September 2022 - Issue 24

Policy Brief

Réseau d'analyse stratégique
Network for Strategic Analysis

Combatting the Seen and Unseen Threats of China's Digital Silk Road

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Overview

Great power competition has entered a new and unstable phase. With Russia launching an invasion of Ukraine and China launching military exercises around Taiwan, the risk of escalation from great power competition to great power conflict has risen markedly, inviting comparisons with the proxy wars and crises of the Cold War. A precedent for this rupture in world politics may be found in the Korean War, which decisively changed the image of international Communism from a political and ideological threat to a movement that was prepared to expand through armed aggression.

The 48th G7 summit marked a recommitment by G7 countries to develop approaches for challenging China's increasing geopolitical dominance and cybersecurity threats. The initiative, titled the Partnership for Global Infrastructure, re-frames and re-orients the 2021 US-led Build Back Better World (B3W) initiative, which aimed to finance technology and infrastructure projects in developing countries as an alternative to China's One Belt One Road Initiative (BRI). Announced under President Xi in 2013, the BRI seeks to create a maritime belt and land road running through Eurasia and back to China as part of a larger plan to strengthen China's position as a great power. Strategically, the initiative has worked to condense State Owned Enterprises into competitive Multinational Companies, which offer generous loans to developing countries to establish critical infrastructure projects. The BRI thus aims to create an integrated economic region centered on China to leverage its geopolitical influence, targeting competitive international trade areas, like the South China Sea, to challenge Western power and transatlantic dominance.

This policy brief will examine the BRI with a focus on how Beijing's Digital Silk Road (DSR) is posing increasing international security threats that remain prominent in discussions among G7 countries. As the world's largest infrastructure project, the DSR seeks to assist Chinese exporters in the Information and Communications Technology sector by investing in the technological networks of recipient states. Given China's unprecedented developments in surveillance technology and artificial intelligence, the DSR's focus on telecommunications networks and smart city projects makes the DSR a key facet of the BRI as it seeks to expand China's influence.

At a time when global economic activity is becoming increasingly digitized, and liberal international norms progressively challenged by China's authoritarian intelligence tactics, Canada must strive to maintain a competitive technological economy while also defending its security interests. This policy brief will examine China's efforts to increase its geopolitical power through DSR advancements. It will recommend that Canada promote investment in multilateral projects (like the Partnership for Global Infrastructure) which challenge China's grip on digital infrastructure and international standards setting, and that Canada convey these projects as investment opportunities to convince Western-skeptic countries and corporate entities of investment advantages. Additionally, it will recommend that Canada leverage its increased investment in NORAD to finance surveillance technologies, like under-ice submarines, and coordinate NATO cybersecurity efforts to combat Chinese cyber security threats.

Background

Since opening its economy to foreign trade and imposing free-market policies 45 years ago, China has experienced rapid economic growth. China is now the world's largest global investor, and second largest global economy next to the U.S., which China is projected to surpass by 2030. Following a costly tariff-cutting process to join the WTO in 2001, China's economic policy has focused on attracting foreign direct investment by signing bilateral investment treaties with over 100 countries. Central to this policy plan is the BRI, which currently includes the economies of over 71 countries across Eurasia, representing two thirds of the world's GDP.

The strategy behind China's BRI is twofold: First, it seeks to expand China's economic control by creating new markets and broadening the use of Chinese currency. This expansion helps China maintain its momentum in creating free trade zones and financial cooperation, while also addressing capital surpluses in its productive industries, like steel and cement. Secondly, the BRI works to address shortcomings and vulnerabilities in China's foreign policy strategy. By implementing a network that allows Chinese companies to control production and maximize efficiency, China can reimagine the region's energy supply routes, improving access to key resource regions like India and Central Asia. In turn, China can use its resource grip to leverage support for its objectives in regional governance bodies, and use economic investments to justify increased overseas military presence.

China's technology industry exploded following the BRI's 2013 announcement. Since the DSR offers a low-cost option for instituting blockchain technology, China has seized its competitive edge in the technology sector as an opportunity to decrease reliance on American industry. Consequently, the DSR has become a top priority in China's economic and foreign policy strategies. To increase buy-in, China has successfully promoted the initiative at international forums: In 2019 alone, the governments of Japan, New Zealand, Israel, Austria, Chile, Brazil, Indonesia, and Kenya each announced cooperation agreements with China for sci-tech, information and communications technology, and fiber optic cable projects.

By 2030, Asia will need USD 26 trillion in infrastructure investment for its developing countries to successfully participate in the global economy. The UN recognizes the BRI as necessary for achieving sustainable development and environmental goals, as Chinese loans are one of the only sufficient funding options for developing countries to successfully improve technological infrastructure. Nevertheless, Beijing is taking advantage of Western decay to increase its economic and military power through the BRI, and the security and ideological implications of this tactic must be taken seriously.

BRI: A True Case of Debt-Trap Diplomacy?

The notion of debt-trap diplomacy is used to describe cases where powerful countries work to broaden and strengthen their influence by presenting weaker, developing countries with attractive loans, even when it is unlikely that weaker countries will be able to repay these debts. Cases like the port at Hambantota in Sri Lanka are often cited as examples of the non-altruistic motives of Chinese enterprises. DSR initiatives, however, are financed primarily by China's National Export-Import Bank and China Development Bank, which are both largely unconcerned with profit generation given their status as policy banks: In over 85 cases, China has restructured or written off bank debts for BRI projects without confiscating assets. These cases, combined with the generous loan repayment periods offered to many countries undertaking BRI projects, suggest that accusations of China committing debt trap diplomacy, in its traditional sense, may be unwarranted. However, even if China is not explicitly creating debt traps through asset seizure, over 90% of analyzed DSR contracts include clauses stating that China can, if it chooses, "terminate the contract [...] if a 'significant' change in the recipient state's laws or policies takes place", leaving borrowing countries in precarious financial positions. In turn, DSR countries are often pushed into bilateral negotiations that ultimately serve China's political interests. China has used its economic leverage to encourage DSR countries to support and defend its stance in international governance bodies, especially when controversial issues, like China's persecution of Uighur Muslims or its arming of the South China Sea, are at stake. So, even in the absence of asset seizure, the motive behind China's BRI aligns with the logic of debt-trap diplomacy: lend to less-powerful countries for infrastructure construction in Chinese-dominated sectors, like technology and AI, to promote Chinese expansionism and dominance.

Economic Potential Outweighed by Troubling Security Implications?

The DSR and its rapid expansion pose several security concerns that Liberal states, like Canada, cannot afford to overlook. These risks include the proliferation of authoritarian espionage and data-acquisition tactics, and China denying or manipulating access to critical technologies.

China's DSR has been an appealing solution for countries seeking to accelerate development in technological infrastructure sectors while remaining autonomous. Given the fragility of democracy and the West's limited influence in the DSR's target region, the DSR's rapid expansion is likely to threaten the West's post-Cold War vision for an open, liberal Eurasia. Firstly, instilling Chinese surveillance technologies among BRI countries may increase and improve authoritarian repression. China has already implemented government-led training programs to officials and technology companies in DSR countries on how to censor and monitor internet activity in real time. Even more troubling is China's launch of Smart City projects in DSR countries, which, based off the Chinese surveillance state model, use invasive AI and facial recognition technologies to monitor and address public monetary and security activity. Constructing renewable power plants is important for global efforts to advance sustainable energy sources; however, the DSR's financing of power grid interconnections gives China significant control over regional power allocation. Interconnections used to construct power grids along the DSR depend on communications networks operated by state owned enterprises, like the State Grid Corporation of China, which increase the intelligence and espionage capacities of the Chinese state. As a result, China can restrict or deny energy to DSR countries that threaten or oppose China's political or economic interests.

Additionally, Chinese data-acquisition from BRI countries could accelerate China's development of AI technologies designed to exploit sensitive material. Tampering is harder to detect in emerging software-defined networks, which poses risks where China is financing overseas port-construction. Undersea cable systems built within proximity to Western military facilities enable improved access to confidential foreign intelligence details with a low risk of detection. If Chinese state-owned enterprises gain access to strategic ports, like Canada's Nanisivik, the interests of navy forces across North America and the broader West could be jeopardized.

From an economic standpoint, China's port construction, which relies on BRI infrastructure, may also bolster the political influence of Chinese financing companies. Implementing 5G networks enabling espionage and data infringements can be used by China to blackmail politicians in DSR countries, or to exploit trade flows and port-access as a punishment mechanism against political opponents. In Nepal, for instance, China blocked elites and businesses from payment processing on platforms like Alipay and WeChat, using its dominance in the blockchain sector to interfere discretely. Ultimately, the DSR is increasing state surveillance and content-moderation while leaving both DSR and non-DSR countries subject to China's autocratic espionage tactics.

Shifting International Standards

Technological standards refer to the regulations and protocols that govern through a repeatable technical task. Typically, these standards are established through global standards bodies like the International Organization for Standarization, and are agreed upon by the organizations' member-countries. However, standards can alternatively be set via market volume: through market domination, countries can gain implicit international support for their domestic standards, including those imposed by repressive authoritarian regimes. In the case of China and its use of AI and 5G technologies, this alternative standards-setting route could prove to be effective, especially given the current lack of other sizeable infrastructure financing options available to DSR countries. China's imposition of its own technological standards onto DSR countries is therefore contributing to a polarized global order: By confining DSR countries to the Chinese ecosystem, and leaving them subject to Chinese political pressure, China is making it increasingly difficult for traditional lenders, like the IMF and World Bank, to ensure that technological projects adhere to rigorous policies of best practice in areas like environmental and human rights protection.

Lending policies and Structural Adjustment Programs through the World Bank and IMF have historically reflected Western interests, and have contributed to countless economic setbacks and poverty among emerging economies. Given the widespread skepticism among Global South countries towards Western-led projects like the Build Back Better World, it is Unsurprising that many leaders have opted for DSR funding. However, like many historical IMF and World Bank financing projects, DSR investments are producing harmful clauses and outcomes. For example, the terms of loans issued to countries for DSR projects are rarely disclosed publicly. Without official creditor membership in the Paris Club, Chinese banks can evade pressure to operate transparently, resulting in limitless loan provision. Moreover, the complex nature of AI and surveillance projects problematically increases reliance on private Chinese technology companies, which are primarily concerned with promoting their commercial interests by reducing transaction costs. Many DSR projects thus commence without adequate financial, environmental, or social-impact assessments. Consequently, states facing ongoing political and debt crises can turn to China for bail-out to avoid the strict conditions for economic and political reform typically imposed by conventional financial bodies, like the IMF. However, this also means that leaders committing human rights abuses or undermining democratic principles can rely on China for economic support in cases where World Bank or IMF conditions might have worked as effective deterrents. This was the case in Malaysia, where Chinese loans issued for DSR infrastructure projects expanded opportunities for political elites to engage in corruption and rent-seeking; and in Kenya, where political corruption exacerbated by DSR investments escalated ethnic tension. If China succeeds using the DSR to go from being "a standards-taker to a standards-maker", existing norms and practices promoting a Liberal world order are, in fact, under considerable threat.

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The Partnership for Global Infrastructure aims to attract $40 billion in private sector funding by 2035 to invest in projects according to high environmental and equity standards. Still, in its first year, the B3W initiative saw only marginal progress in attracting investment from the private-sector. White House officials claim that G7 initiatives "[are] not about making countries choose between [the U.S.] and China", but their evident aim is nevertheless to provide an alternative to BRI investment to challenge China's increasing dominance. Unfortunately, considering Western skepticism and China's significant head start in infrastructural investment in the region, Western-led investment initiatives may face difficulties competing with the BRI.

Recommendations for Canada

In responding to the DSR, Canada must consider the importance of continued economic engagement with China, even under the polarized geopolitical context. Currently, China is Canada's second largest goods trading partner, with each country holding a strong comparative advantage in exchanged commodities. Although the 2019 Huawei scandal halted free trade agreement negotiations, trade between the two countries remains productive, and outright denouncement of the DSR risks compromising Canada's long-term objective of diversifying free trade agreements with China and ASEAN countries. To remain economically competitive and challenge China's market-domination, Canada can take a collaborative approach to the BRI by working to secure multilateral economic partnerships with BRICS nations. As a middle power, however, Canada must exercise caution in future cooperation with China, and cannot let the economic benefits of friendly trade relations outweigh the need to address the security threats the DSR initiative poses. Canada should therefore increase investment in emerging technologies, and increase its involvement in multilateral institutions working to challenge China's sectorial and standards-setting dominance.

Firstly, Canada must continue to work alongside the U.S. and other G7 countries to challenge China's regional grip, ensuring that the Partnership for Global Infrastructure is strategic and realistic. The initiative may not be able to compete directly with the BRI in terms of scope, but it can better engage with both domestic firms and Western-skeptic countries. By working to convince Canada's private sector firms of the ability to make investment returns through overseas projects, Canada can increase funding and cybersecurity assistance to countries committed to pursuing projects under the Partnership. This arrangement could also include training cyber diplomats to work with foreign information-communications technology firms and governments to address network vulnerabilities. Increased investment in these projects, which oppose Chinese technological domination, will also help to convince developing countries that the Partnership for Global infrastructure differs from traditional sources of Western aid. By presenting projects as investment (rather than charity) opportunities seeking to "deliver returns for everyone", Canada can help expose the costs and risks of the Chinese model, and demonstrate that there exists a healthier, well-funded alternative to the BRI.

To challenge China's growing power in the technological sector and international standards-setting, Canada should proactively increase investment in domestic technological firms and while widening its involvement in multilateral institutions. 5G technology will continue to be an important aspect of the global information-communications technology system, and Canada must have a strong industry and educated workforce to be able to compete with growing Chinese firms. While these infrastructures present inevitable risks, better investment in technological enterprises and research will boost Canada's edge and credibility in challenging China's anti-democratic use of new innovations. Similarly, by joining multilateral bodies like the AIIB, which already partners with the World Bank and has a record of welcoming foreign expertise, Canada can better influence standards-setting procedures for quality control and funding in DSR countries. Canada should demand that Chinese projects reflect their proclaimed commitment to a green and transparent BRI by insisting on pre-project environmental assessments, and articulating clear standards for what a 'green BRI project' must entail.

Finally, Canada should use its commitment to invest $4.9 billion for NORAD modernization over the next six years to improve intelligence on China's activity near Canada's strategic passages. In upcoming NATO meetings, Canada should capitalize on this commitment, as well as the increased realization among democratic countries that "the risks posed by Moscow and Beijing can no longer be compartmentalized", to encourage collective defense strategies against cyberattacks. To assert its arctic sovereignty and defend its legal standing on arctic waters, Canada must use NORAD investments to financially and infrastructurally back its commitment to securing and militarizing Northern shipping routes.

Given the DSR's rapid expansion and strategic Eurasian engagement, there is no guarantee that target countries will choose to pursue the Partnership for Global Infrastructure or other Western-based initiatives to counter Chinese influence. Nevertheless, by confronting the risks posed by the DSR, and offering alternatives to BRI investment, Canada can signal to China that even in as multilateralism declines and Liberal ideals become fragmented, Canada will not remain passive in the face of economic and digital coercion.