

## Hybrid CoE Paper 9

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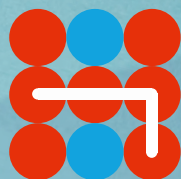
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# Towards a more China-centred global economy? Implications for Chinese power in the age of hybrid threats

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JOHN SEAMAN



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JOHN SEAMAN

**Hybrid CoE Papers** are finalized pieces of analysis on a topic related to hybrid threats, based on one or several research questions. They may be either conceptual analyses or based on a concrete case study with empirical data.

**COI Vulnerabilities and Resilience** focuses on understanding Participating States' and institutions' vulnerabilities and improving their resilience by sharing best practices, developing new policy proposals and identifying topics to be studied further. The aim is also to improve public-private and civil-military partnerships in countering hybrid threats.

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# Introduction

The spectacular growth and development of the Chinese economy over the last forty years, and particularly during the last two decades, has helped transform the country into an increasingly formidable global power. When measured in terms of purchasing power, China's economy has already been considered the world's largest since 2014, whereas in nominal terms it is expected (*ceteris paribus*) to surpass the United States within the next 10 to 20 years. From a strategic perspective, the United States, or Western liberal democracies in general, have yet to see a comparable economic challenger within the past century, if ever. Neither the Soviet Union at its peak, or Nazi Germany and Imperial Japan combined, ever represented more than 60 percent of US gross domestic product (GDP).<sup>1</sup> In absolute terms, China's rise has taken place over an exceedingly short timeframe, and it is conceivable that in the decades to come the global economy will become increasingly China-centred. To be sure, it is not only the size of China's economy that gives pause, but also the nature of China's political system and its ambitions to transform the international order in a way that better reflects its economic, political and security interests. As China continues to rise, a key question will be the degree to which it is able to effectively translate its economic prowess into comprehensive national power and global influence.

When considering the question of hybrid threats to democratic political systems, China's role in transforming the global economy raises two broad questions. The first relates to the scope of China's economic power. To what extent can and will China's rise transform the global economy in a

way that amplifies its power in the age of hybrid threats and undermines liberal democratic institutions and their underlying value systems? The second relates to China's ambitions with regard to political and social change. To what extent does China seek to undermine liberal democratic institutions and actively export or construct an alternative model? Ultimately, the hybrid threats resulting from China's increasing economic power can be considered in two different ways: 1) direct, or active threats to liberal democracies stemming from the ability to impress upon or influence key economic infrastructure and actors, and 2) systemic-level threats related to the rules, values and principles on which these systems are built.

The analysis that follows begins with a discussion on the profound changes underway in the global economic system – namely the rise of a new geoeconomic world order – before discussing how economic power is organized and wielded within a context of complex interdependence. From this discussion, the paper will explore how China is becoming increasingly present and unavoidable at the nerve-centres of the global economy (trade, finance, technology and innovation, standards, norms and governance, etc.). The paper then turns to a discussion on China as a revisionist power and explores the way in which it presents systemic risks for liberal democracies. Inevitably, such a discussion cannot ignore China's weaknesses and the fact that its rise might not be ineluctable. Indeed, a more China-centred global economy is a distinct possibility, but significant factors of instability from within China and from without make it anything but certain.

<sup>1</sup> Andrew F. Krepinevich, *Preserving the Balance: A U.S. Eurasia Defense Strategy*, Washington, D.C.: Center for Strategic and Budgetary Assessments (CSBA), 19 January 2017.

# The new geoeconomic world order

Free market capitalism and trade liberalization have largely guided the process of globalization that has characterized the post-Cold War era, and in many ways contributed to China's economic rise. Indeed, the dominant characteristic of the system that would emerge after the fall of the Soviet Union has been the relative separation of the security and economic realms. Instead of seeking to leverage economic power for relative gain, economic efficiency and positive-sum interactions have been predominant, and political intervention into markets viewed with suspicion, if not hostility. An international legal order, reflected in the General Agreement on Tariffs and Trade and culminating in the creation of the World Trade Organization (WTO), was constructed to "insulate the economic realm from the vagaries of diplomacy and other foreign policy concerns".<sup>2</sup> As supply chains globalized, interdependence was seen as having a strategic, stabilizing value. The "end of history", as Francis Fukuyama famously put it, proved to be a salient narrative wherein economic interdependence would increase the costs and reduce the need for war, while redistributing gains, flattening hierarchies and fragmenting state power. Moreover, "hold-outs" from the international system, particularly China, would be incorporated and socialized to become "responsible stakeholders", and the wealth and opportunities generated by economic liberalization could even lead to political liberalization and democratic convergence.

Now, the promise of economic liberalism is being directly questioned, if not turned on its

head,<sup>3</sup> giving rise to what some characterize as a new "geoeconomic world order".<sup>4</sup> Economics and security are increasingly converging, leading to an expanding "balkanization" of markets and global supply chains and the "weaponization" of trade and access to technology.<sup>5</sup> Interdependence is no longer viewed as the guarantor of stability that it once was, and the asymmetries inherent in interdependent relationships are increasingly seen as sources of power or, conversely, of vulnerability and risk. Positive-sum logics based on a conception of aggregate gains are increasingly being replaced by zero-sum thinking based on competition, with clear winners and losers.

Geoeconomics is not a particularly new concept. American strategist Edward Luttwak first coined the phrase in 1990 to describe what he considered would be a feature of the post-Cold War order, particularly as Japan's economic rise gave pause to US policymakers, surmising that states would pursue their strategic aims "with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical firepower, and market penetration in lieu of garrisons and bases". For Luttwak, "the world is not governed by the logic of commerce but rather the logic of conflict, which is adversarial and zero sum".<sup>6</sup> David Baldwin had earlier described the use of economic coercion and inducements as "economic statecraft".<sup>7</sup> But while such statecraft would be a feature of the post-Cold War era, notably in the form of sanctions used to limit the proliferation of weapons of mass destruction, or in pursuit of the Global War on Terror,

2 Anthea Roberts, Henrique Choer Moraes, Victor Ferguson, 'Geoeconomics: The Variable Relationship Between Economics and Security', *Lawfare*, 27 November, 2018, <https://www.lawfareblog.com/geoeconomics-variable-relationship-between-economics-and-security>. [Unless otherwise indicated, all links were last accessed on 3 November 2021.]

3 Kurt M. Campbell, Ely Ratner, 'The China Reckoning: How Beijing Defied American Expectations', *Foreign Affairs*, April/May 2018.

4 Anthea Roberts, Henrique Choer Moraes, Victor Ferguson, 'The Geoeconomic World Order', *Lawfare*, November 19, 2021, <https://www.lawfareblog.com/geoeconomic-world-order>.

5 Christian Fjäder, Niklas Helwig, Mikael Wigell, 'Recognizing "Geoeconomic Risk": Rethinking Corporate Risk Management for the Era of Great-Power Competition', *FIIA Briefing Paper*, No. 314, June 2021.

6 Edward N. Luttwak, 'From Geopolitics to Geo-economics: Logic of Conflict, Grammar of Commerce', *National Interest*, (1990): 17–23.

7 David A. Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985).

states came to pursue economic coercion only when there was little risk of reciprocation or incurring costs for one's own economy.

The drivers of this shift towards geoeconomics today are many, but four are particularly worth noting. One is rising inequality within states, which has caused disillusion with market liberalism, the rise of populism, and a backlash against globalization. Second is the prevalence of inequalities among states, wherein, rather than “flattening” the globe and decentralizing power, global economic networks have resulted in a structural concentration of power, notably in the hands of the United States and, increasingly, China.<sup>8</sup> Another driver is the rapid advance of technology that has increased the number and vulnerability of critical industries, sectors and infrastructure, and which is accompanied by a concentration of technological value and supply chains, again, particularly within the United States and, increasingly, China. The final, and perhaps most notable driver of change is the great-power competition and systemic rivalry that has become a core feature of the international

system. A relative shift of structural economic power towards China, the market distortions incurred by Chinese industrial policies, and the lack of reciprocity in trade with China are resulting in stronger competition with the US and other “Western” countries in the domain of political economy. In this context, the stark differences in political and economic systems are fuelling a narrative of strategic competition and systemic rivalry that is being used to justify the securitization of the economic realm.

The shift in American policy towards a more strategic, coercive use of economic power, particularly since the presidency of Donald Trump, is perhaps the most radical change.<sup>9</sup> With the rise of China, and the perception of China as a strategic competitor, the tables of economic power are being turned and the use of economic statecraft is becoming increasingly normalized. As noted in a World Economic Forum white paper in 2016: “All of the infrastructure of globalization risks being weaponized: the financial sector, supply chains, the energy sector and the global trading regime.”<sup>10</sup>

8 David Singh Grewal, *Network Power: The Social Dynamics of Globalization* (New Haven: Yale University Press, 2008); and Norbert Gaillard, *Country Risk: The Bane of Foreign Investors* (Springer, 2020), 60–61.

9 Elizabeth Rosenberg, Peter Harrell, Paula J. Dobriansky, Adam Szubin, ‘America’s Use of Coercive Economic Statecraft’, *Report from Select Members of the CNAS Task Force on the Future of U.S. Coercive Economic Statecraft*, Center for New American Security (CNAS), 17 December, 2020.

10 World Economic Forum, ‘The Age of Economic Coercion: How Geo-politics is Disrupting Supply Chains, Financial Systems, Energy Markets, Trade and the Internet’, White Paper: Global Agenda Council on Geo-Economics, January 2016.

# Networked interdependence and economic power

With the trend towards a more systematic weaponization of economic interdependence, the scope for the development of hybrid threats<sup>11</sup> widens considerably. Here, a discussion of the nature of interdependence is instructive in that it will allow for further consideration of the ways in which China can conceivably leverage its increasingly asymmetric economic advantages to enhance coercive action while more broadly asserting itself as a revisionist power in the international system.

Power in interdependent economic relationships has often been thought of in terms of market power and bilateral dependence.<sup>12</sup> Market power effectively allows states to leverage market access in the pursuit of strategic aims, whereas bilateral dependence allows actors to limit access to specific goods in which it enjoys a distinct advantage. At the same time, globalization and the development of intricate global value chains and complex interdependence has been thought of as a broadly effective deterrent to the use of force, but also of economic statecraft in interdependent relationships, as the risk of inflicting harm on one's own interests remains high. When Japan's access to rare earth elements from China was limited in 2010, for instance, the effects on China's access to important products and technologies produced using rare earths quickly became evident. This provided sufficiently dissuasive arguments for using rare earths as a lever of influence in China's further spats with Japan.<sup>13</sup>

In practice, however, as noted above, the use of economic statecraft has accelerated in recent years. What is instructive to note, and which will

be applied to China below, is how structural power is generated within a globalized economic system and how it can be leveraged.

In their groundbreaking work on how global economic networks shape the coercive actions of states, Farrell and Newman explain that globalization has generated intricate global networks of economic, social, political, and military interactions that, while interdependent, have produced stark, structural inequalities of influence, notably in favour of the US.<sup>14</sup> As they explain, network structures emerge as a result of the actions of a wide range of actors that ultimately base their decisions on similar logics. The accumulation of these actions encourages and influences the future behaviour of others within the system. In a globalized market economy context, the decisions of businesses in search of efficiency subsequently create networks of communication, exchange and physical production that ultimately become highly centralized. The actors, or "nodes", in a networked system may be decentralized, but their cumulative actions nevertheless become concentrated around critical hubs.

Due to Western dominance of innovation cycles that coincided with the wave of globalization over the last three decades, these hubs have become concentrated in the United States, and to a lesser extent in Europe. The authors cite two examples of critical hubs to illustrate their point: 1) global finance, with the US dollar's role as the financial system's primary reserve asset (between 1999 and 2016, US dollars were involved in 85 to 89 percent of all foreign exchange transactions, whereas nearly 64 percent of all foreign exchange

11 For a discussion on hybrid threats as a concept, see 'Hybrid Threats as a Concept', The European Centre of Excellence for Countering Hybrid Threats, <https://www.hybridcoe.fi/hybrid-threats-as-a-phenomenon/>.

12 Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 4<sup>th</sup> ed. (New York: Longman, 2012).

13 John Seaman, 'Rare Earths and China: A Review of Changing Criticality in the New Economy', *Notes de l'Ifri*, January 2019.

14 Henry Farrell and Abraham L. Newman, 'Weaponized Interdependence: How Global Economic Networks Shape State Coercion', *International Security*, No. 44, (Summer 2019): 42–79.

reserves in the world are held in US dollars<sup>15</sup>) and the SWIFT financial messaging system centralizing transactional flows; and 2) internet communications and e-commerce platforms, wherein 98 percent of data traffic flows through a limited number of submarine fibre-optic cables and passes through internet exchange points, and online activity and e-commerce is dominated by US-based internet giants such as Google, Amazon and Facebook.

Beyond sheer market power and bilateral dependence, therefore, it is a global network of economic interconnections that have become structured in a “hub-and-spoke” system that ultimately affords considerable power to the actor that controls the activities at the hub of the network, allowing them to weaponize interdependence in a much more structural way. Actors within the network system, meanwhile, have little choice but to continue to pass through the hubs because the collective behaviour of other actors in the system has generated no credible alternative. American economic power today therefore derives from its privileged position at the centre of critical hubs of global economic activity.

Two notable strategic advantages are derived from control over global network hubs: panopticon and chokepoint effects. Panopticon effects refer to the ability of states that have the physical access or jurisdiction over a hub of activity to exercise their influence in order to obtain information that

passes through the hub – for instance information on financial transactions or on internet activity. This necessarily affords the states that control the hub an asymmetric power of information over the strategies and activities of their adversaries. Chokepoint effects, meanwhile, afford an outsized capacity to limit access to hubs for other actors – for instance, access to the US banking system and dollar-denominated assets – with only limited risk in the short-to-medium term for the state that controls the hub, but a crippling impact for the third party.

A final, important point that the authors make which is worth noting: a state’s ability to fully benefit from the asymmetric advantages and leverage that accrue from being at the centre of a nodal hub depends on the state’s jurisdictional control over the hubs of activity and the institutional capacity of that state to exercise control. A state’s ability to act on both panopticon and chokepoint effects is ultimately conditioned by its ability to impress upon activity that passes through the hub. Here, the extraterritorial power of US laws and regulations is a clear example of how Washington is able to wield the power not only of its vast market size and bilateral dependencies, but of its position at nerve-centres of global economic activity through the use of sanctions that impact not just their specific target, but that target’s relations with nearly every actor in the globalized economy.

15 Thomas Oatley, ‘Weaponizing International Financial Interdependence’, in Daniel W. Drezner, Henry Farrell and Abraham L. Newman (eds.), *The Uses and Abuses of Weaponized Interdependence* (Washington, D.C.: Brookings Institution Press, 2021), 116.

# Towards a Sino-centric global economy?

The question becomes, how can China build a centralized role for itself at the hubs of interdependent, networked economic activity, and how can it develop the tools necessary to act on its position and reap both the panopticon and choke-point effects that such a position would generate? China certainly has such ambitions and has not shied away from taking up the role of global leadership. Indeed, Beijing has highlighted a vision for national rejuvenation that can be seen as part of a long-term strategy to displace American leadership and carve out a more central role for China in the international system.<sup>16</sup> In its economic strategy, China aims to capitalize on the rapid changes underway in the global economy, from the digital transformation to the clean energy transition, to the biotech revolution – part of what Xi Jinping has termed “changes unseen in a century” – to lead on the development of the industries of the future and effectively afford itself the asymmetric advantage of a critical hub position within the networked economies that these industries will generate. In other words, much as the West was able to capitalize on its position at the centre of global innovation during the previous wave of globalization, China is seeking to position itself to lead the next cycle.

The ambition is there, but how can China effectively construct network centrality in an interdependent global economy? At the outset, Blackwill and Harris note that China already enjoys many geoeconomic endowments that provide it with a degree of leverage, such as the ability to control outbound investment, domestic market features (overall size, degree of control over inbound and outbound trade, asymmetries in economic relations

with others, perceptions of future growth), influence over commodity and energy flows, and a relative degree of centrality in the global financial system.<sup>17</sup> Kastner and Pearson further explore the mechanisms through which foreign economic ties translate into political influence, highlighting bargaining power through coercion and inducements, the creation of vested interests in partner countries, the shaping of public and elite opinion, and the ultimate emergence of structural power, or the ability to set standards and shape markets within which others will have to adapt.<sup>18</sup> It is this path to obtaining structural power that must be better understood. A framework for considering China's path can be organized around five interrelated actions.

## Cultivating resilience through indigenization

Asymmetric interdependence with the United States has long been seen as a critical source of vulnerability for the Chinese authorities. Bolstering autonomy and self-reliance has now become a mantra for China's leadership, and developing China's national economic competitiveness through indigenous innovation is a high priority for Beijing. Whereas the notion of “decoupling” has been a regular topic of discussion since the US launched its trade war with China in 2018, industrial strategies such as Made in China 2025 reveal that China has already sought to re-centre value chains within its borders, particularly for a wide range of emerging “strategic” industries such as biopharmaceuticals, aerospace technology, advanced machine tools and robotics, new-energy vehicles,

16 Rush Doshi, *The Long Game: China's Grand Strategy to Displace American Order* (New York: Oxford University Press, 2021).

17 Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge: Harvard University Press, 2016), 148–151.

18 Scott L. Krastner and Margaret M. Pearson, ‘Exploring the Parameters of China's Economic Influence’, *Studies in Comparative International Development*, No. 4, (2021): 18–44. See also Joshua Kurlantzick, *State Capitalism: How the return of statism is transforming the world* (Oxford and New York: Oxford University Press, 2016).

and high-end electrical equipment related to the energy transition.<sup>19</sup> Indeed, the concept of China's deep integration into the global economy has been a contentious one domestically since the reform and liberalization movement emerged in the early 1980s, and took hold from the mid-1990s, precisely because of the potential dependencies and vulnerabilities to external shocks and pressure it could create for China.<sup>20</sup>

Now, crippling US sanctions on ZTE, and subsequently on Huawei have further underlined the urgency of increasing self-reliance for Beijing, and these events have even been referred to as China's "Sputnik moment".<sup>21</sup> China is mobilizing vast sums of money to boost indigenous innovation – its spending on R&D now rivals that of the EU27, although it still lags behind the United States – and has experienced a number of successes (including in 5G telecoms, the BeiDou satellite system, electric vehicles and renewable energy technologies), despite continuing to lag behind in other critical areas (such as semiconductors and commercial aviation). Another aspect of cultivating resilience is boosting Chinese domestic consumption and developing its internal market, thus reducing its reliance on foreign consumers and state-driven investment as motors for growth. Ultimately, the point here is that these efforts are designed to both reduce China's vulnerability to external (notably US) pressure, and to bolster Chinese competitiveness in the critical industries of the future.

### **Pursuing high-end import substitution and export promotion ("dual circulation")**

As China moves to insulate its economy and bolster self-reliance, it also seeks to build and maintain a strong foothold in global markets, particularly for high-end goods, offering attractive technological solutions for others and thus boosting

the prospects for growth in sectors where it is increasingly able to master large portions of the value chain. The concept that has most recently emerged to articulate this approach is "dual circulation", floated in May 2020 and inscribed in China's 14<sup>th</sup> Five-Year Plan in the spring of 2021.<sup>22</sup> If played out to its fullest extent, one important feature of dual circulation is that it will effectively constrain access to the Chinese market to foreign suppliers of a wide range of high-end goods (particularly those produced in developed economies), which China hopes to produce for itself, but seek to open markets for Chinese exports of these very same goods.<sup>23</sup> Moreover, its firms would have a distinct comparative advantage over competitors in third markets in that they could also operate in a vast, protected Chinese market and conceivably benefit from advantageous export promotion policies from the Chinese government. While such moves would certainly complicate relations with Western competitors, China would likely remain open for imports of low-end manufacturing and commodities, largely produced in today's developing world, opening avenues for further developing relations with the Global South.

### **Establishing hard and soft infrastructure hubs**

China has meanwhile already been moving to establish itself at the critical hubs of the global economy, with plans to further its presence and influence. These can be thought of in terms of both hard and soft infrastructure. On the hard infrastructure side, China has established itself as a global leader in telecommunications hardware, notably 5G infrastructure, submarine fibre-optic cables and satellite networks, particularly its BeiDou constellation, rolling out vast global networks under the label of its "Digital Silk Road".<sup>24</sup>

19 Max J. Zenglein and Anna Holzmänn, 'Evolving Made in China 2025: China's industrial policy in the quest for global tech leadership', *MERICs Papers on China*, No. 8, July 2019.

20 Aaron Friedberg, 'Globalisation and Chinese Grand Strategy', *Survival*, Vol. 60, Issue 1, (January 2018): 7–40.

21 Dan Wang, 'China's Sputnik Moment: How Washington Boosted Beijing's Quest for Tech Dominance', *Foreign Affairs*, July 2021.

22 'The Fourteenth Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Outline of the Long-term Goals for 2035', (in Chinese), National Development and Reform Commission, People's Republic of China, March 2021, <https://www.ndrc.gov.cn/xxgk/zcftb/ghwb/202103/P020210323538797779059.pdf>.

23 Alicia García-Herrero, 'What's Behind China's Dual Circulation Strategy?', *China Leadership Monitor*, 1 September, 2021, <https://www.prcleader.org/herrero>.

24 Jonathan Hillman, *The Digital Silk Road: China's Quest to Wire the World and Win the Future* (Harper Collins, 2021).

In the field of submarine cables, over the last decade China has moved from being reliant on foreign partners to boasting the world's fourth largest supplier of submarine cables in Huawei Marine Networks (recently rebranded as HMN Technologies). As an illustration of China's ambitions, its Made in China 2025 plan aimed to capture 60 percent of the global fibre-optic communications equipment market. As of 2019, China was a landing point, owner and/or supplier of 11.4 percent of global submarine cables, with plans to more than double that amount to 24 percent by 2024.<sup>25</sup>

Transportation infrastructure, such as railway networks, roads and ports, has also been an important feature of China's Belt and Road Initiative (BRI). Chinese investments into overseas port facilities have garnered special attention. While such investments have grown exponentially over the last decade, the vast majority have been in the form of minority stakes, which accrue very little in the way of influence in port governance. Nevertheless, concerns have arisen about the potential dual use function of some ports, notably in the Indian Ocean. As Duchatel notes in this context, "the distinction between actions serving China's strategic ambition to become a leading military power by 2050 and normal profit-oriented business activities is not always simple and straightforward".<sup>26</sup>

Energy infrastructure, including oil and gas pipelines in Central Asia, Russia and Southeast Asia have also anchored China's position as a regional power, and now China is developing plans to construct a vast, transcontinental network of ultra-high-voltage transmission infrastructure to facilitate the growth and distribution of renewable energies across the Eurasian landmass.<sup>27</sup> If they come to fruition, such projects would boost China's ability not only to supply hardware for

global power transmission, but also to increase its network centrality in terms of energy flows and systems governance. Selina Ho has explained how material infrastructure can facilitate the development of structural power by looking in particular at railways in Southeast Asia, underlining that ultimately both material and non-material power are embedded in infrastructure.<sup>28</sup>

Just as important as hard, physical infrastructure is the soft infrastructure that facilitates and governs economic activity. Finance is one form of soft infrastructure wherein, more than just mobilizing sheer volumes of capital and lending, China is also exploring financial innovation tools, such as central bank-denominated digital currency and the use of technologies such as artificial intelligence and blockchain (financial technologies, or FinTech) that could help to create new modalities for global finance where China may be able to establish itself as a central player.<sup>29</sup> Soft infrastructure can also include the development norms and standards, wherein China has gone to great lengths to position itself as a global standards maker by integrating and even taking up leadership within international standard-setting bodies.<sup>30</sup> Moreover, the propagation of rules and regulations to govern emerging challenges, on issues such as data management, for instance through China's proposed Global Initiative on Data Security,<sup>31</sup> further provide a soft infrastructure to channel the behaviour of states and economic actors towards Chinese solutions. Finally, economic governance institutions are another form of soft infrastructure that China can use to channel conversations on rule-making, either within existing frameworks such as the United Nations, where China has invested considerable time and political capital in gaining influence,<sup>32</sup> or in the form of new institutions, such as

25 Richard Ghiasy and Rajeshwari Krishnamurthy, *China's Digital Silk Road: Strategic Implications for the EU and India*, Institute for Peace and Conflict Studies and Leiden Asia Centre, August 2020, <https://leidenasiacentre.nl/chinas-digital-silk-road/>.

26 Mathieu Duchatel, 'China's Port Investment: The Flag Behind the Trade', *China Trends*, Institut Montaigne, June 2019.

27 Peter Fairly, 'China's Ambitious Plan to Build the World's Biggest Supergrid', *IEEE Spectrum*, 21 February, 2019, <https://spectrum.ieee.org/chinas-ambitious-plan-to-build-the-worlds-biggest-supergrid>.

28 Selina Ho, 'Infrastructure and Chinese Power', *International Affairs*, Volume 96, Issue 6, (November 2020): 1461–1485.

29 Evan Freidin, 'China's Digital Currency Takes Shape', *Lowy Interpreter*, 8 September, 2021; Julian Gruin and Peter Knaack, 'Not Just Another Shadow Bank: Chinese Authoritarian Capitalism and the "Developmental" Promise of Digital Financial Innovation', *New Political Economy*, Volume 25, Issue 3, (2020): 370–387; and Viviana Zhu, 'China's FinTech: the End of the Wild West', *Policy Paper*, Institut Montaigne, April 2021.

30 John Seaman, 'China and the New Geopolitics of Technical Standard Setting', *Note de l'Ifri*, January 2020.

31 Graham Webster and Paul Triolo, 'Translation: China Proposes "Global Data Security Initiative"', Blog Post, New America, 7 September, 2020, <https://www.newamerica.org/cybersecurity-initiative/digichina/blog/translation-chinese-proposes-global-data-security-initiative/>.

32 Kartik Ashta, Abhimanini Sawhney, Dakshata Ahlawat and Palak Malhotra, *China's Expanding Influence in the UN System*, Indian Council on Global Relations (Gateway House), 21 May, 2021, <https://www.gatewayhouse.in/chinas-expanding-influence-un-system/>.

the Asian Infrastructure Investment Bank (AIIB), or forums such as the Belt and Road Initiative – further discussed below.

### **Building a narrative and a community framework**

As Farrell and Newman explain, in order to challenge a centralized network structure, “challengers not only have to demonstrate that they have a better approach, but need to coordinate a significant number of actors to defect from the existing model or organization and converge toward a different one”.<sup>33</sup> This requires both creating a forum for coordination and a basis for legitimacy, or an acceptable narrative. With regard to a narrative, as will be further discussed in the next section, China has proactively sought to undermine the legitimacy of Western, particularly American leadership as one built not on universal values, but rather on self-serving rules. In this direction, it capitalizes on the notion of American “exceptionalism” and “exorbitant privilege” with regard to a rules-based international order – for instance regarding foreign military intervention, but also its increasing use of economic statecraft – to underline its point. In parallel, it has promoted alternative conceptual frameworks, notably through the concept of a “Community of Common Destiny for Humankind” to promote alternative foundational narratives for global governance and bolster its legitimacy as a purveyor of global peace and stability.<sup>34</sup>

Within this broader narrative, platforms such as the Belt and Road Initiative find their salience in that they are framed as responding to real, verified needs – in this case infrastructure development and connectivity more broadly. More importantly, they create regular forums within which leaders

and decision-makers gather under a common framework and narrative and develop alternative platforms on which the soft infrastructure of future global economic activity can develop. Indeed, in 2017 the BRI made a qualitative jump from a concept focusing on building “connectivity” through physical infrastructure to one that focuses increasingly on “soft docking”, or regulatory and broader policy coordination.<sup>35</sup> It now includes coordination in areas such as financial regulation, people-to-people exchanges and technical standard-setting. With regard to the latter, it has even been proposed that the BRI should establish a formal mechanism, or BRI Standards Forum, for developing and coordinating technical standards among participants.<sup>36</sup> Belt and Road arbitral courts based in China have also been established to adjudicate disputes among participant countries, wherein Dahlan notes that “the specific goal is to devise a Chinese mechanism for the mutual recognition and enforcement of judgments, thereby helping, it is hoped, to achieve the paramount aim of laying the foundations of a legal system throughout the BRI area”.<sup>37</sup> The BRI is China’s overarching platform, but Beijing has also looked to augment multiple regional forums for policy dialogue and coordination, such as the Forum on China-Africa Cooperation (FOCAC) in Africa, the Community of Latin American and Caribbean States (CELAC) in Latin America, or the 16+1 in Central and Eastern Europe.<sup>38</sup> Ultimately, through these exchanges, China has sought to develop the means (albeit with mixed degrees of success) to coordinate actors outside of traditional multilateral settings and create a space within which alternative hubs of regional and global economic activity can develop and where China is the common link.

33 Henry Farrell and Abraham L. Newman, ‘Weaponized Interdependence’, in Daniel W. Drezner, Henry Farrell and Abraham L. Newman (eds.), *The Uses and Abuses of Weaponized Interdependence*, Washington, D.C.: Brookings Institution Press, (2021): 27.

34 David Bandurski, ‘The Future of Common Destiny’, *Dialogue 01: State of Mind*, Echo Wall, 15 July, 2019, <https://www.echo-wall.eu/state-mind/future-common-destiny>.

35 Alice Ekman, et al. (eds.), ‘China’s Belt and Road and the World: Competing Forms of Globalization’, *Etudes de l’Ifri*, April 2019.

36 Tim Rühlig, ‘China, Europe and the New Power Competition over Technical Standards’, *UI Brief*, Swedish Institute of International Affairs, January 2021.

37 Malik Dahlan, ‘Envisioning Foundations for the Law of the Belt and Road Initiative: Rule of Law and Dispute Resolution Challenges’, *Harvard International Law Journal*, Volume 62, (2020), <https://harvardilj.org/2020/08/envisioning-foundations-for-the-law-of-the-belt-and-road-initiative-rule-of-law-and-dispute-resolution-challenges/>.

38 Daniel Large, *China and Africa: The New Era* (Cambridge: Polity, 2021); and Alice Ekman, ‘China’s Regional Forum Diplomacy’, *EUISS Issue Alert*, 44, European Union Institute for Security Studies, November 2016.

## Elaborating upon the relevant tools of economic statecraft

Finally, developing an institutional and legal framework that allows the state to exercise its control and jurisdiction over economic activity, and in particular which is concentrated within a critical hub, is also crucially important for leveraging both the panopticon and chokepoint effects of network centrality. Indeed, through codified sanctions regimes such as “entity lists”, or jurisdictional authority over internet infrastructure or US dollar-denominated financial transactions, the US has been able to make full use of its economic power. In recent years, particularly as tensions with the US and Europe have heated up, China has been developing a suite of legislation that effectively moves it in this direction.

Four features of recent Chinese legislation are noteworthy. The first two, reflected in laws adopted in 2017, significantly increase the Chinese government’s ability to take advantage of panopticon effects – or access to and control over information. The National Intelligence Law compels individuals, organizations, and institutions in China to assist officials in public and state security agencies in carrying out a broadly defined category of “intelligence” work.<sup>39</sup> The National Cybersecurity Law, meanwhile, requires entities operating in China, be they foreign or domestic, to store in China the data that is generated in China.

Two other features elaborate upon China’s ability to wield chokepoint effects. Indeed, over the last 18 months China has developed legislation to impose sanctions on foreign entities, beginning with China’s Ministry of Commerce (MOFCOM) elaborating its first blacklist (Unreliable Entities List) in May 2020 to control trade and impose sanctions on entities deemed to be endangering the country’s national interests. The second chokepoint-enabling feature is the extraterritorial dimension of Chinese legislation.<sup>40</sup> China’s National Security Law adopted in 2020 in relation to Beijing’s control over Hong Kong contains an ominous clause on extraterritorial application,<sup>41</sup> whereas the Export Control Law adopted in December 2020 also contains an extraterritorial component, effectively rendering any individual or organization, whether inside or outside of China, subject to investigation and legal liability under Chinese law.<sup>42</sup> The inclusion of extraterritoriality clauses can also be found in the suite of recently adopted and forthcoming laws governing data security and privacy (Network Security Law, Data Security Law, Personal Information Protection Law), which were notably not applicable under China’s 2017 Cybersecurity Law.<sup>43</sup> Ultimately, when combined with the other four dimensions of China’s increasing network centrality, these legislative developments give China the ability to more effectively wield the power of its position.

39 Murray Scot Tanner, ‘Beijing’s New National Intelligence Law: From Defense to Offense’, *Lawfare*, 20 July, 2017, <https://www.lawfareblog.com/beijings-new-national-intelligence-law-defense-offense>.

40 Steven Blockmans, ‘Extraterritorial Sanctions with a Chinese Trademark: European Responses to Long-Arm Legal Tactics’, *CEPS Policy Insights*, Center for European Policy Studies, 26 January, 2021; and Zhengxin Huo and Man Yip, ‘Extraterritoriality of Chinese Law: Myths, Realities and the Future’, *The Chinese Journal of Comparative Law*, May 2021.

41 Moritz Rudolf, ‘The Hong Kong National Security Law: A Harbinger of China’s Emerging International Legal Discourse Power’, *SWP Comment*, German Institute for International and Security Affairs (SWP), 26 November, 2020, <https://www.swp-berlin.org/10.18449/2020C56/>.

42 Sofia Baruzzi, ‘China’s Export Control Law Explained’, *China Briefing*, Dezan Shira & Associates, 9 November, 2020, <https://www.china-briefing.com/news/chinas-export-control-law-explainer-china-briefing-news/>.

43 Abby Chen, ‘A Close Reading of China’s Data Security Law, In Effect Sept. 1, 2021’, *China Briefing*, Dezan Shira & Associates, 14 July, 2021, <https://www.china-briefing.com/news/a-close-reading-of-chinas-data-security-law-in-effect-sept-1-2021/>.

# Undermining liberal democracy, or just making a space for China?

The question now is the extent to which China will seek to use its position to act as a revisionist power within the international system and undermine liberal democratic value-based societies, independently of a discussion on the degree to which the country will ultimately be successful in its endeavours. As Goddard explains, interdependence creates new instruments of power politics that revisionist actors can employ to bring about change in the international order: weapons of information, for instance through new digital infrastructure; the capacity to mobilize, for example through new multilateral platforms or institutions; and new instruments of economic, political and social coercion.<sup>44</sup> Doshi has further illustrated that the Chinese authorities consider that a critical moment of opportunity has arrived in their long quest to displace the US-led order, signalled by the rise of populism and levels of instability within democratic societies, and the United States in particular.<sup>45</sup> Indeed, over the course of the Covid-19 pandemic, China has consistently communicated on the inability of democratic governments to respond to urgent and complex challenges (independently of China's own mishandling of the crisis). In essence, revisionist critiques of liberal democracy question the ability of liberal democratic systems to provide effective solutions to the problems of today, undermining faith in democratic institutions among fragile democracies in particular, while steering states and international actors towards alternative forms of governance that are presented as more efficient (regardless of whether they are or not in practice).

At the same time, however, China's position does not seem driven by the promotion of a particular alternative ideology (as opposed to more ideologically driven attempts to export the Maoist concept of revolution in the 1960s). Rather, as Rolland explains, it is presented today as an "anti-" ideology: anti-Western, anti-status quo, and anti-liberal (though not *necessarily* anti-democratic) and ostensibly value-free.<sup>46</sup> The last point is particularly important. China's insistence is on opposition to the *universality* of "Western" values – namely human rights, democracy and the rule of law. Within the framework of its so-called "Community of Common Destiny for Humankind", it alternatively advances a narrative in which all socio-political systems should be considered valid. As such, rather than advancing a more revolutionary approach to revisionism, China seeks to revise the elements of the current international system that it deems threatening, effectively creating a space where its own political system can be considered legitimate. As Godehardt explains, "today the Chinese leadership distinguishes openly between the institutionalised forms of the international order, in which China engages actively, and the underlying values of (what they see as) the US-dominated Western liberal world order, which they emphatically reject".<sup>47</sup> In effect, China has sought to counter the universality of governing principles such as human rights, particularly calling into question the political rights associated with these, and to bolster the promotion of economic development and social stability as prevailing principles.

44 Stacie E. Goddard, 'Road to Revisionism: How Interdependence Gives Revisionists Weapons for Change', in Daniel W. Drezner, Henry Farrell and Abraham L. Newman (eds.), *The Uses and Abuses of Weaponized Interdependence* (Washington, D.C.: Brookings Institution Press, 2021), 91.

45 Rush Doshi, *The Long Game: China's Grand Strategy to Displace American Order* (New York: Oxford University Press, 2021).

46 Nadège Rolland, 'A World Order Modelled by China', Testimony, U.S.-China Economic and Security Review Commission, 'A "China Model"? Beijing's Promotion of Alternative Global Norms and Standards', 27 April, 2020.

47 Nadine Godehardt, 'Shaping Beats Decoupling: Alternatives to Global Conflict between the United States and China', Point of View, German Institute for International and Security Affairs (SWP), 2 March, 2020, <https://www.swp-berlin.org/en/publication/alternatives-to-global-conflict-between-the-united-states-and-china>.

While it is important to consider China's threats to democratic political and social systems, it is also useful to consider a Chinese perspective: threats that China perceives from the West relative to its own system of governance. Indeed, regime survival is of paramount concern for the Chinese Communist Party (CCP) leadership, whereas the nature of China's authoritarian regime is often portrayed as illegitimate in the West. In many ways, China's insistence on self-reliance and its moves to shape the international economic system are not merely meant to service economic growth at home, but to insulate China, and the CCP in particular, from threats to its own political system. These concerns have deep historical roots. In addition to being a source of concern with regard to economic security, China's integration into the global economy has also been seen since the 1980s as a vector for Western values to threaten China's political security.<sup>48</sup> While Chinese authorities relentlessly lash out at liberal democracy and the Western-led order, such an approach can be thought of as a defensive posture.

The question moving forward will be the degree to which such a defensive posture (making the

world safe for China's political system) will further translate into an offensive posture (actively undermining democratic political systems *and* exporting China's own political system). The answer may lie in the degree to which the Chinese authorities believe that their political system will be able or allowed to co-exist with liberal democratic regimes within the international system, and the degree to which economic and political systems are intertwined. Looking "behind the smokescreen", as Rolland explains, based on an intricate reading of writings and exchanges among Chinese strategists, the strategic vision among Chinese policymakers is ultimately to create a modern-day tributary system – a form of Chinese sphere of influence – couched within the existing global order.<sup>49</sup> In theory, such a system would know no geographical, cultural or ideological boundaries, so long as it recognizes and respects the centrality of China within the system and the primacy of China's interests, resulting in what Rolland refers to as a "partial, loose and malleable hegemony". The question of whether liberal democratic values can exist and thrive within such an order may well be the critical challenge of our time.

48 Aaron Friedberg, 'Globalisation and Chinese Grand Strategy', *Survival*, Vol. 60, Issue 1, (January 2018): 7–40.

49 Nadège Rolland, 'China's Vision for a New World Order', *NBR Special Report*, No. 83, National Bureau of Asian Research, 27 January, 2020.

## Conclusions: Implications for China's power in the age of hybrid threats

The above analysis has considered a pathway for China to achieve greater centrality in the global economy, and the implications that such centrality would have for its relationship with liberal democratic systems. It must be noted that achieving such centrality, while a goal of the Chinese authorities, is not ineluctable. Indeed, in the years and decades ahead, China will face many daunting internal and external challenges.<sup>50</sup> Nevertheless, based on the analysis developed in this paper, three broad observations can be made with regard to the concept of hybrid threats to liberal democratic societies.

The first point to note is that China's political-economic system is particularly well suited for making use of hybrid threats. The lines between economic and political actors have long been blurred by the pervasive role of the state in the economy, but more importantly by the outsize role that the Chinese Communist Party (CCP) plays at all levels of society.<sup>51</sup> In recent years, the centrality of the CCP has only grown as Xi Jinping has sought to bolster Leninist-style governance, stating for instance during the 19<sup>th</sup> Party Congress in 2017 that "Party, government, military, civilian, and academic, east, west, south, north, and centre, the party leads everything".<sup>52</sup> The convergence of economic and security realms among China's adversaries has only bolstered the justification for deepening the central role of the Party-state and the securitization of the economic domain.

Secondly, the globalized economy, or the broad-scale interconnections of economic activity across the planet, have widened the scope within which hybrid threats can emerge. At the same time, the asymmetric network structure of economic interdependence, wherein power becomes highly concentrated within the hands of states that are positioned at the critical hubs of global economic activity is critically important. Rather than diffusing power, complex interdependence in many ways has centralized it. This paper has noted how this centralization acts as a force multiplier for economic statecraft by creating panopticon and chokepoint effects, citing in particular the formal mechanisms such as sanctions that are amplified for certain states through networked interdependence. What would subsequently be worth exploring are the ways in which these very same force multipliers can be leveraged to carry out hybrid threat operations, particularly as China's network centrality grows.

Finally, as economic statecraft becomes increasingly normalized within a new era of "geo-economics", and the political instrumentalization of economic activity and the weaponization of interdependence become increasingly standard practice, the question becomes whether the need to resort to hybrid threat actions is even necessary. In other words, if overt economic coercion and strong-arming is no longer taboo, to what extent is the veil of hybrid threats still useful? As Charon

50 Michael Beckley and Hal Brands, 'The End of China's Rise: Beijing Is Running Out of Time to Remake the World', *Foreign Affairs*, September/October 2021; Luke Patey, *How China Loses: The Pushback against Chinese Global Ambitions* (New York: Oxford University Press, 2021); M. Taylor Fravel, 'US-China Relations at the Chinese Communist Party's Centennial', *Testimony*, U.S.-China Economic and Security Review Commission, 28 January, 2021.

51 Scott Kennedy and Jude Blanchette (eds.), 'Chinese State Capitalism: Diagnosis and Prognosis', Center for Strategic and International Studies, October 2021, <https://www.csis.org/analysis/chinese-state-capitalism>.

52 'Resolution of the 19th National Congress of the Communist Party of China on the "Articles of Association of the Communist Party of China (Amendment)"', (in Chinese), Xinhua, 24 October, 2017, [http://www.xinhuanet.com/politics/19cpcnc/2017-10/24/c\\_1121850042.htm](http://www.xinhuanet.com/politics/19cpcnc/2017-10/24/c_1121850042.htm).

and Jeangène Vilmer point out, Chinese authorities have now reached a “Machiavellian moment” wherein they consider that it is better to be feared than to be liked.<sup>53</sup> Still, the answer could very well be that, if network centrality proves to be an effective force multiplier for hybrid threat action, then China’s capacity to act by making use of hybrid threats will only grow as its centrality in the global

economy grows, handing China important new tools of coercion. Particularly in a context where China is seeking to create a narrative that bolsters its legitimacy among states and actors outside of the West that would ultimately lend credence to China’s centrality, the veil of below-the-threshold activity may remain necessary as a form of plausible deniability.

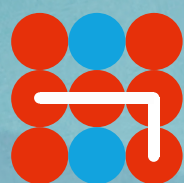
<sup>53</sup> Paul Charon and Jean-Baptiste Jeangène Vilmer, ‘Les opérations d’influence chinoises: Un moment machiavélien’ [Chinese influence operations: A Machiavellian moment], *IRSEM Report*, Institut de recherche stratégique de l’École militaire (IRSEM), Paris, September 2021.

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Hybrid CoE