

How is China countering “decoupling” from the Western world?

An analysis of China’s “Anti-Decoupling” Strategies

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1. Introduction

Since the breakout of the COVID-19 pandemic, the term “de-coupling” between the United States (US) and China has been widely discussed and debated in the US,¹ which undoubtedly illustrates that the US-China relation is getting poorer and raises the question of whether we are heading towards a New Cold War. This trend didn’t halt after Joseph Biden became President in the US, although the Biden administration has chosen a slightly less aggressive policy towards China compared with the Trump administration.

In 2023, Ursula von der Leyen, the President of the European Commission, described the way of handling relations with China with a new notion: “de-risking”, which replaces “de-coupling”.² Later, during a speech at the United Nations (UN), US President Biden also said that the US was for de-risking rather than decoupling with China.³ At present, the US and EU seem to recognize the fact that purely de-coupling with China is neither feasible nor necessary, so de-risking has become a more suitable and achievable goal.

1.1 Defining De-Risking, Decoupling and New Cold War

¹ Ye, M. (2021). The COVID-19 Effect: US-China Narratives and Realities. *The Washington Quarterly*, 44(1), 89-105.

² European Commission. Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre. Retrieved from: https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

³ White House. (2023, September 19). Remarks by President Biden Before the 78th Session of the United Nations General Assembly, New York, NY. White House. Retrieved from: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/09/19/remarks-by-president-biden-before-the-78th-session-of-the-united-nations-general-assembly-new-york-ny/>.

After an extensive academic literature search, I still haven't found any scholarly definitions for the three terms: decoupling, de-risking, and New Cold War. So, I decided to place them on a continuum to clarify their meaning (see Figure 1).

To begin with, the economies of the US and the EU were highly integrated with China due to globalization and trade liberalization before the decoupling process began. This entanglement resulted in minimal restrictions on the flow of goods and services between these entities, signifying a high degree of integration, and this situation were to the left of the spectrum, closer to the "economic integration" pole.⁴ In the context of Figure 1, I employ the conceptual framework found on the left side of the "Economic Integration" spectrum to elucidate the prevailing economic and political relations between China, the United States, and the European Union.

As the purpose of decoupling is to reduce the EU and US economies' reliance on China, we could briefly define it as a separation process in the domains of international trade, advanced technology, supply chains and international economic relations. The end result of decoupling is excluding China from the Western world's economy, which is pretty much like the strategies that the US used against the Soviet Union during the Cold War. And that's why I choose to use the notion "New Cold War" developed by Hal Brands and John Lewis Gaddis,⁵ and put it on the right side of the Figure 1. This New Cold War implies the end of so-called liberal international order (LIO).

⁴ Appleyard, D. R., & Field, A. J. (2014). *International economics*. McGraw-Hill.

⁵ Brands, H., & Gaddis, J. L. (2021). *The New Cold War America, China, and the Echoes of History*. In *Foreign affairs* (New York, N.Y.) (Vol. 100, Issue 6, pp. 10–20). Council on Foreign Relations, Inc.

However, China plays a much more important role in the economies of the US and the EU than the Soviet Union ever did. This means that it would be very costly economically for the US and the EU to completely decouple from China and enter a New Cold War. Therefore, the US and the EU have instead chosen to partially decouple with China by only “decoupling with the areas where trade and investment poses risks to our economic and national security”, as Ursula von der Leyen said.⁶ And it also contains reducing economic integration with China through reshoring, friendshoring, alternative or parallel supply chains, export controls, investment screening, etc, hoping to reach a so-called “de-risking” equilibrium. But it is an unstable equilibrium point that might move towards “New Cold War” or retreat back to “Economic Integration”.

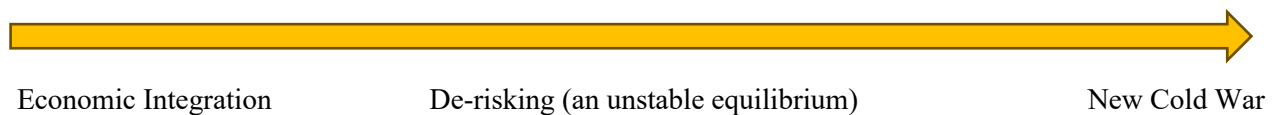


Figure 1: De-coupling Process

1.2 The major research paper’s structure

This major research paper (MRP) analyzes the concrete strategies that China has implemented in the de-coupling process, both to counter de-coupling measures from the US and the EU, the two biggest economic players in the Western world, as well as reduce its own economic dependence on these two economies. In doing so, we can answer the following question about the world economy’s future: Are we going towards a “New Cold War”?

⁶ European Commission. Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre. Retrieved from: https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

Part 2 is a literature review of the historical economic evolution between China and the US and the EU, mostly from the era of Deng Xiaoping to Xi Jinping. It concludes with the answers to four major questions:

- How and why did the US approach to China shift from liberalism (i.e., “engagement”) to realism (i.e., “containment”)?
- What are the differences in objectives and priorities between the US and the EU in their approaches to contain China?
- In China, what are the differences between the Xi Jinping era and the era of Jiang Zemin and Hu Jintao in terms of domestic governance and foreign actions?
- How deep has China been integrated into the global supply chains now?
- What are the contents of Made-in-China 2025, and Belt and Road Initiative (BRI)? And what do they mean in terms of China’s response to decoupling measures by the US and the EU?

This first analytical section also includes a description of three concrete Chinese initiatives: Made-in-China 2025, Dual Circulation and BRI, whereby China seeks to reduce its reliance on the Western world as well as enhance its own economy to secure the current CCP (Chinese Communist Party) regime. Made-in-China 2025 aims to reduce reliance on high-end technologies from the developed world and help China overcome the middle-income trap by shifting from the current

labor-intensive economic development model to a technology-intensive model.⁷ It is important to note that the Chinese government has erased all mention of this strategy from official speeches, papers, and official press amid heightened international concern, yet China is still inwardly working on it now.⁸ For instance, China's recent huge semiconductor subsidies plan can be understood as a new part of Made-in-China 2025, although it isn't referred to as such.

As for the BRI, it's an essential part of Xi's "Major Country Diplomacy" (大国外交) strategy, which seeks for a greater leadership role for global affairs in accordance with its rising power and status throughout a series of global infrastructure development projects.⁹

Part 3 is a comprehensive analysis from China's perspective of the directions in which China is heading in response to the de-risking strategies adopted by the US and the EU. It examines the following: establish a "controlled" market economy; establish a "reliable supply chain" from "authoritarian world"; "securitization"; and reduce the reliance on Western financial services.

1. Firstly, we illustrate the whole evolution from market economy since the opening of China, also known as the reform and opening-up, to a "controlled" market economy after Xi came to power to enhance the economy's competitiveness in the domains where China is highly relied on the Western world, especially high-end technologies.

⁷ Scott Kennedy (2015), Made in China 2025. Center for Strategic & International Studies. Retrieved from :<https://www.csis.org/analysis/made-china-2025>.

⁸ Anonymous. (2020, March 1). Made in China 2025 Disappears in Name Only. IP Defense Forum. Retrieved from: <https://ipdefenseforum.com/2020/03/made-in-china-2025-disappears-in-name-only/>

⁹ Smith, Stephen (2021). "China's Major Country Diplomacy". Foreign Policy Analysis.

2. Secondly, we examine how China is utilizing “securitization” to enhance control of the private sector and foreign investments to reduce reliance on the West. We also try to differentiate whether the goal is to increase control at home or reduce reliance abroad. Meanwhile, we also examine the strategies of the financial sector considering that it is also a critical part of mutual reliance.
3. Thirdly, we analyze Beijing’s diplomatic tactics aimed at dividing the US and the EU.
4. Lastly, we analyze the challenges and barriers that China has faced on those response tactics: e.g., China’s economy being highly reliant on foreign exports, government expenditure, and investment rather than domestic consumption; and the advantages and downsides of a government-driven development model.

Part 4 gives an analysis on whether we are heading towards a “New Cold War” when we combine the actions of China, the US, and the EU. We aim to determine if there is a de-risking dynamic that leads further and further toward the New Cold War end of the de-coupling process.

2. Historical review of the economic and political relations between China and the US and the EU after the Cold War

This section provides a concise literature review of the historical evolution of the economic and political relationship between China and the US and the EU. For the US, it examines the transformation from a liberal “engagement” policy to a realist “containment” one and investigates three prevailing interpretations of the reasons behind this shift. In the context of the EU, it explores the evolution of the EU’s characterization of China, transitioning from a “Strategic Partnership” to a “Systemic Rival.” Furthermore, it analyzes the distinctions between the EU and the US in terms of priorities and collective actions.

Regarding China, it firstly summarizes how Xi Jinping altered China’s approach to domestic governance and foreign policies compared to his predecessors, Jiang Zemin and Hu Jintao. After that, it examines China’s current position within the global supply chain and detailing three strategies aimed at mitigating the trends of de-risking from the US and EU.

2.1 US perspective

2.1.1 From “engagement” to “containment”

Since the end of the Cold War, US strategies towards China have evolved from liberalist engagement to realist containment, with an intermediate phase called “congagement”.

Here, the terms “liberalism” and “realism” are the two dominating theories of international relations (IR). Liberalism believes that the danger of war can be reduced by spreading democracy, strengthening global institutions, and fostering economic interdependence, and international

cooperation between states is feasible and sustainable.¹⁰ Moreover, a revised version, neoliberal institutionalism believes that international cooperation through international institutions or regimes between states is feasible to achieve states' goals in an anarchic international environment, and that such cooperation can reduce conflict and foster economic growth and development.¹¹

Realism comes with two assumptions: states are the dominant actors and the international environment is anarchic, meaning that the world lacks any supreme authority or sovereignty. More specifically, "there is no hierarchically superior, coercive power that can resolve disputes, enforce law, or order the system of international politics".¹²

Realism's core beliefs are that self-interested states compete for power and security interests in the anarchic international environment. Consequently, all states have a security interest which fuels states in acquiring power and ensuring that potential enemies do not become more powerful.¹³ One major realist perspective is called offensive realism, developed by John Mearsheimer in his book *The Tragedy of Great Power Politics*. Mearsheimer believes that a state's optimal strategy for achieving hegemony is to rely on offensive tactics to enhance its relative power. If major powers deem aggressive actions rational, they may pursue expansionist policies, bringing them closer to hegemony.¹⁴

2.1.1.1 "Engagement"

¹⁰ Jack Snyder (2004), 'One world, rival theories', Foreign Policy.

¹¹ Powell, Robert (1994). "Anarchy in International Relations Theory: The Neorealist-Neoliberal Debate". International Organization.

¹² Milner, Helen (1991). "The Assumption of Anarchy in International Relations Theory: A Critique". Review of International Studies. 17 (1): 67-85.

¹³ Jack Snyder (2004), 'One world, rival theories', Foreign Policy.

¹⁴ Mearsheimer, J. J. (2014). *The Tragedy of Great Power Politics* (Updated Edition.). W.W. Norton.

In 1972, during the cultural revolution, President Richard Nixon's eight-day visit to China indicated its transformation from a purely communist adversary to a strategic ally against the Soviet Union in Asia. By 1979, the two nations normalized relations,¹⁵ with Deng Xiaoping's rise and China's shift from a socialism planned economy to a market-oriented one, known as the opening of China.¹⁶ However, this honeymoon period was disrupted by the Tiananmen Square Massacre in 1989, leading the US to suspend military sales, impose economic sanctions, and freeze relations.¹⁷

In 1991, with the dissolution of the Soviet Union, the US, as the world's sole superpower, started a debate on whether to engage ("panda-huggers") or contain ("dragon-slayers") an authoritarian China.¹⁸ Finally, panda-huggers won the debate. Under President Bill Clinton's "constructive engagement",¹⁹ the US gradually opened its domestic market to integrate China with the global economy", granting it permanent normal trade relations (NTR) status and supporting China to join the World Trade Organization (WTO) through the US-China Relations Act of 2000.²⁰ Later, China became the largest trade partner of the US in 2006, and surpassed Japan economically by 2010, becoming the second-largest economy in GDP (if the EU's economy is not seen as one single economy) and the US by 2017 in term of GDP at purchasing power parity (PPP).²¹

¹⁵ Council on Foreign Relations. (n.d.). Timeline: U.S. relations with China 1949-2022. Council on Foreign Relations. Retrieved from: <https://www.cfr.org/timeline/us-relations-china>.

¹⁶ Ezra F. Vogel, Deng Xiaoping, and the Transformation of China (2011).

¹⁷ Council on Foreign Relations. (n.d.). Timeline: U.S. relations with China 1949-2022. Council on Foreign Relations. Retrieved from: <https://www.cfr.org/timeline/us-relations-china>.

¹⁸ Gifford, R. (2010). Panda-Huggers and Dragon-Slayers: How to View Modern China Today? Social Education, 74(1), 9-11.

¹⁹ Wang, Yangmin (1993). "The Politics of U.S.-China Economic Relations: MFN, Constructive Engagement, and the Trade Issue Proper." Asian Survey, vol. 33, no. 5, 1993, pp. 441-62.

²⁰ The U.S.-China Relations Act of 2000, Pub. L. No. 106-286, 114 Stat. 880 (2000).

²¹ World Bank. (2021). China's Economy Data. Retrieved from: <https://data.worldbank.org/country/china>.

From the perspective of panda-huggers, engagement would yield economic benefits from global trade and promote China's democratization through economic growth. A democratic China, the most populous country in the world, would dramatically reduce conflicts risk, echoing Francis Fukuyama's vision in *"The End of History and the Last Man"*, where the Western liberal democracy becomes universal as the final form of human government.²²

But the panda-hugger's bubble eventually broke out. During the Obama administration, the US started to rebalance its Asia-Pacific region strategies and used the Trans-Pacific Partnership (TPP) to balance China's role in international trade. The term "congagement", a notion referred in 1999, was used to illustrate US's China policies during this period, meaning that the US had changed the engagement policy and tried to get a middle ground between engagement and containment.²³ More specifically, congagement means "preserve the hope inherent in engagement policy while deterring China from becoming hostile and hedging against the possibility that a strong China might challenge U.S. interests".²⁴ In another words, Washington had gradually realized the threat brought by a rising and illiberal China but hadn't moved to a containment policy during this period.

Another definition of congagement is the China policy adopted by Bush administration where China was seen as a "strategic competitor" to the US, which retained a cooperative and competitive relationship between the two countries.²⁵

²² Fukuyama, Francis. "The End of History?" *The National Interest*, no. 16, 1989, pp. 3–18.

²³ Amit Saksena (2014). "US-China: The Problem with Congagement" *Institute of Peace and Conflict Studies*, 4492.

²⁴ Khalilzad, Z. (1999). *Congage China* (pp. 1-8). RAND.

²⁵ Ger, Y.-K. (2004). *From Congagement to Engagement: The Changing American China Policy and Its Impact on Regional Security*. *American Journal of Chinese Studies*, 11(2), 159–180.

2.1.1.2 “Containment”

In 2018, the Trump administration, also labeling China a “strategic competitor”,²⁶ imposed tariffs on Chinese goods due to trade imbalances and technology transfer disputes, thereby officially starting a “trade war”.²⁷ Apart from this, the two countries were increasingly opposed on Hong Kong, Xinjiang and Taiwan as well as on Huawei’s role in Western telecommunication networks, which altogether accelerated the shift to a containment approach towards China. In 2020, Secretary of State, Mike Pompeo, declared that the four decades of engagement had been a dismal failure, marketing the end of engagement and the start of the containment era.²⁸

After President Joe Biden came to power in 2021, the US maintained the broad containment measures adopted by the Trump administration yet changed concrete tactics. Specifically, the Biden Administration has embraced the Trump Administration’s characterization of China as a “strategic competitor”. While retaining Trump’s tariffs, the “Quad” initiative, and the elevated protocol status for Taiwan along with increased military assistance, the Biden Administration has placed greater emphasis on the following issues:

- a. Improving the US’ comprehensive competitiveness domestically and internationally;
- b. Cooperating with allies, such as the EU, to collectively contain China;
- c. Emphasizing on human rights;
- d. Using de-risking in some certain domains instead of de-coupling;

²⁶ Department of Defense. 2019. ‘Indo-Pacific Strategy Report: Preparedness, Partnerships, and Promoting a Networked Region.’ June 1, p. 7.

²⁷ “Findings of the Investigation into China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974”, Office of the U.S. Trade Representative, March 22, 2018.

²⁸ Lee, Matthew. 2020. At Nixon Library, Pompeo declares China engagement failure. The Washington Post.

- e. Searching for cooperation space with China, such as climate change.²⁹

In the eye of dragon-slayers, China not only differs ideologically from the Western world, particularly in its approach to political liberalization and domestic policies but is also an ascending power with ambitions that may challenge and eventually diminish the influence of the West, leading to conflict. The panda-hugger policy is considered highly naïve as it neither weakened China nor advanced China's democratization, but fueled a strong challenger step by step, turning it into a formidable adversary that poses a significant threat to the US's superpower status and the Rules-Based International Order (RBIO).³⁰ Thus, the US should contain China, leveraging its national power to establish a strong deterrent. In a word, since the end of the Cold War, panda-hugger's liberal engagement strategies toward China have been overtaken by dragon-slayer's realist containment ones in the US.

2.1.2 Why the liberalism approach toward China died in the US?

Presently, there is a myriad of explanations within the academic community regarding the reasons for this shift. There are three dominant interpretations: the failure of democratization in China; increasing aggressive intentions from China under the rule of Xi Jinping; balance of power (BOP) and Thucydides' Trap.

2.1.2.1 The failure of democratization in China

²⁹ Nathan, A. J. (2021). Biden's China Policy: Old Wine in New Bottles? *China Report* (New Delhi), 57(4), 387–397.

³⁰ Zeng, K. A. (2019). Blaming China: It Might Feel Good but it Won't Fix America's Economy. (2019): 560-561.

A primary criterion for evaluating the success or failure of the US's engagement is whether an authoritarian China would become more politically liberal and/or democratic. At the very least, if democratization doesn't occur, China should become a "responsible stakeholder" in the rules-based international order.³¹ However, these expectations were proved incorrect as China's democratization witnessed a significant backsliding, with the human rights and freedom deteriorating notably after Xi Jinping took power in 2012. And Xi also broke the restriction set by Deng Xiaoping and secured a third term in 2022. For example, China cracked down on the protests and forcibly enforced the National Security Law in Hong Kong in 2020.³² And it sent Uyghurs people to Xinjiang internment camps, officially called "vocational education and training centers." (职业技能教育培训中心), justified those measures to "prevent terrorism and extremism by education and training".³³

Additionally, China has sought to export its authoritarian ideology, posing a direct challenge to Western values. The Democracy Index, compiled by the Economist Intelligence Unit (EIU), is a leading voice in reflecting global democratic standards. Its 2021 report, titled "The China challenge", posits that China's state-driven capitalist "China Model" is as potent a challenger as the Soviet Union was during the Cold War, and highlighting it as a key factor contributing the spread of authoritarian values and a global rollback of democracy.³⁴

³¹ Johnston, A. I. (2019). The failures of the 'failure of engagement' with China. *The Washington Quarterly*, 42(2), 99-114.

³² Morrison & Foerster. (2020, July 1). Hong Kong National Security Law Promulgated, Came into Effect June 30, 2020. Retrieved from: <https://www.mofo.com/resources/insights/200701-hong-kong-national-security-law>

³³ "Xinhua. Beijing. (2019). Full Text: Vocational Education and Training in Xinjiang". Retrieved from: <http://www.xinhuanet.com/english/download/VocationalEducationandTraininginXinjiang.docx>.

³⁴ Economist Intelligence Unit (2022). *Democracy Index 2021. The China challenge*. London: EIU.

In short, panda-hugger's engagement goal not only failed its aim to foster a democratic China but also inadvertently amplified threats to global democracy. As a result, a shift towards the dragon-slayers' strategy has been seen as imperative for the US and the Western world.

2.1.2.2 Increasingly aggressive intentions from China under the rule of Xi Jinping

China's diplomacy policy has evolved from the less-ambitious approach of Deng Xiaoping's era to a proactive one under Xi Jinping's leadership. To be more specific, it changed from "keep a low profile" (韬光养晦) to "strive for achievements" (奋发有为).³⁵ This shift, in turn, activated US's immune system in safeguarding its sphere of influence in the Asia-Pacific region as well as its global leadership position. For instance, a US Department of Defense report concretely illustrates six aggressive intentions from China under Xi Jinping's rule:

- "Reshaping the international order to better align with its authoritarian system and national interests, as a vital component of its strategy to achieve the "great rejuvenation of the Chinese nation. (中华民族伟大复兴).
- Attempting to complete PLA (People's Liberation Army) modernization by 2035 and to transform the PLA into a "world-class" military by 2049 so that they can replace the US in the military.
- The last goal provides Beijing with more credible military options in a Taiwan contingency.
- Pushing more diplomacy pressure on western countries by wolf warrior diplomacy.
- Pursuing overseas military facilities, by the PRC's defence policy and military strategy.

³⁵ Ekman, A., Atanassova-Cornelis, E., Brown, K., Duchâtel, M., Huotari, M., Makocki, M., Parton, C., van der Putten, F.-P., Shi-Kupfer, K., & Wacker, G. (2017). FOREIGN POLICY: THE DOMESTIC DRIVERS. In E. Pejsova & J. Bund (Eds.), Chinese futures: Horizon 2025 (pp. 35–40). European Union Institute for Security Studies (EUISS). Retrieved from: <http://www.jstor.org/stable/resrep07065.9>

- Jeopardizing sovereignties of the states in the South China Sea.”³⁶

From this, this faction believes that the increasing aggressive intentions from China generated by the shift of its foreign policy in the era of Xi drove the rise of dragon-slayers in the US in terms of policy influence.

2.1.2.3 Balance of Power and the Thucydides Trap

The last, and probably the most common, explanation is that both countries have already been trapped in the so-called “Thucydides Trap”, a term popularized by American political scientist Graham Allison to describe a tendency towards war when an emerging power threatens to displace an existing great power as a regional or international hegemon.³⁷ Additionally, John Mearsheimer, the proponent of the Offensive Realism, believes that if China continues to grow economically, it will attempt to dominate Asia the way the United States dominates the Western Hemisphere. The US, however, will undoubtedly prevent China from achieving regional hegemony, according to Mearsheimer.³⁸

From the perspective of this faction, the rise of China has changed the BOP in the world, and the US, the only global hegemony, will utilize all available methods to contain its challenger, China.

2.2 EU perspective

2.2.1 From “strategic partnership” to “systemic rival”.

³⁶ U.S. Department of Defense. (2021). 2021 China Military Power Report. U.S. Department of Defense. Retrieved from: <https://media.defense.gov/2021/Nov/03/2002885874/-1/-1/0/2021-CMPR-FINAL.PDF>.

³⁷ Mohammed, Farah (2018). “Can the U.S. and China Avoid the Thucydides Trap?”

³⁸ Mearsheimer, John J. 2014. Can China rise peacefully? The National Interest. Retrieved from: <https://nationalinterest.org/commentary/can-china-rise-peacefully-10204>.

Broadly, like Washington, Brussels' approach towards China has experienced a shifting from an engagement "strategic partnership" to a more containment "systemic rival".³⁹ In 2003, like the US, the EU defined its relations with China as a strategic partnership. European policymakers believed that this engagement could "further broaden and deepen the relationship in all areas" as they were having "an ever-greater interest to work together as strategic partners to safeguard and promote sustainable development, peace and stability."⁴⁰ They viewed that engagement approach was not only a win-win cooperation for economic cooperation, given China's vast market, but also an effective way to help China's evolution towards liberal democracy, copying the third wave of democratization process in the Eastern European countries after the end of the Cold War.⁴¹

Nevertheless, policymakers in Brussels also gradually recognized that they had made a mistake, prompting a re-evaluation to containment. In 2019, the EU labeled China a "systemic rival" and simultaneously emphasized the need for bilateral cooperation in several domains, such as climate change and economic competition, in a Joint Communication to the European Parliament.⁴²

Nevertheless, this term stresses competition rather than cooperation.⁴³

³⁹ Verhulst, S. A. C. (2021). Strategic Partnership or Systemic Rival? Explaining EU's Shifted Foreign Policy Discourse About EU-China Relations Over The Period From 2013 To 2019 (Master's thesis).

⁴⁰ Commission Of the European Communities, 'A maturing partnership - shared interests and challenges in EU-China relations.', Brussels, 10 Sep 2003. Available online: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52003DC0533&from=EN>.

⁴¹ Verhulst, S. A. C. (2021). Strategic Partnership or Systemic Rival? Explaining EU's Shifted Foreign Policy Discourse About EU-China Relations Over The Period From 2013 To 2019 (Master's thesis).

⁴² 'EU-China – A strategic outlook', Joint Communication To The European Parliament, The European Council And The Council, Strasbourg, 12 March 2019. Available online: https://ec.europa.eu/info/publications/eu-china-strategic-outlook-commission-contribution-european-council-21-22-march-2019_en.

⁴³ Gustaaf Geeraerts (2019), "The EU-China partnership: balancing between divergence and convergence," Asia Europe Journal 17, no. 3.

By 2022, Sino-European relations had soured sharply after Russia's invasion of Ukraine. Although China remained nominally neutral, without providing any direct military aid to Russia, it is still Russia's most powerful partner. Economic support from China is a key factor in Russia's economy not collapsing under Western sanctions.⁴⁴ This dynamic, together with the concerns of China's future invasion of Taiwan as well as the EU's deep economic reliance on China, drove Brussels to re-evaluate its dependency on Chinese markets and supply chains. And its concrete impacts could be concluded in the following three points:

1. Rethinking dependency on China in the domain of rare earths and other raw materials;
2. Confronting Beijing on human rights, economic coercion, and scrutiny of foreign investments;
3. Access to technology, such as semiconductor, become a key topic on European security policy discussions.⁴⁵

Those strategies align with the “de-risking” approach mentioned by Ursula von der Leyen.

2.2.2 Has containing China become a universal goal in the EU?

Unlike the US and China, while this analysis treats the EU as a monolithic entity, the influences and priorities of different member states cannot be ignored. They are particularly vulnerable to potential economic revenge measures from China when the EU adopts unfriendly “de-risking” strategies towards China. For instance, Germany is “afraid” of China retaliation if the EU decided to impose duties on Chinese electric vehicles (EVs), after current anti-subsidy probe, as its

⁴⁴ Bourgeois-Fortin, Camille; Choi, Darren; Janke, Sean (7 March 2022). “China and Russia's invasion of Ukraine: Initial responses and implications”. University of Alberta.

⁴⁵ Alexandra Hennessy (2023) The impact of Russia's war against Ukraine on Sino-European relations, *Journal of European Integration*, 45:3, 559-575, DOI: 10.1080/07036337.2023.2201497.

automotive industry is highly relied on exports to the Chinese market.⁴⁶ Moreover, existing research reveals that although the EU increasingly perceives China as a security concern, the response among member states remains inconsistent. For example, while France, Germany, and the UK sought to adopt an assertive approach in urging China to uphold international law as well as respecting human rights, some EU member states (i.e. Hungary and Greece) were unwilling to criticize Beijing on those issues.⁴⁸

Moreover, the EU's motivations and priorities of containing China are different from those of the US. While the US's primary goal of containing China is to weaken its capacities in challenging the US's global hegemonic status, the EU's priority is to protect its economy and its development. Compared with the US, which focuses on the Indo-Pacific region, the EU is more concerned with the European continent where Russia is a primary security threat, especially after it launched a full-scale invasion to Ukraine.⁴⁹ This difference has driven the US to lobby the EU on collective actions towards China, especially on the issues of securing reliable 5G infrastructure as well as digital supply chain security through objective risk-based assessments, cybersecurity, free data flow based on high standards and safeguards, artificial intelligence, and fair taxation in the digital economy.⁵⁰

⁴⁶ Von der Burchard, H. (2023, September 23). German carmakers 'afraid' of China retaliation, economy minister warns. POLITICO. Retrieved from: <https://www.politico.eu/article/german-carmakers-afraid-of-chinese-retaliation-economy-minister-warns/>.

⁴⁸ Chen, X., & Gao, X. (2022). Analysing the EU's collective securitisation moves towards China. *Asia Europe Journal*, 20(2), 195–216.

⁴⁹ Henrikson, A. K. (2019). The United States in a global triangle? Re-configuring US-EU and US-China foreign policy and security relations. In *The Evolving Relationship between China, the EU, and the USA* (pp. 76-95). Routledge.

⁵⁰ Blockmans, S. (2021). EU-US Relations: Reinventing the Transatlantic Agenda. *Inter Economics*, 56(1), 5–7.

In summary, on the one hand, like the US, the EU has already initiated a de-risking strategy towards China since it recognized threats posed by China, and its dependencies on China is dangerous. On the other hand, the EU encounters more challenges in achieving collective action among its member states. The varied objectives and priorities between the EU and the US further cast doubt on the intensity and efficacy of these de-risking measures.

2.3 Current de-risking measures of US/EU

Generally speaking, current de-risking measures contain four categories:

- **Friendshoring:** This notion refers to “the rerouting of supply chains to countries perceived as politically and economically safe or low-risk, to avoid disruption to the flow of business.” Considering the high geopolitical risk of reliance on a single supply chain from China, the US/EU has implied a series of measures to obtain components and raw materials and import goods from ‘friendly’ countries with shared values to increase the security of the overall supply chain.⁵¹ The practical result of friendshoring is called China Plus One (C+1). The supply chain diversifies manufacturing and investment portfolio beyond China by adding at least one other country, India, Thailand and Vietnam.^{52,53}
- **Export restriction on high-ended or critical technologies to China:** At present, the US/EU has implemented a series of measures setting back China’s high-ended or critical technologies development (i.e., Artificial Intelligence [AI] and Chip manufacturing) by limiting its access

⁵¹ Ellerbeck, S. (2023). What’s the difference between ‘friendshoring’ and other global trade buzzwords? World Economic Forum.

⁵² Witchell, S., & Symington, P. (2013). China Plus One. FTI Consulting.

⁵³ Note that China Plus One is not a new strategy. It has been applied by multinational companies to diversify their manufacturing and investment portfolio for a long time. The US/EU’s de-risking strategies greatly accelerated this process.

to Western technologies in the areas of high-end chips, chip design software, semiconductor manufacturing equipment, etc.^{54,55} Apart from direct export restriction, the U.S. also denied visas to Chinese graduate students and researchers who might get access to those technologies and bring them back to China, known as military-civil fusion strategy.⁵⁶

- Import restrictions on Chinese products: Similarly, the US/EU has also introduced a series of import restrictions on China's exports, which contain two taxonomies: national security and human rights concerns. The Ban on Huawei, the world's largest provider of 5G networks and a leader in sales of telecommunications equipment, because of fears of cyber espionage and intellectual property theft, is a representative case of the former taxonomy.⁵⁷ As for the latter, Joe Biden signed the Uyghur Forced Labor Prevention Act in 2021, which has banned all imports from Xinjiang "unless importers can prove that goods produced wholly or partly in the region are not made with forced labour" since June 2022.⁵⁸
- Investment restrictions on national security grounds: In 2018, the Trump administration introduced the Foreign Investment Risk Review Modernization Act (FIRRMA), which allows Foreign Investment in the United States (CFIUS) to review a broader range of transactions,

⁵⁴ Feldstein, S. (Ed.). (2023). New digital dilemmas: Resisting autocrats navigating geopolitics confronting platforms. Carnegie Endowment for International Peace.

⁵⁵ Shivakumar, S., Wessner, C., & Howell, T. (2024). Balancing the Ledger: Export Controls on U.S. Chip Technology to China. Center for Strategic and International Studies.

⁵⁶ Zwetsloot, R., Weinstein, E., & Fedasiuk, R. (2021). Assessing the scope of U.S. visa restrictions on Chinese students. Center for Security and Emerging Technology.

⁵⁷ Berman, N., Maizland, L., & Chatzky, A. (2023). China's Huawei: Threat to U.S. national security. Council on Foreign Relations. Retrieved from: <https://www.cfr.org/backgrounder/chinas-huawei-threat-us-national-security>

⁵⁸ U.S. Department of Homeland Security. (2023, June 9). DHS to ban imports from two additional PRC-based companies as part of its enforcement of the Uyghur Forced Labor Prevention Act. Retrieved from: <https://www.dhs.gov/news/2023/06/09/dhs-ban-imports-two-additional-prc-based-companies-part-its-enforcement-uyghur>

including “any ‘non-passive’ investment in U.S. firms involved in critical technology or other sensitive sectors.” Moreover, the CFIUS is also authorized to suspend transactions and mandates a separate process to review the export of sensitive U.S. technologies. Although this bill did not directly target Beijing by name, according to CFIUS data, “transaction registrations from Chinese investors fell by 43 percent in the two years after the legislation was passed, down to an average of 32 percent per year”.⁵⁹

2.4 China’s perspective

When the People’s Republic of China (PRC) was established in 1949, the CCP, under the leadership of Mao Zedong, chose to adopt a closed centrally planned economic development model used by the Soviet Union. Under this model, markets were irrational and thus the production of goods and services were controlled by a central planning agency called the State Planning Commission (SPC, 国家计划委员会). Moreover, international trade played an insignificant role in the economy, which forced China to produce all the goods and services it needed or wanted.⁶⁰ This sort of planned economic development model proved to be a failure in terms of economic growth, which eventually drove CCP’s reform towards a market economy.⁶¹

⁵⁹ Masters, J., McBride, J., & Berman, N. (2023). What happens when foreign investment becomes a security risk? Council on Foreign Relations. Retrieved from: <https://www.cfr.org/backgrounder/what-happens-when-foreign-investment-becomes-security-risk>

⁶⁰ Chow, G. C., & Perkins, D. H. (2014). The centrally planned command economy (1949–84). In *Routledge Handbook of the Chinese Economy* (pp. 61–74). Routledge. Retrieved from: <https://doi.org/10.4324/9781315767475-12>

⁶¹ Vonyó, T., & Klein, A. (2019). Why did socialist economies fail? The role of factor inputs reconsidered. *The Economic History Review*, 72(1), 317–345. Retrieved from: <https://doi.org/10.1111/ehr.12734>

After the death of Mao, Deng Xiaoping, the paramount leader of the PRC from 1978 to 1989,⁶² started a tremendous transformation process, known as the opening of China, or reform and opening-up (改革开放), to an opened market economy, known as the socialist market economy (社会主义市场经济, SME) by Chinese official, by gradually abandoning planned economics and allowing the co-existing between state-owned enterprises (SOEs) and non-SOEs, which not only brought China out of economic isolation but also integrated it into the global economy.⁶³

In terms of reforms, Deng shifted the Communist Party's focus towards economic construction; advocated for clear delegation of authority and responsibility in SOEs reform; exhibited a strong preference for non-intervention, allowing economic developments to unfold with minimal interference from the Party or government; established special economic zones to booster opening to the outside world. These reforms not only liberalized China's economy, but also laid the foundation for the explosive economic growth during the government of Jiang Zemin and Hu Jintao, whose economic policies mostly followed Deng's direction.⁶⁴

Politically, his government introduced a series of political measures (fixed terms of office, term limits, and a mandatory retirement age mechanism) to decentralize power to prevent similar disasters that happened in the era of Mao (e.g., Cultural Revolution). However, he also prevented political reforms towards liberal democracy and upheld the CCP's leadership when he ordered the crackdown in 1989 at Tiananmen Square.⁶⁵

⁶² Faison, Seth (20 February 1997). "Deng Xiaoping is Dead at 92; Architect of Modern China". The New York Times. ISSN 0362-4331.

⁶³ Vogel, E. F. (2011). *Deng Xiaoping and the Transformation of China*. Belknap Press of Harvard University Press.

⁶⁴ Naughton, B. (1993). Deng Xiaoping: The Economist. *The China Quarterly*, 135, 491–514. Retrieved from: <http://www.jstor.org/stable/654099>

⁶⁵ Shirk, S. (2018). China in Xi's "New Era": The Return to Personalistic Rule. *Journal of Democracy*, 29(2), 22-36.

2.4.1 From the Era of Jiang and Hu to Xi Jinping.

Here, I divide the era of China's leadership into two periods based on different directions of political and economic policies at home and abroad after the end of the Cold War: Jiang Zemin and Hu Jintao (1989-2012), Xi Jinping (2012-today).

Jiang Zemin came to power after the crackdown of the 1989 Tiananmen Square protests. His successor, Hu Jintao, followed the Jiang's policy directions before Xi Jinping came to power in 2012. During this Jiang-Hu period, which lasted 23 years, the CCP mostly followed Deng's reforming directions, rapidly expanding the role of markets, welcoming foreign investment, and embracing a foreign policy that maximized China's participation in a global economic order led by the US.⁶⁶ A representative event is that China joined the WTO in 2001, and then China maintained a high rate of economic growth, overtaking Japan to become the world's second-largest economy as the figure 2 shows.⁶⁷

⁶⁶ Ramadhani, S. S., & Mútia EM, R. Tuty Nur. (2021). The strategy of Jiang Zemin to restore China's economy (1989-2002). *Contemporary Chinese Political Economy and Strategic Relations*, 7(1), 325-373, XII, XIV.

⁶⁷ Orlik, Tom (16 November 2012). "Charting China's Economy: A Decade Under Hu Jintao". *The Wall Street Journal*. ISSN 0099-9660.

GDP (constant 2015 US\$) - China, United States, Japan

World Bank national accounts data, and OECD National Accounts data files.

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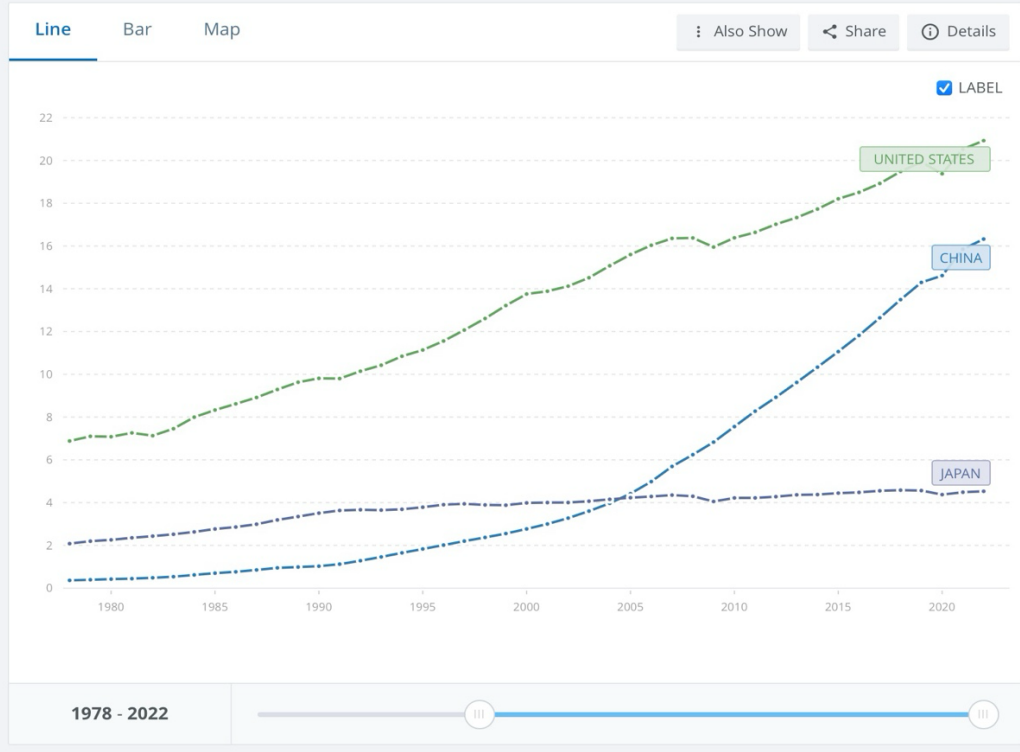


Figure 2: China's GDP between 1978-2022 (constant 2015 US\$) ⁶⁸

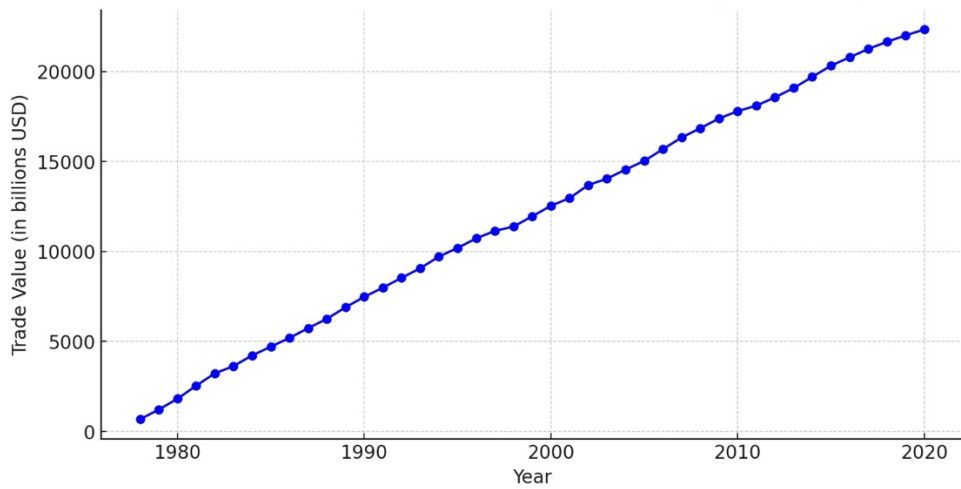


Figure 3: Simulated US-China Bilateral Trade Value (1978-2020) ⁶⁹

⁶⁸ World Bank. (2024). GDP (constant 2015 US\$) - China, United States, Japan [Line graph]

⁶⁹ Using Python, data from World Bank.

Under Jiang-Hu's governance, China witnessed a stagnation in terms of political reforms and civil liberties. More specifically, there wasn't any meaningful progress in the electoral process. There was limited space for freedom of expression and belief (freedom of the press i.e.), as well as functions of non-government organization (NGO).⁷⁰ Nevertheless, leadership transitions issue, a major problem for authoritarian regime,⁷¹ was successfully overcome as Deng, Jiang and Hu all transferred their power in a peaceful way and followed term limits, apart from Jiang who served as the chairman of the Central Military Commission (CMC) general manager for an additional three years. Another crucial characteristic during this period was that decision-making at the top moved towards a collective leadership under the framework of the Politburo Standing Committee (PSC, 政治局常委会).⁷²

As for foreign policies, they mostly followed the rules "keep a low profile (韬光养晦)" set by Deng. Hu also developed his own "peaceful rising (和平崛起)" and "peaceful development (和平发展)" theories in response to threat theories of a rising China in the West.⁷³ In words, their foreign policies concentrated on avoiding confrontation with the US-led Western world by trying to persuade the West that the rise of China would not be a threat as China had no intentions to challenge US hegemony and the RBIO.

⁷⁰ Narayanan, R. (2006). The Politics of Reform in China: Deng, Jiang, and Hu. *Strategic Analysis*, 30(2), 329-353.

⁷¹ Clapham, C., 1988. Epilogue: political succession in the third world. *Third World Quarterly*, 10 (1), 281-288.

⁷² Zeng, J. (2014). Institutionalization of the authoritarian leadership in China: a power succession system with Chinese characteristics. *Contemporary Politics*, 20(3), 294-314.

⁷³ Glaser, B., & Medeiros, E. (2007). The Changing Ecology of Foreign Policy-Making in China: The Ascension and Demise of the Theory of "Peaceful Rise". *The China Quarterly*, 190, 291-310. doi:10.1017/S0305741007001208.

In 2012, Xi replaced Hu and became the top leader of the China until today. Kevin Rudd, the former Prime Minister of Australia and a distinguished scholar in Chinese studies, summarized key transformations of China in Xi's era with this statement in his doctoral thesis at the University of Oxford: "Xi has pushed politics to the Leninist left, economics to the Marxist left, and foreign policy to the nationalist right."⁷⁴

In politics, Xi chose a reassertion of Marxist-Leninist ideology as a response against the demands for political liberalization when China's economy continues to grow.⁷⁵ Under his governance, he unprecedentedly compressed limited space for freedom of expression and belief, broke the term limitations;⁷⁶ reshaped the party and leadership to be fully packed with loyalists by removing all the members of Tuanpai (团派), also known as Youth League Faction, an unofficial faction within the CCP, and the other factions unroyal to him, out of the PSC and after the 20th National Congress of the CCP;⁷⁷ and restarted the personality cult prohibited by Deng, Jiang and Hu.⁷⁸ Now, as Kevin Rudd described, Xi has replaced Deng as the most powerful leader of the CCP after Mao.⁷⁹ His personal ideology, Xi Jinping Thought, has become the core of the CCP's thinking, political stance, and actions.⁸⁰

⁷⁴ Rudd, K. (2022). China's new Marxist nationalism: defining Xi Jinping's ideological worldview (Doctoral dissertation, University of Oxford).

⁷⁵ Rudd, K. (2022). China's new Marxist nationalism: defining Xi Jinping's ideological worldview (Doctoral dissertation, University of Oxford).

⁷⁶ Shirk, S. (2018). China in Xi's "New Era": The Return to Personalistic Rule. *Journal of Democracy*, 29(2), 22-36.

⁷⁷ CHRISTOPHER K. JOHNSON. (2022). China's 20th Party Congress Leadership Reshuffle: Stasis or Sweep? *Asia Society*.

⁷⁸ Li, C. (2016). Chinese politics in the Xi Jinping era: Reassessing collective leadership. *Brookings Institution Press*.

⁷⁹ Rudd, K. (2022). The World according to Xi Jinping: What China's Ideologue in Chief Really Believes. *Foreign Affairs.*, 101, 8.

⁸⁰ Wong, C. H. (2023). *Party of One: The Rise of Xi Jinping and China's Superpower Future*. Simon and Schuster.

With respect to China's economy, Xi has reversed reforms to open markets by supporting SOEs and limiting non-SOEs, a process is known as "the state enterprises advance, the private sectors retreat" (国进民退).⁸¹ For instance, SOEs received trillions of dollars in investment from "industry guidance funds" from 2015 to 2021, which was a massive infusion of government support that brought the Chinese state roaring back to the center of economic policy.⁸² Moreover, from Deng to Hu, leaders clearly prioritized economic development. But Xi has changed the calculus with a new mantra called "integration of development and security" (统筹发展和安全) in policy documents since 2019 and in the current 14th Five-Year Plan (2021-25).⁸³

In terms of foreign policy, Xi has abandoned his predecessors' mild diplomatic approach and chosen an aggressive and proactive one, known as "strive for achievements (奋发有为)".⁸⁴ From his perspective, China's rise is unstoppable, so is the US-led Western world's decline. The Western world's chaotic response to the outbreak of the COVID-19 pandemic in the early period, in contrast with the efficient coordination under the leadership of the CCP, drove Xi to say in public that "East is rising, West is declining (东升西降)"⁸⁵ and the world is now in an era of "great changes unseen

⁸¹ Leutert, W., & Eaton, S. (2021). Deepening not departure: Xi Jinping's governance of China's state-owned economy. *The China Quarterly*, 248(S1), 200-221

⁸² Rudd, K. (2022). The World according to Xi Jinping: What China's Ideologue in Chief Really Believes. *Foreign Aff.*, 101, 8.

⁸³ Howard Wang (2022). 'Security Is a Prerequisite for Development': Consensus-Building toward a New Top Priority in the Chinese Communist Party, *Journal of Contemporary China*; Xinhua (2021c). "中华人民共和国国民经济和社会发展第十四个五年规划和 2035 年远景目标纲要 (Outline of the Fourteenth Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Vision 2035). March 13. http://www.gov.cn/xinwen/2021-03/13/content_5592681.htm. Accessed: August 26, 2022.

⁸⁴ Ekman, A., Atanassova-Cornelis, E., Brown, K., Duchâtel, M., Huotari, M., Makocki, M., Parton, C., van der Putten, F.-P., Shi-Kupfer, K., & Wacker, G. (2017). FOREIGN POLICY: THE DOMESTIC DRIVERS. In E. Pejsova & J. Bund (Eds.), *Chinese futures: Horizon 2025* (pp. 35–40). European Union Institute for Security Studies (EUISS). Retrieved from: <http://www.jstor.org/stable/resrep07065.9>

⁸⁵ Economy, E. (2021). China's inconvenient truth. *Foreign Affairs*.

in a century (百年未有之大变局)".⁸⁶ A concrete case under this "new era" is "wolf warrior diplomacy (战狼外交)", where Chinese diplomats use aggressive (and sometimes offensive) language to defend China's national interests.⁸⁷ Meanwhile, China is using assertive foreign policy by declaring the "nine-dash line"⁸⁸ and militarized man-made islands in South China Sea,⁸⁹ and dramatically increasing the scale and frequencies of military exercises around Taiwan island.⁹⁰

2.4.2 World's factory: China's current position in the global supply chain

After China joined the WTO in 2001, it gradually became the "world's factory", acting as the a major manufacturing base for firms worldwide through "processing trade," which involves importing inputs into China to assemble them into finished products to export them to the rest of the world.⁹¹ For example, to make an iPhone, Apple firstly buys many of its components (the memory chip, battery, and the touch-screen controller i.e.) from more than 200 suppliers around

⁸⁶ He, Y. T. (2021). Profound and Complex Changes in China's Developmental Environment. People's Daily, (8), 22-23 Translated from: "何毅亭. (2021). 我国发展环境面临深刻复杂变化. 人民日报, (8), 22-23."

⁸⁷ Zhu, Z. (2020). Interpreting China's 'wolf-warrior diplomacy'. The Diplomat, 15(5), 2020. *Note: Wolf Warrior and Wolf Warrior II are Chinese action blockbusters that highlight agents of Chinese special operation forces. They have boosted national pride and patriotism among Chinese viewers. And the term "Wolf Warrior" diplomacy came from these two movies to illustrate this sort of nationalist diplomacy style.*

⁸⁸ The Nine-Dash Line in the South China Sea (南海九段线) refers to a discontinuous line on maps drawn by the Chinese government, outlining the territorial claims in the region. Initially plotted by the Nationalist government of China in 1947, this line encompasses a significant portion of the South China Sea, forming nine segments, hence the name "Nine-Dash Line." On July 12, 2016, the Permanent Court of Arbitration in The Hague, Netherlands, facilitated a tribunal known as the South China Sea Arbitration case. The tribunal ruled that the People's Republic of China's assertion of historical rights within the scope of the Nine-Dash Line violated the United Nations Convention on the Law of the Sea (UNCLOS). Despite the ruling, the Ministry of Foreign Affairs of the People's Republic of China declared the decision as invalid, non-binding, unacceptable, and not recognized.

From: Gao, Z., & Jia, B. B. (2013). The Nine-Dash Line in the South China Sea: History, Status, and Implications. American Journal of International Law, 107(1), 98–123. doi:10.5305/amerjintelaw.107.1.0098. and Permanent Court of Arbitration. (2016). Award in the Arbitration between the Republic of the Philippines and the People's Republic of China. PCA Cases.

⁸⁹Zhang, K. (2019). Cautious bully: reputation, resolve, and Beijing's use of coercion in the South China Sea. *International Security*, 44(1), 117-159.

⁹⁰ Buckley, C., & Myers, S. L. (2021). 'Starting a Fire': US and China Enter Dangerous Territory Over Taiwan. *International New York Times*.

⁹¹ Feenstra, R. C., & Wei, S. J. (Eds.). (2010). *China's growing role in world trade*. University of Chicago Press.

the world and then has them assembled in Foxconn's factories in Zhengzhou, a city located in the central part of China.⁹²

According to the Heckscher-Ohlin model, a well-known theoretical model in international trade, countries export the products which use their relatively abundant and cheap factors of production and import the products which use the countries' relatively scarce factors.⁹³ Thanks to perfect domestic supply chain, favorable policy environment of both the central and local governments, and good infrastructure conditions for a developing country, China could more effectively export abundant and cheap labour force by processing trade, and thus gradually dominated the labour-intensive part of supply chains of multinational corporations (MNCs) such as sewing jeans, stitching sneakers, making toys, and assembling computers, mobile phones, and other electronics.⁹⁴

At present, China plays a dominant role in global supply chains. According to statistical data from the World Bank, China exported 3.6 trillion and imported USD 3.1 trillion of goods and services in 2022 and became the biggest exporter and the second-biggest importer country in the world.⁹⁵ Global value chains (GVCs) refer to "range of activities (design, production, marketing, distribution and support to the final consumer) that are divided among multiple firms and workers across geographic spaces to bring a product from its conception to its end use and beyond."⁹⁶ In

⁹² Barboza, D. (2016, December 29). An iPhone's Journey, From the Factory Floor to the Retail Store. The New York Times. Retrieved from: <https://www.nytimes.com/2016/12/29/technology/iphone-china-apple-stores.html>.

⁹³ Appleyard D. R. Field A. J. & Cobb S. L. (2008). International economics (6th ed.). McGraw-Hill Irwin.

⁹⁴ Xing, Y. 2021. Decoding China's Export Miracle: A Global Value Chain Analysis. Singapore. World Scientific Publishing.

⁹⁵ World Bank. (2023). Exports of goods and services (BoP, current US\$). Retrieved from: https://data.worldbank.org/indicator/BX.GSR.GNFS.CD?most_recent_value_desc=true.

⁹⁶ Seric, A., & Tong, Y. S. (n.d.). What are Global Value Chains and Why Do They Matter? Investment and Technology Promotion. United Nations Industrial Development Organization. Retrieved from: <https://iap.unido.org/articles/what-are-global-value-chains-and-why-do-they-matter>.

2016, China replaced Japan to become the largest GVC centre as its value-added exports exceeded that of Japan, Germany, and the US. In addition, China had grown into the most important source of value-added imports by the US, Japan, Korea. It was also the largest source of value-added imports by a few European countries, notably Germany the centre of the networks in the European continent.⁹⁷

2.4.3 Made-in-China 2025

The “Made-in-China 2025” strategy was released in May 2015. It aims at upgrading the manufacturing industries from labor-intensive to technology-intensive ones. By doing this, China could escape the “middle-income trap”^{98,99} and transform its economy into a globally competitive manufacturing superpower independent of foreign technology. Also, the US believe that this strategy is a complement to military-civil fusion where barriers between China’s civilian research and commercial sectors and its military and defense industrial sectors are removed to fuel the development of advanced military technologies.¹⁰⁰ More specifically, this strategy defines ten core industries, as Figure 2 shows, where China wants to achieve major breakthroughs and create globally competitive companies before 2025 by providing massive financing and subsidies.¹⁰¹

⁹⁷ Yiping Huang. (2022) China’s changing economic relations with the world: introduction. China Economic Journal 15:3, pages 231-234.

⁹⁸ “The ‘middle income trap captures a situation where a middle-income country can no longer compete internationally in standardized, labor-intensive goods because wages are relatively too high, but it can also not compete in higher value-added activities on a broad enough scale because productivity is relatively too low. The result is slow growth, stagnant or falling wages, and a growing informal economy.”

⁹⁹ Paus, E. (2017). Escaping the Middle-Income Trap: Innovate or Perish. ADBI Working Paper 685. Tokyo: Asian Development Bank Institute.

¹⁰⁰ U.S. Department of State. (2017). Military-Civil Fusion and the People's Republic of China State. Retrieved from: <https://2017-2021.state.gov/military-civil-fusion>.

¹⁰¹ Zenglein, M. J. & Holzmann, A. (2019). Evolving made in China 2025. MERICS papers on China, 8, 78.

According to a report by the European Union Chamber of Commerce in China, to achieve those aims, this strategy got huge amounts of financial support from central and local governments, amounting to hundreds of billions of (US) dollars, which includes ten key policy tools: “Forced technology transfers in exchange for market access; Market access and government procurement restrictions for FIEs; Standards; Subsidies; Financial policy; Government-backed investment funds; Support from local government; Technology-seeking investments abroad; SOEs: mergers and politicisation; Public-private partnerships (PPP).” The report argues that Made-in-China 2025 is a large-scale import substitution plan aimed at “nationalising key industries, or at least severely curtailing the position of foreign business in them, both as suppliers of key components and finished products”.¹⁰²

However, this strategy and the goals it listed soon became the target of the US as it believed that China was using it as illicit means of acquiring foreign technology. Also, those measures are considered unfair to American firms and would eventually jeopardize the overall health of the US economy and national security.¹⁰³ That’s the reason why Beijing has erased all mention of this strategy from official speeches, papers, and official press, although it still on function now.¹⁰⁴

¹⁰² European Union Chamber of Commerce in China 2017a. “China Manufacturing 2025: Putting Industrial Policy Ahead of Market Forces.” Retrieved from: www.europeanchamber.com.cn/en/china-manufacturing-2025.

¹⁰³ Pautasso, D. (2019). China’s global power and development: The made in China 2025 policy. *Austral* (Porto Alegre), 8(16), 172–187.

¹⁰⁴ Anonymous. (2020, March 1). Made in China 2025 Disappears in Name Only. IP Defense Forum. Retrieved from: <https://ipdefenseforum.com/2020/03/made-in-china-2025-disappears-in-name-only/>



Figure 4: Ten core industries set by the Made-in-China 2025 ¹⁰⁵

2.4.4 Belt and Road Initiative (BRI)

In September 2013, Xi Jinping called for establishing a new regional cooperation model by building the “Silk Road Economic Belt” during his visit to Kazakhstan. One month later, in Indonesia, he further called for creating the Asian Infrastructure Investment Bank (AIIB) and the “21st Century Maritime Silk Road”. These proposals are officially termed the “Belt and Road Initiative” (BRI),¹⁰⁶ which is a central component of Xi’s “Major Country Diplomacy (大国外交)”

¹⁰⁵ Zenglein, M. J. & Holzmann, A. (2019). Evolving made in China 2025. MERICS papers on China, 8, 78.

¹⁰⁶ Huang, Y. (2016). Understanding China’s Belt & Road initiative: motivation, framework, and assessment. China Economic Review, 40, 314-321.

strategy.¹⁰⁷ The BRI's goals include strengthening economic ties, promoting trade and investment, and advancing infrastructure development, but most researchers believe that the core goal is building infrastructure projects (roads, railways, ports, and energy facilities i.e.) while providing loans or aids from China through the Silk Road Fund, China Investment Corporation (CIC), and the AIIB.^{108,109,110}

The BRI, at least during the initial stage, was mainly driven by economic motivations associated with domestic industrial overcapacity in China. More specifically, after the 2008–2009 global financial crisis, overcapacity, mainly concentrated in the steel, coal, cement, electrolytic aluminium, and flat-glass sectors, was perceived as a major threat to the Chinese economy. And the BRI became an effective way to export those industrial overcapacities.¹¹¹

Meanwhile, the BRI also provided incentives for Beijing to achieve various geoeconomics and geopolitical objectives.¹¹² For example, in an article in *Foreign Policy*, Richard and Kliman argued that the BRI is a means for Beijing to promote its own development model and thus undermine the good governance and human rights of 65 percent of the world's population.¹¹³ Another common criticism is that those infrastructure investments fail to serve the needs of the host countries while

¹⁰⁷ Smith, S. N. (2021). China's "Major country diplomacy": Legitimation and foreign policy change. *Foreign Policy Analysis*, 17(2), orab002.

¹⁰⁸ Wang, H. (2019). China's approach to the belt and road initiative: Scope, character, and sustainability. *Journal of International Economic Law*, 22(1), 29–55.

¹⁰⁹ Voon, J. P., & Xu, X. (2020). Impact of the Belt and Road Initiative on China's soft power: preliminary evidence. *Asia-Pacific Journal of Accounting & Economics*, 27(1), 120–131.

¹¹⁰ Liu, Z. Z. (2023). *Sovereign funds: How the Communist party of China finances its global ambitions*. Harvard University Press.

¹¹¹ Mingjiang Li, *The Belt and Road Initiative: geo-economics and Indo-Pacific security competition*, *International Affairs*, Volume 96, Issue 1, January 2020, Pages 169–187.

¹¹² Li, M. (2020). *The Belt and Road Initiative: geo-economics and Indo-Pacific security competition*. *International Affairs*, 96(1), 169-187.

¹¹³ Fontaine, R., & Kliman, D. (2018, May 16). *On China's new Silk Road, democracy pays a toll*. *Foreign Policy*.

increasing their debt burdens, which increase Beijing's political leverage over the host countries, known as "debt-trap diplomacy".¹¹⁴

At present, the BRI has been seen as a threat to the sphere of influence (SOI) and soft power of the US globally which drove Washington to develop similar projects.¹¹⁵ The India-Middle East-Europe Economic Corridor (IMEC), signed during the 2023 G20 New Delhi summit, is seen as a project to counter the BRI.¹¹⁶ The IMEC was launched to bolster transportation and communication links between Europe and Asia through rail and shipping networks including includes railway lines connecting the UAE to Israel via Saudi Arabia and Jordan, as well as electric cables to enhance digital connectivity and pipes for clean hydrogen export. Washington expects that the IMEC could enhance its presence in those regions, and breaking the current situation where the BRI dominates infrastructure construction and investment.^{117,118} In addition, the EU developed the Global Gateway to counter the BRI, which includes a €300bn (\$340bn) global investment plan to the Global South, especially in African countries, and was described as a "true alternative" to China's BRI by Ursula von der Leyen.¹¹⁹

¹¹⁴ Jones, L., & Hameiri, S. (2020). Debunking the myth of 'debt-trap diplomacy'. Chatham house, 19, 2020.

¹¹⁵ Mingjiang Li, The Belt and Road Initiative: geo-economics and Indo-Pacific security competition, *International Affairs*, Volume 96, Issue 1, January 2020, Pages 169–187.

¹¹⁶ Economic Times. (2018, May 15). Indo–Pacific infrastructure forum launched to tap private sector in India, United States and Japan. *Economic Times*.

¹¹⁷ Inamdar, N. (2023). Can India-Europe corridor rival China's Belt and Road? BBC News. Retrieved from: <https://www.bbc.com/news/world-asia-india-66957019>

¹¹⁸ Khan, A. M. (2023). The India-Middle East-Europe Economic Corridor (IMEC): Too Little, Too Late? *Carnegie Endowment for International Peace*.

¹¹⁹ Parker, J. (2021, December 1). EU launches €300bn bid to challenge Chinese influence. BBC News. Retrieved from: <https://www.bbc.com/news/world-europe-59473071>

2.5 Conclusion

On the one hand, the Post-Cold War era witnessed the transformation of China's relationships with US/EU from engagement to containment, or from optimistic economic interdependence to a sobering reassessment against a backdrop of geopolitical rivalry. The profound shifts analyzed in this section signal not just a transformation in bilateral relations, but also a potential reconfiguration of the global order.

On the other hand, in reassessing China's perspective after Deng came to power, it went from the collaborative openness of the Jiang and Hu eras to Xi's more assertive stance. Under Xi Jinping's leadership, China has prioritized his slogan called the "great rejuvenation of the Chinese nation" (中华民族伟大复兴) by pushing forward initiatives such as Made-in-China 2025, and the Belt and Road Initiative to cement its global economic influence and reduce dependency on the West. By bolstering its domestic market and technological capabilities, China aimed to create a robust internal economy that can withstand external pressures from the Western world. That's why he believes that "the West is declining while the East is rising."

Here, I would like to particularly highlight the subsection of "from the era of Jiang and Hu to Xi" as most of China's resulting actions are influenced by Xi's worldviews and governance style, which could help you understand why China chose approaches seems to be "irrational".

3. China's response to the US-EU de-risking strategies and resulting actions

This section examines China's major four responses to the US-EU de-risking strategies and resulting actions. Its underlying purpose is China's own version of "de-risking" by reducing reliance on the West.

From China's perspective, de-risking strategies have two major economic impacts. One is a decline in exports as supply chains leave China. The other one is that Chinese firms can no longer get access to certain high-end technologies (e.g., semiconductors and AI) from the West. The first actions focus on adding more planned-economy-style economic controls to eliminate the first economic impact on the current export-driven economic growth model. The second actions focus on "securitization", which means that the Chinese government is transforming more economic issues into security issues. It is important to note that some of de-risking actions (e.g., export restrictions) of the US and the EU, in the name of national security, can also be regarded as "securitization". Therefore, what we observe here is an ongoing "securitization competition" between the US-EU and China.

As for the other two actions by the Chinese government (and "reducing reliance on western financial services"), they both serve the same aim: reducing reliance on imports of high-end technologies, addressing the second impact.

3.1 Dual circulation

Xi Jinping put forward the "domestic-international dual circulation (国内国际双循环)" strategy in a PSC meeting in 2020 when the idea of decoupling from China was widely discussed in the

West.¹²⁰ Later, the Xinhua News Agency, the official state news agency of China, released an official definition of this new strategy: “Expand domestic demand, focus on the domestic market, enhance self-innovation capabilities, reduce dependency on markets outside of China, while maintaining openness to the World”.¹²¹ The key part of this strategy is the internal circulation (内循环), which manages to increase domestic consumption and, thus, reduce reliance on the export sector and government investment as drivers of economic growth.¹²² Moreover, some hold the view that the goal of internal circulation is also to facilitate a qualitative leap in industrial upgrading to achieve higher-quality domestic circulation.¹²³

As discussed, this term is a political slogan of the CCP, which illustrates a big policy direction without giving out concrete details. And “Controlled” market economy is the policy solution to achieve dual circulation.

3.2 “Controlled” market economy

As we discussed on the first section, a key characteristic in Xi’s era is that China is no longer seeking purely economic growth but switching its focus to economic control. And those controls are also key parts of the CCP’s tactics in countering the de-risking strategies by the US and the EU while simultaneously safeguarding the political rule of Xi Jinping and the CCP.

¹²⁰ Zhu Yanran. (2020, May 15). “What Signals Are Released as the High-level Meeting First Proposes the New Development Pattern of “Domestic and International Dual Circulation”? China Business Network. Translated from: 祝嫣然. (2020, 5月15日). “高层会议首提“国内国际双循环”新发展格局, 释放哪些重磅信号?” 第一财经。

¹²¹ Xinhua News Agency. (2020, Sep 5). Understanding “Big Circulation” and “Dual Circulation” from Xi Jinping's Recent Important Speeches. Translated from: 新华社. (2020, 09月05日). 看习近平这几次重要讲话, 看懂“大循环”“双循环”。

¹²² Javed, S. A., Bo, Y., Tao, L., & Dong, W. (2021). The ‘Dual Circulation’ development model of China: Background and insights. *Rajagiri Management Journal*.

¹²³ Yifu, L. J., & Wang, X. (2022). Dual circulation: A new structural economics view of development. *Journal of Chinese Economic and Business Studies*, 20(4), 303-322.

3.2.1 In the name of “Common Prosperity”

Common Prosperity (共同富裕) is a CCP’s political slogan that was first used by Mao Zedong. It has had different meanings under different Chinese leader.¹²⁴ In a campaign that started in 2021, Xi defined this term as “strongly reducing income gap through the governmental redistribution policy and the ‘third distribution’ which refers to charity and donations”.¹²⁵ Xi has made Common Prosperity a major domestic policy priority since 2021 based on four general paths:

- “Enlarge the percentage of middle-income groups as a share of the population.
- Increase the basic incomes of low-income groups.
- Reasonably adjust high incomes.
- Ban and police illegitimate incomes.”¹²⁶

Later, several big businesses in China jumped on the bandwagon of “charity and donations”. For example, Alibaba and Tencent, two of the biggest private technology companies in China, announced that they would spend \$15.5 billion and \$77 billion respectively to help “common prosperity” come to fraction.¹²⁷

¹²⁴ David Bandurski (August 7, 2021) “A History of Common Prosperity.” China Media Project. Retrieved from: <https://chinamediaproject.org/2021/08/27/a-history-of-common-prosperity>.

¹²⁵ XinhuaNet. (2021, August 17). Xi Jinping chaired the tenth meeting of the Central Financial and Economic Affairs Commission, emphasizing the promotion of common prosperity in high-quality development, and coordinating efforts to prevent and resolve major financial risks. Li Keqiang, Wang Yang, Wang Huning, and Han Zheng attended the meeting. (习近平主持召开中央财经委员会第十次会议强调 在高质量发展中促进共同富裕 统筹做好重大金融风险防范化解工作 李克强汪洋王沪宁韩正出席). Retrieved from: http://www.xinhuanet.com/politics/2021-08/17/c_1127770343.htm

¹²⁶ Wu, G. (2022). China’s common prosperity program: Causes, Challenges, And Implications. Asia Society Policy Institute Report. Retrieved, 15.

¹²⁷ Alibaba Pledges \$15.5 Billion as Chinese Companies Extol Beijing’s Common Prosperity Push. (2021). In Dow Jones Institutional News. Dow Jones & Company Inc.

Until now, China's economic rise has been built on a system of prioritizing investment and exports while dismissing domestic household consumption.¹²⁸ As Figure 5 indicates, household final consumption in China accounted for approximately 37% of GDP on average between, 2012 and 2021, much lower than the US (about 67%) and middle-income countries (50%).¹²⁹

Such an economic structure is problematic for China when exports and foreign investment decline because of “de-risking” or “de-coupling”.¹³⁰ Consequently, China's decision-makers are trying to increase household consumption to make the economy less dependent on exports and foreign investment. It is not easy, however, because high economic inequality, high indebtedness and a high saving rate.¹³¹ In addition, Chinese households retain a very low share (in the form of salaries and wages, other income, and transfers) of what they produce, which negatively affects their ability to consume.¹³²

Therefore, the first step for Beijing to increase domestic consumption is to narrow the wealth gap and increase the size of the Chinese middle class. That's what the “common prosperity” agenda is all about.

¹²⁸ Morrison, W. M. (2019). China's economic rise: History, trends, challenges, and implications for the United States. *Current Politics and Economics of Northern and Western Asia*, 28(2/3), 189-242.

¹²⁹ World Bank. (2021). Household final consumption expenditure as a percentage of GDP. Retrieved from: https://data.worldbank.org/indicator/NE.CON.PRVT.ZS?contextual=default&end=2021&locations=CN-US-XP&name_desc=true&start=2012&view=chart

¹³⁰ “China's Exports Rose in August, Defying Expectations.” (2023, September 6). *The New York Times*. Retrieved from <https://www.nytimes.com/2023/09/06/business/china-exports-august.html>.

¹³¹ Who Killed the Chinese Economy? The Contested Causes of Stagnation. (2023). *Foreign Affairs* (Vol. 102, Issue 6, pp. 176–183).

¹³² Pettis, M. (2022). *The Only Five Paths China's Economy Can Follow*. Carnegie Endowment for International Peace. Retrieved from: <https://carnegieendowment.org/chinafinancialmarkets/87007>.

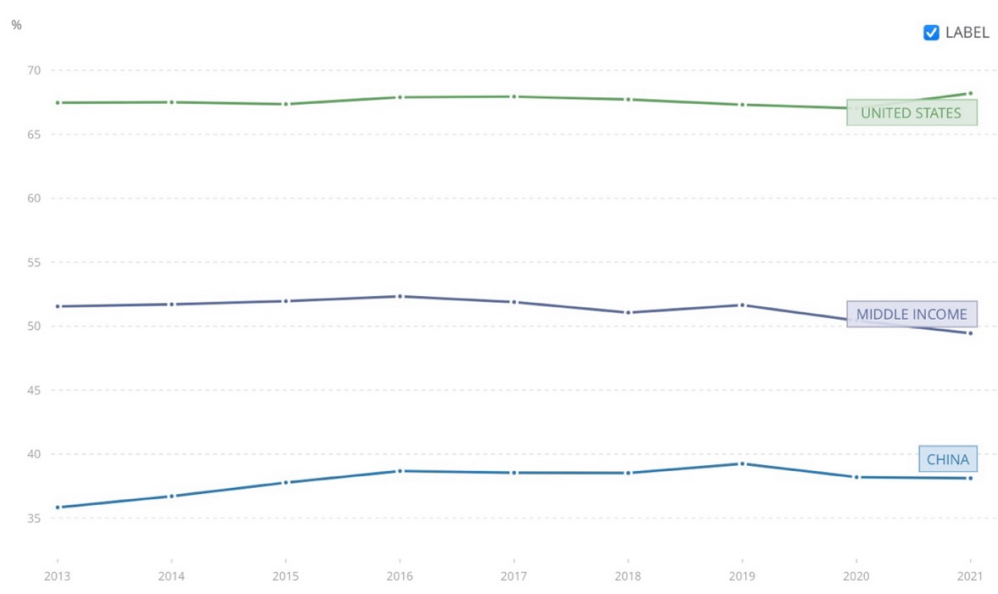


Figure 5: Households final consumption expenditure as a percentage of GDP (China, United States, Middle income countries)¹³³

Moreover, this campaign is also a populist strategy to bolster the CCP’s legitimacy and justify a series of domestic policies during the era of Xi, prominently limiting the power of big private businesses and, instead, promoting the state sector.¹³⁴ As the previous section discussed, “charity and donations” have weakened the financial capabilities of influential private firms as they must pay more “tax” indirectly to the government. This has created an economic dilemma for Chinese private enterprises: maintain incentives for business growth or address the government’s concerns.

In the Western world, income inequality could be addressed by increasing social welfare and imposing more taxes on the rich. Nevertheless, Xi has rejected this idea and called it a “welfare

¹³³ World Bank. (2021). Household final consumption expenditure as a percentage of GDP. Retrieved from: https://data.worldbank.org/indicator/NE.CON.PRVT.ZS?contextual=default&end=2021&locations=CN-US-XP&name_desc=true&start=2012&view=chart

¹³⁴ Wu, G. (2022). China’s common prosperity program: causes, Challenges, And Implications. Asia Society Policy Institute Report. Retrieved, 15.

state trap”. He believes that this type of “high welfare” would only support a number of “lazy people” and overburden the country’s public finances, causing it to fall in the “middle-income trap” like some Latin American countries in the past.¹³⁵ Apart from Xi’s personal perception, giving welfare also means reducing the financial resources controlled by the CCP, and the public sector’s current high debt levels puts limits on possible increases in welfare spending.

As the Figure 6 indicates, China’s total public sector debt (government bonds and local government financing vehicles [LGFV]) rose from 40% of GDP in 2012 to 95% in 2022.¹³⁶ This main reasons for this increase in government debt are nonproductive, or insufficiently productive, investment in infrastructure and real estate to achieve the Chinese leadership’s political objectives: high GDP growth rate and funds to the BRI.¹³⁷ Under this circumstance, increasing social welfare is a less-doable option as it will add more burden on the local government.¹³⁸ As a consequence, the Chinese government chose the “Common Prosperity” campaign to transfer the funding pressure associated with higher social welfare to the private sector.

¹³⁵ Xi Jinping. (2022). Accurately Grasping and Understanding Major Theoretical and Practical Issues in China’s Development. Qiushi (2022-05-15) Translated from: 习近平. (2022). 正确认识和把握我国发展重大理论和实践问题. 求是 (2022-05-15) Retrieved from: http://www.qstheory.cn/dukan/qs/2022-05/15/c_1128649331.htm.

¹³⁶ Zhou, A., Lee, A., & Liao, C. (2023). Local Government Financing Vehicles: A Growing Risk for China's Economy? PIMCO. Note: This is an estimated date as there is no official public data; estimates are derived from bottom-up aggregates of bond issuers’ financial statements and data from industry and governmental bodies.

¹³⁷ Pettis, M. (2022). The Only Five Paths China’s Economy Can Follow. Carnegie Endowment for International Peace. Retrieved from: <https://carnegieendowment.org/chinafinancialmarkets/87007>.

¹³⁸ Note: Under the current mechanism in China, Local government is responsible most of public service and social welfare.

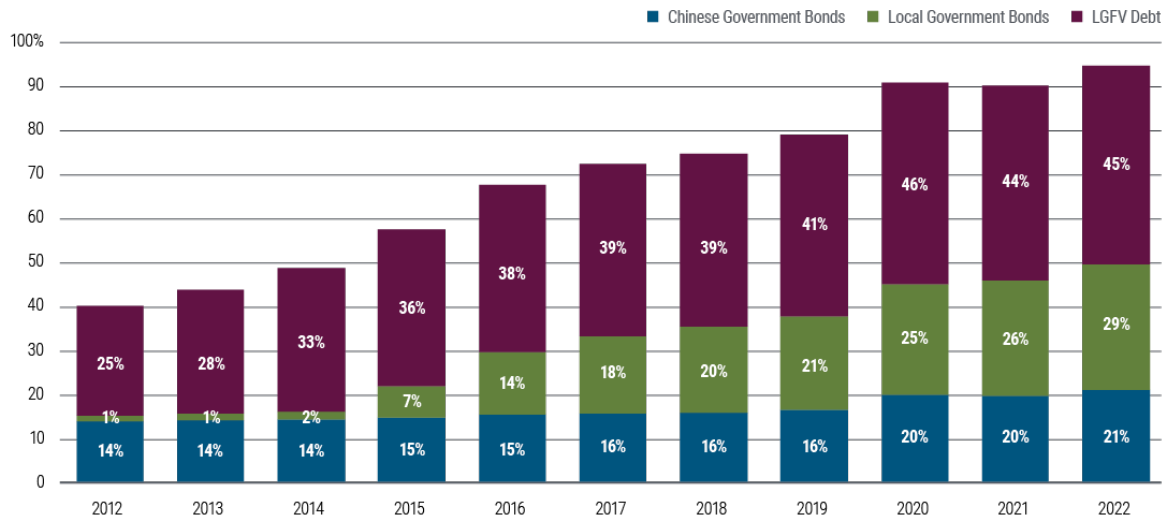


Figure 6: Chinese Government (Central and Local) Bonds and LGFV Debt rate as a percentage of GDP.¹³⁹

3.2.2 “New whole-nation-system (WNS)” and “Concentrate efforts to accomplish major tasks”

In the report of the 20th Party Congress, Xi Jinping said: “We will improve the system in which the Party Central Committee exercises unified leadership over science and technology work. We will improve the new system for mobilizing resources nationwide to make key technological breakthroughs.”¹⁴⁰ The term “system for mobilizing resources nationwide” (举国体制), also translated as “whole-nation-system (WNS)” by Western media and researchers,¹⁴¹ was an old

¹³⁹ Zhou, A., Lee, A., & Liao, C. (2023). Local Government Financing Vehicles: A Growing Risk for China's Economy? PIMCO.

¹⁴⁰ Jinping, Xi. “Full text of the report to the 20th National Congress of the Communist Party of China.” Ministry of Foreign Affairs. Retrieved from: <https://english.news.cn/20221025/8eb6f5239f984f01a2bc45b5b5db0c51/c.html>.

¹⁴¹ The “new system for mobilizing resources nationwide” is an official translation from the official English version of the report to the 20th National Congress of the Communist Party of China. And the same term, “新举国体制”, was translated as “a new type of national system with concentrated efforts and resources for important events or projects” by China Academy of Translation. Western media, the Diplomacy and Bloomberg for instance, typically translate it as “new whole nation system” in their reports. To simply analysis and make it better understand for English reader, I chose to use “new whole nation system” in this MRP to avoid confusion.

economic development approach during China's planned-economy period, where "the government mobilized and allocated resources through administrative command".¹⁴²

China defined the new WNS as "different from its older version, the new WNS involves market mechanisms to allocate resources under the government's guidance, and it could address 'new challenges' associated with globalization and digitalization through self-strengthening and reducing reliance on foreign inputs".¹⁴³ Under this system, party control is mixed more intimately with market mechanisms to ensure that resources across the country could be concentrated to accelerate the development of "priority domains". This is called by the CCP "concentrate efforts to accomplish major tasks (集中力量办大事)", which, from its perspective, can "prevent the prolonged decision-making cycles, complexity, and inefficiency often seen in capitalist societies, thus aiding in achieving rapid development".¹⁴⁴

In the CCP's eye, since a major component of "de-risking" strategies is to restrict the export of high-end products to China, those restricted domains have thus been prioritized under the new WNS. The existence of a market-allocation mechanism, to some extent, ensures its basic efficiency compared with the WNS in the planned-economy era.

¹⁴² Tan, X., & Yao, S. (2022). China's 'Whole Nation' Effort to Advance the Tech Industry. In *Diplomat* (Rozelle, N.S.W.). Tribune Content Agency LLC.

¹⁴³ Xie, Y., & Hu, A. (2021). Background, Basic Features and Application Fields of the New Whole-Nation System. *Journal of Shenzhen University (Humanities & Social Sciences)*, 38(4), 18-26." Translated from: 谢宜泽, & 胡鞍钢. (2021). 新型举国体制: 时代背景, 基本特征与适用领域. 《深圳大学学报》(人文社科版), 38(4), 18-26.

¹⁴⁴ He, Z., (2021). The Theoretical Analysis of China's Concentrated Efforts in Handling Major Affairs' Significant Advantages. *Journal of Hunan Administration College*, 3, 33-41. Translated from Chinese: 贺治方. (2021). 中国集中力量办大事显著优势的学理分析. 湖南行政学院学报, 3, 33-41.

Chips (i.e., semiconductors), as a core part of the restricted domains, have been a key focus. The National Integrated Circuit Industry Investment Fund (ICF), or the Big Fund, was set up in 2014 to end China's heavy reliance on foreign semiconductor technology and backed by deep-pocketed state investors, including the Ministry of Finance, China Tobacco, China Mobile and China Development Bank. In recent years, the Big Fund has expanded its investment portfolio from chip manufacturing to raw materials and provided financing tools to domestic market leader such as SMIC, Hua Hong Semiconductor and YMTC.¹⁴⁵ It has grown from US\$21.8 billion for first phase in 2014 to US\$29.1 billion for second phase in 2019.¹⁴⁶

To some extent, Made-in-China 2025 could be seen as an early version of the new WNS where several prioritized industries received overwhelming funds from the governments to facilitate technical achievements. For China, since it cannot get access to advanced technologies from the West, owing to de-risking strategies, it chose to further expand this approach to restricted or likely restricted domains in the hope of breaking out of technological dependence on the West.

3.3 “Securitization”

Securitization is a tactic that politicizes in the name of national security traditionally non-political issues so as to enable China's authorities to utilize extraordinary measures to gain advantages in countering de-risking strategies adopted by the US and the EU. It's important to note that China's securitization tactic has two goals. One is safeguarding the “political security” of the CCP to ensure

¹⁴⁵ Financial Times. (2022). China hits Big Fund chip executives with corruption probes. Financial Times. Retrieved from: <https://www.ft.com/content/1e3fe107-1b6e-43dd-8f04-e3c88502c36b>

¹⁴⁶ Randall, Stewart (2022). "Why is China investigating semiconductor "Big Fund"?. TechNode.

continued public support for the CCP as Xi reverses economic reforms and the development-first model.¹⁴⁷ The other one is to simultaneously counter the “de-risking” strategies from the West.

3.3.1 The Copenhagen School’s model

In international relations, the term “securitization,” referred to as the Copenhagen School’s model, or CS’s model, is defined as “the process of state actors transforming subjects from regular political issues into matters of ‘security,’ thus enabling extraordinary means to be used in the name of security.” Specifically, it means “by stating that a particular ‘referent object’ is threatened in its existence by an ‘existential threat,’ a ‘securitizing actor’ claims a right to use extraordinary measures to ensure the referent object’s survival. After persuading the audience, normally the public, this issue is then moved out of the sphere of normal politics into the realm of emergency politics, where it can be dealt with swiftly and without the normal (democratic) rules and regulations of policymaking”. Once a “referent object” is securitized, it receives disproportionate amounts of attention and resources compared to unsuccessfully securitized subject.¹⁴⁹ In short, securitization involves four components: referent object, securitizing actor, existential threats, audience.

3.3.2 Hyper-securitization: China’s “new definition” of security

Since Xi came to power in 2012, security has become the central organizing political discourse. Nyman defines it as a form of “hyper-securitization” where “security discourse proliferates, and the notions of threat and risk expand and extend to a point where anything, anywhere, at any time

¹⁴⁷ Drinhausen, K., & Legarda, H. (2022). ‘Comprehensive National Security’ Unleashed: How Xi’s Approach Shapes China’s Policies at Home and Abroad. MERICS Mercator Institute for China Studies, 15.

¹⁴⁹ Buzan, Barry, Wæver, O., & Wilde, J. de. (1998). Security: a new framework for analysis. Lynne Rienner Publishers. p. 32. & p.25.

could be considered threatening.”¹⁵¹ Xi chose to expand the hyper-securitization to more areas, fueling US/EU de-risking strategies and, thus, enabling him to utilize even more extraordinary measures to eliminate perceived threats.

In the report to the 20th National Congress of the CCP, Xi Jinping stated that “external attempts to suppress and contain China may escalate at any time” and “all party and state organs must improve their efforts to prevent and contain any internal and external threats to China’s national security and political system.”¹⁵² According to a statistical analysis conducted by the Center for Strategic and International Studies (CSIS), this report contains 91 mentions of the word “security” (安全), a significant climb from 54 mentions in the 19th Party Congress report, as Figure 7 shows. And the increase in mentions of “risk” (风险) and “challenges” (挑战) also shows the CCP has a higher feeling of insecurity about the US/EU’s de-risking strategies.¹⁵³

For the referent object, that report creates a new section on national security that centers on a “multidimensional” and expanding conception of national security, known as “comprehensive national security” (总体国家安全), officially introduced in 2014, with an increase from 11 to 16

¹⁵¹ Nyman, J. (2023). Towards a global security study: what can looking at China tell us about the concept of security? *European Journal of International Relations*, 29(3), 673-697.p.688.

¹⁵² Jinping, Xi. “Full text of the report to the 20th National Congress of the Communist Party of China.” Ministry of Foreign Affairs. Retrieved from: <https://english.news.cn/20221025/8eb6f5239f984f01a2bc45b5b5db0c51/c.html>.

¹⁵³ Lin, B., Hart, B., Funaiole, M. P., & Lu, S. (2022, October). China’s 20th Party Congress Report: Doubling Down in the Face of External Threats. CSIS. Retrieved from: <https://www.csis.org/analysis/chinas-20th-party-congress-report-doubling-down-face-external-threats>.

types of security areas,¹⁵⁴ which mainly involves the security of food, energy, resources as well as critical industrial and supply chains.^{155,156}

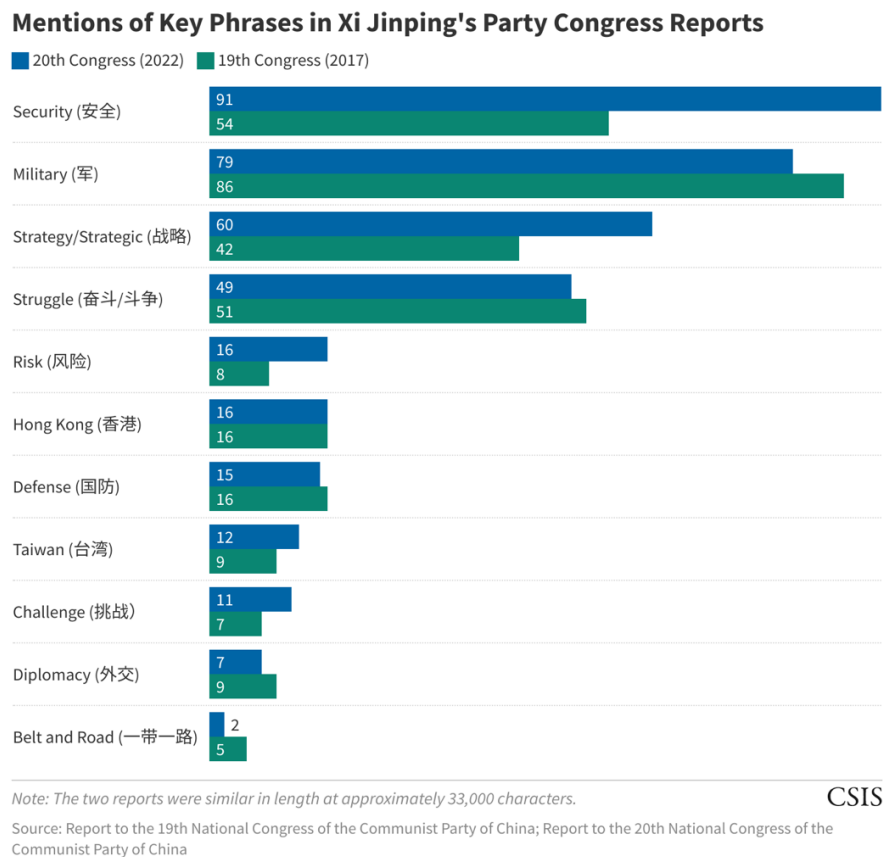


Figure 7: Mentions of Key Phrases in Xi Jinping's Party Congress Reports.¹⁵⁷

As for the concrete “extraordinary measures” to address those “security issues,” the report formalized new implementation systems from laws and regulations to institutions, as well as mass

¹⁵⁴ Those securities include Political security, Territorial security, Military security, Economic security, Cultural security, Societal security, Tech security, Cybersecurity, Ecological security, Resource security, Nuclear security, Biosecurity, Space security, Polar security, Deep-sea security, Security of overseas interests.

¹⁵⁵ Jinping, Xi. “Full text of the report to the 20th National Congress of the Communist Party of China.” Ministry of Foreign Affairs. Retrieved from: <https://english.news.cn/20221025/8eb6f5239f984f01a2bc45b5b5db0c51/c.html>.

¹⁵⁶ Drinhausen, K., & Legarda, H. (2022). ‘Comprehensive National Security’ Unleashed: How Xi’s Approach Shapes China’s Policies at Home and Abroad. MERICS Mercator Institute for China Studies, 15.

¹⁵⁷ Lin, B., Hart, B., Funaiole, M. P., & Lu, S. (2022, October). China’s 20th Party Congress Report: Doubling Down in the Face of External Threats. CSIS. Retrieved from: <https://www.csis.org/analysis/chinas-20th-party-congress-report-doubling-down-face-external-threats>.

mobilization campaigns, stressing out the need to “raise the people’s awareness and readiness regarding national security.”¹⁵⁸ Those new laws and regulations include national security law, anti-espionage law, anti-foreign sanctions law, and data security law. The most attention-grabbing one is the anti-espionage law, which stands out for the extensive scope of its coverage as well as its vague definition of “espionage activities.” To be more specific, this law defines acts of espionage as activities that endanger national security and interests. However, it doesn’t specify what constitutes “national security and interests,” and “national security” could be deemed criminal behaviour.¹⁵⁹ In 2023, under the permission of this law, China’s authorities cracked down on American consulting companies such as the Mintz Group, Bain & Company and Capvision Partners for not “earnestly fulfilling the responsibilities and obligations of preventing espionage.”¹⁶⁰

As for mass mobilization campaigns, Xi seeks to copy the success of the “people campaign (群众运动),” which convinced a large portion of the Chinese population to participate in political goals in Mao Zedong’s era: for example, removing “counter-revolutionaries (反革命分子)” through universal populist action to get a new China.¹⁶¹ A notable instance of such a campaign is the large-scale anti-espionage measures across media, universities, corporations and social platforms. The Chinese government has advertised to the public the vital necessity of this campaign as forces that

¹⁵⁸ Drinhausen, K., & Legarda, H. (2022). ‘Comprehensive National Security’ Unleashed: How Xi’s Approach Shapes China’s Policies at Home and Abroad. MERICS Mercator Institute for China Studies, 15.

¹⁵⁹ N.d.(2023). North-East Asia in Focus: Anti-Espionage Laws. The Economist Intelligence Unit. Retrieved from: <https://www.eiu.com/n/north-east-asia-in-focus-anti-espionage-laws>.

¹⁶⁰ Pierson, D., & Wakabayashi, D. (2023, May 8). China Tightens Espionage Laws, Impacting Foreign Businesses. The New York Times. Retrieved from: <https://www.nytimes.com/2023/05/08/business/capvision-china-espionage-law.html>.

¹⁶¹ Tsai, Wen-hui. “Mass Mobilization Campaigns in Mao’s China.” American Journal of Chinese Studies 6, no. 1 (1999): 21–48.

try to weaken China are everywhere: embedded in multinational companies, infiltrating social media, circling naïve students, etc. At the same time, it has also highlighted how these “Western spies” aid Western nations in containing China’s rise by conducting “cognitive and ideological manipulation“ and offering rewards of 10,000 CNY (about 14,000 USD) to people who report spies.¹⁶² Under this guidance, any affair related to the West or Westerners could be securitized and then banned or restricted in the name of “de-risking” and security. For instance, an airport in Hunan Province recently banned Tesla cars from its parking lots because they could be used to spy.¹⁶³

In summary, a significant feature of Xi’s hyper-securitization strategy is a broad and ambiguous definition of national security, which enables the Chinese government to implement extraordinary populist measures to address those arbitrary security issues. On the flip side, anti-Western securitization is also an effective way to strengthen social controls and suppress dissenting voices, as many authoritarian regimes do.

3.3.3: From Security dilemma to Securitization dilemma

The securitization dilemma, a complex concept derived from the security dilemma in international relations, presents a challenging scenario. It mirrors the security dilemma, also known as the spiral model, where an increase in one state's security (such as increasing its nuclear weapons) triggers fear in other states, compelling them to enhance their security.¹⁶⁴ Similarly, the securitization dilemma unfolds as an increase in one state's security, say through the acquisition of more weapons,

¹⁶² “China Uses Spies to Steal Secrets, U.S. Campaign Asserts.” The New York Times. (2023, September 2). Retrieved from: <https://www.nytimes.com/2023/09/02/world/asia/china-spies-campaign.html>.

¹⁶³ Ding, R. (2023, July 5). China’s Efforts to Save Disappearing Dialects Face Uphill Battle. Sixth Tone. Retrieved from <https://www.sixthtone.com/news/1013528>.

¹⁶⁴ Jervis, R. (1978). Cooperation under the Security Dilemma. *World Politics*, 30(2), 167–214. doi:10.2307/2009958

prompts other states to perceive a greater threat and respond with heightened security measures, and so on and so forth.

The securitization dilemma is not without its unintended consequences. In the de-coupling process, the adoption of de-risking measures by the US and/or the EU triggers a chain reaction. China responds with its own de-risking measures, which in turn prompt the US and/or the EU to adopt additional measures, and so on. The other aspect of the securitization dilemma is equally concerning. While aimed at addressing perceived threats, Beijing's securitization measures can lead to a weaker Chinese economy, higher social contradictions, and increased dissatisfaction and resistance from the Chinese people. This, in turn, compels Beijing to increase securitization measures, creating a self-perpetuating cycle of securitization dilemmas.

First, since economic issues have also been securitized, the research concluded that China conducted two actions to address economic insecurity generated by de-risking strategies. One is a further expansion of party-state authority in firms through changes in corporate governance and state-led financial instruments. The other one is enforcing political loyalty among various economic actors, including SOEs and private companies. Those actions further blurred the distinction between state and private capital in China. They inevitably resulted in backlash from the West, including more intensified investment reviews, excluding Chinese firms from strategic sectors, prompting them to restrict Chinese commercial behaviours.¹⁶⁵ The ongoing debates on TikTok's ban on data security concerns are representative cases. This trend also creates a mutual security competition in which both sides compete for a higher level of securitization.

¹⁶⁵ Pearson, M. M., Rithmire, M., & Tsai, K. S. (2022). China's party-state capitalism and international backlash: From interdependence to insecurity. *International Security*, 47(2), 135-176.

Apart from that, it is clear that the underlying goal of securitization is to ensure a ruling role of the CCP, and de-risking from the US/EU undoubtedly brought in more threats to its forever ruling, which fuels Beijing to higher the securitization measures to tackle this new threat. However, a stalled economy and more restrictions brought by security competition, in return, could increase the insecurity of the CCP. In other words, securitization makes the CCP more insecure, and that is a typical internal securitization dilemma where “an actor took actions to securitize a referent object yet result in an increased threat to that referent object.”¹⁶⁶

3.4 Attempting to divide US and EU

China’s diplomacy traditionally focuses on dividing the US and the EU as it could not only isolate the US, countering Western influence more broadly, but also expanding China’s global reach. For a long time, Chinese diplomatic discourse constantly emphasized that the EU needs to “think and act more strategically and autonomously” rather than “following orders from the US.” Technically, China particularly emphasizes bilateral relations with France and Germany, the two biggest economies of the EU, over broader EU engagement. Under this logic, splitting the US and the EU by significantly influencing France and Germany became another approach Beijing implied.^{167, 168}

As explained in Section 2, Brussel and Washington also have varied objectives and priorities in terms of how to imply de-risking strategies vis-à-vis Beijing, which, on the other hand, allows

¹⁶⁶ Ronnie Olesker (2018) The securitisation dilemma: legitimacy in securitisation studies, *Critical Studies on Security*, 6:3, 312-329, DOI: 10.1080/21624887.2018.1427948.

¹⁶⁷ Le Corre, P. (2023, April 1). Europe’s China Challenge: The Narrow Path for France, Germany, and the EU. Asia Society. Retrieved from: <https://asiasociety.org/policy-institute/europes-china-challenge-narrow-path-france-germany-and-eu>

¹⁶⁸ Le Corre, P. (2021). Europe’s Tightrope Diplomacy on China. Carnegie Endowment for International Peace.

Beijing to court the EU by making concessions in bilateral investment and trade agreements (i.e., the Comprehensive Agreement on Investment [CAI] between the People’s Republic of China and the European Union), adding more technical obstacle on EU’s de-risking strategies. At the same time, China has replaced aggressive wolf warrior diplomacy with a charm offensive one towards the EU, attempting to reduce Europe’s hostility towards China after Russia invaded Ukraine.¹⁶⁹ For example, Wang Yi, the current Minister of Foreign Affairs of China, said that “China and the EU do not have conflicts of fundamental interests, and are cooperative partners first and foremost, with far more consensus than differences” at the end of 2023.¹⁷⁰

3.5 Reducing reliance on Western financial services

Western financial service (i.e. the SWIFT, dollar, and financial markets) is a crucial component where China still depends on the West. To address potential threats brought by high reliance, Beijing has introduced a series of measures to replace those services with a Chinese one.

3.5.1 Seeking alternatives of the SWIFT

The Society for Worldwide Interbank Financial Telecommunication (Swift) is a Belgian cooperative society providing services related to the execution of financial transactions and payments between certain banks worldwide, and it is the most extensive and most streamlined method for international payments and settlements.¹⁷³ Swift has two key roles: allowing Swift participants to exchange information through the Swift network, known as clearinghouses, and

¹⁶⁹ Walt, S. M. (2023). Can China Pull Off Its Charm Offensive? Foreign Policy. Retrieved from: <https://foreignpolicy.com/2023/01/23/can-china-pull-off-its-charm-offensive/>

¹⁷⁰ Embassy of the People’s Republic of China in Canada. (2023, October 13). Wang Yi: China and the EU are Partners First and Foremost, with Far More Consensus Than Differences. Retrieved from: http://ca.chinaembassy.gov.cn/eng/zgxw/202311/t20231110_11178457.htm

¹⁷³ Scott, S.V., & Zachariadis, M. (2013). The Society for Worldwide Interbank Financial Telecommunication (SWIFT): Cooperative governance for network innovation, standards, and community (1st ed.).

setting standards for messaging. Moreover, those roles are what motivated China to create an alternative because it could be weaponized as a tool of economic sanctions by preventing sanctioned entities (Russia, North Korea, Iran, and Belarus, i.e.) from accessing the Swift network.¹⁷⁴ Furthermore, under the Swift system, even transactions denominated in CNY can be detected by the US, making it impossible to do business with sanctioned entities.

In 2015, the People's Bank of China (PBOC), the central bank of the PRC, launched the Cross-Border Interbank Payments System (CIPS), which is incorporated as an independent entity and supervised by the central bank. It is a real-time gross settlement system instead of a netting engine. Financial institutions are divided into direct participants, which maintain an account with the system and must be incorporated in China under the monitor of PBOC, and indirect participants, dealing with it via the direct participants.¹⁷⁵

Disconnecting Russia from Swift, one of the sanctions imposed on Russia after its invasion of Ukraine in February 2022, highlighted the growing risk of China's reliance on Swift and accelerated Beijing's expansion of the cover rate of CIPS as part of a financial de-risking tactic.¹⁷⁶

According to the PBOC, 1259 foreign and domestic institutions were linked with CIPS by the end of 2021, a six-fold increase from 2015.¹⁷⁷

¹⁷⁴ Cipriani, M., Goldberg, L. S., & La Spada, G. (2023). Financial sanctions, SWIFT, and the architecture of the international payment system. *Journal of Economic Perspectives*, 37(1), 31-52.

¹⁷⁵ Eichengreen, B. (2022, May 20). Sanctions, SWIFT, and China's Cross-Border Interbank Payments System. Center for Strategic & International Studies (CSIS). Retrieved from: <https://www.csis.org/analysis/sanctions-swift-and-chinas-cross-border-interbank-payments-system>.

¹⁷⁶ Sher, N. (2023). Serving the real economy: From de-dollarization to RMB internationalization. The Jamestown Foundation. Retrieved from: <https://jamestown.org/program/serving-the-real-economy-from-de-dollarization-to-rmb-internationalization/>

¹⁷⁷ People's Bank of China. (2022). 2022 RMB Internationalization Report. Retrieved from: <http://www.pbc.gov.cn/en/3688241/3688636/3828468/4601761/4720798/2022112414551596783.pdf>.

For the CIPS, the major obstacle to replacing Swift is the long time-taking, high expense, and a half-century head start of the Swift system instead of technology. Another crucial barrier is that only about two percent of all cross-border interbank payments are denominated in CNY, which also hinders the willingness of foreign entities to support it. Finally, China's capital controls that limit certain forms of inward and outward foreign investment reduce the willingness and confidence to receive CNY as well as the CIPS.¹⁷⁸

At present, CIPS has not posed a serious challenge to Swift's dominating position because of the significant gap in the number of participants and transactions, although its number is growing fast.¹⁷⁹

3.5.2 De-dollarization: Encouraging the use of CNY in international trade and finance

Since the 21st century, China has continually sought to internationalize its official currency, the Renminbi (RMB) or Chinese Yuan (CNY).¹⁸⁰ However, this process was temporarily paused at the 19th Party Congress in 2017 as its monetary policy priorities a fixed foreign exchange rate and independent monetary policy rather than abandoning capital control.¹⁸¹

¹⁷⁸ Eichengreen, B. (2022, May 20). Sanctions, SWIFT, and China's Cross-Border Interbank Payments System. Center for Strategic & International Studies (CSIS). Retrieved from: <https://www.csis.org/analysis/sanctions-swift-and-chinas-cross-border-interbank-payments-system>.

¹⁷⁹ Yeung, Raymond and Khoon Goh. 2022. "Petroyuan Will Not Bring About a Regime Shift Soon." ANZ Research, China Insight, April 6, 2022.

¹⁸⁰ Cheung, Y. W. (2023). A decade of RMB internationalisation. *Economic and Political Studies*, 11(1), 47-74.

¹⁸¹ Sher, N. (2023). Serving the real economy: From de-dollarization to RMB internationalization. The Jamestown Foundation. Retrieved from: <https://jamestown.org/program/serving-the-real-economy-from-de-dollarization-to-rmb-internationalization/>

This famous issue is known as the impossible trinity, or the impossible trilemma, an international economic theory that states the following three conditions:

- a fixed foreign exchange rate
- free capital movement (absence of capital controls)
- an independent monetary policy that cannot simultaneously exist.¹⁸²

The abandoned one, free capital movement, is believed to be an inevitable character of an international currency, such as the US dollar.¹⁸³ The de-risking strategies from the US/EU, however, have reversed this pause as Beijing found that “dollar hegemony” is a significant threat as “it gives the US government power to impose crippling sanctions and wage other forms of financial warfare against adversaries.”¹⁸⁴ Xi Jinping re-introduced the importance of “promoting RMB internationalization in an orderly manner” (有序推人民币国际化) at the 20th Party Congress in 2022.¹⁸⁵ Moreover, their effects seemed to work out when the CNY became China's most widely used currency in cross-border payments in March 2023, surpassing the US dollar for the first time.¹⁸⁶

¹⁸² Aizenman, J. (2013). The impossible trinity—from the policy trilemma to the policy quadrilemma. *Global Journal of Economics*, 2(01), 1350001.

¹⁸³ Eichengreen, Barry and Kawai, Masahiro, Issues for Renminbi Internationalization: An Overview (January 21, 2014). ADBI Working Paper 454, Available at SSRN: <http://dx.doi.org/10.2139/ssrn.2382420>.

¹⁸⁴ Norrlof, C. (2014). Dollar hegemony: A power analysis. *Review of International Political Economy*, 21(5), 1042–1070.

¹⁸⁵ Jinping, Xi. “Full text of the report to the 20th National Congress of the Communist Party of China.” Ministry of Foreign Affairs. Retrieved from: <https://english.news.cn/20221025/8eb6f5239f984f01a2bc45b5b5db0c51/c.html>.

¹⁸⁶ Bloomberg. (2023, April 26). Yuan overtakes dollar as China's most-used cross-border currency. Retrieved from <https://www.bloomberg.com/news/articles/2023-04-26/yuan-overtakes-dollar-as-china-s-most-used-cross-border-currency?embedded-checkout=true>

In the same year, China and Brazil agreed to “strengthen local currency trade”¹⁸⁷, and Argentina would begin buying \$1 billion worth of monthly imports from China using CNY¹⁸⁸, a remarkable landmark in Latin America. As for Russia, as Mikhail Mishustin, the Prime Minister of Russia, noted during his visit to China, over 90 percent of Sino-Russian bilateral trade was now being conducted in either roubles or CNY.¹⁸⁹

The purpose of CNY internationalization is so-called “de-dollarization,” where Beijing saw the dependency on using the US dollar as risky and unbeneficial in the long run. By doing this, China could insulate itself from future financial sanctions from the US, reduce exposure to foreign exchange rate fluctuations, and ultimately gain great power with a significant currency. Moreover, all those measures concentrate on strengthening cross-border trade settlement, as in the case of Brazil and Russia, rather than attempting to further liberalize China's capital account, effectively avoiding the restriction set by the impossible trinity.¹⁹¹

3.5.3 Reducing reliance on US financial markets

¹⁸⁷ 中华人民共和国和巴西联邦共和国关于深化全面战略伙伴关系的联合声明（全文） [Joint Statement on Deepening Comprehensive Strategic Partnership between the People's Republic of China and the Federative Republic of Brazil (Full Text)] Retrieved from: https://www.gov.cn/yaowen/2023-04/14/content_5751581.htm.

¹⁸⁸ Reuters. (2023, April 26). Argentina govt to pay for Chinese imports in yuan rather than dollars. Reuters. Retrieved from: <https://www.reuters.com/world/china/argentina-govt-pay-chinese-imports-yuan-rather-than-dollars-2023-04-26/>

¹⁸⁹ Kawala. (2023). Deeper China-Russia relations a ‘strategic choice’ for both sides, Xi Jinping tells Russian Prime Minister. South China Morning Post. Retrieved from: <https://www.scmp.com/news/china/diplomacy/article/3245774/deeper-china-russia-relations-strategic-choice-both-sides-xi-jinping-tells-russian-prime-minister>

¹⁹¹ Sher, N. (2023). Serving the real economy: From de-dollarization to RMB internationalization. The Jamestown Foundation. Retrieved from: <https://jamestown.org/program/serving-the-real-economy-from-de-dollarization-to-rmb-internationalization/>

Financial markets are any marketplace where securities trading occurs, including the stock market, bond market, forex market, cryptocurrency market, and derivatives market.¹⁹² Beijing's action mostly concentrates on reducing reliance on the US stock market.

Since the opening of China, China's companies have relied heavily on the US financial market, primarily for choosing to go public on the US stock exchanges, the New York Stock Exchange (NYSE), Nasdaq, and NYSE American, due to the limitations on mainland China's domestic stock markets.¹⁹³ As of January 9, 2023, 252 Chinese companies were listed on these US exchanges, with a total market capitalization of \$1.03 trillion.¹⁹⁴

However, Beijing has started to view this sort of financial reliance as a "security risk." It has pushed Chinese companies and investors to replace it with domestic ones, which could also be part of the hyper-securitization strategies we previously discussed. Forcedly delisting Didi Global, known as China's Uber, from the New York Stock Exchange in 2022 to protect user's data security was a representative case.¹⁹⁵ Later, on February 2023, the China Securities Regulatory Commission (CSRC) released the "Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies" (境内企业境外发行证券和上市管理试行办法). Under these

¹⁹² Adam Hayes (2023). Financial Markets: Role in the Economy, Importance, Types, and Examples. Investopedia. Retrieved from: <https://www.investopedia.com/terms/f/financial-market.asp>.

¹⁹³ Fong, S. (2011). 4 reasons Chinese companies IPO in America. Business Insider. Retrieved from: <https://www.businessinsider.com/4-reasons-chinese-companies-ipo-in-america-2011-7>.

¹⁹⁴ U.S.-China Economic and Security Review Commission. (2023). Chinese Companies Listed on Major U.S. Stock Exchanges. U.S.-China Economic and Security Review Commission. Retrieved from: <https://www.uscc.gov/research/chinese-companies-listed-major-us-stock-exchanges>.

¹⁹⁵ Yang, J., & Sebastian, D. (2022). Didi Ends Tumultuous Run as a New York-Listed Company. The Wall Street Journal. Retrieved from: <https://www.wsj.com/articles/didi-ends-tumultuous-run-as-a-new-york-listed-company-11654870443>.

measures, all overseas listings must finish filing procedures with the CSRC, and those identified as “probably jeopardizing national security” are not allowed to list overseas.¹⁹⁶

China’s response to the US’s Holding Foreign Companies Accountable Act, enacted in 2020, is a testament to its proactive stance.¹⁹⁷ China's response to the US's Holding Foreign Companies Accountable Act, enacted in 2020, is a testament to its proactive stance. The act, which extends the US's regulatory authority over offshore-listed firms, mandates listed companies in the US to adhere to the auditing standards of the Public Company Accounting Oversight Board (PCAOB). Non-compliance could lead to forced delisting. This act addresses the risk of investor fraud stemming from the lack of compliance and transparency among Chinese companies listed on the US exchange.¹⁹⁸ Simultaneously, Beijing’s decision-makers are concerned about potential weaponization space, data leaks, and the risk of future sanctions, highlighting the need to reduce reliance on US financial markets.

3.6 Are those responses feasible for China?

Apart from those we have discussed so far, there are three other major barriers for China when it comes to the feasibility of its responding actions. The first one is the questionable reliability of its authoritarian ally. The second one is corruption and inefficiency issues in the “controlled” market

¹⁹⁶ China Securities Regulatory Commission. (2023). CSRC Announcement [2023] No. 43: Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies. CSRC Official Website.

¹⁹⁷ Tamar Groswald Ozery. (2023) “The Holding Foreign Companies Accountable Act: Investor Protection or Geopolitics?” USALI Perspectives, 3, No. 24.

¹⁹⁸ Robertson, Benjamin (2019). “Latest U.S. Salvo Against Chinese Firms Could Benefit Hong Kong”. Bloomberg News. Retrieved from: <https://www.bnnbloomberg.ca/latest-u-s-salvo-against-chinese-firms-could-benefit-hong-kong-1.1269312>.

economy. The last one is that those actions would get less support from its shaky economy after Xi's irrational zero-covid policy.

3.6.1 Unreliable authoritarian ally

Here, the adjective 'unreliable' has two meanings. One is that this authoritarian alliance itself is not as stable as its democratic counterparts, and the other is that its power is not as competitive as that of the US-led Western world.

For the first one, as Stephen Walt observed in his book *Origins of Alliances*, authoritarian alliances are more unstable than their liberal democratic counterparts.¹⁹⁹ China's historical splits with two former communist allies, the Soviet Union and Vietnam, and its turn to ally with the US in the 1960s-1980s proved this theory thoroughly. Nowadays, China's three close authoritarian allies (Russia et al.) only share one common national interest—against the West, and this, combined with China's weak soft power, higher the risk of a future fallout.

For instance, although China said its bilateral partnership with Russia was more significant than a traditional alliance, and their friendship had "no limits," they have significant internal contradictions concerning geostrategic interests, trade relations with the West, and ways of altering the current liberal international order. Also, historically, China and the Soviet Union came close

¹⁹⁹ Walt, S. M. (1990). *The origins of alliances*. Cornell University Press.

to a large-scale military conflict after the alliance fell apart,^{200,201} which made a resilient alliance questionable.

For the second one, regarding the distribution of power, this China-centered authoritarian alliance is much weaker than its liberal counterparts in terms of economic size, knowledge and technology resources, and military capacity. Moreover, global southern countries are not necessarily allies of China. Their stance towards the West emphasizes economic aid issues and dissatisfaction with the existing international trade system.²⁰² However, this does not imply that they would unequivocally align themselves with China, like Russia, Iran, or North Korea.

3.6.2 Inevitable Corruption and Inefficiency

For the "controlled" market economy tactics, corruption and Inefficiency are inevitable and severe problems. A common feature of those actions is that they remarkably increased government intervention in the economy (i.e. substantial government subsidies to the semiconductor industry and more powerful SOEs), and existing research demonstrates that much public corruption can be traced to government intervention in the economy. A higher level of intervention usually means a higher level of corruption.²⁰³ For example, China halted the Big Funds, a representative new WNS

²⁰⁰ Kim, P. M. (2023, Mar). The Limits of the No-Limits Partnership: China and Russia Can't Be Split, but They Can Be Thwarted. *Foreign Affairs*, 102, 94-98,100-105.

²⁰¹ Chang-Liao, N. C. (2023). The limits of strategic partnerships: Implications for China's role in the Russia-Ukraine war. *Contemporary Security Policy*, 44(2), 226-247.

²⁰² Obeng-Odoom, F. (2023). Rethinking development economics: Problems and prospects of Georgist political economy. *Review of Political Economy*, 35(1), 316-333.

²⁰³ Mauro, P. (1998). Why Worry About Corruption? International Monetary Fund. Retrieved from:<https://www.imf.org/EXTERNAL/PUBS/FT/ISSUES6/issue6.pdf>.

project, after a series of corruption probes on its heavyweights' executives and an economic impact from COVID, marking a significant setback to Beijing's self-sufficiency ambitions.²⁰⁴

Undoubtedly, those actions further push China to a planned or command economy rather than a liberal market economy where Inefficiency is a fatal and inevitable flaw as the government feels no pressure from private competitors or price-conscious consumers to cut costs.²⁰⁵ Historically, a planned economy has proved to be effective in achieving specific national goals in the short term, like the short-term success of the first five-year plan of the Soviet Union. However, it is less competitive in the long run.²⁰⁶ Taking chips as an example, China could achieve temporary success in semiconductors under the vast subsidies to SOEs. However, that product would not be competitive as they dismissed the efficiency.

3.6.3 Less economic supports from a shaky economy

After Xi lifted China's strict COVID-19 restrictions in December 2022 after a series of anti-lockdown protests, known as the White Paper Protests (白纸运动) or the A4 Revolution²⁰⁷, many expected the Chinese economy started to surge. However, after a brief post-COVID bounce, this expectation was wrong as China's economy continued to stall. According to the World Bank report, China's economic recovery remained fragile in 2023 as the initial phase of economic reopening

²⁰⁴ Bloomberg News. (2023, January 4). Battered by Covid, China Hits Pause on Giant Chip Spending. Bloomberg. Retrieved from: <https://www.bloomberg.com/news/articles/2023-01-04/battered-by-covid-china-hits-pause-on-giant-chip-spending?embedded-checkout=true>.

²⁰⁵ DePersio, G. (2022). What Are the Advantages and Disadvantages of a Command Economy? Investopedia. Retrieved from: <https://www.investopedia.com/ask/answers/032515/what-are-advantages-and-disadvantages-command-economy.asp>.

²⁰⁶ Rogovin, Vadim Zakharovich (2021). Was There an Alternative? Trotskyism: a Look Back Through the Years. Mehring Books. p. 358. ISBN 978-1-893638-97-6.

²⁰⁷ Jackson, Lauren (30 November 2022). "China's Dramatic Dissent". The New York Times.

triggered a surge in economic activity in Q1. However, growth momentum decelerated rapidly in Q2 before recovering modestly in Q3.²⁰⁸

Low consumer confidence, surge in youth unemployment rate, deflation generated from oversupply, real estate slump, local government debt crisis, which has risen to 12 trillion CNY, about 1.7 trillion dollars, and a remarkable drop in export sector as well as the FDI are believed to be significant factors result in current ongoing economic crisis.²⁰⁹

Apart from those economic factors, public insecurity generated by Xi's extreme response to the Pandemic, which made the CCP's arbitrary power visible and tangible, is another critical reason why the exportation of post-pandemic recovery failed to come. Under this circumstance, as Figure 8 shows, Chinese people and companies are increasingly fearful of losing access to their assets and thus prioritizing short-term liquidity, increasing saving, over investment.²¹⁰

China has implemented a series of fiscal and monetary stimulus policies, but they have yet to gain much traction. In the first half of this year, the share of Chinese companies applying for bank loans remained about as weak as it was back in 2021 despite efforts by the central bank and finance ministry to encourage borrowing at low rates.²¹¹ Moreover, it raised the question of whether China has been trapped in a liquidity trap. Keynesian economics describes a situation in which “after the rate of interest has fallen to a certain level, liquidity preference may become virtually absolute in

²⁰⁸ World Bank. (2023). Sustained policy support and deeper structural reforms to revive China's growth momentum. World Bank.

²⁰⁹ The Economist Newspaper NA, Inc. (2023). China's economy is in desperate need of rescue. The Economist.

²¹⁰ Posen, A. S. (2023). The End of China's Economic Miracle: How Beijing's Struggles Could Be an Opportunity for Washington. Foreign Affairs., 102, 118.

²¹¹ Posen, A. S. (2023). The End of China's Economic Miracle: How Beijing's Struggles Could Be an Opportunity for Washington. Foreign Affairs., 102, 118.

the sense that almost everyone prefers holding cash rather than holding a debt (financial instrument) which yields so low a rate of interest.”²¹²

Another similar explanation is that China, like Japan in the 1980s, has entered a balance sheet recession, referred to by Richard Koo. This type of economic recession occurs when “high levels of private sector debt cause individuals or companies to collectively focus on saving by paying down debt rather than spending or investing, causing economic growth to slow or decline.”²¹³

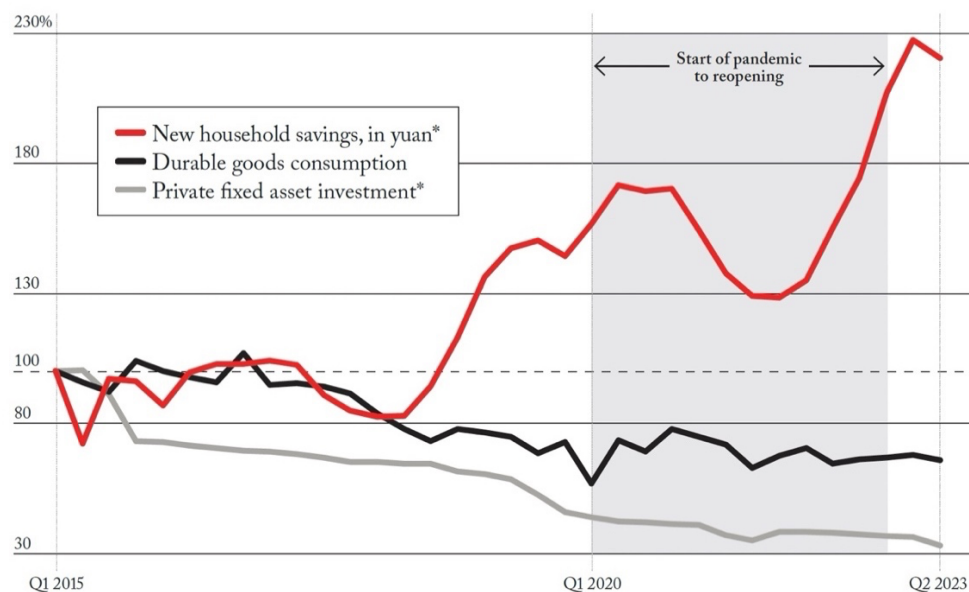


Figure 8: Indicators of insecurity among Chinese citizens and companies ²¹⁴

This shaky economy weakened those ambitious strategies' economic and financial support and forced China to suspend or end some initiatives to save the economy. For instance, China had

²¹² Keynes, J. M. (1937). The general theory of employment. The quarterly journal of economics, 51(2), 209-223.

²¹³ Koo, R. C. (2011). The holy grail of macroeconomics: Lessons from Japan's great recession. John Wiley & Sons.

²¹⁴ Posen, A. S. (2023). The End of China's Economic Miracle: How Beijing's Struggles Could Be an Opportunity for Washington. Foreign Affairs., 102, 118.

paused massive investments to build its chip industry in late 2023, a representative program under the new WNS, due to the weak economy.²¹⁵ In addition, the Biden-Xi summit conference in San Francisco on November 14th, 2023, believed to be a crucial signal that Xi Jinping wanted to improve the relationship with the US, was also driven by the need to save this shaky economy.²¹⁶

3.7 Beijing's recent attempts at economic policies for slowing down de-coupling

To counter the economic impacts of the de-coupling (e.g., decline of FDI, foreign capital withdrawal), Beijing has initiated a series of self-rescue economic policies to slow them down since 2024, which is likely decelerating the process towards a New Cold War.

In 2024, the State Council of China released a 24-point plan titled the Action Plan to Solidly Promote High-Level Opening Up and Make Greater Efforts to Attract and Utilize Foreign Investment (《扎实推进高水平对外开放更大力度吸引和利用外资行动方案》的通知), to boost foreign capital investment, which outlines various measures to attract foreign investment, including expanding market access in critical industries, expanding access for foreign financial institutions in the banking, bond market and insurance sectors, ensuring equal participation of foreign companies in government bidding, and facilitating cross-border data flows.^{217, 218}

²¹⁵ Battered by Covid, China Hits Pause on Giant Chip Spending. (2023, Jan 4). Bloomberg. Retrieved from: <https://www.bloomberg.com/news/articles/2023-01-04/battered-by-covid-china-hits-pause-on-giant-chip-spending?embedded-checkout=true>.

²¹⁶ Wong, T. (2023). Xi Jinping arrives in US as his Chinese Dream sputters. BBC News. Retrieved from: <https://www.bbc.com/news/world-asia-china-67423040>.

²¹⁷ Huld, A. (2024, March 20). China issues 24 new measures to attract foreign investment. China Briefing. Retrieved from: <https://www.china-briefing.com/news/foreign-capital-in-china-action-plan-attract-fdi/>

²¹⁸ China, State Council. (2024, March). Notice of the General Office of the State Council on Issuing the the Action Plan to Solidly Promote High-Level Opening Up and Make Greater Efforts to Attract and Utilize Foreign Investment (the "Action Plan") 《扎实推进高水平对外开放更大力度吸引和利用外资行动方案》的通知 Retrieved from: https://www.gov.cn/zhengce/content/202403/content_6940154.htm.

Since China joined the WTO in 2001, significant trade barriers and foreign investment restrictions have still existed widely, which triggered the US-China trade war. However, capital outflows caused by de-risking strategies have forced the Chinese government to proactively abandon these discriminatory foreign investment restrictions to reverse the trend of foreign capital flight. This also highlighted China's economy as extremely vulnerable to those effects brought by de-risking due to its high dependency on Western investments and trade.

It's important to note that those policies are very recent phenomena lacking concrete policy details now. Future researchers need to keep an eye on future updates of this policy direction.

4. Conclusion: Are we going towards a New Cold War?

4.1 Not anymore: China's weakness has slowed down the de-risking dilemma logic

According to the security dilemma logic discussed in section 3, we are supposed to move in the direction of a “New Cold War” as US/EU measures (i.e., friend-shoring and technological export restrictions) to de-risk lead to China adopting a series of countermeasures (i.e., dual circulation, massive subsidy on chip manufacture and hyper-securitization) in response, which then prompts another round of de-risking measures (i.e., US's TikTok and Huawei ban, expanding categories of technologic exports restrictions) by both US/EU and China, and so on until we end up at the decoupling end of the de-risking spectrum, known as the New Cold War.

However, a potential New Cold War seems unlikely as China's economic weaknesses have decelerated the de-risking dilemma logic for Beijing. More specifically, Beijing initially chose a series of proactive counter-approaches before 2023 as its economy was resilient. Xi Jinping saw and believed in the “weaknesses” of the West in the early stages of the COVID-19 Pandemic. However, the three key challenges, incredibly less support from its shaky economy, of China's responding actions jointly result in a significant deficiency of Beijing's responding actions, forcing Beijing to reduce the intensity of confrontation by seeking a “ceasefire” with the US/EU in the Biden-Xi meeting in San Francisco. In other words, Beijing is working on temporarily pausing this spiral escalation with Washington and Brussels because it is on a weaker and defensive side now, reversing the de-risking dilemma logic. Apart from this, Beijing implemented several economic policies to slow down decoupling, further hitting the brake of the decoupling trend.

Altogether, if we recall Figure 1 in the first section, the previous equilibrium was closer to the “economic integration” end of the decoupling process. What we see now is a movement toward the “New Cold War” end of the process, which China is proactively trying to slow down to achieve some kind of de-risking equilibrium between the two poles of the decoupling process.

However, a potential future invasion of Taiwan or providing fatal weapons to Russia will immediately break this fragile equilibrium point and push this point closer to or even reach the New Cold War end of the process.

4.2 Taiwan and Ukraine: two major variables

On 13th January 2024, William Lai Ching-te, China’s least preferred pro-independent candidate and the current Vice President, won Taiwan’s presidential election, giving the ruling Democratic Progressive Party (DPP) an unprecedented third straight term in the presidency. This highlights that Taiwan will continue moving away from Beijing’s hope of peaceful unification of this “breakaway province” in the following four years, increasing the risk of a full-scale invasion.²¹⁹ Notably, a full-scale military invasion of Taiwan is regarded as a “perceived risk” rather than a predictable one.

After the US severed diplomatic ties with the Republic of China (ROC, Taiwan) while establishing diplomatic relations with the People’s Republic of China (PRC) in 1979, it chose a “Strategic Ambiguity” approach to deal with its positions on Taiwan. This approach focuses on “intentionally establishing uncertainty regarding American intervention in a conflict between China and Taiwan.

²¹⁹ Wang, J. (2024). Taiwan’s 2024 Presidential Elections. The Wall Street Journal. Retrieved from: <https://www.wsj.com/world/asia/taiwan-presidential-elections-2024-baa62e17>.

By keeping the conditions for or nature of a US intervention unclear, Washington sends a message to China that coercion is a dangerous solution because the United States is likely to defend Taiwan while simultaneously trying to persuade Taiwan that formal independence is dangerous because the United States is not likely to defend it".²²⁰ However, despite the White House clarifying that "there is no change in our policy,"²²¹ the US has gradually transferred to a more "strategic clarity approach" when Biden said on several occasions that the US would defend Taiwan if it were attacked from mainland China.²²²

This approach shift, combined with Xi's increasing ambition to achieve the so-called "Great Reunification of China (中国伟大统一)," jointly higher the risk of direct military conflict between China and the US, also probably combined with South Korea and Japan. Under this circumstance, the Western world will immediately pose full-scale economic sanctions and cut all economic reliance on China at any cost, pushing the world into the New Cold War quickly.

As for Ukraine, China demonstrated a position of "pro-Russian neutrality" by declaring a "no limits partnership" with Moscow while refraining from direct support of the Kremlin after it launched an invasion of Ukraine in February 2022.²²³ According to an official from the US Department of Defense, China has not provided military support, such as lethal aid, to Russia at

²²⁰ Brett V. Benson and Emerson M. S. Niu, 'Public opinion, foreign policy, and the security balance in the Taiwan Strait', *Security Studies* 14: 2, April–June 2005, p. 283. *International Affairs* 96: 6, 2020

²²¹ Sanger, David E. (2021-10-22). "Biden Said the U.S. Would Protect Taiwan. But It's Not That Clear-Cut". *The New York Times*.

²²² Cooper, Zack (2022-09-19). "The Fourth Taiwan Strait Slip-Up". *American Enterprise Institute - AEI*.

²²³ KOZYREV, V. (2023). China's Pro-Russian Neutrality Position in the Ukraine Crisis as Part of Its "Hybrid" Confrontation with the West. *East Asian Policy* (Singapore), 15(2), 77–88.

the official level.²²⁴ However, as a warning from the US officials, China is evaluating the possibility of supplying Russia with arms and ammunition as Moscow's power was significantly weakened in the battlefield of Ukraine.²²⁵ In this situation, current sanctions and restrictions from the West against China will no longer be limited to “de-risking” and “reducing dependence on China.” However, they will directly target and undermine the Chinese economy, significantly accelerating the movement to a New Cold War.

²²⁴ Department of Defense. (2022). DOD Official Says US Not Yet Seeing China Giving Lethal Aid to Russia. Defense.gov. Retrieved from: <https://www.defense.gov/News/News-Stories/Article/Article/3306439/dod-official-says-us-not-yet-seeing-china-giving-lethal-aid-to-russia/>.

²²⁵ Coles, I., & Hutzler, C. (2023). U.S. Warns China Could Arm Russia as Ukraine Seeks to Repel Advances in East. The Wall Street Journal. Retrieved from: <https://www.wsj.com/articles/u-s-warns-china-could-arm-russia-as-ukraine-seeks-to-repel-advances-in-east-a5fd3e9e>

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