

China's "Economic Security" Growth Model, Implications for the US-China Security Dilemma and lesson for other major players

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Overview

1. Major components of the economic security growth model
2. Potential distortions when security logic drives economic policy
3. Why the US-China security dilemma will persist
4. Implications for other major players

1. China's Economic Security Growth Model

Guiding political slogan: to “coordinate development and security” (统筹发展和安全)

Major Policy and Legal Components

a. Dual circulation (双循环)

- Diversify away from USA, domestic market as major driver of growth

b. Build a self-reliant innovation driven economy

- Structural shift away from property investment, insure against geopolitical risk

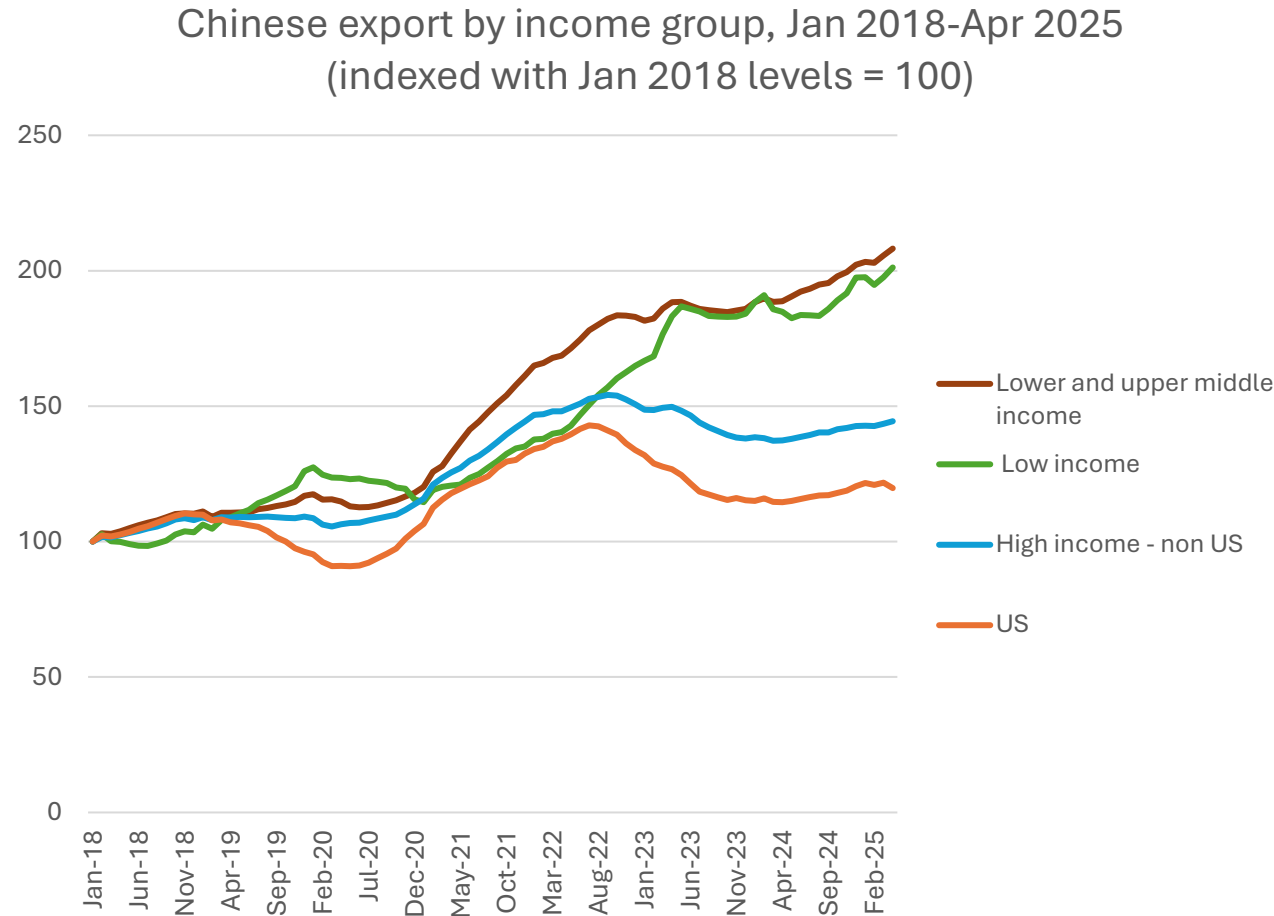
c. Build out legal and regulatory regime for economic counter-coercion

- Respond forcefully to acts that are perceived to violate sovereignty, national security, and development interests

- US-led “containment” as primary lens that shapes economic policy

(a) Dual Circulation

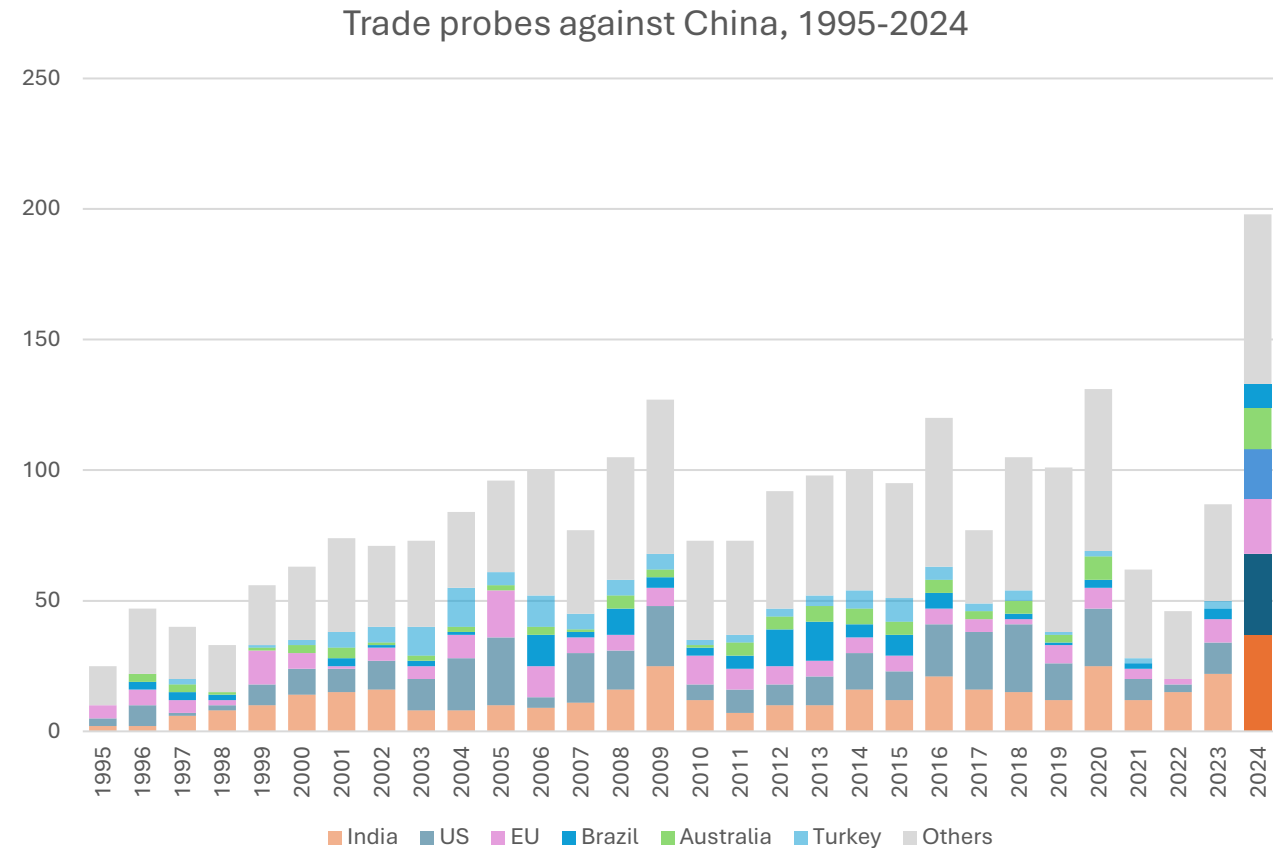
- Not new: doctrinal formalization of long-standing concerns
- **New: Threat comes not from foreign markets, but from foreign governments**
- Statistics show a shift away from direct trade with the US
- But that masks increased indirect trade with “connector countries”
 - US commitment to addressing this is unclear



Sources: General Administration of Customs, Mary Lovely, Tianlei Huang (PIIE)

(a) Dual Circulation

- For China, boosting domestic demand is hard
 - Chronically weak consumer confidence
 - Low household borrowing
 - Diminished expectations for the future
 - Prolonged deflation
 - Excess capacity
- ... which means higher exports in spite of official policy
- Trade diversification is generating a backlash
- “anti-involution” campaign (防止内卷式恶性竞争) acknowledges problem of excess capacity

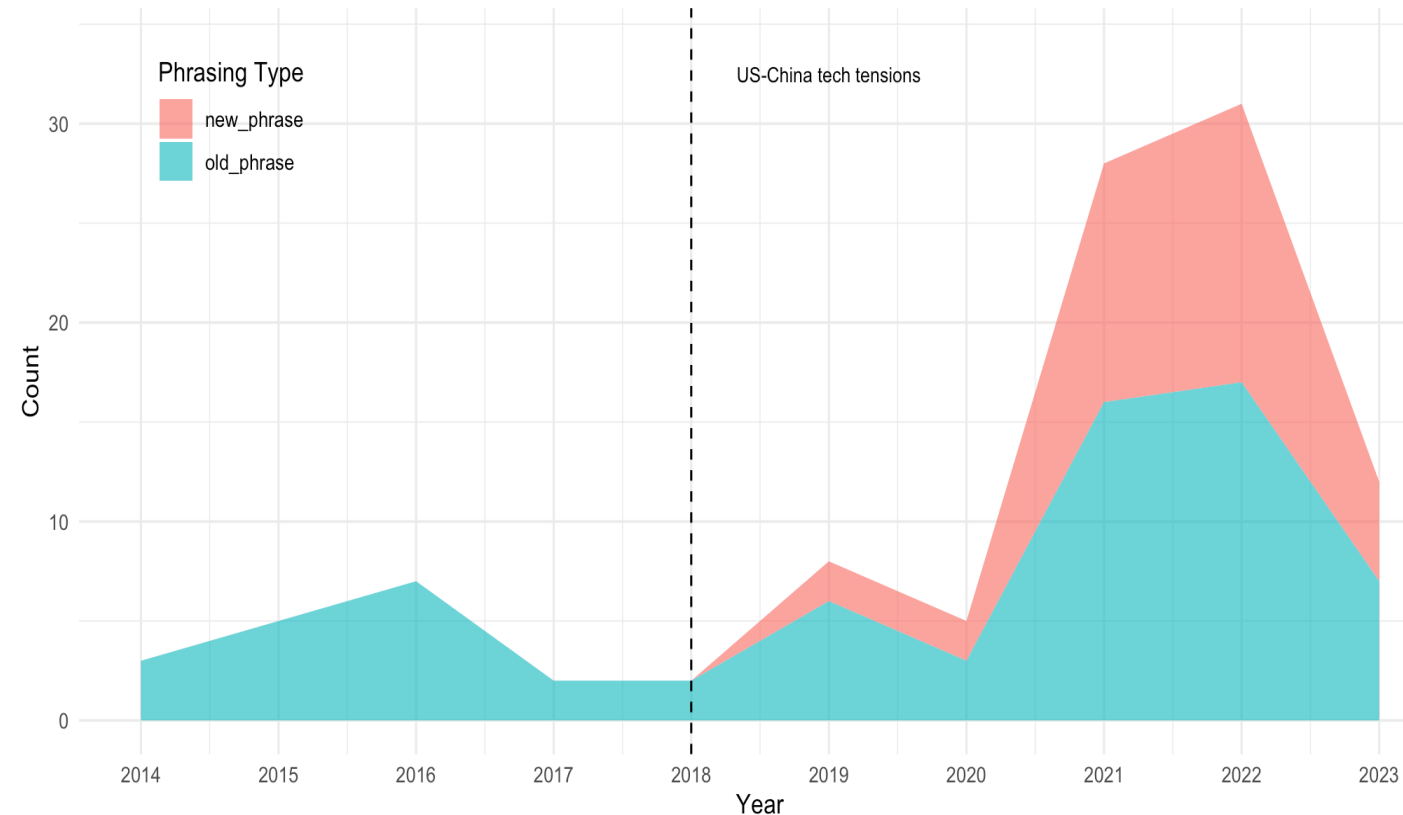


Sources: PRC Ministry of Commerce; Financial Times

(b) Self-Reliant Innovation

- Not new: quest for tech capabilities
- **New: elevation of technology into comprehensive national security concept**
 - 2015 National Security Law: “military, cultural, and societal security as safeguard” (old)
 - After 2018: “military, **technology**, cultural, and societal security as safeguard” (new) (以军事、科技、文化、社会安全为保障)
- Self-reliant innovation as political & security imperative
 - Emphasis on “whole-of-nation” effort (新型举国体制)
 - Establishment of Central Committee Science and Technology Commission (2023)
 - Consolidation of a previously fragmented innovation landscape

Change in Formulation of Comprehensive National Security Concept (People's Daily Articles)

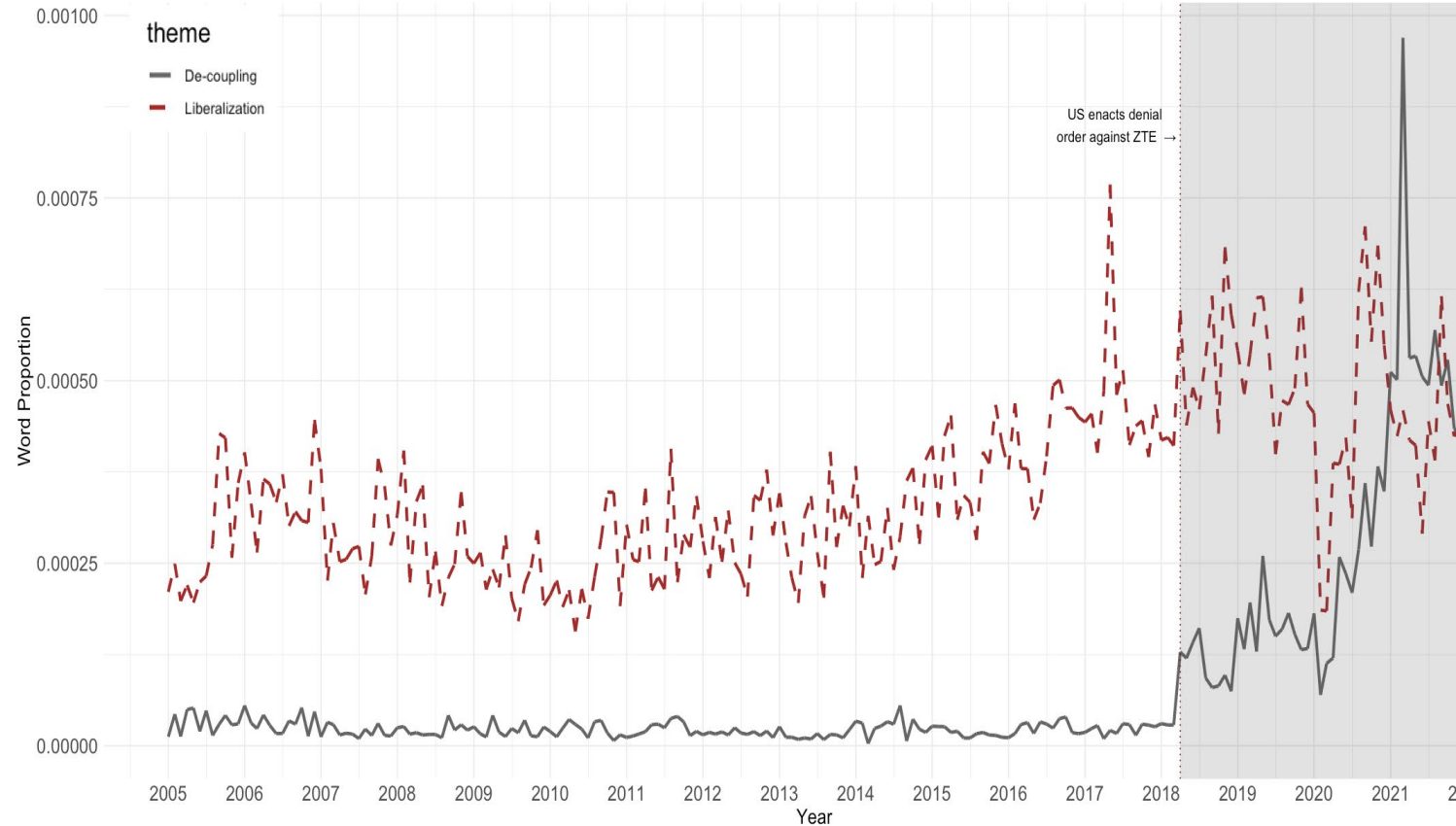


Source: Author's calculations from People's Daily

(b) Self-Reliant Innovation

- New: shift to views of globalization as a source of vulnerability
- External shock → Propaganda as means to mobilize action across fragmented innovation environment
- Decline in propaganda support for external liberalization
- Increase in propaganda focus on de-coupling
 - Intensifies with release of 14th Five-Year Plan (第14五年计划)

The mobilization campaign

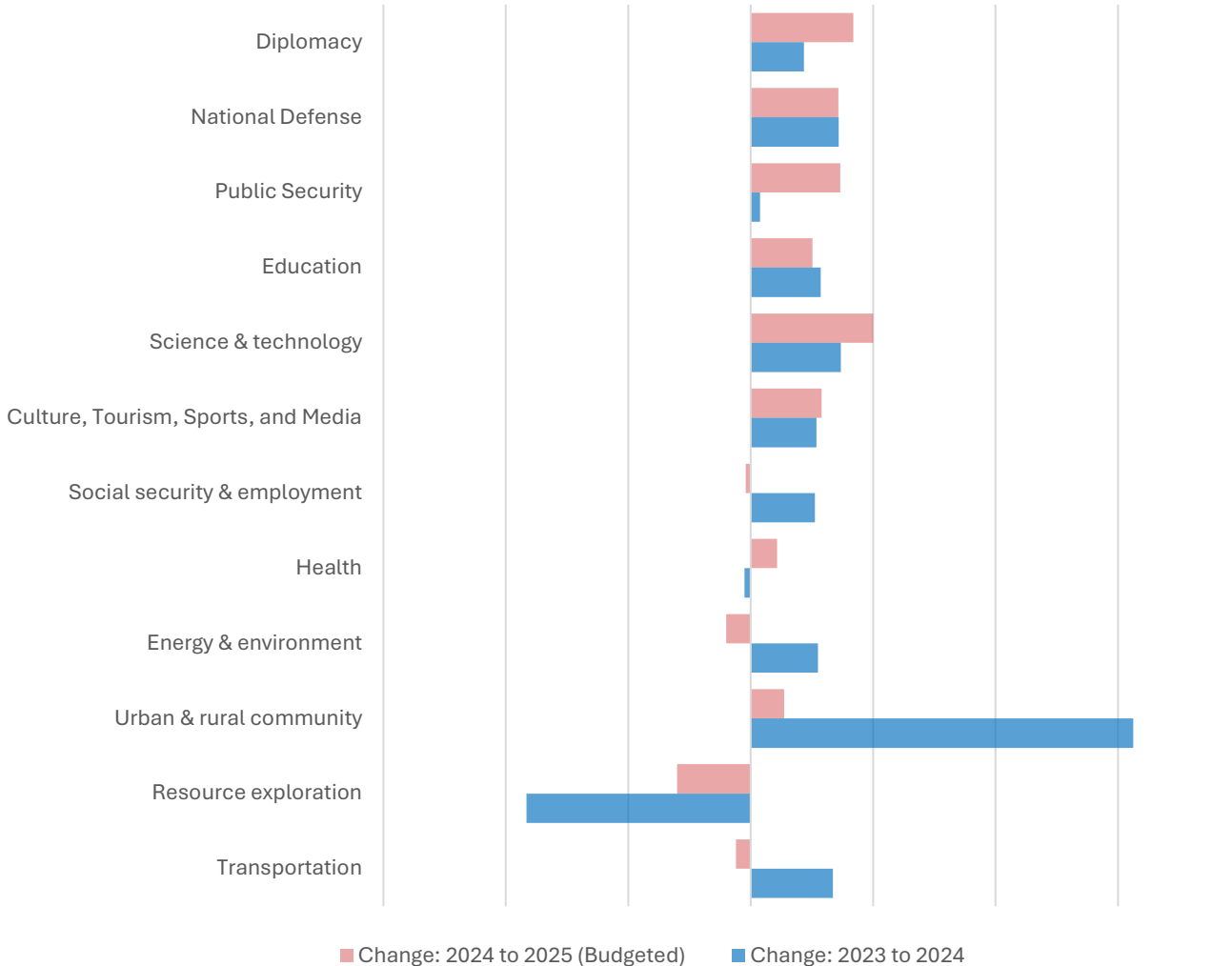


Source: "Driven to Self-Reliance" *International Studies Quarterly* (Yeling Tan, Mark Dallas, Henry Farrell, Abraham Newman)

(b) Self-Reliant Innovation

Central Fiscal Expenditure Allocation, 2023-2025

-30.00% -20.00% -10.00% 0.00% 10.00% 20.00% 30.00% 40.00%



New Undergraduate Program Filing and Approval by the Ministry of Education

	2020	2021	2022	2023	2024
Total	2223	1961	1817	1719	1996
Science	238	494	428	367	415
Proportion (%)	10.71%	25.19%	23.56%	21.35%	20.79%
Engineering	905	794	763	769	1070
Proportion (%)	40.71%	40.49%	41.99%	44.74%	53.61%

Source: PRC Ministry of Education

(c) Legal Regime for Economic Counter-Coercion

- Not new: trade being politicized when bilateral disputes occur
- **New: shift from import restrictions to export controls**
- **New: framing as necessary response to US-led containment efforts**
- Call to “struggle” (斗争) in party theory & guidance

“Utilizing Legal Means in International Struggles.

... further improve laws and regulations against sanctions, interference, and "long-arm jurisdiction," and promote the construction of a legal system applicable extraterritorially.”

Xi Jinping, *Qiushi* (求是)
April 2022

“improve the national security mechanism for foreign affairs, build an overseas security guarantee system, **strengthen the struggle against sanctions, interference, and "long-arm jurisdiction,"** deepen international law enforcement and security cooperation, and promote the improvement of global security governance.”

Fourth Plenum Recommendations for the
15th Five Year Plan
(第十五个五年规划第四次全体会议建议)

(c) Legal Regime for Economic Counter-Coercion

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- Call to “struggle” in party theory & guidance
- Call to “struggle” in legislative documents

“Enriching and improving the legal toolbox for foreign struggles.”

“for foreign individuals or organizations that endanger my country's sovereignty, security, or development interests, countermeasures such as prohibiting or restricting their foreign trade related to my country can be taken. (Article 39, Paragraph 1)

“for reasons such as safeguarding national security, the import and export of relevant goods and technologies and relevant international trade in services may be prohibited or restricted” (Articles 18, 19, 28, and 29)

Explanation of the Draft Amendment to the Foreign Trade Law (2025)

(c) Legal Regime for Economic Counter-Coercion

The “Legal Toolbox for Foreign Struggles”

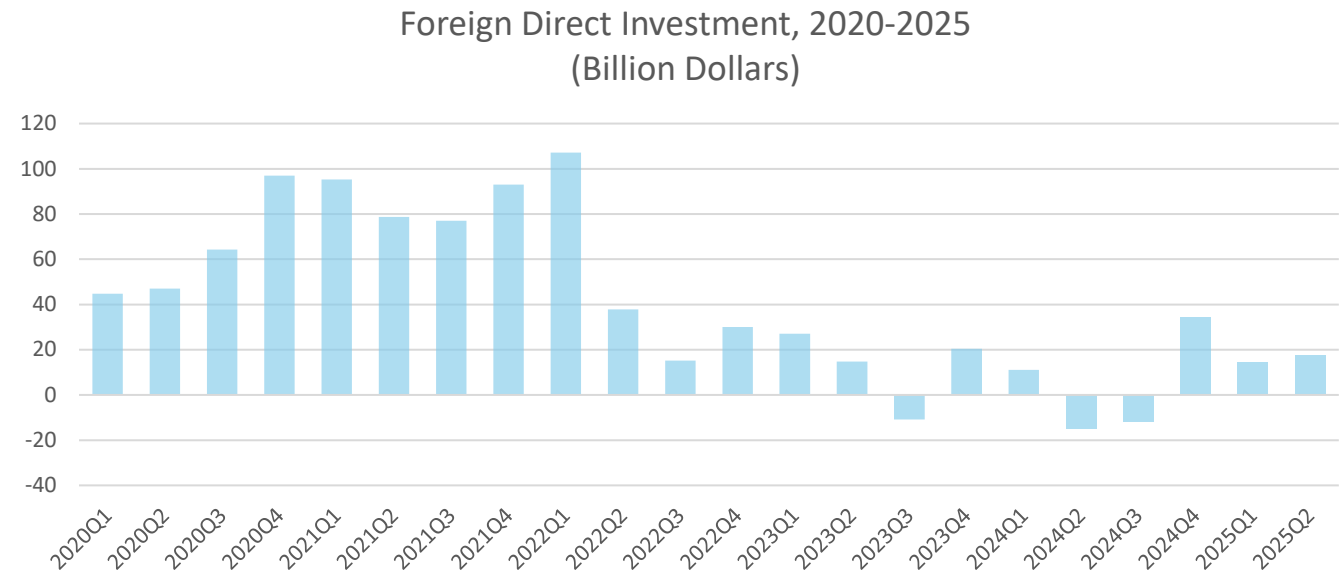
- National Security Law 国家安全法 (2015)
 - “Blocking Rules” (2021) Measures on Blocking Improper Extraterritorial Application of Foreign Laws and Measures
 - Regulations on Industrial and Supply Chain Security (2026)
- Foreign Relations Law 对外关系法 (2023)
- Anti-Foreign Sanctions Law 反外国制裁法 (2021)
 - Implementing regulations (2025)
- Foreign Investment Law 外商投资法 (2019)
- Foreign Trade Law 对外贸易法 (revised 2025)
 - Provisions for Unreliable Entity List 不可靠实体清单规定 (2020)
 - Catalogue of technologies prohibited or restricted from export (2023 revision)
- Export Control Law 出口管制法 (2020)
 - Implementing regulations (2024)
 - Control lists
 - Regulations on dual-use items + list (2024)
 - Entity list
- Tariff Law 关税法 (2024)

2. Potential Distortions in an Economic Security Growth Model

- Regulatory imbalance
 - Focus on demonstrating credible threat
 - “China does not want to fight but China is not afraid to fight”
 - How to balance with credible assurance?

The Chinese government **continues to welcome enterprises from all countries to invest and do business in China**, and is committed to providing a stable, fair, and predictable business environment for compliant foreign-invested enterprises operating in China.”

Ministry of Commerce 4 April 2025



Source: PRC State Administration of Foreign Exchange

2. Potential Distortions in an Economic Security Growth Model

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 - Focus on demonstrating credible threat
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 - How to balance with credible assurance?
- Risk aversion
 - Political uncertainty outweighs cost-benefit analysis

Jobs at China’s foreign firms drop to 14-year low amid fears of further cuts

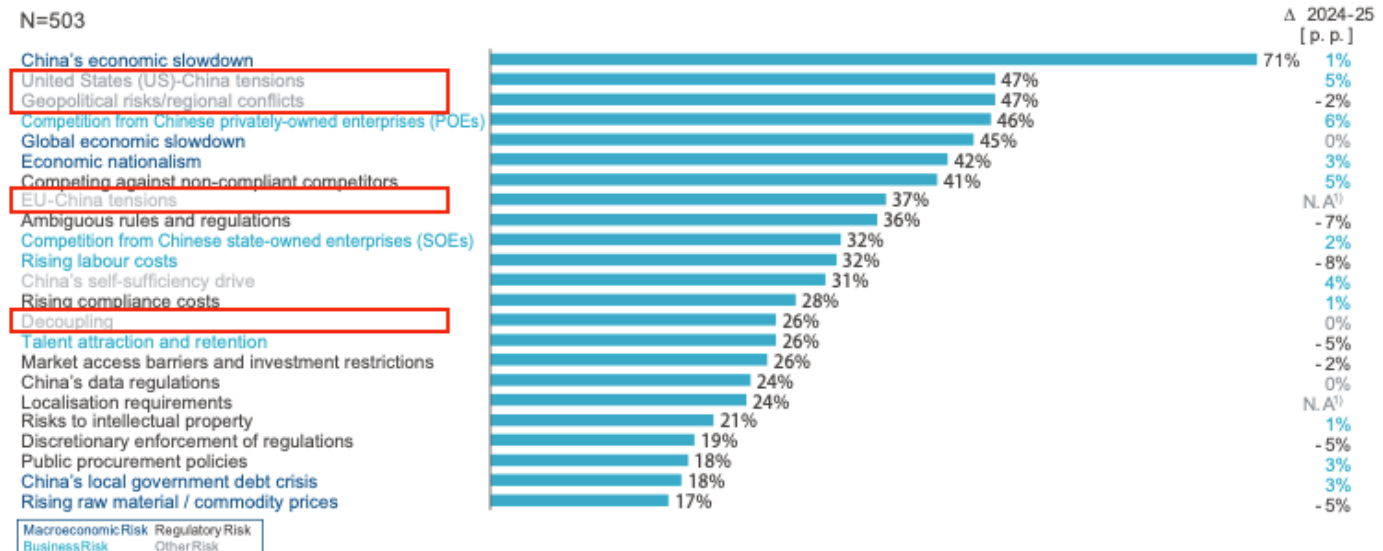
The number of people employed by foreign companies in China fell 15 per cent last year, dipping below 10 million for first time since 2009

Reading Time: 2 minutes

Why you can trust SCMP

Figure 3: China’s economic slowdown and geopolitical tensions expected to have largest impact on China business

Please choose at least three challenges your company believes will have the greatest impact on future business in the Chinese mainland



Source: European Chamber of Commerce Business Confidence Survey 2025

2. Potential Distortions in an Economic Security Growth Model

- Regulatory imbalance
 - Focus on demonstrating credible threat
 - “China does not want to fight but China is not afraid to fight”
 - How to balance with credible assurance?
- Risk aversion
 - Political uncertainty outweighs cost-benefit analysis
- Resource misallocation
 - Excess capacity in AI (20-30% utilization rate)
 - Excess capacity in humanoid robots
 - Search for overseas demand

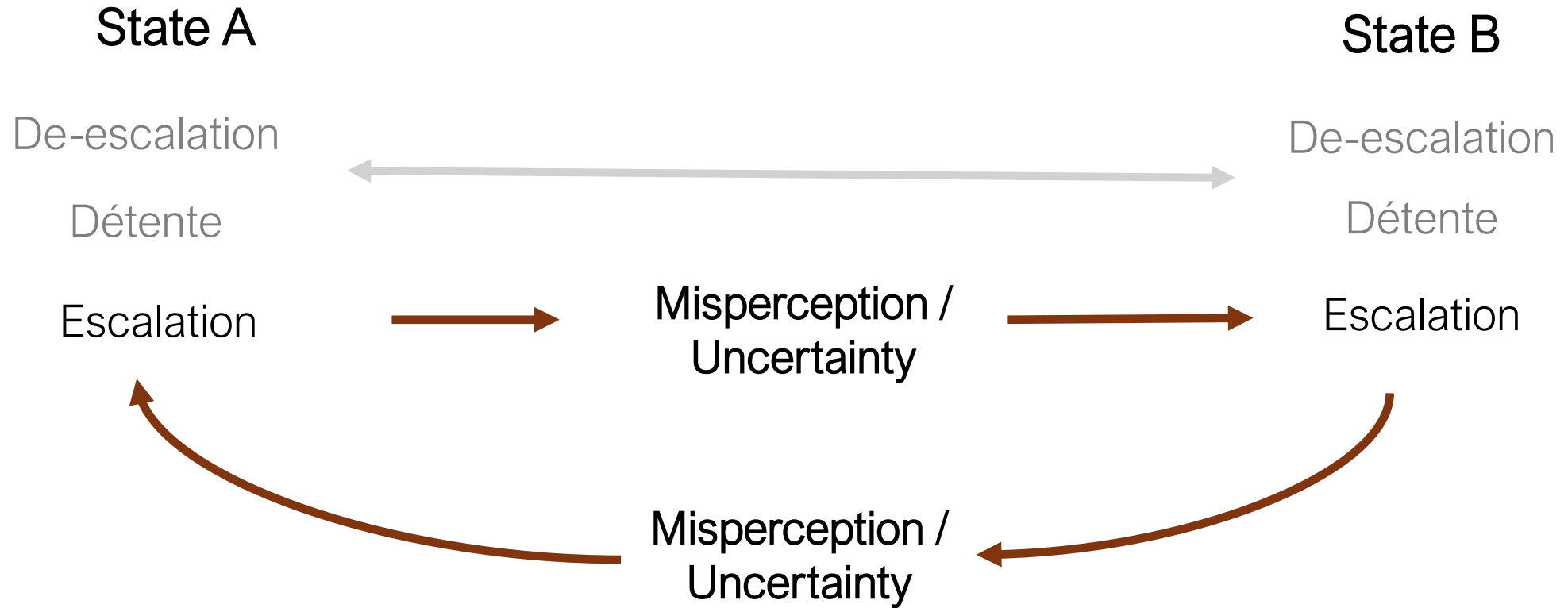
China plans network to sell surplus computing power in crackdown on data centre glut

By Reuters

July 24, 2025 7:15 AM GMT+1 · Updated July 24, 2025



3. Why the US-China Security Dilemma will Persist



3. Why the US-China Security Dilemma will Persist

1. Ambiguity between offensive & defensive economic policies

- E.g. industrial policy, stockpiling, investment screening

2. Greater complexity and poorer coordination in economic bureaucracies

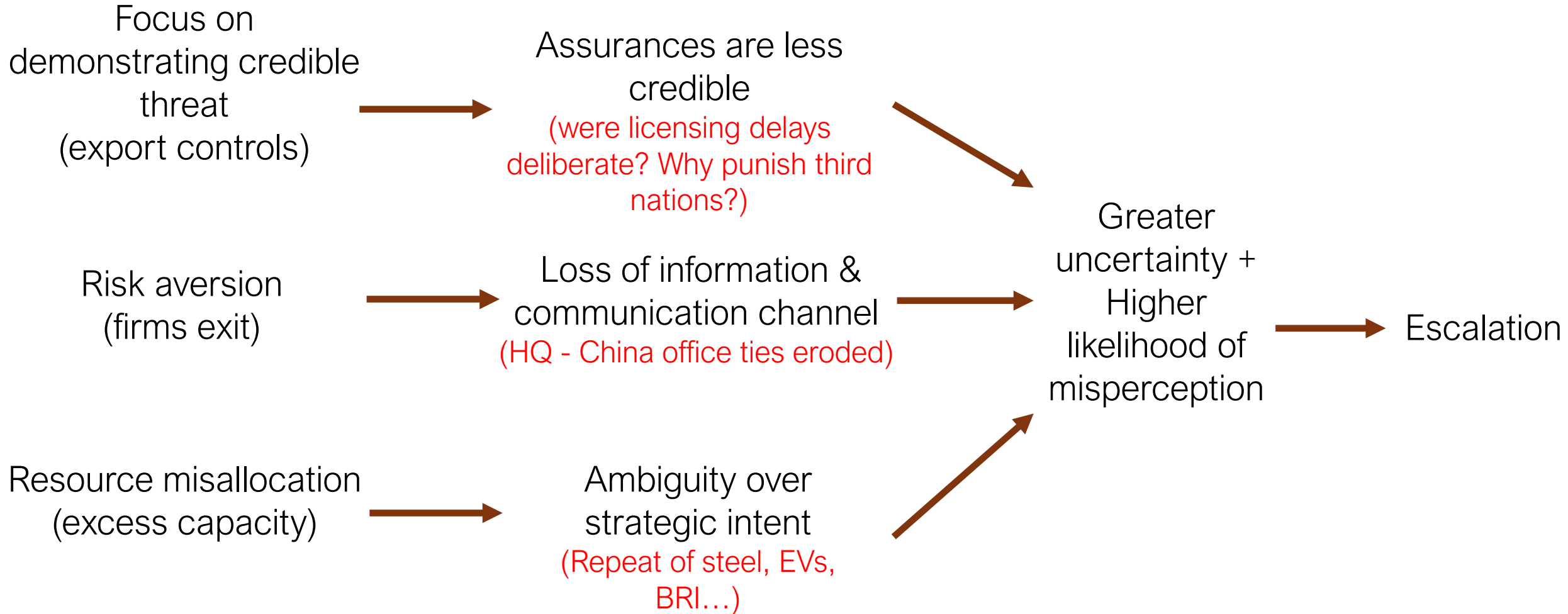
- NDRC, MIIT, MOFCOM, MOF, PBOC, SASAC, SOEs, local governments, etc

3. Diversity of actors in connected economies

- Are outcomes the result of policy intent, poor implementation, or actions by hundreds of thousands of firms?

→ difficulty in establishing intent, greater uncertainty, greater risk of misperception

3. Why the US-China Security Dilemma will Persist



4. Implications for Other Major Players

- Geopolitical instability elsewhere means that many third countries are searching for opportunities for mutual insurance
- Options vary depending on
 - Relative depth of economic ties with US vs China
 - Relative depth of military relationship with US
 - E.g. Canada vs Japan vs Vietnam vs Indonesia
- We observe wide-ranging strategies as a result
 - Diversification outside of both US & China:
 - E.g. Singapore-NZ, Singapore-Australia, FIT partnership
 - E.g. discussion of EU-CPTPP partnerships
 - Post-liberation day agreements with USA (many examples)
 - Agreements / strengthened diplomacy with China (many examples)

4. Implications for Other Major Players

- US-China security dilemma complicates all of these strategies
- Agreements with the US include clauses on transshipments, export control alignment, etc
- Closer economic engagement China also difficult:
 - Chinese legislation potentially places firms in the middle of conflicting obligations (e.g. supply chain security regulations)
 - For China, addressing its weak domestic economy is subordinate to struggle against US
 - Hard to see shift to domestic demand as main driver in the near term
 - High-tech industrial policy is a national security imperative
 - Export surges likely to continue, with increased trade frictions as a result

4. Implications for Other Major Players

- Trade diversification beyond US-China is important
- But US-China dilemma tensions can spillover through complex channels
 - Extra-territorial clauses in both US and China export controls
- Escalation risks remain high because of the security dilemma
 - Deeper trade with connector countries might mean more vulnerability rather than resilience

4. Implications for Other Major Players

- Diversification is not enough
- Are there strategies to reduce misperceptions that drive dilemma?
- Third countries could underscore importance for China to:
 - Improve credibility of assurances
 - More public information on export licensing regime
 - Disclose licensing decisions and rationale
 - Adopt credible constraints on the use of economic force
 - Legislative language too broad (“sovereignty, national security, and development interests”)
 - Recognise chilling effect of security logic
 - “small yard, high fence”, rather than proliferation of security framing
 - Demonstrate that benefit to self is not gained through imposition of economic harm on others
 - Managed trade, VERs, price controls, curbs on involution
- [None of this is easy: what would the US need to offer in return?]

Thank you

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