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SUB-COMMITTEE ON TRANSATLANTIC RELATIONS (PCTR)

CHINA'S GLOBAL ROLE IN THE WAKE OF
RUSSIA'S WAR AGAINST UKRAINE

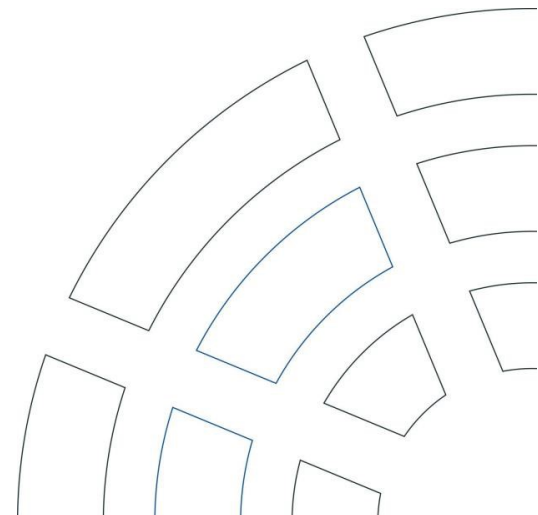
Report

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Founded in 1955, the NATO Parliamentary Assembly acts as a consultative interparliamentary organisation which is institutionally separate from NATO. This report was adopted by the Political Committee at the 2023 NATO PA Annual Session in Copenhagen, Denmark. It is based on information from publicly available sources or NATO PA meetings – which are all unclassified.



While rightly focused on the immediate task of helping Ukraine to prevail in Russia's unjust and brutal war, the Allies must not lose sight of the systemic, long-term challenge an authoritarian and revisionist China poses to Allies' interests, security and values as it seeks to revisit the rules-based order. Hopes that China could play a constructive role in restoring the international order disturbed by Putin's war so far proved futile – Beijing de facto chose to side with Russia. China continues making inroads in regions across the globe, vying for leadership position in the Global South and promoting its revisionist agenda, with mixed success. It is encouraging that liberal democracies and many non-aligned countries alike have mobilised and pushed back against Chinese coercive policies.

The Euro-Atlantic community has to brace for an extended rivalry with an authoritarian China. While NATO as an organisation should continue focusing on its direct area of responsibility, Allies will need to dedicate significant resources to this rivalry. It is vital for all Allies to demonstrate solidarity and to shoulder their fair share of responsibility for Allied security and for the future of the rules-based world order. While taking seriously the issue of resilience and investing adequately in stronger defence and deterrence, the Allies should work together with like-minded partners in the Indo-Pacific as well as the EU towards establishing the guardrails of strategic competition to reduce the risk of dangerous escalation and to create space for cooperation on pressing global challenges such as climate change and nuclear non-proliferation. Moreover, the Euro-Atlantic community has to prepare to meet increasing challenges to the rules-based international order in areas such as the Black Sea, the Indo-Pacific as well as across the globe.

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I- INTRODUCTION

1. Russian military aggression against Ukraine in 2014 and especially the unprovoked full-scale invasion in February 2022 has prompted NATO to recommit to its original core mission – the protection of Europe against the Russian threat. However, the Alliance cannot simply return to the Cold War posture because the global security environment has become markedly more complex. The meteoric rise of the People’s Republic of China (henceforth – China) is arguably the most significant geopolitical revolution in contemporary history. Before 2022, North America and Europe were increasingly in agreement that future global affairs will be defined primarily by their, and especially the United States’, strategic competition with China, which would mostly play out in the Indo-Pacific theatre. The Russian war against Ukraine and the instability it caused in the larger Black Sea region and beyond has altered this perception. Yet, according to surveys, even in the wake of Russia’s full-scale invasion, a median of 66% across 19 countries consider China’s global influence to have recently increased (Silver et. al, 2022). An opinion survey of international relations experts in US universities shows that the rising power of China is a top foreign policy issue – second only to the implications of climate change (Blaines et al. 2023). In the long term, the underlying structural drivers and dynamics in the Indo-Pacific will continue shifting the global centre of gravity towards this region.

2. NATO will need to adapt. And it has come a long way – from not having a single reference to China in the 2010 Strategic Concept, to one sentence in the 2019 statement of Allied leaders in London, to extensive references in the 2021, and 2023 Summit communiqués. The new 2022 Strategic Concept notes that China’s “stated ambitions and coercive policies challenge our interests, security and values.” The document stresses that while remaining open to constructive engagement with Beijing, the Allies will work together to address the systemic challenges posed by China, including by boosting shared awareness and enhancing Allied resilience. NATO’s strategic documents suggest that, in the view of the Allies, China poses a challenge to not only to Euro-Atlantic security, but also represents an authoritarian onslaught on NATO’s shared values and the rules-based international order, which Allies are committed to promote and protect. At the 2023 Vilnius Summit, Allied leaders reiterated their commitment to “stand up for our shared values and the rules-based international order, including freedom of navigation.” They also expressed concern about China’s deepening strategic partnership with Russia and urged Beijing to condemn Russia’s war of aggression against Ukraine and to abstain from supporting Russia’s war effort in any way (NATO, 2023f). Thus, the last few years witnessed a growing convergence of North American and European perspectives on China. In recent years, the Allies have also made major strides towards stronger partnerships with like-minded countries in the region – Australia, Japan, New Zealand and the Republic of Korea (the Asia-Pacific Four, or AP4) – although it must be stressed that NATO’s cooperation agenda with AP4 is broad, positivist and not China-centric. In 2022 and 2023, AP4 countries attended NATO Summits at the level of heads of state and government.

3. Within the ecosystem of transatlantic institutions, the NATO Parliamentary Assembly has been a leading voice, urging policymakers to put China on NATO’s agenda years before the 2019 statement. The Assembly has been preparing reports on China since at least 2005, and its delegations have visited China four times.¹ In its contribution to the new Strategic Concept, the NATO PA suggested that NATO should “engage with China wherever it can and when it is in its interest to do so and use this engagement to encourage China to act as a responsible global player; working in close complementarity with the EU and other key partners, it should compete with China to maintain its scientific and technological edge and the independence and resilience of its supply chains; and it should deter China when Beijing’s actions challenge Euro-Atlantic security”

¹ The last NATO PA visit by the Sub-Committee on Future Security and Defence Capabilities took place in June 2019.

(NATO PA, 2022). The Assembly also nurtures ties with the AP4 on a parliamentary level. Australia, Japan and the Republic of Korea hold parliamentary observer status in the Assembly and their delegations regularly attend NATO PA sessions. NATO Parliamentarians have paid several visits to Japan and Republic of Korea, most recently in 2022, as well as having visited Australia (2008) and Singapore (2019). Another visit to the region is planned in 2023.

4. This report builds on the previous work of the Assembly on China and the Indo-Pacific region and tackles new developments, most notably how the Russian war against Ukraine is affecting the Western approaches to China as well as China's regional and global role. The report explores how China's internal dynamics shape its foreign policy and its international clout. The report also offers thoughts on how the Euro-Atlantic community's China strategy should evolve.

II- BEFORE THE RUSSIA-UKRAINE WAR: THE RISE OF THE ASSERTIVE CHINA

5. When Mao died in 1976, he left China a poor country whose share in the global economy was about 1%. The ensuing pro-market reforms (today private companies account for 60% of China's GDP and 70% of its technological innovation) (IISS, 2022a) as well as China's inclusion in the international economic institutions, facilitated by the US-led West, resulted in an astonishing growth of the Chinese economy, which currently accounts for about 18% of global GDP and, in nominal terms, is second only to that of the U.S. Between 1980 and 2020, China's GDP grew from USD 200 billion to around USD 15 trillion, and its GDP per capita increased fifty times during that time span (Mohseni-Cheraghlou & Aladekoba, 2023). This remarkable transformation helped lift close to 800 million people out of poverty (The World Bank, 2022). While the Chinese Communist Party (CCP) retained its power monopoly, formally still embracing the Marxist-Leninist ideology, Western policymakers were hopeful that China would continue developing along the trajectory towards greater openness and further integration in the liberal world order. Post-Mao leadership adopted a pragmatic, low-profile international posture, focusing on economic development and presenting China as a diligent member of Bretton Woods and other post-WWII international frameworks.

6. This posture began to change about a decade ago. Arguably, the discrepancy between China's newly found economic clout and its relatively low-key political and military global role was no longer tenable. The growing temptation to reap the geopolitical benefits of the Chinese economic miracle provided a fertile ground for the rise of nationalist politicians such as Xi Jinping, who was chosen to lead the CCP in 2012 and has served as the country's president since 2013.

7. Under Xi's watch, China grew considerably more authoritarian domestically and adopted a more hostile foreign policy, especially in its immediate neighbourhood. Most notably, since 2014, China has begun building artificial islands in the South China Sea in order to claim territory and project power in this strategically important region and a major route of global trade. Beijing ignored the 2016 ruling against such actions by the Permanent Court of Arbitration in The Hague. China's attitude towards Taiwan (which Beijing considers a part of its territory) has become more hostile, manifesting in escalatory statements by China's senior military officials and increasing incursions into Taiwan's air defence identification zone. Beijing's relations with Japan have also deteriorated, especially due to the dispute over the Senkaku Islands in the East China Sea, acquired by Japan from a private owner in 2012: Tokyo claims that Chinese vessels regularly enter waters around the islands. Furthermore, China has territorial disputes with India, with tensions culminating in the 2020 border incident in eastern Ladakh, which claimed several lives.

8. Beyond its neighbourhood, Xi's China has rapidly acquired the reputation of a bully: a hostile actor, eager to capitalise on the economic dependencies it created via its investment policies and

loans. Since 2013, China has pursued its flagship Belt and Road Initiative (BRI) where it has already invested – mainly through state-owned firms – in over 100 countries (including the NATO Allies). While China’s partners benefit from the BRI, it is increasingly regarded as an instrument for Beijing to advance its geopolitical interests, collect intelligence, stifle criticism of the country in the regions concerned and build relationships of dependency through “debt-trap diplomacy”, epitomised by Beijing’s 99-year concession of the Sri Lankan port of Hambantota in exchange for the write-off of a little more than USD 1 billion in loans.

9. According to the estimates of the Stockholm International Peace Research Institute, China’s defence spending has increased by 76% between 2011-2020 (SIPRI, 2021) and China is now firmly the world’s second-largest military spender, far surpassing Russia but still significantly behind the United States (SIPRI, 2022). In 2022, the Chinese defence budget grew to USD 242 billion (IISS, 2022b). Moreover, Beijing has announced a 7.2% increase of its defence budget for 2023. China deploys the largest navy in the world with approximately 340 battle force ships, compared to 294 in the US Navy (Atlantic Council, 2023). China is pursuing a plan to increase its nuclear missile forces from an estimated 400 warheads currently to 1,500 by 2035 and expand the number of deployed strategic-range launchers by 300. China has the world’s second-largest fleet of satellites after the United States with nearly 600 satellites in orbit – of which 229 perform intelligence, surveillance and reconnaissance tasks (Bekkevold, 2023). It is also making rapid progress in developing hypersonic weapons and advanced fighter jets. US analysts conclude that already China “can challenge the US military across the spectrum of conventional and unconventional capabilities” (GAO, 2022).

10. China’s poor handling of the COVID-19 pandemic, including the initial censoring of warnings about the severity of the problem and the subsequent inflexible policymaking in not collaborating with the West to import the new MRA vaccines or share substantial data about the appearance and spread of COVID-19 within China, has not helped China’s global standing. Under Xi, Chinese diplomacy cultivated a hard-line ‘wolf warrior’ approach aggressively promoting Chinese narratives and bullying critics.

11. China is also a major source of cyber threats worldwide due to its formidable cyber offence and espionage capabilities. According to public statements by the FBI Director, the Chinese hacking programme is the largest in the world and Chinese have stolen more American private or business data than every other state combined (Starks, 2023).

12. Over the years, China consistently extended its influence in Allied critical infrastructure, supply chains and key industrial sectors. It invests heavily in 5G networks, railways and harbours, which can create security, economic, cyber and political vulnerabilities. In addition, Beijing has a policy of military-civil fusion, meaning the Chinese state and military can use, or misuse, civilian data and technology as well as mobilise the resources of the state-owned companies, private sector and academia to underpin its military transformation. Chinese authorities seek supremacy in key technologies, including artificial intelligence, quantum computing, biotechnology and batteries – not just for economic gains, but also for political and military leverage. A recent comprehensive study by the Australian Strategic Policy Institute found that China has the lead over AUKUS nations on 19 out of 23 of critical technology fields, in particular in hypersonics, undersea capabilities and electronic warfare. That said, the AUKUS partners maintain the lead in fields such as autonomous systems operations, advanced robotics, artificial intelligence and cyber (Detsch et al., 2003).

13. Internally, the regime has become noticeably more closed and authoritarian. The restrictions imposed by the Zero-COVID policy were borderline dystopian. The serious human rights violations inflicted on the Uyghurs and other predominantly Muslim minorities in Xinjiang Uyghur Autonomous Region, which according to Office of the United Nations High Commissioner for Human Rights may constitute crimes against humanity, have drawn international condemnation. Beijing also infringes on fundamental freedoms once guaranteed by law in Hong Kong and has severely restricted the

exercise of the right of free enterprise by both individuals and the private sector in Xinjiang Uyghur Autonomous Region.

14. China's growing assertiveness and authoritarianism has backfired, prompting a profound change in public perception of China across the world and especially among its neighbours. According to Pew Research Center's surveys, in the U.S., the share of those with a negative view of China rose from 36% in 2010 to 82% in 2021. Similar dynamics took place in Japan, Australia and the Republic of Korea. In Europe, negative views of China have also increased dramatically since the beginning of the century, ranging, by 2021, from 50% in Greece to 83% in Sweden (including around seven in ten respondents in Germany, the UK and France) (Silver et al., 2022). According to a pre-Vilnius Summit survey commissioned by NATO across all 31 Allied nations, 54% of Allied citizens held an unfavourable view of China, while only 14% view China favourably. Moreover, 47% of Allied citizens viewed China less favourably compared to 12 months ago; while only 11% said their view of China has improved (NATO, 2023e). These changes in attitude towards China have been reflected in policy changes, including measures to curb Chinese investments, particularly in vulnerable sectors such as 5G networks, as well as reinvigorating partnerships with like-minded partners to push back against China's rising assertiveness and to promote the concept of a Free and Open Indo-Pacific (FOIP) through maritime presence and joint exercises in the region.

III- CHINA AND THE RUSSIAN WAR AGAINST UKRAINE

15. Russian-Sino relations, spanning some 400 years, have not always been cordial, including during the Cold War when the two Communist countries clashed over territory and ideological nuances. Since the normalisation of relations in the late 1980s, however, the relationship has been steadily growing, including Russia's membership in the China-led Shanghai Cooperation Organisation, conducting joint military exercises since 2005 and officially recognising each other as 'comprehensive strategic partners' since 2011 (CSIS, 2022). Politically, the two nations were increasingly acting in unison on the international area, including on the UN Security Council, sharing antagonism towards the perceived hegemony of the West and towards the 'colour revolutions' against authoritarian leaders. Economic collaboration expanded dramatically with dozens of cooperation agreements in the fields of energy, infrastructure, agriculture, finance and technology. The economic partnership is highly asymmetrical, however: in 2021, China accounted for 18% of Russia's total trade, while Russia only accounted for 2% of China's (Kim, 2023). China's economy dwarfs that of Russia by a factor of ten and China's global trade and investment footprint is incomparably higher (Feigenbaum & Szubin, 2023). Until recently, despite this enormous economic disparity, Moscow was able to position itself as Beijing's peer owing to Russia's perceived military superiority and its role as a major arms supplier to China, including Su-35 fighter jets and S-400 air defence systems.

16. On the eve of Russia's full-scale invasion of Ukraine, Putin and Xi issued a joint statement in Beijing reaffirming the two countries' 'no-limits' partnership. It is notable that in the statement, China denounced NATO enlargement (and repeated this criticism on several occasions since) – a subject Beijing refrained from commenting on in the past. Following the invasion, Beijing refused to condemn the Russian aggression and the Chinese media chose to broadcast the Russian version of events, including outlandish conspiracy theories such as the U.S.'s alleged construction of biological weapons laboratories in Ukraine (Belin et al., 2022). Russia and China continued their joint military exercises, including the PLA's participation in Russia's massive Vostok military drills in August 2022 and the Russia-China-South Africa exercise in February 2023. According to US Secretary of State Antony Blinken, Chinese firms are providing dual-use, non-lethal support to Russia's war efforts in Ukraine (Marlow, 2023). The allegations implicating Chinese firms in the provision of weapon

components to Russia led the EU to consider banning the export of dual-use goods from eight Chinese companies (Von der Burchard & Lau, 2023).

17. That said, China and Russia are not completely aligned on Ukraine. The mutual trust between the two states remains limited, as China arguably considers Russia to be a junior partner whose diminished global standing can be exploited to Chinese advantage. Beijing tends to abstain – rather than use its veto power – during the UN votes on resolutions condemning the Russian aggression. In April 2023, China even voted in favour of a UN resolution that explicitly acknowledges Russian aggression against Ukraine. While this single vote does not indicate a comprehensive change in China’s approach to Russia, it reflects Beijing’s efforts to portray itself as having a more nuanced stance. In January 2023, credible media sources quoted senior Chinese officials claiming Beijing was not aware Russia was planning a full-scale invasion of Ukraine and that they privately considered Putin’s war a reckless and ill-advised affair, which unnecessarily complicates China’s relations with the U.S. and Europe (Kynge et al., 2023).

18. Importantly, China reportedly hinted to Russia that the use of nuclear weapons would not be acceptable (Belin et al., 2022). Following Moscow’s announcement of plans to deploy nuclear weapons in Belarus, China made a statement reiterating its commitment to the principles of non-first use of nuclear weapons and non-use against any non-nuclear-weapons states as well as called for the abolition of nuclear-sharing arrangements and withdrawal of all such weapons deployed abroad (while seemingly directed against NATO Allies, the timing of this statement suggests that it was also a signal to Russia) (UN, 2023). While, in February 2023, the US raised concerns that China might consider supplying weapons to Russia, Beijing has been vehemently denying such claims and reassured Secretary Blinken it had no plans to provide lethal support to Russia when he visited China in June (Horti & Landale, 2023). The EU’s top diplomat Josep Borrell also stressed that China’s provision of lethal assistance to Russia would cross a ‘red line’ for the EU-China relationship (Lau, 2023).

19. With the war in its second year, China’s position remains ambivalent, but clearly tilting towards supporting Moscow. In contrast with Xi’s frequent exchanges with Putin, Beijing has de facto suspended highest-level contacts with Kyiv since the start of the full-scale war (Sapozhnikov & Breazeale, 2023)². On 20-22 March 2023, Xi paid a state visit to Moscow, days after the International Criminal Court issued an arrest warrant for Putin, thus legitimising the Russian dictator and suspected war criminal. The US Secretary of State Antony Blinken suggested that Xi’s visit provides “diplomatic cover for Russia to continue to commit those very crimes” (Picheta & McCarthy, 2023). Xi and Putin signed several cooperation agreements, including on additional deliveries of Russian gas to China via the planned Power of Siberia 2 pipeline through the territory of Mongolia. In their joint statement, the two leaders noted that their countries’ partnership had reached its highest level ever, repeated the criticism of the U.S. and NATO, but also – along the lines of China’s position – stressed that the Russia-China partnership does not constitute a ‘military-political alliance’ and reiterated their commitment to the 2022 Joint Statement of the Leaders of the Five Nuclear-Weapon States that a nuclear war cannot be won and must never be fought (Radio Free Europe, 2023).

20. Putin also admitted the value of China’s 12-points ‘peace plan’ to end the Russo-Ukrainian war, announced in February 2023 (The Guardian, 2023). The plan is a vague and inconsistent document which, on the one hand, reaffirms the principle of territorial integrity and sovereignty, implying that Ukraine’s territorial integrity must be restored, but, on the other, does not call for the withdrawal of Russian forces from Ukraine and insists that the security interests of all parties must be respected (presumably, including Russia’s claims vis-à-vis Ukraine and NATO). NATO Secretary

² Only in late April 2023 Xi and President Zelenskyy held their first conversation – via phone call – where Xi repeated Beijing’s vague position of being “on the side of peace”.

General Jens Stoltenberg noted that the Chinese peace proposal “doesn’t have much credibility because they have not been able to condemn the illegal invasion of Ukraine” (NATO, 2023a).

21. The Wagner mutiny in Russia on 23-24 June 2023 also raised questions about the implications for China’s strategic partnership with Russia. Notably, while Chinese state media expressed support for the Kremlin, downplayed the significance of the incident and praised Putin for resolving the crisis, the revolt has exposed concerns about Putin’s authority (Pierson & Wang, 2023). China is likely to maintain strong ties with Russia, manifested on 3 July 2023, when the Chinese Defence Minister expressed China’s interest in deepening collaboration with the Russian navy, including through enhanced communication and more regular joint cruises and exercises (DW, 2023). However, Beijing is now aware of the political fragility within the Russian government and will inevitably consider the potential impact on its own interests if Putin’s leadership was to collapse. This may lead China to exercise a greater degree of caution and distance itself from Russia while maintaining tight control over its own security and military services (Li, 2023).

22. Beijing benefits from the war economically as Russia, the most sanctioned country in history, has little choice but to redirect its exports of hydrocarbons and other goods to the Chinese market under Chinese terms. Indeed, in 2022, trade between China and Russia grew by 34.3% to a record USD 190 billion (Feigenbaum & Szubin, 2023). Having been cut off from the SWIFT payment system, Russia is also increasingly dependent on the Chinese currency; the yuan’s share in Russian stock market trading has skyrocketed from 3% to 33% (Prokopenko, 2023). While China has a stake in preserving the global economic and trading system, the frozen or simmering conflict in Europe could be acceptable to Beijing as it would prompt the Allies to concentrate their defence capabilities even more firmly in Europe and thereby keep them out of the Indo-Pacific region. Beijing may have preferred that Russia had not started the full-scale war, and it certainly does not like how the war is unfolding, but it also has no interest in Russia’s complete demise and the triumph of the liberal democratic camp. Arguably, the worst-case scenario for Beijing is the hypothetical rapprochement between the post-Putin Russia and the United States (Belin et al., 2022).

23. In sum, hopes that China could play a constructive role in restoring the international order disturbed by Putin’s war have so far proved futile – Beijing de facto chose to side with Russia. China can be expected to continue tacitly supporting Russia and helping it find at least a partially face-saving off-ramp. But the Beijing-Moscow ‘no limits’ partnership certainly does have limits. The Sino-Russia relationship can be described as less than a genuine ‘strategic partnership’ but more than a mere ‘axis of convenience’ – even if the unifying factor of animosity towards the U.S. was taken out of the equation, the Russia-China relationship would not necessarily descend into a fierce competition or even confrontation. But this relationship is unlikely to develop into a full-fledged alliance either: due to the growing asymmetry of partners and China’s traditional aversion to formal military blocs. Moreover, in the longer run, China and Russia will find it difficult to sustain their *modus operandi* in regions such as Central Asia and Africa, where Russia acted as a ‘sheriff’ and China as a ‘banker’ (Hamilton, 2023). Beijing is increasingly willing to act as both. That said, as long as the war in Ukraine rages on, Beijing and Moscow will continue aligning their policies to prevent Ukraine and its Western backers from being triumphant. Against this backdrop, attempts to drive a wedge between Russia and China are very unlikely to succeed. The Allied diplomatic efforts should be directed towards warning China against assisting Russia with military aid and sanctions circumvention, while encouraging Beijing to speak against reckless nuclear rhetoric.

IV- CHINA'S EVOLVING GLOBAL POSTURE – OVERVIEW OF THE LATEST DEVELOPMENTS

24. China's foreign policy is currently extremely centralised. President Xi Jinping has acquired, in the present term, unrivalled powers and has concentrated foreign policy decision-making within a small circle of elites loyal to him. This nucleus will likely drive China's foreign policy towards further 'securitisation' (framing objectives through the lens of security interests), accelerating the trend that has crystallised in the past ten years.

25. By late 2022, there were signs that Beijing started adjusting its foreign policy course in an attempt to rectify its negative global image and to dial back the antagonism with the West, which was evidently taking a toll on China's economic prospects and political clout. Chinese leadership demoted its most prominent 'wolf warrior' diplomat Zhao Lijian and launched a diplomatic 'charm offensive' in Europe. German chancellor Olaf Scholz and president of the European Council Charles Michel visited China in November and December 2022. US Secretary of State Antony Blinken was slated to visit China in February 2023. Chinese diplomats were reportedly trying to convince their European counterparts that Beijing was not aware of, nor did it pre-approve, Putin's plans for full-scale invasion of Ukraine and that Beijing stands ready to use its influence to prevent Moscow from resorting to nuclear weapons (Kynge et al., 2023).

26. However, these diplomatic gambits by Beijing appear to amount to little more than a temporary course-correction that does not fundamentally alter the trend towards rivalry with the U.S. and its allies. Indeed, already at the beginning of 2023, China-US relations deteriorated again, following the incident with a Chinese 'research' balloon flying over North America. The incident prompted the US Department of State to note that it would not be appropriate for Secretary Blinken to visit Beijing at that time. In the beginning of 2023, the US and Chinese leaders used harsh rhetoric vis-à-vis their opponents: in the foreign affairs segment of his 2023 State of the Union address, President Biden warned Beijing that "if China threatens our sovereignty, we will act to protect our country" (Politi & Fedor, 2023), while Xi, addressing the Chinese legislature in March 2023, accused the U.S. of seeking an "all-out containment, encirclement and suppression" of China (Le Monde, 2023).

27. Subsequently, diplomatic exchanges between China and the West have renewed. The French President Emmanuel Macron and the European Commission President Ursula von der Leyen visited China in April, Secretary Blinken in June and US Treasury Secretary Janet Yellen in July. In May, Chinese Foreign Minister Qin Gang visited three European countries – France, Germany and Norway. While the resumption of high-level dialogue is a welcome development, these visits yielded modest, if any, deliverables. Beijing has so far rejected the calls to define the guardrails of strategic competition with the West. The Chinese leadership seems convinced that such guardrails are mere tools to contain China's rise and legitimise the Western, primarily American, presence in China's perceived backyard. For China, the optimal framework for coexisting with the West means showing respect to China and giving way to its pursuit of national interests, rather than competing in the same areas on a level playing field (Asia Society, 2023). Furthermore, despite the extraordinary growth of China's military capabilities in recent decades, Beijing has yet to reach parity with the United States, which makes it reluctant to enter arms control agreements or increase military transparency. On a more practical level, establishing one potential guardrail – a hotline between the U.S. and Chinese militaries to prevent accidental escalation – may prove to be inefficient due to cultural differences: being under strict Communist Party control, the PLA does not have sufficient agency and Chinese military commanders are not empowered to speak to foreign militaries during crises (Morris & Marcum, 2022).

28. China's vision of the global political-security architecture is spelled out in its Global Security Initiative (GSI), announced in April 2022 and elaborated in February 2023. While packed with references to 'peace', 'dialogue', 'inclusiveness', 'peaceful coexistence' and the central role of the

UN, it essentially boils down to presenting China and China-led organisations as an alternative to the alleged US hegemony (Van Oudenaren, 2023). China believes it would be a better steward of the international system than the U.S. because it does not criticise other countries' political systems nor human rights records, and therefore is allegedly better placed to act as an honest broker. However, prominent China experts, such as former Prime Minister of Australia Kevin Rudd, argue that Xi's China is a highly ideological player whose blend of Marxism-Leninism and nationalism sets the scene for a long-term fundamental conflict with the political West. Despite officially advocating peaceful co-existence of different political systems, the Chinese leadership actually sees its model as superior and believes it will, according to the deterministic Marxist-Leninist view, eventually prevail over the allegedly hypocritical and structurally declining Western liberal democratic model (Rudd, 2022).

29. Despite the recent global crises of the COVID-19 pandemic and Russia's war against Ukraine, China continues to press ahead with its assertive revisionist agenda on military, political, economic and technological fronts. The issue of Taiwan is central: if the hypothetical showdown between the world's two main superpowers were to occur, escalation involving Taiwan would be the most likely trigger. In his high-profile speeches to the 20th CCP Congress and the National People's Congress, Xi elevated Taiwan to the top of his agenda, advocating 'peaceful reunification' but not excluding the use of force, if Beijing deems it necessary (Gan & McCarthy, 2022). Xi did not disclose the timeline for reunification, but according to Secretary Blinken, Beijing pursues unification "on a much faster timeline" than previously expected (Tan, 2022). Peaceful unification is unlikely, particularly after China has reneged on its agreement with the UK on Hong Kong and cracked down on Hong Kong's democracy in 2019 and 2020. The share of the Taiwanese population supporting eventual unification — not necessarily with today's Chinese regime — has dropped from 20% in 1996 to a mere 5% in 2022. At the same time, many Taiwanese understand the risks of formally declaring the island's independence (Batto, 2022). The Biden administration has made clear that its policy regarding the *status quo* has not changed and that it would honour its commitment to support the island's ability to defend itself (Tan, 2022).

30. Pundits disagree on whether or not the Chinese leadership harbours the intentions to invade Taiwan in the upcoming years³. However, China is ostensibly developing capabilities for such a scenario: the PLA forces regularly practice amphibious landings while its warships and fighter jets routinely cross the median line in the Taiwan Strait. China also developed substantial anti-access/area-denial (A2/AD) capabilities (The Economist, 2023a). In response to the visit of Nancy Pelosi, then Speaker of US House of Representatives, to Taipei in the summer of 2022, China demonstrated the ability to fire missiles over the island. In 2023, the Chinese defence budget is slated to increase by 7%. Taiwanese authorities are also stepping up their defensive measures, including extending the term of mandatory military service and increasing defence spending by 14% compared with 2022 (The Economist, 2023b). The island's geography, the increased level of alertness among the local population, the US military presence in the region and the unity demonstrated by the political West in response to Russia's invasion of Ukraine will certainly be taken into account in China's strategic calculations.

31. Even in the absence of a military conflict, a potential blockade of the Taiwan Strait would have an immense economic impact on the global economy: experts estimate that the blockade would cause over two trillion dollars' worth of economic disruption, even before factoring in second-order effects (Vest et al., 2022). The most noteworthy blockade-related disruption to international economic activity would be derived from the fact that the high-end semiconductors produced in

³ The NATO PA delegation witnessed diverging views among American scholars on this matter during its visit to San Francisco and San Diego in September 2022.

Taiwan (over 90% from the total number) would disappear for a period from the global supply chains, mainly in major chip-consuming industrial areas such as electronics, automotive and computing.

32. China seeks to deliver on its ambition to become an international peace broker and the champion of the Global South. In March 2023, Beijing achieved a notable diplomatic victory by brokering an agreement between Saudi Arabia and Iran to restore their diplomatic ties and to resume cooperation on a range of issues, from science and technology to counter-terrorism. This marks the first time that China acted as a mediator in a long-standing dispute outside of its neighbourhood. It is also emblematic that China succeeded in a region that has traditionally been of particular interest to US diplomacy. Observers note that Beijing merely reaped a low-hanging fruit as the Saudi-Iranian normalisation talks were already ongoing (Esfandiary & Jacobs, 2023). Moreover, it remains to be seen if the agreement is tenable as ideological and geopolitical differences between Saudi Arabia and Iran remain stark. China will not be able to replace the U.S. as security provider to long-standing partners of the U.S. in the region. Doubtlessly, China has established itself as a stakeholder in the region that provides about 40% of its hydrocarbon imports. The trade between the Gulf Cooperation Council (GCC) and China grew from USD 20 billion in 2000 to USD 180 billion in 2021, surpassing the GCC's combined trade with the United States and the EU (Mahbubani, 2023). Beijing will certainly be emboldened by this achievement and will continue playing an active diplomatic role in the Gulf – it reportedly now plans to host a Gulf-Arab summit later this year (Miller, 2023).

33. China's closest partners in Asia are North Korea (DPRK) and Pakistan, and these countries' dependency on China is growing. China accounts for more than 95% of DPRK's total trade. Beijing has no interest in the unification of the peninsula, fearing a unified Korea could drift into a pro-US camp. Xi has supported the regime of Kim Jong-un and, recently, has opposed additional severe UN sanctions due to the fear of hundreds of thousands of North Korean refugees making their way to China in case of that country's implosion. That said, Beijing is wary of the erratic nature of the North Korean regime and the safety of its nuclear weapon programme (Albert, 2019). As such, China is encouraging the DPRK to show some restraint. Beijing seeks to position itself as the rational and useful mediator, thus dissuading Japan and Republic of Korea from having a stronger stance on China (Mastro & Cho, 2022).

34. Pakistan is China's long-standing partner and an ally in China's competition with India. However, the usefulness of the Beijing-Islamabad axis for China is diminished by daunting internal problems Pakistan is facing, as its economy is in freefall and the country is increasingly unable to meet its defence spending needs (Younus, 2023). Reportedly, in India's media discourse, China has replaced Pakistan as India's main national security threat (Bhandari, 2023).

35. China continues making inroads in other regions across the globe, with mixed success. In the Alliance's neighbourhood, China has established itself, through BRI projects, as an important economic player in the Western Balkans. China pursues economic diplomacy by establishing bilateral agreements, promoting trade and collaborating on joint infrastructure projects such as railway upgrades and highways. However, the level of Chinese engagement with Western Balkan countries varies significantly. China has strengthened its political and security partnership with Serbia, where it is the third-largest foreign direct investor (still far behind the EU and Russia). The collaboration between the two countries extends to supporting each other on territorial integrity issues, developing police cooperation and Serbia's purchases of medium-range, radar-guided surface-to-air missiles from China as well as armed drones. While Chinese economic engagement with Bosnia and Herzegovina is limited, possibly due to the complexities of the country's structure, the links with the Republika Srpska (RS) entity are deeper. In this context, it is worth noting that RS leader Milorad Dodik expressed support for Chinese policies in Hong Kong (ECFR, 2022). Overall, however, while China's projects in the Western Balkans have an impact on its political and

economic landscape, some scholars contend China lacks the capacity or intention to influence Western Balkan states' strategic choices (Pavlicevic, 2019)⁴.

36. The South Caucasus is strategically important for China's BRI routes, particularly since Russia became toxic as a business partner following the full-scale invasion of Ukraine. China's engagement with the region is primarily driven by economic interests, aiming to enhance connectivity and trade. Notably, Azerbaijan, known for its important oil and gas reserves, seeks partnerships for east-west connectivity. China has invested in projects such as the Trans-Anatolian Natural Gas Pipeline (Niftiyev, 2022). In Georgia, China seeks to establish a major transport hub to store and distribute products between the East and the West (Eurasianet, 2022). Chinese communication companies, particularly Huawei, have been active in the region, with Huawei being the second-largest provider of mobile phones in Georgia. In July 2023, Tbilisi and Beijing upgraded their bilateral ties to a "strategic partnership", which will include closer co-operation in the areas of transports, telecommunications and manufacturing, among others. Tbilisi expressed its full support for the "one China" principle. Despite being landlocked, Armenia participates in the BRI through infrastructure and trade projects and China has shown interest in investing in its renewable energy and the IT sector (Baymarov et al., 2023). Yet, compared to Azerbaijan and Georgia, Armenia's economic interactions with China are relatively limited (Gigauri & Damenia, 2019). While some scholars emphasize the potential for a win-win strategy and highlight the benefits of enhanced relations between China and the South Caucasus, others raise concerns about the associated risks regarding potential economic dependencies and geopolitical complexities (Gambino, 2019).

37. Despite being more than 7,000 km from the Arctic, China declared itself a 'near-Arctic state' in 2018 and announced the development of a Polar Silk Road. China's dependence on resources and maritime trade has led it to formulate an Arctic policy, which officially focuses on economic, environmental and scientific activities, as well as the protection and international cooperation in the region. However, China's actions raise concerns among the international community regarding its long-term strategic goals. There is a contradiction between China's rhetoric and its actions in the region. For instance, China promotes the idea of the Arctic as one of the global commons and an area of peace by highlighting its scientific research. However, China simultaneously conducts military activities in the Arctic, including dispatching naval vessels there on at least two occasions, as well as invests in nuclear-powered icebreakers, which elicits questions about a future Chinese foothold in the region to protect its Arctic interests (Doshi et al., 2021). During a recent NATO PA visit to Canada, one Canadian expert warned that Russia, hitherto disinclined to facilitate China's presence in the Arctic, might be forced to revisit this policy as Moscow's dependence on Beijing is growing as its war against Ukraine is increasingly costly and protracted.

38. China is vying for a leadership position in the Global South, particularly in Africa and Latin America. China's narrative, focusing on economic development and poverty alleviation rather than on the rule of law and human rights, appeals to many in Africa and Latin America. China's 'peace proposal' for the Russia-Ukraine war, no matter how unrealistic, also resonates well among the Global South which suffers from food insecurity and high energy prices, exacerbated by the war (The Economist, 2023c). Studies show that pro-Chinese media sources were particularly persuasive among audiences in these two regions, where there is increasing support for China in countries such as Egypt, Kenya, Nigeria and Mexico (The Economist, 2023d).

39. China's influence looms large in Africa, which serves as a testing ground for many of China's BRI instruments. Some African countries have developed particularly close ties with China, including Ethiopia, Angola and Zambia, but China's presence has grown across the continent. China is Africa's

⁴ For more on China's role in the Western Balkans see the 2022 NATO PA ESCTD report: <https://www.nato-pa.int/document/2022-western-balkans-russias-war-ukraine-and-regions-enduring-challenges-report-michal>.

largest trading partner: with USD 254 billion in 2021, China-Africa trade is four times larger than US-Africa trade. China is also by far the largest provider of foreign direct investment and lender, even if Chinese lending dipped in recent years (Sheehy, 2022). China has financed roads, ports, railways and other infrastructure projects, which in some cases left the host states in insurmountable debt, leading to transfers of strategic infrastructure under the control of Chinese companies, while also boosting corruption. It is noteworthy that Chinese development projects are mainly implemented by Chinese contractors and indigenous economic actors are often ostracised from these projects (Amusan, 2022). China is also interested in investing in African mines, such as cobalt needed in electric cars (The Economist, 2023e). These economic links and dependencies are now being translated into political support of many African nations for China's foreign policy initiatives and positions within various international multilateral formats (Vines OBE & Wallace, 2023). To further project its influence, Beijing has built its first overseas military base in Djibouti. Reportedly, China is exploring the possibility of establishing other bases in multiple countries including Angola, Equatorial Guinea, Kenya, Namibia, the Seychelles and Tanzania (Murphy, 2023). In the past few years, China has also funded programs to train thousands of military officers from African countries (Mohseni-Cheraghlou & Aladekoba, 2023). To protect its nationals and material assets, China has deployed a number of private security companies (PSCs) across Africa. Chinese PSCs are de facto state-owned, and, unlike Russia's Wagner, are not authorised to engage in military operations using lethal force. They do, however, engage indirectly by supporting and collaborating with local militias. Some Western analysts expect the presence of Chinese PSCs in Africa to grow and to acquire a more robust mandate (ADF, 2023). There are signals that China is beginning to actively promote its authoritarian model in Africa: in 2022, China opened the Mwalimu Julius Nyerere Leadership School in Tanzania, a joint project with Tanzania, Mozambique, Namibia, Angola, South Africa and Zimbabwe. The school's Chinese lecturers are reportedly teaching a new generation of African leaders about the alleged effectiveness of the one-party system and the importance of maintain party discipline. Such projects threaten to undermine the fragile democracies of the participating African countries (Axios, 2023).

40. China has grown its footprint in Latin America as well, being the second-biggest trade partner for the region and the largest sovereign lender to South American governments. In 2000, Brazil exported USD 1 billion worth of goods and services to China within a year – now it does so within four days (Mahbubani, 2023). It is projected that in the near future, Beijing will be the most important holder of debt in the region (Guzmán, 2023). The Chinese leadership's growing investments focus on the race for minerals, as this area is rich in lithium (Chile, Argentina, Bolivia), copper (Chile, Peru) and nickel (Brazil). Chinese companies are also becoming Latin America's leading partners in clean energy development (Lu and Fabbro, 2023). It is also noteworthy that Chinese military equipment is sold to Bolivia, Ecuador and Venezuela, in addition to Beijing organising military educational exchanges and joint exercises. For example, Chinese digital surveillance technology is used currently by Argentina, Brazil, Venezuela and Ecuador as technology for combating crime (House Foreign Affairs Committee, 2022).

41. It is also worth highlighting China's diplomatic campaign to build ties with Pacific Island nations, which culminated in signing a security pact with the Solomon Islands in April 2022, laying the ground for Chinese forces to operate there. Also in 2022, China's foreign minister sealed several more deals on his eight-country Pacific tour (The Economist, 2023f).

42. However, despite some successes in advancing its assertive revisionist global agenda, liberal democracies and many non-aligned countries alike have also mobilised and pushed back against the Chinese geopolitical onslaught. The U.S. has been active in re-energising bilateral and multilateral formats in the Indo-Pacific. The U.S. continues to reassure its regional allies, namely the Republic of Korea and Japan where the U.S. maintains about 80,000 troops (GAO, 2021). In March 2023, the U.S. and Republic of Korea held their largest joint military drills in five years (Ogura et al., 2023). In January 2023, President Biden and Prime Minister Fumio Kishida of Japan agreed to further upgrade their defence ties, while the U.S. reiterated its unwavering commitment "to the

defense of Japan under Article V of the Treaty of Mutual Cooperation and Security, using its full range of capabilities, including nuclear.” It was reaffirmed that Article V applies to the Senkaku Islands (The White House, 2023). Japan also published a new National Defense Strategy, which includes a target of 2% of GDP for defence by 2027 as well as the development of capability to carry out counter-strikes on the opponent’s territory. This is a dramatic shift for a traditionally pacifist country that has not spent more than 1% of GDP on defence since the end of the Second World War (Tian and Liang, 2023). It must be noted that Japanese Prime Minister Fumio Kishida chose to visit Kyiv at the time when Xi was visiting Moscow, thus demonstrating a very different approach to Ukraine than his Chinese counterpart. It was also highly symbolic that when NATO and G7 leaders gathered in Vilnius in July 2023, it was the Japanese Prime Minister who introduced the G7 Joint Declaration on security arrangements for Ukraine – President Biden highlighted this fact in his remarks.

43. The US-UK-Australia’s AUKUS pact to exchange sensitive nuclear-powered submarine and other advanced technology – as well as to facilitate industrial base and supply chain integration – is gaining traction. On 13 March 2023, Australian, British and American leaders announced a path forward, comprising of three phases, eventually enabling the UK and Australia to capitalise on the economies of scale and, with US technological assistance, to jointly design and mutually operate new nuclear-powered submarines. The U.S. will gain access to a forward-operating submarine base in Australia to repair and operate parts of what will be known as the US-UK ‘Submarine Rotational Force – West’ (Childs et al., 2023). It must be stressed that Washington, London and Canberra do not intend the pact to be seen as a response to the Chinese challenge and instead focus on a positive cooperation agenda.

44. The format of the Quadrilateral Security Dialogue (the Quad) which involves Australia, India, Japan and the U.S., has also been re-energised. While the Quad focusses on non-military issues, such as vaccine production, climate change and independence of supply chains, it is strategically important as it brings together China’s main competitors in the Indo-Pacific area, including India. It is noteworthy that bilateral US-India relations have deepened markedly in recent months: in June 2023, Prime Minister Narendra Modi paid a state visit to the U.S., signing a series of new deals in areas such as defence, technology and education.

45. In May 2022, the Biden administration also introduced the Indo-Pacific Economic Framework (IPEF), thus offering a new format for economic engagement with the region following the previous administration’s withdrawal from the Trans-Pacific Partnership (TPP) in 2017. Unlike TPP, which was envisaged as a more traditional free trade agreement, IPEF focuses on promoting fair trade, labour standards, supply chain resilience, decarbonisation and digitalisation. IPEF’s 14 members do not include China. It is noteworthy that these initiatives are to a large extent driven by the US partners in the Indo-Pacific who are increasingly concerned about Beijing’s assertive policies.

46. Many leading European nations have long been professing a more lenient attitude towards China when assessing the risks of excessive trade, investment and supply chain dependencies. However, recent years have witnessed the growing convergence of views on China among all Allies, accelerated by China’s behaviour during the COVID-19 pandemic and especially China’s stance on the Russian full-scale war against Ukraine. This convergence is reflected in the texts of NATO’s new Strategic Concept and the EU’s Strategic Compass. European and North American allies are increasingly using similar terms, such as describing China as a systemic challenge to their interests and values and stressing the need to ‘de-risk’ (rather than ‘de-couple’) supply chains. European Allies have taken steps to reduce dependency on China, including the decision of several European countries to phase out Huawei’s technology from their 5G networks, the decision of Lithuania, Latvia and Estonia to withdraw from the ‘17+1’ format designed to promote trade and investment relations between China and 17 European nations, and signals that Italy’s new government may choose not to extend the economic cooperation agreement with China when it expires in 2024 (Pascale, 2023). The EU-China Comprehensive Agreement on Investment (CAI), brokered by Germany in

December 2020, has been shelved and the European Commission President Ursula von der Leyen recently highlighted the “need to reassess the CAI in light of our wider China strategy.” She also called for rethinking EU relations with China in “sensitive high-tech areas such as microelectronics, quantum computing, robotics, artificial intelligence [and] biotech” (European Commission, 2023). Following the US example, the European Union has banned the use of the China-owed social media platform TikTok on government devices, due to concerns over the handling of user data, while the UK is reportedly weighing a similar ban of its own (Iyengar, 2023). In June 2023, the European Commission unveiled the Union’s first economic security strategy. While stopping short of specifically mentioning China, the document proposed stronger export controls, screening investments and refraining from sharing a range of critical technologies with the “countries of concern” (Blenkinsop, 2023).

47. Several European nations – in particular the UK, France, Germany and the Netherlands – have stepped up their Indo-Pacific policies in recent years⁵. It is noteworthy that, in January 2023, the Prime Ministers of the UK and Japan signed a Reciprocal Access Agreement designed to rapidly accelerate their defence and security cooperation (Brooke-Holland, 2023). France and Australia have mended their relationship, affected by the AUKUS deal and recently agreed to upgrade their defence cooperation, including to jointly manufacture 155mm artillery shells for Ukraine (Staunton, 2023). In 2021, the EU adopted its Indo-Pacific strategy, which underlines the intense geopolitical competition in the region, but, at the same time, calls for maintaining a free and open Indo-Pacific for all, while building strong and lasting partnerships. The latest Ally to adopt its ‘China strategy’ was Germany, in July 2023: Berlin will aim to reduce Germany’s economic dependence on China while still maintaining economic contact (Hasselbach, 2023). That said, Europe still lags behind the U.S. in terms of achieving the same level of internal unity and the sense of urgency vis-à-vis China (Dempsey, 2023).

48. Canada is a Pacific country with robust economic ties and people-to-people connections with the Indo-Pacific region. In 2022, the country introduced its Indo-Pacific Strategy, which considers the historic shift of the global centre of gravity towards this region. Approximately CAD 2.3 billion were allocated to implement the Strategy over the next five years. The Strategy offers a clear-eyed view on China, based on the principle of “challenging China where we should, but cooperating where we must.” During the visit of a NATO PA delegation to Canada in April 2023, Canadian interlocutors expressed deep concern about China’s regional brinkmanship, including its hardening stance on Taiwan and hostile international behaviour, including espionage, malicious cyber operations, theft of intellectual property, bullying and attempts at infiltrating national politics of other countries. As a democracy, Canada is deeply critical of Beijing’s growing authoritarianism and disrespect for human rights. The delegation heard that the Canadian public’s opinion of the Chinese regime has turned very negative in recent years. Canada has begun to step up investments in its economic and technological resilience and to rethink its supply chains. It increased its naval presence in the Indo-Pacific through its Operation Projection, aiming to promote the rules-based international order through naval exercises and engagements with Canada’s security partners. Canada also conducts a maritime mission to enforce UN sanctions on North Korea. Overall, however, Canada’s Indo-Pacific Strategy remains largely non-military and focuses on diplomatic, economic, trade and people-to-people contacts.

49. The West has made steps to maintain its technological edge vis-à-vis China. The question of leadership in the semiconductor industry is particularly sensitive. The U.S. has been a pioneer of this technology, which is central to all electronics, including in the military domain. However, in the past 30 years, much of the US semiconductor production shifted, for tax and labour cost reasons, to east Asia, particularly Republic of Korea and Taiwan. These countries/entities also started building

⁵ For more details, see the 2022 report by the NATO PA Sub-Committee on NATO Partnerships: <https://www.nato-pa.int/document/2022-nato-and-indo-pacific-region-report-krimi-021-pcnp>

their own semiconductor industry and today Taiwan's Semiconductor Manufacturing Company (TSMC) accounts for some 55% of the global market for chip fabrication (Miller, 2022). China too invests heavily in domesticating chip production in order to reduce its dependency on imports – currently China spends more on importing semiconductors than on importing oil (Farrell, 2022). However, China still does not have the technology to manufacture the most advanced microchips and lags behind the U.S. in terms of keeping up with Moore's law, which states that the number of transistors on a microchip doubles about every two years. The U.S. is determined to maintain the lead, which motivated the Biden administration to sign, in August 2022, the bipartisan CHIPS and Science Act, designed to make historic investments in American manufacturing and research and development in semiconductor and other critical technologies, including nanotechnology, clean energy, quantum computing and artificial intelligence (The White House, 2022). In March 2022, the U.S. proposed to create the Chip 4 alliance with Japan, Republic of Korea and Taiwan to enhance the resilience of semiconductor supply chains.

50. Despite the massive increase in Chinese investments, lending and trade turnover, the Global South, for the most part, refrains from rallying behind China and prefers to maintain a neutral stance. South-eastern Asian states, members of the ASEAN, have increased their combined GDP from USD 620 billion in 2020 to USD 3 trillion in 2021, not least thanks to vastly increased economic ties with China, which overtook the U.S. as the region's main economic partner (Mahbubani, 2023). Nevertheless, most ASEAN countries either refuse to choose sides and adopt a hedging strategy seeking closer ties with other actors such as the EU and Japan, or double down on their partnership with the U.S. Notably, the Philippines recently reinvigorated the bilateral alliance with the U.S., an alliance that was on the verge of collapse under Rodrigo Duterte (president between 2016–2022), before he reversed his foreign policy course during the COVID-19 pandemic and in the light of China's growing assertiveness (Misalucha-Willoughby, 2023).

51. The future of Chinese economic leverage in the Global South is uncertain. Beijing has ostensibly realised that the original model of BRI – based on lavish lending for infrastructure megaprojects – was unsustainable as the recipient countries are increasingly failing to pay back their growing debts. Zambia, for instance, borrowed some USD 7 billion from China to finance infrastructure projects. However, having been hit hard by the COVID-19 pandemic, Zambia sought to postpone interest payments. When China refused, Zambia was forced to default on its debt (Demarais, 2023). China's lending commitments have dropped from USD 75 billion in 2016 to a mere USD 3.9 billion in 2019. Beijing is recalibrating the BRI to focus on smaller, less capital-intensive and more organic and flexible initiatives in fields such as academia, telecommunications, green energy and fishing (Schrader & Cole, 2023). Meantime, the political West is stepping up its assistance to developing countries: the US and G7 aim to provide, by 2027, some USD 600 billion into their Partnership for Global Infrastructure and Investment, while the EU launched a EUR 300 billion Global Gateway as a response to BRI (Lu, 2023). In June 2023, Paris hosted a Summit for a New Global Financing Pact, designed to advance new rules for restructuring developing countries' debt. While concrete decisions have yet to be taken, debt restructuring initiatives could make a real difference helping the indebted countries of the Global South that are currently left alone with China (Demarais, 2023). Surveys show that despite the Chinese investments and propaganda, China's favourability in Africa still lags behind that of the United States (Eisenman, 2023).

52. China also recently experienced a setback in the Pacific – in January 2023, Fiji announced the termination of a police cooperation agreement with China dating to 2011, pointing to the differences in China's and Fiji's political systems. It is also notable that President Joe Biden hosted 12 Pacific leaders at the White House in September 2022, where the U.S. pledged to provide an additional USD 810 million in assistance, while leaders agreed to work together to build a region in which "democracy will be able to flourish". Australia has also intensified its diplomatic campaign to engage with Pacific islands (The Economist, 2023f).

53. Finally, claims that China is crowding Russia out from Central Asia are somewhat overstated. While Central Asian republics are concerned about Russian belligerence and potential new territorial claims and appreciate China's stated support for their territorial integrity, they are also wary of China's assertiveness. Kazakhstan and Uzbekistan reaffirmed support for Ukraine's territorial integrity and promised humanitarian aid to Ukraine, while Kyrgyzstan refused to participate in joint exercises under the banner of the Collective Security Treaty Organization. China and Central Asian republics are expanding their ties in economic⁶, political⁷, and even military fields⁸ (Foreign Affairs Committee, 2022). However, Central Asian republics have maintained – and even increased – economic ties with Russia after the full-scale invasion of Ukraine, and many of the surveyed citizens of these republics have an unfavourable view of China (Sharifli, 2023). Beijing's inroads into Central Asian economies have amplified anti-Chinese phobias, and, in 2019 and 2020, local protests broke out in Kazakhstan and Kyrgyzstan against Chinese investment projects. Furthermore, the crackdown on Uyghurs and other predominantly Muslim minorities in Xinjiang Uyghur Autonomous Region is further fuelling anti-China sentiment among Central Asian people. As one expert put it, "most of the people in the region think in terms of 'Russian yoke is made of leather that can gradually be worn out, while Chinese yoke is made of iron and one can't free oneself from it'" (AFP, 2023).

54. In sum, the political West and China are both pursuing policies to reduce their technological and economic interdependence, partially rolling back decades of globalisation and duplicating supply chains. They stepped up diplomatic campaigns to build alliances to balance each other. However, despite these mutual decoupling policies and alliance-building, the level of interdependency remains much higher than between the two superpowers of the Cold War era. The two-way trade between China and the U.S. accounts for about USD 2 billion a day (The Economist, 2023g). China is still the largest source of US and EU imports (Congressional Research Service, 2022). China claims it has reduced the share of its foreign reserves held in US dollars from 79% in 1995 to 59% in 2016. However, since most of foreign exchange purchases by China's state-owned banks are not reported, the actual decrease of China's true US dollar holdings may not be that significant. China's own payment system, the Cross-Border Interbank Payment System (CIPS), had, by March 2022, a significant number of 1,304 participating institutions, but this is only about one-tenth of SWIFT's participating institutions (Feigenbaum & Szubin, 2023). Relations with China will be increasingly important in the context of Europe's and North America's green transition: while both the EU and the U.S. are looking into strengthening domestic production of critical minerals, it will be difficult to replace in the near term the elements such as gallium, lithium, rare earth metals and graphite that are critical for renewable energy generation and battery manufacturing (Bazilian et al., 2023). According to the European Commission, China provides 98% of the EU's rare earth supply, 93% of magnesium and 97% of lithium (European Commission, 2023). This degree of interdependency will certainly impact the policy choices of Western and Chinese leaders.

V- INTERNAL DYNAMICS

55. The 20th National Congress of the Chinese Communist Party, held in October 2022, marked a significant turning point in China's politics showcasing President Xi's political control over the CCP

⁶ Turkmenistan is China's largest supplier of piped natural gas; China is pouring billions into BRI projects in Central Asia, including strategic railway connections; China accounts for some 22% of Central Asian exports and 37% of their imports.

⁷ The first summit of Chinese and Central Asian leaders took place online in 2022 and in-person in 2023.

⁸ In 2016, Tajikistan reportedly allowed China to develop a military installation along the strategic Wakhan Corridor which connects Afghanistan with Western China; other Central Asian republics purchase Chinese military and law enforcement equipment.

as Xi Jinping obtained an unprecedented third leadership term, while filling the Standing Committee and Politburo with loyalists. In March 2023, Xi was unanimously re-elected (with 2,952 votes) as president of the PRC by the rubber-stamp parliament (Kennedy et al., 2023). Xi also remains the Chairman of China's Central Military Commission (CMC), which includes the PLA. Xi's burgeoning personality cult presents him as China's most powerful leader since Mao Zedong. Many senior market-oriented and reformist officials have been retired and replaced with yes-men who will follow Xi's rigid policies (Scobell, 2022). The increasingly personalistic and centralised regime creates the danger of echo chambers, a distorted perception of reality and miscalculation of policy responses (Bush et al., 2022).

56. The COVID-19 pandemic was instrumentalised by the CCP to expand the surveillance state by using technology, including against the Uyghurs and other predominantly Muslim minorities in Xinjiang Uyghur Autonomous Region. In the past 10 years, Beijing has carried out numerous ruthless assimilation and oppression campaigns, with severe consequences for the people in Hong Kong, Tibet and the Uighur community, actions categorised by international human rights organisations as crimes against humanity (Richardson, 2022). In Hong Kong, Beijing has forced a National Security Law which is encroaching on the local political system and persecuting political dissidents (Maizland, 2022).

57. Apart from the political shift, China is experiencing economic, demographic and societal challenges. The draconian Zero-COVID policy, high debt levels, growing social inequality, decreasing productivity and a fast-aging population present systemic challenges that may curb China's hopes to dominate global affairs. The private sector, the true engine of the Chinese economic miracle, is increasingly harassed by the authorities. During the pandemic years, it is estimated that a third of Chinese private companies closed their business (Deng, 2023). Moreover, Beijing's over-investment and allocation of capital in the property sector threatens to turn into a major financial crisis. China's economy grew by 3% last year, which is the second-worst result since 1976 (Xie et al., 2023).

58. China risks "getting old before getting rich" as the fast-aging population and low birth rate will likely further restrain its economic growth. Last year, China's population decreased for the first time since 1961 and was surpassed by India. It is plausible that without a major course correction, China's economic growth will remain sluggish and the country will remain locked in the so-called middle-income trap (Rudd, 2022). Economic pressures could further encourage the authoritarian leadership to revisit the social contract with the society and to shift the emphasis towards nationalist narratives and belligerent foreign policy. That said, China continues to grow at a pace higher than the developed world and observers disagree as to whether China's relative economic weight has peaked.

59. In sum, post-2012 China completed its transition from the reform era (1978–2012) to a new era, where the leadership is personalised rather than collective, ideology dogmatic rather than flexible, state institutions side-lined by party structures and civil society suppressed rather than merely constrained. Growth remains a priority, but national security considerations are coming to the fore. The goal of integrating into the global order is being replaced by the goal of revising it (Kennedy et al., 2023). Hopes that, in this new era, Beijing could choose to liberalise its politics and economy is but wishful thinking (Rudd, 2022).

VI- NATO AND CHINA

60. In their summits since 2019, NATO leaders had established the basic principles of the Alliance's approach to China and the Indo-Pacific. These principles include:

1) the recognition that what happens in the Indo-Pacific matters to NATO and impacts its security;

2) NATO remains a regional Euro-Atlantic alliance and has no ambition to have a footprint as an organisation in the Indo-Pacific;

3) China presents a systemic challenge to Allies' interests, security and values as it seeks to revisit the rules-based order and it encroaches on the Euro-Atlantic area with its malign cyber activities, information influence operations, opaque investments in critical infrastructure and non-transparent military build-up and military links with Russia, including training and patrolling more together;

4) currently China does not pose a direct military threat to NATO, and confrontation is neither inevitable nor desirable;

61. NATO's response to the Chinese challenge has four dimensions:

1) using NATO as a platform for raising awareness and exchange of information on China, including the analysis of China's hybrid activities, security implications of its investment policies, development and use of emerging disruptive technologies and links with Russia and other rogue actors;

2) advancing, in cooperation with partners such as the EU, NATO's resilience agenda as a cross-cutting theme in all NATO activities and urging the Allies to impose high standards in areas such as secure communication networks, security of supply chains and military mobility, unimpeded by factors such as China's ownership of ports and other infrastructure; both NATO Secretary General Jens Stoltenberg (NATO, 2022) and Deputy Secretary General Mircea Geomană (NATO, 2023c) have stated publicly that free trade with China cannot come at the price of Allied freedom and solidarity as economic and trade issues can have direct security implications; Allies agree that the risk China poses to their innovation and technological development must be mitigated, including by identifying strategic dependencies and taking steps to reduce them;

3) fostering collaboration (based on a positive agenda and not directed against China) with like-minded partners in the region, particularly the Asia-Pacific Four (AP4 – Australia, Japan, New Zealand and the Republic of Korea), with a view to both learning from their expertise and working together in setting international norms consistent with democratic values;

4) while China is not a partner of the Alliance, NATO is open to dialogue with Beijing on issues of mutual interest as well as to make sure that there is no misunderstanding in Beijing about NATO. Issues such as counter-piracy, counter-terrorism, the denuclearisation of the Korean peninsula and security implications of climate change are the natural themes of talks between NATO and Chinese officials and NATO is interested in expanding this agenda to other issues, including the transparency of China's military programme and ambitions, which is a concern for the Allies. NATO engages both on the political level (most recently, Jens Stoltenberg met with the Chinese Minister of Foreign Affairs in September 2022) as well as in the context of regular military-to-military contacts (most recently on 23 February 2023) (NATO, 2023b). It must be noted that Beijing generally gives pre-eminence to the political track and the practical cooperation track lacks tangible deliverables.

62. NATO's approach to China, in your Rapporteur's view, is clear-eyed, realistic and sensible, given NATO's available resources and its regional nature. The evolution of this approach also reflects the increasing alertness of the Allies vis-à-vis the Chinese challenge. In the Vilnius summit communiqué, paragraphs dedicated to China were more extensive and higher up in the document

compared with the 2021 Brussels summit. The Vilnius communiqué is also more direct in calling out China's uses of "its economic leverage to create strategic dependencies", its efforts to "to subvert the rules-based international order", and its "malicious hybrid and cyber operations and its confrontational rhetoric and disinformation" targeting and harming Alliance security. In Vilnius, the Allies reiterated their commitment to "constructive engagement with the PRC, including to build reciprocal transparency" (NATO, 2023f).

63. NATO's China policy will undoubtedly continue to evolve. Ambitious proposals such as formalising the NATO-China partnership and perhaps even establishing a NATO-China Council do not seem feasible at this stage, particularly given Beijing's own perception of NATO as a mere instrument of its main competitor, the United States, and its reluctance to cooperate with the Alliance as a bloc. That said, existing periodic contacts between NATO and Chinese diplomats are recommended to continue and potentially evolve into a more structured dialogue. NATO could be more proactive in enhancing cooperation mechanisms not just with the AP4, but also other actors, such as Singapore and India, as well as other regional US and Allies' bilateral partners, whose input could significantly enhance situational awareness. To this end, the Allied capitals would need to support more actively such initiatives as well as to dedicate additional manpower and financial resources to relevant stakeholders across the NATO enterprise. The establishment of a NATO liaison office in the Asia-Pacific is currently being considered, according to the NATO Secretary General (NATO, 2023d). Such an office could not only facilitate NATO's regional partnerships, but also provide information and dispel myths about NATO. Moreover, to enhance expertise and analytical tools, Allies should explore the possibility of creating a NATO-accredited Centre of Excellence on the Indo-Pacific region. Better NATO-EU convergence with regard to approaching China should also be encouraged, including in the follow-up to their recent Third Joint Declaration. The parliamentary track of NATO's engagement with the Indo-Pacific region should be further developed, and the NATO Parliamentary Assembly is committed to play its part.

VII- CONCLUDING REMARKS

64. While rightly focused on the immediate task of helping Ukraine to prevail in Russia's unjust and brutal war, the Allies must not lose sight of the systemic, long-term challenge posed by an authoritarian China. As this Committee's 2020 report by Congressman Gerald E. Connolly (U.S.) warned, "China is not a friendly actor – it is a malign actor". The ideological, revisionist turn away from the rules-based global order, implemented by Xi Jinping in the 2010s, is highly unlikely to be undone in the foreseeable future and it was further solidified by China's de facto siding with Russia and, by extension, with the wrong side of history.

65. China is also challenging the democratic model of state organisation at the global level by promoting its autocratic version. Especially after the 20th CCP Congress, China seems fixed on the path towards ever greater centralisation and personalisation of power in the hands of Xi Jinping. As the economic and demographic headwinds accumulate and the constraints of collective rotational leadership fade, this authoritarian ruler can be expected to continue shifting the focus towards national prestige and confrontation with foreign adversaries allegedly bent on curtailing China's growth. This pattern has already unfolded in Russia, where the initially seemingly pragmatic leader, Vladimir Putin, eventually fell into the 'dictator's trap' and started a pointless, destructive war of choice, despite the existence of ample and crucial interdependencies with the West. Furthermore, Putin launched the invasion of Ukraine against the backdrop of Russia's relative decline as a global player, prompting assertions that he hurried to capitalise on Russia's global and regional clout before it has diminished. While the jury is still out as to whether China's rise has peaked, potential parallels with the current dynamics in China cannot be dismissed in this context. Certainly, China will try to use Russia's current weakness to increase its influence around the globe.

66. The Euro-Atlantic community has little choice but to brace for an extended rivalry with authoritarian China. Trust levels between China and Western democracies are likely to remain low in the foreseeable future. While NATO as an organisation should continue focusing on its direct area of responsibility, it must be recognised that some Allies will need to dedicate significant resources to this rivalry and prepare for potential contingencies in the Indo-Pacific. It is vital for all Allies to demonstrate solidarity and to shoulder their fair share of responsibility for Allied security and for the future of the rules-based world order. Moreover, the Euro-Atlantic community has to prepare to meet increasing challenges, in parallel, both in the Black Sea and the Indo-Pacific regions.

67. While taking seriously the issue of resilience and investing adequately in stronger defence and deterrence, the Allies should also work together to establish what former Australian Prime Minister Rudd labelled a 'Managed Strategic Competition' with China: in order to reduce the risk of dangerous escalation, it is imperative to establish the 'guardrails' and mutually agreed restraints, including having a clear understanding of each other's red lines, promoting transparency and creating space for strategic cooperation on pressing global challenges such as climate change, pandemics, nuclear non-proliferation and global financial stability. While Beijing has so far rejected the notions of 'competition' and 'guardrails', Allied diplomatic efforts in this regard must be sustained, coordinated and expanded by consolidating a broad international coalition of countries committed to the rules-based world order.

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