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## **China will avoid a war as it is militarily no match for the US, Asia expert Gürel says**

In an interview with Co-Director of the Koç University Center for Asian Studies Burak Gürel, we talked about the future of the Russia-China rapprochement in the incoming Trump presidency, China's role in the world, and the possibility of a third world war.

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China will be the most important issue on the agenda of US President-elect Donald Trump, as it was in his first term. It is a matter of question whether China is prepared for Trump, who has often repeated that he will raise tariffs against China. By 2025, Asia Pacific will be on the agenda more than ever.

What is the reason for the raising tariffs policy towards China in the West? Is there a difference between Trump and Biden in terms of China? Is Trump's strategy of isolating Russia from China effective in his 'solution in Ukraine'? Will there be a military confrontation between China and the US? What does China offer to the stalled global system? Is China the future hegemon? What is happening in the Chinese economy while the world is going through this? Why did the real estate bubble burst? Is China facing a deep economic crisis?

We discussed these questions with Associate Professor Burak Gürel, co-director of the Koç University Center for Asian Studies and an expert on development sociology.

According to Gürel, as China continues its technological breakthrough, its competition with the West will intensify. In order to focus on China, Trump will try to isolate Russia and China from each other by finding a solution in Ukraine. Although the third world war is a possibility, China will avoid a war with the US as much as possible because it is not yet militarily ready.



Below is the full translation of the interview with Gürel.

**The rise of the Chinese economy, especially in the last five years, has led to tariffs on Chinese imports in the West, especially in Europe and the US. Trump openly said he will impose high tariffs on China. What does the rise of tariffs mean for the world and for China?**

During periods of steady growth of the world economy, the tendency towards globalization is predominant; during periods of crisis, the tendency towards deglobalization is predominant. With the 2008 crisis, the third great depression of the world economy began. The global economic pie is not growing. Similar to the previous great depressions, the struggle to share the pie that is not growing is escalating. The recent increase in national protectionism is not limited to the China-US rivalry, but this rivalry is the most critical dimension of this trend.

Chinese capital and the state are making systematic efforts to shift from low-value-added production to high-value-added, innovation-based, technology-intensive production. It is difficult to predict how successful this effort will be, but it is clear that some progress has been made. Chinese companies such as Huawei, Lenovo, and ZTE compete globally with companies from G7 countries, particularly the US. This is why protectionism against China is deepening.

**In other words, if China were still producing lemon squeezers and toys, such protectionist measures wouldn't be on the agenda.**

No. In the 1980s and 1990s, China became the “workshop of the world”, producing products designed in the G7 countries. The biggest share of the profits from the supply chains went to the West and Japan, leaving the crumbs for Chinese companies. Hu Jintao's “Indigenous Innovation” program and Xi Jinping's “Made in China 2025” strategy, launched in 2015, aim to eliminate this unequal relationship through technological breakthroughs. Despite the slowdown in China's economy, the state continues to support a range of technology companies with enormous resources. In recent years, Chinese companies have been at the forefront in areas such as electric vehicles, green energy, and artificial intelligence. As long as this systematic effort continues, the competition between China and the G7 will intensify.

The trade war launched by Donald Trump in 2018 was followed by Joe Biden's CHIPS Act in 2022. This law made the sale of microchips to China, wherever in the world they are produced, even partially using American inputs, subject to US authorization. In particular, restrictions were imposed on the sale of advanced

microchips to China, amounting to a de facto embargo. The US-China rivalry also began to take military forms.

**This is one of the topics I want to ask about. Does Trump's incoming cabinet, the coming together of US allies in the Asia-Pacific against China, mean an eventual military war? Will China start the Third World War?**

China-US tensions could lead to the Third World War. Since Barack Obama announced his "Pivot to Asia" strategy in 2011, the US goal of increasing its military presence against China has not changed. Although the "One China" policy remains on paper, the economic and military ties between Western countries and Taiwan are growing stronger.

Two points are important for China here. First, although China has made an unprecedented development leap, it is still a middle-income country. Its per capita income is one-sixth that of the US. It has a long way to go in terms of scientific and technological development. It is also no match for the US militarily. While the US has 750 military bases in 80 countries, China only has a base in Djibouti, and it is questionable how serious this is. Moreover, China's military expenditures are much lower than the US's, even if some of them are kept secret. Of course, both sides would suffer in a military conflict, but for the reasons I have outlined, I think China would avoid a war with the US as much as possible.

Nothing short of an international political breakthrough with the working class at its core can definitively eliminate the risk of world war. On the other hand, if China falls into a deep economic and political crisis or - for whatever reason - fails to sustain its technological breakthrough, it ceases to be a serious threat to the G7. If the third great depression, the trend of international political reaction, and China's technological breakthrough continue simultaneously, the risk of world war will only increase.

**The change of power in the US has caused cautious pessimism around the world. But Xi and his team have actually worked with Trump before. Is Beijing ready for this change?**

As I said, the Biden era was not much different from the Trump era for China, in fact, relations have worsened. Therefore, China is prepared for a tough period. Of course, there may be partial and temporary compromises, softening, and concessions in Xi-Trump relations. For example, in 2020, Xi agreed to allow China to import more agricultural products from the US at Trump's insistence. Later, he did not import as much as he promised, but it was a move that reduced tensions at the time.

**In fact, this differentiation can perhaps be seen in the field of foreign policy. Under Biden, the rapprochement between Russia and China increased as a result of the consequences of the Ukraine war. Trump may approach Russia more moderately today. Wouldn't Trump's different Russia policy affect the China-US rivalry?**

Yes, this is a remote possibility, but it should not be underestimated. Biden tried to fight Russia and China at the same time. Trump may try a different policy. Let's remember that in the 1970s and 1980s, China and the US cooperated against the Soviet Union, and that this cooperation, architected by Mao and Nixon, was one of the important factors that led to the collapse of the Eastern Bloc. Trump could implement a similar policy against China, this time in cooperation with Russia. By giving certain assurances to Russia, he can at least try to isolate it from China, if not to bring it completely to his side, and thus use the full power of the United States against China. According to a recent Wall Street Journal article by Lingling Wei, Xi Jinping takes this "reverse Nixon" scenario seriously and is deeply disturbed by it.

**So can we say that this extreme rapprochement between Russia and China is one of the factors behind Trump's desire to resolve the Ukraine issue?**

Certainly. The threat perception of the US is effective in this. Russia is an important military power, but it does not have a technological breakthrough similar to China. Russian companies do not compete with American companies in the world market. China's situation is different. Chinese and American companies compete worldwide. The Chinese state is also making moves to erode US hegemony, such as the Belt and Road Initiative. In these circumstances, Trump

may not want to confront Russia and China at the same time and bring them closer together. He may want to find a solution to appease Russia and focus on China. However, it is not easy for Russia to distance itself from China again. It is also not yet clear whether the Trump administration is ready to end the Ukraine War the way Russia wants. Therefore, I think a “reverse Nixon” scenario is a distant, if not impossible, possibility.

**While China has grown economically, it has also become a more visible actor on the political scene in the last five years. Its hosting of the New Development Bank, its mediation between Iran and Saudi Arabia, its frequent summits with African and Gulf countries, its closeness with Russia...etc. Considering this network of relations, can we say that China will be the guiding actor of the system in the medium term? Is there an alternative that China offers globally?**

The third great depression we are going through brings not only intra-capitalist political alternatives such as fascism but also socialism back to the agenda of humanity. If we put this aside - for a moment, of course - and make a brief assessment of the current international politics of the Chinese state, we can see that China's technological breakthrough efforts, moves such as the Belt and Road Initiative, and its efforts to expand the use of national currencies instead of dollars in international trade through swap agreements are steps aimed at eroding US hegemony. However, even if we assume - again for a moment - that US hegemony is completely eroded, it is not easy for China to become the new hegemonic power of the world capitalist system. Let us remember that China's per capita income and military power are far behind the US. Moreover, a number of factors favoring China's economic rise are rising as obstacles to its becoming the new hegemon. Policies such as capital controls and the non-convertibility of the yuan have given China enormous developmental advantages over the last four decades. But a continuation of these policies would make it difficult for China to become a new hegemon. The Chinese state is unlikely to risk changing these policies - at least in the short term.

Within these constraints, China's promise to the group of poor and middle-income countries in the so-called “Global South” is to contribute to the establishment of a world in which the power of the West is to some extent diluted, where China

stands out as a powerful actor - even if it cannot be a hegemon - and where states can act relatively autonomously - compared to the past - in the absence of a hegemonic center. It is not easy for capitalism as a world system to survive without a hegemonic state. Therefore, China offers only a temporary solution, not a project to rebuild and stabilize the system.

**While this is happening at the global level, reports and data have been shared since the COVID-19 outbreak that the Chinese economy is in crisis, especially in real estate. Is the Chinese economy in crisis? Why did this crisis happen?**

The performance of the Chinese economy over the last few years has not been bad. The (compound) annual growth rate of national income between 2019 and 2023 is 5.6 percent. Technically, China is not in crisis. However, this does not mean that the economy is doing so well that it is unlikely to enter a crisis.

The world economic crisis that started in 2008 slowed China's growth rate. The (compound) annual growth rate of national income fell from around 15 percent between 1990 and 2007 to around 9 percent in the 2008-2023 period. The pandemic has worsened the situation. Today, annual growth of around 5 percent is considered a success.

From the 1980s onwards, rapid rural-urban migration was one of the key dynamics of China's economic miracle. In this process, a huge semi-skilled labor force was transformed into the industrial proletariat. This enormous labor reserve has begun to deplete. In 2022, the death rate surpassed the birth rate for the first time. At the point where the size of the labor force peaks and starts to decline, the level of development a country has reached is important. When Japan peaked in 1995, its GDP per capita was 81 percent of the US; when South Korea peaked in 2015, its GDP per capita was 66 percent of the US. At its peak, China's per capita income today is one-sixth that of the United States. This could negatively affect the trajectory of China's global power. Moreover, a slowdown in the economy could have a negative impact on political stability in the country. China's working class has shown how challenging it is through countless strikes and resistance. A slowdown in the economy could trigger class struggles. The high level of youth unemployment is also a factor that has the potential to

threaten the system. In China, we know that prolonged lockdowns during the pandemic exacerbated economic problems and led to mass discontent. Let's not forget that pandemic measures were hastily lifted after mass demonstrations erupted across the country in November 2022.

### **Why is the real estate sector so much on the agenda?**

The real estate and construction sector accounts for about 30 percent of China's economy when infrastructure investment and imported inputs are included. Construction and real estate have become increasingly speculative areas for three main reasons. First, private companies have dominated the sector since the 1990s. Housing construction became a profit-oriented activity and prices soared. Second, local governments, which had lost a significant portion of their revenues to the central government after the 1994 tax reform, turned to generating income by selling land to real estate companies. Today, about 30 percent of local government revenues come from land sales and real estate taxes. Lastly, local governments - with the approval of the central government - borrowed heavily to stimulate the economy after the 2008 crisis. They borrowed by pledging their land as collateral, saying that real estate projects would increase the value of this land. When the real estate sector became so important for keeping the economy alive, it was believed that the state would not allow the sector to go into crisis at any cost. As a result, too much investment was made in the real estate sector; housing and workplace construction started far in excess of demand. The inflated bubble has recently burst. Evergrande, one of the country's largest real estate companies, came to the brink of bankruptcy in 2021. It turned out to have 1.9 trillion yuan in debt against its total assets of 2.3 trillion yuan.

### **So how did the oft-quoted claim that 'this is a bubble and it will burst' come true?**

In China, the lack of population growth and aging population are suppressing housing demand. The urbanization rate has reached a certain maturity by reaching 66 percent. Due to the slowdown in the economy, the urbanization rate has slowed to 1-1.5 percent per year. The difficulty of recent university graduates to find jobs that pay satisfactory wages is also constraining demand.



The bursting of the housing bubble is exacerbating the debt problem. According to the IMF's forecast, the ratio of local government debt to national income is 93 percent. The ratio of all debt to national income will rise to a serious level of 287 percent in 2023.

**At this point, I have to ask the fundamental question, will the bursting real estate bubble plunge the Chinese economy into a deep crisis?**

Ever since Evergrande's near bankruptcy, this has been a topic of discussion. The onset of a major crisis is not ruled out. However, the peculiarities of the Chinese economy provide some protection against a crisis. Because the banking sector is state-controlled, local governments are essentially indebted to state-owned banks. Therefore, the state has considerable leeway. It can postpone or write off debts immediately. Despite the high debt level of local governments, the ratio of central government debt to national income is 24 percent, which is a low debt ratio by international standards. The relatively high down payment rates for housing purchases in China also have a protective effect. All this may not be enough to prevent an economic crisis, but it can reduce its severity.