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THE NEW COLD WAR, CHINA VS THE US: ECONOMIC INFLUENCE

Major Brian Barnes

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Introduction

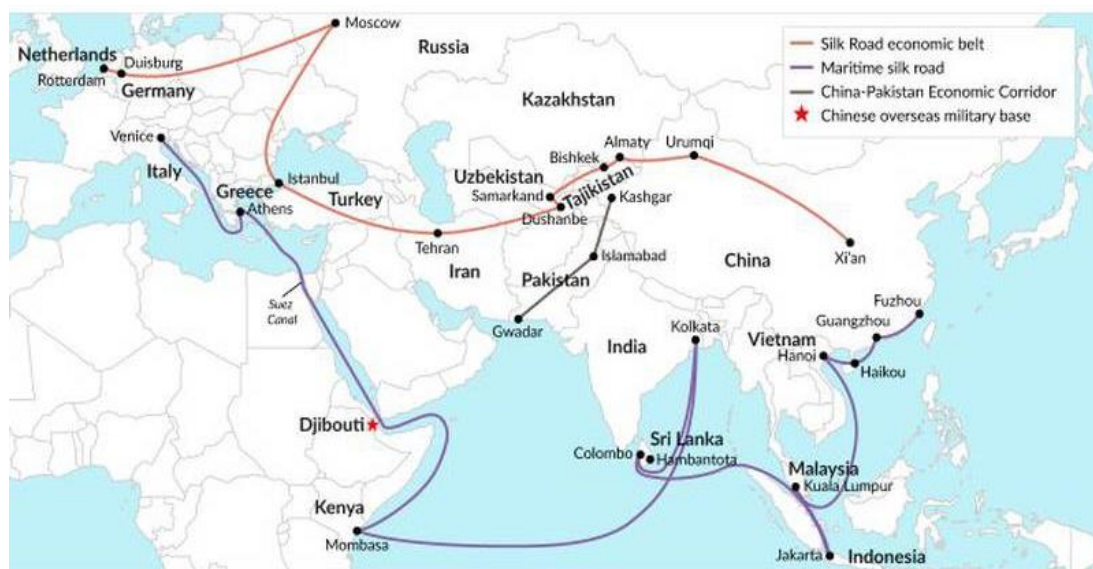
The Cold War circa (1950 – 1990) was an ideological and geopolitical struggle for dominance between two major superpowers, the USA and the USSR. It was fought through mutually assured destruction, proxy wars and conventional force deployments. The overt nature of this power struggle and the economic and social tensions it created meant that alignment with one of these ideologies was essential for lesser powers to thrive. With the general demise of communism and the USA emerging as a hegemonic power, the proliferation of liberal democracy and a focus on economic growth and prosperity now defines the global political arena; this presents a new paradigm for ideological and geopolitical influence. In an effort to assert dominance, massive capital expenditures and political posturing continue but without a direct ideological focus. This time the cold war is being fought with economics, trade, and foreign development. China has emerged as a new rival superpower to the USA in this context. Mutually assured destruction has been replaced with economically focused trade wars and cyber-attacks, and while proxy wars and ‘posturing’ continue, there is a distinct economic flavour to these acts rather than an ideological one in most cases.

This paper will examine how China’s Belt and Road Initiative (BRI) is a direct threat to the USA hegemony and represents a potent tool in the quest for power and dominance in the 21st century. Through the BRI, economic and financial relationships allow China to increase regional dominance, secure strategic resources, gain physical accesses and develop new sources of power it can wield globally not just in their local neighbourhood. Despite claiming these economic relationships are free from ideological

motivations, the promulgation of China's cultural norms and ideology is at the very least a by-product of these relationships and is certainly part of the selection process for project funding; not unlike the adoption of a free-market economy often impressing occidental culture in the 20th Century.

Economic Initiatives: A long term relationship builder

The BRI is designed to boost economic integration and connectivity with its neighbours and trading partners. It is messaged as a collaborative opportunity to achieve common prosperity.¹ It represents a way to stimulate growth and development not just in



the Chinese economy, but in partner nations as well. This initiative is meant to build infrastructure, reduce trade restrictions, and more closely integrate financial aspects of partner nations.² Despite being focused on Asian, African and European continents this trade initiative will have an impact in the global markets primarily by providing a viable

¹ Congressional Research Service, "China's Economic Rise: History, Trends, Challenges, and Implications for the United States", RL33534, Updated Jun 2019, 34.

² Ibid. 35.

alternative to US and European dominance.³ All parties benefit from improved economic capacity, increased direct foreign investment and technology transfers. However, as economies and policies develop in the presence of trade agreements, specializations and dependencies form which link the successes of economies and form trade interconnectedness.⁴ The BRI seeks to increase the volume of trade and number of trading partners with the focus of making China more economically important, thus increasing dependence on China⁵. Since the BRI's inception, China's trading partners have shown increasing economic dependence on them, without a reciprocal dependence by China. This is in contrast to the US, whose imports have increased and have seen a significant decrease in economic dependence on them by its trading partners as international competition increases.⁶ Globalization of economies has provided access to cheaper labour, specialized economic capabilities and the ability to avoid costs associated with developed countries higher standards or considerations for things like the environment, labour standards and government services advantaging China's trade and economic strategy over the US'.

Regional Dominance: Expulsion of other influences

China has made significant investments in the poor and unstable parts of continental Eurasia. While this has evoked criticism among some analysts⁷ it has

3 Mohammed Ziyad Al-Zghool, "China's Belt and Road Initiative and its impact on the global economy", The University of York, April 19, 10.

4 Julian Maluck, Nicole Glanemann and Reik Donner, "Bilateral Trade Agreements and the Interconnectedness of Global Trade", *Frontiers in Physics*, Nov 2018.

5 Ibid. In the 5 years after trade agreements were signed between China and Hong Kong, Chile, New Zealand, Pakistan and ASEAN, the relative importance of import /export linkages with china continuously increased.

6 Ibid.

7 Tanner Greer, "One Belt, One Road, One Big Mistake", *ForeignPolicy.com*, Dec 2018.

marginalized US influence in these areas, securing some key terrain for China's transcontinental network, even attracting interest from Western Europe and Latin America who also seek Chinese investment as an alternative to the West.⁸

This access to Chinese markets does not come without risk; trade deals become important to economies that adapt to them over time; important political, diplomatic and financial considerations become consequential, especially to the party that stands to lose the most from a disruption in trade, creating a point of leverage. Many of the countries included in the BRI are also susceptible to debt distress created by BRI related financing, creating yet another point of leverage. China has used this leverage and debt crises to acquire territory and a 99-year lease on a strategic port, or achieve a political objective, in other cases it has forgiven or extended debt financing in order to acquire political influence.⁹ However, the risk of being out of the trade opportunities is greater, and countries enter these deals to ensure economic prosperity despite the risks.

The American role in economic Asia may be growing in absolute terms but is steadily becoming a smaller fraction of the overall investment and trade in every Asian market. This reduced interaction with the US coupled with the growth of the pan-Asian identity enhanced by the institutional architecture the BRI is championing is resulting in a shift in dependence from Western economies to Chinese promoted institutions and initiatives.¹⁰

8 Robert Daly, "Does BRI Really Exist?", The Aspen Institute Congressional Program, US policy Toward Eurasia and the Role of the U.S. Congress, Prague, May 2019, 36.

9 John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective, Centre for Global Development", Washington DC, March 2018, 20.

10 Evan Feigenbaum, "Getting America Off the Backfoot in Eurasia", The Aspen Institute Congressional Program, US policy toward Eurasia and the Role of the U.S. Congress, Prague, May 2019, 25.

Strategic and Fundamental Resources: Food, Water, Energy, Minerals

China is using the BRI to diversify its sources of critical and fundamental resources in order to minimize potential points of leverage over them while increasing their leverage over others. Despite its large size, China has a mismatch between farmable land and its population which creates a challenge for food self-sufficiency. The Chinese government has put a high priority on food and water security. In lieu of having the farmland natively, they are generating it virtually through imports.¹¹ The BRI aims to improve food and water security by diversifying trade partners making China less dependent on any one supplier, but as mentioned previously, encouraging partners to specialize then become dependent on the exports they generate.

Having more than one-quarter of the world's deployed Renewable Energy Sources (RES) china has become a world leader in this area.¹² It is also the world's largest overseas investor in coal power, coal mines, and nuclear power.¹³ Part of the BRI focuses on developing an energy grid that extends all the way to Europe that will allow for the export of electricity to neighbouring countries. Coupled with the investment in generation capacity, countries connected to this network would be less self-sufficient and more reliant on Chinese owned suppliers.¹⁴ In contrast to RES, using cheap sources of power like coal will enable China to undercut competitors and allow consumers to 'export' the pollution generated to meet their power needs and still meet carbon

11 Wenfeng Liu et al, "China's Food Supply Sources Under Trade Conflict with the US and Limited Domestic Land and Water Resources", *Earth's Future*, Vol 8 Iss 3, March 2020, 4. <link>

12 Frank Umbach, "China's Belt and Road Initiative and its Energy-Security Dimensions", Rajaratnam School of international studies, Singapore, Jan 2019, 11.

13 Ibid, 21.

14 Ibid.

emissions goals. The BRI also includes pipelines, rail and sea infrastructure to ensure diversification of oil and gas supplies while simultaneously creating an export dependence by the poorer countries with those resources, who through BRI investments, will develop the resource extraction capacity tied to this shipping infrastructure.¹⁵ China's commitment to developing RES capabilities and employing it where environmental pollution is a concern conveniently comes as the US withdraws from the Paris accords, affording China an opportunity to forge relationships with numerous countries that signed on. As the world shifts away from oil and increasingly towards RES China is positioned to assume a greater leading role in lieu of the US.¹⁶

China, as a leading member of the Asian Infrastructure Investment Bank (AIIB), has significant clout in how infrastructure to extract critical minerals, ores and energy reserves are developed and financed.¹⁷ In 2010 China cut off exports of minerals needed for hybrid car manufacture to Japan to achieve a political objective and at the same time also launched a unified pricing system to control the availability and supply of rare-earth minerals worldwide.¹⁸ In 2019 China had the world's largest reserve stockpile, was the only nation capable of producing every known rare-earth mineral and controlled 85% of the global market for rare-earth products leaving many, including the US, dangerously dependant on it.¹⁹ Rare-earth minerals are a fundamental building block for modern

15 Ibid, 25.

16 Dominic Chiu, "The east is Green: China's Global Leadership in Renewable Energy", Centre for Strategic Studies New Perspectives in Foreign Policy, Issue 13, summer 2017, 8.

17 Mercy Kuo and Angelica Tang, "China's Natural Resource Strategy: "Win without fighting"", The Diplomat.com Nov 2015.

18 Keith Bradsher, "Amid Tension, China Blocks Vital Exports to Japan", The New York Times, Sept 2010.

19 Ian Easton, "What Rare Earths Tell Us about China's Competitive Strategy", The National Interest, July 2019.

technology and its many sub-components. By controlling these resources China is positioned to control a number of high-tech manufacturing sectors and with that some considerable political leverage.

Centralised Capacity to Dominate Global Markets

The “Made in China 2025” initiative announced a few years after the BRI focuses on making China a major or dominant global manufacturer of various technologies.²⁰ It follows a similar model as the US’ ‘National Strategic Plan for Advanced Manufacturing’, Germany’s ‘Industry 4.0’ and a number of other strategic plans for reinvigorating manufacturing and promoting industrialisation.²¹ This centralized manufacturing capability development focuses on reducing China’s reliance on foreign technology and imports while positioning it to lead what is expected to be the next industrial revolution.²² Through subsidies, loans, mobilization of state-controlled businesses and targeted acquisition of intellectual property and foreign firms China intends to dominate entire supply chains and move up the value-added chain, transforming itself from a low-cost manufacturer to a direct competitor for other high-tech nations.²³ With the backing of the State, and strong State controls of capacity building and capability development, ‘Made in China 2025’ has the potential to build a

20 State Council of the Peoples Republic of China, “Made in China 2025”, 2015. This document identified ten key sectors (1) next-generation information technology, (2) high-end digital control machinery and robotics, (3) aerospace and aeronautic equipment, (4) Oceanographic Engineering Equipment and High-technology Shipping, (5) advanced rail equipment, (6) energy-saving and new energy automobiles, (7) electrical power equipment, (8) agricultural machinery and equipment, (9) new materials, and (10) biopharmaceuticals and high-performance medical equipment.

21 Huimin Ma et al., “Strategic Plan of Made in China 2025 and Its Implementations”, *Analysing the Impacts of Industry 4.0 in Modern Business Environments*, 2018, 1.

22 James McBride and Andrew Chatzky, “Is Made in China 2025 a Threat to Global Trade?”, *Council of Foreign Relations*, May 2019.

23 Backgrounder, “Made in China 2025”, *Institute for Security and Development Policy*, June 2018, 2.

Chinese industry that could skew a number of high tech markets by dramatically changing supply and pricing points.²⁴

Corporate espionage and ‘forced technology transfers’ is a concern in global Chinese business practices, not incidentally there is growing concern that China is leveraging its foreign investments and global trade to gain access to “dual-use” technologies. Because of the state involvement in Chinese businesses, advanced economies are worried this interconnectedness and information transfer, especially in high-tech sectors could be used for ‘non-business purposes.’²⁵

The US response to Chinese industrial policy was first to decry the Chinese government’s involvement in the ‘free-market’, then to leverage similar policy tools: investment review measures by the committee on Foreign Investment in the United States (CFIUS), Tariffs, revised rules for the World Trade Organization, and citing national security to ban targeted technology companies from doing business in the US.²⁶ All of these were centralized control measures meant to neutralize the “unfair” advantage ‘Made in China 2025’ gives to domestic Chinese companies in the Chinese markets and a perceived trade imbalance.²⁷

Social Contagion: Exporting People, Culture and Ideas

While much of China’s presence in foreign politics is taking place through economic projection, this does not come without social and political contagions. China’s authoritarian capitalism is the antithesis of liberal democracy. While ideology is not at the

24 Ibid.

25 Anton Malkin, “made in china 2025 as a challenge in global trade governance analysis and recommendations”, Centre for international governance innovation, CIGI Papers No 183, Aug 2018, 18.

26 James McBride....

27 Backgrounder..., 8.

forefront of China's relations, geopolitics and the conflict between these fundamentally opposed ideologies affects relationships at all levels.²⁸ The BRI provides an opportunity for China to provide like-minded entities with support and protection while constructing a sphere of influence that is hostile to anti-regime thinking under the guise of project selection criteria.²⁹ The success of China's authoritarian model allows it to serve as an alternative to "the liberal west" model and has helped popularise a model of 'state-capitalism' which provides the perception of national independence and order for those that adopt it.³⁰ This ideology is especially popular with dictatorships and other poorly functioning democratic-like states with which China is attempting to expand its influence.

China leverages the principles of peaceful co-existence to justify its non-intervention policies and respect for others sovereignty.³¹ However, with such a large expat Chinese population living and working in other nations especially in the region the BRI affects, China-backed cultural and media activities, local political groups, academia, sports and even local Chinese communities represent discreet ways to lobby for influence in foreign governments.³² Even in Australia and Europe, there are examples of China using local Chinese communities to lobby for increased influence.³³

28 Hal Brands, "Democracy vs Authoritarianism: How Ideology Shapes Great-Power Conflict", *Survival*, Vol 60, no 5, 2018,63.

29 *Ibid*, 76.

30 *Ibid*, 81.

31 Ankit Panda, Reflecting on China's Five Principles, 60 Years Later, *The Diplomat*, Jun 2014. The five principles of peaceful coexistence: mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence have been a mainstay of Chinese foreign policy and serve as cunning political tools to justify its actions.

32 Philippe Le Corre, "China's Rise as a Geo-Economic Influencer in Eurasia", *The Aspen Institute congressional program, US policy toward Eurasia and the role of the US congress*, Prague, May 2019, 41.

33 *Ibid*.

This is far more clandestine than the US approach which has anchored its international behaviour to the promotion of liberal democracy, rules-based systems and the prevention of authoritarian power from achieving any geopolitical dominance using its hard power dominance.³⁴ Now established in the form of a globalised economy, this expansive liberal order has served as both a system for generating wealth at home and abroad for the US but also changed the world focus from security to economy and diminished the US' primary points of leverage: the provision of security and hegemony in the international economic arena.³⁵ There is debate even among Americans about whether spreading democracy is advantageous to America,³⁶ however there is one enduring lesson of interventions in other countries: most people are angry you intervened, some are upset that you stayed too long, and the rest believe you left too soon.³⁷ Regardless of political foundations, striking a deal that provides the perception of sovereignty and benefit for all parties is generally more attractive than a deal that comes with ideology attached.

34 Brand..., 70.

35 Michael Mastanduno, "System Maker and Privilege Taker U.S.: Power and the International Political Economy", *World Politics* 61, no. 1, Jan 2009, 123.

36 Sean Lynn-Jones, "Why the United States Should Spread Democracy", Belfer Centre for Science and International Affairs, Harvard Kennedy School, March 1998.

37 Micah Zenko, "The U.S. Doesn't Respect Other Countries Sovereignty", *The Atlantic*, May 2012. <Link>

CONCLUSION

China with its central location in Asia and close proximity to numerous trading partners is using the BRI to create a network of infrastructure and trade deals that will advantage China by diversifying its supply of critical resources, create an outlet for its centrally managed industrial capacity all while creating trade dependencies in its partners and establishing Chinese dominance in key industrial sectors. The BRI also serves to grant China accesses and political influence using economic leverage in areas previously dominated by the US displacing both their relevance and influence.

Since the end of the cold war with the USSR, the US has built its hegemony on the proliferation of liberal democratic governance and institutions, overtly promoting a society in its democratic image focused on the propagation of the free-market and economic prosperity. While this democratic, free-market society can be prosperous, it is also fragile and without control measures and established liberal institutions ‘installed democracy’ can quickly succumb to illiberal leaders. This model has also earned the USA a reputation for interference in other nations’ affairs and alienated cultures and leaders with competing ideologies. The BRI leverages the globalized free-market the US has worked so hard to build and taken the new focus on economics to promote trade and infrastructure development that will greatly benefit China without the overt ideological attachments that come with the western model. China’s model supports the perception of non-interference with trading partners regardless of their ideology. However, China can manipulate the details of trade deals and project selection to achieve other national interests and generate influence and political power.

During the last cold war the US emerged as a hegemonic superpower, promoting economic growth and a free-market ideology that took over the globe. As ideological principles have given way to providing basic needs and the reality of economic survival in a globalized economy so too has the draw of the US' ideological approach to world power given way to more practical ones. Despite the sacrifice of sovereignty and compromise to their ideology, nations continue to enter trade deals in the name of economic survival and prosperity in a globalized economy. US hegemony is threatened not by the relative increase in hard power of its rivals, but by initiatives like the BRI and 'Made in China 2025' which seek to erode the US' relevance and potency in the globalized economy it worked so hard to build.

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