



Global Political Drivers

COSTLY STRUGGLE FOR MASTERY

Christopher Granville

- With some kind of settlement of the US-China trade war apparently in the offing, we take a big step back and take stock of the Grand Strategy context.
- This deep driver of this whole affair has been US anxiety about the rise of China. No Trump-proclaimed “victory” will banish this fear, which will fuel recurrent tensions spilling over from high geopolitics into the global economy and markets, with technology companies now on the front line.
- This prediction is based on the evidence that policymakers in Washington are gripped by the century-old ideas of Halford Mackinder about the Eurasian landmass as the key to global power. This rationale underpins the casting of both China and Russia as malign adversaries and strategic threats to American hegemony.
- The US approach is all sticks and no carrots based on a zero sum logic in a cycle of ceaseless attrition. This may sound like a reprise of the Cold War, but for the one big and obvious difference that puts Cold War 2.0 at the heart of top-down global investment risks: unlike the Soviet Union, China is not an economic autarchy – and neither, for that matter, is Russia.
- The first lasting economic impact of the US-China trade war and the underlying struggle for global mastery is the dynamic development of a China-centred Asian trading bloc driving growth in the whole region.
- Meanwhile, conflict risks fester at both ends of Mackinder’s “World-Island” where the Eurasian geopolitical tectonic plates grind against those of the “Outlying Island” of America.
- This geopolitical problem lacks a solution – unless the US behaves differently from all superpowers in recorded history.

Mr Mackinder, I presume

The political drivers of the US-China trade war will outlive Trump's declaration of victory expected soon. They will also outlive Trump's presidency, even if it continues until 2024. The underlying driver is geopolitical. It centres on what is by now the boilerplate view of the US political class – i.e. not limited to Washington officialdom in the security and trade policy fields – that China poses a threat to the global leadership of the US. Focused particularly on technology, this threat perception extends to the wider economic and strategic spheres. Although Trump himself has shown scant interest in grand strategy compared to increasing exports (soybeans, LNG) to China, this reality has always been apparent – and we were not the only analysts to point it out from the outset. Only more recently, however, has standard media commentary latched on to this big picture point that the whole affair is ultimately about “the rise of China, not trade”.

Great power competition lies at the heart of official US foreign policy doctrine, as set out in the new National Security Strategy (NSS) published a year ago. Alongside the threat from China, the other strategic rival is Russia.

“China and Russia challenge American power, influence and interests, attempting to erode American security and prosperity.”

Russia's relatively small and slow-growing economy may make it seem an unlikely great power competitor. The reason why Russia qualifies is that it has now re-established itself as a peer competitor to the US in the broad military sphere. This is the result of Russia's rearmament programme in the past decade, financed by petro-dollars and based on the strong R&D potential of the country's military industrial complex rooted in the long decades of Soviet resource misallocation to defence. The important point is that Russia has done more than maintain and upgrade its strategic nuclear deterrent. It has also re-built capacities in advanced fighter planes and missiles, tanks and air defence, and established new ones in electronic warfare that rule out automatic US superiority in local theatres (Syria being the live example).

One other quote from the NSS is useful for highlighting the focus of grand strategy:

“The US will compete with all tools of national power to ensure that regions of the world are not dominated by one power”.

No specific region is mentioned. Yet emphasis on the “challenge” from China and Russia implies that the region in focus is the Eurasian landmass. The strategic ideas of the early twentieth-century British geographer Halford Mackinder now seem to be at the height of fashion in the Washington security establishment. Mackinder's core idea was that Eurasia is the key to global mastery – or, as he put it in the title of a famous paper published in 1904, “the geographical pivot of history”. He located the heartland of Eurasia in what was then the Western part of the Russian Empire before going on to speculate that the geographical significance of the pivot position would increase still further if “Germany were to ally herself with Russia” or if Russia were to become an appendage of China, thereby “adding an oceanic frontage to the resources of the great continent”.

The region in focus is therefore Eurasia. To banish all doubt that Mackinder's speculations underpin the present international strategy of the US, consider this excerpt from the testimony to the Senate Foreign Affairs Committee by A. Wess Mitchell, Under-Secretary of State for Eurasian Affairs, in August 2018:

“The starting point of the National Security Strategy is the recognition that America has entered a period of big-power competition, and that past U.S. policies have neither sufficiently grasped

*the scope of this emerging trend nor adequately equipped our nation to succeed in it. **Contrary to the hopeful assumptions of previous administrations, Russia and China are serious competitors that are building up the material and ideological wherewithal to contest U.S. primacy and leadership in the 21st Century. It continues to be among the foremost national security interests of the United States to prevent the domination of the Eurasian landmass by hostile powers.** The central aim of the administration's foreign policy is to prepare our nation to confront this challenge by systematically strengthening the military, economic and political fundamentals of American power."*

The Canadian commentator [Patrick Armstrong](#) has pointed out that the bolded text in the above Senate staff transcript of Mitchell's testimony was deleted from the version later published by the State Department – clearly on the grounds that it was too sensitive. Given this sensitivity, US policy must be presented as a response to threats from these big-power competitors. The problem here is that neither Russia nor China resemble America's previous adversary – the USSR – in aiming to export their social and political systems. The legitimacy and perpetuation of Soviet power rested on expanding communism throughout the world. Now by contrast, China's official communist ideology seems more like a front for nationalism, while Russia under Putin has become thoroughly nationalist. The solution that Washington has come up with is to present its rivals as malign actors.

Russian "malignancy" is of the active variety. To quote again from that Mitchell testimony:

"Putin wants to break apart the American Republic, not by influencing an election or two, but by systematically inflaming the perceived fault-lines that exist within our society. His is a strategy of chaos for strategic effect."

We are less often told exactly why Putin should want to do such a thing. The conflicts in Georgia (in 2008) and Ukraine (since 2014) are sometimes said to be all about restoring the Soviet Union, but US officialdom for the most part rests its case on general malignancy – now extending to Syria, Venezuela and elsewhere (such as Russia's ambitions in Africa).

China's malignancy is typically presented in more passive terms. The latest and most outspoken statement of the case – by Vice-President Pence in [his Hudson Institute speech](#) last October – went further in many areas. For example, he declared that Chinese meddling in US elections is much more extensive "than anything the Russians are doing". Still, the difficulty of painting modern China in Soviet tones is got around for the most part by emphasizing the undesirability of a non-democratic country that does not respect human rights becoming too powerful. As Senator Marco Rubio put it in a speech last month:

"... if that's the most dominant nation on earth, what do you think the world is going to look like in 20 or 30 years? It's not going to be a better place."

The empire strikes back

The US response to "malign Russia" now takes the form of a relentless sanctions campaign. The latest draft legislation to escalate sanctions – "Defending American Security against Kremlin Aggression" (DASKA) – was published in the Senate on 27 February. A particularly noteworthy feature of this bill is that it does not respond to any specific Russian action. In fact, it first saw the light last August on the back of the furore in Washington over Trump's performance in his joint press conference with Putin after their first ever full summit

meeting in Helsinki the previous month (suggesting that it would be in Russia's interests to avoid any further bilateral summits).

Russia is cast as an adversary requiring a whole-of-government response. As far as the substance of the sanctions proposal are concerned, we argued in a note published in our Russia service that this looks like a case of the 'bark being worse than the bite'. But the 'bark' remains ferocious. For example, the "Sense of Congress" stated in Section 706 (about countering Russian influence) is that "Russia . . . applies cultural and social influence [i.e. soft power] which represent clear and present threats to the countries of Europe and Eurasia" (note that Mackinder influence again!). A perusal of this 120-page document leaves the reader in no doubt that Russia is regarded an enemy state to be taken down.

The US response to the Chinese challenge is more nuanced, reflecting China's much greater economic power and importance relative to Russia. This year's centrepiece of the Lighthizer-Liu negotiations has necessarily involved give and take. Yet the underlying adversarial strategy remains uncompromising. Pence, once again, set the tone in his speech at last month's annual Munich Security Conference. His ringing peroration ran that "the west will never ever be broken . . . our civilization will triumph." Such fixations on one's own righteousness and civilizational superiority greatly narrow the scope for constructive cooperation. For its part, the Chinese official media constantly cites speeches like this as evidence that the US is trying to contain China's rise and has an unjust vendetta against Beijing.

Vicious attrition

This Chinese reaction usefully highlights the heart of the problem: the US has only a stick to wield, and not much carrot to offer. In the Russian case, the official rationale of sanctions is to induce Russia to change its behaviour. But none of the positive incentives that appealed to the nationalism of Russia's former European satellites (principally NATO and EU membership) are available in the Russian case. As Anatol Lieven, a fine strategic thinker, has commented, Russians have drawn the conclusion that the US goal of maintaining a unipolar world requires "a weak Russia, which would either occupy a very subordinate place in the US international order or would be excluded and marginalized as far as possible by US client states on its borders, grouped together in NATO."

As for China, the overall US strategy amounts to containment – inherently 'carrot-free'. That same 'containment' label was used for policy towards the Soviet Union during the Cold War. But this similarity is misleading – especially in the perspective of investment risks. The Soviet Empire was an autarchic system, hence largely cut off from the world economy. The contrast with present-day China's importance for global growth and financial markets needs no elaboration. It is worth noting in passing that the same applies, albeit on a smaller scale, to post-Soviet Russia. The US Treasury was forced to rescind its sanctions against the Russian aluminium group Rusal because of the economic blowback of soaring aluminium prices and disrupted global supply chains (in, for example, the European automotive and aerospace industries).

This reality has two key effects.

- The first is more positive and short-term. Risks to the US economy and markets have driven the Trump administration towards compromise on the trade war.

- Yet negotiating compromises are bound to fuel underlying US anxieties that America’s strategic interests in the rivalry with China have themselves been compromised. The implicit assumption that there can only be one hegemon fuels a vicious zero-sum logic and a prospect of ceaseless attrition.

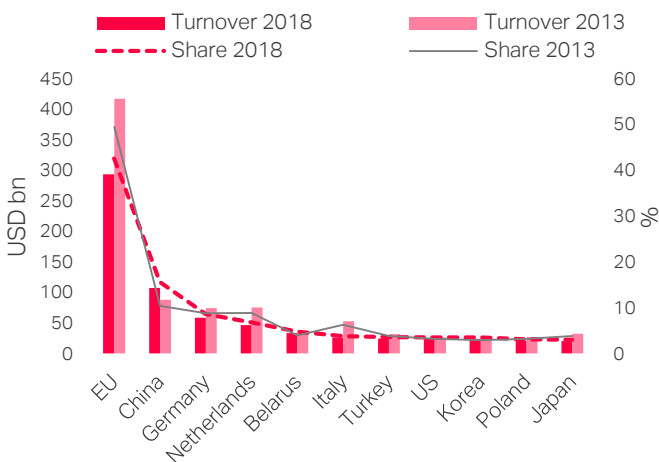
Trump’s trade war victory will therefore be followed by continued tensions over Chinese compliance with its commitments in any such deal and further American pressure to constrict Chinese potential to forge ahead in technology. The pressure on US allies to restrict Huawei looks likely to be merely a taste of things to come.

In his 1997 book *The Grand Chessboard*, Zbigniew Brzezinski wrote:

“The most dangerous scenario [for America] would be a grand coalition of China and Russia . . . Averting this contingency, however remote it may be, will require a display of US geostrategic skill.”

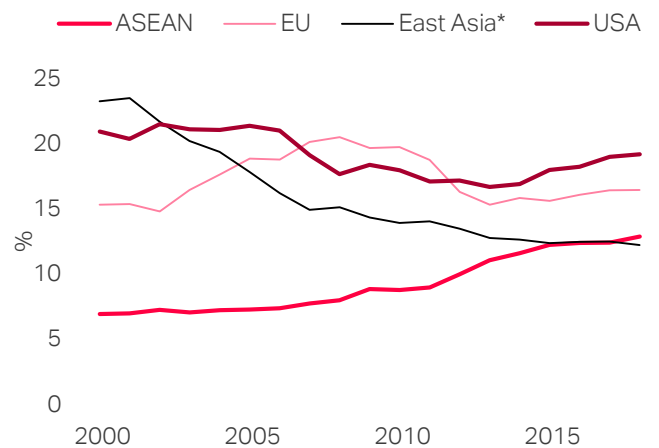
Brzezinski would presumably regard it as grand strategic blunder that his successors have turned that “remote” scenario into a reality. Cast as America’s adversaries, China and Russia have naturally drawn ever closer together. This can be seen most obviously in the shift in Russia’s external goods trade (left-hand chart below) towards China.

Russian external trade



Source: Russian customs service, TS Lombard

Chinese exports by destination



Source: CEIC, TS Lombard.; *Japan, Taiwan, ROK

The Chinese version of turning away from the US has just been articulated by Premier Li Keqiang, as China abandons hope of salvaging constructive engagement. Speaking at the annual meeting of the National People’s Congress this week, Li called for diversification of Chinese exports away from the US and the “accelerated development of emerging industries”. This second project hinges on the Silicon Valley clone known as the Greater Bay Area, centred on Guangdong with Hong Kong and Macau providing the financial muscle and international window for this technology drive. The right-hand chart above showing the baseline for the export diversification policy highlights the growing share of ASEAN in Chinese exports relative to Japan, Korea and Taiwan. This reflects, in part, supply chain relocation.

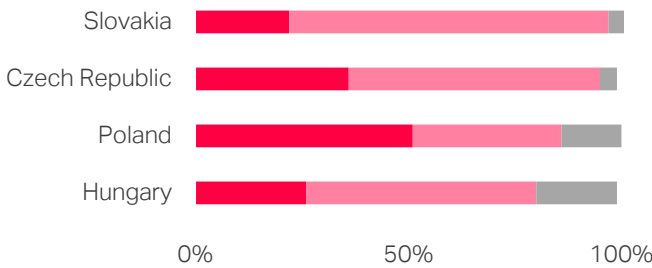
Future directions

Here, then, we can see the first lasting economic impact of the US-China trade war and the underlying struggle for global mastery. This trend will play out in the dynamic development of a China-centred Asian trading bloc driving growth in the whole region.

The most promising counter-strategy for the US must be to exploit the fears of China's and Russia's neighbours. This strategy has underpinned NATO enlargement. But the effects are by now wearing off. The charts on the next page bring this out. On the left are the results of a 2017 poll conducted by an alarmed US political front (the International Republican Institute) showing that the Visegrad group of countries in central Europe increasingly favour security cooperation with Russia (even over a third of normally highly anti-Russian Poles). The late-2018 Pew survey on the right shows German people being much more open to cooperation with Russia than the US.

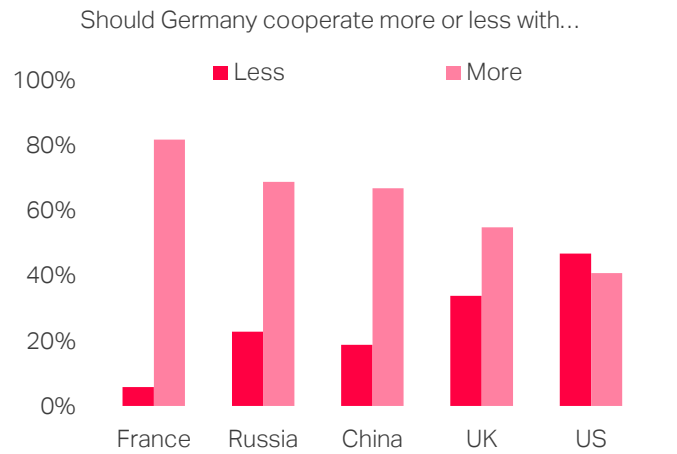
Views of Russia

- Russia is a continuous external threat to Europe and must be countered by a strong security alliance
- Russia should be considered a partner in European security and brought into European security structures. Keeping Russia out makes us less secure.



Source: International Republican Institute, TS Lombard.

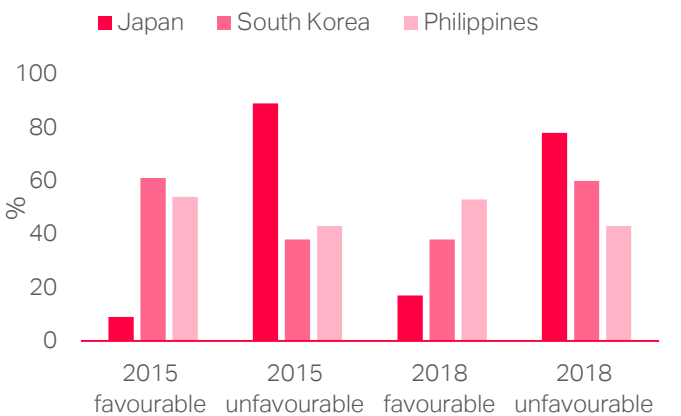
Germans' preferred allies



Source: Pew, TS Lombard

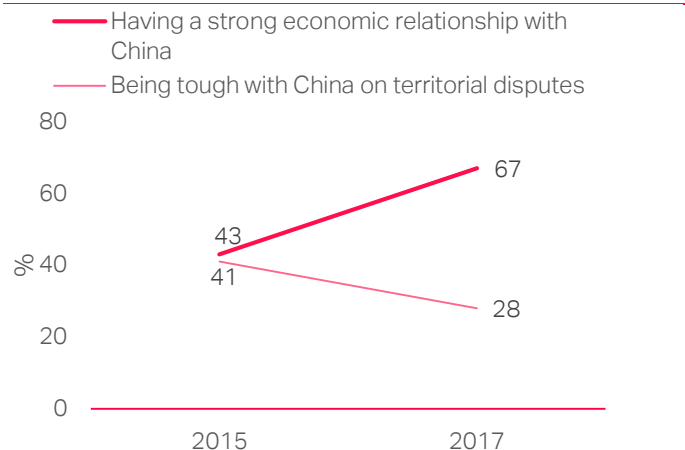
This counter-strategy continues to work in East Asia. Here, key members of the US alliance system are not shedding their traditional suspicions of China – as shown in the left-hand chart below, rather the reverse. Yet even here, there are cracks. The right-hand chart shows Filipino

Views of China



Source: Pew, TS Lombard

Filipino priorities



Source: Pew, TS Lombard

opinion now running counter to US goals and wishes, including on the most sensitive question of China's territorial claims in the South China Sea where the Philippines are on the front line.

US regional alliances are also a source of risk. Rising tension, let alone conflict, between China and a neighbouring country in the US alliance system would call into question America's global prestige unless the US intervened. Perhaps the most obvious focal point of such risk is Taiwan. Here we see the perennial 'tail wags dog' problem of alliance systems.

The only lasting way to mitigate these geopolitical risks, and the associated prospect of recurrent economic and financial tension, would be to replace the struggle for mastery with a 'concert of big powers' agreeing to balance each other's interests. This seems implausible, however, since it would entail the US accepting a downgrade from the sole superpower status it now enjoys – and superpowers are not known for volunteering peacefully for downgrades. The dilemma was brilliantly discussed by the Australian writer Hugh White in his 2012 book *The China Choice: Why America Should Share Power* – a prospect, he concludes, so remote as to be hardly worth advocating "if the alternatives were not so bad."

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