

Great Power Rivalry & Evolving Risks For Multinational Corporations

Gabriel Collins, J.D., Rice University's Baker Institute for Public Policy, Center for Energy Studies; Co-Head, Program on Energy & Geopolitics in Eurasia

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gabe.collins@rice.edu

<https://www.bakerinstitute.org/expert/gabriel-collins>

<https://www.linkedin.com/in/gabecollins>

<https://collinsresearchportal.com/>



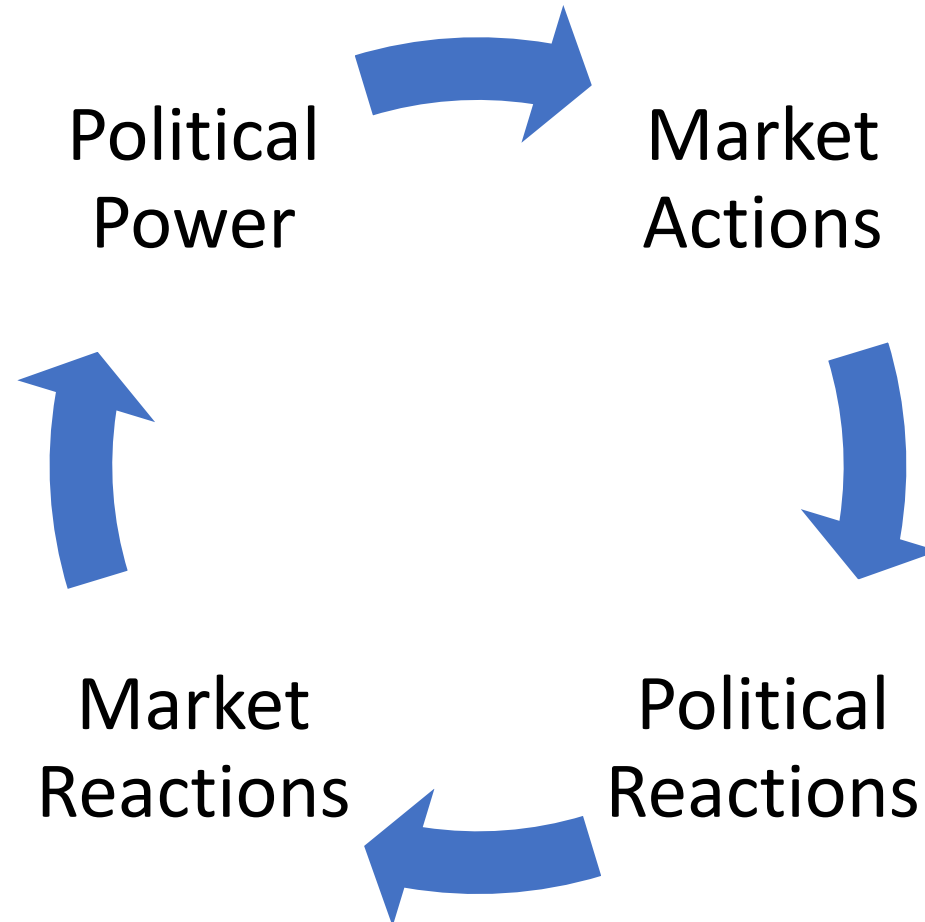
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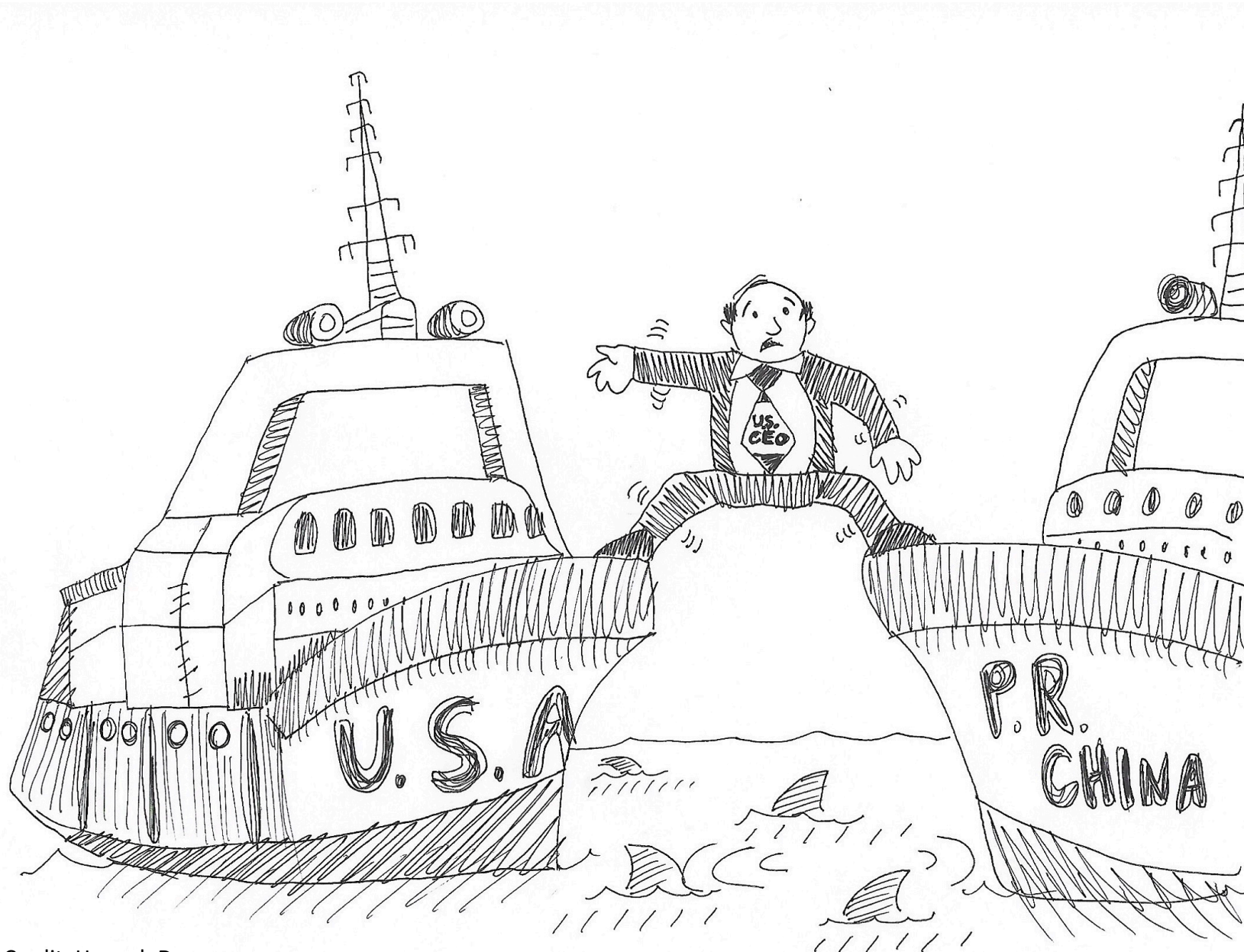
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The Domestic & International Political/Economic Feedback Loop

- Those who control political power and how they use it profoundly shape economic relationships.
- **Political power's importance over economic structures is dramatically magnified in the international arena, where there is no sovereign authority to manage or adjudicate disputes.**



From This Point Forward, Corporate Leaders Face Stark Choices



Credit: Hannah Dean

Commercial Actors Must Navigate an Emerging World of Nation-State Rivalries

“Rivalry” between nation-states means a combination of: “relationship characterized by extreme competition, and usually psychological hostility, in which the issue positions of contenders are governed primarily by their attitude toward each other rather than by the stakes at hand,” “militarized interstate competition in which some cases are more enduring than others,” and “a competitive relationship between independent states where both states identify the other as an enemy and an explicit threat.”* Rivalries are pervaded by a zero-sum mindset.

Characteristics of Rivalry With Elevated War Risk	Present in US-China Rivalry Today?
<i>High level of resource mobilization against rival</i>	Yes
<i>Government identifies rival as top threat</i>	Yes
<i>Acrimonious array of intractable positional & territorial disputes</i>	Yes
<i>Two or more militarized crises/volatility points</i>	Yes, incl. via alliance commitments
<i>Elevated levels of defense spending, capabilities clearly target rival’s military</i>	Yes
<i>Intense effort to build coalition targeting rival</i>	Yes
<i>Multiple parallel & overlapping rivalries</i>	Yes

US-China Relationship Is Now a Rivalry and Frames Interactions With Entire “Axis of Autocracy”

Source: Author’s Analysis based on metrics from Heath, Timothy R., Kristen Gunness, and Tristan Finazzo, *The Return of Great Power War: Scenarios of Systemic Conflict Between the United States and China*. Santa Monica, CA: RAND Corporation, 2022. https://www.rand.org/pubs/research_reports/RRA830-1.html.

*John A. Vasquez, “Distinguishing Rivals That Go to War from Those That Do Not: A Quantitative Comparative Case Study of the Two Paths to War,” *International Studies Quarterly*, Vol. 40, No. 4, December 1996.; Gary Goertz and Paul F. Diehl, “War and Peace in International Rivalry,” Ann Arbor: University of Michigan Press (2000); William R. Thompson, “Identifying Rivals and Rivalries in World Politics,” *International Studies Quarterly* 45 (4): 557-587 (2001)

In a Rival, But Globalized, World Everything Can be a Weapon

Non-Military

- Financial warfare
- Trade manipulation
- Economic aid
- Sanctions
- Regulatory actions
- Standards warfare
- Legal warfare
- Smuggling
- Illicit substances
- Information/influence operations
- Resource competition
- Ecological/climate warfare

Trans-Military

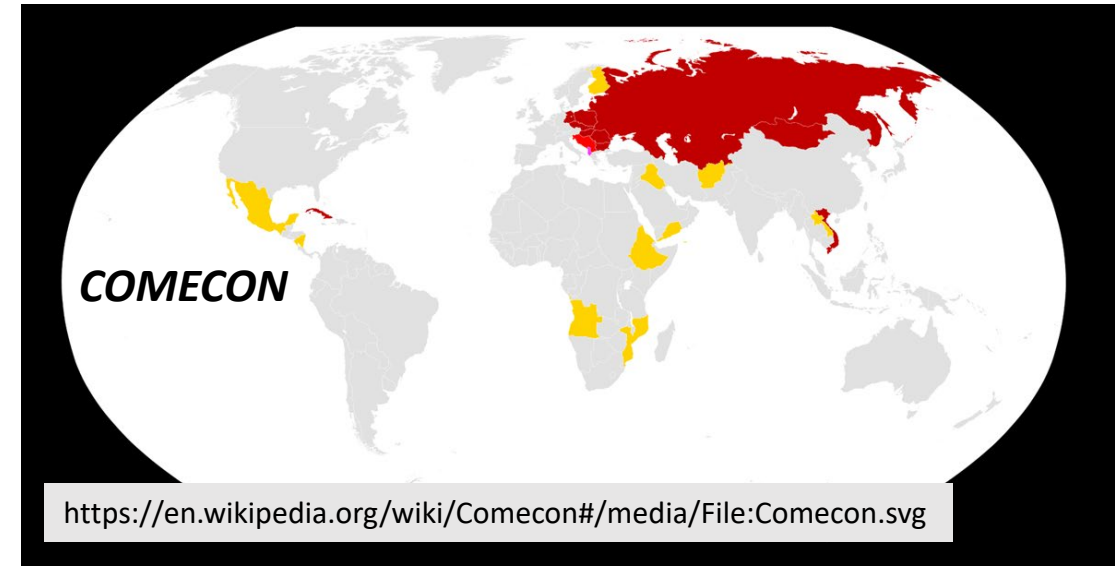
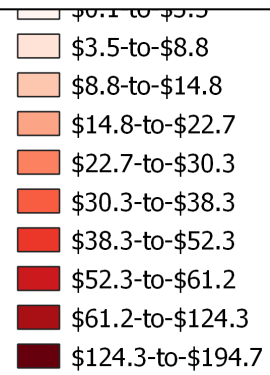
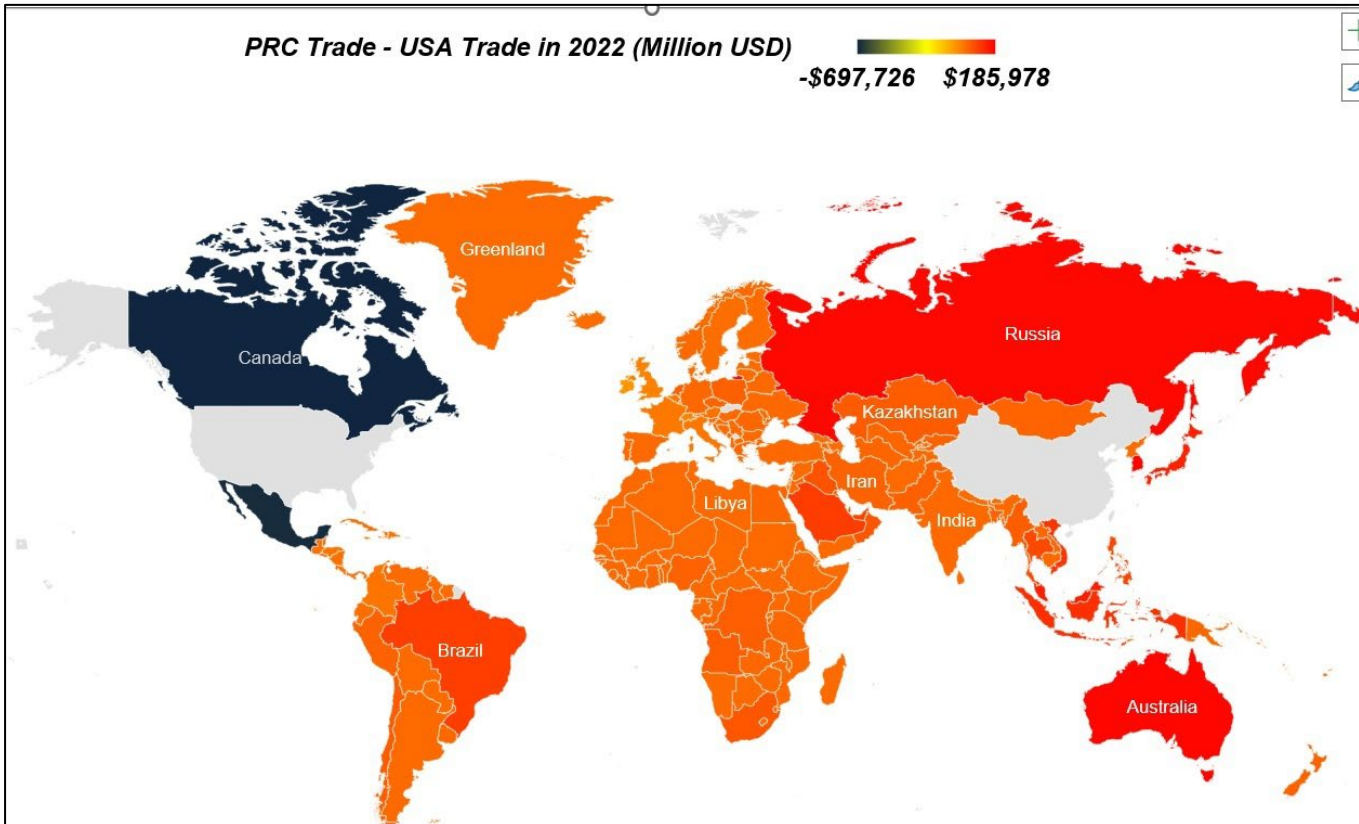
- Energy supply manipulation
- Sponsorship of non-state proxies
- Terrorism
- Infrastructure warfare
 - *Destructive (Nord Stream)*
 - *Shaping (dual-use ports)*
- Covert operations
- Supply chain tampering
- Platform warfare
- Intermittent blockades

Military

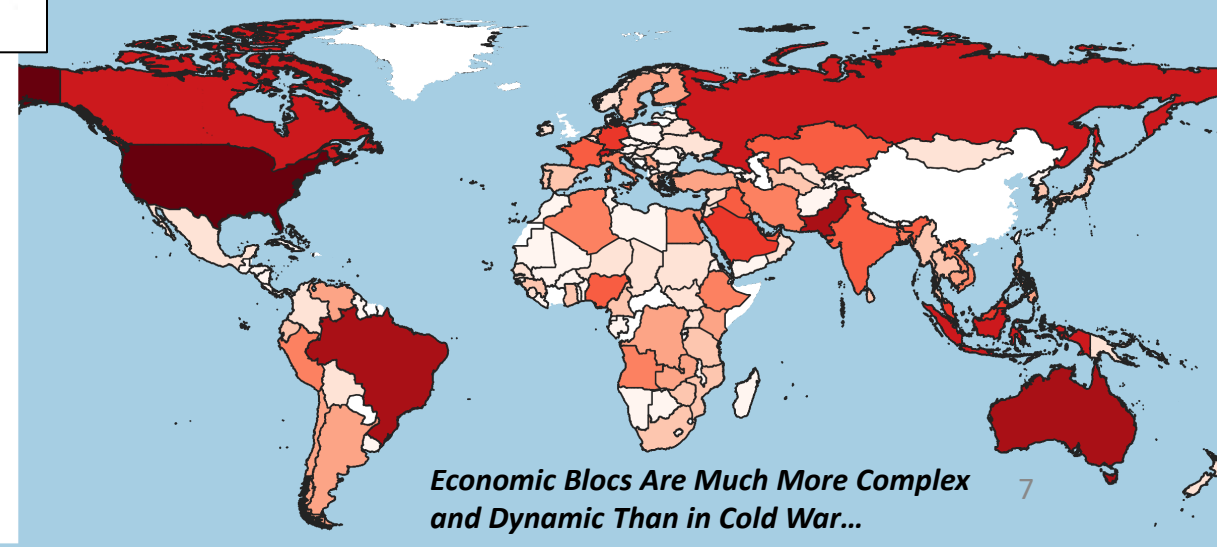
- Conventional warfare
 - *Low intensity*
 - *High intensity*
- Space warfare
- Electronic warfare
- Biological/chemical warfare
- Nuclear warfare

Cyber operations

...And Countries May Knife Fight While Economically Tied Together



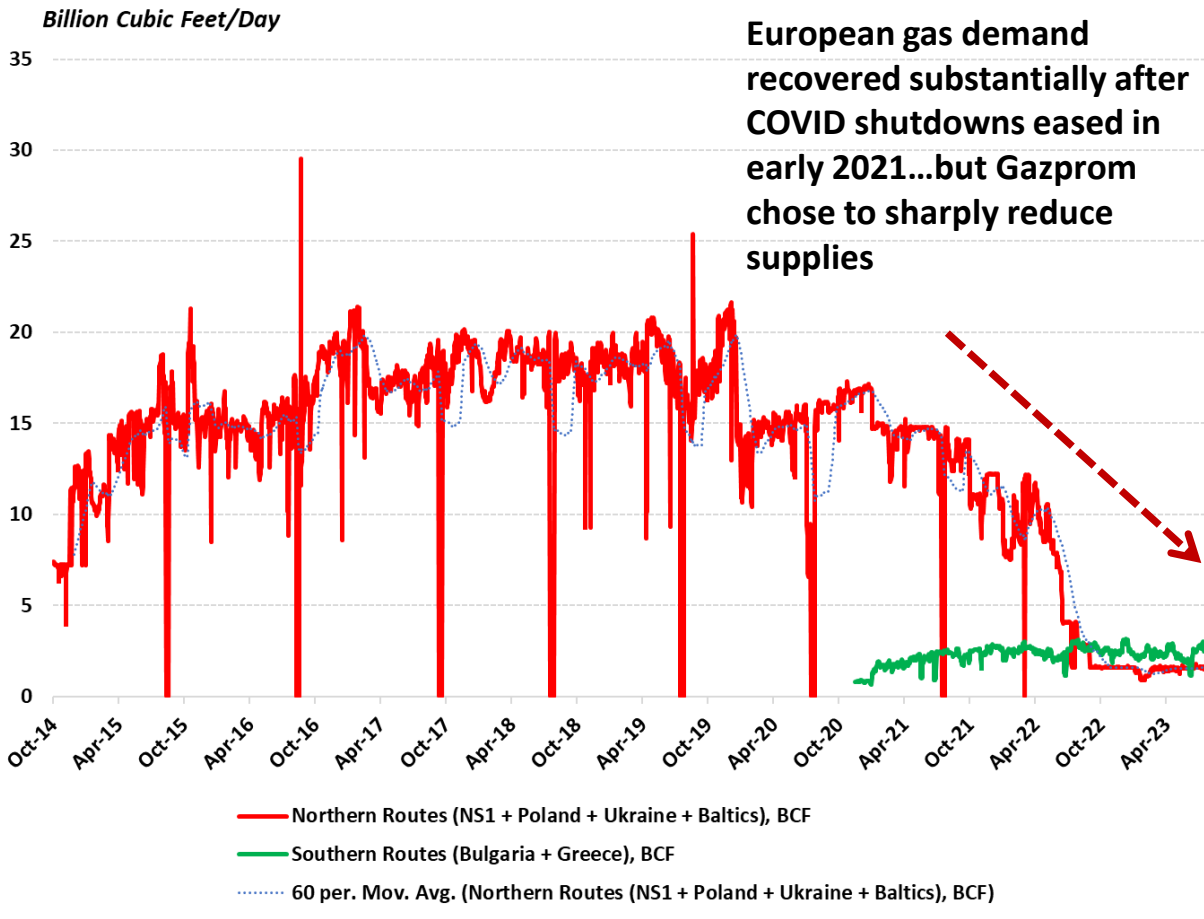
Modern PRC Investment Footprint



Source: AEI China Global Investment Tracker, Author's Analysis

Blurred Lines: Commerce, Warfare, a Bit of Both?

Russian/FSU Pipeline Gas Supplies Into Europe



Source: ENTSOG, Gasunie (conversion data), Author's Analysis

Governmental Jockeying For Strategic Metals

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U.S. Considers Dropping Sanctions Against Israeli Billionaire in Push for EV Metals

Plan would let Dan Gertler participate in mining deals with Saudi Arabia; American companies would get some of the metals

By Summer Said, [Follow](#) Julie Steinberg [Follow](#) and Stephen Kalin [Follow](#)
Oct. 11, 2023 5:30 am ET

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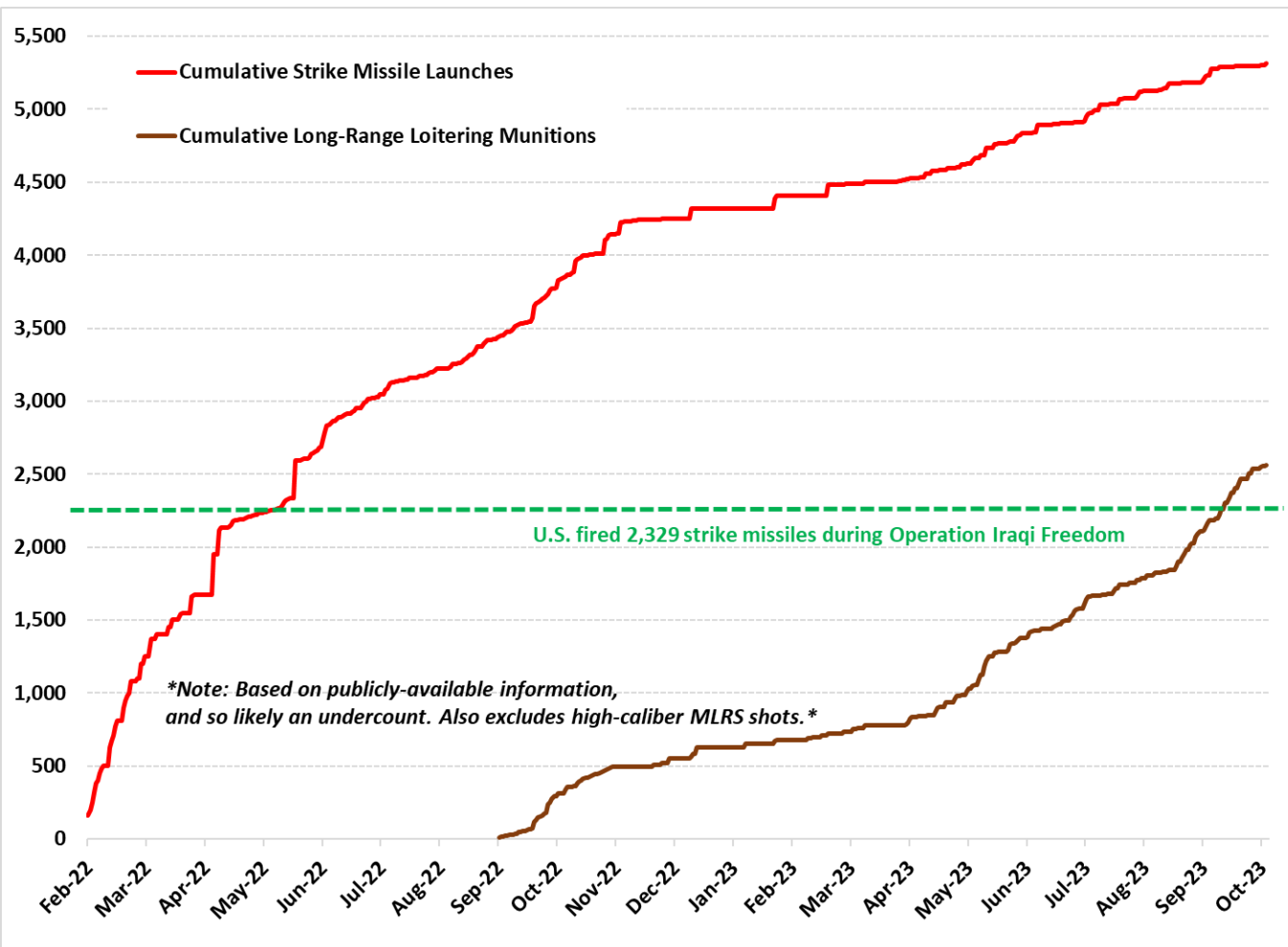
Billionaire Dan Gertler, in Congo about a decade ago, has said he ended his activities there. PHOTO: SIMON RAWSON/BLOOMBERG NEWS

MOST POPULAR NEWS

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- It's Getting Too Expensive to Have Fun

Future Wars Could Be More Violent Than Ukraine

More Than 7,800 Cumulative Strike Munitions* Used Thus Far



Source: Defense Express, US Defense Department, Pravda UA, Suspilne, Ukrinform, Ukrainian Air Force

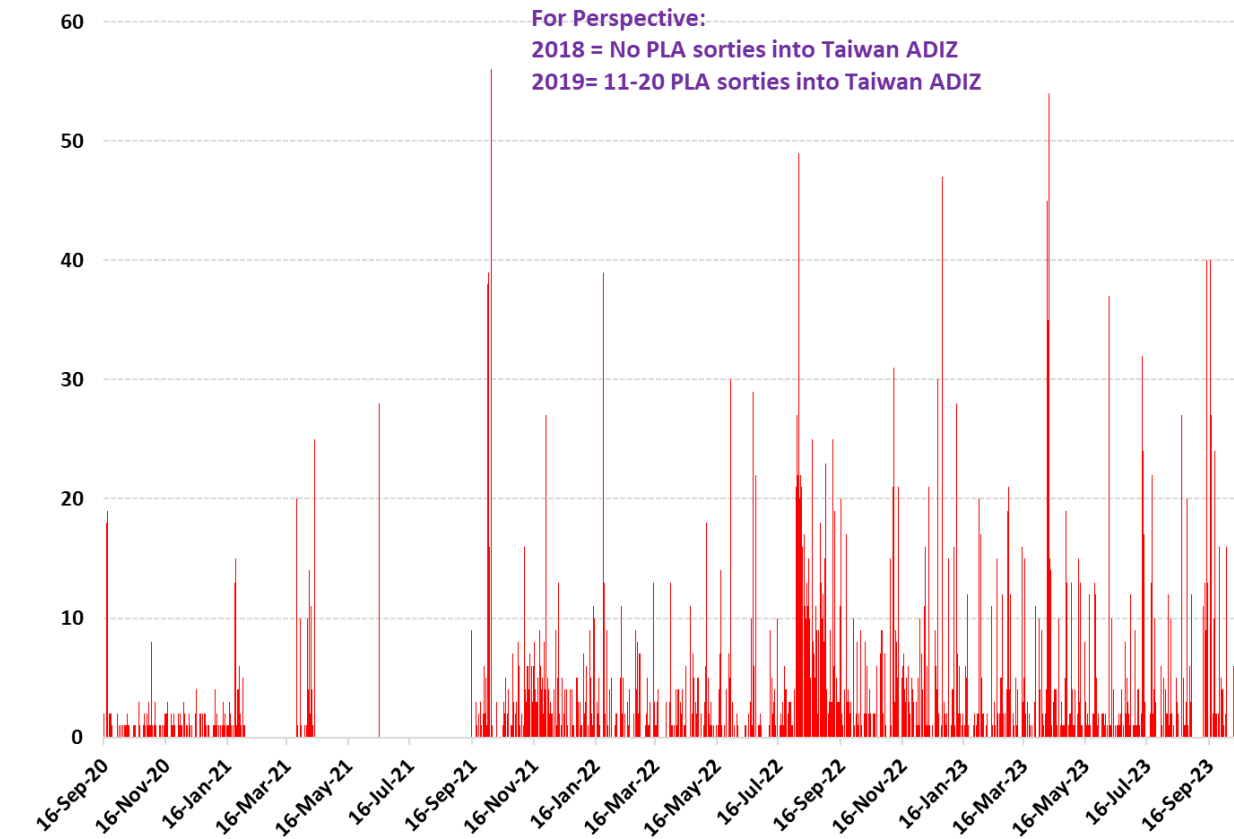
- In a US-China fight, mass, precision, and truly global strike capabilities will be on the table.
- Consider the uplift in sheer kinetic violence relative to the last Pacific war:
 - Modern super/hypersonic anti-ship missiles pack a kinetic + warhead punch that can be 10X what a kamikaze aircraft or 18-inch battleship shell would have unleashed

Note: This is likely an undercount, as it relies substantially on intercept data that do not always show how many munitions Russian forces launched

Revisionist Powers Continue Ramping Up Coercive Pressure Against US Partners

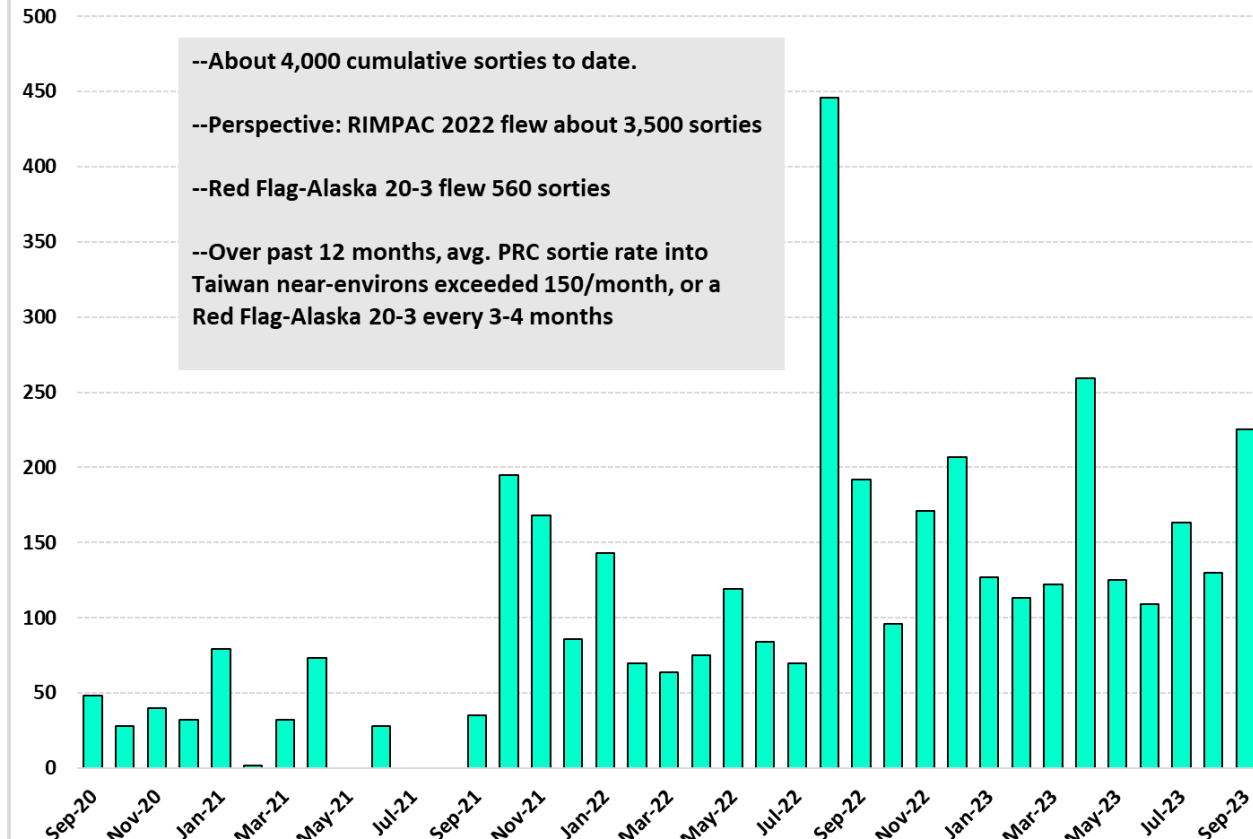
Reported PRC Aircraft Entries Into Taiwan Air Defense Identification Zone and/or Crossing Taiwan Strait Median Line, Daily

PRC Aircraft Entering Taiwan ADIZ/Crossing Median Line Each Day



Reported PRC Air Sorties Into ADIZ/Across Median Line, Monthly

Reported PRC Air Sorties into ADIZ/Across Median Line



We Are Squarely In The Window of Maximum Danger

Action	Warning Timetable
Maritime Militia actions against Taiwan's outlying islands such as Pratas	Days
PLA blockade of Taiwan's outlying islands	Days
Invasion of Kinmen or other outlying Taiwanese islands	Weeks
Customs quarantine possibly escalating to maritime blockade of Taiwan	Days/Weeks
Missile/Air "exercises" to disrupt air and maritime traffic into Taiwan	Hours/Days
Full invasion of Taiwan	Weeks/Months

Sources: David Lague and Maryanne Murray, "War Games—T-Day: The Battle for Taiwan," Reuters, November 5, 2021, <https://www.reuters.com/investigates/special-report/taiwan-china-wargames/>; authors' analysis

And Many Decades of Strategic Competition Likely Lie Ahead

Prevailing in one strategic contest...

25 December 1991



...does not necessarily end the competitive challenge.

15 August 2022



- Even if demographic & economic factors short circuit China's quest for superpowerdom, in most scenarios short of collapse, it will pose a multi-decade competitive challenge.
- Russia is a "persistent power" but we don't really have a contemporary model for what a post-Decade of Danger China might look like.

Sources: The Guardian, CNN

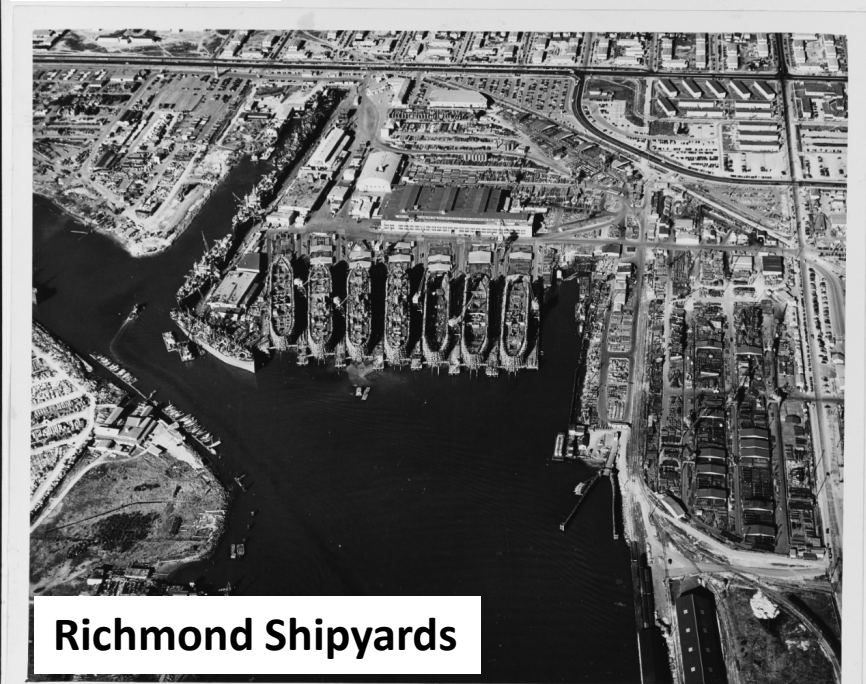
Multinational Corporations Are National Security Assets

Your competitive position may choose a side for you, whether you overtly want that or not

WWII



Willow Run



Richmond Shipyards

Now



China's Parastatals

INVESTIGATION

TECH GIANTS ARE GIVING CHINA A VITAL EDGE IN ESPIONAGE

U.S. officials say private Chinese firms have been enlisted to process stolen data for their country's spy agencies.

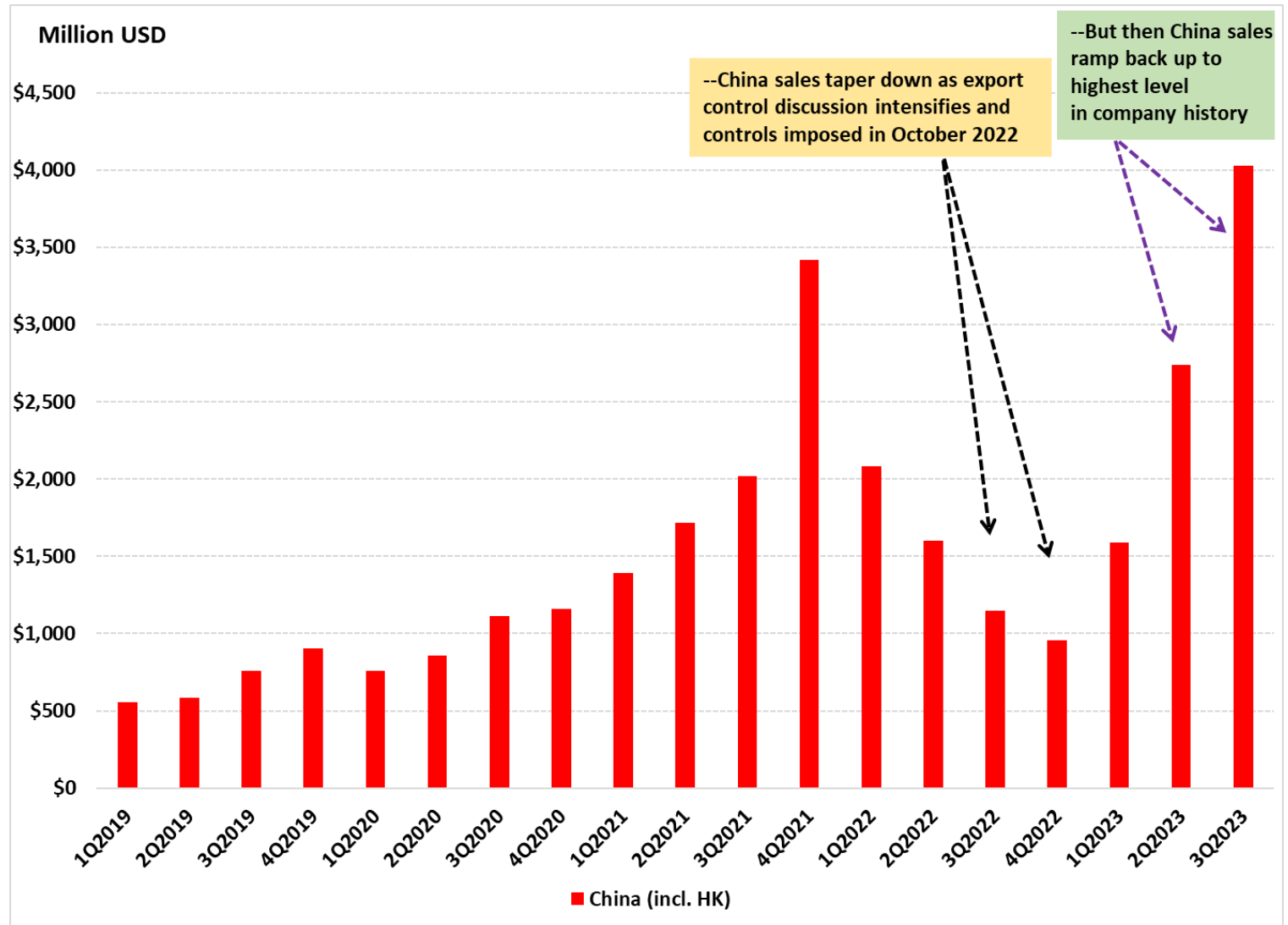
BY ZACH DORFMAN
DECEMBER 23, 2020, 6:00 AM

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Corporate Importance Exhibit A: NVIDIA

- Classic case of a corporate entity that does not want to choose sides but will likely be forced to as geopolitical dividing lines harden.
- Its commanding position in GPU technology makes it the premier “picks and shovels” business in today’s unfolding AI gold rush.
- But the company’s exposure to the China market raises pointed questions as to how its chips potentially help power the economy and military of the United States’ Near Peer Competitor.
- And sales are higher than ever...
- Expect more export control attention from the Commerce Department in coming months.

NVIDIA Sales to China, Quarterly (Million USD)

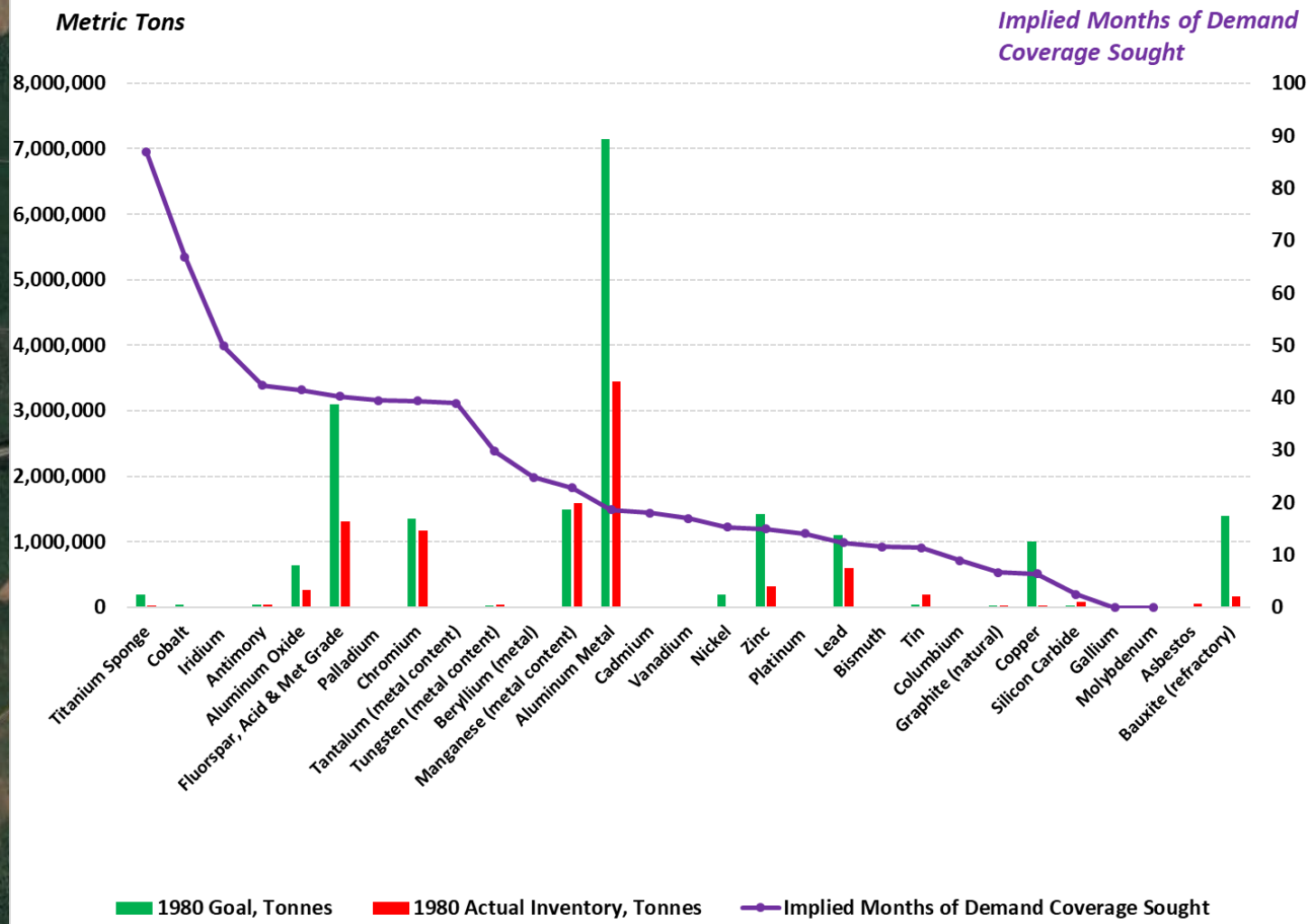


Source: Company 10-Q Reports

Private Corporations Own/Operate Critical Assets and Hold Materials Inventories That Government Used To Hold Itself



US 1980 National Defense Stockpile: Desired vs. Actual Inventory



Source: Stockpile report to the Congress. 980-84/85, USGS, USGS Archive (<https://search.library.wisc.edu/digital/AZJDITAWX26DJC9C/full/A42RR6TSPSXA7P8D>), Author's Analysis

Securitization Amplifies Risks: China Exposure Examples

Sector-Level Risks

- Full Kinetic War (*highest impact, lowest probability*)
- Blockade/Embargo
- Damaging Cyberattacks
- Export controls/sanctions

Firm-Specific Risks

- Employee detentions
- Raids
- Boycotts
- IP Theft
- Merger/Transaction approval withholdings
- Rejection of cargoes/punishment by demurrage
- Industrial espionage/passing of information to competitors
- Shadow business expropriation through “informal” regulatory action



[Travel.State.Gov](#) > [Travel Advisories](#) > China Travel Advisory

China Travel Advisory

Travel Advisory
June 30, 2023

See Summaries - Mainland China, Hong Kong & Macau



Reissued with updates to wrongful detention language and information for the Hong Kong and Macau Special Administrative Regions (SARs).

Summary: Reconsider travel to Mainland China due to the arbitrary enforcement of local laws, including in relation to exit bans, and the risk of wrongful detentions.

Exercise increased caution when traveling to the Hong Kong SAR due to the arbitrary enforcement of local laws.

Reconsider travel to the Macau SAR due to a limited ability to provide emergency consular services. Exercise increased caution when traveling to the Macau SAR due to the arbitrary enforcement of local laws.

See specific risks and conditions in each jurisdiction.

Travel Advisory Levels

- 1 Exercise normal precautions
- 2 Exercise increased caution
- 3 Reconsider travel
- 4 Do not travel

Assistance for U.S. Citizens

U.S. Embassy Beijing
No. 55 An Jie Lou Road

The New York Times

16 August 2023

China Scuttles a \$5.4 Billion Microchip Deal Led by U.S. Giant Intel

Intel calls off its planned acquisition of Tower Semiconductor, an Israeli chip maker, after waiting in vain for 18 months for a review by Chinese regulators.



Thank You!

Stay in Touch:

Gabriel Collins, J.D.

gabe.collins@rice.edu

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