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China's Economic Strategy: Global Strike vs. Globalization

Amit Gupta
Associate Professor at the USAF Air War College, Alabama

At a time that the United States is starting to address China's global and regional expansion, policymakers have to keep two factors in mind in crafting a successful strategy to contain China. First, unlike the United States, China, in the short to medium term is not developing a military capability that will give it global strike. Instead, it seeks to develop (and some would argue it already has) a capability to fight a high-technology war in local conditions which would be the South and East China Seas. Secondly, the Chinese have developed an economic strategy based on globalization that is reaping Beijing considerable rewards around the world. Understanding this economic strategy and then building a comparable global economic strategy to counter it, would bear the West greater dividends in the long run as these countries, particularly the United States, seek to counter Chinse moves around the world.

Not a Repeat of the Cold War

The mistake strategic analysts make is to suggest that the United States can pursue the same policy it adopted vis-à-vis the former Soviet Union in the Cold War towards containing China. Thus, a strategy of containing Communism through strategic and conventional deterrence was combined in the later years of the confrontation with a policy to work to rollback communist gains in places as varied as Nicaragua and Afghanistan.

For several reasons this strategy has less utility against China. First, the Chinese are not seeking to expand their influence through territorial acquisitions or even the military support of friendly nation states. As things stand, the Chinese are strategically invested in only two countries—Pakistan and North Korea—both of whom border China. Beijing does not seek to make long term military-strategic commitments to other states and even in the case of Pakistan and North Korea it has been careful in circumscribing the help it has extended. It has not been the supplier of endless financial resources to Islamabad even though it did pass on nuclear weapons technology to it. With North Korea, it did not pass on nuclear weapons technology and continues to be aggravated by Pyongyang's international behaviour. Secondly, the Chinese remain cautious about extending their involvement in another country to the point that they become unending entanglements. Those who see Beijing as taking over from the US in Afghanistan do not understand the limits of China's aspirations in that country. China's principal interest is to prevent a terrorist blowback from Afghanistan into China's Uighur territories Xinjiang.

What we need to remember that the Cold War was also an economic competition between the two countries as well as a battle of ideas about whose societal model was more attractive to the rest of the world? While the Pentagon focuses on the military competition, the Chinese have been playing to the economic and ideological aspects rather well. The Chinese have, therefore, built a network of global economic arrangements that a growing number of nations find attractive and Beijing has sought to bring out, none to subtly, the weaknesses of western democracies in general and American democracy in particular. One should, therefore, view the competition not solely from the lens of military forces but, instead, as a challenge between global strike vs. globalization.

China's Response

China's response to the United States has been based on a shrewd understanding of the international military-strategic context as well as recognizing how globalization has changed the international system. Recognizing that that they are a long way from matching the United States' military capability, the Chinese have prepared for "a high-technology war in local conditions." In such a war the Chinese would use their new arsenal of missiles and other smart weaponry to significantly raise the costs of an American attempt to defend Taiwan or intervene in the East or South China Seas. The Chinese policy of Anti-Access/Area Denial has made the US think in terms of basing in the second island chain since the first island chain is vulnerable to the weapons that the Chinese have developed. This withdrawal led the Trump Administration, in a Nuclear Posture Review, to call for the development of low-yield nuclear weapons, stealth submarines, dedicated combat aircraft to launch against Chinese high value targets, a new long-range standoff cruise missile, and a long-range bomber named the B-21 Spirit.

Table 1

Major Foreign Holders of US Treasury Securities

Country	$ Amount
Japan	$1.26 trillion
China	$1.07 trillion
United Kingdom	$467.7 billion
Ireland	$304.9 billion
Luxembourg	$287.6 billion
Switzerland	$264.9 billion
Brazil	$251.8 billion
Belgium	$236.4 billion
Taiwan	$236.3 billion
Cayman Islands	$224.1 billion

Source: US Department of Treasury, [May 2021]

Along with the policy of a high technology war in local conditions, China's phenomenal economic growth has given it the power to create an economic interdependency with some of America's closest allies to the extent where some of these nations are increasingly hedging their bets in terms of whom to support in the US-China rivalry. These calculations are being driven by the new international economic realities that now shape trade, investment, and future linkages. The following tables show the extent to which the Chinese have become game changers in the international system. Table 1 and 2 show just how integrated the world has become with China.

Table 2
China's Largest Trading Partners: 2020

Country/ Trading Bloc	Volume of Bilateral Trade
ASEAN	$724 billion
EU	$645.5 billion
USA	$ 568.4 billion
Japan	$330.4 billion
Hong Kong	$300.9 billion
South Korea	$298.5 billion
Taiwan	$240.7 billion

Source: *EU Directorate General of Trade, 2021.*

The point is made that China cannot easily dump the over $1 trillion in treasuries it holds (see Table 1) since this would drive up the value of the Renminbi and it is not clear where China would put even a portion of this very large amount of money? There has been talk of putting money in Australia or Germany but neither the German or Australian economies are large enough to absorb such large amounts of investments. Further, it is quite likely that friendly nations and allies would buy up these bills to support the American economy.

What is more impressive, however, is the substantial diversification of bilateral trade that China has achieved in the last decade. As Table 2 shows, since 2020, ASEAN has become China's largest trading partner and is followed by the European Union with the United States coming in third. Thus, China has not reduced its trading links with the United States but, instead, has expanded its ties with other regions and countries and this should have led these countries to weaken or lessen their ties with the United States and to see them distance themselves from the US-China competition.

Instead, China has also adopted a policy of "Wolf Warrior" diplomacy which is, "offensives by Chinese diplomat to defend China's national interests, often in confrontational ways." Worried by the bellicose Chinese diplomatic attitude, and especially concerned about the US commitment to Asia after the Afghan withdrawal, the Asian nations have been pointing out that the growing trade with China does not come at the expense of minimizing outstanding political differences and want to see greater commitment by the United States to the Indo-Pacific.

In Europe, we are seeing similar disquiet against China and Chinese investments even while over the past two decades we have seen Chinese Foreign Direct Investments in the region grow substantially. As Table 3 shows, the Chinese have invested heavily in the big three countries of Europe—Germany, France, and Britain—and have also poured money into countries with a knowledge economy like Sweden and Finland.

China has invested substantially in Europe and contrary to popular belief it was not in the non-EU cash starved nations of Eastern Europe. Instead, it went to the heavy hitters in the EU and in 2020 the main areas of investment were infrastructure, Information and Communication Technology (ICT), and electronics.

While Chinese investments in Europe are impressive, they need to be put in the context of US-Europe investments and the fact that an increasing number of European countries are starting to subject Chinese investments to greater scrutiny or even preventing the sale of certain assets to China. In terms of FDI the EU has a staggering $2.02 trillion invested in the US and there is no move on the part of European investors to divest these holdings. In comparison, Chinese FDI in the United States has totaled about $228 billion since 2010 and, while an impressive amount, will require heavy and continued investments by China to match Europe.

Table 3
Major Recipients of Chinese FDI in Europe 2000-2020

Country	Investment in Billions of Euros
United Kingdom	51.9
Germany	24.8
Italy	16.0
France	15.0
Finland	13.3
Netherlands	10.3
Sweden	7.9
Ireland	7.8
Portugal	6.2
Spain	4.9
Belgium	2.6

Source: Agatha Kratz, Max J. Zenglein, and Gregor Sebastian, A report by Rhodium Group and the Mercator Institute for China Studies (MERICS), *Chinese FDI In Europe 2020 Update*, Berlin, June 2021, p. 11.

European nations have also become more cautious about accepting Chinese investments especially in the crucial area of 5G where Britain took the decision to block Huawei's participation in the country's ICT network while Germany restricted the Chinese company's participation in its emerging communications system. Both countries were concerned about China's use of 5G as a Trojan Horse to conduct espionage in Europe. It will be interesting to see, therefore, whether China is able to assuage the concerns of European nations for while they would welcome Chinese investments it will not come at the cost of dismissing legitimate security concerns. While the Chinese record on bilateral trade and investments is impressive, it has run into headwinds created by the concerns of recipient states of aggressive Chinese foreign policy behavior and worries about how the non-transparent aspects of these investments. But in the meantime, it is also hard to refuse Chinese money.

Where this will go depends on how China responds to the legitimate economic, political, and security concerns of states across the world. There are two areas, however, where the United States and its allies and partners have to give a more robust response to China's global economic and soft power efforts and those are in a planned response to the Chinese Belt and Road Initiative (BRI) and in a timely response to China's vaccine diplomacy.

The BRI

There is much hype surrounding the BRI but it is an ambitious plan that has led China to the surpass the World Bank and become the largest donor to the poorest countries of the world. As one analyst noted, "This remarkable change is owed primarily to the Belt and Road Initiative (BRI), a global infrastructure plan conceptualized in China in 2013 and which has been implemented in more than 70 countries. Under the BRI, China works with partner countries to design and implement large infrastructure projects." The BRI aims to create a vast network of railways, energy pipelines, highways, and streamlined border crossings, both westward across the Eurasian heartland and to Pakistan and Southeast Asia. The network would expand the international use of Chinese currency, the renminbi, and "break the bottleneck in Asian connectivity," because the region faces a yearly infrastructure financing shortfall of nearly $800 billion. In addition, China plans to build fifty special economic zones and a maritime silk road that will stretch to Greece and the total infrastructure is estimated at more than $60 billion and will eventually reach, the Chinese estimate, $1.2 to $1.3 trillion by 2027.

China's objective is to create an alternative global economic system in which its currency is used for trade, its companies are building the technological infrastructure that is based on Chinese 5G, and it helps China emerge as a true superpower in the international system perhaps to even surpass the United States in its global economic influence.

The Biden Administration has decided to counter the BRI with the help of American allies in a Build Back Better World Initiative but for now it is as one analyst suggests largely rhetorical with little going to plug the infrastructure deficit that the recipient countries face. In fact, the US is putting $75 million a year towards an Infrastructure Transaction and Assistance Network that will attempt to advance "sustainable, transparent, and high-quality infrastructure" in the Indo-Pacific by providing project related services to host countries. The US is also spending $300 million annually to counter the "malign Chinese influence" by creating greater transparency in China's BRI activities. While such plans are laudable, they do not provide for what the countries that are attracted to the BRI desperately want—the resources to effectively build up their infrastructure.

Here, the Biden Administration is proposing that the US work with private sector companies among allied nations to invest in the developing economies but that ignores the fact that western private companies have been reluctant to invest in risky markets (as quite a few of the nations along the BRI's path are regarded to be) while the Chinese have been more willing to do so. What the US and the EU need to do therefore, is to have new Marshall Plan to build infrastructure around the world for not only will that counter Chinese efforts but also help create employment and opportunity in some of the most vulnerable countries in the world which, as things stand, are vulnerable to pressures from extremist groups and ideologies. Put simply, it means putting together at least $250 billion to counter Chinese efforts and this will require persuading the Europeans and the Japanese to contribute their fair share to this strategy. Otherwise, by default, the Chinese gain an economic advantage even though recipient nations are troubled by the long-term consequences of Chinese investments.

The other area where the Biden Administration will have to proactively counter China is in vaccine diplomacy.

The Global Vaccine Battle

Two countries were notably silent in their response to creating an international consensus on the Covid-19 pandemic—China and the United States. The Chinese delayed releasing the DNA of the virus to international and national scientific bodies leading to justifiable criticism that this slowed down the scientific quest for a vaccine. Caught up in an election year, the Trump Administration pursued an America-first policy whose rhetoric emphasized deglobalization and the need to make a political statement against China. As a consequence, the Trump Administration withdrew from the World Health Organization (WHO) and did not provide leadership for a coordinated global response to the pandemic. Yet of all the countries in the world, the United States had the scientific knowledge and economic and technological capacity to best lead a coordinated response.

In contrast, Russia and China drew up plans to use vaccine distribution to pursue their economic and foreign policies as well as give them residual soft power. Commenting on Chinese efforts, the Economist Intelligence Unit stated that China sought entry into regions where the United States and Western Europe had influence—Latin America and Eastern Europe—and the goal was to sow discord within western alliances.

In the case of vaccine distribution, the Chinese pursued both a commercial and grant approach to providing vaccines to different countries and they had several advantages going for them: they were among the earliest developers of vaccines albeit of lesser effectiveness than those of western vaccines; and they had the manufacturing capacity to produce vaccines in large numbers.

Further, while the Trump Administration did not join the Coalition of Epidemic Preparedness Innovators (CEPI) COVAX alliance, China and 182 other countries did and the goal of the alliance was to provide vaccines globally with a substantial number of countries in Asia and Africa getting vaccines at subsidized rates. Xi Jinping also announced that China would supply vaccines around the world as a global public good thus distributing the doses equitably around and at presumably subsidized rates.

The Biden Administration, realizing the public relations disaster of the Trump Administration's position, has rejoined the WHO, and has pledged to help supply a billion vaccines around the world as part of the COVAX initiative. While the actual numbers disbursed are far lower, if correctly and rapidly implemented this policy could help control the pandemic and re-establish America as the country that leads in strengthening the Global Commons.

Conclusion

In the past decade, Beijing has demonstrated considerable economic acumen in creating a network of nations around the world who now have high levels of economic integration with China. Beijing, thus, has used the tools of globalization to its advantage while, at the same time, ensuring that it does not overreach in its international military commitments. Instead, it has been content to let the United States be the guarantor of global security in distant parts of the world at considerable cost to the US taxpayer. On the other hand, the United States, has been caught up in two wars and has yet to work out an effective way to counter Chinese economic and soft power efforts around the world. With the wars over, it is time to develop a coherent economic and soft power strategy to globally counter Chinese efforts in this realm. Currency attacks may not be in China's economic or political interests but supplanting the US through globalized trade and infrastructure networks is.

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