

October 2, 2023

White Paper



Last month's White Paper detailed the return of Great Power Competition and its implications. This month's paper dives into the three Strategic Competitors: China, Russia, and the United States, highlighting the trio's associated strengths and weaknesses, and includes a forecast for the next several years.

Key Points on the Three Strategic Competitors:

China

- Strengths: China enjoys a whole of government strategy; the world's second-best economy and the top exporter; an informal leader with non-aligned states with increasing international diplomatic influence; and rapid growth in military capabilities.
- Weaknesses: The existing authoritarian government is not desirable or exportable; China's economic growth may not be sustainable; regional nations are not aligning with China, and instead are creating barriers; and China's military, while growing, is untested and likely cannot fight effectively by integrating air, land, sea, space, and cyber forces.
- Forecast: China will continue to prioritize military modernization and growth over domestic policies and programs; it will flex its military strength to coerce its neighbors and intimidate Taiwan toward unification.

Russia

- Strengths: Russia competes across all elements of national power, but it primarily relies on its military; in the Ukraine-Russia War, it has greater internal human capacity to replace its personnel losses, and it has plentiful natural resources to finance the war and replenish its equipment losses; Putin has also maintained internal stability, for now.
- Weaknesses: Its economy has been damaged by brain-drain, labor shortages, flight of international business, and sanctions; its military leadership is inept; it has transactional partners but no allies; Russia is internationally isolated because of the war.
- Forecast: Russia will remain a strategic threat but is growing weaker conventionally; its economy and military could recover, but not quickly; while internally steady, its stability is fragile; Russia's relationship with China has peaked and is in decline.

United States

- Strengths: U.S. democracy remains more stable than its competitors; it has the world's strongest economy and leads in soft power; U.S. leadership in alliances, partnerships, and international organizations is a core strength; U.S. military capabilities are superior or on par with competitors in all domains.
- Weaknesses: The U.S. cannot isolate itself with China in future crises, as this changes the character of competition, adding complexity for the effective use of foreign policy tools; while China and Russia intend to dominate regionally, the U.S. must project power over long distances to fulfill its global responsibilities.
- Forecast: The U.S. will continue to build and strengthen alliances and partnerships in support of its interests; it will continue to balance support for Ukraine while trying to not overstimulate Russia; the U.S. will work to further isolate China but will struggle to do so due to the strong interconnectedness between their economies.



GEOIntelligence@bancroft4vets.com

Before delving into the three strategic competitors, as a reminder from last month's White Paper, the elements of national power are commonly referred to as "DIME" or Diplomatic, Informational, Military, and Economic qualities. These factors will be closely assessed for China, Russia, and the United States. Let's first start with China.

China

Strengths:

China's "grand strategic" approach has historical roots. As stated by the Chinese Ambassador to the United Kingdom Liu Xiaoming in a 2012 speech at the UK Joint Services Command and Staff College, "For China, the importance of The Art of War has spread far beyond military studies. The book has deep influence in framing China's foreign policy and its approach to security and defense." The congruence of Sun Tzu, Mao, and Clausewitz – that war is an instrument of policy/apolitical instrument – is evident across China's aggressive approach to any nation or interest group posing a challenge to its centralized power and policies.

China is a collective society with consolidated authoritarian power structures. While this brings some disadvantages, it allows for a whole-of-government approach regarding policies. For example, President Xi recently curtailed external influence by restricting trade, foreign ownership, and free flow of information internally to China; while pursuing aggressive foreign policy toward any nation that attempts to restrict China's ownership and influence abroad.

China, as the informal leader, has successfully organized nations through international forums like BRICS-plus (Brazil, Russia, India, China, and South America, plus Iran, Saudi Arabia, United Arab Emirates, Argentina, Egypt, and Ethiopia), with a common interest for counterbalance to "western rules based global world order." However, the ability to "mobilize" the disparate nations with common interest has had mixed results.

China is increasingly playing an international role with diplomacy. China enhanced its role in the United Nations General Assembly by taking centrist positions on most issues.

President Xi's grand strategy for global dominance treats data "as a factor of production" and continues to aggressively seek information dominance. Recent examples include:

- In 2015, the Peoples Liberation Army's "Strategic Support Force" was established to lead and integrate efforts across space, cyber, and information warfare/psychological operations.
- Last month, China released its "Standard Map" that was received as an act of aggression by Philippines, Vietnam, Brunei, Indonesia, Malaysia, and India. Russia has not responded, as it needs China's influence for its war with Ukraine.
- Also in August, China enforced legal penalties on U.S. companies performing "due diligence" data research.
- CDC recently estimated that the drug fentanyl killed approximately 110,000 Americans in 2022, with some U.S. government officials estimating that up to 90 percent of illicit fentanyl in the U.S. comes from China.
- The Office of the Director of National Intelligence's 2023 Annual Threat Assessment makes clear the cyber threat posed by the People's Republic of China (PRC): "China probably currently represents the broadest, most active, and persistent cyber espionage threat to U.S. Government and private sector networks."
- China's Belt and Road Initiative (BRI) investment since 2013 has been \$962 billion; it currently remains steady at approximately \$68 billion per year. (Note: BRI will be the topic of an upcoming Executive Summary Report later this month).

- China continues to invest in growing and modernizing its military. In 2023, China increased its defense budget by 7.2% despite only a 5% projection in economic growth.
- China's large fleet of fishing vessels (perhaps up to 17,000 strong) is not only fishing illegally at an industrial scale, but also serves as a distributed platform for military purposes by collecting signals and imagery.
- China is considering adding North Korea to upcoming Russia-China joint naval exercises.
- China is emerging as a world leader in diplomacy and peace making.

China's authoritarian rule and continued constraints on information and truth enable the country to sustain long-term strategic goals, even in the face of short- to mid-term cycles (e.g., real estate, currency valuations, etc.). Further, its Communist system enables a consistent prioritization in its budget to achieve its military modernization objectives across all domains of warfare – land, sea, air, cyber, and space.

Since 1978, China has emerged from being one of the poorest countries in the world to becoming the second largest economy in the world. Some projections are that it will become the largest by 2035; however, recent realizations of domestic demographics and poor management of infrastructure and real estate investments are seen as having potentially crippling effects on the historic trajectory of growth.

China exploits the positional advantage of its geographic location to influence regional players on its borders, who represent more than 25% of the world's population.

China's leaders are also masterful at messaging across all elements of power in ways that portray them as victims of those who do not align with their views and actions.

Weaknesses:

Chinese Communism is autocratic, repressive, and exploitative, and has not proved to be regionally or globally exportable. In the words of one mid-grade Chinese officer, "To be Chinese is to live without a dream." In contrast, the international community trusts the western, rules-based system through which nation states and free market economies can establish and maintain free markets, open trade, and the peaceful resolution of disputes.

Economic stress internally for China in terms of consumer demand, production, unemployment, and particularly real estate and infrastructure investments are constraints for near-term international investment in China, as well as China's ability to drive economic policy internationally.

Although a fellow BRICS member, China sees India as a geographic rival with conflicting national interests and ongoing border disputes. Among the members of BRICS, there are common trade interests; however, the organization has not supported "de-dollarization," which is a strategic target of China's anti-western economic order.

China placed economic sanctions on Australia for seeking COVID investigations, banning Huawei, and passing legislation precluding Chinese investment and ownership of infrastructure within its borders. Despite these sanctions, China is still the largest importer of Australian goods (32%). The second largest importer is Japan (16%). China's primary imports from Australia include iron ore, natural gas, and coal.

The Chinese military lack real-world experience mobilizing, deploying, and projecting and sustaining combat power, even within its own borders. China's war with Vietnam in 1979 ended in a draw.

Also, China faces substantial "food insecurity" and is projected to continue to be the world's largest importer of soybeans, corn, rice, sorghum, barley, beef, and pork for the foreseeable future.

Forecast/Key Indicators with China:

China will continue to escalate conflict across all elements of power to the degree they assume responses by the United States and the West are limited in nature. The unknowns are the redlines that could lead to miscalculations and spur a hot war within and across all elements of national power.

China does not need to retake Taiwan to sustain its upward trajectory as a regional and global hegemon; however, China's leadership will steadily increase its rhetoric to retake Taiwan and its intimidation of its neighbors.

India is an unknown, as it remains "non-aligned" such as it did during the Cold War. China is geographically and economically linked to India; however, tensions due to territorial disputes associated with China's "new map" and rule of law could also serve as flashpoints.

Russian and Western approaches to Ukraine will directly impact China's approach to Taiwan. China will learn everything it can regarding Russia's war with Ukraine, to ensure the highest rate of success regarding the future seizure of Taiwan.

U.S. efforts to enhance the network of Pacific regional partners through modernization, training, and exercises to assure, deter, and prepare for operations to defend Taiwan will prove critical in shaping China's current and future actions.

China will continue to expand its global reach to enhance regional and global hegemony; at the same time, it runs the ever-increasing risk of overextending and overreaching in the short term; yet we can expect China to remain consistent in its current long-term strategy. In the words of a Chinese Senior officer, "Years ago, we were running behind you, and we saw nothing but smoke; today we are running behind you, and we see your back."

Expect China to continue to prioritize military modernization and growth over other domestic policies and programs. China will continue to flex its military strength to pressure and coerce its neighbors and push Taiwan toward unification as a top priority. Although lessons from the war in Ukraine should serve to somewhat deter China from overtly attacking and invading Taiwan due to the high cost and destruction, China will continue to escalate throughout the South China Sea and in the greater Asia environs. Apart from sustaining pressure on Taiwan, China will continue to invest in "blue water" ship building, space, cyber, advanced aviation, foreign military basing expansion, and dual-use commercial-military port capabilities. The goal is to create and sustain global military reach to directly challenge the power and stability of the United States.

Russia

Strengths:

Russia competes across all elements of national power, though it clearly relies on military capabilities to underpin other areas. Russia, like China, seeks to weaken the international rules-based order, as it feels the current order favors the West. It wants to weaken NATO and the EU, and recreate its Sphere of Influence, like the former Soviet Union enjoyed.

With Russia's on-going challenge to international order, the Ukraine-Russia War is a major factor in assessing Russia. Russia is a large nation with about 144 million citizens compared to Ukraine, which has approximately 43 million citizens. Despite the significant human losses and economic impact the Russian invasion of Ukraine has had on both countries, Russia has far greater internal human capacity to rebuild/reconstitute its military formations in manning and equipment. As the conflict continues well into its second year and beyond, Russia's internal capacity to reconstitute could prove significant, particularly if the United States, NATO, and Western Democracy's resolve wanes.

While Russia has suffered significantly while fighting Ukraine, it has effectively demonstrated that the development and use of advanced capabilities is a strategic deterrent to direct international intervention. These capabilities include electronic warfare, hypersonics, employing long-range conventional munitions from ground and maritime based platforms, cyber operations, counter-space weapons, and its continuing investment in robust and growing nuclear capabilities. Russia will remain a strategic threat, although growing weaker conventionally, for years to come.

Russia also has significant natural resources, so it will be able to finance the war and the reconstitution of its military industrial complex longer than Ukraine will (without international augmentation), despite the economic damage imposed on Russia by U.N. economic sanctions, as well as the actions led by the United States, EU, and others.

Despite the increasingly unpopular sentiment for the war in Ukraine, Putin and the Kremlin have maintained internal stability, for now. Since coming to power in 2000, Putin has emplaced and built upon a loyal state security service; fostered support through financial and political favor with Russia's most powerful Oligarchs; and courted the political elite. Putin has deliberately built a very large national guard, silenced political descent, and emplaced very effective internal informational controls to maintain influence and suppress civil society in Russia.

Weaknesses:

Russia's economy has been seriously damaged by the brain drain, labor shortages, the flight of international business, and the economic sanctions imposed by the U.N., United States, EU, and others. The sanctions, export controls, and the oil price cap have significantly impacted the lives of the Russian populace and the elite. According to the World Bank and International Monetary Fund, Russia has lost 2.1-2.5% GDP over the past two years, and lost more than 18% in exports to the world market since 2021. Exports, particularly oil and gas, are being sold at a discount to allow Russia to remain a supplier to the international market economy. As the nation slips further into complete authoritarianism, the world's businesses will be less interested in working with Russia economically. Countries without internationally recognized business laws constitute serious risks to attracting and retaining international businesses.

Russia's most significant military vulnerability remains its inept military leadership at every level. The last 18 months of war in Ukraine have highlighted the incompetency of leadership, the inability to synchronize the employment of Joint military capabilities, the failure to project military force and conduct sustainment operations, and not adhering to international law in every facet of armed conflict.

Private security organizations were once a strength for Russia, allowing it to operate below the level of armed conflict with little attribution for Moscow. Increasingly, these organizations have become a liability to Moscow and a threat to the regime. Putin arguably sold out his military in favor of empowering his private security organizations – Wagner and the late Prigozhin being the most extreme examples of the consequences of empowering paramilitary contractors.

Moscow is now deliberately reeling these organizations in and will continue to eliminate any paramilitary leadership that threatens the stability of Putin or his security institutions. This will consume bandwidth and resources and reduce Russia's influence globally.

Russia has no Allies. It does have partners, but these partnerships are economic and purely transactional. They are not based on ideological alignment, core values, or built upon a common foreign policy and world vision. Iran and North Korea benefit economically by partnering with Russia. China is increasingly gaining primacy as an importer of Russian natural resources at a discount, but does not wish to provoke U.S. and international sanctions as a consequence of the Russia/China relationship.

Belarus' existence as an "independent nation state" remains dependent on courting Russia. None of these countries have the will and/or the resources to enable Russia to resume the offensive in Ukraine and create a decisive outcome in Russia's favor. The international risks are not worth the cost.

Syria was once an example Russia used to project its image as a transregional power. This out of Europe adventure is increasingly a drain on the Kremlin. The Ukraine war is costing Moscow significantly more in treasure and casualties than it ever expected. Russia's economic and military support to the Syrian regime is a drain on precious resources.

The BRICS expansion is not going to save Russia. It may expand gradually and assist economically over time, but this will take decades. The idea that so many autocracies are working together is worrisome. However, there are some real challenges inherent to the expanded BRICS, such as Saudi Arabia and Iran hating each other as do India and China. There are some seriously weak economies in this group, and autocratic governments, as I said earlier, are not known for attracting international businesses.

When looking at National Interest as compared to the collective interests of NATO and the EU (in the case of Hungary and Bulgaria), it is interesting that the regimes of Turkey, Hungary, and Bulgaria have a great deal to lose if these countries support Russia too much, so this group will be more cautious. These nations will help Russia, but the group is far from being aligned with Russia as opposed to the United States, NATO, and EU.

China's role through the course of the war has changed. It has been the senior partner in the relationship for some time, however, the relative power gap between the two has widened since the war started. China is now significantly stronger than Russia and starting to demand more from its junior partner.

Russia's military, though still capable, is not nearly as capable as the West believed prior to the 2022 invasion of Ukraine (exempting nuclear forces, that are the largest in the world and are very capable). Russia spent a decade reforming its military, but the focus of the reform was on building new high-end weapons, not on reforming tactics. Russia relies on mass and firepower, not maneuver or command and control, such as the West does. Its military is very stagnant. With a top-down method of control with no appreciation for ideas from subordinates, it has an ineffective corps of non-commissioned officers, and corruption is rampant.

Russia attempts to use diplomacy, information, and its economy to attain global influence. But all too often these efforts fail and it returns to its old standby – the military element of power. (Examples include Moldova, Georgia, Syria, and Ukraine.) Russia influences NATO by making Ukraine and Georgia members with frozen conflicts. Russia also uses private para-military organizations to compete. Although not officially state entities, evidence that these organizations receive guidance and resources from the state is ample. Russia uses these forces extensively in Africa.

Before the war, Russia had the 10th largest economy in the world, but it is in decline. Economically, Russia had several levers: oil, gas, and to a lesser extent international business. Russia has lost, or partially lost, all three of these competitive levers. The EU Oil Ban and the Oil Price Cap eliminated oil as a lever. Russia cut off gas to Europe. Then, Europe recovered by building up storage capacity and natural gas capacity. Finally, more than 1,000 international businesses operating in Russia voluntarily departed Russia after it invaded Ukraine, which eliminated its final competitive economic status.

Russia's Diplomatic and Informational competition is certainly credible, or it was before the war. For example, Russia used both to obstruct U.N. activities it deemed not in Russian interest. It used both to sow doubt into European citizens about the usefulness of NATO and the EU. Since the invasion of Ukraine, Russia has lost a great deal of credibility internationally, reducing the effectiveness of both its diplomacy and informational efforts.

Forecast/Key Indicators with Russia:

Russia's economy and military have the capacity to recover, but not quickly. It could take decades. Russia will maintain the strength to sustain the war, but it cannot flourish until the government fundamentally reforms, and this does not appear to be in the cards anytime soon.

Although Russia is internally stable due to totalitarian rule, it is fragile. The population is oppressed; the elite are extremely dissatisfied with the trajectory of the ongoing conflict; and there is no positive way ahead for Putin, the regime, or the Russian people.

Russia's relationship with China has reached its high and will decline. Relative to China, its economic, political, and military power has declined. China is now the senior partner. Russia under Putin will chafe as China's 'junior partner.' As China continues to assert its dominant position, Russian resentment will grow.

United States

Strengths:

While at times messy, as a representative democracy the United States remains more stable than its competitors, with the strongest market economy in the world. Economic strength also improves the ability to leverage a variety of other foreign policy tools like foreign aid or trade agreements (which were valuable in the Camp David accords, for instance). This strength leads to better "soft power" than its competitors, whereby the United States is more appealing to countries with similar values (and many monarchies). This soft power eases partnerships across the spectrum of competition including economic participation, alliances, military basing, and reduces the need to apply coercion to achieve its interests.

Its consequent leadership in alliances, partnerships, and international organizations are worthy of noting specifically, as a core strength for the United States. Organizations like NATO, ANZUS, and SEATO are good examples where the United States has been able to organize and mobilize support from the international community to pursue its goals and interests. These partnerships magnify advantages, create complexity for adversaries, and have been helpful to facilitate both diplomatic and military objectives.

One of the fundamental strengths of the United States for its entire history has been geography. While China and Russia are surrounded by countries they perceive as threats, the United States is protected by oceans and two close partners in Mexico and Canada. While these distances do not provide the same protections they did in the last century, they've largely allowed the United States to focus on power projection and defense overseas, far away from its borders.

At present, U.S. military capabilities are superior or on par with its competitors' in all domains. The balance of forces, however, is more of a competition of peers than conflicts seen over the last few decades, and one that would be very destructive to all participants in a conflict (even if nuclear weapons were avoided). This could change by the end of this decade due to the ongoing Chinese buildup, but at present U.S. military capabilities are sufficient in all domains.

Weaknesses:

While the United States remained isolated from the Soviet Union during the cold war and is still largely so from Russia today, its economic ties to China are significantly different. China is a major trading partner with deep cultural ties such as thousands of Chinese students at U.S. universities. This changes the character of the competition in ways unlike the cold war, and limits the foreign policy tools available. Especially in China, the fusing of civil and military institutions increases this complexity.

While U.S. strategic interests are relatively constant, some instability in policy between presidential administrations affects partnerships and credibility of any administration when negotiating agreements. Partners and adversaries alike are less likely to adjust to U.S. policy goals if they don't believe those agreements will be honored a few years later.

While China and Russia intend to dominate regionally, the United States needs to project power over long distances with more difficult military basing. This tyranny of distance can be somewhat mitigated through alliances and partnerships, but our adversaries have the advantage of playing "the home game" with shorter supply lines while often operating from home bases.

Likewise, the United States has global interests and responsibilities. While necessary to pursue U.S. interests, these global operations also present multi-faceted vulnerabilities from our competitors. Today, this includes dealing with Russian fighter aircraft over Syria, Wagner groups in Africa, or challenges to maritime routes in the Western Pacific. It also increases risk when military operations are heavily resourced in one area (e.g., formerly Iraq or Afghanistan), limiting the U.S. ability to deal with other global problems in other areas.

Forecast/Key Indicators with the United States:

The United States will continue to focus on building and strengthening alliances and partnerships to strengthen support for its interests. In Europe, NATO is well established and has been helpful in stalling the Russian attack on Ukraine. The United States can be expected to offer continued support to NATO and Ukraine, and to continue to seek increased commitment from other members. In the Pacific, the United States will continue to work to strengthen partnerships, some at much greater range from China. Australia, for instance, has made a pivot toward confrontation with China and has further strengthened military ties with the United States. The United States will also continue to work to develop broader partnerships in the Pacific with countries like the Philippines, India, and Vietnam, while at the same time working to reduce tensions between existing partners like South Korea and Japan.

The United States will continue to support Ukraine but will also work not to overstimulate Russia. Historically, declining great powers often lash out militarily to arrest decline, and the United States will continue to be cautious to not dramatically escalate the Ukraine conflict, while working to isolate Russia diplomatically and economically. The Federal Bureau of Investigation is openly recruiting Russians to gain key insights on Russian behavior, and no doubt other agencies are doing the same to keep a close eye on Russia.

The United States will work to further isolate China but will struggle to do so because of the strong interconnectedness between the two societies and economies. The last two administrations have moved in this direction including maintaining increased tariffs and the use of CFIUS (Committee on Foreign Investment in the United States) cases to impact China.

Militarily, the United States will continue to work to develop strategies to manage China's long-range missile, air, and naval capabilities in the event of a conflict. This will include new capabilities, but also new operational approaches including increased mobility, austerity, and reduced predictability. These moves will continue to be challenged by steadily increasing Chinese military growth in size and capability.

This information is being provided for information purposes only and should not be construed as an offer to sell or a solicitation of an offer to buy any securities. Nothing in the material should be interpreted as investment, tax, legal, accounting, regulatory or other advice or as creating a fiduciary relationship. Product names, company names and logos mentioned herein are trademarks or registered trademarks of their respective owners.

Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the author and/or the specific area from which it originates and may differ from the views or opinions expressed by other areas or employees of Bancroft Capital, LLC. The information described herein is taken from sources which are believed to be reliable, but the accuracy and completeness of such information is not guaranteed by us.

Bancroft Capital, LLC is a member of FINRA and SIPC.