

# External Security Risks for China in 2023

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It is the mission of the think tank to continuously monitor risks and investigate viable solutions to those challenges. The international system is currently undergoing the most dramatic changes since the end of the Cold War. The peaceful and open international environment, which has been taken for granted over the last four decades, is now overshadowed by formidable challenges. In this context, it is the think tank's responsibility to identify and evaluate external security risks that might threaten China in the months and years ahead.

Since 2021, the Center for International Security and Strategy, Tsinghua University (CISS) has used the Delphi method and statistical analytic tools for social sciences to identify and evaluate the external security risks that are projected to pose the greatest impact on China in the coming year based on qualitative research and quantitative analysis. The 2023 risk outlook delivered by the research group is presented as follows. A total of 41 Chinese scholars with expertise in international relations as well as members of governmental departments, enterprises, and the media participated in this year's research at the invitation of the CISS. Through several rounds of questionnaire surveys and calculations, the research group has identified ten significant external security risks that will influence China in 2023: the strategic rivalry between China and the United States (US), the tensions in the Taiwan Strait, the security of the Belt and Road Initiative (BRI) partner countries, the nuclear missile crisis in Northeast Asia, the fierce competition over the global supply chain, the mutation of COVID-19, the slowdown in the global economy, "black gold", the Ukraine crisis, and the dilemma in China-EU relations.

As in last year's report, these ten significant risks in 2023 are listed according to "the magnitude of their impact on China." The purpose of this project is not to examine the "possibility" of various risks. Rather, any risks that experts from different professions have consistently identified merit attention. Instead, the project tries to identify the ten most essential risks for China through analysis of expert opinion using proper computation methods. Furthermore, the project does not intend to predict world affairs in 2023. In a sense, a risk foreseen accurately will not have any major impact. To be more specific, if a risk is predicted accurately, people will take action to mitigate the situation or forestall the risk, causing the predicted risk to be addressed with more negligible impacts or even eradicated. The project seeks to forecast the external risks that China is likely to encounter in 2023, through which we hope to provide strategic community and competent departments with some food for thought as they work to come up with possible



solutions and also to inspire research and discussions.

The year 2022 was mainly defined by war, pandemic, and confrontation. As if they were swimming and holding their breath beneath the ice for a long time, people seized this special occasion of the new year to pop their heads out of the water and take a big breath of fresh air. Everyone believes that 2023 will be different. The ancient Chinese compared the passage of time to the never-ending flow of rivers; neither can be cut into segments with a clear-cut boundary. In the ten fields and scenarios listed below, many risks have influenced the world profoundly in 2022 and will persist as we go forward - like a river that winds out of reach and then creates different scenes and obstacles downstream. The world of 2023 will undoubtedly present new opportunities and new challenges. Dissenting opinions might be voiced about some of these interdependent risks or their sequence. The appearance of a new major risk or the effect of new combined risks may trigger profound changes to the global landscape, thereby levying a material impact on the national interests of China.

The forecast for the ten significant risks and the relevant scenarios in 2023 is hereby presented:

## **1. China-US Strategic Rivalry**

China-US relations are now experiencing the most drastic changes since the “ice-breaking” in 1972. The Biden administration has maintained the basic orientation of the former Trump administration regarding the US’s competition with China. A strategic competition framework has emerged, featuring a collaboration between Congress and executive departments, increasingly aligned positions between the Democratic and Republican parties, and close coordination between the US and its allies. Compared with its predecessor, the Biden administration tries to compete with and pressure China with more prudent, targeted, and systematic policies. Experts of this study generally agree that the US strategy toward China has largely been finalized. In 2023, the US may roll out more measures to press ahead with its competitive strategy and suppression of China. As the US dedicates all effort to drawing its allies and partners to its side, major countries worldwide seem to be taking sides. In politics, Western countries have already begun to stigmatize China via ideology and stoke geopolitical confrontations in multiple areas with China. In science and technology, making full use of ideological discord and security issues, the US will encourage or coerce its allies and partners to apply more restrictions on semiconductor exports to China. Technological decoupling is expected to expand to broader industries, including biotechnology, clean energy, civil nuclear energy, and healthcare. In the economic and financial sector, the US is likely to obstruct the development of China’s leading financial institutions through ungrounded accusations of so-called “illegal conduct.” It may introduce new acts or policies of strict restrictions on investment in China, which could drive foreign investment out of China or force US-based enterprises to suspend their plans of investing in China. The heightened China-US rivalry resulting from substantial changes in the US’s China policy is projected to pose the most formidable external threat to China in 2023.

In November 2022, an important consensus on stabilizing China-US relations was reached between the Presidents of China and the US during their meeting at the G20 Leaders' Summit in Bali, Indonesia. Going forward, the two sides should explore pathways to stabilize bilateral relations, establish principles, and defuse risks through interaction. A stable China-US relationship is in the interests of our two peoples and meets the expectations of countries across the globe. In contrast, exacerbated China-US conflicts will destabilize the international system to the detriment of humankind's joint efforts to meet global challenges.

## **2. Tensions in the Taiwan Strait**

The Taiwan question concerns China's core interests. In many hypothetical scenarios, the Taiwan Strait is the primary location for massive military conflicts between China and foreign separatist forces. In August 2022, then US House Speaker Nancy Pelosi made a provocative visit to Taiwan in defiance of China's opposition, pushing the Chinese government to express its firm opposition and adopt robust countermeasures. This incident dealt China-US relations a mighty blow in 2022 and received enormous attention from the Chinese people. Meanwhile, the potential outbreak of conflict over the Taiwan Strait has led to heightened tensions in the international community. Kevin McCarthy, the newly elected House Speaker of the 118<sup>th</sup> US Congress, said defiantly in 2022 that he would lead a large congressional delegation to Taiwan. As he promised to deliver, such a visit will undoubtedly jeopardize bilateral relations. Consequently, the two countries may initiate a new round of countermeasures and retaliation, giving rise to new turbulence in the Taiwan Strait. Under overall anti-China sentiment, US allies might follow suit. Western politicians would exploit those sentiments to their advantage and infuriate Beijing. Constant disruptions to the Taiwan Strait's current situation might trigger ripple effects and crises. In addition, the *National Defense Authorization Act for Fiscal Year 2023 (the "Act")* passed by the US Congress at the end of 2022 secretly incorporated many clauses from the preceding *Taiwan Policy Act*. Notably, the *Act* grants free military assistance worth USD 10 billion and military loans worth USD 2 billion to Taiwan authorities during the fiscal years 2023 through 2027 to create a "regional contingency stockpile." The military cooperation between the US and Taiwan might increase in 2023. The US might provide substantial military assistance and sell arms to Taiwan, including asymmetric weapons, to the detriment of the Chinese Mainland. Against this backdrop, experts believe that China should stay on high alert and take preventive measures to cope with the security risks in the Taiwan Strait.

The Taiwan question is the most critical and sensitive question troubling China's relations with countries, including the US, so the relevant countries must be reminded of the consequences of their provocative actions. In the meantime, we should resolutely fight back in the face of irresponsible Western politicians who intentionally exploit the Taiwan question to enrage China and lure us into the "strategic trap" they have created.

### **3. Security of BRI Countries**

From evacuating Chinese nationals from Ukraine in early 2022 to launching the blockbuster titled *Home Coming* at the end of the year, protecting overseas interests has come into the spotlight for Chinese citizens. More importantly, protecting China's overseas interests is vital to our national development and security. Generally, the experts believe that political changes and internal conflicts in China's neighboring areas and the BRI countries might endanger China's border security and overseas interests in a world of instability and transformation. Possible scenarios may include: internal conflicts breaking out in Southeast Asian countries, including Myanmar and some Central Asian countries, and economic distress in South Asian countries, including Pakistan, Bangladesh, and Sri Lanka, leading to social crises and turmoil. In addition, the Russian Far East and other areas adjacent to China may suffer turmoil due to poor economic performance and grim employment prospects. Terrorist attacks would also remain a threat to a certain extent. China's projects and personnel stationed in South Asia might still be exposed to the risk of terrorist attacks. The deteriorating security situations in Afghanistan and Pakistan are expected to undermine the security environment surrounding Northwest China. China-Africa cooperation would face challenges as well. Specifically, the existing cooperative projects in Ethiopia, Sudan, Guinea, Chad, Burkina Faso, and Mali, among other African countries, would be delayed or, worse still, be halted due to the chaotic political situations in the region. In addition, the US is projected to increase investment in Africa to destroy the cooperative outcomes and influence secured by China in Angola, Tanzania, and South Africa or even replace China altogether.

Considering the deeply rooted and complicated internal and external conflicts that many BRI partner countries must deal with, these regions will pose higher security risks. With the adjustment and optimization of anti-pandemic policies in China, more Chinese enterprises and individuals will go abroad more frequently, which translates into mounting risks. Therefore, we should cooperate with relevant countries to pursue joint development, build prosperity, and share security through bilateral and multilateral cooperation mechanisms. At the same time, Chinese enterprises and individuals should increase their risk prevention awareness and conduct business overseas according to local laws.

### **4. Nuclear Missile Crisis in Northeast Asia**

Northeast Asia has been exposed to the peril presented by nuclear missiles since the beginning of 2022. As the US thrust ahead with its Indo-Pacific Strategy and linked the Ukraine crisis to regional security, a regional arms race may arise, and all countries in the region may face growing security risks. In this context, Japan ratified three documents, including the *National Security Strategy* (NSS), expressly stating that Japan would build up the "counterattack capability" to strike missile launch sites and other facilities of its enemies. This move marked a significant shift in Japan's security policy. The Republic of Korea (ROK) unveiled its first Indo-Pacific strategy, highlighting its security cooperation with the US in the region. Meanwhile, the Democratic

People's Republic of Korea (DPRK) tested a new intercontinental ballistic missile. The experts of this study generally believe that the already strained security situation in Northeast Asia could escalate in 2023 alongside further intensified regional security risks relating to nuclear missiles. More specifically, the DPRK is projected to conduct its seventh nuclear test in 2023. By then, these actions are expected to bring about a heightened contest between regional and non-regional countries over the DPRK's nuclear program. The US might take this opportunity to deploy missile defense systems to Japan and the ROK with potential impacts on China. In the meantime, the ROK might go back on its commitment to "Three No's and One Restriction" (no additional deployment of the Terminal High Altitude Area Defense (THAAD) system in the ROK; no participation in a US-led missile defense network; no involvement in a trilateral military alliance with the US and Japan; and restriction in the use of the THAAD system deployed). This could consequently cause tensions in China-ROK relations again. Furthermore, the US, ROK, and Japan may hold frequent large-scale joint military exercises and increase interactions with their military alliances outside the region, such as the North Atlantic Treaty Organization (NATO) and the AUKUS, a trilateral security pact between Australia, the United Kingdom (UK), and the US. As a consequence, countries in Northeast Asia will further divide into different blocs faster. Northeast Asia is where the interests of countries with great economic and military strength converge. China, a country in the region, is directly and profoundly influenced by the regional security situation.

The security issues in Northeast Asia can be traced back to two fundamental driving forces. First, the US and its allies overreacted to the development of China out of excessive anxiety. Second, the lack of a security mechanism for the Korean Peninsula made the US and its allies unable to respond to the DPRK's security concerns effectively. It takes time to address these issues. That being said, it would go a long way towards lowering such risks if all stakeholders could return to the negotiating table for dialogue and reduce miscalculations.

## **5. Fierce Competition over the Global Supply Chain**

The priority of the global supply chain is rapidly shifting from "efficiency" to "security." Western, developed countries led by the US have been progressively adjusting their supply chain strategy after the outbreak of the COVID-19 pandemic in a bid to reallocate their crucial supply chains to the "friend-shoring" ecosystem of "like-minded" countries under domestic and foreign policies. The US regards the needs of those countries for stronger resiliency in supply chains as an opportunity to fuel great-power competition. As countries worldwide re-open to the world, the global supply chain is meant to restore the normal discrete pattern. Nevertheless, according to the experts of this study, the stalled Ukraine crisis and the concept of a "supply chain alliance" presented by the US would not only impair the efficiency of the global supply chain but also establish a system of de-Sinicization within the supply chain. Specifically, all countries concerned believe that they can mitigate the impacts of black swans and grey rhinos only by shortening supply distance or reallocating to the "shore." Thus, fierce competition over supply chains is

doomed to persist. In the field of semiconductors, the US would strive to collaborate with its European and Indo-Pacific allies and partners on tightening control over the export of chips to China in a bid to distort China's chip market and accelerate the transfer of chip production capacity from China to "friend-shoring" countries and regions. In the field of minerals, all countries concerned are expected to increase investment in and exploitation of crucial mineral resources and strengthen control over the entire supply chain of mineral products, ranging from upstream exploitation to midstream refining to downstream manufacturing. In terms of regulation, Western countries may initiate more targeted security reviews of supply chains. They might conduct investigations into Chinese enterprises on the grounds of suspected engagement in unfair competition.

Over the past four decades, particularly after China acceded to the World Trade Organization (WTO) in 2001, the country has embraced fast economic growth by integrating into the global supply chain. China's development has generated driving forces and market opportunities worldwide. Exclusion from the supply chain will pose formidable challenges to the economic growth of not only China but also the whole world. Fundamentally speaking, the global supply chain concerns the sustainability of economic globalization and the coexistence of the world's major economies in the same international system based on prioritizing economic efficiency. China firmly believes that supply chains are public goods and highly emphasizes the security and stability of its domestic supply chains. Apart from opposing attempts at decoupling and severing supply chains and proactively shoring up weaknesses at home, China should also make good use of its advantages and further boost such advantages. China must actively build and maintain a highly resilient global supply chain where China has a broader and more critical presence.

## **6. Mutation of COVID-19**

Over the past three years, humankind has fought a tough battle against the COVID-19 pandemic. In 2022, the Omicron variant of COVID-19 became the predominant strain. Although highly transmissible and less susceptible to vaccines, this new variant causes less severe illness and fewer deaths. Considering these new characteristics, China and many other countries across the world optimized and adjusted their countermeasures. It seemed as if humankind finally saw a silver lining of "returning to normal life." Despite that, the experts in the study still consider the mutation of COVID-19 as one of the ten major security risks in 2023 and suggested the following possible scenarios. As China further opens up to the world, there might be more imported cases. If a new strain that is more contagious, disease-causing, and even lethal emerges, a new round of outbreaks will swiftly hit the world. If so, countries worldwide would again strengthen their pandemic containment policies, and insufficient global medical resources would remain a thorny issue. If the COVID-19 pandemic continues to spiral out of control, it will again dampen global economic recovery and fuel some countries' political, economic, or social turbulence, thereby jeopardizing the stability of China's external environment.



The global anti-pandemic experience over the past three years has taught us that humankind has acquired limited knowledge of COVID-19 and that the transmission and mutation patterns of the strains remain highly elusive. That being said, efforts can be made to enable cooperation between major countries on global public health governance and pandemic-related measures. Humankind needs to learn from these lessons—the lack of great-power cooperation, vulnerable multilateral health mechanisms, and the politicization of anti-pandemic efforts—in the face of the COVID-19 pandemic. If major countries engage in practical cooperation in 2023, then there is a chance that we could minimize the evolution uncertainty of the pandemic.

## **7. A slowdown in the Global Economy**

Two years into a robust economic rebound in the wake of the pandemic, all three major economies, namely China, the US, and the EU, suffered from slower economic growth in 2022, which marked the emergence of downside risks. The world has begun to experience economic woes. Although commodity and service trades registered varied growth, they were still below the pre-pandemic levels. Both developed countries and developing countries implemented persistently high nominal interest rates. Capital rapidly flowed back to developed economies. The global inflation rate recorded the first new high in decades. The heavy blow dealt by excessively high-interest rates and foreign exchange shortages to countries mired in debt crises only exacerbated the already challenging situation. The economic recession in the US and other countries is not projected to last through the year. Nonetheless, the economic landscape of 2023 is depicted as follows: China's major trading partners would face an economic downturn; grim economic situations might set off the emergence of protectionism in different countries, which is bound to exert negative impacts on China's export and investment and obstruct the overseas operations of Chinese enterprises. Continuous interest rate hikes in the US and disruptions to the global capital pricing mechanism are expected to bear heavily on China's financial market. A widening interest rate gap between Hong Kong and the US would accelerate capital outflow, thereby continuously exposing the Linked Exchange Rate System (LERS) and the Hong Kong stock market to risks. If a group of countries in Latin America and South Asia launches sovereign debt restructuring, the topic of their "debt to China" could be played up. The experts of this study have expressed concerns over the global economic situation in 2023. As China adjusts its anti-pandemic policy and the rest of the world looks forward to the country's swift economic recovery, the negative impacts of a global economic slowdown on China's economy merit a closer look.

One of the important reasons for the grim economic prospects in 2023 lies in the aggressive interest rate increases by the US Federal Reserve in response to high inflation. In reality, the high inflation was caused by the US Federal Reserve allocating funds in the post-pandemic era, the chaotic global supply chain, and the ripple effects in many countries. As countries worldwide put the pandemic behind them and return to normal, they need to adopt stable economic policies from purely economic perspectives. Accordingly, the coordination of macroeconomic policies between major countries also plays a vital role.

## **8. Black Gold**

The global oil industry had already grown accustomed to price volatility and supply shortage until the Russia-Ukraine conflict brought new challenges. A green transition is more eagerly advocated than ever as Western countries tried every measure, including prohibiting the shipping of oil and gas from Russia, imposing a price cap on such products, and seeking diversified sources of supply. For a combination of reasons, oil will remain the world's most important fuel for a long time to come. Although China managed to maintain an unimpeded oil and gas supply, the experts of this study emphasized the security of energy. International oil prices have dropped rather than risen despite the price cap that the G7 has slapped on Russian crude oil. However, this fact is insufficient to support any forecast on medium and long-term price trends. In 2023, the OPEC+ states led by Saudi Arabia may take measures to stall the falling global oil price for reasons such as supply/demand changes or deterioration of their relations with the US. In that case, the higher cost of oil imports will add pressure on industries in the middle and downstream of the industrial chain and drive up domestic prices in China. China may experience a disruption in energy imports if the war between Russia and Ukraine continues throughout 2023 and the US imposes secondary sanctions on Russia. Central Asian, African, and Latin American countries already suffer political turmoil under the combined impact of the pandemic, general elections, and terrorism, not to mention aggressive interventions by the US. As a result, China might lose its existing bilateral energy cooperative projects, potentially to the US, and become unable to secure the international oil supply.

Due to the limits of its natural resources, China is one of the major economies that are highly dependent on energy. Its energy security has become endangered due to changes in the international security environment in recent years. It remains a long-term challenge for China to maximize energy security with whatever it can secure.

## **9. Ukraine Crisis**

In February 2022, Russia conducted a “special military operation” in eastern Ukraine. Since then, the US, Europe, and other Western countries have engaged in fierce tugs-of-war with Russia over the Ukraine issue. The Ukraine crisis affects the balance of power and relations between China, the US, Russia, and European countries and profoundly redefines the international landscape. As Russia and Ukraine get trapped in long-standing military confrontations, the West continuously steps up assistance to Ukraine. It also ramps up pressure on Russia and attempts to bind China and Russia together. Generally speaking, the experts hold that it is barely possible to solve the Ukraine crisis in the short run. Instead, it might even be prolonged and escalated in 2023, thus inflicting more grinding harm on the relevant parties and the global security situation. More specifically, the stakeholders involved in the crisis do not seem ready to end the war. Instead, they are still looking to exploit the war for gains. Once prolonged, the crisis will pose more risks. To begin with, the Ukraine crisis might extend to involve broader stakeholders. There is still

a chance that the member states of NATO would intervene in the crisis. The fallout of a direct military conflict between any member state of NATO and Russia would be disastrous. Second, the Ukraine crisis might be escalated. Under domestic and external pressure, Russia once disclosed that it might resort to tactical nuclear weapons, which aroused strong reactions from the US and other Western countries. In this context, they have begun to consider taking countermeasures, thus exposing the world to the mounting risks of a local nuclear war. In addition, the geopolitical effects of the Ukraine crisis might be intensified. Russia might launch a full-on mobilization and thus intensify bloc confrontations. If so, some Chinese enterprises and individuals would slide into a dilemma, or worse still, they might be exposed to the threats of secondary sanctions.

One year ago, the study of the international risk forecast for 2022 identified the Russia-Ukraine conflict as a possible scenario and maintained that it would destabilize the international order and lead to the creation of opposing blocs between major countries. Still, the eruption of the conflict has inflicted more devastating effects on the world and China than expected. No one will gain from a prolonged conflict and military means cannot resolve the divergence between Russia and Ukraine. The most effective solution to prevent any escalation is to end the conflict and launch peace talks as soon as possible to work out an acceptable solution for both sides.

## **10. Dilemma of China-EU Relations**

At the end of 2022, frequent interactions between Chinese and European leaders seemed to have reversed the deterioration of bilateral relations. Nevertheless, given the ongoing tensions due to geopolitical situations and constant changes in the domestic political arena of main EU member states, it is recommended that China continues to monitor the potential external security risks arising out of the dilemmas in China-EU relations. As the Ukraine crisis continues to deteriorate and the US is keen to establish closer ties with Europe, some European countries appear to have developed more biased views of China. The EU is working faster to lower its reliance on China's markets, raw materials, and industry chains. These factors combined indicate that the role of economic and trade ties, the cornerstone of China-EU relations, has waned. The EU views China as a partner for cooperation and negotiation, an economic competitor, and a systemic rival. When this view finds its way into the EU's policy towards China, a growing number of adverse policies and measures might lead to a tougher strategy toward China. Europe may suffer an economic slowdown or slide into economic recession, and protectionism is expected to emerge, leading to more rigorous review and compliance regulation over foreign investment from China. For example, China-funded enterprises in Europe may be asked to conduct due diligence; investigations might be initiated under the *International Procurement Instrument* (IPI); and stricter environmental, social, and governance (ESG) compliance requirements might be implemented. These measures will hamper the development of Chinese and European companies operating in each other's countries. Although ideological discord hampers China-EU relations, some European countries will hold more biased values and mentality toward China. For example, the new administration of Italy might declare its withdrawal from the BRI with potential ripple

effects in Europe.

In recent years, China-EU relations have witnessed some changes, and the Ukraine crisis, in particular, has intensified the already strained China-EU relations. At a time when the US reorients its strategy toward China, any significant change to China-EU relations is believed to be detrimental to China's national security interests. The US and Europe are long-standing allies with mutual obligations to balance their policies towards China. Unlike the US, however, Europe has no hegemony to maintain and has little severe security and geopolitical conflict with China. Whether Europe can uphold strategic autonomy and draw up its China policy based on its interests and how China will distinguish the nature of its conflicts with the US and with Europe remains to be seen. Answering these two questions will play a vital role in defining trends in China-EU relations in 2023.

A close review of the ten risks and scenarios described above reveals an underlying issue: the international landscape formed following the end of the Cold War is shifting drastically, as evidenced by heightened great-power conflicts and **the China-US strategic rivalry**. **The tensions in the Taiwan Strait, the nuclear missile crisis in Northeast Asia, and fierce competition over the global supply chain** can also be attributed to it. **The Ukraine crisis**, a result of the conflicts between Russia and the West with far-reaching implications in many aspects, points to another clue to the aggravated great-power conflicts. The lack of global governance is another manifestation of the adjustment in the international landscape. **The security of the BRI countries, the mutation of COVID-19, the slowdown in the global economy, and black gold** are intricately intertwined with this phenomenon. Although China alone can hardly reverse the trend of increasingly intensified great-power conflicts, we can still strive to mitigate and stabilize the conflicts between major countries or distinguish between different great-power conflicts based on the stakeholders involved. China, as a big country and the world's second-largest economy, has the confidence to inject valuable assurance and stability into the international community through its stable system, governance, policies, and development, as well as to make more meaningful contributions and address more realistic challenges. In the meantime, China will work to ease tensions among major countries through global cooperation. We believe this could be the fundamental pathway to handle the ten major risks presented in the report properly.

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