Xi-curity: How economic security ideas shape China's economic strategies

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In the run-up to the December EU-China summit in Beijing, tension loomed over issues like the EU's anti-subsidy investigation in China's electric vehicle sector, the carbon border adjustment mechanism (CBAM), and Dutch restrictions on silicon chip technology exports. Chinese authorities are criticizing President von der Leyen's economic de-risking policy, labelling it a dictated containment policy by the US. This criticism is peculiar when considering China's longstanding concerns and policies to cope with foreign overreliance, now amplified under Xi Jinping. Since his Presidency, large parts of the economy have been placed in function of China's national security. The EU belatedly recognized the strategic potential of economic assets, and currently responds to Chinese (and American) geo-economic power politics with some new initiatives. Yet, defensive, ad hoc measures to protect its increasingly limited industrial assets will not suffice.

Introduction

Already before take-off to Beijing, President of the European Commission Ursula von der Leyen and Charles Michel, representing the European Council, knew that the December EU-China summit was not meant to be a cosy get-together with their Chinese counterparts. Disgruntled about the European anti-subsidy investigation in China's electrical vehicle sector, its carbon border adjustment mechanism (CBAM) and the Dutch limitations on the export of silicon chip technology which might be a precursor to European-wide export controls, Chinese authorities have voiced strong criticism over President von der Leyen's policy of economic de-risking. Beijing's special representative on European affairs, Wu Hongbo, gave expression to this Chinese grievance by condemning how "Decoupling is the baby of the USA, de-risking was invented in Europe, and the concept of national security has been overstretched." (Bounds & Leahy 2023; Zhuang 2023).

This denouncement is remarkable. Long before Xi Jinping's reign, Chinese academia and policymakers have been signalling, and seeking to manage, the risks ensued from foreign overreliance and economic interdependence, and have consistently been expanding the concept of national security. Under Xi Jinping's leadership this conceptual and policy-oriented expansion has reached its zenith. For Xi, national security is everything and everything is national security, including the Chinese economy.

This policy brief explores how economic security ideas are shaping China's economic strategies and shows how the

Chinese economy is increasingly being placed at the service of China's national security. The EU's growing awareness that economic assets can be securitised and exploited for geopolitical ends is long overdue. Confronted with Chinese (and American) geo-economic power politics, it is currently developing several initiatives to cope with this trend. However, defensive ad hoc measures to compulsively cling to the few industrial crown jewels it still houses will not do the job.

DE-RISKING AVANT LA LETTRE

Between the birth of the People's Republic of China (PRC) in 1949 and Deng Xiaoping's reform and opening up policy in 1978, economic development and national security were considered two fundamental, but relatively segregated, pillars within the Chinese system. Domestically, Chinese national security was mainly about maintaining the ideological and political leadership of the Chinese Communist Party (CCP) and the socialist system (Pearson 2022, p. 143). Internationally, traditional concepts such as state sovereignty and territorial integrity, secured by military means, were seen as the main safeguards for Chinese national security (Wang 2004, pp. 525-526).

China's economic liberalization process started to defy these traditional conceptions of national security. Despite a clear political inclination to enter the global economic network, national security considerations resulted into a careful monitoring of China's economic opening up and reform process. Strongly adhering to China's monetary independence and the CCP's control over in-and outward capital flows, Deng Xiaoping only selectively and limitedly opened the country's capital account, a political practice that persists until today (Zhang 2023). While economic security was not an explicit policy goal yet, China's closed capital account exemplifies how economic security ideas already permeated the first steps of China's economic entry into the world economy.

The concept of Chinese economic security (*jingji anquan*) will start receiving more explicit academic and political attention when China at first hand experiences the risks of economic interdependence during the 1997 Asian Financial Crisis and of its integration in the World Trade Organization (WTO) in 2001 (Wang 2004; Yeung 2008). At the 16th Central Party Congress in 2002, Jiang Zemin stressed how: "in opening wider to the outside world, China must pay great attention to safeguarding its national economic security". (Jiang 2002).

There was, and still is, neither an intellectual, nor a political consensus on what Chinese economic security entails. Some authors have stressed the importance of international technological competitiveness, others the ability to apply as well as to be immune against the application of economic statecraft and still others have emphasised a guaranteed supply of resources. As Wu Baiyi mentions (2010, pp. 279-280):

"The mainstream intellectual view in China deems economic security as a broad concept. It refers to the certainty of a nation about minimum losses in the face of economic threats. Specifically, it underscores the safety and survivability of those economic parts or sectors vital to the country's growth, the livelihood, and its whole economic interests. Indispensable for achieving such a security are elements ranging from favourable internal and external business environments to strong international competitiveness, to status and capacities in world politics. The final goals for economic security are to enhance national economic power, to secure domestic markets while expanding, and to guarantee national interest and advantage in competition and cooperation abroad."

Despite the lack of conceptual consensus, the increased attention for economic security as a subsidiary to national security was mirrored by China's "comprehensive security concept" developed in the early 2000s. A deeper and explicit political connection between economic assets and national security was established, as the concept started covering a wide range of threats, ranging from the political, economic, military, and social area (Yeung 2008, 656; Wu 2010, p. 279; Beeson 2018, p. 7; Huang 2021, p. 123; Nyman 2023, p. 686). Under the leadership of Hu Jintao and Wen Jiabao, economic development becomes – next to sovereignty and (traditional) national security – a core interest within Chinese foreign policy (Wang 2011, p.71).

During the first decade of the 21st century, and especially since the global financial crisis, a more complicated international environment of intensified international competition when it comes to trade, resources, technologies, and standards exposed the (over)dependence of China's economy on foreign currency, technologies, export, and investment. Expanding the security concept allowed for policies to cope with these vulnerabilities (Nyman 2023, p. 686). Under Hu Jintao's leadership, technological innovation strategies, such as the 2005 Medium- & Long-Term Program on Science and Technology and the 2010 Strategic Emerging Industry (SEI) policies, were introduced. This governmental push for indigenous innovation focused on balancing the risks attached to China's technological foreign overreliance, to avoid the highly feared middle-income trap, and hence to maintain sustainable economic growth figures (Green Policy Platform 2011; Pearson 2022, p. 145).

Xi Jinping: De-risking in the name of national security

End of 2013, Xi Jinping materialised an abandoned idea by Jiang Zemin in creating the Central National Security Commission of the CCP. During its founding session a new "holistic security concept" was coined and served as the new umbrella for 11 – in the meantime this has been increased to 16 (!) – security arenas which the CCP deems indispensable for China's overarching aim of political security (Nyman 2023, p. 687).[1] The role of economic security within this holistic security concept cannot be underestimated. In official documents and speeches, the term is regularly mentioned "a basis for", and second in rank after, the ultimate priority of political security (China Law Translate 2015; Drinhausen & Legarda 2022).

However, Xi Jinping's rhetoric compared to the one of the previous Chinese leaderships clearly embodies a hierarchical shift which occurred between political security and the Chinese economy. During Hu Jintao's 17th Party Congress speech in 2007, the word "economic" was signalled 79 times, whereas "security" was referred to 25 times. In his 20th Party Congress speech in 2022, Xi mentioned "security" 81 times while "economic" appeared only 36 times (Hu 2007; Xi 2022).

In China, a heated public debate on what Chinese economic security specifically entails – like the one that is currently being held in the EU – seems to be absent (Dûchatel 2023). But Xi Jinping's strategies, policies and actions tell a different story. Rather than assessing how economic security ideas are shaping China's economic strategies, an analysis of the latter can provide answers on the question of how economic security is perceived by the Chinese leadership.

Building on the previously developed SEI policies of Hu Jintao, premier Li Keqiang launched its Made in China 2025 large-scale industrial plan in 2015. Covering ten key sectors, this government-led initiative aims to diminish China's reliance on foreign technology, replacing the latter with Chinese alternatives at home and nurturing Chinese technology companies to conquer overseas market share. The quest for indigenous innovation and technological self-sufficiency again permeated this development strategy. Still, the plan was more outward-oriented – containing a push for economic national champions to go out and gain foreign market share and brand recognition – and wider in scope and size compared to the SEI predecessor of President Hu. It also provided more concrete policy goals. One of its major goals for example is to push the domestic market share of Chinese suppliers for "basic core components and important basic materials to 70 per cent by 2025" (The State Council of the PRC 2015; ISDP 2018, pp 2-4).

Winter is coming. Hoping for the best, preparing for the worst

Internal and external turbulence have accelerated, and widened the scope of, China's strive for national security. The Obama and Trump administrations brought the Sino-American relationship to an all-time low. The COVID-19 pandemic as well as the invasion of Russia in Ukraine and the consequential western economic and political sanctions have given international mutual trust a blow and provided an additional push for the Chinese aim for self-reliance.

While consolidating his political power at home, Xi Jinping realizes that, externally, the era of a peaceful growth environment and infinite economic opportunities is being replaced by an era of increased uncertainty, international competition, and external containment. In this regard, he stressed that China should prepare itself for worst-case scenarios (Xi 2022): "Be mindful of dangers in the midst of

[1] Xi Jinping's holistic security concept includes military, territorial, technological, ecological, societal, polar, cyber, space, cultural, political, economic, bio, deep sea, resource, and nuclear security, as well as the security of overseas interests.

peace. Get the house in good repair before rain comes and prepare to undergo the major tests of high winds and waves, and even perilous, stormy seas." Whereas the Chinese leadership is convinced that isolation and rigidity should be avoided, economic independence and self-reliance are considered prerequisites for China's continued path towards "socialism with Chinese characteristics".

This two-pronged approach, also echoed in China's 13th and 14th Five Year Plan, aligns with China's recent Dual Circulation Strategy (DCS) (García Herrero 2021, p. 2; Pearson 2022, p. 149). In response to the implementation of an economic containment strategy by the US and a strategic thinking exercise on European economic security, this 2020 Chinese policy agenda aims to rebalance the economy domestically, while continuously reaping the benefits of globalisation (Drinhausen & Legarda 2022; Dûchatel 2023).

The left arm of the DCS entails "internal or domestic circulation". Rather than serving as a lucrative market for western-produced goods, China's domestic market should be largely reserved for Chinese manufacturers. Moreover, access to technology and resources, which still excessively depends on external provision, should be insured. Spurring homegrown innovation and strategic stockpiling of critical minerals and raw materials are two methods for reaching these goals. In this regard dominating the entire production chain through vertical integration rather than specific parts in it, became a major industrial goal in several sectors. One of the policies to indulge this process is China's Little Giants Policy, in which 70,000 specialized Small and medium-sized enterprises (SME's) are selected and granted a privileged status. These firms are largely affiliated with the Made in China 2025 key sectors. Due to their status, they can count on direct and indirect government support (Brown et al. 2023). Resources from oil and gas to cobalt and copper are being secured through infrastructure projects abroad and the creation of strategic domestic reserves (Nakano 2021; Russell 2023). Chinese economic security hence implies dominating production chains in key industries, strengthening economic self-reliance, and protecting the domestic market from foreign containment policies and other external volatilities (García Herrero 2021, p. 4).

The right arm of DCS refers to external circulation. Globalisation and the entrance of China in the WTO have been indispensable drivers behind its economic growth miracle. Economic security for China does not mean turning its back to these lucrative engines of economic growth. If China reaches its innovation targets – the solar panel and electric vehicle sector are precedents in this regard – it won't take long before it intensively sells its gear to the world. While its Belt and Road Initiative (BRI) is being recalibrated from heavy infrastructure to small(er)-scale and more financially sustainable projects, one of its main objectives remains to unlock and satisfy a foreign buying spree of Chinese low and high value-added products (Malik et al. 2021). With a trade surplus hitting record levels, selling Chinese overcapacities overseas can be expected to remain an important objective of the BRI. In alignment with its critical minerals and raw material policies, the scope of the Initiative is likely to be deployed in a more strategic way, focusing on ensuring these resources, increasing economic self-sufficiency, and allowing for continued domestic industrial production (Chen 2023; Zenglein & Gunter 2023).

The internal and external pillars of the DCS are two communicating vessels. Overdependence of the Chinese economy on exports and investment has been a thorn in the side of Chinese policymakers for over two decades. Despite several demand-side encouragement policies, the share of domestic consumption in GDP sticks around 50 to 54 per cent, compared to countries like France and Germany which maintain a rate of 70 to 80 per cent (Statista 2023). The evolution of China's internal consumption rate is closely related to the "internal circulation" side of DCS, but also serves as an indicator of how the "external circulation" will evolve. The less Chinese buyers are purchasing Chinese products and components, the more aggressive export policies can be expected, particularly when intensified industrial policies are creating overcapacities in targeted key industries.

KEEPING THE ECONOMY ON A LEASH AND WEAPONIZING TRADE AND INVESTMENT FLOWS

Along with the enlargement of the Chinese national security umbrella, an untransparent legal framework, allowing for the Chinese government to intervene in its economy whenever and wherever it deems necessary, has been issued (Huang 2021, pp. 9-16). Chapter VI of China's 2015 National Security Law tasks Chinese citizens and enterprises with supporting the Chinese State in preserving China's national security (Pearson 2022, p. 150). The law opened the door for investment reviews that largely exceeds traditional national defence interests (Huang 2021, pp. 9-16). Numerous data- and cybersecurity regulations, espionage-, foreign relations-, export control laws, and entity listings have been developed since 2012 to increase political control over the Chinese economy and to weaponize trade and investment flows (Newman 2023).

This legal framework lies at the basis of several political crackdowns of domestic and foreign economic entities. Jack Ma is no longer an exception when it comes to China's exercise in disciplining private CEO's. Terry Gou from Foxconn, Xu Jiayin from Evergrande, Bao Fan from China Renaissance and Chen Shaojie from Douyu Tencent have all experienced the CCP's whip when departing from the Party's interpretation of Chinese national security interests (Hille 2023; He 2023; Liu & McMorrow 2023). A similar large-scale auditing exercise vis-à-vis foreign due diligence companies and consultancies, such as US Mintz, confirm that Xi Jinping's obsession with control and security not only impacts domestic companies (Leahy 2023). Government-owned "golden shares" in Chinese private companies are giving the CCP a seat at the board room. Party cells in Chinese private companies have become commonplace and show an increasingly active role in internal and business decision-making (Brooker 2022; Pearson 2022; Sweney 2023).

Next to scrutiny and political sticks, the Chinese government has developed carrots to get private entities aligned with the Party's economic ambitions. With a stock market traffic light system, the Chinese government guides foreign investment to the industries that are being prioritized in its industrial plans (Lockett & Leng 2023). China also increasingly makes use of its governmental guidance funds, in which the CCP, rather than serving as the gatekeeper to guide money to strategic manufacturing industries, is directly behind the wheel in pushing capital to the industries it prioritizes for its national and economic security (Adler 2022).

China's legal instruments have also been used in the weaponization of trade flows. The Chinese ambassador to the EU, Fu Cong, argued that "in our (China's) view, dependency is not dangerous. What is dangerous is to weaponize it" (Dûchatel 2023). Nevertheless, China strategically has deployed its economic assets for political purposes on a regular basis. Chinese export curbs on germanium and gallium, two "strategic raw materials" which are essential in the production of semiconductors and electric vehicles, were implemented as a response to western trade and investment restrictions. Given the weight of China as a global supplier in a large range of materials, its potential to apply economic resource statecraft as a lever in geopolitical conflicts is large (Grohol & Veeh 2023, p.6). Moreover, the 2021 Lithuania case – in which China excluded Lithuanian components from its supply chains after Vilnius opened a Taiwan representative office – evidenced that China has become an adept user of production- and supply chain weaponization when it considers its national interests harmed.

In contrast to Wu Hongbo's claim, de-risking is not invented in Europe and broadening the scope of national security seems to have become a Chinese national sport. Already decades ago, the Chinese leadership carefully monitored China's entrance into the global economy and aimed to reduce its reliance on foreign suppliers. Several industrial policies clearly intent to de-risk the Chinese economy in a commitment for more economic and technological self-reliance. But whereas Xi's predecessors de-risked in function of sustainable economic growth and in function of avoiding the Chinese most dreaded middle-income trap, Xi de-risks in function of fending off external containment efforts, dominating the supply- and production chains, and weaponizing its economy in the name of China's national security.

Conclusion

Assessing how China's ideas about economic security shape its economic strategies is a difficult endeavour. There is no consensus nor a clear political blueprint on what economic security entails for the PRC. It is clear however that both Chinese policymakers as well as academia have attached great importance to economic security and have been enlarging the scope of Chinese national security as early as China took its first steps in entering the global network of investment and trade interdependencies.

Today, the Chinese economy is increasingly being instrumentalised for reasons of national security and economic self-reliance. The implementation of several domestic laws has opened the door for intensified Party control over Chinese and foreign businesses. With a combination of economic sticks and carrots, the Chinese government keeps the economy on a political leash and facilitates the application of Chinese economic statecraft in international trade and political conflicts.

Contrary to Wu Hongbo's statement, economic de-risking was not invented in Europe. Only recently economic security became an explicit priority on the EU's agenda and to a large extent it has been a response to the geo-economic scramble between China and the US. Next to developing an economic security strategy – containing a call for proper risk assessments within the areas of artificial intelligence, semiconductors, quantum computing, and biotech – the European Commission has modernized its trade defence instruments to be increasingly protected against unfair trade practices and better prepared for external economic coercion.

In practice though, the European Commission's actions often prove to be chasing the facts and remain largely defensive and ad hoc. Research has shown how the dominance of China in the solar panel production chain implies risks of energy sabotage. China globally provides 75 per cent of the online transfers in solar panel systems, which are used to convert direct current into alternating current. Similar to what happened with Russia, this overreliance on one foreign entity could be easily exploited to disrupt Europe's energy provision (Hulsen 2022; Pauwels 2023). Related concerns have been raised about the increasing number of Chinese-made wind farms in Europe (Braw 2023).

Alarmed by the sudden surge of Chinese electric vehicles on its market and convinced to avoid a repetition of the Chinese-European solar panel dispute, which ended into the loss of European solar panel production, von der Leyen launched an anti-subsidy investigation against Chinese electric vehicle producers. A comparable investigation in the sector of wind power equipment is being considered, anti-dumping investigations in titanium dioxide & aerial work platforms have been launched, and provisional duties against Chinese plastics have been implemented. If unfair trade practices are harming the European industry, the European Commission should deploy the means it has to rebalance the market. Nevertheless, the measures taken so far indicate that, while discursively the European Commission might prioritize the EU's strategic autonomy, in practice the tools that are being applied remain one-sidedly ad hoc, defensive, and reactive.

If the EU is serious about maintaining its global economic power, proactive policies focusing on strengthening the EU's own industrial capacities and independent provision within critical sectors, should be implemented simultaneously with necessary trade measures. Moreover, one of the biggest challenges when it comes to securing its economic security is Europe's internal fragmentation. Due to the EU's constitutional DNA, member states have a final say when it comes to how they ultimately define their proper economic security. This has for example resulted in a patchwork of divergent national-level FDI screening mechanisms, hindering a cohesive and long-term supranational strategy. The recent Dutch-American restrictions on the export of semiconductor manufacturing equipment is another case in point. The size, scope and depth of China's current economic security policies require a proactive and coordinated European response, not induced by American pressure, but focused on increasing European resilience in its critical industries, guaranteeing a fair economic landscape, and providing support for the valuable economic protagonists in it.

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