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# China in the changing world order

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## ABOUT

# Briefly - China in the Changing World Order

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'Briefly - China in the changing world order' is brought to you by the Adarga Research Institute, which is dedicated to delivering in-depth geopolitical and geoeconomic analysis, enriched by its AI software and proprietary data models.

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## DEFENCE

# Chinese incursion in Japanese airspace

**On 26 August a Chinese reconnaissance aircraft, identified as a Y-9, entered Japanese airspace between 11:29 and 11:31 JST, near the Danjo Islands in the East China Sea.<sup>1,2,3</sup> The Y-9 has more than a dozen variants, but open-source reporting indicates that the aircraft in question was likely a Y-9DZ electronic surveillance variant, based on its distinctive antenna arrays and the long radar pod on the underside – both visible in the photos.<sup>4</sup>**

In response, Japan scrambled fighter aircraft and lodged a formal protest with China through diplomatic channels.<sup>5,6</sup> At a press conference on 27 August, Chief Cabinet Secretary Yoshimasa Hayashi said: "The violation of our country's airspace by Chinese military aircraft is not only a serious violation of our country's sovereignty, but also a threat to our safety, and we consider it utterly unacceptable."<sup>7</sup> Hayashi also confirmed that the incident is the first confirmed incursion by a Chinese military aircraft into Japanese airspace since Japan introduced anti-airspace incursion measures.

**ARI Analysis:** This incursion into Japan's airspace by a Chinese military aircraft adds to an already tense relationship between the two countries. It should be borne in mind that it is unclear whether the violation was premeditated on China's part – but this by no means excludes the possibility that it was a deliberate incursion.<sup>8</sup>

Either way, the incident reflects increasing tensions in the region, not only between China and Japan but between China and the United States. China has long been concerned by what it perceives as US-led efforts to contain it via military alliances, such as with Japan. Meanwhile, as the balance of military power in East Asia tilts increasingly in China's favour, the country has become more assertive (as seen particularly in the South China Sea and a ratcheting up of air incursions into Taiwanese airspace). The incursion's flight path could indicate targeting of Japanese training and testing activities and the US naval base at Sasebo, it also occurred when major US-South Korea amphibious exercises were being held in the Sea of Japan.<sup>9</sup>



The most significant question will be whether this proves to be an isolated incident, either because it was unintended or due to Japan's response. Future similar incidents would indicate an increased assertiveness on

China's part, and willingness to test the limits of regional rivals and US allies – as it has been doing with the Philippines in the South China Sea.

## INTERNATIONAL RELATIONS

# Jake Sullivan visits Beijing

**On 27 August Jake Sullivan, President Biden's national security adviser, arrived in Beijing for a three-day visit.<sup>10 11</sup> Sullivan's trip is the first to China by a US national security adviser since 2016. However, he has consistently held regular talks with Foreign Minister Wang Yi; the two have met four times over 16 months in Vienna, Malta, Washington and most recently, Bangkok in January 2024.<sup>12 13</sup> A series of high-level talks are scheduled with senior Chinese officials, including Wang Yi, during Sullivan's visit.<sup>14</sup>**

In front of journalists and ahead of the first closed-door meeting, Sullivan said talks would include about areas of agreement and disagreement that "need to be managed effectively and constructively". Reuters reported that from the US side, Sullivan is seeking to expand military-to-military talks down to the theatre command level, as well as push for China to increase domestic action on fentanyl production and discuss safety standards for artificial intelligence (AI). Meanwhile in the build-up to the visit, Chinese state media emphasised the need to stabilise US-China relations and repeated that "China will focus on expressing serious concerns, stating its position and making serious demands on matters such as the Taiwan question, its right to seek development and China's strategic security" and ask that the US "stop politicising and securitising economic and trade issues."<sup>15 16 17</sup>

**ARI Analysis:** Jake Sullivan's trip to China is the first by a US National Security Advisor since 2016, which was also a US election year. Although that visit, by Susan Rice, centred around US objections to Chinese cyber activity and incursions in the South China Sea, many

observers felt that the US position was predisposed to strategic collaboration.

The mood today is much different. The political relationship between Washington and Beijing has significantly worsened, and trade has also dipped.

As such there have been no real expectations about this trip, which has been billed as "strategic communication" by both parties. On the Chinese side, the presumption is that the US wants to lecture China and push back on its growth. As one Chinese observer notes, the US stance at recent meetings – such as those led by US Secretary of State Anthony Blinken – has generally "carried an attitude of pressuring and warning China" on issues like support for Russia and the future of Taiwan.

The US side, meanwhile, has grown tired of what is seen as broken promises and the continued efforts to weaken US leadership around the world.

While Sullivan's visit will not return relations to where they were a decade ago, there is optimism in China that his approach has been less confrontational. In his meeting with Chinese Foreign Minister Wang Yi, Sullivan called for cooperation "where necessary", and there was agreement on better communication between the militaries and on AI. The Chinese called the talks "candid, substantive, and constructive"<sup>18</sup> – probably because the US did not publicly focus on Taiwan, Xinjiang, or other so-called Chinese "red-lines".

These talks are not held in isolation, and there will be many – including Japan, which has recently experienced an air incursion by China (see above) – who will be



wondering what is next in US-China relations. If the rumours are correct and a presidential summit is on the cards, then the Sullivan trip is the 'hors d'oeuvres' for the 'main course'

of Biden-Xi, which is where the real decisions regarding the relationship will be made. At least the starter seems to have gone down well.

## INDUSTRY

# IBM cuts its Chinese research team

**On 26 August, the US multinational technology company IBM announced that it was closing “the majority of” its research and development (R&D) efforts in China<sup>19</sup>. Reportedly more than 1,000 staff are affected by the lay-offs, with cuts being made across several offices in mainland cities, but specifically from two research-focused units, China Development Lab and China Systems Lab.<sup>20</sup> Employees were reportedly informed of the cuts during a brief virtual meeting with US executives on Monday, with the executives citing tougher competition<sup>21</sup>. The news came after a story broke over the weekend on Chinese local media outlet *Jiemian* that Chinese employees in R&D or testing roles at IBM had lost access to the intranet without notice.<sup>22 23</sup>**

IBM subsequently released a statement confirming the move, that the company “adapts its operations as needed to best serve our clients, and these changes will not impact our ability to support clients across (the) Greater China region”.<sup>24</sup> In addition, the IBM statement highlighted a strategic shift in its approach to the Chinese market, focusing on the growing interest of Chinese private companies in hybrid cloud and AI technologies. The company stated it plans to leverage its technical expertise and consulting experience to focus its efforts on collaboration with Chinese enterprises and multinationals operating in China to co-create tailored solutions.<sup>25</sup>

**ARI Analysis:** IBM's stated recalibration of its business strategy in China towards private enterprises and foreign multinationals marks a sharp pivot in its strategy in the country; in the past, IBM's most important customers in

China were large state-owned enterprises in key areas such as finance and energy.

Several drivers have influenced this decision. Employees reported that on the virtual call, IBM executive Jack Hergenrother cited tougher competition when informing staff of the cuts.<sup>26</sup> Within the Chinese market, IBM has been struggling to compete with domestic rivals which benefit from government technology policy through a blend of top-down Beijing directives to local governments and state-owned groups to buy more products from domestic providers.<sup>27</sup> This has contributed to IBM's drop in market share and revenue; according to the latest Annual Report in 2023, IBM's revenue in China dropped 19.6% compared to the company's 1.6% rise in revenue across the Asia-Pacific region.<sup>28</sup>

However, IBM's move to cut R&D staff is also part of a broader trend of US tech companies' retrenchment in China. In May, Microsoft reportedly asked hundreds of Chinese staff working on cloud and AI to transfer country, a move which reporting at the time claimed was motivated by increasing scrutiny over its presence in China.<sup>29</sup> Both decisions have been made amidst heightened US-China tensions and we interpret IBM's move as the latest development in a broader trend of Western technology companies re-evaluating their presence in China, signifying how geopolitical tensions are increasingly influencing corporate strategies.

It also contributes to a growing pattern of technological decoupling between the two countries, which aligns with US efforts to restrict China's access to sensitive technologies and to adjust supply chains in favour



of onshoring or ally-shoring initiatives. Following the announcement, India was immediately touted as a potential relocation destination for IBM's R&D operations.<sup>30</sup> If the technological decoupling and

operational re-positioning by Western companies continues, the aggregate strategic shift is likely to lead to a wider recalibration of global technology supply chains towards countries such as India, which stand to benefit.

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