

Sinometer

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EDITORS

GP CAPT ASEEM DOGRA

DR MADHUKAR SHYAM

Note from Head of CS3

Dear All,

We are happy to publish the 15th issue of the Sinometer: The China Strategic Monitor, a monthly newsletter by the Centre for Strategic Studies and Simulation (CS3), USI.

The importance of China in the global and regional context is ever evolving and this change can be witnessed in geo-political and geo-economic domains. The interest in the fields of Chinese security, economy and political relations has generated several debates making it a focal point of global affairs. The magazine is an attempt to give a peek into some of the important happenings in China and its impact on the world.

The newsletter is divided into two sections. The newsletter begins by analysing What China Has Learnt from the Ukraine War. The second section examines several news articles published on US-China chip war, Xi Jinping Thought and The End of (Chinese) History, China's West Asian peace diplomacy, Strategic competition casts doubt on the One China policy.

This issue aims to give a holistic perspective of China in the backdrop of China's internal challenges and a growing relationship with West Asian countries. We hope that budding China Watchers will take an interest in the newsletter. Happy reading!

Maj Gen RPS Bhadauria, VSM (Retd)
Director, Centre for Strategic Studies and Simulation (CS3)
United Service Institution of India (USI)

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Analysis

What China Has Learnt from the Ukraine War

In February 2022, the invasion of Ukraine by Russia posed a complex challenge for China. While the country aimed to reinforce its alliance with Russia to counter Western power, it also sought to prevent being subjected to economic sanctions by the West. In pursuit of these conflicting objectives, China has employed a diplomatic approach by extending support to Russia while refraining from any activities that could lead to sanctions by Western nations. China has escalated its trade with Russia, while refraining from violating Western sanctions.

China's cautious approach towards the Western-led sanctions campaign against Russia stems from its recognition of the possibility of being targeted by economic tools as well. The country has closely observed how Western nations have utilized financial instruments such as sanctions, export controls, investment restrictions, and tariffs, and realized the vulnerability it shares with Russia, in case tensions with the West escalate. Furthermore, China has studied the Western sanctions strategy against Russia and has extracted valuable insights, including the efficacy of international partnerships. However, it remains premature for China to extract the full range of lessons from the Western sanctions campaign against Russia, as some of the sanctions are intended to have prolonged impacts.

Do as I Say, Not as I Do

The recent years have witnessed a significant shift in China's approach towards economic warfare, as the country has embraced unilateral financial measures that it had previously deemed as an encroachment on a nation's sovereignty. In the past, China had wielded its economic clout against its adversaries discreetly, often citing public health or environmental concerns to justify its actions. However, over the last three years, China has replicated all the primary instruments in the US' economic and financial arsenal and has vigorously embraced unilateral economic measures.

China has initiated its Unreliable Entities List, and implemented targeted asset freezes and visa bans against officials from the US, the UK, Canada, and the EU. Additionally, China has enacted an anti-foreign sanctions law that enables it to impose countermeasures on foreign individuals or companies deemed to pose a threat to its sovereignty, security, or developmental interests. This new legal framework in China borrows from the Canadian and EU blocking laws, and criminalizes the implementation of foreign sanctions on Chinese territory. Despite China's cautious implementation of these new laws, its economic arsenal now complements

the unilateral sanctions and controls it had previously discredited as illegal.

Too Big to Sanction?

In 2022, following Russia's invasion of Ukraine, the Western nations responded with robust economic sanctions aimed at Russia's financial institutions, and terminated their access to international banking networks. This marked a departure from the more cautious approach taken during the previous Ukraine crisis in 2014. The West's swift and forceful response conveyed a message to China that even a strong economy like Russia's could face significant consequences for jeopardizing international order. Consequently, China can no longer assume that the West will refrain from taking economic risks to safeguard its interests. Despite the Western nations' response requiring significant sacrifices and causing inflation and energy shortages, it has proved to be effective in curbing Russia's aggression.

Fortress China

The deterrence of China's use of force against Taiwan through sanctions alone is a challenging prospect, given that strategic decisions are made after weighing costs and benefits. Nevertheless, China will likely draw lessons from Russia's experience in Ukraine and endeavor to render its economy "sanctions-proof." Russia's defensive measures were inadequate, as nearly half of its foreign reserves were made inaccessible by sanctions. Its Mir credit card network and System for the Transfer of Financial Messages proved ineffective.

In contrast, China has succeeded in reducing its foreign reserves held in U.S. dollars. However, moving its reserves into renminbi is not a feasible option, and its alternatives are limited. China has established its renminbi payment system, the CIPS, which has attracted numerous participating institutions, but is still smaller than the SWIFT system. Although China commands significant influence in bilateral negotiations as the world's largest trading partner, it is unlikely to undermine the global financial system or replace the dollar and euro as the primary international currency.

Beijing's Missing Coalition

The recent conflict has underscored the significance of coalitions for the effective implementation of sanctions. Although the United States wields considerable influence through its technological advancements, financial markets, and the ubiquity of the dollar, the impact of sanctions on Russia was only significant because of the collective efforts of other countries, such as Australia, Canada, Japan, South Korea, Taiwan, the UK, and the EU. In contrast, China requires a comparable coalition, which limits both its offensive and defensive economic capabilities. China's recent sanctions on Australia and Lithuania did not achieve the intended outcome, given the support these countries received from their allies. Nevertheless, China remains vulnerable to broad and

concerted sanctions from advanced economies, and the extent of its susceptibility remains uncertain. China must focus on diplomacy and relationships as it reopens its economy, while the US must prioritise building and strengthening international partnerships to effectively confront China in any potential confrontation.¹

US-China Chip War: Japan Plans to Restrict Some Equipment Exports

In accordance with recent moves by the US and the Netherlands, Japan plans to impose restrictions on certain exports related to computer chip-making. The proposed rules will apply to 23 types of semiconductor manufacturing equipment and will undergo a public comment period, with plans to implement them by July. Semiconductors are a critical component of modern technology, from mobile phones to military hardware, and have become a contentious issue in the ongoing dispute between the US and China. However, Japan's trade and industry ministry did not reference any specific countries in its statement, instead emphasizing Japan's responsibility as a technological nation to contribute to international peace and stability. Japanese Trade Minister Yasutoshi Nishimura stressed the need for coordination with US restrictions. The restrictions will impact equipment supplied by major technology companies such as Tokyo Electron and Nikon and will range from tools used to clean silicon wafers to immersion lithography machines, which use lasers to print minuscule patterns on silicon as part of the microchip manufacturing process. In October, the US announced that companies exporting chips to China using US tools or software, no matter where they are made worldwide, would require licenses. The US had also urged the Netherlands and Japan to adopt similar restrictions, which the Dutch government has agreed to implement.²

Xi Jinping Thought and The End of (Chinese) History

Following the collapse of the Soviet Union and the end of the Cold War, Francis Fukuyama, an American political scientist, proposed the notion of "the end of history." This idea, which was shared by other Western experts, posited that the disappearance of Marxist ideals promoted by the Communist Party of the Soviet Union (CPSU) signaled the end of history, which refers to humanity's ongoing search for the most effective governance model, culminating in the liberal model characterized by free elections, laissez-faire economics, and the rule of law, which is considered the ideal system.

¹ https://www.foreignaffairs.com/china/what-china-has-learned-ukraine-war?utm_medium=newsletters&utm_source=twofa&utm_campaign=What%20China%20Has%20Learned%20From%20the%20Ukraine%20War&utm_content=20230217&utm_term=FA%20This%20Week%20-%2020112017

² <https://www.bbc.com/news/business-65134017>

In the latest revision of the Chinese Communist Party's constitution, Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era has been established as the permanent guiding ideology for the party and the state. This action proclaims that China has identified the correct path to modernization after a thousand-year quest for enlightenment. As per the party's 2021 resolution, Xi Jinping Thought represents a new breakthrough in the Sinicization of Marxism by integrating contemporary Chinese Marxism, 21st-century Marxism, and traditional Chinese culture and spirit.

A New Orthodoxy Prevails

The present academic text concerns the latest edition of the Chinese Communist Party (CCP) Constitution and its declaration of Xi Jinping Thought as the permanent guiding ideology of the party and state. According to the CCP, this ideology represents the apex of China's thousand-year search for a modernization path that would enable national prosperity and power. The party considers Xi's ideology as the quintessence of the times and is characterised by the fusion of traditional Chinese culture and Marxism.

Xi Jinping has played a significant role in bringing about a partial reconciliation between Saudi Arabia and Iran and has sought to find a peaceful resolution to the Russia-Ukraine conflict in discussions with Vladimir Putin. He has underscored that each nation must chart its distinct modernisation course, with his brand of socialism serving as the bedrock for China's modernisation. It is improbable that Xi would allow party ideologues to alter his ideology and has urged total commitment to Chinese socialism. Moreover, he has highlighted the need for CCP cadres and ideologues to improve their dogma and cautioned against adopting policies that pose a threat to his overarching authority.

A "One-Voice Chamber"

The ability of the Chinese regime to maintain the "end of history" hinges on its capacity to eliminate politics, which involves competition for power and interests among different groups. Dr Sun Yat-sen's definition of politics implies popular participation and tension between the ruling elite and other interest groups. However, recent party congresses and the National People's Congress indicate that Xi Jinping and his faction have monopolised all positions in the decision-making bodies and ousted opposition factions within the CCP. Xi has also tightened control over civil society groups. Institutional reforms have increased the power of the central CCP apparatus and reduced the power of government bureaucracies. Furthermore, Xi has expanded the capabilities of the Director of the General Office of the CCP Central Committee to enhance the party's control. These centralisation efforts raise questions as to whether politics, as traditionally understood, still exists in China and whether Xi Jinping Thought is the optimal system for China.

The Persistence of Politics and History

Throughout history, there have been instances of authoritarian leaders who have suppressed all forms of dissent and eliminated politics. However, these periods of autocracy have typically been short-lived. For example, Qin Shihuang, the first Emperor of China, established his absolute power through strict laws, but his reign lasted only 11 years. Despite Xi Jinping's strong grip on the Communist Party, the military, and surveillance systems, there have been increasing protests and public discontent in China. This dissatisfaction has been fuelled by Xi's "zero-COVID" strategy, restrictions on bank withdrawals, and reduced government benefits for retirees. Moreover, the country's economic struggles, such as declining exports and lower consumer spending, are causing growing tension between the ruling elite and ordinary Chinese citizens. These factors raise the question of the sustainability of Xi's political system and whether the "end of (Chinese) history" is a realistic concept. As politics and the battle between the state apparatus and ordinary citizens intensify, the idea that China has reached the "end of history" may no longer hold, especially if Xi is forced to change his ideology significantly.³

China's West Asian Peace Diplomacy a Reality Check for India

The recent diplomatic efforts to reconcile Saudi Arabia and Iran have enhanced China's role in global power dynamics, benefiting from its strong ties with Iran, which were mainly established through regional countries' efforts. China's involvement in brokering the diplomatic thaw between Saudi Arabia and Iran has significant implications for regional politics. In contrast, India, despite having extensive political and diplomatic outreach in West Asia, has not made any official comments on the Saudi Arabia-Iran agreement, only reiterating its support for diplomacy and dialogue. While some in the region have suggested India could mediate regional conflicts, its official stance of not supporting third-party mediation on the Kashmir issue with Pakistan has left it reluctant to do so.

The recent agreement between China and Iran has brought attention to India's relationship with Iran. While India has established good ties with Arab nations, especially after the normalisation of relations between the UAE, Israel, and a group of Arab states through the Abraham Accords, the current regional scenario is dominated by an 'Iran vs the rest' narrative, with power divided between Saudi Arabia, Israel, and Iran. India's relationship with Iran has been adversely affected by US-imposed sanctions, which have hindered oil trade and slowed down development at Chabahar Port, a strategic investment by India. Operations of institutions like the joint India-Iran shipping company, IranoHind, also stopped in 2012.

³ https://www.jia.or.jp/en/ajiss_commentary/the-xi-jinping-administration-in-its-third-term.html

Despite these economic setbacks, India remains strategically interested in Iran, especially following the return of the Taliban in Afghanistan and Russia's war against Ukraine. India's geographic realities will push it to engage with actors like Russia, Iran, and China on security and counter-terrorism issues. In this context, National Security Adviser Ajit Doval's recent visit to Moscow and meeting with President Putin highlights Russia's importance in Indian security thinking and, by extension, Iran's critical role in Indian interests. Moreover, External Affairs Minister S Jaishankar's visit to Tehran in July 2021 appears prescient in light of these events. While India has focused on the Arab world for economic opportunities, China's influence in Iran may force India to reconsider its approach. Beijing's role in West Asia must be clarified, and India must adjust its position accordingly.⁴

Strategic Competition Casts Doubt on the One China policy

The relationship between China and the United States is currently fraught with pessimism, and there is growing concern about the possibility of conflict, particularly in the Taiwan Strait. While both nations agree that Taiwan and the Chinese mainland belong to one China, the US approach differs from China's. There is a growing sense of anxiety in the Chinese strategic community about the stability of the political foundation between the two countries.

Adding to the situation's complexity is that Taiwan's stance on cross-Strait political relations is unacceptable to the Chinese mainland, which sees Taiwan as promoting a 'one China, one Taiwan' policy. The US engagement with Taiwan is viewed as support for this policy, further complicating matters.

The Biden administration's strategy is focused on competition for geostrategic influence, and there is growing debate over the role of Taiwan in this context. Some Chinese scholars argue that the US violates its One China policy by perceiving Taiwan as a strategic asset. However, the US government denies any policy change.

Given the world's current situation, particularly the Ukraine conflict, the US is increasingly focused on strengthening its relationship with Taiwan, particularly in the military sphere. The US sees deterrence as essential to prevent China from invading Taiwan, as it believes the Chinese mainland has a timeline for resolving the Taiwan question.

Conversely, China sees the Taiwanese authorities as changing the status quo in the Taiwan Strait with US support. China's military operations in the Taiwan Strait aim to deter these changes while it promotes cross-Strait integration and development in Fujian Province to demonstrate its objective.

⁴ <https://www.deccanherald.com/opinion/china-s-west-asian-peace-diplomacy-a-reality-check-for-india-1202752.html>

The US's strategic ambiguity is increasing, making China less confident in its assurances that Taiwan will not support a unilateral change of the status quo. Some in the US strategic community believe that 'strategic ambiguity' should be replaced with 'strategic clarity', reinforcing China's belief that the US is attempting to keep Taiwan separate from the Chinese mainland.

Taiwan is essential to the US-China strategic competition in critical technology and ideology domains. The Biden administration's export controls on computer chips to China and the attempt to create a 'democratic semiconductor supply chain' that includes Taiwan have implications for China, as it believes the US is preventing it from becoming a first-class power and blurring the nature of the Taiwan question.

Recent developments, including leadership elections in Taiwan, a looming US presidential election, and a possible visit to Taiwan by US House Speaker Kevin McCarthy, have added to the uncertainty surrounding China-US and cross-Strait relations. There needs to be more scope for seeking common ground while reserving differences, and the recent 'balloon incident' highlights the inadequacy of current crisis prevention and management mechanisms.

Given the importance of the Taiwan question, China and the United States should engage in strategic stability dialogue and crisis prevention and management dialogue. If official conversations prove difficult, both nations should promote 'second track' dialogues to avoid misunderstandings, prevent miscalculations, and inform government decision-making.⁵

The Xi Jinping Administration in Its Third Term: What Diplomacy Should Japan Pursue toward China?

The rise of Xi Jinping as a dominant leader in China can be attributed to a shared sense of crisis among party leaders, who are concerned about both internal and external threats. The Xi administration has attempted to construct a strong governing system through measures such as tightening control over speech and thought, subjecting liberal intellectuals and NGOs to surveillance, and establishing a situation in which Xi oversees policies in all areas. Xi has utilised the Party's Discipline Inspection Commission to carry out an anti-corruption campaign, and the Party's Political and Legal Affairs Commission to construct a governing structure for "rule by law" at all levels of society. While some have criticised the administration for being dictatorial and centralising power, others see Xi as a virtuous leader forced to seize power for the greater good. The success of the administration in achieving economic stability, development, and improving the welfare of the people through future efforts remains to be seen.

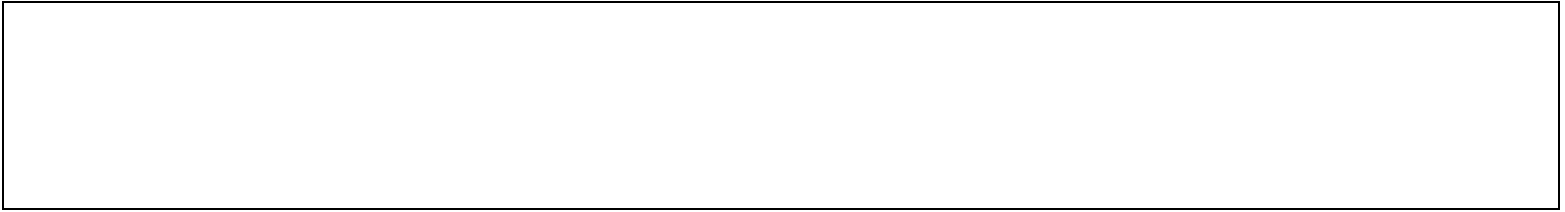
⁵ <https://www.eastasiaforum.org/2023/03/24/strategic-competition-casts-doubt-on-one-china-policy/>

Regarding Japan's diplomatic approach to China, there is a tendency to dismiss China as a dictatorship without considering its internal logic. Japan should be mindful of the potential risks of being caught in the middle of a war between China and the United States, and instead focus on creating a pluralistic and multi-layered international environment with China. This can be accomplished by developing a multidimensional security framework that encompasses not only military and economic security but also "life" security, such as promoting personnel exchange and collaboration in areas such as medical and nursing care. Japan's strength in diplomacy has historically been its flexibility, and efforts should be made to continue this approach.⁶

⁶ https://www.jiia.or.jp/en/ajiss_commentary/the-xi-jinping-administration-in-its-third-term.html

About the Editors

- Gp Capt Aseem Dogra was commissioned in the Aeronautical Engineering branch of IAF in November 1993. He is an M Phil in Defence and Strategic Studies from Panjab University, M Sc from Madras University and Bachelors degree in Mechanical Engg from Visvesvaraya National Institute of Technology, Nagpur. His Master's dissertation was on 'Indo-Russian Relations in the Emerging World Order'. Gp Capt Dogra is a graduate of DSSC, Wellington and has also attended the Higher Command Course at Army War College, Mhow. He has extensive experience on aeronautical engineering, ranging from O-level to D-level maintenance of Russian fighter aircraft fleets. He has tenanted various field, instructional and staff appointments in the maintenance hierarchy of IAF. He commanded Air Force Liaison Establishment, co-located with HAL (Nasik) and mandated to act as an interface between IAF and HAL. He is presently studying "India's One China Policy – Need for a Change" as a part of his research fellowship at USI, New Delhi.
- Dr Madhukar Shyam is a Research Assistant at the Centre for Strategic Studies and Simulation (CS3) at the United Service Institution of India, New Delhi. He previously worked as an Assistant Professor at the Dept. of Political Science, Delhi Colleges of Arts and Commerce, University of Delhi. He finished his M.Phil. and PhD. from the Centre for East Asian Studies at the School of International Studies, Jawaharlal Nehru University. His M.Phil. is on 'Middle Kingdom and New Confucianism in Chinese Foreign Policy; 1989-2016' and PhD is on 'Intellectual Property Rights in China: A Case Study of Copyright; 2001 to 2018'. He writes on International Politics, China's Foreign Policy, and Economic policy for different journals.





United Service Institution of India

Rao Tula Ram Marg
(Opposite Signals Enclave)
Post Bag No 8
Vasant Vihar PO
NewDelhi-110057



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