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White Paper

GEOIntelligence

The United States, along with the greater "free-market nations," enjoys several economic advantages in its competition with China, such as time-tested foundational trust, transparency, innovation, fair pricing, and so on. Yet, at the same time, free-market nations' strategies are disparate, reactive, and in some cases non-existent, limiting the extent to which they can be most effective regarding the People's Republic of China (PRC).

On the other hand, China's strategic economic approach based on five-year plans developed and executed through its autocratic party-system, appears to be coherent with an increasingly regional and global impact. China's global influence has transformed from relative insignificance four decades ago, into a challenger to the established international order. Its grand strategy includes the use of multiple instruments of national statecraft to achieve strategic objectives often related to, but not exclusively tied to, security. China's global power aspirations pose a significant national security and global economic risk for the United States and free-market nations' economies on multiple dimensions.

Without a countering economic strategy that is coherent and collective, free-market nations will remain in a reactionary state to China's economic moves; absent such a strategy, privatized businesses will act unilaterally.

While achieving such a collective strategy will be difficult, it will be increasingly important to preclude China's continued rise and threat to the current global order. A free-market nation strategy regarding China could be decisive in terms of long-term competition with China.

Economic Implications and Forecast:

- The absence of a coherent free-market nation comprehensive strategy that drives fiscal policy and industrial base strategy reduces the ability to compete effectively against China.

- Free-market nations' current economic and innovation strength can be leveraged to develop de-risking alternatives creating future wealth and an industrial base with secure access to rare minerals.

- China's aggression needs to be evaluated, and proactive measures taken to protect key partners in the Asia Pacific region and across the globe.

- Evaluation of existing relationships with China must consider potential risks to national security and the protection of intellectual property.

- Free-market nations will benefit from strategic, risk informed collaboration with China on next generation technologies, alternative energy, pharmaceuticals, and agricultural products.

- Free-market nations leverage legitimacy and competitive advantage if they are to maintain international and domestic trust in capital markets, rule of law, and property rights.

- Public – Private partnerships cooperating on economic and national security principles will be required by free-market nations to strengthen their individual and collective long-term strategic positions relative to China.

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Free-Market Nation's Economic Approach:

Collectively, the U.S., G-7, and European Union along with the greater "free-market nation" economies are in a strong position vis-a-vis China. The reasons are many, but include their broad global access, expanding markets and growth, resource allocation, fair pricing, innovation, as well as political freedoms. The United States, as the leader, enjoys the world's strongest economy. This economic strength improves the United States' ability to leverage a variety of policy tools like foreign aid and trade agreements and also leads to more "soft power" than its competitors, whereby the U.S. is more appealing to countries with similar values. Soft power also enables partnerships across the spectrum of competition including economic participation, alliances, military basing, and it reduces the need to apply coercion to achieve its interests. Finally, while at times messy, as a representative democracy the United States remains more stable than its strategic competitors, China and Russia, both of which are staunch autocracies.

The U.S. has a varied approach with its focus on China. The 2018 National Defense Strategy called for competing with China by "thwarting" its aggression, coercion, and intimidation focused on advancing its goals and harming U.S. interests. In 2022, the White House asserted, "Our strategy is rooted in our national interests: to protect the security of the American people; to expand economic prosperity and opportunity; and to realize and defend the democratic values at the heart of the American way of life."

The Wall Street Journal recently detailed U.S. economic strategy as using subsidies to build a viable technology manufacturing sector, from clean energy to semiconductors; to implement tariffs on Chinese imports that threaten those efforts; to apply restrictions on access to money, technology, and know-how that could help China compete; and to unify an economic front with allies and partners. These are efforts increasingly integrating trade, domestic economic policy, and security to better compete with China.

The Council on Foreign Relations launched the China Strategy Initiative, led by Rush Doshi, to apply intellectual capital toward the China challenge. This effort has four major questions each supported by broader initiatives tied to each question as follows:

- What is China thinking? This will be addressed by the "Open-Source Observatory" exploring documents revealing the thoughts behind China's actions.
- What is China doing? This will be assessed by the "China 360" initiative to explore China's activities globally.
- How should the U.S. compete? The "China Policy Accelerator" will explore approaches.
- How do we manage competition to preclude war? The "Global China Forum" will invite leaders from around the world, including China to regularly engage in dialogue.

The China Strategy Initiative is on a good path to provide the right coherence of ends (goals), ways (actions), and means (resources) to develop and execute a strategic approach to China with the potential to coalesce the U.S. Government along with free-market nations to face the most pressing geostrategic issue of the next generation. But this "Think Tank," while highly esteemed, does not have any authority, nor is the U.S. Government bound to follow the recommendations – and this fact also applies to industry.

While many in the U.S. are assessing China's economic behavior and are developing options to address the Chinese economic challenges, the efforts are not holistic nor are they enforceable. Simply put, while these efforts are noble, there is not a clear and combined plan by the free-market nations. As described above, the U.S. and the greater free-market nations have several advantages over China, but it remains very difficult to systematically and collectively constrain China economically. This lack of common comprehensive strategy makes it harder to compete with China.

China's Economic Approach:

Please refer to the recent two part series on China Strategic Positioning: Bancroft GEOIntelligence White Paper on China Strategic Positioning and Bancroft GEOIntelligence White Paper on China Strategic Positioning Part 2. The following is a brief summary from these reports.

China's global influence has transformed in the past 40 years from relative insignificance to having significant potential to challenge international order. Interacting with China as a global power merits a sense of its strategy and the potential risks of such interaction.

Grand strategy is the use of multiple instruments of national statecraft to achieve strategic objectives often related to, but not exclusively tied to, security. China's global power aspirations pose a significant national security and global economic risk for the United States and free-market nation economies on multiple dimensions as outlined in several recent GEOIntel papers. It is reasonable to assert that for the foreseeable future, China will be the long-term threat center of gravity to a global rules-based, free-market system and a risky partner for long-term commercial investments.

China's economic threat to the U.S. and free-market nations is intensified by its military aggression to control the South China Sea, threatening Taiwan (the largest global microchip production share), and intimidating the Republic of Korea by supporting North Korea. China has also been aggressive toward the Philippines, a favorable offshoring destination for free-market nations.

The global sanctions of Russia, North Korea, and Iran have driven trade volumes and stronger relationships with China, while increasing the imbalance of trade leverage with China. While China depends on the U.S. and free-market nations for its own economic security, the increased volume of activity with free-market adversaries has partially reduced the near-term impact on its economy.

Furthermore, China's strategic position as a key supplier to global markets over the past decades continues to enable the provision of low-cost imports of finished goods, as well as critical production of components resulting in significant influence with many U.S. companies, especially in the technology and healthcare sectors. China's growing influence spans many other dimensions including cyber and social media, monitoring by embedded chips in machinery, and direct foreign investment in the U.S., including financial and real estate assets. China also threatens Intellectual Property and property rights by disregarding associated U.S. laws and directly engaging in espionage.

Although China's aggression in the Pacific is focused on potential conflicts with its neighbors in the South China Sea, Hong Kong should be a watch item for anyone doing business with China and serve as a forewarning to the international community. China's assumption of control of Hong Kong in 1997 has provided a mixed example for free-market societies to balance given that China likely desires to maintain a global economic power role and appear non-adversarial.

Methods to Develop and Assess Strategies:

As mentioned in previous White Papers, there are four relevant tools that intersect in the model for senior leaders to use when considering how to navigate China's positioning; they are:

- Porters 5 Forces: supply power, buyer power, competitive rivalry, new entrants, and substitutes.
- Organizational Risk Frameworks that use criteria specific to business and industry.
- Political, military, economic, social, information, infrastructure, physical space, and time (PMESII-PT).
- SWOT, or Strengths, Weaknesses, Opportunities, and Threats analysis.

The following four approaches are applied to offer ideas and concepts for companies to consider for strategic positioning with China, with each model highlighting different perspectives.

Porter's Five Forces Model:

From a business strategy perspective, Michael Porter's classical strategic model of Five Forces can demonstrate how free-market nations are positioned.

Supplier Power: Free-market nations provide the most global financial investments, innovation and research capital and substantively contribute to food supply. According to the U.S. Department of Agriculture, reported in 2022, the U.S. alone exports over $36 billion of food to China annually. Based on GDP, nine of the top 10 richest countries are free-market nations with the exception being China, which is ranked number two. Additionally, four of the top five financial centers in the world operate within free-market nations including: New York, London, Singapore, and San Francisco, with the exception being Hong Kong. According to McKinsey, over 50% of Private Equity assets including debt are within funds in North America and Europe. While China has been investing in research and development, free-market nations have many of the leading engineering and technology universities according to Statista. The U.S. alone has five of the largest six technology companies in the world including Apple, Microsoft, Alphabet, Amazon, and Meta. Samsung, a South Korean company, is the other company in the top six.

Buyer Power: Given the wealth of free-market nations, not only are they a supplier of financial resources for production, but they are also the largest consumers of Chinese products, which provides substantial buying power. The result is a net negative trade imbalance which means in certain sectors there is a lack of competitive price alternatives.

Competitive Rivalry: Free-market nations have strong global economic alliances like the G-7, national security alliances such as NATO, and international organizations like the European Union (for more on this, please see Bancroft GEOIntelligence White Paper on International Business Risk Through the Lens of Alliances and Partnerships). While differences exist on certain policy matters, their long-term relationship collectively supports democratic, humanitarian, common security, and economic principles. Their interests are aligned in principle, although not necessarily in all economic actions. Their relationships are built on trust, transparency, and unity in a collective effort regarding stability and security for each other that is sustaining.

New Entrants and Substitutes: In the current environment, new entrants and substitutes relative to the PRC are limited in certain sectors like electronics, machinery, pharmaceuticals, and non-perishable consumer goods. According to the Wall Street Journal, for consumer and industrial products and services, Mexico, Vietnam, India, and the Philippines are alternatives to China with the opportunity to increase volumes in the future. These countries also come with complexities relative to China given their import volumes or geographic proximity. For example, in response to the recent U.S. Administration's tariffs on aluminum and steel, some PRC exports to Mexico are then imported to the United States, thereby circumventing the tariff. The U.S. subsequently increased documentation requirements for Mexican aluminum and steel imports to ensure that Chinese materials that are identified in Mexican imports are tariffed consistent with the sanctions, but the PRC will certainly attempt other means to get around U.S. tariffs.

In the long-term, free-market nation economic resources including world-leading private technology companies can develop alternatives to the PRC to de-risk supply dependency. De-risking will require investment and continued innovation across multiple sectors.

In summary, free-market nations have multiple tools to leverage their economic and innovation strengths in concert with common national security interests to strengthen their collective strategic position relative to China.

Organizational Risk Frameworks:

The following is a notional example of organizational risks from a U.S. perspective vis-a-vis the PRC. This tool is more of a method than an assessment, but this may be helpful for corporate leaders as they develop and improve their strategies.

Operational: Supply chains and labor force considerations will have to be assessed not only in terms of low cost and efficiency, but also in terms of risk due to potential disruptions resulting from integration and decoupling. Higher cost production, transportation, and labor may be the better investment if they have lower risk to disruption. Market assessments may drive lower innovation in some cases as risk leads to bypassing opportunities that are not economically viable substitutions.

Access: The ability to access capital and ownership of hard assets and intellectual property have near-term and long-term impacts for assuming investor and innovation risk. Mitigation strategies could include prioritizing free-market nation supply chains wherever possible, even if marginal costs are higher for ensuring predictability and sustainability.

Legal: Risk assessments must include estimates for liability and the ability to seek damages and resolution for domestic and state sponsored violations of property rights when hard assets or intellectual property rights are violated. Additionally, risk must be assessed and potentially assumed and mitigated when it comes to exposure to nation sates like China that directly or indirectly target corporate assets, employees, and third-party vendors.

Third Party: Assuming decoupling continues to accelerate, consider sustainability and risk exposure for organizations operating under specified or implied alignments with U.S., China, or an emerging “non-aligned” nation.

Cyber: Ensure cyber risk assessments include exposure to state sponsored attacks similar to Volt Typhoon and cybercrimes that can range from transnational criminal organizations to insider threats and third-party integration similar to the CrowdStrike software update that caused a global outage in July 2024.

Reputation: Corporate boards and C-suite leaders cannot risk the brand reputation of their organization by outsourcing their understanding of the geo-intelligence landscape. They have a fiduciary responsibility to plug into all sources of business intelligence to ensure they perform due diligence in assessing their specific organization as a trustworthy and trusted partner in ensuring free-market nations’ profit and prosperity.

PMESII-PT Model:

Here is an assessment of the U.S. regarding China through an intelligence and security framework.

Political: Free-market nations, led by the U.S. and EU, operate within a political landscape that is a double-edged sword compared to authoritarian societies like the PRC. The political will and interests of free-market nations are disparate and can be heavily influenced by direct and indirect disinformation campaigns and state sponsored and social media influences. Yet, free-market nations maintain legitimacy and competitive advantage due to their relative stability and predictability in capital markets, rule of law, and protection of property rights that are necessary for a thriving business environment (e.g. market access, supply chains, and ownership).

Political priorities of free-market nations have taken defensive measures in response to the PRC and focused on protecting supply chains from disruptions in key technologies and enabling access to feedstock. For example, U.S. programs include the CHIPS and Science Act tariff policies to ensure access to capabilities ranging from Electric Vehicle production to port cranes and security, pharmaceuticals, and strategic minerals.

Military: The U.S. military strategy is to deter China and assure allies and partners that the U.S. has the legitimate capability and capacity to defeat, if necessary, China's aggression across all domains of conflict (e.g. air, land, sea, space, cyber). Though U.S. military capabilities are increasingly challenged by the PRC, the U.S. will remain the most capable military force in the world for the foreseeable future. That said, the Department of Defense recently published an article describing China's advantage in three areas. First, is China's interior lines to engage in the South China Sea compared to the United States. Second, is its large and growing military. And, third, is its large quantity of standoff munitions. Additionally, a Center for Strategic and International Studies assessment highlights the questionable resiliency of the U.S. industrial base. But the U.S. clearly has the capability to go toe-to-toe with China, if necessary. The wild card question: would there be indications and warnings– and the political will necessary– to transition the free-market nations' industrial base to be decisive?

Economic: "When the U.S. sneezes, the world catches a cold" is a common phrase when considering the strength and global impact of the U.S. economy. Free-market nation advantages are massive economic capacity, mature logistic systems, efficient capital markets, rule of law, and private ownership that drives innovation and risk taking. The U.S. has the largest and strongest economy in the world at just over just under $29 trillion with China in second at $18.53 trillion according to the IMF. As the PRC continues to jettison international norms, free- market nations provide corporations the more predictable and stable opportunities for creating and sustaining markets for their products and services. Free-market nations' competitive advantage and greatest dilemma in competition with China is to treat economic and political legitimacy as a tangible asset. As long as free-market nations maintain trusted capital markets, rules-based systems for conducting commerce and resolving trade conflicts (rule of law), and the ability for people and entities to own property and have access to capital, corporations will continue to take risks and lead in innovation. Market forces will drive adjustments and continue to simulate innovation and growth.

The grand strategic gap, according to several think tanks including the Center for Strategic and International Studies and the Center for New American Security, is that the U.S. does not have a coherent Economic Security Strategy. The biggest threat to the U.S. leadership and global economic power is not mounting pressure on global currencies, China's coercion and combative nature toward decoupling and destabilizing U.S. dominance in the global economy. Rather, it is U.S. fiscal policy that is not sustainable. If the nation defaults or cannot maintain international confidence in markets, international interests will radically adjust and put the entire global economic system at risk.

Social and Information: The 2024 Director of National Intelligence's unclassified 2024 Annual Threat Assessment highlights, "Beijing is expanding its global covert influence." The PRC continues to "sow doubts about U.S. leadership, undermine democracy… exploit perceived U.S. societal divisions using its online personas move it closer to Moscow's playbook for influence operations." Additionally, the Foundation for the Defense of Democracies assesses "The United States lacks a comprehensive strategy to combat China's cognitive warfare." In April 2024, the Microsoft Threat Analysis Center published a report stating that Chinese government-sponsored social media activity "aims to destabilize" the U.S. and other democracies." Business continues to be more trusted by the public than governments or the media. Therefore, it is incumbent on boards and C-suite leaders to understand the cognitive combat the PRC and its government owned corporations are engaged in to influence markets, industries, and workforces.

Infrastructure/Physical Space/Time: In reporting by several U.S. government departments to include the FBI, PRC's state-sponsored cyber actors are seeking to pre-position themselves on IT networks for disruptive or destructive cyberattacks against U.S. critical infrastructure in the event of a major crisis or conflict with the United States. The cyber threat is a constant challenge that is going to accelerate. Further, the PRC and its government owned corporations will continue to exploit the norms of property rights and rule of law. In addition to overtly and covertly stealing intellectual property, it will accelerate exploitation of free-market nation openness and operational needs through its Belt and Road Initiative investments and real property acquisitions. Going forward, business investments in emerging market opportunities must assume the PRC is actively and discretely interacting in any portfolio.

Strengths, Weaknesses, Opportunities, and Threats (SWOT) Model:

Strengths: The U.S. and free-market nations enjoy several economic strengths. Collectively, they possess major financial assets for investment and purchasing power in the private sectors. Also, intellectual property and innovation leadership across multiple industries, whereas China is economically dependent on free-market nations given their current trade favorability. Free-market nations enjoy substantial food supply production along with global exports of these products. In terms of military capability, the United States, NATO and other allies and partners are the best in the world, along with a global alliance structure that is based on trust, cooperation, and transparency. Another advantage is international legitimacy in capital markets, rule of law, and property rights.

Weakness: But the U.S. and free-market nations also have several weaknesses. First, is a trade imbalance resulting in dependency for certain critical product classes, conflated with substitution of alternatives that are difficult to implement cost-effectively in the near term. There is also a strong integration of PRC products in free-market nation infrastructure and products, combined with the broad scope of PRC global influence. Additionally, free-market nation companies' invest heavily in the PRC, with many relying on PRC access and products, creating a potential vulnerability with future availability, as well as issues with supply chains, etc. Furthermore, the PRC controls a large share of rare minerals needed for high technologies. The U.S. and free-market nations are also challenged with consistent fiscal policy and increasing long-term debt.

Opportunities: Yet, there are opportunities for the U.S. and free-market nations. Investment in alternatives can create increased stability and wealth for free-market nations. The PRC's desire to participate in global innovation and research can provide leverage. Though difficult to achieve, perhaps a future comprehensive, bipartisan public-private sector economic strategy that goes beyond limited programmatic policy objectives, and also considers national security, would be powerful. Additionally, U.S. global corporations' future investments based on the interests of multi-stakeholders including free-market nation security, would improve their competitive position.

Threats: Challenges to the U.S. and free-market nations need to be understood and acknowledged. Most serious is the economic and military aggression by PRC and its desire to reorder global power. This is the most significant threat to free-market nations in the longer-term. It does not stop there, as PRC's existing presence in financial and real estate holdings in free-market nations is substantial and growing. Free-market nations are also vulnerable to technological influence by PRC and Russia on their media. And the ever-present cybersecurity and monitoring threats by Chinese-made information technology products will test free-market nation's capabilities, supply chains, etc. Finally, in some scenarios, free-market nations may have limited time to retool and reset industrial base to sustain combat power should deterrence fail.

Economic Implications and Forecast:

- The absence of a coherent free-market nation comprehensive strategy that drives fiscal policy and industrial base strategy reduces our ability to compete effectively against China.
- Free-market nations' current economic and innovation strength can be leveraged to develop de-risking alternatives creating future wealth, and in industrial base with secure access to rare minerals.
- PRC's aggression needs to be evaluated and proactive measures taken to protect key partners in the Asia Pacific region and across the globe.
- Evaluation of existing relationships with PRC must consider potential risks to national security and the protection of intellectual property.
- Free-market nations will benefit from strategic, risk informed collaboration with PRC on next generation technologies, alternative energy, pharmaceuticals, and agricultural products.
- Free-market nations leverage legitimacy and competitive advantage if they are to maintain international and domestic trust in capital markets, rule of law, and property rights.
- Public-private partnerships cooperating on economic and national security principles will be required by free-market nations to strengthen their individual and collective long-term strategic positions relative to PRC.