

Webinar #3, 19th June 2024: Economic security

"There's no way China will proactively weaponize its economic interdependence with Europe"

This text is transcribed from a webinar hosted by CMG on 19th June and edited for clarity and brevity.

Markus / CMG: Good afternoon in Asia and China. Good morning in Europe. Very warm welcome to the third webinar of the webinar series 2024 *Staying in Dialogue with China*, a European-China initiative. Today's focus is on economic security with Professor Wang Zhengxu, whom I will introduce in a minute. First, I would like to recap the framework that we use for the webinar series that you may have come across.

The webinar series is structured along six structural transitions. You see them here highlighted on this slide and you can also find it on CMG's website. The six transitions range from economic transition and industrial upgrading, market-oriented reforms and market governance, economic globalization to domestic demand system, social rebalancing, and economic security, which is the topic today. This is a framework that has been inspired by Chinese scholars, especially from Peking University, and that we have further refined. It's up for debate, so one of my opening questions to Professor Wang Zhengxu will also be what he thinks about looking through the lens of political economy at China's economy.

This time it is special in that we actually have – which I want to briefly mention – a specific publication focusing on this structural transition, the new EUCCC-CMG report "Riskful Thinking: Navigating the Politics of Economic Security". You can find the report here including the download link. We've also shared the report with Professor Wang in advance of the webinar.

But we've had actually no chance so far to discuss his views and feedback. So, this is going to be an interesting webinar where we can both refer to the way Professor Wang is looking at the topic regardless of this report, but also make some references to the report.

A second element, I'll just mention it briefly and it's also on our website's CMG Insight tab, is a background deck with all the methodologies and backups of this report for those who are specifically interested in how we reach the conclusions that are summarized in the report.

Finally, I'll also use this opportunity to briefly mention the CMG Europe-China Conference Shenzhen, the ECCS, which we announced last Friday. It's guided by the same spirit of providing original, fact-based and calibrated China analysis relevant for European business targeting Europe-based management to travel with us to Shenzhen. So please check out the information and learn about its value proposition as a compact, three-day business learning conference yielding relevant insights.

Having said that, as an introduction, it is now my pleasure to introduce Professor Wang. Professor Wang Zhengxu is Professor at the Department of Political Science at the School of Public Affairs at Zhejiang University, School of Public Affairs at Zhejiang University.

Prior to this, Prof. Wang was a distinguished professor at the School of International Relations and Public Affairs, short CIPRA, at Fudan University, where he also served as a research fellow in the university's think tank for international relations called Institute of Belt and Road and Global Governance, BRGG.

Secondly, Dr. Wang, prior to his current position, was also a research fellow in the East Asian Institute, EAI, of the National University of Singapore, NUS, between 2005 and 2007, and at the University of Nottingham, where he became associate professor and the acting director of the University of Nottingham's China Policy Institute. His research covers China's domestic politics and international affairs broadly, including economic security that we're discussing today.

In terms of brief logistics, we have 45 minutes for our discussion. I'll try to weave in your questions, so please use the Q&A functions. I'll be screening the box and weaving them in where they're suited in the discussion flow. No recording of today's webinar will be shared, but we'll circulate a transcript.

I would like to hand over directly with the first question to Professor Wang. You are right now on a field trip. Thank you so much for joining. Maybe the first question directly over to you: What do you think about the six structural transitions as an analytical framework, including economic security as one?

Wang Zhengxu: Yes, thank you, Markus. Thank you to CMG for organizing this event and inviting me to be part of this. It's very exciting for me. I haven't traveled to Europe for a few years already. So, it's very useful to stay in touch in this way. And indeed, I feel quite happy because now we can do this without having to travel. So, it's a great thing.

Yes, the six transitions. It is very important to realize that there are structural changes happening in China's economic and political development. Looking at the six transitions, I think they are very good.

I would like to refer to the third one, i.e. that of 'economic globalization' first.

I think it is also part of economic security that we are talking about, especially after Trump became US President in 2016. What China sees, I think, is that the external environment for China's continuing development has changed and is rapidly changing. New barriers have been put up aiming to limit China's space or opportunities for industrial upgrading and economic growth. But China also sees opportunities to continue expanding its global integration and to build broader and stronger economic linkages to other parts of the world, including Europe, the BRI countries and the "Global South" countries. So, I think it is a different kind of globalization we are talking about. There is a great deal of de-globalization that is going on, but globalization will continue, and countries are finding new ways and new opportunities to continue the globalization process. So, when I was reading this, it reminded me of the term "re-globalization".

Second, I also would like to raise the fertility trend and the demographic transition. Of course, this is listed in one of your second order issues. I don't think policymakers in China have realized how serious this has become. And they are wrong not to pay enough attention here, because once you reach a low fertility level, it is very hard to re-raise it again. So, I think the demographic change or transition is a much more serious issue than you are presenting in your table.

Third, I fully support the idea of putting this economic security as one transition regarding how China wants to coordinate the development and security.

Fourth, I also think the energy transition, similar to the fertility transition, is a first order structural change, even if many people might put it in the economic transition or industry upgrading. China is indeed taking this very seriously, and is adding great amount of energy supply capacity, all with renewable sources. The shift to electrical vehicles is taking place quite rapidly. So, here it presents a serious issue for Europe to face – unless Europe is willing to delay its energy transition, China is a great help in making possible many useful solutions. But it also means Europe will increase its dependence on Chinese products and capacities.

Overall, China sees its economy moving from a low- to a high-income country, moving out of poverty to the high-income development stage. And, in conclusion I think it is a great thing to identify key structural transitions and you list them as six which I support.

Markus / CMG: Thank you, Professor Wang. I would like to move to economic security, our theme today. You already started to talk about China's risk perception. So, my first question is how has Chinese leaders' risk perception evolved in the last decade or years in your mind?

Wang Zhengxu: Okay, I think in your EUCCC-CMG report something I find a very accurate observation is that from a Chinese point of view, it's less about securitization and more about risk management, as until about ten years ago, China enjoyed a long period of quite secure and peaceful international environment to pursue economic development.

China was one if not the biggest beneficiary of economic globalization. But after 2008/2010, the US suddenly realized that in terms of overall economic size and technologically China needs to be taken very seriously, with Made in China 2025 as an indication. Then, the concern settled in that in five or ten years, in a quite a few sectors the US could be technologically dominated by China, leading to the US' intent to do everything to undermine or stop China moving up in terms of industrial capacity, competitiveness in global trade and the global value chain system.

I think everything started there. And China realized the strong signals by the Trump administration, with the peak being the persecution against Huawei. It was not just against their CFO, Ms. Meng Wenzhou, but the aim to prevent Western countries such as Germany and the UK to use Huawei's 5G technology.

So, the risk perception shifted very quickly, and everything became real at the same time, in stark contrast to the period around 2012 or 2013 when China was very hopeful: the economy was set to reach the level of the US in 2020s, by 2025 China's technological progress should reach a new level in many key sectors. Then the "Taiwan issue" became very serious, and now looking at Ukraine, China realizes that it must prepare for a military scenario in Taiwan so as to economically sustain in such a scenario.

So, I think it is against this background that the Communist Party put forward the "holistic view of national security" concept, which you described in your report, plus the policy principle of 'coordinating development and security'.

Markus / CMG: Thank you, Professor Wang. I would like to ask you to help us understand the possible contradiction that Chinese leaders' risk perception is acute yet we can also read that China speaks about its "system advantage", or that it has the ability to "concentrate resources" to execute large-scale transformation and projects.

So, if you see all the risks, but you're very confident, does it mean China's risk management is executed in a very composed way, very soberly, or is the risk perception creating institutional anxiety? What is that balance of confidence and risk perception?

Wang Zhengxu: Of course, it is a way to manage expectations, to manage confidence so to speak. Saying that no matter how serious the challenges are, we have to believe in the party and government, and to tell the people that everyone has to work hard to live up to the challenge, and we have to face that challenge and so on.

For "concentrating resources", I think it has happened in some way, for example, in terms of semiconductors, that the US was hoping to cut China off from. Now within a few years, China is exporting large amounts of indigenous semiconductor chips that the world needs.

So, in a way there is quite a bit of truth that when the government realizes that a certain direction of industrial policies is working, then China can generate remarkable results. However, there is also the risk that waste or inefficiency can happen in the exact execution process. For instance, when government funding is available for companies to apply for, then there will be fake proposals. I remember such a failed semiconductor project in Wuhan or so. So, the policies could be abused and then there will be waste.

Markus / CMG: Party leadership introduced a concept of the "holistic notion of national security". I actually received an SMS on my cell phone when I was traveling last time in China to celebrate the 10-year jubilee of that concept. I assume everyone has received it, everyone in China who has a SIM card has received that SMS.

"Holistic notion of national security" in China's logic has 16 components. And after 2014, there were six elements added, namely technological security, societal security, economic security, outer space security, deep sea security and polar security. My question to you is, what is special about this type of concept that is introduced at the top of China's policy pyramid and what does it tell us?

Wang Zhengxu: You know, this holistic view of security, I never counted how many items it includes but I saw it in your report. The SMS tells us that the government is very serious in reminding people that national security is quite a serious matter and that we have to be always on alert to security threats.

So, what is new or what is significant in this is that I think in the past, when you talked about security, there was military security and the threat of wars and so on. I think in the past nobody looked at economic matters in a security sense. Since around 2000 more people talk about non-traditional security, including natural disasters or pandemics. But the SARS pandemic was quickly contained and for a long time the Chinese people were not quite bothered by risks of a similar pandemic. It is likely, however, that China responded very decisively, and in a sense very heavy-handedly to the Covid-19 pandemic because of the 2023 SARS experience.

But in any case, even if we include such non-traditional security risks, it still doesn't quite convey the comprehensiveness of risk perception contained in the concept of "holistic notion of national security". That is, the threats to national security now indeed come from quite a wide range of sources.

For example, cyberspace security, which of course is not new. When you have computer networks, there were already lots of cyberspace attacks. But now I think the new thing is the information warfare in cyberspace, in social media, on the internet, or what the Taipei government called "cognitive warfare". It's like purposely planned and implemented efforts to influence public opinion inside China to influence people's perception of matters inside China, mostly now through WeChat posts.

Markus / CMG: *Thank you, Professor Wang. Now moving even closer to our report, I would like you to comment on the main contribution of the report which is trying to say that what the EU sees as "de-risking", rhetorically adopted by the US administration, we say the corresponding Chinese concept is "to coordinate development and security".*

What is ground-breaking of creating such a formula? Because you have the term development, which is very strongly charged with opening up and reform since Deng Xiaoping with a focus on development. But now you have in the same formula, China says it needs to coordinate this presumably overriding priority with security.

Wang Zhengxu: I think we should be clear about what risks we are really concerned or talking about. One type of risk is that, when you have a globalized world, part of your value chains or supply chains, or market is definitely in other parts of the world, far away from your own country and you are naturally exposed to risks not controllable by you. Say an earthquake somewhere, a military conflict somewhere might disrupt your normal operation. If you are talking about "derisking" in this sense, I think people quite easily understand.

The other type of risk for China or any country is to be dependent or relying on another country or some third party for your supply chain or value chain, and that country could purposefully weaponize such a dependence. In this sense, you are reducing or preempting the risk that another country is purposely harming your ability to maintain economic security.

US-China relations are now very, very difficult with the US effort to try to suppress and contain China. And there's a very strong effort for China to break through this US effort. China sees great risk in US weaponizing, securitizing the China-US economic relations.

While between China and the EU or Europe, there is no strategic conflict or strategic competition and so there's no fundamental conflict between the two. I think that's why when Chinese leaders meet European leaders who talk about de-risking and diversifying away from China, they feel puzzled, even offended, because China is always set to stay in partnership with Europe. If China has no intention to weaponize the China-European economic independence, but Europe sees big risks there, then China sees quite a bit of unfairness. And it has a problem with Europe's judgement.

In my mind, there's no way China will proactively weaponize this interdependence. Look at history. If there was a punitive action from China, it was reactive to some European activities. For example, when Lithuania was trying to politically raise the status of Taiwan, or when Norway recognized a person that was seen as political

dissident within China, China took some actions. So, China's actions are actually always reactive and defensive. I think it is Europe mis-reading China's strategic intentions and strategic culture.

Again, China is not going to exploit the interdependence with European countries, but it wants Europe to understand that the US is the underlying driver of all these tensions. Plus, it is China's fundamental concern if European countries are sufficiently autonomous from the United States. If Germany were to work with Huawei to build its 5G network but withdrew because of pressure from the US, China would be disappointed.

Like you said, Deng Xiaoping said development was the fundamental project of the country, but now I think things really have changed. Externally, what China sees is that at least a part of the US policy establishment is on an all-out effort to contain China's development. People here even believe there is the US design to lead China into a military conflict over Taiwan or in the South China Sea, plus to undermine China's domestic stability to generate political social instabilities inside China to stop its economic trajectory.

That's why the party thinks security is very important now. If you do not have security, then you will not have development. If you have development and lose security, then development becomes meaningless. So, that's why they put out this formula of "coordinating development and security."

Markus / CMG: Thank you Professor Wang. I just want to mention that if China is taking measures such as self-reliance this of course impacts European business in China's economy. So even if you fundamentally are not proactive and offensive, you still take measures and it can still causally have effects.

So, to my question: Do you think "self-reliance" means that China's policy planning assumes China is alone?

Wang Zhengxu: I think many people were concerned about this new formula and worry that China is closing itself up and cutting off market access to foreign companies under Dual Circulation and "self-reliance". I think that's a misreading. The purpose was really to have a more robust domestic economic system, regardless of whether you call it self-sufficiency or self-reliance. Plus, some of the rhetoric is really only about the most extreme scenarios. So, you need to have a robust backbone of the economic system that in the face of very serious external issues such as a war, markets still work somehow, again as a defensive idea.

China wants to allow opportunities and more market access to foreign business. That's very, very sure. And China sees that as a way to continue to maintaining stability of the world economic system.

Markus / CMG: Professor Wang, I would like to thank you so much for taking the time during your business trip. I think it is important to hear the way you look at things. Further, I would like to thank everyone who has joined the webinar today taking time from your busy schedules. I'll just close on sharing briefly the outlook of our next and fourth webinar, which will be with Professor Li Shi from the same university, as Professor Wang. We will talk about social rebalancing as a fourth structural transition as part of this webinar series.

Wang Zhengxu: Thank you very much.

For reference: CMG's political economy framework: six structural transitions

Political economy: China's pursuit of 'high quality development' taking place amid six structural transitions			
Key structural transitions	Key policy goals	Key issues	Key policies
Economic transition and industrial upgrading	<ul style="list-style-type: none"> Transition to innovation-based economy Climb industrial value chain Digitalization and decarbonization 	<ul style="list-style-type: none"> Service sector contribution to GDP low Manufacturing struggling at mid-end products, low industrial value-added 	<ul style="list-style-type: none"> <i>Made-in-China 2025</i> <i>Opinions on High-quality Development of Service Industry 2019</i> <i>14th FYP 2021 Ch. 8, 10.</i>
Market-oriented reforms and market governance	<ul style="list-style-type: none"> Institutional transition, factor liberalization, SOE reform and "SSSR" Socialist market governance incl. anti-monopoly, / 'social credit' 	<ul style="list-style-type: none"> Low TFP Lower efficiency of state capital Monopolies and overcapacity "Disorderly expansion of capital" 	<ul style="list-style-type: none"> <i>Building Market-Oriented System for Allocation of Factors 2020</i> <i>14th FYP 2021 Ch. 19-22.</i>
Economic globalization	<ul style="list-style-type: none"> Integration into global flow of goods, services, capital, talent and ideas Continued opening-up 	<ul style="list-style-type: none"> Comparatively weak trade of service Comparatively low outbound FDI stock Geopolitics and decoupling policies 	<ul style="list-style-type: none"> <i>14th FYP 2021 Ch. 40</i> <i>Opinion on Increasing Efforts to Attract Foreign Investment 2023</i>
"Domestic demand system"	<ul style="list-style-type: none"> Consumption-boosting policies Rebalancing of public investments Business environment policy 	<ul style="list-style-type: none"> Low consumption share to GDP Demographic shift to aging population Imperfect social security system 	<ul style="list-style-type: none"> <i>14th FYP 2021 Ch. 12-14.</i> <i>Strategic Plan for Fully Expanding Domestic Demand 2022</i>
Social rebalancing	<ul style="list-style-type: none"> Equality and poverty reduction Social fairness and protection Balanced regional development 	<ul style="list-style-type: none"> Inequality: top 1% holds 30% of wealth Vulnerability of social groups (e.g. youth) 	<ul style="list-style-type: none"> <i>14th FYP 2021 Ch. 23-32.</i>
Economic security	<ul style="list-style-type: none"> "Coordinate development and security" 	<ul style="list-style-type: none"> Import dependencies and perceived supply chain risks China's weaker geoeconomic power 	<ul style="list-style-type: none"> <i>14th FYP 2021 Ch. 41-42, 52-53</i>

Longer-term transitions

Trade-off / rebalancing processes



China moved from linear economic development model of reform and opening up under Deng to dealing with strategic trade-offs