

Essay

Xi's Foreign Policy Options and Evolving Strategy

Pankaj Saran

China has always been a difficult society to understand because of its opaque, secretive and authoritarian political system, and insights into its functioning and what drives its behaviour are still far from definitive. Ensuring an accurate understanding of China is a task of the greatest consequence for India. This requires the marshalling of all our intellectual, intelligence and strategic resources and expanding our skill set. The stakes involved are such that we need an authentic Indian perspective on China. We cannot see China through the eyes of others. We have a rich body of expertise on China based on the collective experience of our serving and retired diplomats as well as the expanding study of China in our academic institutions and the growing body of Indian students in China. This represents a large and invaluable resource.

The question for us in India is what trajectory China will take in the coming years, and its impact on us. The last few years have been tumultuous and disruptive for the world. They contain lessons on how China confronted these challenges. Another key indicator is the proceedings of the 20th National Congress of the Communist Party of China (CPC) held in October 2022.¹ Put together, they offer pointers on what may lie ahead.

Internal Challenges

The behaviour of any society externally is closely linked to its internal dynamics. There is a high degree of consensus among Indian scholars and observers that China's days of unbridled growth based on the model of development it had pursued prior to and in the years after the western financial crisis of 2008 are over. Despite a GDP of

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close to USD 18 trillion, Chinese per capita income at USD 12,500 is still one-third of Japan's and one-sixth of the United States. Most estimates predict a slower growth rate of the Chinese economy of between 3.5 to 4.5 percent in coming years.

In the long term, the World Bank has assessed that China's previous high growth rate based on large investment, low-cost manufacturing and exports has largely reached its limits and has led to economic, social, and environmental imbalances. Reducing these imbalances requires shifts in the structure of the economy from manufacturing to high-value services, from investment to consumption, and from high to low carbon intensity.² The challenge before China is to find new drivers of growth while addressing the institutional and reform gaps. Over the medium term, China's economy is expected to continue to confront a structural slowdown. China's external environment has also worsened significantly in the wake of Russia's invasion of Ukraine, with global growth slowing, inflation soaring, and financial conditions tightening. Additionally, the rapid rise of real incomes in the last two decades has led to economic empowerment that has far outstripped political empowerment and is straining the social contract between the populace and the Communist Party.

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External Headwinds

When we add to these structural and secular trends the impact of the Covid crisis, the supply chain disruptions and barriers being imposed on Chinese exports as well as on its access to technology, and heightened alertness by Western countries over hitherto unchecked Chinese investments, the headwinds appear increasingly against China. This was recognised and described by President Xi in his Report to the 20th Congress in the following words:³

"Our country has entered a period of development in which strategic opportunities, risks, and challenges are concurrent and uncertainties and unforeseen factors are rising. Various "black swan" and "gray rhino" events may occur at any time. We must therefore be more mindful of potential dangers, be prepared to deal with worst-case scenarios, and be ready to withstand high winds, choppy waters, and even dangerous storms."

At the same time, President Xi struck a nationalist chord by proclaiming that:⁴

“China now has more solid material foundations and stronger institutional underpinnings for pursuing development. The rejuvenation of the Chinese nation is now on an irreversible historical course. Scientific socialism is brimming with renewed vitality in 21st-century China. Chinese modernisation offers humanity a new choice for achieving modernisation.”

He was equally emphatic on the hardening of Chinese military strength. He said,⁵

“We will enhance the military’s strategic capabilities for defending China’s sovereignty, security, and development interests and see that the people’s armed forces effectively fulfil their missions and tasks in the new era.....We will improve the command system for joint operations and enhance our systems and capacity for reconnaissance and early warning, joint strikes, battlefield support, and integrated logistics support.”

President Xi’s remarks reflect the overlapping realities that confront China. The first is its success in achieving socio-economic transformation of epic proportions, which is a resounding vindication of the CPC’s post-Mao strategy. This has given its leadership supreme confidence. The second is that its success has now become its biggest vulnerability, both internally as well as externally. A more entitled population poses a challenge to internal political stability that has so far been enforced and taken for granted, as we have seen in the recent handling of the zero-Covid policy. Externally, the benign attitude of the West towards China’s rise appears to be changing.

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With this as a general backdrop, we can draw some inferences about Chinese behaviour in the coming period.

China and the United States - the Foundational Relationship

The People’s Republic of China (PRC) believes that the foundational relationship that will define the global order is its relations with the United States. This idea repeatedly emerges in the Chinese readouts of the various meetings between Presidents’ Xi and

Biden. For example, the Chinese official statement after the November 2022 meeting in Bali says, *“China and the United States need to have a sense of responsibility for history, for the world and for the people, explore the right way to get along with each other in the new era, put the relationship on the right course, and bring it back to the track of healthy and stable growth to the benefit of the two countries and the world as a whole.”* This is an assertion of Chinese confidence and aspiration for equality with the United States. The US, in its own way, has conferred an exalted status to China by describing it as the sole long-term competitor to the US in its 2022 National Security Strategy. This emerging duality of global power has major significance for India.

The Chinese statement after the Bali Summit, also says, *“President Xi pointed out that the world is at a major inflection point in history. Countries need to both tackle unprecedented challenges and seize unprecedented opportunities. This is the larger context in which we should view and handle China-U.S. relations. China-U.S. relations should not be a zero-sum game where one side out-competes or thrives at the expense of the other.”* The White House readout displays similar equanimity, saying *“President Biden explained that the United States will continue to compete vigorously with the PRC, including by investing in sources of strength at home and aligning efforts with allies and partners around the world. He reiterated that this competition should not veer into conflict and underscored that the United States and China must manage the competition responsibly and maintain open lines of communication. The two leaders discussed the importance of developing principles that would advance these goals and tasked their teams to discuss them further.”*

These are significant statements from both sides. They reinforce the assessment that a breakdown of the China-US relationship is unlikely. Yet, it is also true that it is not going to be business as usual as far as the future of West-China relations is concerned. After years of neglect, if not worse, of China’s rise under successive US administrations and their fixation with the Russian threat, the Trumpian shock treatment of the US establishment on China has forced the Democrats and other US stakeholders to take the China challenge more seriously.

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Today there is greater bipartisan awareness of the strategic consequences of China’s rise and willingness to take concrete action. In June 2021, NATO released a communique

expanding the alliance's focus to include threats from China.⁶ It said that China's stated ambitions and assertive behaviour present systemic challenges to the rules-based international order and areas relevant to the alliance's security. This was the first time that a NATO communique referenced threats from China.

Global technological supremacy is one of the most important areas of competition between the US and China. The passage of the CHIPS Act⁷ to promote the US semiconductor industry was a manifestation of this. In October 2022, the US Commerce Department placed sweeping restrictions on exports of US-made advanced computing chips and related equipment to China. On the other hand, Artificial Intelligence (AI) was the top technology priority listed in the Chinese Government's Five-Year Economic Plan for 2021-26. US actions make it clear that it intends to block China from achieving one of its primary strategic goals. Since more than 95 percent of such chips used in China are designed by US semiconductor companies and therefore subject to US export controls, the loss of access to US chips puts China's plans as an AI superpower in jeopardy.

Competition and Cooperation

China under Xi will leave no stone unturned to meet the challenges it will face in the future. China's all-consuming strategic preoccupation will be to establish a new equilibrium with the US. China's economic and trade integration with the US and Europe has become practically irreversible in the short term. China-US trade in goods and services was USD 616 billion in 2020, as per United States Trade Representative (USTR) figures, and has grown since then. China's trade in goods and services with the EU was Euro 790 billion in 2021, as per the European Commission. India has to learn to deal with the dual reality of competition and cooperation between China and the West.

In doing so, India will have to make its own independent judgements, spread its risks and maximise its gains. India is likely to witness a revisionist, more protectionist and a more fractured world in which both the US and China reorient their trade, economic, and investment policies to insulate themselves from the other and reduce risk. While decoupling is not a real option in the short term, inward-looking economic policies are going to be the dominant strand of both economies. This will be compounded by increasing recourse to national security considerations in economic decision-making by both the US and China. India will find itself increasingly in the crosshairs of this contestation as its own requirement for rapid economic and technological transformation grows.

China will try its best to buy time and peace with the US so that its own development continues unhampered. The extent to which it succeeds will depend on the degree to which the US variously accommodates, cooperates, acquiesces, tolerates, impedes, obstructs, sabotages, or weakens China.

Challenges with Russia

With Russia, China will increasingly be faced with strategic dilemmas. The China-Russia relationship will continue to be important for both countries. However, in their respective rivalries with the West, China has played its cards much better than Russia in accumulating comprehensive national power. The history of the world since the end of the Second World War has been the quiet and patient rise of China, staying away from conflicts and still getting away with egregious behaviour. Every time the West, led by the US, expends political, moral, material and financial capital on countering what it perceives to be the Russian threat, China heaves a sigh of relief. It is happy not to be in the firing line and gains either way. If the West succeeds, Russia becomes even more dependent on China and less of an equal partner to it. If the West fails, Russia and China achieve moral victory and become further emboldened. However, China's quest to expand control over the Eurasian region will pit it against Russia and require a very high level of understanding with Moscow, which cannot be taken for granted. Russia is wary of Chinese economic domination of Central Asian countries and of Chinese inroads into the Russian Far East. Overriding all of this, however, is the conviction that once the West is done with Russia, China will be next.

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Dominating the Periphery

If there is only one power China sees when it looks up the global power ladder, it is the rest of the world it sees when it looks below it. Nowhere is this more evident than in China's immediate neighbourhood. It has achieved irreversible domination economically and culturally in its periphery. The Association of Southeast Asian Nations (ASEAN) and Central Asian countries are averse to making binary foreign policy choices between China and the others – whether the US in the case of East Asia or Russia in the case of Central Asia.

China will be unrelenting in its efforts to consolidate its hold over its periphery and insulate it from US influence. It will use different degrees of coercion and deployment of its vast economic and financial muscle to achieve this goal. It will keep a special eye on US allies and friends like India. It will constantly assess their capabilities and intentions and their roles in a US-led anti-Chinese coalition. The Indo-Pacific and Quad initiatives will be monitored closely and countered diplomatically and militarily.

The Taiwan Question

President Xi's Report to the 20th Party Congress on Taiwan was clear. He said: *"Resolving the Taiwan question and realizing China's complete reunification is, for the Party, a historic mission and an unshakable commitment.....Taiwan is China's Taiwan. Resolving the Taiwan question is a matter for the Chinese, a matter that must be resolved by the Chinese. We will continue to strive for peaceful reunification with the greatest sincerity and the utmost effort, but we will never promise to renounce the use of force, and we reserve the option of taking all measures necessary."*

The CPC had no option, against the backdrop of the Western needling of Russia on Ukraine, to proclaim its red line on Taiwan. We will see more sabre-rattling on Taiwan by both sides, but China will play its "unification- by-force" card only as a last resort. A military conflict with the US in Taiwan will be a crippling strike on China's rise.

Increasing Global Presence

China will be more visible on all international platforms. Its preference will be to pursue diplomatic means backed by a strong military and technology capability to expand its footprint and engage in a determined competition with the West. We should expect to see growing activism by China in shaping the global agenda, in rule-making, standard setting, presence in the UN and its bodies, unveiling new global initiatives and promoting a new lexicon and strategic vocabulary. In the short term, it will continue to work within the existing international order rather than try to build an alternate one, since the current strategy has worked well for it.

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Since the time of its announcement in 2013, the Belt and Road Initiative (BRI) has gathered enormous universal acceptance, but also of late has witnessed both pushback and failure, as seen in Sri Lanka and Pakistan. The CPC has shown the flexibility to self-correct. President Xi's report to the 20th Party Congress, for example, had almost no reference to the BRI. At the same time, the success of the BRI has given China confidence to press ahead with fresher and newer ideas such as Polar Silk Road, Digital Silk Road, Space Silk Road, and Health Silk Road. It has taken steps to transform its annual World Internet Conference into an international organisation, as part of its vision of a global cyberspace and proposed a Global Data Security Initiative for dealing with security in data storage and digital commerce. It has launched the Global Development Initiative and the Global Security Initiative.

Strategic Restraint

China has displayed strategic restraint in staying away from regional military conflicts and flashpoints that over time have exhausted both the US and Russia, whether in West Asia or Afghanistan. It has refrained from rushing in to fill the gap created by the exit of these powers from these wars. Its approach has been circumspect and calculated yet successful, such as in the Gulf region and with Iran. These successes supplement its behind the scenes hard work over the last few decades in expanding into the Horn of Africa, Strait of Hormuz and the Persian Gulf using different entry points to establish presence, such as tackling the problem of piracy or less subtle steps such as building dual-use infrastructure. As part of its strategy to secure its national development, China will continue to reduce external dependencies on critical strategic and raw materials, energy, and water sources through technological innovation on the one hand and traditional acquisition of assets overseas on the other.

In terms of hard power, China will accelerate its efforts. According to Stockholm International Peace Research Institute (SIPRI), in the twenty years period between 2001 and 2021, its defence budget has grown from USD 26 billion to USD 293 billion. Its advances in space, cyber, 5G and 6G, AI and other information warfare technologies have military and civil application. The process of massive power accumulation by China in these spheres will continue, despite western technology restrictions.

Maritime Domain - the Next Frontier

An area of particular focus will be China's naval expansion to underwrite its "two ocean strategy." In addition to its continuing mobilisation in the Tibetan plateau, we will see a progressive increase in Chinese naval presence in the Indian Ocean. A vast network of port infrastructure for this has been put in place. China will treat the Indo-Pacific and Quad constructs as the new normal but will never give up the effort to try to weaken it by picking off its individual members. It will display a siege mentality and take new measures to secure itself both on land and at sea. An area where China will invest more resources, both in terms of port infrastructure and fleet accretion will be the Arctic, where it stands to gain significantly with the potential opening of the Northern Sea Route. This will reduce both distance and time in maritime trade between China and Europe, as well as potentially mitigate its Malacca Dilemma.

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Dealing with India

One country which would have closely watched India's reaction to the Ukraine conflict is China. There are different views in China on how to handle India. There are those who see India through the US lens as a handmaiden of America's containment and encirclement strategy towards China. India's ability and decision to maintain an independent stand on Ukraine despite intense western pressure would not have gone unnoticed in these sections in China. By taking the stand that we have taken, India's autonomous decision-making capabilities have been highlighted. This will be seen by other sections in China as evidence that India is an independent actor and that there is still a case for trying to build a normal bilateral relationship with India. These sections will promote a policy to keep India engaged bilaterally as well in groupings such as the SCO, BRICS and RIC.⁸

The policy which we are likely to see vis a vis India will be a mix of hard and soft approaches. China has made its intent known since 2020 to keep India on its toes and under pressure on the LAC. This is unlikely to relent but will grow in various ways. Building dual use infrastructure, border villages, keeping the tri-junctions with Nepal and Bhutan alive, aggressive patrolling, massive military deployment in depth areas,

psychological warfare and the threat of exploiting our vulnerabilities in the Northeast are some strategies that are expected to be seen. In addition, the deployment of technology, including cyber and space assets, against India for Intelligence, Surveillance and Reconnaissance (ISR) purposes will become much more pronounced. It is also likely to use other non-traditional forms of coercion and warfare, such as climate change and water diversion in Tibet. The ageing of His Holiness the 14th Dalai Lama and its repercussions on the future of the Tibetan cause are already under the close gaze of the Chinese.

On the soft side, China is well positioned with the persistent and rapid growth of its exports and investments in India since 2000. Latest Chinese statistics indicate that China's trade surplus vis-a-vis India during 2022 has crossed USD 100 billion, with Indian exports to China languishing at less than USD 20 billion. There are crucial sectors of the Indian economy over which Chinese companies have acquired a degree of dominance, which presents a national security risk. India has woken up to such Chinese economic domination, but much more needs to be done in this regard. In other areas, China will continue to try to exploit India's internal challenges, including in crucial border areas and its democratic institutions.

Expansionism in India's Periphery

Relations with India's neighbours are another essential pillar of China's India strategy. China has pursued a policy of encircling India with unfriendly and, in some cases hostile governments and fishing in troubled waters in India's immediate periphery. Pakistan is the jewel in the crown in this policy. It offers a low-cost option to keep India off balance and tied down. This is a card that will never be given up by China's security establishment and will be played synchronously with India's activism in the Indo-Pacific arena and Quad. Having said this, the China-Pakistan relationship is today facing multiple challenges which are straining

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the relationship. These include Pakistan's involvement with the US, the meltdown of Pakistan's economy that is sucking away Chinese money and lives, a series of bankruptcies of Chinese power projects and the reduction in Pakistan's salience in China's Afghanistan policy. China today needs Pakistan less as an intermediary in dealing with

the Taliban. Similarly, China's significant step up in its relations with Iran, Saudi Arabia and Qatar reduces the pride of place which Pakistan earlier enjoyed in this sub-region. China has built up enough options to gather support for itself in the Muslim world, as seen in the case of Xinjiang.

Shaping the Future of India-China Relations

China will remain a priority for Indian foreign policy and national security. Our touch points with China will only multiply as India grows internally and on the world stage. We will have to be realistic and hard-headed in terms of the threats China poses to our security. The power imbalance with China does not mean that we have limited options to secure our vital national interests. Just as China never flinches from articulating and defending its red lines, we too should do the same. India will have to constantly enhance its national power and engage in external balancing to keep all options open.

One of the aspects which will determine the future trajectory of our relationship is China's ability to deal with India as an independent actor rather than view India through the lens of its relations with the US or the West. China will become prickly as pressure on it grows from the US, and India would have to be alert that Beijing won't pass on this pressure to its relations with India. For all its lofty proclamations, Chinese actions on the ground indicate that it is not yet ready for genuine multipolarity, globally or even within Asia.

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