

Geopolitical radar

EU-China trade tensions brewing, Ukraine makes advance

- **EU-China trade tensions are brewing with an EU probe into Chinese EV subsidies. US weapons sale to Taiwan under sovereign-nation program feeds new tensions. China has increased the intensity of military exercises around Taiwan lately.**
- **Ukraine has made significant advance in the battlefield, successfully breaking through the first Russian line of defence in the south. If they are able to push further, they could eventually be able to attack key Russian logistics routes.**

Recent developments related to China

Are EU and China heading for a trade war? At least we are seeing increased tensions in the trade area, which need to be followed over the coming year(s). EU's trade deficit with China has increased sharply in recent years, partly due to exports within green tech, where China is leading. **The EU Commission President Ursula von der Leyen on Wednesday announced that a *probe into Chinese EV subsidies* will be launched.** China responded with a *sharp rebuke* saying China's competitive advantage in the EV space had nothing to do with subsidies. Imports of Chinese EVs have increased significantly and was likely to become a flash point of tension sooner or later, not least as it challenges the German auto sector significantly.

Chinese President Xi Jinping stayed away from the G20 meeting in India earlier this month and instead sent his premier Li Qiang. There has been a lot of speculation about why Xi chose not to go. A few reasons suggested were: 1) it was a snub of India's Prime Minister Narendra Modi, 2) Xi did not want to meet with US President Joe Biden, 3) Xi is delegating more of the global affairs relations to his Premier Li Qiang, who is shaping up to be the strongest Premier China has seen since Zhu Rongji in the 1990's. A sign that Xi now has a premier who he has a lot of confidence in. And 4) Xi is now prioritising domestic affairs more with all the internal challenges China is facing. We don't really know the real explanation. Li Qiang also represented China at the ASEAN Summit in Jakarta earlier this month where the US was represented by Vice President Kamala Harris.

The big question is now whether Xi Jinping will show up for the annual APEC Summit to be held in San Francisco in mid-November. If he doesn't it suggests he is not willing to have a meeting with Joe Biden. The two met at the G20 meeting in November last year in Bali where *apparently a consensus was reached* on a number of points. But relations soured fast when the US shot down the alleged Chinese spy balloon three months later. China often stresses that the US needs to show more sincerity and not just say the right things but also follow through in action. **A recent weapons sale to Taiwan may complicate a new meeting between the two leaders.** The sale was for the first time made under a *program so far only used for sovereign nations*. It signals the US is increasingly treating Taiwan as a sovereign nation even if the official policy is still a one China policy.

Key events in 2023

- **September:** G20 meeting in India, Xi Jinping does not participate
- **September:** Ukraine makes advance in battlefield, Putin meets North Korea leader Kim Jong-un
- **August:** Saudi-hosted Ukraine peace talks
- **July:** Russia withdraws from grain deal, Russia-Africa summit
- **June:** Blinken visits Beijing, US-China communication improves
- **June:** Explosion of Kakhovka dam in Ukraine, Prigozhin's mutiny
- **April:** Xi talks to Zelensky
- **April:** Finland joins NATO
- **April:** Taiwanese President Tsai Ing-wen meets US speaker of the House Kevin McCarthy in the US
- **April:** Macron and von der Leyen visit Beijing
- **March:** Chinese position paper on Russia/Ukraine peace. Xi visits Putin in Moscow
- **March:** Russia forces down US drone over Black Sea
- **February:** US shoots down alleged Chinese 'spy balloon', Blinken visit to Beijing cancelled

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According to China this is violating US-China agreements made in Bali and trust between the two countries continues to take new hits despite the increased dialogue. Chinese *military exercises have been scaled up* again lately in what *was called a 'blitz exercise'* by Chinese state media. Taiwan said it had spotted 103 Chinese military aircrafts since Sunday, which they called a “recent high”. While tensions are running high, we see the actions still, as mainly a deterrence strategy from both sides. On the one hand US wants to deter a Chinese invasion by showing strong support for Taiwan and on the other hand China aims to deter Taiwan (and the US) from declaring sovereignty of Taiwan.

China has also taken some action against the US. Reports recently stated that government agencies are now banned from using iPhones, but it's unclear how official this ban is. The Foreign Ministry and *Chinese state media have pushed back* on the claim saying there was no new directive or regulation and that China welcomed foreign companies. But there is rarely smoke without a fire so it may very well be, that some agencies have given the directions to their staff. Speaking of phones, there is also speculation whether production of a new Huawei Phone in China, the Mate 60 Pro, was made in violation with US tech sanctions on China. The US Administration is *currently investigating* this. The phone has been seen as a break-through in China showing how US tech sanctions is only speeding up China's technological development rather than holding it back. However, while the development of the new chip used in the phone, called Kirin 9000s, is an accomplishment, it also suggests that China will *struggle to develop further* with the current technology available.

US President Joe Biden visited Vietnam following the G20 meeting as the US sees an upgrade to its relations with Vietnam as key in the strategy to de-risk supply chains from China. Biden secured deals on supporting Vietnam's microchip production and US imports of minerals and Vietnam lifted the diplomatic status higher to the same level as China and Russia. It's quite a difference from US relations with China where sanctions are put on microchip production. It is interesting how Vietnam has become a 'friendshoring alternative' to China with Vietnam also being a one-party communist state. On Human Rights Watch web page on Vietnam it opens with: *"Vietnam's human rights record remains dire in virtually all areas. The ruling Communist Party maintains a monopoly on political power and allows no challenge to its leadership"*. However, a key difference is probably that Vietnam does not have the same ability to challenge US power. From Vietnam's point of view it is also illustrative of the strategy of most countries in the Global South now, that you don't want to be part of a block but seek to have good relations with both US and China/Russia and use it to your advantage.

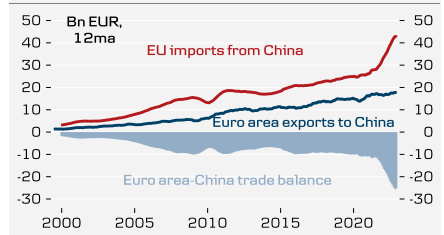
Recent developments related to Russia's war in Ukraine

Ukraine has made substantial progress in the battlefield since our August update. The Ukrainian forces have managed to break through the first Russian defence line in the south near the city of Robotyne. Considering how the Russian army has fortified the different defence lines, their advance may be of significant importance. According to military experts, military doctrines typically entail that the fortification of first and second defence lines is lighter than that of the final defence line, meaning that if or when the enemy reaches the ultimate final line of defence it has already exhausted its resources significantly while still facing major resistance. *This time, for unknown reasons, the Russian army had a completely opposite strategy and the first line of defence was the most fortified.* Hence, after successfully breaking the first line of defence, Ukraine has a good chance of making further progress. And if they manage to successfully push further down south, it is possible they eventually reach positions where they are able to strike key Russian logistics routes in

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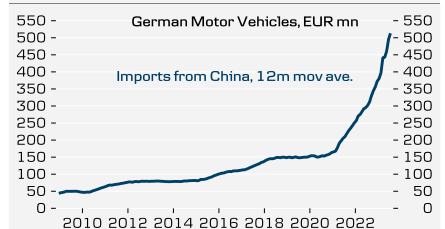
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 - [Research Global - Deglobalisation - is it really happening](#), 13 April
 - [Research China: The risk of a Taiwan war and what it implies - part 1](#), 11 August 2022
 - [Research China: The risk of a Taiwan war and what it implies - part 2](#), 19 August 2022
- [Link to previous publications.](#)

EU trade deficit with China is growing



Source: Macrobond, ECB

Sharp rise in German imports of NEV from China



Macrobond, German Statistical Office

the south, complicating Russian maintenance of troops and transportations to and from Crimea.

In further signs of success, Ukraine has said they have managed to destroy two Russian S-400 air defence systems in the course of August-September. The S-400s are among Russia's most modern military defence systems and they are very expensive. Due to the high cost, Russia has used such systems only to protect the very important territories such as Crimea. Building a new system from scratch would take years, so Russia is likely to replace the destroyed ones by reshuffling its current systems (meaning another location will be left exposed while the risk of Ukraine being able to destroy it once again remains). Overall, it seems Ukraine has been very innovative and successful particularly in using drones in a modern warfare, making frequent strikes to both Crimea and Moscow in recent months.

Despite Ukraine's success, a long frozen conflict remains our main scenario as both sides prepare for a second winter of war. Ukraine has communicated that wet weather will not stop their offensive and that they will keep going. Harsher weather conditions will obviously favour the Russian army, but most likely Ukraine feels they cannot afford to lose the momentum – also, because they probably calculate that war fatigue by Western donors remains a real risk, and any success by the Ukrainian army in the battlefield is likely to mitigate that risk. EU institutions are now the biggest donor to Ukraine but the US remains by far the largest provider of military aid (see *Kiel Institute Ukraine support tracker*).

Other geopolitical developments on the radar

Russian President Vladimir Putin met North Korea's leader, Kim Jong-un in September. The North Korean leader arrived at Russia in his armoured train and left with gifts such as a rifle and a fur hat after a week-long visit. The US officials have warned that the rapprochement of the two countries could eventually lead to prolonging of Russia's invasion of Ukraine if North Korea sends more weapons to Moscow. In exchange, North Korea could receive support from Russia to advance its military and nuclear capabilities.

In August, the group of developing nations BRICS, announced they would welcome six new members starting next year; Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and United Arab Emirates. We admit the new BRICS+ group has the right parameters to gain some global influence as it represents 1/3 of global GDP and close to half of the world population. However, we also think internal rifts are more than likely to weaken the group's influence. Read more in *Research Global – The new BRICS+ is not a love marriage*, 25 August.

On the sidelines of the G20 summit in New Delhi in September, the US and the European Union announced a plan to develop **a new ship and rail corridor connecting India to the Middle East and the Mediterranean Sea.** The new trade corridor that would stretch across the Arabian Sea from India to UAE, crossing to Saudi Arabia, Jordan and Israel before reaching Europe. The plan also entails a new undersea cable and energy infrastructure. According to EU Commission President Von Der Leyen, the rail link is expected to make trade between India and Europe 40% faster, while for the US, supporting the corridor is more about countering China's growing presence in the region. Meanwhile, Turkey's President Erdogan has said '*there can be no corridor without Turkey*' and is insisting on an alternative trade corridor plan, the so-called Iraq Development Road that would stretch from the Iraqi coastline of the Persian Gulf to Turkey. For now at least, experts consider Turkey lacking the financial resources needed to implement the project.

Our baseline scenarios on key geopolitical risks

War in Ukraine:	<p>Our main scenario remains a frozen conflict that could last for years. Russia with its increasingly demotivated army is not able to make significant advances, particularly as Western military support for Ukraine remains. Ukraine has managed to make some advance through its main offensive but pushing Russia back behind the 2014 defence lines seems like a massive challenge.</p> <p>Risks to our main scenario are broadly balanced for now. The main downside risk is related to the US 2024 presidential election and a possible end to US military support for Ukraine. Main upside risks are related to the scope and success of Ukraine's counteroffensives.</p>
Risk of war on Taiwan	<p>While tensions have clearly increased and likely to remain high we see the risk of a war in the next couple of years as quite low (20%). The potential costs of a war for all sides (US, China, and Taiwan) will be enormous, hence we don't expect China to initiate a war unprovoked and we don't expect the US or Taiwan to cross the 'red line' of declaring sovereignty for Taiwan. In the medium to longer term the risk is high, though, see also <i>Research China: The risk of a Taiwan war and what it implies - part 1</i>, 11 August 2022.</p> <p>Risks to our scenario is that a war comes in the coming years if mishaps happen that trigger a tit-for-tat spiral or new governments in either the US or Taiwan crosses China's 'red line'. We see it as unlikely China would invade unprovoked in the coming years as they are still too vulnerable economically and not ready militarily.</p>

See Appendix next page for time line of historical events.

Appendix 1. Historical timeline



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Report completed: 18 September 2023, 16:00 CET

Report first disseminated: 19 September 2023, 06.00 CET