developing substantial differences from young peoples in China and East Asia in general. In these networks, the Chinese Diaspora was the key component, so it is not strange that in countries like Malaysia and Thailand, where censorship capacities were not as advanced as in China or Singapore, protests in Chinese or English were more vocal.

Covid-19, the crackdown in Myanmar, including the unfair return of Aung San Suu Kyi to prison, and the end of freedoms in Hong Kong, stalled the Milk Tea Alliance. However, the followers of Joshua Wong in Hong Kong pro Democracy protests<sup>335</sup>, and the members of the Alliance, embody new liberal winds in South East Asia. This is the informal birth of non authoritarian "*New Asian Values*", the future of Democracy in the region. Anwar's Malaysia seemed a fertile ground for these movements with great value for the West in the region. However, this was only a glimmer of hope in a progressively authoritarian ASEAN space, as Anwar's policies adapted to the long term Malaysian authoritarian Islamic dynamics<sup>336</sup>.

e. Meanwhile, it would even be possible to condition the direction of technological developments in the West, through the insertion of the Mainland Chinese in American and European academia. Victor Hanson speaks of 350.000 Chinese students in American universities that would participate in the creative technology industries of the future, in every other field of advanced sciences and R&D, from maths to avionics or microchip design. British universities would also be highly penetrated by Chinese students and, as in the US, collaborative research with Chinese academia has been increasingly funded by China<sup>337</sup>. According to Goldman (2019)<sup>338</sup>, one in three Chinese students obtained a degree in engineering, versus 7% in America: 80% of PhD candidates in IT and electrical engineering in the US are foreign, and the Chinese were the most numerous.

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<sup>333</sup> Phalapong, Pakorn: "Milk Tea Alliance: Constructing Transnational Identity by Consuming Milk Tea in the Asian Context", *Thai Journal of East Asian Studies*, Vol. 26, No. 2 (July-December, 2022), 14 pages, pp. 2 and 14, at <https://so02.tci-thaijo.org/index.php/easttu/article/view/258026>

<sup>334</sup> Schaffar, W., and Praphakorn Wongratanawin: "The #MilkTeaAlliance: A new transnational pro-democracy movement against Chinese-centered globalization?" *Austrian Journal of South-East Asian Studies*, Vol. 14, No. 1 (2021), pp. 5-35, at <https://aseas.univie.ac.at/index.php/aseas/article/view/5068/6146>.

<sup>335</sup> *Human Rights Watch Film Festival: Joshua: Teenager vs. Superpower*, at <https://ff.hrw.org/film/joshua-teenager-vs-superpower> and <https://www.netflix.com/es/title/80169348>

<sup>336</sup> Azmi, Hadi, "Malaysia's civil liberties squeezed as news portals closed, books seized amid creeping censorship: report", *South China Morning Post*, 6<sup>th</sup> December 2023, at <https://www.scmp.com/week-asia/politics/article/3244035/malysias-civil-liberties-squeezed-news-portals-closed-books-seized-amid-creeping-censorship-report>

<sup>337</sup> *UKRI China, activities in China*, at <https://www.ukri.org/what-we-offer/international-funding/our-international-offices/ukri-china/>

<sup>338</sup> Goldman, David P. (22.05.2019): "What is China's Grand Strategy?", Russell Kirk Memorial Lecture at The Heritage Foundation, Massachusetts 20 pages, p. 9 available at: <http://report.heritage.org/hl1312>

, 'Part 5: advanced electromagnetic theory', lecture notes distributed in the topic 7052 Electromagnetic theory and RFID applications, University of Adelaide, on 12 July 2010.

The process of China's selective isolation would be perfect, as neither the Communist Party nor Chinese students would favour enrolling in programs in the other creative industries. These are the Arts, Social Sciences or Humanities. No exposure to liberal ideas that might challenge the Party, nothing that might lead Chinese citizens to question the status quo would be allowed. Grants to study in the West would come from the patronage of Communist authorities, influential at every level of society in China, and that would determine the chosen fields of study. The hierarchical, low trust, holistic nature of the Neo-Confucian Chinese culture, the intense nationalistic brainwashing as well as the networks of patronage, could condition the nature and direction of the research of Chinese students in American universities, to suit Party objectives.

By 2020, China's control of telecommunications networks in BRI recipient countries also raised fears, of corporate collaboration with China's sustained espionage and cyber attacks on the West<sup>339</sup>, as China became the leading competitor of the US in the cyber war domains<sup>340</sup>. China had expressed the intention of becoming a "cyber superpower", being a world leader in the exploitation of vulnerabilities in OECD countries' networks:

*"China's cybersecurity legislation weaponizes the country's cyber security industry and research, by requiring companies and researchers to submit all discovered software and hardware vulnerabilities to the government, before providing them to the vendors that can patch them"*<sup>341</sup>.

It is not strange that ZTE and Huawei were not allowed to operate in the US, Canada and Australia, because of security and military concerns. Nevertheless, both Chinese companies control 70% of the telecom's infrastructure in Africa and Central Asia and 50% in Europe. It seems incredible that the EU was so blind to this impending danger until very recently.

The role of Chinese students<sup>342</sup> and engineers in key technological corporate and academic positions was periodically reported as key sources of espionage, as Chinese cyber espionage to steal US military secrets grew exponentially. Ninety percent (90%) of all cyber attacks in the US would be Chinese (2010-2018). Nowhere was this more obvious than in the Chinese clones of Lockheed Martin's F-22 Raptor and F-35 Joint American fighters<sup>343</sup>.

Massive corporate cyber hacking, carried out by the Peoples Liberation Army (PLA), defined a consistent pattern of direct transfers of stolen American IP, frequently in the form of software, to Chinese private and public corporations. Therefore, calls multiplied to limit the involvement of Western universities and R&D research teams with Chinese ones, with pernicious effects on scientific progress<sup>344</sup>. Respected Chinese experts like Min Xin Pei<sup>345</sup>, asserted that "*cultural decoupling*" from China was detrimental for US and China interests overall.

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<sup>339</sup> See Parepa, *op. cit.*, pp. 194-195.

<sup>340</sup> See Morris, *op. cit.*, pp. 880-891.

<sup>341</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 419-420.

<sup>342</sup> *Interview with Victor Davis Hanson: US-China Confrontation Will Define Global Order, News from the Hoover Institution (20.05.2019)*, at <https://www.hoover.org/news/victor-davis-hanson-us-china-confrontation-will-define-global-order>

<sup>343</sup> Jones, Jeffrey B., (May 2020): *Confronting China's Efforts to Steal Defence Information*, National Security Fellows Program, Belfer Centre for Science and International Affairs, Harvard Kennedy School Cambridge, Massachusetts, 24 pages.

<sup>344</sup> Goldstein, *op. cit.*, pp.199-201.

<sup>345</sup> Minxin Pei: "Cultural decoupling from China will hurt the US", *ASPI-The Strategist*(19.08.2020), Canberra, at <https://www.aspistrategist.org.au/cultural-decoupling-from-china-will-hurt-the-us/>

## 2.8 Technology competition: Western IP theft and IP forced transfer

According to Jones<sup>346</sup>, estimates of the enormous annual cost of China's IP theft in the US to the American economy range from 180 US billion to 540 billion every year.

China has had a three decades free ride on Western IP, while developing its own technological base. Initially tolerated in the West, until the accession of China to the WTO, to promote economic development, China's rampant IP theft infringements in the 2020s could compromise the US ability to wage wars in the future. It would neutralise key sources of Western corporate global competitiveness. That is to say R&D and IP as a source of productivity, quality, and organisational or marketing advantages, while Western countries were deprived of China's trade competitiveness artificial or not, while subject to Western liberal trade regimes absent in China.

By 2017, the annual cost in counterfeit goods to the U.S. economy exceeded 225 US\$ billion. Besides, pirated software and theft of trade secrets would reach the \$600 billion mark; that is almost half of Spain's GDP annually. China, the world's principal IP infringer<sup>347,348</sup> and promoter of IP theft (including Hong Kong) would be responsible for 70% of IP theft, and 87% of counterfeit goods apprehended on their way to the United States in 2017, and 75% in 2003<sup>349</sup>. For example, we refer to European perfume, leather or luxury textiles, toys, cosmetics, or any copy of any other value-added, design intensive quality product from the West.

There was no need for Western design, arts or humanities courses to produce beauty, refinement or excellence, incorporated into Chinese pirated goods' designs. Instead, Western innovation and creativity was regularly expropriated. Beijing's policies cost millions of jobs in Europe and the US every year.

According to the OECD and EUIPO (2021)<sup>350</sup>:Thirty nine percent (39%) of customs seizures are related to products infringing the IP rights of US rights holders; followed by France (18%); Germany (16%), Italy (9.8%) and Switzerland (4%), and most of the pirated goods were "Made in China". Albeit there have been improvements in the legal IP framework in China recently (2021)<sup>351</sup>, as in any alleged improvement of the Chinese administrative and regulatory framework to appease Western critics, and given the size of the illegal businesses, there are more than serious doubts about its effectiveness.

Nowhere were bilateral relations more contentious than in forced technology transfer<sup>352</sup> from Western corporations to Chinese ones. Western companies were not allowed to operate in certain sectors of the Chinese economy, if they did not partner with a domestic corporation as a controlling shareholder. In the meantime, Chinese institutions used their complex, never-ending bureaucratic licensing and approvals procedures to operate in China, to force Western technology transfers. If key elements of

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<sup>346</sup> See Jones, *op. cit.* (May 2020), p. 3.

<sup>347</sup> *Update to the IP Commission Report (2017)*: National Bureau of Asian Research, Seattle, Washington, US, 24 pages, pp. 1-3, 12, 59-63. China would be 70% of the problem of IP theft in the US.

<sup>348</sup> *IP Commission 2021 Review (2021)*, National Bureau of Asian Research, Washington, 4 pages

At [https://www.nbr.org/wp-content/uploads/pdfs/publications/ip\\_commission\\_2021\\_recommendations\\_mar2021.pdf](https://www.nbr.org/wp-content/uploads/pdfs/publications/ip_commission_2021_recommendations_mar2021.pdf)

<sup>349</sup> *2023 Special 301 Report (2023)*, Office of the United States Trade Representative, Washington, 95 pages, pp 45-51, pp. 47-49.

<sup>350</sup> OECD/EUIPO (2021): *Global Trade in Fakes: A Worrying Threat, Illicit Trade*, OECD Publishing, Paris, 90 pages, pp. 19-21, at [https://www.oecd-ilibrary.org/governance/global-trade-in-fakes\\_74c81154-en](https://www.oecd-ilibrary.org/governance/global-trade-in-fakes_74c81154-en)

<sup>351</sup> *Report on the protection and enforcement of intellectual property rights in third countries (17.5.2023)*: European Union Commission staff working document, Brussels, Ref. SWD (2023) 153 final, pp. 16-24.

<sup>352</sup> See Boustany Jr. and Friedberg, *op. cit.*, p. 17.

their IP were not transferred, from the American or European company to the Chinese joint venture one, the Western enterprise would not be able to operate in China<sup>353</sup>.

Beijing's strategy was always to appropriate Western technology, improve it, and incorporate it into the products and services<sup>354</sup> of very large Chinese enterprises. As it has been consistently stated in this research, most of those companies appeared from scratch and their growth has depended on IP theft, protectionism and artificial competitiveness versus foreign competitors in the domestic market (subsidies, tariffs, preferential finance and licensing). This produced sudden, gigantic productivity leaps that later allowed them to conquer world markets, at the expense of Western competitors.

To attain their objectives in the 2010s, aggressive, intelligent industrial policies were combined with the restructuring of SOEs. This was done through:

- Horizontal consolidation in sectors such as steel, coal, environmental protection, and marine industries to take advantage of economies of scale and reduce excess capacity in non strategic sectors.
- Vertical integration to strengthen Chinese corporations in foreign markets.
- Creation of platforms to group assets and concentrating massive resources in R&D.
- Consolidation of large SOEs, a reduction in the number of SOEs.
- Specialisation of industrial concerns in strategic sectors of high technological content.

In the 2020s, the objective is to achieve self-sufficiency and reduce technological dependencies on the West in advanced tech-intensive sectors, like aerospace and telecommunications, moving up the technology ladder in the value chains by guaranteeing large shares of the domestic market for Chinese enterprises. For example, by favouring domestically produced electric vehicles (EVs) or renewable energy equipment that incorporated new Chinese technologies, substituting imported components (70% Chinese by 2025). These were the “*Made in China 2025*” plan guidelines<sup>355</sup>, to progressively overtake America and its key allies (Japan and Germany) in industrial and technological capabilities<sup>356</sup>. By 2023, China had sold 60% of the world's EVs<sup>357</sup>.

From 2006 to 2015, R&D expenditure in relation to GDP in China grew 4 times faster than in Japan, and more than 8 times faster than in Spain. China devoted 2.2% of its GDP to R&D. According to Parepa<sup>358</sup>, since 2014 there has been a clear shift in the BRI from investments in traditional sectors such as energy, finance and natural resources, to high-technology farming R&D, telecommunications, robotics, and information systems. Besides, the Digital Silk Road has fostered the growth of new domestic Chinese industries with a global reach, such as 5 G telecommunications, AI, cloud computing, smart cities, satellite systems, networks, and submarine cables.

Finally, the BRI served as a conduit for selective acquisitions of Western companies in strategic sectors. Be it in nuclear technology, telecommunications, raw materials or high-tech, this had obvious consequences on national security and industry leadership for the West. For example, to promote home-grown technologies, China would use subsidised SOEs (CNNC, CGN and SPIC) to build nuclear stations according to foreign designs, but built and financed by Chinese corporations.

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<sup>353</sup> *Ibid.*, p. 12.

<sup>354</sup> *Ibid.*, p. 10.

<sup>355</sup> Inoue and Stumpo, *op. cit.* (2018), p. 16.

<sup>356</sup> 2023 *Special 301 Report*, *op. cit.*, p. 9-18.

<sup>357</sup> Gül, Timur (ed.) (2023): *EV Outlook 2023 Catching up with climate ambitions*, International Energy Agency (IEA), Paris, p. 8, at <https://iea.blob.core.windows.net/assets/dacf14d2-eabc-498a-8263-9f97fd5dc327/GEVO2023.pdf>

<sup>358</sup> Parepa, *op. cit.*, p. 193.

China not only exported their “guanxi” and corrupt, developing country-style business practices<sup>359</sup> to recipient developing countries (for example, through tens of those new nuclear stations projects), but there are also multiple allegations of substandard quality of infrastructures built by Chinese corporations<sup>360</sup>, as well as questionable environmental practices. For example, 8000 fissures were detected<sup>361</sup>, in the Coco Codo Sinclair hydroelectric dam in Ecuador. The intensification of BRI international business activity suggests an improvement in the terms of quality delivery, but it is obvious that in many sectors China is still not there. As stated, this is an opportunity for Spanish infrastructure companies.

Finally, China was already a probable threat to the American Industrial Military Complex and its leadership in terms of defence expenditures and technology as early as 2007<sup>362</sup>. And that is not the only threat evolving in the shadows in the American Industrial and Military Complex as, according to the US China Security Commission (2022)<sup>363364</sup>:

*“The U.S. government’s inconsistent spending trends and irregular, outdated procurement practices have accelerated a contraction of the defense industrial base, leading to reduced manufacturing capacity, fewer alternative suppliers, and ultimately greater dependence on Chinese suppliers for some critical materials and components”.*

### 3. Wolf Diplomacy and the late reaction of the West

#### 3.1 “One country, one system”, the end of Freedom in Hong Kong (2019-2023)

In Hong Kong, the British did not leave purely democratic political institutions behind, as the LEGCO was always “*remote controlled*” by Beijing, way before the complete overhaul of the SAR political system to place candidates handpicked by Beijing<sup>365</sup>. The early opposition of Anson Chan to Tun Chee-hwa, appointed as Chief Executive by Beijing, was a warning of the crackdown to come. Chan resigned in 2001<sup>366</sup> in protest at the growing corruption “*Chinese Style*” in Hong Kong under Tun, in her decided defence of the autonomy and democratisation of the ex-colony<sup>367</sup>.

However, Britain left the Basic Law that stood for two additional decades. It guaranteed the freedoms of the citizens of Hong Kong, behind a relatively efficient public administration<sup>368</sup>, affecting the neighbouring Guangdong province positively, in its economic symbiosis with Hong Kong through free trade zones, a de facto gigantic conurbation reaching Shenzhen.

<sup>359</sup> Hillman, Jonathan E. (12.2019): “Corruption Flows Along China’s Belt and Road”, Washington DC, CSIS at <https://www.csis.org/analysis/corruption-flows-along-chinas-belt-and-road>

<sup>360</sup> Azzopardi, Tom: “Latam weighs the cost of Chinese infrastructure”, *FDI Intelligence*, April/May 2023, pp. 34-35.

<sup>361</sup> “Specialists from the United States Army Corps of Engineers completed a technical visit to the Coca Codo Sinclair hydroelectric plant (2021)”, at <https://ec.usembassy.gov/specialists-from-the-united-states-army-corps-of-engineers-made-a-technical-visit-to-the-coca-codo-sinclair-hydroelectric-plant/>

<sup>362</sup> Labonte, Marc and Elwell, Craig K (23.01.2007): *Is China a Threat to the US Economy?*, Congressional Research Service Washington D.C., pp-17-34, at <https://sgp.fas.org/crs/row/RL33604.pdf>.

<sup>363</sup> Boustany Jr. and Friedberg, *op. cit.*, p. 11.

<sup>364</sup> U.S.-China Economic and Security Review Commission, *op. cit.*, pp. 11-12.

<sup>365</sup> Martin, Michael F. (10.01.2008): *Prospects for Democracy in Hong Kong, China’s December 2007 Decision*, Congressional Research Service (CRS), Washington D.C., p 1.

<sup>366</sup> Anonymous, “China’s man pushes out Hong Kong’s women”, London, *The Economist*, 20<sup>th</sup> January 2001, at <https://www.economist.com/asia/2001/01/18/chinas-man-pushes-out-hong-kongs-woman>

<sup>367</sup> Bates Gill and James Tang (Jul 2007): *US-Hong Kong Relationships, Prospects for a Unique Partnership*, Centre for Strategic and International Studies (CSIS), Washington, p. 4.

<sup>368</sup> “*Conversations with History: Anson Chan (27.01.1998)*” at <https://www.youtube.com/watch?v=FFkImCIBNf8>

Nevertheless, by 2022 Freedom of Speech, Academic Freedom and Judicial Independence were practically terminated with Hong Kong's new Security Laws. This was a pernicious blow for Westerners who regularly channelled their investments through "clean" Hong Kong to China. The new laws allowed for the silencing of protesters and whistle-blowers in corruption affecting public and corporate governance, under the pretence of protecting national security, national unity or the country from foreigners. This way China undermined Human Rights and the Rule of Law<sup>369</sup>. The rights of assembly, association and religion vanished; Cardinal Joseph Zen Ze-kiun, and other prominent religious figures were arrested<sup>370</sup>, the education system was overhauled and texts were rewritten to promote Beijing's nationalist propaganda.

Closing the doors of Hong Kong, was a turning point, it reinforced control of Western foreign influences on the Mainland. The CCP decided to eliminate hundreds of joint courses with foreign (Western) universities<sup>371</sup>, and to limit the scope and influence of international schools all over the country. The government limited private tutoring drastically and stopped the concession of new licences for international schools. Western culture is being extirpated, as in Mahathir's Malaysia<sup>372</sup> or Macau, as it is perceived as a threat to the authoritarian, ethnocentric Han system<sup>373</sup>.

The harsh repression of Hong Kong protests is leading to the end of the unique, multicultural, and cosmopolitan city of the past, by the emigration of the professional and international classes. Their motivations to leave the SAR would be: "*mobility, sense of place, trust and confidence in the law and the legal system, global citizenship, and perception of inequality*"<sup>374</sup>. The massive brain drain, and the departure of Western businesses and expats, is making Hong Kong progressively more unattractive, losing its allure as the financial gateway to China.

Hong Kong probably lost most of its "magic", as Freedom was the underpinning of high finance, its creative world-class industries<sup>375</sup> and its technological thriving ecosystem, probably ending up as "*Another Shenzhen, with great views of the sea*".

The subdued reaction of Western media at the incarceration of more than 100 Hong Kong protesters, including Christians such as Joshua Wong and Jimmy Lay<sup>376</sup>, gave a clear indication of strategic drift, both in Washington and Brussels, about the long-term consequences of the China threat. These were the real heroes in the fight for Democracy in Asia, and if the Chinese authoritarian vision became pre-eminent, in the world at large.

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<sup>369</sup> Davis, Michael C: "Beijing's Crackdown on Human Rights and the Rule of Law in Hong Kong", *Asia Policy*, Seattle, National Bureau of Asian Research, Vol. 16, Issue. 2. (28 May 2021), pp. 57-79.

<sup>370</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 663-664.

<sup>371</sup> "China Axes Hundreds of Joint Courses With Foreign Universities (17.08.2021)" at <https://www.rfa.org/english/news/china/education-international-cutoff-08172021082936.html> >.

<sup>372</sup> Hill, Hal: "Malaysian economic development: looking backward and forward", in Hill, Hal; Tham Siew Yean, and Haji Mat, Ragayah Zin (eds.) (2012): *Malaysia's Development Challenges: Graduating from the middle*, 1st edition, Abingdon, Routledge, 348 páginas, pp. 1-41.

<sup>373</sup> Yu, Sun in and Jack, Andrew: "UK private schools face curbs on China links in Beijing's education crackdown" *Financial Times*, 5 September 2021, at <https://www.ft.com/content/8bba46b4-16ac-48c0-9a50-c7f10e2d16cb>

<sup>374</sup> Chan, A.K.W.; Cheung, L.T.O.; Chong, E. Km.; Lee, Man Yee Karen, and Wong, Mathew Y.H.: "Hong Kong's new wave of migration: socio-political factors of individuals' intention to emigrate", *Comparative Migration Studies*, CMS 10, article No. 49 (2022), pp. 1, 15-2, at <https://doi.org/10.1186/s40878-022-00323-y>

<sup>375</sup> Anonymous (2021): *Creative Industries: Driving Innovation and Future Growth Find Your Success in Hong Kong's Leading Creative Digital Ecosystem*, Price Waterhouse Coopers (PWC), Hong Kong, 52 pages.

<sup>376</sup> Wong, Lydia and E. Kellogg, Thomas (Feb 2021): *Hong Kong's National Security Law: A Human Rights and Rule of Law Analysis*, Asian Law Centre, Georgetown University, Hong Kong, 70 pages, pp. 58-60.

Hong Kong and Taiwan feel different from mainland China, as decades, even centuries of de facto separation and foreign political influences (British<sup>377</sup> in Hong Kong, and Japanese in Taiwan) produced different identities. These influences, in combination with the ethnic particularities and conflicts in Tibet and Xinjiang, break the idea of a monolithic Chinese nation, in which Han Chinese identities are displacing complex multi cultural realities. This is reflected in the different Sino Tibetan languages, sharing the space with Northern China's official Mandarin (Putonghua). In Hong Kong, Yue and Hakka are the main languages<sup>378</sup> and in Taiwan, it is Min Nan, notwithstanding the plethora of Taiwanese native languages in Taiwan<sup>379</sup>.

Even the sense of the humour is different. Who would have imagined thirty years ago, martial arts and comedy actors like Jackie Chan<sup>380</sup> defending the CPC in patriotic movies, or being compared with prominent Communist heroes like Lei Feng?<sup>381</sup>

*Dong Da Qiao is a main shopping area (in Hong Kong) with a few big stores, and a number of signposts with different pictures of communist heroes lined the street. This juxtaposition of the images of Lei Feng and Jackie Chan appeared not only to stand for the changing nature of hero representation, but also struck me as symbolic of the socio-political condition of post-reform China, where two contradictory systems of 'socialism' and the 'market' co-exist."*

### 3.3 The South China Sea and the 9 Dash Line (2002-2023)

In the South China Sea, the vessels of ASEAN and Australian navies are regularly harassed by the PLA Navy (PLAN). This way, Beijing would be contravening the United Nations Convention on the Law of the Sea (UNCLOS), as China considers ASEAN waters Chinese territory<sup>382</sup>, assimilated to land-based areas. Beijing's *Nine Dash Line*<sup>383</sup> claims in these waters, clash frontally with America's allies interests in the region (ASEAN, Japan and Taiwan). In sum, China decided unilaterally to absorb most of the South China Sea, including their resources and areas attributed to the Philippines since the times of the Spanish Sixteenth century colonisation.

In the South China Sea, Taiwan, Malaysia, Vietnam, Indonesia, the Philippines and Brunei dispute the sovereignty of the Spratley Islands with China, while Indonesia and China dispute the Nantuna Islands oil reserves. Beijing takes advantage of long term disputes among different ASEAN claimants, whose resolutions are obstructed by the organisational connotations and negotiation styles in ASEAN institutions. ASEAN's tradition of neutralism<sup>384</sup> and peaceful conflict resolution by consultations and consensus (cooperation), seem patently ineffective to deal with the China threat to their sovereignty and the appropriation of their national waters. In South East Asian cultures, conflict avoidance, personal dignity respect and decisions taken by consensus are the norm.

ASEAN nations have not developed institutions with a common regional posture, integrating foreign and security policy aspects (such as NATO), and this has given space for the divide and rule tactics

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<sup>377</sup> Chan, Catherine S.: "Culture and Identity", in Man-Kong Wong and Chi-Man Kwong (eds.) (2021), *Hong Kong History: Themes in Global Perspective*, 1<sup>st</sup> edition, Hong Kong Studies Reader Series, London, Palgrave MacMillan, pp.157-180.

<sup>378</sup> *Languages of Hong Kong* at <https://www.ethnologue.com/country/HK/>

<sup>379</sup> *Languages of Taiwan* at <https://www.ethnologue.com/country/TW/>

<sup>380</sup> Fisher, Max: The anti-Americanism of Jackie Chan, *Washington Post*, 10<sup>th</sup> January 2013.

<sup>381</sup> Taniguchi, Makiko (2017): 'Jackie Chan Fights Lei Feng An anthropological consideration of the televisual representation of heroes', PhD Dissertation submitted to the SOAS, University of London, p.13, at <https://eprints.soas.ac.uk/28809/1/10672977.pdf>

<sup>382</sup> Strating, Bec: "China's nine-dash line proves stranger than fiction", ASPI, *The Interpreter* (12th April 2022), at <https://www.lowyinstitute.org/the-interpreter/china-s-nine-dash-line-proves-stranger-fiction>.

<sup>383</sup> Bader, Jeffrey A.: "The U.S. and China's Nine-Dash Line: Ending the Ambiguity", *Brookings*, (February 6, 2014), at <https://www.brookings.edu/articles/the-u-s-and-chinas-nine-dash-line-ending-the-ambiguity>

<sup>384</sup> See Mauzy and Milne, *op. cit.* (1999), pp. 123-128.

applied by Beijing. While Malaysia or Indonesia might be closer to Washington, Myanmar, Cambodia and Thailand are nearer to Beijing. Different levels of economic and political power define a divided region in terms of its relations with the great superpowers (see section 2.2, for a detailed explanation). In the ASEAN institutional framework, the Asian Regional Forum (ARF) has been merely a privileged talking shop, to discuss International Security affairs with stakeholders in the area, including China, India, US, the EU and Australia.

ASEAN neutrality will depend on the ability of the US to reengage economically with the region in a substantial manner. As stated, US-ASEAN trade has grown substantially in the last 10 years, but it is no match for China's influence and bilateral exchanges. However, the region needs the US military might and presence to contain China, while the US continues to experience a gigantic trade deficit, not just with China and ASEAN, but with the Asian region in general<sup>385</sup>. The US trade and services deficit with ASEAN nations reached almost 200 billion US\$ in 2022<sup>386</sup>. In the meantime, the American trade deficit with China was 382 billion<sup>387</sup>, and the ASEAN trade deficit with China reached 102 billion in 2019<sup>388</sup>.

Logically, visions of a long term relative decline of the US pervade in ASEAN, in contrast to the rise of China. ASEAN promotes a convenient ambivalence that does not involve full strategic committal in the region, neither to the US or China, a reflection of the dissensions between their members<sup>389</sup>. A convenient perception, to square the circle, or an unwillingness to get involved in superpower competition<sup>390</sup>? Memories of the Cold War linger. For example, Singapore wants to transmit the message that it is possible to benefit from the China-US superpower competition without taking sides<sup>391</sup>. Nevertheless, this is an unstable predicament. On the one hand, ASEAN trade with China is very important but, on the other, would the citizens of South East Asia live under the same rules as Mainland Chinese and the Communist yoke? It is not just political liberties, but religion and culture what matters here.

The current US-China competition in the South China Sea is a wakeup call, particularly in some ASEAN countries aligned with Washington, as their defence budgets have grown considerably to adjust to Beijing's offensive posture in the last decade<sup>392</sup>. This opens new avenues of influence for the US, as the de facto guarantor of the free transit of vessels in its waters, as well as respect for the Rule of Law, well before China's 9 Dash Line in the Indo Pacific. These issues are pushing ASEAN towards more political cohesion<sup>393</sup>. However, given America's trade deficit with ASEAN and East Asia, defending ASEAN waters could be interpreted as a free ride, a factor precipitating America's regional withdrawal. In this scenario, would Japan and South Korea come to the rescue?

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<sup>385</sup> Ogden and Jones, *op. cit.*, pp. 22-26.

<sup>386</sup> *Office of the US Trade Representative: ASEAN*, at <https://ustr.gov/countries-regions/southeast-asia-pacific/association-southeast-asian-nations-asean>.

<sup>387</sup> *Trade with China*, at <https://www.census.gov/foreign-trade/balance/c5700.html>

<sup>388</sup> *ASEAN-China Economic Relation*, at <https://asean.org/our-communities/economic-community/integration-with-global-economy/asean-china-economic-relation/>

<sup>389</sup> Dunst, Charles: "A Review of Rush Doshi's "The Long Game: China's Grand Strategy to Displace American Order"", Washington, *Asia Unbound: Council on Foreign Relations* (25 August 2021), at [https://www.cfr.org/blog/review-rush-doshis-long-game-chinas-grand-strategy-displace-american-order?utm\\_medium=social\\_share&utm\\_source=li](https://www.cfr.org/blog/review-rush-doshis-long-game-chinas-grand-strategy-displace-american-order?utm_medium=social_share&utm_source=li)

<sup>390</sup> *ASEAN & The Multipolar Future in Southeast Asia*, at <https://podcasts.apple.com/vn/podcast/asean-the-multipolar-future-in-southeast-asia/id1604275782?i=1000630198829>

<sup>391</sup> Chong, J.I.: "Other Countries Are Small Countries, and That's Just a Fact: Singapore's Efforts to Navigate US-China Strategic Rivalry", in Grano, S.A. and Huang, D. W. F. (eds.) (2023): *China-US Competition*, Cham, Palgrave Macmillan, pp. 303-339, at [https://doi.org/10.1007/978-3-031-15389-1\\_12](https://doi.org/10.1007/978-3-031-15389-1_12)

<sup>392</sup> Dowdy John et al. (February 2014): *South East Asia: the Next Growth Opportunity in Defense*, McKinsey, Singapore.

<sup>393</sup> Ogden, and Jones, *op. cit.*, pp. 22-26.

In its push to expel the US from the Asia Pacific region, the South China Sea is the strategic artery linking the Western Pacific with the Indian Ocean, and has a profound significance for China, in an environment of increased militarisation of the area and rivalry with the US for the control and policing of the area. Here, China would favour grey-zone operations, using the China Marine Coast Guard, maritime militia, and disguised fishing fleets as instruments of coercion<sup>394</sup>.

Frequently, Chinese boats sail dangerously close to American ones on purpose, increasing the risks of collisions, particularly after China began blocking access to the Automatic Identification System (AIS) signals of its boats<sup>395</sup>, to hide the location of Chinese vessels. Incidents with the ASEAN and Australian navies are also very frequent<sup>396</sup>, and the congestion of military and civil vessels without proper identification might lead to unintended, dangerous collisions in crowded chokepoints.

Given Beijing's behaviour, the natural strategic objective for the US, Taiwan, Japan and South Korea, is to guarantee free and secure navigation in the South China Sea and the Indo Pacific shipping lanes, while sustaining the rules based order that guarantees ASEAN members access to the resources in their exclusive economic zones (EEZs). For these purposes, the US is building alliances such as the QUAD (US, Japan, Australia, India), and the AUKUS<sup>397</sup> (UK, US, Australia and NZ). There are also US approaches to Vietnam, with which relations have improved markedly, including cooperation in the military domain<sup>398</sup>.

The QUAD has been strengthened, as a consequence of increasing bilateral tensions between China and India, with the territorial disputes in the Himalayas. Talks have also intensified lately between QUAD members and South Korea, Vietnam and New Zealand to form the QUAD+. However, these institutions are in an embryonic state and reflect contradictory visions of international relations.

### 3.3 The United Front, Chinese political and business influence in the West

The growing influence and interference of China in the politics and society of Western countries have triggered a variety of negative reactions. This is obvious in Australia<sup>399400</sup>, New Zealand and Canada, and constitutes another factor pushing for a re-examination of policies towards China<sup>401</sup>. Australia and New Zealand would be the “*canary in the mine*” for Western interests, as both countries are intensely affected by the activities of the United Front Work Department (United Front) of the Communist Party of China (CCP). This is the unit in charge of interfering in the domestic politics, academia and business world of foreign countries, to promote the interest of the Party, which constitutes the brunt of the China's authoritarian threat in the Western World.

The Chinese Diaspora in Australia, New Zealand, Canada and the ASEAN, plays a pivotal role in United Front activities:

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<sup>394</sup> Thayer, Carlyle A. (2021): *South China Sea: Militarisation and Conflict or a Peaceful Solution*, Thayer Consultancy Background Brief, Canberra, August 15.

<sup>395</sup> *AIS tracker website*, at <https://www.marinetraffic.com/en/ais/home/centerx:-150.4/centery:-10.7/zoom:2>

It provides the position all over the globe of the AIS powered largest boats in real time. The overcrowding of commercial and navy boats in the Straits and other waters of the South China Sea, gives an idea of the situation.

<sup>396</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 355-356.

<sup>397</sup> See Ogden and Jones, *op. cit.*, pp. 22-26.

<sup>398</sup> Troung-Minh Vu, and Ngo Di Lan TR: “The Political Significance of American Lethal Weapons to Vietnam“, *The Diplomat*, 7 October 2014, at <http://thediplomat.com/2014/10/the-political-significance-of-american-lethal-weapons-to-vietnam/>  
The partial embargo removal sends a clear signal to South China Sea rivals,

<sup>399</sup> Cave, Damien: “Are Australia's Politics Too Easy to Corrupt?“, *The New York Times*, 07 June 2017,

<sup>400</sup> Kurlantzick, Joshua: “Chinese interference is dangerous – but also often ineffective and counterproductive“, ASPI, *The Interpreter* (March 2023), at <https://www.lowyinstitute.org/the-interpreter/chinese-interference-dangerous-also-often-ineffective-counterproductive>.

<sup>401</sup> Goldstein, *op. cit.*, pp. 199-201.

*“Overseas Chinese leaders who cooperate in this guidance are encouraged to see their participation as a form of service, serving the Chinese Motherland, the Chinese race, and the ethnic Chinese population within the countries where they live. Their cooperation with China is meant to be a “win-win” situation, whereby they and their community will achieve gains at the same time as China achieving its own agenda”.*<sup>402</sup>

Lately, the British Government denounced a “*completely inadequate approach*” to the China threat, given an unusual level of Chinese influence operations, and the systematic headhunting of spies in the civil service and academia in the UK<sup>403</sup>. The CSIS also pointed out that incidents of espionage in the US involving the PR China, outnumber by far those of any other country, including Russia, especially in terms of the sustained cyber hacking and IP theft operations in the US (see section 3.6)<sup>404</sup>.

The “*United Front (统一战线)*”<sup>405</sup> would be a tactic, perfected over the years in China with Leninist leanings, applied in a variety of countries. This comprised concerted intervention on foreign soils by Chinese organisations or chambers of commerce, coordinating its cooperation with all government agencies, from the secret service to diplomats and propaganda departments, to promote Chinese interests. Their actions would include: Attempts to censor publications in the West, promote positive views among foreign politicians about China and their policies (the reunification with Taiwan, a recurring theme), and affect legislative processes abroad in their favour. The BRI would be a quintessential component of this tactic, and Diaspora Chinese, 60 million people all over the world, has been the natural channel for United Front activities. In many cases this has been related to Triads, the Chinese mafias, and their illegal activities abroad.

China would have developed extraordinary capabilities in terms of political warfare since the Cold War, to “*divide and disintegrate*” the US and other countries allegedly threatening China. The United Front would use tactics suited to each particular country according to its History and PESTLEC environment. Taiwan is currently experiencing a particularly delicate situation in this respect, so appropriate, special action should urgently be put in place in the US, involving the private and public sector institutions to contain Chinese influence.

According to Gershaneck<sup>406</sup>, to counteract China’s political warfare involves substantial institutional training, communications, counterpropaganda, and policing activities. Among these ideas was to set up a “*United Front Tracker*”, to expose Chinese political influence operations, and make institutional agents aware of their consequences. This is an excellent idea that could be extended to EU countries, where large segments of the “body politic” do not seem to be aware of the dimensions of the covert, selective interventions of the United Front (Spain is a case in point). For example, a plethora of Chinese “*police stations*” would exist on Western countries’ soil. These would be groups operating like China’s political police, to hunt for dissidents in free countries, and deter their protests against

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<sup>402</sup> Brady, Anne-Marie (2017): “*Magic Weapons: China's political influence activities under Xi Jinping*”, conference paper presented at the conference on *The corrosion of democracy under China's global influence*, supported by the Taiwan Foundation for Democracy (16.09.2017), Arlington, Virginia, p. 4, at [https://www.wilsoncenter.org/sites/default/files/media/documents/article/magic\\_weapons.pdf](https://www.wilsoncenter.org/sites/default/files/media/documents/article/magic_weapons.pdf).

<sup>403</sup> “*British approach to China risk 'completely inadequate'*”, *committee says*, at <https://www.reuters.com/world/uk-governments-strategy-china-risk-completely-inadequate-committee-2023-07-13/>

<sup>404</sup> *Survey of Chinese Espionage in the United States Since 2000* (March 2023), CSIS, Washington D.C., at <https://www.csis.org/programs/strategic-technologies-program/archives/survey-chinese-espionage-united-states-2000>

<sup>405</sup> Brady, Anne-Marie: “*Exploit Every Rift: United Front Work Goes Global*”, In Gitter, David and Bowie, Julia G (eds.) (18.10.2018): “*Party Watch Annual Report 2018*”, Washington DC, Center for Advanced China Research, pp. 37-40.

<sup>406</sup> Gershaneck, Harry K. (2020): *Political Warfare: Strategies for Combating China's Plan to Win Without Fighting*, Quantico, Virginia, Marine Corps University Press, 190 pages, pp. 3-13, and 150-161.

Beijing<sup>407</sup>. According to Safeguard Defenders, there could be more than 110 “*Chinese Overseas Police Service Stations*” in 53 countries.<sup>408</sup>

The sad case of Anne Mary Brady<sup>409</sup>, a New Zealand lecturer harassed by China, directly and indirectly, for holding views opposed to China’s interests, gave a hint of the covert United Front operations to come. Until very recently, and in connection with Brady, Jacinda Arden’s government in New Zealand was suspiciously passive in relation to the obvious threat posed by authoritarian China. New Zealand was labelled the “soft underbelly” of the Five Eyes Alliance, given the growing Chinese investments and business influence in this country<sup>410</sup>.

Initially China was dealt with softly, not to affect the profitable bilateral trade. However, the approach of Beijing to the Solomon Islands (among them the famous Island of Guadalcanal, decisive for America in World War II)<sup>411</sup>, this is negotiating the possibility of a Chinese military base in these strategically important islands in the Pacific, changed the traditionally complacent tone of New Zealand authorities.

In Canada, Premier Trudeau swapped Canadian hostages, Michael Spavor and Michael Kovrig, held by Chinese authorities, in exchange for liberating Huawei’s executive and founder’s daughter, Meng Wanzhou, who was being prosecuted by American authorities. This projected an image of subservience to Beijing’s interests<sup>412</sup>: According to the US Justice Department, Meng would have admitted deceiving US investigators in relation to her dealings with Iran<sup>413</sup>.

### 3.5 “America First” and the US-China trade war (2017-2021)

Since Trump, the US has focused on a defence against the artificial determinants of Chinese competition, focusing on trade remediation policies and intervention tools, coordinating its policies with friends and allies such the EU, while China would have taken advantage of divisions in the same EU<sup>414</sup>: Countervailing duties in response to subsidies, anti-dumping measures in response to sales at less than fair value, and safeguards in case of import surges, were the “weapon of choice” during Trump’s Presidency.

While Trump was promoting his populist “*America First*”, protectionist bilateral trade measures against China to the detriment of multilateral trade and investment institutions like the WTO, the European Union and Japan<sup>415</sup> (also a member of RCEP), collaborated in a new free trade agreement (FTA). Differences between Europe and the US about how to deal with China were already becoming

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<sup>407</sup> *Two Arrested for Operating Illegal Overseas Police Station of the Chinese Government*, Office of Public Affairs, US Department of Justice (17.04.2023), at <https://www.justice.gov/opa/pr/two-arrested-operating-illegal-overseas-police-station-chinese-government>

<sup>408</sup> Anonymous (Dec 2002): *Patrol and Defend, a follow-up investigation to 110 Overseas*, Safeguard Defenders, Madrid, 32 pages, at <https://safeguarddefenders.com/sites/default/files/pdf/Patrol%20and%20Persuade%20v2.pdf>

<sup>409</sup> Brady, Anne-Marie (2017), *China as a Polar Great Power*, Cambridge, Cambridge University Press, 290 pages.

<sup>410</sup> Grossman, Derek: “New Zealand is Done with Speaking Softly to China”, *The Rand Blog* (21.12.2022), at <https://www.rand.org/blog/2022/12/new-zealand-is-done-with-speaking-softly-to-china.html> .

<sup>411</sup> Paskal, Cleo (20.10.2021): “The Strategic Importance of the Pacific Islands”, Congressional Testimony at the House Foreign Affairs Committee, Foundation for Defense of Democracies, pp. 3-7, 19 pages, at <https://docs.house.gov/meetings/FA/FA05/20211020/114157/HHRG-117-FA05-Wstate-PaskalC-20211020.pdf>.

<sup>412</sup> Nagy, Stephen, “It’s time for Canada to implement a foreign policy reset”, *Japan Times*, 21<sup>st</sup> September 2023, at <https://www.japantimes.co.jp/commentary/2023/09/21/world/canada-foreign-policy/>

<sup>413</sup> “Huawei CFO Wanzhou Meng Admits to Misleading Global Financial Institution. Meng Enters into Deferred Prosecution Agreement to Resolve Fraud Charges. Office of Public Affairs, US Department of Justice at <https://www.justice.gov/opa/pr/huawei-cfo-wanzhou-meng-admits-misleading-global-financial-institution>

<sup>414</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 175-176.

<sup>415</sup> *Key elements of the EU-Japan Economic Partnership Agreement*, at [https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_18\\_6784](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_18_6784)

obvious, as both pillars of NATO were moving in opposite directions in the wake of RCEP (see below). In sum, Japan belongs to RCEP, the Sino-centric FTA, and has a FTA signed with the EU.

East Asia's Exports to China were already enormous by 2021 so, again, China's masterstroke in this region was free trade. This was more obvious after Trump (2016) refrained from signing Obama's idealistic TPP, to attain "strategic rebalancing" (now the less ambitious CPTPP), the multilateral FTA, inaugurating America's 'counter-protectionism' to contain China under Trump and Biden. The TPP would have promoted American-centric free trade with ASEAN, East Asia, Australia, NZ and Latin American allies (excluding China), advancing the US-led normative Human Rights, and labour, social, and environmental standards. This was intended to erase China's determinants of artificial competitiveness, and to balance the gigantic trade deficits of the US in Asia.

Conservative instincts, either in the Republican or the Democrat aisles of Congress, under Trump or Biden, ended up giving way to natural fears of Asian protectionism (in ASEAN and East Asia alike), deindustrialisation in America, and the danger of shifting more jobs to Asia<sup>416</sup>, in the shadow of China's no rules-based approach to trade. When America gave up the TPP, it gave wings to the RCEP, a free trade agreement with no political strings attached, that would consolidate a parallel regional China-centric trade system with ASEAN, East Asia (Japan, Taiwan and South Korea), Australia and NZ as trade partners. Logically, the RCEP excluded the US.

According to Park, Petry and Plummer<sup>417</sup>, China's RCEP could generate gains in net income from foreign trade liberalisation, approximately twice as large as those to be produced by America's CPTPP. Among other variables, the sheer gravitational mass of the Chinese economy would once again be a precipitating factor to consolidate Chinese influence.

Therefore, the Sino-centric RCEP hosts an unbearable contradiction for the US. On the one hand, East Asia would be inextricably integrated economically with China. On the other, China's aggressive stance would require a reinforcement of Defense expenditures to contain it in the South China Sea. These are financed by the debt-ridden US, while the US has experienced recurring and ballooning trade deficits with the whole East and South East Asian regions for decades (2023), not just with China.

Before Covid-19, Trump measures seemed to have contained the tide of the US trade deficit with China momentarily. However, it is still there, it even reached a record of 382,295 millions of US\$ in 2022 (421,872 millions according to Trademap in Table 3)<sup>418</sup>. Trade with China was necessary to recover economic activity in the West after the pandemic. However, Industrial Policy and protectionist policies in the US to contain China did not change much from Trump to Biden.

The shortage of personal protective equipment (PPE) exported from China (protective garments, masks, gloves, glasses, respirators), to cover hospital needs in the West was the wakeup call in the US. China was the leading producer of PPP, and their factories were already closed when the pandemic reached the West, as the outbreaks started first in Wuhan (China). The West was highly dependent on imports from China while, to address the crisis, Beijing implemented tight export controls on PPE in April 2020<sup>419</sup> and increased imports to China, so exports of PPE the West declined

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<sup>416</sup> McBride, James; Chatzky, Andrew, and Siripurapu, Anshu: "What's Next for the Trans-Pacific Partnership (TPP)?", *Council of Foreign Relations* (20 September 2021), at <https://www.cfr.org/background/what-trans-pacific-partnership-tpp#chapter-title-0-5>

<sup>417</sup> Park, Cyn-Young; Petri, Peter A., and Plummer Michael G: "The Economics of Conflict and Cooperation in the Asia-Pacific: RCEP, CPTPP and the US-China Trade War", *East Asian Economic Review*, Vol. 25, No. 3 (2021), pp. 233-272.

<sup>418</sup> Source: *US Trade Census (2022)*, at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3937722](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3937722)

<sup>419</sup> Bown, C.P.: "How COVID-19 Medical Supply Shortages Led to Extraordinary Trade and Industrial Policy", *Asian Economic Policy Review*, Volume 17, Issue 2 (2022), pp. 114-135.

sharply, and prices skyrocketed, benefiting Chinese corporations immensely. China needed as many masks as possible, and left the rest of the world without PPE.

The US and Europe imported, respectively 50% and 44% of their PPE needs from China. Prices skyrocketed out of scarcity in the West because of the unexpected surge in demand. Bottlenecks and export bans proliferated (EU and US), as a consequence of China's behaviour, and supply chains were distorted<sup>420</sup>, while politicians panicked in global regulatory chaos. In the meantime, Chinese PPE was sold to the highest bidder, with scant regard to the humanitarian needs entailed in the pandemic, notwithstanding procurement delinquency and opportunism in the EU proper. Subsequent production increases in China during the third and fourth quarters of 2020, saved many lives, but the harm had already been done.

Going up the technology ladder, the unwillingness of the Chinese government to acquire effective American vaccines<sup>421</sup>, given the poor results of Chinese alternatives, led to an extension of the Covid-0 policy draconian confinements in 2022. These were confinements completely different from those in Europe that paralysed essential industries in China for months<sup>422</sup>. In this situation, Orwellian interpretations were encouraged, in which political considerations overshadowed economic and purely humanitarian ones, unleashing a wave of protests in the main Chinese cities that were harshly repressed<sup>423</sup>. Ineffective Covid-0 confinements could be interpreted as measures to reinforce Beijing's power over its people, no matter what the social cost was for poor Chinese citizens.

### 3.5 AUKUS, the Anglosphere and the European Union (2021-2023)

A reflection of the differing worldviews were the trade sanctions applied by Beijing on Australia, when the Australian government asked for an independent investigation into the causes of Covid-19<sup>424</sup>, given the alleged concealment<sup>425</sup> and propaganda disseminated by Beijing about the failures in its management of the pandemic<sup>427</sup>. Thus, Australia would have tried to “belittle” the Middle Kingdom, so Beijing decided to bankrupt many Australian lobster, barley and wine farmers (2021) by imposing unfair tariffs and other trade barriers. However, China did not dare to enact substantial sanctions on essential Australian imports for the Chinese economy like Iron<sup>428</sup>.

Allegations of undue influence of Beijing in the World Health Organisation (WHO) during the pandemic, multiplied during the period in a variety of Western nations. Japan (2023) and Taiwan, experienced similar, low intensity trade sanctions, never touching PR China's vital interests, but used by China as a warning to gain influence, any time they criticised Beijing's mistakes during the worst

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<sup>420</sup> Mildner, Stormy-Annika (ed.) (20.04.2020): *Position paper on Foreign Trade Policy, COVID-19 Export Controls and Export Bans over the Course of the Covid-19 Pandemic*, Federation of German Industries (BDI), Berlin, Document Number: D 11697, 8 pages, at [https://www.wto.org/english/tratop\\_e/covid19\\_e/bdi\\_covid19\\_e.pdf](https://www.wto.org/english/tratop_e/covid19_e/bdi_covid19_e.pdf).

<sup>421</sup> Lai, Michelle: “Susan Shirk Argues the Chinese Government is “Overreaching””, *China File*, UC San Diego's School of Global Policy and Strategy (20.10.2002), at <https://chinafocus.ucsd.edu/2022/10/20/susan-shirk-argues-the-chinese-government-is-overreaching>.

<sup>422</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 121-122.

<sup>423</sup> *Carnegie Connects: Understanding Xi's China with David Rennie*, at <https://carnegieendowment.org/2023/01/17/carnegie-connects-understanding-xi-s-china-with-david-rennie-event-8012>

<sup>424</sup> Balibouse, Denis: “The WHO and China: Dereliction of Duty”, Council of Foreign Relations *Asia Unbound* (27 February 2020), at <https://www.cfr.org/blog/who-and-china-dereliction-duty>

<sup>425</sup> *US State Department: Joint Statement on the WHO-Convened COVID-19 Origins Study*, at <https://www.state.gov/joint-statement-on-the-who-convened-covid-19-origins-study/>

<sup>426</sup> Minxin Pei: “Coronavirus is a disease of Chinese autocracy”, *ASPI- The Strategist* (29 May 2020) at <https://www.aspistrategist.org.au/coronavirus-is-a-disease-of-chinese-autocracy>.

<sup>427</sup> Mitchell, Tom; Liu, Xinping and Peel, Michael: “China and Covid-19: what went wrong in Wuhan?” *Financial Times*, 17 October 2020, at <https://www.ft.com/content/82574e3d-1633-48ad-8afb-71ebb3fe3dee>

<sup>428</sup> Xue, Ye: “China's economic sanctions made Australia more confident”, *Lowly Institute -The Interpreter* (20.October 21), at <https://www.lowlyinstitute.org/the-interpreter/china-s-economic-sanctions-made-australia-more-confident>

of Covid-19. If Panda diplomacy is a way to open diplomatic channels and improve relations with friendly nations, small targeted sanctions seem to be exactly the opposite. The problem here would logically be, what would happen to Western nations, if trade sanctions on a greater scale became more frequent, given the gravitas of the Chinese economy, and taking into account Xi's ideological stance (see section 1.2).

China's economic coercion, in the form of unilateral trade sanctions, has become more frequent and on a greater scale since the early 2000s, lately motivated by political objectives. For example, the visit of the Dalai Lama to Mongolia in 2016, the deployment of the THAAD anti missile system<sup>429</sup> in South Korea, or to protest US arms transfers to Taiwan in the recent years, these were used as a warning of the potential effects of challenging China even on a limited scale<sup>430431</sup>.

Foreign Direct Investment (FDI) and BRI loans seem to be channels favoured by Beijing to obtain substantial concessions. However, when China raised tariffs, as a counterbalance to America First sanctions under Trump, it was a very different story, with much wider repercussions. US farmers were punished in the thick of the US-China trade war (2017-2021), with obvious political objectives, by touching the interests of farmers in those constituencies favourable to Trump<sup>432</sup>.

Recently, Lithuania and groups of critical professionals and academics questioning China<sup>433</sup> in the European Union, were targets of Chinese sanctions. Lithuania (EU) experienced PR China's pressure, when it decided to welcome a representative of Taiwan, as a de facto ambassador. After Chinese sanctions were put in place, Lithuanian exports to China<sup>434</sup> declined 91%. This was a defining moment in the reformulation of US and EU China policies, as other EU countries also received pressure from China to exclude Lithuania from their value chains. China was ready to impose heavy sanctions on small Western countries, selectively, to attain political objectives, so helping Lithuania was inevitable. Therefore, the US and Taiwan, expanded economic aid to Lithuania and the EU by introducing a variety of trade related political measures against China, to quell further instances of political coercion.

This situation only persuaded Australia to reinforce its long-term alliance with the US and the UK. In a process of advance towards the QUAD alliance, even Japan abandoned its cherished post war pacifism, by increasing military budgets and intensifying diplomatic talks to coordinate China containment strategies. Defence expenditure<sup>435</sup> in the Indo Pacific in 2023 grew faster than in Europe, Africa and the Americas, and the predictions indicate that it will also keep on growing faster.

For Australia it would be "[...] *How to remain a safe and wealthy nation while reconciling its economic dependence on China with its strategic alliance with the United States*"<sup>436</sup>, something that could be extended to the cases of Japan, South Korea and Taiwan, that have been reinforcing their economic links with the China-centric trade system, like ASEAN for the last two decades. However, in the last few months of 2022-3, these countries are reconsidering their positions, aiming for selective

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<sup>429</sup> Robert S. Ross: *Korea and the World* podcast, episode 78 (06.01.2017), at <https://www.koreaandtheworld.org/robert-s-ross/>

<sup>430</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 589-590, 626-627.

<sup>431</sup> See Macikenaite, *op. cit.*, pp. 119-121.

<sup>432</sup> *U.S. farmers suffer 'body blow' as China slams door on farm purchases*, at <https://www.reuters.com/article/us-usa-trade-china-agriculture-idUSKCN1UV0XJ>

<sup>433</sup> *China's Economic Coercion: Lessons from Lithuania*, at <https://www.csis.org/analysis/chinas-economic-coercion-lessons-lithuania>

<sup>434</sup> US-China Economic and Security Review Commission, *op. cit.*, pp.156-157, 209.

<sup>435</sup> *Trends in World Military Spending 2022* at [https://www.sipri.org/sites/default/files/2022-04/fs\\_2204\\_milex\\_2021\\_0.pdf](https://www.sipri.org/sites/default/files/2022-04/fs_2204_milex_2021_0.pdf)

<sup>436</sup> *France's Indo-Pacific Strategy Summary*, at [https://www.diplomatie.gouv.fr/IMG/pdf/en\\_a4\\_indopacifique\\_synthese\\_rvb\\_cle068e51.pdf](https://www.diplomatie.gouv.fr/IMG/pdf/en_a4_indopacifique_synthese_rvb_cle068e51.pdf)

decoupling: South Korea is a case in point, reducing trade exposure as China cannot stop missile launches from North Korea.

However, China poses difficult dilemmas for the Anglosphere and the economic, defense and military alliances between countries with similar cultural backgrounds, ideologies and political systems, preeminent in global affairs. In the merchandise trade front, it is possible to differentiate two groups of nations:

- On the one hand, the US, the UK and Canada, these are the most important nations in terms of GDP and population, registering gigantic trade deficits with China in 2021. As stated, the US registered a 379 billion trade deficit with China in 2021; the UK, almost 66 billion, and Canada almost 35 billion. The three deficits combined amount to the annual GDP in PPP terms of affluent countries like Austria<sup>437</sup>.
- On the other hand, in the Antipodes, you have Australia and New Zealand, registering<sup>438</sup> sizeable trade surpluses with China in their primary sector trade. In these nations (see section 3.3), the political influence of the Chinese Diaspora and the CPC United front in the political and business spheres is remarkable. 5.5% of the population of Australia has Chinese ancestors<sup>439</sup>, and most of them came after the “Whites Only” immigration policy, that lasted until the 70s. In the case of Australia, the trade surplus was 70 billion, but exports to China amount to 32% of total exports. This second group of nations, as stated, are extremely vulnerable to Beijing’s trade pressures. However, Australian exports of Iron to China are essential for Chinese industries, a critical input for their economy.

AUKUS has a logical precedent in the intelligence sharing *Five Eyes Alliance*<sup>440441</sup>, in the Anglosphere, but collaboration with India, in the QUAD, was handicapped by traditional Indian strategic non-committal<sup>442</sup>, and Delhi’s misgivings about British participation in AUKUS, given its not so distant colonial memories. Russia provides 20% of India’s energy needs (imports increased after the Ukraine war started<sup>443</sup>), and a substantial proportion of its arms imports. However, Russian ties with India and ASEAN have been strengthened.

Canada has not joined AUKUS yet, even though it is a member of the Five Eyes Alliance. The trajectory of the idealistic, allegedly progressive, foreign policy of Canada under Premier Trudeau, embodied during the tenure of Christya Freeland<sup>444</sup>, ex Minister of Foreign Affairs (now Minister of Finance), seems to be an obstacle on the road for integration. However, Canada seems to be waking up<sup>445</sup> to the China threat, and it is feeling more and more isolated in terms of Indo Pacific geopolitics.

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<sup>437</sup> *The World Factbook, Real GDP (purchasing power parity)*, at <https://www.cia.gov/the-world-factbook/field/real-gdp-purchasing-power-parity/country-comparison/>

<sup>438</sup> Source: *Observatory of Economic Complexity (2021)*, at <https://oec.world/en>

<sup>439</sup> *2023 Being Chinese in Australia, Public Opinion in Chinese Communities*, at <https://www.lowyinstitute.org/event/2023-being-chinese-australia-public-opinion-chinese-communities>, pp. 4-5.

<sup>440</sup> *Five Eyes Intelligence Oversight and Review Council (FIORC)*, at <https://www.dni.gov/index.php/ncsc-how-we-work/217-about/organization/icig-pages/2660-icig-fiorc>

<sup>441</sup> *The Five Eyes – The Intelligence Alliance of the Anglosphere*, at <https://ukdefencejournal.org.uk/the-five-eyes-the-intelligence-alliance-of-the-anglosphere/>

<sup>442</sup> Paskal, *op. cit.*, pp. 28-29.

<sup>443</sup> Babina, Tania; Hilgenstock, Benjamin; Itskhoki, Oleg; Mironov, Maxim; Ribakova, Elina: “Assessing the Impact of International Sanctions on Russian Oil Exports”, *SSRN* (23 May 2023), 31 pages, p. 9, at <http://dx.doi.org/10.2139/ssrn.4366337>.

<sup>444</sup> *Remarks by the Deputy Prime Minister at the Brookings Institution in Washington, D.C.* at <https://deputypm.canada.ca/en/news/speeches/2022/10/11/remarks-deputy-prime-minister-brookings-institution-washington-dc>

<sup>445</sup> Cecco, Leyland: “Canada hopes to join AUKUS defence pact, says report”, *The Guardian*, 8 May 2023.

There are serious concerns about the potentially negative implications of this situation, Liberal accusations of neglect in Foreign Policy domains abound in Canada<sup>446</sup>.

Stephen Nagy, a respected Canadian specialist, proposes a more pragmatic approach to the Indo Pacific situation, re engaging in terms of trade with the region, through the CTPP, the US led free trade regional agreement, and intensifying relations with QUAD members, especially Japan<sup>447</sup>. The financial situation of Canada is not sound, and Trudeau declared Canada did not have the economic resources to join AUKUS nuclear submarines programme. However, Ukraine is a game changer, and Canada is reinforcing cooperation with the US in view of Russia's aggressive foreign policies.

France, the only remaining nuclear power in the EU, is definitely the unknown power in the Pacific<sup>448</sup>: France controls the second largest exclusivity zone in the world with (10.2 million km<sup>2</sup>), most of it in the Indo Pacific (9 million), but their limited military forces in the region makes this claim uncertain, given China's gigantic military effort and regional power projection strategies<sup>449</sup>. However, French high tech Defense hardware is second to none, while France still has significant capabilities<sup>450</sup>, albeit budgetary constraints are impairing new developments. Therefore, it is not strange that France opposes China's willingness to become the world hegemonic power, but it is also uncomfortable with the growing competition between the US and China. The Government of France felt betrayed<sup>451</sup> during the negotiations of AUKUS, probably fuelling historical French Anti Americanism. L'Entente Cordiale suffered a second post Brexit blow, when Australia cancelled a 40 billion submarines contract with France's Naval Group, to immediately sign a new one with the US and the UK to produce state of the art nuclear submarines for Australia.

The agreement entailed transferring strategic nuclear submarines with American technology to Australia, and joining the exclusive club of nations with a seat in the United Nations, able to afford these technologies. Besides being a blow to the French military industrial complex, and European Defence industries in general to foster the Anglo-Saxon ones, this probably widened the Transatlantic Breach. Nevertheless, there were sound reasons for acquiring nuclear submarines that might compensate for its high cost (2 to 2.2% of Australia's GDP), and long term commitment of resources, as well as substantial operations hurdles to put the program in motion. According to Childs<sup>452</sup>, Senior Fellow of the IISS:

*“For now, though, the nuclear-powered-submarine option looks like the most potent, survivable and operationally independent means of establishing a long-range power-projection capability for Australia”.*

Nuclear-powered general-purpose attack submarines (SSNs), move at higher speeds, underwater, for practically unlimited periods, undetected, something French submarines could not provide. Besides, SSNs support a wider and more effective array of systems and weapons than conventional ones. The

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<sup>446</sup> Carvin, S., and Juneau, T.: “Why AUKUS and not CAUKUS? It's a Potluck, not a Party”, *International Journal*, Vol. 78, Issue 3 (September 2023), pp. 359-374, at <https://doi.org/10.1177/00207020231195109>

<sup>447</sup> Nagy, Stephen, “It's time for Canada to implement a foreign policy reset”, *Japan Times*, 21<sup>st</sup> September 2023, at <https://www.japantimes.co.jp/commentary/2023/09/21/world/canada-foreign-policy/>

<sup>448</sup> Grare, Frederic: “France, the Other Indo-Pacific Power”, *Carnegie Endowment for International Peace* (October 2020), at <https://carnegieendowment.org/2020/10/21/france-other-indo-pacific-power-pub-83000>.

<sup>449</sup> Perrot, Sophie: “Can France's Military Live Up to Its Ambitions in the Indo-Pacific?”, *The Diplomat*, June 2022, at <https://thediplomat.com/2022/06/can-frances-military-live-up-to-its-ambitions-in-the-indo-pacific/>.

<sup>450</sup> Mirallès, Patricia et Thiériot, Jean-Louis (17 February 2022): *Rapport de la Commission de la Défense Nationale et des Forces Armées*, Assemblée Nationale, Paris, at [https://www.assemblee-nationale.fr/dyn/15/rapports/cion\\_def/115b5054\\_rapport-information](https://www.assemblee-nationale.fr/dyn/15/rapports/cion_def/115b5054_rapport-information).

<sup>451</sup> Ricard, Philippe: “Alliance Aukus: la France a mis du temps à digérer l'affront”, *Le Monde*, 14 March 2023.

<sup>452</sup> Childs, Nick: “The AUKUS Anvil: Promise and Peril”, *Survival Online, IISS* (October-November 2023), pp. 7-24, at <https://www.iiss.org/online-analysis/survival-online/2023/10/the-aukus-anvil-promise-and-peril/>

agreement would have included the interoperability and integration of old and new SNNs forces and systems, among AUKUS partners, enhancing synergies and operational effectiveness. This is the deployment in Australia of special joint bases, to contain China's strategic ambitions in the region.

And the most important, AUKUS brought with it a second pillar of capabilities, complementary to those of the Five Eyes, entailing the latest developments in cyber and artificial intelligence (AI), quantum and undersea-warfare technologies, as well as advances in the hypersonic and counter-hypersonic domains, electronic warfare, innovation and information-sharing.

Excluding France from the Anglosphere negotiations in AUKUS (September 2021), was probably an American mistake in terms of coordination, trust and power projection. It might increase divisions inside the EU in relation to China: The most important military power in the EU today, France, would not participate in the most important Western Alliance in the Indo-Pacific to contain China.

Nevertheless, bilateral relations between France and Australia have since improved. By February 2023<sup>453</sup>, there were joint plants to produce essential military hardware for the Ukrainian War on an ongoing basis. This agreement was announced in the Franco-Australian "2+2 meeting" of foreign and defence ministers. A change of government in Australia in November 2022, under Labour, with Albanese as Prime Minister, might have made the situation less unpleasant for Paris. Albanese has Kevin Rudd in his team as a close political ally, the views of Rudd, now Ambassador of Australia in the US, and Labour party dynamics, might have also pulled them in this pragmatic direction.

Australia paid compensation of 835 million US\$ to France, for cancelling the submarines deal. This was a first step in the right direction to recognised France's key role in the Indo Pacific, to contain China and guarantee free navigation of the South China Sea. However, there were obstacles on the road ahead, when Australia substituted the European made Taipan helicopter fleet, allegedly plagued with operational errors and maintenance issues<sup>454</sup>, to replace it with 40 American-made UH-60M Black Hawks, causing resentment in France. Even so, in Paris there is a keen interest in promoting an EU free trade deal with Australia.

Germany, the second most important military power in the EU, attempted to dock its Bayern frigate in the port of Shanghai on its maiden Indo-Pacific voyage (August 2021)<sup>455</sup>, as a show of goodwill and to defuse increasing US-China tensions. However, the Chinese military refused to give them permission to do so. This was a small vessel in comparison with those of the US NATO allies, Japanese and Australian fleets that had already been patrolling the South China Sea for months in advance.

Again, Merkel's attempts to preserve the status quo probably resulted in relative reputational damage for Germany, opening new avenues for China's influence in Europe, in the traditional divide and rule mode directed against the US. The Bayern situation was probably influenced by Chinese hierarchical visions of International Relations, where this type of hesitancy is contemplated as a sign of weakness, by applying more pressure over second tier powers than the hegemon<sup>456</sup>.

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<sup>453</sup> Staunton, Eglantine, "France-Australia: Salving the wounds of AUKUS", *Lowly Institute-The Interpreter* (2<sup>nd</sup> February 2023), at <https://www.lowyinstitute.org/the-interpreter/france-australia-salving-wounds-aucus>

<sup>454</sup> *Australia to retire Taipan helicopter fleet early after crash*, at <https://www.reuters.com/world/asia-pacific/australia-retire-taipan-helicopter-fleet-early-after-crash-2023-09-29/>

<sup>455</sup> Kastner, Jens: "German frigate heads to South China Sea; seeks to dock at Shanghai", *Asia Nikkei*, 18 August 2021, at <https://asia.nikkei.com/Politics/International-relations/Indo-Pacific/German-frigate-heads-to-South-China-Sea-seeks-to-dock-at-Shanghai>

<sup>456</sup> *The underside of globalisation (Interview with Mark Leonard) (16.12.2021)* at <https://www.ft.com/content/41cc406b-7582-48aa-b56f-9b36af5f3596>.

The Bayern incident challenged Borrell's "My Way" posture, the Head of European Diplomacy's position on an alternative independent European policy to deal with China,<sup>457</sup> still considered, simultaneously, a "systemic rival, a partner and a competitor". However, Borrell himself changed the conciliatory tone in his approach to China lately. The close China-Russia partnership that was reinforced after the start of the Ukraine War; Beijing's provocations against Taipei, and the EU trade deficit with China in 2023 motivated a significant change in EU policy direction towards Beijing.

The EU aims for a "clear eyed" but not confrontational approach<sup>458</sup>, giving hints of the relative weaknesses of the EU in the military domains versus the US umbrella. So China's "no limits friendship" with Russia in the Ukraine war, would have given prominence to "rivalry", versus "competition" and "partnership" in the EU's dealings with a China progressively driven by ideological determinants, and closer to Russia.

The rapid PESTL environment change in China and its increasingly aggressive international posture changes possible options. The EU (2023) took a progressively more protectionist and vigorous stance towards China's artificial competitiveness, and geopolitical challenges. In the EU the byword now, like in the US, is "de-risking" (see section 3.6, for a more detailed explanation). Brazil, Chile, Nigeria, and Kazakhstan are four key "priority countries" the EU aims to keep close in its efforts to deal with Russia and contain China.

The Ukrainian war was a game changer for Germany, propelling a massive boost in Defence Expenditure and acquisition of US hardware, valued up to 2% of GDP, the highest levels since World War II. Besides, the US needs the resources of the EU to cope with the China threat, as Chinese defence expenditures will grow in tandem with its GDP and economies of scale. The integration of EU and US military hardware industries, given growing fiscal deficits both sides of the Atlantic, seems the sensible path to follow, avoiding an inter-industrial confrontation on both sides of the Atlantic which share the same political interests (see section 3.8).

The Bayern frigate issue incited a substantial number of debates. Public reactions persuaded Germany not to ignore the implications of Indo-Pacific developments, particularly after China intensified pressure on the South China Sea and Taiwan disputes. According to MERICs<sup>459</sup>, Germany intensified its presence and involvement in regional military matters in its new Asian strategy. Therefore, Germany participated in the *Pitch Black* and *Kakadu* joint exercises in Australia, deploying aircraft. With this came a pledge to expand its military presence in the Pacific, in the form of more warships and joining future regional drills with allies in the region, including joint exercises in Singapore<sup>460461</sup>.

The respect of the United Nations Convention on the Law of the Seas (UNCLOS<sup>462</sup>), to guarantee free navigation in the South China Sea, is logically a prominent concern in Germany's Indo Pacific Strategy, given Germany's substantial economic interests in the region, as the leading exporter and investor of the EU in Asia. Helping Malaysia and Indonesia with capacity building to strengthen their coastguard forces, seems directly aimed at China's grey-zone tactics in the South China Sea. It

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<sup>457</sup> Josep Borrell: "My views on China and EU-China relations", at [https://www.eeas.europa.eu/eeas/my-view-china-and-eu-china-relations\\_en](https://www.eeas.europa.eu/eeas/my-view-china-and-eu-china-relations_en)

<sup>458</sup> EU proposes to recalibrate China strategy, at <https://www.euractiv.com/section/eu-china/news/eu-proposes-to-recalibrate-china-strategy/>

<sup>459</sup> Germany's shaky turn to the Indo-Pacific, at <https://meric.org/en/comment/germanys-shaky-turn-indo-pacific>

<sup>460</sup> Germany and the Indo-Pacific – three years of enhanced engagement in a key region in international politics, at <https://www.auswaertiges-amt.de/en/aussenpolitik/-/2617990> and <https://www.auswaertiges-amt.de/blob/2617992/61051683e7e1521583b3067fb3200ad8/230922-leitlinien-indo-pazifik-3-fortschrittsbericht-data.pdf>

<sup>461</sup> Germany says it will expand military presence in Indo-Pacific, at <https://www.reuters.com/world/germany-says-it-will-expand-military-presence-indo-pacific-2022-08-31/>

<sup>462</sup> UNCLOS, at [https://www.un.org/depts/los/convention\\_agreements/texts/unclos/unclos\\_e.pdf](https://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf)

includes participation in an array of military capacity enhancing programs with ASEAN nations, to help these and other countries like Vietnam.

As MERICS sagely points out, the problem is the lack of a coherent German strategy towards China. The main contradiction would be how to reconcile Germany’s ambitions in the Indo-Pacific and their economic interests in China, with their reluctance to anger the Chinese government. Germany and to a lesser degree France, also have substantial economic interests in China. It is not shocking that, in the Indo Pacific strategy of the German Republic, China is barely mentioned. Germany and France’s fear of provoking China is always in the background, be it in official documents or proclamations.

Exporters	Table 3. US trade <b>deficits</b> /surplus		
	Value imported in 2022 (USD thousand)	Trade balance 2022 (USD thousand)	Share in United States of America's imports (%)
World	3,375,948,186	-1,313,010,925	100
China	575,710,081	-421,872,990	17.1
Mexico	459,205,003	-134,827,140	13.6
Canada	448,335,040	-93,341,539	13.3
Japan	154,445,767	-74,128,621	4.6
Germany	150,461,562	-77,539,232	4.5
Viet Nam	135,876,564	-124,478,451	4
Korea, Republic of	120,872,022	-49,401,606	3.6
Taipei, Chinese	96,075,321	-52,362,497	2.8
India	90,992,157	-43,659,947	2.7
Ireland	82,505,724	-66,537,139	2.4
Italy	71,904,369	-44,486,755	2.1
United Kingdom	65,406,654	11,894,284	1.9
Thailand	63,012,091	-47,419,461	1.9
Switzerland	60,250,239	-23,277,363	1.8
France	59,106,519	-12,162,946	1.8
Malaysia	56,896,741	-38,789,539	1.7
Brazil	41,370,532	12,207,175	1.2
Indonesia	37,263,065	-27,276,973	1.1

Source: Trademap (2023)

Dissensions between France and the European Union were evident during the last EU visit to China in April 2023. Back then, France’s President, Macron, expressed interest in not getting France caught in a US-China confrontation, while the European Commission and other European nations, had already adopted a much more determined stance against China since 2021<sup>463464</sup>. Curiously, this EU

<sup>463</sup> Hennessy, Alexandra: “The impact of Russia’s war against Ukraine on Sino-European relations”, *Journal of European Integration*, Vol. 45, Issue 3 (2023), pp. 559-575, available at <https://doi.org/10.1080/07036337.2023.2201497>.

<sup>464</sup> Sorgi, Gregorio “EU: Macron and von der Leyen were united in the room with China’s Xi”, *Politico* (11 April 2023), available at <https://www.politico.eu/article/eu-says-macron-von-der-leyen-were-united-in-china-beijing-taiwan-mamer-unilaterally-change>

China meeting was going on while PLA planes increased the intensity of their flights over Taiwanese air space, as a consequence of the controversial visit to Taiwan of Nancy Pelosi, Speaker of the Congress of the US.

The strategic autonomy in Europe versus China would rely on France's limited military capacities. However, Macron's declarations in Beijing exuded a certain French "*grandeur*" that does not correspond with economic and military realities and France's budgetary constraints. Such a gesture is simply contradictory to developments in China, and the more aggressive stance of the rest of the EU in relation to Beijing's policies. The sovereign debt of France is already near 100% of GDP.

A divided Europe in events of such calibre, celebrated in a Chinese context, was an excellent opportunity for China to promote its interests. The differences between Macron and the EU during the meeting caught the attention of CCP officials, focused on creating fissures between the positions of Macron and von der Leyen<sup>465</sup>. She was part of the the delegation during the EU visit to Beijing.

Months before, in November 2022, German Chancellor Scholz's visit to China, motivated by business considerations<sup>466</sup>, reinforced divisions in Europe. This happened after Germany allowed a strategic participation of China's COSCO in the port of Hamburg. Both events were received very critically, by the German opposition as well as Scholz coalition partners. Germany, logically vies for keeping multilateral initiatives and free trade, as the source of the prosperity of the Republic. Human Rights or Democracy has recurrently been a secondary concern in bilateral relations.

The traditional multilateral, liberal global order, and the partially liberal economic relations with China, would be threatened by China's ideological stance and aggressive behaviour. According to Ulatowski<sup>467</sup>, the world would be moving "*from a liberal to a realist order*". This is in the global context a progressively protectionist environment (EU, US). The stated role of Germany, as the leading EU exporter to both China and South East Asia, this is to say its interest in preserving the liberal trade order as it is, would have led Beijing to foster the promotion of further integration in ASEAN, while intensifying its cooperation with nations sharing the same liberal values of the Federal Republic in Asia.

While the Chinese miracle was in full swing and German businesses were making money in China, a probably overconfident Berlin turned a blind eye to Xi's policies. However, Germany is at last taking note of the complaints of other NATO partners, and starting to contemplate China as a threat to its economic security interests. The specific consequences of that "*realist*" order (see sections 2.2 and 2.3) were starting to be felt by large traditionally successful German corporations in China (such as VW, Bosch or BASF).

Germany had been losing economic ground in China since before the Ukrainian war started. Energy costs, in the form of American gas prices, skyrocketed in 2022, and Germany's industries felt the brunt of the contraction of Russian hydrocarbons imports. This particularly impacted German companies based in China: Car makers like BMW, companies like BASF in chemicals, and other energy intensive producers. In the meantime, China is rapidly gaining strength in technologies and traditional sectors previously dominated by Germany, in tandem with the improvement of industrial

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<sup>465</sup> *Europe must resist pressure to become 'America's followers,' says Macron*, at <https://www.politico.eu/article/emmanuel-macron-china-america-pressure-interview/>

<sup>466</sup> Anonymous: "Scholz criticized over China's Cosco bid in Hamburg port", at <https://www.dw.com/en/germany-scholz-hit-with-backlash-over-plan-for-chinese-investment-in-hamburg-port/a-63505648>

<sup>467</sup> Rafał Ulatowski: "Germany in the Indo-Pacific region: strengthening the liberal order and regional security", *International Affairs*, Volume 98, Issue 2 (March 2022), pp. 383–402, at <https://doi.org/10.1093/ia/iia008>

technologies and organisational capabilities of Chinese corporations themselves that have left Germany behind in certain leading technological sectors (see sections 2.8).

Germany lacks good infrastructures and a sufficient number of unicorns in the telecommunications IT, Internet and digital economy of the future<sup>468</sup>. These are modern sectors in which China is at the forefront<sup>469</sup>, despite the fact that the German government is actively promoting these 1-billion-dollar high-tech start-ups (unicorns), with billions of financial support<sup>470</sup>. Cars, fine chemicals (and other export sectors in which Germany specialises), in the best-case scenario, are in the middle-high to high tech industrial groups classification, while value added today focuses on high tech sectors, where China is well positioned and becoming an international leader (EVs, the case in point).

Besides, the economic crisis in China (see section 3.8) affected Germany's exports to China. These fell from 7.9% of total exports in 2016 to 6.1% in 2023, particularly cars and chemicals. However, these keep on being extremely important as German FDI in China. Germany accounts for 43% of FDI in China (September 2023), and this is still increasing, while overall, China is experiencing a massive capital flight, particularly from Germany's NATO partners, that are taking their money out of the country: Germany is doing exactly the opposite of her allies and partners in China<sup>471</sup>.

### **3.6 De-risking from China: Microchips and energy, and other sensitive sectors.**

The complex global value chains of microchip production stopped, as just-in-time deliveries were simply impossible under pandemic conditions. Covid-0 confinements induced key inputs shortages, causing stalled lines of production in Europe and the US, such as in the automotive sector. The Western world lacked Chinese semiconductors for months: 75% of manufacturing capacity is concentrated in East Asia, and China accounts for 21 to 24% of world production, and South Korea, 17%; the US and Europe only produce 8% and 10%, respectively. The concentration of certain strategic lines of production in China made the Western world vulnerable, given the increasing control exercised by Beijing over the strategic microchips sector<sup>472</sup>.

Therefore, well before Covid-19 related chip supply disruptions, there was a clear commitment to bringing back the bulk of semiconductor manufacturing to the US and EU, so as not to lose competitive edge and strategic leverage versus Asian competitors<sup>473</sup>. Japan, Korea and Taiwan followed similar policies. The US led the way with tens of billions in subsidies with the *Chips and Science Act*<sup>474</sup>. In tandem, Europe launched the *European Chips Act*<sup>475</sup> to kick-start its own chips re-shoring processes. The complex, advanced clusters to manufacture semiconductors are absent in Europe, so massive production subsidies for their production entails a great cost of opportunity for other technological sectors in which the EU is well positioned.

<sup>468</sup> *Why can't Europe's richest country go digital?*, at <https://www.dw.com/en/germany-and-digitalization-why-cant-europes-richest-countrand-get-up-to-speed/a-58273979>.

<sup>469</sup> Arnold, Martin y Nilsson, Patricia: "Big drop in German exports to China raises fears over EU's economic powerhouse", *Financial Times*, 24 May 2023.

<sup>470</sup> *Germany Sets up \$12 Billion Fund to Finance Technology Startups*, *Bloomberg*, 22 June 2021, at <https://www.bloomberg.com/news/articles/2021-06-22/germany-sets-up-12-billion-fund-to-finance-technology-startups>

<sup>471</sup> *Germany's H1 2023 FDI in China Remains Strong Despite "De-Risking" Strategy*, at <https://www.china-briefing.com/news/germany-china-trade-and-investment-h1-2023-de-risking/>

<sup>472</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 291-292.

<sup>473</sup> Varas, Antonio; Vardarajan, Raj; Yinug, Falan and Goodrich, Jimmy (Sep 2020): *Government Incentives and US Competitiveness in Semiconductor Manufacturing*, Semiconductor Industry Association and Boston Consulting Group, 27 pages, at <https://www.semiconductors.org/wp-content/uploads/2020/09/Government-Incentives-and-US-Competitiveness-in-Semiconductor-Manufacturing-Sep-2020.pdf>.

<sup>474</sup> *The White House: Chips and Science Act*, at <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>

<sup>475</sup> *The European Commission: European Chips Act*, at [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-chips-act\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-chips-act_en)

Europe is far behind the leading producing countries (US, East Asia) in production capabilities, so this bill has been criticised for providing insufficient funding, or being unrealistic in its objectives<sup>476</sup>. As Europe lacks strong home-grown industries, it relies on US technology and patents in their processes. The first large Intel chips foundry backed by EU funding, a 17 billion project<sup>477</sup>, is already operative in Ireland, but Europe's investments pale in comparison with the hundreds of billions assigned by the White house to promote American chip industries. Intel is the leading American manufacturer of microchips.

Confident of its growing strength in global industrial value chains, Beijing would be extremely concerned about technological vulnerabilities and dependencies. The sanctions against Chinese IT and microchips manufacturers, appropriating tons of sensitive and/or strategic data through servers in the West (see section 2.6), as well as the coordinated NATO response to the Ukrainian war (2021), have induced Beijing to accelerate plans for reaching technological self-sufficiency in the line of Made in China 2025<sup>478</sup>.

The fact that China has intensified provocations, through consistently larger military incursions against Taiwan and the Senkaku Islands (Japan), combined with chip shortages during Covid-19, were other factors that induced NATO and Asian allies, fundamentally Japan<sup>479</sup>:

- a) To reconsider the strategic importance of the “*chips island*” (21% of the world production of semiconductors is in Taiwan), and support the Taiwanese rearmament against Beijing's gigantic military build-up<sup>480</sup>.
- b) To increase their defense budget substantially. China's management of Covid-19 particularly shocked Japanese corporations; they have already asked for public support to take their large supply chains out of China (Japan has invested substantial industrial resources in China)<sup>481</sup>.

The combination of the Ukrainian war and a possible conflict in Taiwan may impair the strategic capabilities of NATO, as the US faces difficulties in dealing with two major conflicts simultaneously<sup>482</sup>. By October 2023, this could be three, if the Gaza War is taken into account.

Taiwan's TSMC, is the leading world manufacturer of advanced microchips, essential for military and civil applications, including the latest generation products for sectors such as smart phones and computers, aviation, hypersonic missiles or modern cars. TSMC is the leader of a strategic cluster of Taiwanese microchip industries producing more than 110 billion in revenue internationally.

ASE Group, AUO Optronics, and Mediatec, are also among the largest of Taiwanese producers. A conflict in Taiwan would definitely stop large, essential segments of the Western economies again, like during the Covid-0 confinements in China. And this would also have impacts on the other Asian allies, given the integration between the South Korean, Taiwanese and Japanese economies.

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<sup>476</sup> Dachs, Bernhard: “The European Chips Act”, *FIW-Policy Brief*, No. 58 (Feb 2003), at [https://fiw.ac.at/wp-content/uploads/2023/03/58\\_FIW\\_PB\\_58\\_Dachs\\_Chips\\_Act\\_final.pdf](https://fiw.ac.at/wp-content/uploads/2023/03/58_FIW_PB_58_Dachs_Chips_Act_final.pdf).

<sup>477</sup> *Intel's New Fab in Ireland Begins High-Volume Production of Intel 4 Technology*, at <https://www.intc.com/news-events/press-releases/detail/1652/intels-new-fab-in-ireland-begins-high-volume-production>, and <https://www.youtube.com/watch?v=RPXKMAA9Hmk>.

<sup>478</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 291-292.

<sup>479</sup> *Japan deputy PM comment on defending Taiwan if invaded angers China*, at <https://www.reuters.com/world/asia-pacific/japans-aso-peaceful-solution-desirable-any-taiwan-contingency-2021-07-06/>

<sup>480</sup> *Ibid.*, US-China Economic and Security Review Commission, pp. 2, 17-18.

<sup>481</sup> See Paskal, *op. cit.*, pp. 40-41.

<sup>482</sup> *U.S. Military Forces Cannot Fight on 2 Fronts (29.03.2022)*, at <https://www.heritage.org/defense/commentary/us-military-forces-cannot-fight-2-fronts>.

The resolute determination of the Taiwanese people, led by their two Presidents, Tsai Ing-wen and now Lai Ching-te, to keep Taiwan's democracy and political independence from PR China, in view of the Hong Kong crackdown, was also behind the increased tensions with Beijing<sup>483</sup>. The visit of Pelosi in August 2022, served Beijing's purpose to expand the isolation of Taiwan from international organisations and the world at large, like the WHO during Covid-19 (SARS-II). However, Taiwan's expertise was extraordinary, as the country contained the pandemic magisterially in 2020<sup>484485</sup>, thanks to intensive preparation after SARS-I (2003), 17 years before Covid-19 (SARS-II).

Taiwan-US conversations to intensify economic relations started, after PR China enacted sanctions against a variety of minor, unimportant economic Taiwanese sectors' exports to the Mainland (fish and fruit)<sup>486</sup>, as reprisals for Pelosi's visit. However, given their strategic value, China did not block sensitive imports of advanced Taiwanese chips, of the highest TSMC standards, the best in the world of its kind.

Taiwan logically wants to explore possibilities not to depend on PR China's value chains. Covid-19 and the war in Ukraine, forced advanced Western democracies to consider decoupling economically from authoritarian nations, such as Russia and China, quite particularly after the halting of essential Chinese value chains during the worst of Covid-19 (2022). However, one year later, China's combined exports to the EU and US reached an all-time high (2022), even if global exports receded markedly in October 2023 (see section 3.8), while Europe started decoupling from Russian hydrocarbon imports after the Ukrainian invasion.

The pandemic clearly illustrated how dangerous it was to rely on China for strategic<sup>487</sup> supplies. So some countries have started considering diversification from Chinese suppliers, moving their strategic production sites to other Asian countries or bringing them back home. This is in response to Chinese economic coercion, not just because of sanctions restricting access to Chinese markets to Western nations (Australia, Lithuania, among others), but by the whole long-term protectionist, artificial competition scenarios against Western interests in China<sup>488</sup>. In some cases, these sanctions were merely symbolic and had limited effects<sup>489</sup>.

However, full trade decoupling from China appears to be impossible in the near future, given the implications of the European economic short-term recovery, and the geopolitical context (Ukraine), as stated in von der Leyen's "*China doctrine*"<sup>490</sup>.

Would it even be recommendable given the sheer size and interdependencies induced by the long term, diversified Chinese foreign trade in industrial products? So the trend in the West has been to promote fair trade in a strategy of "*de-risking*" bilateral commercial exchanges as von der Leyen proposed, "*rebalancing*", to reduce dependency on strategic value chains in China; "*re-shoring*",

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<sup>483</sup> Ing-wen, Tsai: "Taiwan and the Fight for Democracy: A Force for Good in the Changing International Order", *Foreign Affairs*, Vol. 100, Issue 6 (Nov/Dec 2021), pp. 74-78.

<sup>484</sup> *Taiwan's Strong COVID-19 Response: Remarks by Foreign Minister Joseph Wu*, at <https://www.hudson.org/events/1796-video-livestream-taiwan-s-strong-covid-19-response-remarks-by-foreign-minister-joseph-wu42020>

<sup>485</sup> *Foreign Minister Wu talks Taiwan's COVID-19 response on Fox Business*, at <https://taiwantoday.tw/news.php?unit=10&post=174252>

<sup>486</sup> Anonymous: "China slaps trade bans over Pelosi's visit", *New Straits Times*, 17 August 2022, at <https://www.straitstimes.com/business/economy/china-slaps-trade-bans-on-taiwan-over-pelosi-visit>

<sup>487</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 291-292.

<sup>488</sup> *Ibid.*, pp. 589-590.

<sup>489</sup> See Macikenaite, *op. cit.*, pp. 108-126.

<sup>490</sup> *Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre* (03.03.2023), at [https://ec.europa.eu/commission/presscorner/detail/en/speech\\_23\\_2063](https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063)

bringing back key investments from Asia to the US or EU, and “*friend-shoring*”, this is promoting trade and investment between democratic countries who share the same values<sup>491</sup>.

So, in accordance with the US Chips and Science Act, in order to halt the advance of the PR China in their competition with the US, Washington and Brussels decided to restrict exports<sup>492</sup> of state-of-the-art microchips technology. The objective was to try to stall China’s vertiginous rate of change in the technological domains, something that lately has been extended to microchips with Artificial Intelligence (AI) applications<sup>493</sup>.

This was possible because the other non-Taiwanese large manufacturers of advanced microchips technology are either American, or in the American orbit: Samsung in Korea or Intel in the US, are among the other industry leaders. Induced by American pressures on the EU, ASML (Holland), the world’s leading manufacturer of semiconductor manufacturing equipment (printers), decided to block the export of advanced chip printers to Mainland China (2023)<sup>494</sup>.

In parallel, and in view of the Ukraine War, in response to Russia’s sway over key energetic and agricultural inputs, essential for Europe’s security, and to counter an assertive China driven by artificial competitiveness, the EU introduced a variety of trade defense measures. From tariffs on steel and medical devices to stop imports from China, to measures against the discrimination against EU railroad equipment providers in China. These Trade Defense measures, driven by the 400 billion EU trade deficits with China in 2023, were logically going to put the EU on a collision course with the CCP. Beijing<sup>495</sup> has repeatedly protested these and US equivalent measures.

The new EU comprehensive strategy faces divisions between different European governments and corporate actors, given the importance of markets in China for Europe’s largest economies, Germany and France in particular (see section 3.5). However, in June 2023 Commissioner Borrell presented the “*European Economic Security Strategy*”<sup>496497</sup>, to complement Ursula von der Leyen’s “*China Doctrine*”.

The core objectives were to foster “*de-risking*” in China and Russia, as well as the promotion of technological leadership in Europe, by taking into account:

- Risks to the resilience of supply chains, including energy security.
- Risks to the physical and cyber security of critical infrastructure.
- Risks related to technology security and technology leakage.
- Risks of weaponisation of economic dependencies or economic coercion.

In sum, these policies would entail, on the one hand, keeping Europe open to trade and investment; on the other, increasing protection in areas relevant to International Security. For examples, a battery

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<sup>491</sup> IISS, *Japan Memo: Japan, economic security and a Taiwan contingency with Meia Nouwens, Martijn Rasser and Mariko Togashi*, at <https://www.iiss.org/podcasts/sounds-strategic/2022/11/japan-economic-security-and-a-taiwan-contingency>

<sup>492</sup> *Commerce Department Outlines Proposed National Security Guardrails for CHIPS for America Incentives Program*, at <https://www.commerce.gov/news/press-releases/2023/03/commerce-department-outlines-proposed-national-security-guardrails>

<sup>493</sup> *US orders immediate halt to some AI chip exports to China, Nvidia says*, at <https://www.bbc.com/news/business-67213134>

<sup>494</sup> Haeck, Pieter: “The Netherlands to block export of advanced chips printers to China”, *Politico*, 08 March 2023, at <https://www.politico.eu/article/netherlands-impose-restrictions-chips-export-to-china-asml>

<sup>495</sup> Lau, Stuart; Gijs, Camille and Posaner, Joshua: “EU talks tough on trade in China as it looks to play defense”, *Politico*, 25 September 2023, at <https://www.politico.eu/article/eu-talk-tough-trade-china-look-play-defense-valdis-dombrovskis-he-lifeng/>

<sup>496</sup> *LEAK: EU eyes trade defence tools to protect industrial, defence sectors from China*, at <https://www.euractiv.com/section/global-europe/news/leak-eu-eyes-trade-defence-tools-to-protect-industrial-defence-sectors-from-china/>

<sup>497</sup> *Economic security: a new horizon for EU foreign and security policy*, at [https://www.eeas.europa.eu/eeas/economic-security-new-horizon-eu-foreign-and-security-policy\\_en](https://www.eeas.europa.eu/eeas/economic-security-new-horizon-eu-foreign-and-security-policy_en)

of export controls and restrictive third-party access measures targeting China and Russia were enacted, to prevent access to key technologies such as advanced semiconductors, research projects, or the ability of China and Russia to participate in joint ventures in sensitive sectors with “*dual use*” military-civil applications, with possible implications for national security.

This coincided with the EU Commission recommendation to remove Chinese IT infrastructure and hardware from their national networks. Logically, Chinese espionage and European IP theft in their industrial and military dimensions, as sources of EU competitiveness and hard power, are on the radar of the European Commission, with special attention to Huawei and ZTE (see again sections 2.6 and 2.8).

In view of the war in Ukraine, direct gas imports from Russia to the EU would have gone down substantially by the end of 2023<sup>498</sup> (although indirect and illegal trades are pervasive). Europe would have substituted a substantial amount of Russian hydrocarbons with more expensive<sup>499</sup> American gas during 2022, as well as gas from other sources. In the meantime, Russian oil & gas have been sold to India at very low prices.

The indirect support of China to Russia in the Ukrainian War is a game changer for EU relations with China. For example, Russian imports from China of essential precision CNC machinery with high tech military applications, previously imported from the EU, went up more than 700%<sup>500</sup> since the war started. However, substantial dependencies on Russian energy supplies have continued, particularly in Eastern and Central Europe. This includes Russian nuclear energy exports not subject to any sanctions<sup>501</sup>.

Gas prices in Europe at the height of the Ukraine crisis ended up being seven times higher than prices in the US. These issues, combined with the contraction of Russian and Ukrainian agricultural sector imports, dealt a hard blow to European industries and the acquisitive power of its workers. Meanwhile, while imports of oil from the Middle East to the US and the EU have been reduced markedly in the last decade, Chinese imports from the region skyrocketed (2010-2021). So now China imports about five times more oil from the Middle East than either the US or the EU. Logically China gained ground in the Middle East, especially in Saudi Arabia (Sunni) and Iran (Shiite), by brokering agreements between the two countries.

This is significant given the ongoing war in Yemen, and a blow to US diplomacy in a region where America has been traditionally dominant in Security terms.

Biden’s mistakes in relation to the Saudis have not helped<sup>502</sup>. Blinken stopped arms shipments to the Sunni Saudi military to repress the Teheran backed Shiite Houthis in Yemen, as soon as Biden’s inauguration was over<sup>503</sup>. However, months later, after the Israeli invasion of Gaza, the same Houthis

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<sup>498</sup> *Russian gas exports to EU seen dropping sharply in 2023, state bank VEB says*, at

<https://www.reuters.com/business/energy/russian-gas-exports-eu-seen-dropping-sharply-2023-state-bank-veb-says-2023-09-05/>

<sup>499</sup> Hernández, América: “Why cheap American gas costs a fortune in Europe?”, *Politico*, 15 November 2022, at

<https://www.politico.eu/article/cheap-us-gas-cost-fortune-europe-russia-ukraine-energy/>.

<sup>500</sup> Leahy, Joe; Cook, Chris; Seddon, Max and Harlow, Max: “China’s advanced machine tool exports to Russia soar after Ukraine invasion”, *Financial Times*, 2 January 2024, at <https://www.ft.com/content/d16c688d-9579-4f1d-a84f-ca29ca2f0bc0>

<sup>501</sup> *Conscious uncoupling: Europeans’ Russian gas challenge in 2023*, at <https://ecfr.eu/article/conscious-uncoupling-europeans-russian-gas-challenge-in-2023/>

<sup>502</sup> Walt, Stephen M.; Miner, Michael; Elliott, House Karen; Nye, Joseph S.; Golub, Grant; Asadzade, Peyman; Alyahya, Mohammed and Sobelman, Daniel: “Significance of the Iran-Saudi Arabia Agreement Brokered by China” in *Analysis and Opinions* (14.03.2023), at <https://www.belfercenter.org/publication/significance-iran-saudi-arabia-agreement-brokered-china>., and <https://www.belfercenter.org/research/publication-type/analysis-opinions?page=1>

<sup>503</sup> *Yemen: Biden temporary freeze of arms sales to Saudi Arabia and UAE is welcome*, at <https://www.amnesty.org/en/latest/press-release/2021/01/yemen-biden-temporary-freeze-of-arms-sales-to-saudi-arabia-and-uae-is-welcome/>

who attacked Arabian oil refineries months ago (20/03/2022) are using the same Iranian drones to bomb vessels in the Red Sea today (31/12/2023), distorting world trade patterns and traffic through the Suez Canal<sup>504</sup>. The ability of the US, the UK and EU allies to maintain stability in the Arabian Peninsula, is the determining factor behind further approaches of Gulf monarchies to China and Russia. The resentment of the Saudis with US Foreign Policy is understandable.

The ambitious Green reduction of C2O emissions and the clean energy targets set by the EU and US, that China does not respect<sup>505</sup>, are an impediment for Western relations with the Gulf Monarchies. These have discouraged short-term fixed capital investments in upstream oil extracting activities in the Middle East (2018-2022), exacerbated by the pandemic, and followed by strategic OPEC oil production cuts in 2022-3<sup>506</sup>. It is obvious that if Europe does not want Putin's or Middle East hydrocarbons, India and China want them. Asia drives investment to pre pandemic levels in the oil & gas sector<sup>507</sup>, while Europe and the US indulge in overambitious carbon substitution plans, and prices stabilise.

China depends on the Middle East region for 50% of its energy needs<sup>508</sup>, so these countries are strategic for the Belt and Road Initiative, the destination of multiple cooperation programmes to enhance China's soft power. As proof of the strategic importance of the Gulf region for China, one third of the world's oil moves through it, the Belt & Road Initiative put in motion a variety projects to avoid the Strait of Hormuz. Certain projects would allow China's oil tankers to bypass the Strait or avoid navigating near US bases in the Persian Gulf<sup>509</sup> (in every country excepting Iran).

China has built an oil pipeline that stretches from At Khalifa Port in Abu Dhabi (UAE), to the Port of Fujairah, and it is also investing billions in the new Duqm Port<sup>510</sup> (both of them in Oman). So after Djibouti, there is the potential for dual use (military/civil) of these infrastructures. The implications are obvious for the Chinese PLA in the most strategic choke point for energy trade. In the meantime, the US has become both self sufficient and a net exporter of hydrocarbons, therefore leaving Europe dependent on energy supplies from the Middle East and the US itself.

The oil price situation might change with the war in Gaza, given linkages between Iran and Russia and the severity of Hamas attacks on Israeli territory, and after Israel's devastating response in Gaza, China sided with Russia on the support of the Palestinians. Nevertheless, in view of the attacks on Red Sea vessels on their way to the Suez Canal, at the moment of writing oil prices were stable, and US production and exports to the EU were boosted. However, this situation is affecting Chinese trade interests, as Chinese container ships have to avoid the Suez Canal, and their merchandise becomes more expensive in the West, while BRI projects in the MENA region are indirectly affected.

US multinationals are reevaluating their investments and value chains in China, and postponing new expansion plans: In 2022 US capital outflows from China increased, but it is not certain what will

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<sup>504</sup> *US, UK forces repel 'largest attack' by Houthis in Red Sea*, at <https://www.reuters.com/world/us-uk-forces-shoot-down-houthi-missile-drone-attack-red-sea-us-military-2024-01-10/>

<sup>505</sup> *European Commission: Joint Statement by President Biden and President von der Leyen* (10.03.2023), at [https://ec.europa.eu/commission/presscorner/detail/en/statement\\_23\\_1613](https://ec.europa.eu/commission/presscorner/detail/en/statement_23_1613)

<sup>506</sup> *What oil production cuts were agreed at OPEC+ meeting?*, at <https://www.reuters.com/business/energy/how-opec-deal-cuts-oil-supply-until-end-2024-2023-06-05/>

<sup>507</sup> *World Energy Investment 2023*, at <https://iea.blob.core.windows.net/assets/8834d3af-af60-4df0-9643-72e2684f7221/WorldEnergyInvestment2023.pdf>, p. 59

<sup>508</sup> Xianli Jiao, Janet: "China's Energy Diplomacy Towards the Middle East, in the BRI Era: Energy Versus Geopolitics", in: Zoubir, Yahia H. (ed.) (2023), *Routledge Companion to China and the Middle East and North Africa*, Taylor & Francis, 490 pages.

<sup>509</sup> *US bases at the Middle East*, at <https://www.americansecurityproject.org/national-security-strategy/u-s-bases-in-the-middle-east/>

<sup>510</sup> Funairole, Matthew P.; Hart, Brian, and McElwee, Lily: "Dire Straits, China's Push to Secure Its Energy Interests in the Middle East", in *CSIS Hidden Reach* (3 Feb 2023), at <https://features.csis.org/hiddenreach/china-middle-east-military-facility>

happen in 2024<sup>511512</sup>. As with semiconductors, sanctions also entail restricting or bringing back strategically sensitive EU/US investments from China that might affect Western national security or leadership in key high-tech industries. Inversely, other actions are limiting Chinese participations in Western companies which are producing these state-of-the-art technological solutions, back home.

The general mood seems to be in line with James Baker III<sup>513514</sup>: Cooperating with China on the one hand, economically and technologically, while confronting it on key issues for Western interests like the South China Sea. However, partial decoupling entails dangers and contradictions, as the China that does not play by the rules is also pushing the EU and the US to take a more protectionist stance.

In the US this is through *Bidenomics*, the protectionist tariffs and subsidies to protect native, mainly high-tech US industries, that could cause inefficiencies and a new transatlantic rift in international trade matters with the EU. Critics of *Bidenomics*<sup>515516</sup> have pointed out that this will lead to distortions, preventing the more efficient, international, market driven allocation of industrial resources. *America First* protectionist policies, devised under Biden are not very different from those against the EU under Trump, so things have not changed much<sup>517</sup>. The US could be becoming more “*Chinese*”, by replicating the causes of the recent economic “*crisis*” in China (see section 3.8), to counteract China.

Corporations intervened in or managed by Governments, tend to be much less efficient than purely commercial concerns operating for profit making purposes. As stated, at a Western scale, gigantic EU subsidies for US microchip manufacturing plants in Europe might result in substantial losses, in terms of the opportunity cost of not investing in other promising sectors, where Europe has the lead.

The EU logically rejects Biden’s subsidies that benefit American industries and put European Union ones at a disadvantage in the US markets. Trade wars and internal divisions (like Brexit) do not benefit NATO nations and allies, because these are countries that play by the rules, as opposed to China. These are fair competition embodied in Competition Law<sup>518519</sup> and Legal Security, backed by institutional capacity, among other factors. Besides, trade disputes among allies benefit China.

This is the logical consequence of a growing China threat under artificial competitiveness conditions. In this setting, while China expands its trade with developing countries, gaining market share and influence to define global rules and promote its values, the West is not taking advantage of transatlantic economies of scale and specialisation among friendly nations.

Therefore, further transatlantic integration (EU and US) of civil and defense industries between developed NATO nations, might result in efficiency from increased free trade<sup>520</sup> and economies of scale, by reducing duplications and waste in high tech sectors. The liberal trade system before Covid-19 and the Ukrainian War was far from perfect, and China took advantage of its loopholes. However, “*friend-shoring*” combined with transatlantic integration, might work among developed nations with sufficient administrative capacity to abide by WTO principles.

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<sup>511</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 589-590.

<sup>512</sup> See Goldstein, *op. cit.*, pp. 199-201.

<sup>513</sup> European Business in China, Position Paper 2022/2023, *op.cit.*, p.31

<sup>514</sup> *A conversation with James Baker III (29.09.2021)*”, at <https://www.youtube.com/watch?v=aZVFIaMhZ-o>

<sup>515</sup> *The problem with Bidenomics*, at <https://www.ft.com/content/b0290073-a210-4d4a-b528-b57eb6c65c23>

<sup>516</sup> *What is Bidenomics and is it working?*, at <https://www.ft.com/content/96bbb489-8421-4963-a263-453f94262c63>

<sup>517</sup> Anonymous, “Europe should not be copying Bidenomics”, *The Economist*, 12<sup>th</sup> October 2023, at

<https://www.economist.com/leaders/2023/10/12/europe-should-not-copy-bidenomics>

<sup>518</sup> *The Antitrust Laws*, at <https://www.justice.gov/atr/antitrust-laws-and-you>

<sup>519</sup> *Competition Policy*, at [https://competition-policy.ec.europa.eu/antitrust-and-cartels/legislation\\_en](https://competition-policy.ec.europa.eu/antitrust-and-cartels/legislation_en)

<sup>520</sup> See González Blanco, *óp. cit.*, pp. 103-118.

These are nations that share their faith in the same liberal, democratic values and might benefit from a new, rekindled version of market economics. The way forward for America and its allies would involve managed free trade, accounting for social and environmental dumping, introducing provisions to prevent IP theft and the guarantee of Human Rights.

### 3.7 China and Russia after the Ukraine invasion (2022-2023)

The analysis of Putin's war in this section is detached from purely ideological preferences, given the terrible toll of destruction and death caused by the war, and interethnic historical realities. Hundreds of years of preeminent Russian influences in the Donbas, preceded Catherine the Great's annexation of the Crimean Peninsula in 1783<sup>521</sup>. This existed in the context of the persistent wars between Tsarist Russia and the Khanate of Crimea<sup>522</sup> (involving the Ottoman Empire), or Poland-Lithuania, even wars with the Habsburg Empire in Eastern Ukraine.

Crimea was ceded to Ukraine by the USSR during the 50s under Khrushchev<sup>523</sup>, to reinforce unity between Ukraine and Russia. Khrushchev was a vocal critic of the Holodomor and Stalin's atrocities in Ukraine's forced collectivisation. Back then, the population in Crimea was already 75% Russian and 25% Ukrainian. The 2022 invasion, with deep historical, ethnic and political roots, was preceded since 2006 by protracted guerrilla clashes between KGB elements and Ukrainian paramilitaries in the Donbas. The Russian minority presence situation in Ukraine is not different from other ex USSR Baltic republics.

The Western posture after the Russian referendum in Crimea<sup>524</sup>, followed by the re annexation of the Peninsula (2014), left Russia with only one natural choice. In strategic terms, if Russia wasn't going to lean towards its natural place in Europe, it would do so, reticently, towards China<sup>525</sup>. As seen from Moscow, Russia could not allow a NATO base near Kiev, this is 300 miles from Russia's capital. The advance of NATO into the Eastern European nations that once belonged to the Warsaw Pact, was humiliating enough for an authoritarian leader who had dreams of recovering Imperial Russia's greatness<sup>526</sup>.

However, Zelensky, Biden and von der Leyen never gave peace a chance in Ukraine. There was no hint of a political compromise to consider historical facts, and stop a protracted war like Vietnam that is absorbing precious economic EU/US resources. This is the case, if we believe Chancellor Schroeder's contention that Putin, the invader, wanted a negotiated solution for the conflict<sup>527</sup>. Nevertheless, "Appeasement" might have been an adequate characterisation pre-Hiroshima, but it does not seem to fit today, neither in the current Ukrainian context nor in Crimea in 2014.

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<sup>521</sup> Lieven Dominic (ed.) (2006): *The Cambridge History of Russia*, Vol. II., (Imperial Russia), Cambridge, Cambridge University Press, pp. 16, 169-170: On the elimination of Ukrainian distinctiveness and the creation of Russian provinces in the XVIII century.

<sup>522</sup> Perrie, Maureen (ed.) (2006): *The Cambridge History of Russia*, Vol. I. (From Early Rus to 1689), Cambridge, Cambridge University Press.

<sup>523</sup> "Why Did Russia Give Away Crimea Sixty Years Ago?", at <https://www.wilsoncenter.org/publication/why-did-russia-give-away-crimea-sixty-years-ago>

<sup>524</sup> *Crimea's strategic value to Russia*, at <https://www.csis.org/blogs/post-soviet-post/crimeas-strategic-value-russia>

<sup>525</sup> *Explaining China's Position on the Crimea Referendum*, at <https://carnegieendowment.org/2015/04/01/explaining-china-s-position-on-crimea-referendum-pub-59600>

<sup>526</sup> Cosgrove, Jonathon (2020): *The Russian invasion of the Crimean Peninsula, 2014–2015. A Post–Cold War Nuclear Crisis Case Study*, John Hopkins Applied Physics Laboratory, Columbia, Maryland, US, , pp. vii-viii, at <https://www.jhuapl.edu/sites/default/files/2022-12/RussianInvasionCrimeanPeninsula.pdf>

<sup>527</sup> *German ex-chancellor Schroeder says Russia wants negotiated solution to Ukraine war*, at <https://www.reuters.com/world/europe/german-ex-chancellor-schroeder-says-russia-wants-negotiated-solution-ukraine-war-2022-08-03/>

In the long term, America's pro Ukrainian posture would in principle benefit China, as a privileged supplier of Russia and as the intermediary of most of Russia's financial transactions with the world (through CIPS)<sup>528</sup>. It also gave China opportunities to improve its relative economic position in times of economic crisis, given the opportunity cost of R&D and overall human and fixed capital investment resources in the West, wasted in the war. Putin also benefited, as his grip on power was reinforced with a patriotic war, the perfect scapegoat for a dismal economic<sup>529</sup> record, worsened by 2014 Western sanctions against Russia after the Crimean referendum<sup>530,531</sup>.

The *no-limits* alliance between Russia and China, gave hints about the direction and parameters of China's economic war and threats to the EU economy, as China benefits from difficulties and dissensions in the West. Brexit, AUKUS (see section 3.5) and the Ukrainian War, have consistently given Beijing and Moscow leverage to profit from political differences between different EU nations, among EU nations and the Anglosphere, as well as from internal divisions at the domestic level. For example, through the vocal opposition of Hungary's Orban<sup>532</sup> to the Ukraine War, in contrast to most of the other EU partners position to support Zelensky, given the importance of Russian hydrocarbon supplies to Hungary and most of Eastern Europe.

Ukraine gives China another lever to influence the West. Russia and Ukraine, have suffered enormously in terms of hundreds of thousands of Russian and Ukrainian deaths, and Ukraine is now a country in ruins. Besides, the EU doesn't seem to be "*at the table*", but "*on the table*" as American arms and gas exports to Europe grow in tandem with EU members increases in Defence budgets<sup>533</sup>, while America's economy booms and Europe's languishes (2021-2023). Europe in general will suffer the most.

Logically, in Beijing visions pervade of Western relative decline. The Russian invasion resulted in increasing Defence expenditure in most NATO nations and allies, as well as substantial transfers to Ukraine Besides enormous Defense expenditure increases and direct fiduciary transfers, there were massive transfers in the form of weapons, training and technology (240 US\$ billion in October 2023)<sup>534</sup>, which diverted scarce resources from the grave European social problems that the war and Covid-19 pandemic had created, and also from the modernisation efforts required to maintain European technological edge and competitiveness in relation to China and Asian competitors.

Russian troop movements, and Eastern European memories of oppression under the USSR during the Cold War, prompted a rapid military build-up in the EU Baltic states, in Poland<sup>535</sup> and other Eastern European countries. An immediate, emotional Pan-Slavic support for Ukraine was in motion, discouraging Ukraine from a potential settlement with Russia. The war would not only benefit

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<sup>528</sup>Srinivas, P. S.: "Can China's CIPS help Russia after its ban from SWIFT?", *EAI Commentary*, No. 47 (4 March 2022), at <https://research.nus.edu.sg/eai/wp-content/uploads/sites/2/2022/03/EAIC-47-20220304.pdf>. EAI Commentary is published by the East Asian Institute of the National University of Singapore.

<sup>529</sup> *The Challenges of Russia's Economy: An Overview*, at <https://www.ispionline.it/en/publication/challenges-russias-economy-overview-24314>

<sup>530</sup> *Timeline - EU restrictive measures against Russia over Ukraine*, at <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/history-restrictive-measures-against-russia-over-ukraine/>

<sup>531</sup> *Ukraine and Russia Sanctions*, at <https://2009-2017.state.gov/e/eb/tfs/spi/ukrainerrussia/>

<sup>532</sup> *Hungary's Orban doubles down on blocking Ukraine accession talks*, at <https://www.euractiv.com/section/europe-s-east/news/hungarys-orban-doubles-down-on-blocking-ukraine-accession-talks/>

<sup>533</sup> Fiott, Daniel: "The Fog of War: Russia's War on Ukraine, European Defence Spending and Military Capabilities", *Intereconomics*, Vol. 57, Issue 3 (2022), pp. 152-156, available at <https://doi.org/10.1007/s10272-022-1051-8>

<sup>534</sup> *Data Set, Ukraine Support Tracker Data*, at <https://www.ifw-kiel.de/publications/ukraine-support-tracker-data-20758/>

<sup>535</sup> Adamczyk, Natalia: "Defence policy of the Republic of Poland in the face of Russian aggression against Ukraine", *Bezpieczeństwo - Teoria i Praktyka (journal)*, Vol. XLVI, Issue 1(2022), pp. 115-131, in pp. 115-117, and 128-129, at [https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.ojs-doi-10\\_48269\\_2451-0718-btip-2022-1-007](https://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.ojs-doi-10_48269_2451-0718-btip-2022-1-007).

American or Russian military industries, but it also benefits China indirectly, as Russia and the West source many of their military hardware components from China.

By July 2023, the China-Russia axis was taking shape as vessels from both countries participated in exercises in the Sea of Japan. The alliance was forged out of long-term common interests but different authoritarian, worldviews in their competition with the West. However, China's support comes with strings attached. Beijing wants to access Russia's state of the art military technology and Russian cooperation to improve China's R&D system<sup>536537</sup>. Xi wants the Russian crown jewels, and Putin is naturally reticent to offer them to China.

Well before the invasion of Ukraine, Beijing considered long term Russian interests, in view of NATO's expansion into Eastern Europe, while the West also gained influence in the Russian led Community of Independent States (CIS). A number of additional factors consolidated their informal alliance<sup>538</sup>. For a start, Russia is the most important arms provider for the PR China, while Russian energy and raw materials always played a prominent role in the Chinese economic miracle. On the geopolitical front, the West positioned against Russia's annexation of Crimea, while China abstained in the UN, and Beijing sided with Moscow in relation to the *Color Revolutions* in USSR republics, directly affecting Russian interests, especially in those cases in which NATO might be involved. Finally, it was the US trade war against China, combined with a series of Western economic sanctions against both countries, which drew them closer.

Xi's rise to power (2011) led to increasing collaboration in multilateral frameworks led by Beijing, like the BRICS, or the Shanghai Cooperation Organisation (SCO), aiming to expand cooperation with all of China's neighbours and other important developing countries. However, the SCO, that recently incorporated Iran and Belarus, is nowhere near the cohesive institutional development of the NATO alliance. As with the BRICS, there are substantial differences among their members. For example, India in particular and its "*strategic non-committal*", while India was apparently leaning towards the West in the QUAD, it did not oppose Russia in Ukraine. These differences prevent reaching common postures akin to Beijing's interests.

Nevertheless, the BRICS forum promotes policies to neutralise the economic power of Western countries in Brazil, India and South Africa, and increase multilateral ties to foster China and Russia's geopolitical influence, with the objective of establishing a new international system. Both institutions helped to counteract recent Western "*de-risking*" and "*decoupling*" strategies, affecting their domestic and global value chains, and pushed for limiting the influence of the dollar in the global financial system.

In October 2023, in the 15<sup>th</sup> BRICS meeting, an agreement was announced to admit five new countries into this association: Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates. Trade with the BRICS+ is controlled by China, but there does not seem to be much consensus on other matters, given the diversity of the PESTLEC environments in these nations, as well as the different levels of dependency on the US for their Security<sup>539</sup>. In December 2023, after applying to

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<sup>536</sup> Barrios, Ricardo and Bowen Andrew S.(13 September 2023): "*China-Russia Relations*", Congressional Research Service, Washington D.C., at <https://crsreports.congress.gov/product/pdf/IF/IF12100>

<sup>537</sup> CSIS: "*Xi Goes to Moscow: A Marriage of Inconvenience?*", (28.03.2023), at <https://www.csis.org/analysis/xi-goes-moscow-marriage-inconvenience>.

<sup>538</sup> Lin, Bonny: "The China-Russia Axis Takes Shape", *Foreign Policy*, 11 September 2023, at <https://foreignpolicy.com/2023/09/11/china-russia-alliance-cooperation-BRICS-sco-economy-military-war-ukraine-putin-xi/>

<sup>539</sup> Bhatt, Anjali: "No One Knows What BRICS Expansion Means", *The Diplomat*, 4<sup>th</sup> October 2023, at <https://thediplomat.com/2023/10/no-one-knows-what-BRICS-expansion-means/>

join the BRICS+, the new Government of Argentina, under Javier Milei, decided not to adhere to this association<sup>540</sup>.

However, there is a common disdain for the dollar as a reserve currency, its exchange rate and interest rate swings make it difficult to pay their dollar denominated debt, particularly given the high interest rates post Ukraine. So, in the line of China wanting to substitute the US as the hegemon power, an alternative currency has been proposed, while Chinese Yuan denominated international loans have boomed thanks to low interest rates in China<sup>541</sup>, a movement that goes in an opposing direction to Western capital flight from China during the last ten months before submitting this manuscript (January 2024).

Was it “*the West versus the rest*”? China carefully reinstated its long-term alliance with Russia, throwing a profitable financial lifeline to Russia, after SWIFT lines were cut with Moscow, so Russia was isolated from Western payments systems. Once Russia was excluded from the Western SWIFT payments system, it embraced CIPS, the Chinese one, as a measure of last resort. China backed Putin’s positions and tried to make the US responsible for the situation, while benefiting from the Ukrainian war, especially after announcing a “*no limits*”<sup>542</sup> partnership with Russia. Neither in Chinese nor Russian censored TV screens was there any representation of the terrible destruction and loss of human life in the war. The obvious question is how far China would go to support Russia to maintain the Ukraine War, if the Russian economy collapsed.

As a consequence of the war in Ukraine and Western sanctions against Russia, China became Russia’s largest trading partner. Western propaganda portrayed the war as an ideological confrontation between democracies and the Russian authoritarian autocracy, while Russian and Chinese media represented it as an attempt to preserve of the integrity of the Russian Motherland. Both in the Chinese and Russian television screens, the terrible magnitude, deaths and horrors of Putin’s barbaric war were censored, by incorporating narratives amenable to the interests of Putin<sup>543</sup>.

Since the rise of Xi Jing Ping, these policies could be understood as long term collaboration tactics, in which both countries back each other’s positions, be it Chinese or Russian, as in multilateral forums like the UN Security Council, where both countries consistently work to block Western resolutions. Once China made a strategic choice to side with Russia, its commitments will be respected. Xi cannot lose face once it has promised China’s support to Russia. In Asia appearances and public gestures are more important than binding treaties<sup>54454546547</sup>.

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<sup>540</sup> *Argentina’s president notifies BRICS his country won’t join it — TV channel*, at <https://tass.com/world/1727967>

<sup>541</sup> *Cheap Yuan catapults China to second-biggest trade funding currency*, at <https://www.reuters.com/markets/currencies/cheap-yuan-catapults-china-second-biggest-trade-funding-currency-2023-11-17/>

<sup>542</sup> US-China Economic and Security Review Commission, *op. cit.*, pp. 355-356.

<sup>543</sup> Covalski, Adam (03.10. 2022): *Disinformation and Russia’s war of aggression against Ukraine Threats y governance responses*, OECD Policy Responses: Tackling the Policy Challenges, at <https://www.oecd.org/ukraine-hub/policy-responses/disinformation-and-russia-s-war-of-aggression-against-ukraine-37186bde>

<sup>544</sup> Tiezzi, Shannon: “Xi Jinping Arrives in Sochi, Meets With Putin”, *The Diplomat* (08.08.2012) at <https://thediplomat.com/2014/02/xi-jinping-arrives-in-sochi-meets-with-putin/>

<sup>545</sup> Sebastian, Leonard C., “The Usman-Harun Issue: Some Thoughts for Indonesia to Ponder”, *Commentaries of the Rajaratnam School of International Studies (RSIS)*, No. 29 (12 February 2014), at <https://www.rsis.edu.sg/rsis-publication/idss/2154-the-usman-harun-issue-some-th/>. Beijing’s messages are primarily geared towards Asian audiences. Therefore, Xi’s behaviour reminds of Lee Kuan Yew sealing the peace with Indonesia in 1965, when rite and appearances mattered more than the letter of treaties. It is custom, guanxi, and long term relations what also matters in Chinese settings. Putin manages this situation with perfection.

<sup>546</sup> *China, Russia partner up against West at Olympics summit*, at <https://www.reuters.com/world/europe/russia-china-tell-nato-stop-expansion-moscow-backs-beijing-taiwan-2022-02-04/>

<sup>547</sup> *Xi and Putin meeting signals the return of the China-Russia axis and the start of a second cold war*, at <https://theconversation.com/xi-and-putin-meeting-signals-the-return-of-the-china-russia-axis-and-the-start-of-a-second-cold-war-202289>

However, Beijing's support in Ukraine was conceded hesitantly, while the CCP ponders if the debilitating impacts that the Ukraine War means for the West, compensates for the importance of Western markets and FDI in China, in view of Beijing's informal alliance with Russia. In sum, the war detracts Western resources from economic, hard power purposes in Europe and the US, but it also puts Beijing in an uncomfortable position. Trade with the West is very profitable, as stated much larger than a decade ago, and Western FDI (or Western IP theft and forced IP transfer, see section 2.8), also allows China to access the technology and resources that the country desperately needs to attain developed nation status.

EU and US Protectionist policies, combined with trade sanctions preventing technology transfers from technologically and militarily sensitive strategic economic sectors, affecting China and Russia (see section 3.6), can work as a tool that might force China to change its position in relation to the Ukrainian war, but this is only a possibility, as events in October 2003 in Gaza have changed the scenario. Inversely, as stated, the present delicate economic environment in the West does not preclude more than "surgical" interventions to reduce dependencies on the growing China trade.

If Russia leaned towards China after the annexation of Crimea, there is also a clear rivalry between both countries and an unwillingness to be subordinate to each other. Therefore, the alliance seems unstable. While Chinese planners look with derision at Russia's economic mess, Russia feels European, and Putin felt betrayed by the EU, given the posture of NATO after the annexation of Crimea. In sum, cultural distance and mistrust might gradually limit what apparently looks like an irreversible process of China-Russia integration.

Western nations and their Asian allies gave their immediate support to the Zelensky regime against Russia. Nevertheless, most of the other influential members of the international community in the United Nations opted for a diplomatic settlement, a particular one that took into account Russian ethnic roots in Crimea and the Donbas. In the developing world, where China and Russia (BRICS) have substantial influence, many countries felt it was absurd that the EU and the US devoted such immense resources to a "*white people's war*" (Ukraine), while urgent needs like poverty alleviation and environmental disasters were looming in poor countries<sup>548</sup>. The billions already wasted by March 2023, could have been used for better purposes after the pandemic, notwithstanding the deaths and destruction that the war has already caused<sup>549</sup>.

Biden declared that Russia was the most important strategic threat to America just before his inauguration as President, during Biden's "*biggest competitor*" [sic.] speech on CBS<sup>550</sup>, well before the war in Ukraine started. Western analysts seem to be distracted by the war in Ukraine, while the impending strategic threat lies in Beijing. Nowadays, Russia is definitely no match for China. For a start, Russia's economy, slightly larger than Spain's<sup>551</sup>, is ten times smaller than China's in nominal terms. According to SIPRI<sup>552</sup>, China accounts for 13% of the global Defence expenditure, while Russia only spends to 3.9%.

Were there any strategic intentions in Biden's speech? It probably was not proof of superior US intelligence gathering and the ability to foresee events, by anticipating the war, particularly given Hunter Biden's scandal, in relation to *Burisma*. This is the gas company in which the President's son

<sup>548</sup> *Is Ukraine just a white man's war?*, at <https://unherd.com/2022/04/is-ukraine-just-a-white-mans-war/>

<sup>549</sup> Uren David: "The ballooning costs of the Ukraine war" at *ASPI, The Strategist* (24 November 2022), at <https://www.aspistrategist.org.au/the-ballooning-costs-of-the-ukraine-war/>

<sup>550</sup> *Kremlin accuses Joe Biden of spreading hatred of Russia with threat talk* (26 October 2020), at <https://www.reuters.com/article/us-usa-election-kremlin-idUSKBN27B13B>.

<sup>551</sup> Source: World Bank, 2022

<sup>552</sup> *Trends in World Military Spending 202 (SIPRI)*, at [https://www.sipri.org/sites/default/files/2022-04/fs\\_2204\\_milex\\_2021\\_0.pdf](https://www.sipri.org/sites/default/files/2022-04/fs_2204_milex_2021_0.pdf)

was working in Kiev (Ukraine) that allegedly was involved in a variety of shady activities, according to a US Senate Committee report produced during the Trump administration<sup>553</sup>.

The allegations that these activities might touch Biden personally were firmly denied by a variety of sources close to the Democrat Party. However, America's long-term interests in the region, Biden's support for Ukraine's NATO accession well before his inauguration, as well as the hundreds of millions in small weapons sent to Kiev by Biden just before the war<sup>554</sup>, definitely did not contribute to a solution of the conflict. This refers to shipments that were blocked by the Trump administration months before Biden became President<sup>555</sup>.

The war has also had an indirect, very positive effect for the West. Full support for Zelensky against Putin's illegal invasion of Ukraine is widespread among NATO countries and allies in Asia. The war is a galvanising force, that allowed von der Leyen (EU) and Stoltenberg (NATO) to save both organisations from disintegration, particularly when they were both at an all time low, against the background of America's disastrous withdrawal from Afghanistan<sup>556557</sup>.

Von der Leyen's EU disaster with Covid-19 vaccines procurement<sup>558</sup>, tainted her EU Commission Presidency with scandal, so Ukraine would have given her the opportunity to regain popularity. Von der Leyen's policies left Europe without vaccines for months, in order to centralise procurement in EU institutions. So the natural criticism against the consistently inefficient Brussels bureaucracy became more vocal.

The war gave purpose and a common enemy to NATO, an organisation that, according to President Macron, was "*brain dead*" [sic.] before the war<sup>559</sup>. Even so, it also encouraged irrational visions of Russophobia and Ukrainophilia, particularly given the dismal record in human rights of Ukraine<sup>560</sup> before the Russian invasion, rampant corruption<sup>561</sup> and mediocre economic management. Nevertheless, it helped galvanise the energies of a divided European Union.

Disagreements between fiscally disciplined Northern European members and highly indebted Southern ones became vocal. However, even if discrepancies between countries with very different bureaucracies and public sector management systems were becoming irreconcilable, these were sidelined to present a common economic front, in view of the great difficulties caused by Covid-19 and the Ukrainian war. EU member's national debt was mutualised, giving strength to the European project, while advancing the process of continental Europe's economic union.

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<sup>553</sup> Committee on Homeland Security and Governmental Affairs (2020): *Hunter Biden, Burisma, and Corruption: The Impact on U.S. Government Policy and Related Concerns*, United States Congress Senate Committee on Finance, Washington D.C., at [https://www.hsgac.senate.gov/wp-content/uploads/imo/media/doc/HSGAC\\_Finance\\_Report\\_FINAL.pdf](https://www.hsgac.senate.gov/wp-content/uploads/imo/media/doc/HSGAC_Finance_Report_FINAL.pdf)

<sup>554</sup> *US small arms and ammo arrive in Ukraine as Pentagon details troops to train country's military*, at <https://edition.cnn.com/2021/12/08/politics/us-ukraine-security-assistance-military-training/index.html>

<sup>555</sup> Woodruff, Betsy and McLeary: "White House freezes Ukraine military package that includes lethal weapons", 18 June 2021, at <https://www.politico.com/news/2021/06/18/white-house-ukraine-military-lethal-weapons-495169>

<sup>556</sup> *Biden was wrong on Afghanistan*, at <https://www.brookings.edu/articles/biden-was-wrong-on-afghanistan/>

<sup>557</sup> *Rogers: Biden's negligence led to fall in Afghanistan*, at <https://armedservices.house.gov/news/press-releases/rogers-biden-negligence-led-fall-afghanistan>

<sup>558</sup> Rachman, Gideon: "Why the European Commission failed the vaccine challenge", *Financial Times*, 01 February 2021

<sup>559</sup> *France's Macron: "I'm not sorry I called NATO brain dead (28 October 2019)*, at <https://www.reuters.com/article/us-france-nato-braindead-idUSKBN1Y21JE>

<sup>560</sup> *Ukraine 2019, Human Rights report*, at <https://www.state.gov/wp-content/uploads/2020/03/UKRAINE-2019-HUMAN-RIGHTS-REPORT.pdf>

<sup>561</sup> *Serving the People: Will Ukraine's Political Culture Change? HURI Experts Weigh In*, at <https://huri.harvard.edu/serving-people-will-ukraine%E2%80%99s-political-culture-change-huri-experts-weigh>

The effects of Covid-19 were reinforced by the Ukraine war. Widespread inflation hit European economies hard in 2020-22, and had destabilising effects, inducing a notable impoverishment of the working classes (the “*cost of living crisis*”). Nevertheless, there were signs of inflation containment in Europe before the Gaza War (October 2023), but rising inflation in Germany become a recurrent problem by the end of the year.

Short term energy prices skyrocketed right after the invasion so, when Europe started switching to alternatives, India (as stated) and China benefited enormously from Russian hydrocarbon imports at discount prices<sup>562</sup>. India did not support Ukraine in its fight against Russia, another clear example of India’s traditional strategic non-committal, with predictable consequences for a future QUAD alliance to contain China. As also stated, India imports a considerable amount of its weapons from both Russia and France, to preserve its strategic autonomy.

Encouraged by Poland and Eastern European allies, Europe’s Defence expenditure grew 13% in 2022 as a consequence of the Ukrainian war<sup>563</sup>. Macron announced his government was going to increase Defence expenditure by a third (July 2023)<sup>564</sup>, after Germany remarkably increased its own (February 2022). Borrell<sup>565</sup> even asked China to “*take the EU seriously*”, and give the Union the same attention in geopolitical issues that it gives the US. It does not seem likely, given the lack of relative military hard power of the EU in comparison with the US, this is the importance of military capabilities in Asian settings.

### 3.8 China’s economic “crisis” (2023)

In 2003 most of China was still poor and underdeveloped, though by 2020 China had become a middle-income nation, the changes were extraordinary. Even if improvements were notable in transparency and administrative capacity, in parallel with the impressive economic development of coastal and urban areas, what mattered for the West were the nationalistic, protectionist long term dynamics. The deliberate, strategic, periodical announcements of regulatory changes in Beijing to promote fair treatment and fair competition and reduce the corruption, discrimination, subsidies, uncertainty or IP theft, among other aspects affecting foreign businesses, rarely translated into substantial improvements.

When measures were implemented, these tended not to be effective, came too late, or answered to particular CCP and Chinese corporate interests. The EU Chambers of Commerce in China (2022)<sup>566</sup> reported for decades as key regulatory challenges for Western businesses: The ambiguous rules and regulations; the unpredictable regulatory environment and the discretionary enforcement of rules, on top of the abovementioned artificial competition enhancement policies and practices. Therefore, only a few large foreign businesses have confidence in the Chinese governments anymore (both provincial and central).

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<sup>562</sup> Op. cit., US-China Economic and Security Review Commission, pp. 589-590.

<sup>563</sup> Tian, Nan; Lopes da Silva, Diego; Béraud-Sudreau, Lucie; Xiao Liang; Scarazzato, Lorenzo and Assis, Ana:” Developments in Military Expenditure and the Effects of the War in Ukraine”, *Defence and Peace Economics* (2nd June 2023), 16 pages at <https://www.tandfonline.com/doi/full/10.1080/10242694.2023.2221877>

<sup>564</sup> *Macron boosts French military spending by over a third to 'transform' army*, at <https://www.reuters.com/business/aerospace-defense/frances-macron-proposes-big-hike-military-spending-2024-2030-2023-01-20/>

<sup>565</sup> *Borrell says EU takes China seriously, expects same in return*, at <https://www.reuters.com/world/borrell-says-eu-takes-china-seriously-expects-same-return-2023-10-14/>

<sup>566</sup> European Union Chamber of Commerce in China, *op. cit.*, pp. 4, 32-119.

Rudd<sup>567</sup>, had it clear in his mind years ago: A shift towards SOEs and industrial policy; a greater Party control of the private sector; an egalitarian, Marxism infused quest for “*common prosperity*”, and its socio-economical effects through income redistribution, would have had effects on the economy. This would reduce the official rates of GDP growth, as political and regulatory risk would undermine private investment, compromising the legal security of investments (see section 1.3, in view of Xi’s “*Circular Economy*”, and the concept of “*De-risking*” in section 3.6).

Among other constraints, and given the great social inequalities and urban-rural divide in China, it is to: “[...] *Choose between providing health care, elder care and pension entitlements on the one hand, and pursuing national security goals, industrial policy, and the Belt and Road Initiative on the other*”<sup>568</sup>. Therefore, slower GDP growth rates might compromise the objective of China avoiding the middle-income trap, and becoming a developed nation.

One of the key concerns would then be the fear of a return to the command economy. Xi Jing Ping is trying to reinforce the pre-eminence of SOEs against the private sector, through which a minority of Western businesses thrive in China. According to the World Economic Forum<sup>569</sup>, private sector enterprises generated 60% of China’s GDP, produced 70% of innovation, 80% of urban employment and 90% of new jobs. These were also responsible for 70% of national investment and 90% of exports from China.

The exports of the private sector might be reduced in the long term, if subsidised, protected SOEs were privileged to put in motion many more BRI projects to expand the influence of China in strategic trade and investment corridors. Thwarting the vitality of the private sector will probably retard economic growth, and this answers to a variety of obvious organisational factors. Market incentives, competition and productivity are among the most prominent. Even if German FDI in China went up, overall FDI in China has gone down 34% (September 2023)<sup>570</sup>. This is a radical departure from the massive influx of investments into China, during the worst moments of the second SARS-II pandemic in Europe (2021-2).

Such a drastic fall in FDI, is probably a consequence of the following: The Covid-0 politically motivated confinements, and the uncertainty effects on value chains from China to OECD countries (see section 3.6); the real estate sector crisis, combined with a lack of a social safety net (the Evergrande and Country Garden demise contracted the disposable income of families), as well as the very high levels of private and public debt (as stated in section 2.5); and, finally, the new Colbertisme doctrines of self-sufficiency (see sections 2.1, 2.3 and 1.3), as free markets were never there. Trade, Chinese exports and imports, also suffered a considerable contraction by the third quarter of 2023.

According to Rudd, the politically motivated and ineffective anti corruption campaigns, the arbitrary decisions of the judiciary in the hunt for corrupt cadres and businesspeople, and the growing number of large high technology corporations, that lost favour of the CCP (such as Jack Ma’s *Alibaba*), instilled fears in the business elites, and is having effects on China’s investment and economic resilience. Rudd’s argument could be summarised as: Xi’s reinforcing of political control over the economy and society, combined with the lack of opportunities, would be an obstacle for the

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<sup>567</sup> See Rudd, *op. cit.*, p. 10-11

<sup>568</sup> *Ibid.*, p. 12.

<sup>569</sup> *The role of China's state-owned companies explained*, at <https://www.weforum.org/agenda/2019/05/why-chinas-state-owned-companies-still-have-a-key-role-to-play/>

<sup>570</sup> Hale, Thomas; McMorrow, Ryan and Lin, Andy Lin: “Plunging foreign direct investment piles pressure on China’s economy”, at *Financial Times*, 29<sup>th</sup> October 2023, at <https://www.ft.com/content/56294843-7eff-4b83-9fa2-c46fb4ac1278>

entrepreneurial spirit (ergo the private sector), fostering capital flight and brain drain in China's economy.

For example, the new Anti-Espionage Law is making the life of foreign business consultants even more difficult in China. We refer to large auditors such as Deloitte, EY, or Bain & Company. The new security laws fit in the “*selective isolation*” pattern described in section 2.7, as Beijing wants to have much more stringent control over the information coming in and out of the country:

What the new laws classify as sharing of “*state secrets*”, include the dissemination of “*intelligence and other documents, data, materials, and items related to national security and interests*”. If the findings of that intelligence were interpreted as against the security and interests of China, their dissemination could be considered illegal, something that according to China laws seem to be open to bureaucratic, loose interpretation. This is combined with consistent governmental actions, to restrict the activities of foreign consultancies trading with business intelligence from China.

The new laws will severely impair the impartial due diligence processes, essential for foreign consultancies to evaluate companies in acquisition processes. For example, the competitiveness, the overall feasibility or financial health of businesses in China. As in the case of Hong Kong's National Security Laws (see section 3.2), how can foreigners make sensible investments in China, if that key corporate information were censored?

The CCP would not want the public to question political interference in corporate operations, particularly in SOEs, in highly corrupt corporate Chinese environments, or in cases of politically motivated interventions, affecting profitability. The law has a broader application; apparently a company in Shenzhen was sanctioned for cooperating with an ONG to make a Human Rights evaluation, that the Party did not deem adequate.

However, Rios<sup>571</sup> believes it is not the effects of short-term problems, like the Real Estate Market collapse, the growing risk of a crisis in financial markets, the fall in exports and manufacturing activity, the exchange rate levels, or the massive youth unemployment, that is behind the slowdown of GDP growth. On the contrary, it is structural factors, like the rapidly ageing population and a shrinking workforce, the decline in the work force and their low levels of productivity growth (out of the “*One Child Policy*”), and the massive public and private debt. These determinants would be combined with the aggressive foreign policy detailed in this research, and all these factors would deter FDI in China<sup>572</sup> (see sections 2.5, 2.6 and 2.8).

In an environment of massive youth unemployment and low labour productivity, the intention of the Government to double the number of industrial robots by 2025 is surprising. With this measure they attempt to offset low population and productivity growth rates, quite particularly given the foreseeable impacts on employment of the combination of AI, and digitalisation with automation<sup>573</sup>: China by 2016 was already the leading world consumer of robots (87.000 units). Nevertheless, according to Rios, GDP growth in China would still be vibrant, and Xi's policies, with special attention to the high R&D investments and technological advances (3% of GDP), or progressively deflating the Real Estate bubble and speculation, could have been positive for the Chinese economy at large.

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<sup>571</sup> Rios, Osvaldo: “¡Uf, lo mal que está China!”, *Observatorio de Política China* (2023-10-08), at <https://politica-china.org/areas/sistema-politico/uf-lo-mal-que-esta-china>

<sup>572</sup> De Guzmán, Chad: “China's Expanded Anti-Espionage Law Threatens Business Consultants and Advisers”, *Time*, 7th July 2023, at <https://time.com/6292785/china-foreign-investment-national-security-revised-espionage-business-consultants/>

<sup>573</sup> Asei Ito, *op. cit.* pp. 50-75

## Conclusions

Early signs of an impending China threat have existed for decades: Evidence in this research proves there was a late reaction of the Western liberal Rule of Law order, since the early years of the century, to China's disorganised ascent. By 2003, MAD financial imbalances, the progressive indebtedness of the US and other European nations with China; the SARS-I crisis and its impacts in the regional economy, or the effects of the early Belt and Road initiative in the industrial development of aspiring nations - way above China in the economic development curve before China's ascend-, were obvious indications of a China threat. It took almost 15 years, since China's accession to the WTO (2002), to incite a substantial Western response. The earlier one came from the US, and subsequently the EU has become conscious of the magnitude of the challenge, but divisions among EU partners are considerable. However, there seems to be an operative strategy in the making. This opens avenues to research into the causes of such a late response.

The China of the "*Rule of Men*" does not respect the Rule of Law and the international liberal system, so it is the greatest challenge to Western prosperity since II WW. Late reactions to the pernicious effects on Western industries and global interests through China's artificial competitiveness and "*Power Trade*", were exposed in the different chapters, and showed the cracks in the Western Alliance. Differences between the US and the EU, as well as divergences in the EU itself. China has consistently taken advantage of these divisions, as the unity of purpose, political and economic gravitas are its fundamental strengths.

China is going up in the tech ladder profiting from social, environmental dumping, and the consistent IP theft from Western corporations. China now is a technological giant to be feared and respected, and full decoupling from the China trade seems a distant objective. Policies that intend "*de-risking*" China in the trade spheres, and "*re-shoring*" FDI from China, face considerable hurdles. Notwithstanding the source of prosperity of many resources poor European nations rely on intensifying internationalisation.

Wolf Diplomacy only made things much more difficult for the West: It introduced a Marxist influenced ideological stance that was not there previously. Xi's authoritarian ideology clashed frontally with Freedoms in the Western world. However, if the Achilles Heel in superpower competition is economic, the increasing social and economic control exercised by the CPP over Chinese society, might bring the seeds of its own destruction, slowing down China's economic growth. It may impair the possibility of escaping the Middle-Income Trap and reaching a developed nation status. The future for the West could entail substantial and intensified cooperation to contain the China threat, including allies in Asia and Oceania with similar liberal values. The integration of NATO transatlantic economies, particularly in the high tech and military spheres, seems to be the way ahead, in a multi polar world facing multiple threats against Western democratic values.

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