



China's Long Game: Quest for Self-Reliance



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Introduction

China views the International Governance as a 'hierarchical order'¹ wherein countries who occupy the top rung of the ladder, decide the laws and norms. Chinese President Xi Jinping has repeatedly stressed that during the 'Century of Humiliation' the Western countries imposed 'unfair treaties' and made a system that benefits them at the expense of China.

Deng Xiaoping unveiled the '24-Character Strategy' in the wake Tiananmen Square Massacre (1989) as it faced global backlash. The strategy translates to:

"Observe calmly; secure our position; cope with affairs calmly; hide our capabilities and bide our time; be good at maintaining a low profile, and never claim leadership".²

The succeeding leaders largely followed Deng's Principles. The first sign of change was visible in 2009 at China's 11th Ambassadorial

Key Points

- China views the world from the prism of 'hierarchy of power' in which China wants to be the 'new leader'.
- China's actions in the South China Sea, the Taiwan Strait, East China Sea, and the Himalayas show that it is an 'expansionist power'.
- China sees its economic interdependence on the United States as a hindrance to pursue its goals.
- China is actively pursuing 'self-reliance' to reduce its interdependence on the United States.
- To achieve its goals, China is trying to build a rival economic order to counter the existing one that is being dominated by the United States.



Conference wherein President Hu Jintao called for, “China to actively achieve something”.³ Further, Xi completely diverted from Deng’s principles (discussed further in the article) through the so-called ‘Wolf Warrior Diplomacy’ and sought active leadership in multilateral international institutions.

Speaking at the 100th anniversary of the Chinese Communist Party (CCP), Xi Jinping declared that the party have realised the “first centenary goal of building a moderately prosperous society in all respects”; he further outlined the second centenary goal of “building China into a great modern socialist country in all respects”.⁴ However, this was not the first time Xi declared the goal of making China a ‘modern socialist country’. Chinese scholars and media have reiterated this goal since Xi first proclaimed it.

A Brief Overview

Does China only want economic modernisation? Despite repeatedly stressing the importance of globalisation and economic growth, it is only a means to an end for the CCP which is playing a dual endgame. The first *is* to preserve the party’s legitimacy. For Xi, party comes before China. Even in his speech at the CCP’s 100th anniversary (2022), Xi’s call for the ‘loyalty of the people to the party was ubiquitous; he even ended his speech with “Long Live our great, glorious and correct party; Long live our great, glorious, and heroic people”.⁵ Hence, the party’s legitimacy is tied to economic modernisation. Now, that CCP is not a revolutionary party (*gé mìng dǎng*) but a governing party (*zhí zhèng dǎng*)⁶, its legitimacy stems from its ability to modernise and develop China.

The second refers to the complete ‘reunification of the motherland’. What does reunification mean? For China, reunification means unification of Taiwan with the mainland, asserting dominance in the South China Sea (SCS), gaining control of the Senkaku Islands, and the least talked about ‘territorial disputes’ with India including Chinese claims over Sikkim, Arunachal Pradesh, and Ladakh.

However, the sanctions levied on Russia by the US, on account of the ongoing Ukraine War have, to some extent, deterred any immediate plans of China enforcing ‘political subordination’ of Taiwan, South China Sea, East China Sea (ECS), or common frontier with India. China’s economy still, for a large part, depends on trade and investment from the US.

It is also an integral part of Bretton Woods institutions and financial & trading institutions like SWIFT, IMF, and WTO. China is very well aware of the fact that, any forceful action in Taiwan, SCS, ECS, and India will draw sanctions from the United States and the West. Sanctions will have economic consequences for China, leading to a break in the social contract between CCP and the Chinese people.⁷

This paper aims to recommend that contrary to what China says, it is on the path to 'decouple' from the US and is working on a long-term goal to achieve self-reliance. This paper maps out the strategy that China is following to achieve its goals of preserving the party's dominance and reuniting the motherland.

- It is building a self-reliant economy that is entirely independent of the US.
- Building economic and financial substitutes to Bretton Woods institutions.
- Developing bounded globalisation.
- Developing Maritime Strategy and Modern Military.

If China successfully achieves the above objectives, it will surely achieve its endgame as it would be immune from the economic and military subversion of the US.

Building a Self-reliant Economy

China's attempt of developing a self-reliant economy predates Xi Jinping. The self-reliance attempts date back to 2006 with evolution of a 15-year 'indigenous innovation plan', during the period of Hu Jintao, that identified seven 'Strategic Emerging Industries'(SEI)⁸ comprising of:

- Energy Efficient and Emerging Technologies.
- Next Generation Information Technology.
- Biotechnology.
- High-end equipment manufacturing.
- New Energy.
- New Materials.
- New-Energy Vehicles.

However, after coming to power Xi Jinping has centralised planning and superseded plans such as the SEI. Most of the world sees a neo-Maoist in Xi Jinping, but that would not present a complete picture— Xi falls somewhere between Mao and Deng Xiaoping; he resembles more of Mao's persona in 'domestic and international politics'⁹ viz. his centralisation of power, incarceration of political dissidents, and quest to rule for life. On the other hand, in the economic front, Xi resembles more of Deng's persona. This does not however mean that he is inclined towards "right" as Deng, but he is certainly not inclined on the "left". Xi sees himself as a 'man of destiny'¹⁰, and to achieve his goals, he needs Mao's 'political charisma' and Deng's 'economic understanding'.

Xi's mission of 'reunification of the motherland', having a self-reliant economy independent of the US is a significant component of Xi's vision. Xi's vision comprises three intersectional components—Belt and Road Initiative (BRI), Make in China 2025, and Dual Circulation of Economy.

Make in China 2025 focuses on developing 'indigenous technological know-how' to with a larger aim to leverage the potential of Chinese companies to compete on a global stage with companies from the developed world. Make in China 2025 has been integrated with the Dual Circulation of Economy in the 14th Five-year plan (2021).¹¹ This will create domestic demand and reduce bottlenecks for intermediate goods 'manufacturing. The BRI aims at developing new markets to boost external demands of Dual Circulation.

Dual Circulation of Economy

Chinese President Xi Jinping first mentioned about Dual Circulation on 14 May 2020 in a Standing Committee of the Politburo meeting¹², wherein he only provided details about the two components of the strategy i.e. internal circulation (domestic demand) and external circulation (external demand). However, the 14th Five-Year Plan focused more on "internal circulation"—a clear indication of self-reliance being the main aim.

The first aim of Dual Circulation is to remove 'supply-side bottlenecks for production' by "promoting deep integration and innovative developments of the logistics and manufacturing industry".¹³ This plan reduces production and logistics cost and magnifies sharing of information, through 5G, between manufacturing enterprises.



The strategy has two general objectives— *first* being to develop China's industrial capability, reduce dependence on developed countries and eliminate natural resources and technology-linked bottlenecks.

Metal and energy have historically been China's 'Achilles Heel'. Oil, rare earth metals, lithium, and cobalt are key to new technologies. While China's share in the production of Rare Earth metals is approx. 60.63%¹⁴, it is the largest importer of oil globally and lacks reserves of critical metals like cobalt and lithium.¹⁵ China's oil trade passes through the Malacca strait, which India can block during times of conflict, and that would impede China's oil security. To counter a possible Malacca dilemma, China has invested in the China-Pakistan Economic Corridor (CPEC).¹⁶ China has been buying energy and mining companies¹⁷ to overcome metals and energy bottlenecks.

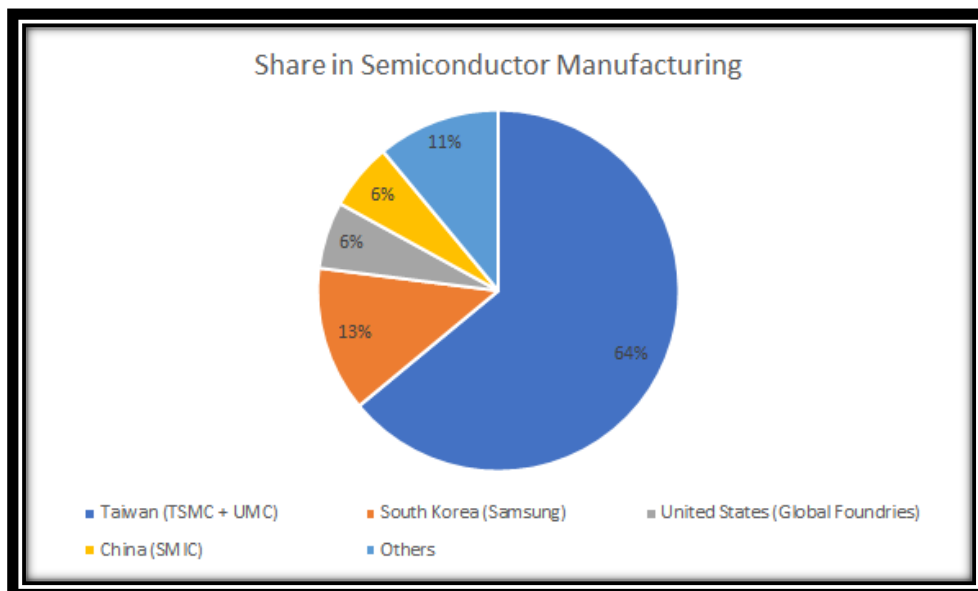
The *second* objective of the strategy is to achieve self-reliance in technology, which was also the stated goal of Make in China 2025. China has been steadily increasing investment in research and development (R&D). China's investment in R&D have already surpassed the European Union (EU) in terms of percentage of GDP and is now only behind the United States.¹⁸ The main hurdle in China's technological self-reliance is semiconductors which are a pre-requisite for LED bulbs, washing machines, smartphones, and digital cameras. China lacks in semiconductor manufacturing, hence its import has already surpassed that of oil. In 2020, China imported integrated circuits (IC) valued at US\$350 billion.¹⁹

To support IC R&D, China has increased tax deductions for companies investing in IC R&D— for every 1 million Yuan invested in IC R&D, China will provide a tax break of 2 million Yuan in its taxable income.²⁰

The most important aspect of the Dual Circulation strategy is the generation of domestic demand by shifting towards a 'consumption-based growth model'. To generate household demand, China aims to double household income by 2035. Currently, China's GDP per capita is US\$12, 556.²¹ If this doubles by 2035, China will become a high-income²² country with a developed economy. To achieve this, China has rapidly increased investments in new sectors like semiconductors, consumer, and health care.^{23,24}

The Dual Circulation Strategy will have implications for the world when major imports of China like semiconductors, intermediate goods, machinery etc. will be produced domestically by Chinese industries. The 'Make in China' component in Dual Circulation 2025 that emphasises on building technological know-how for critical industries like semiconductors, high-end manufacturing equipment, and intermediate goods, will automatically impact countries like Taiwan (semiconductors), United States, Japan, and Germany (leading exporters of high-end manufacturing equipment, auto parts, machinery, and intermediate goods to China).

Figure 1: Global Semiconductor Market Share (Q2: 2022)



Source: <https://www.counterpointresearch.com/global-semiconductor-foundry-market-share/>

BRI: Diversification of Markets

Exports have been a significant driver of China's economic rise. China's three most significant trading partners are the Association of Southeast Asian Nations (ASEAN), the European Union, and the United States. The United States was China's largest market with US imports from China amounting to US\$506 billion in 2021.²⁵ The European Union imported goods worth US\$472 Billion²⁶ in 2021, whereas, with ASEAN, China's trade grew



to US\$680 Billion²⁷ in 2021, overtaking China's gross trade with the European Union. Why are these stats vital?

These stats show that China has been gradually diversifying its exports away from the United States. China's trade with ASEAN has grown exponentially since 1990 from US\$8 billion to US\$680 billion.

China is looking to diversify its export markets, which is where BRI comes in. BRI was coined by Xi Jinping in 2013, relating it to the Han Empire of 200 BC, which connected China to the Mediterranean region through Eurasia.²⁸ Han Empire also had control over much of East and Southeast Asia²⁹, something Xi desires today with his actions in SCS, ECS and Taiwan. The BRI, at its inception, had five major priorities:³⁰

- Infrastructure Connectivity.
- Financial Integration.
- Unimpeded Trade.
- Policy Coordination.
- Connecting People.

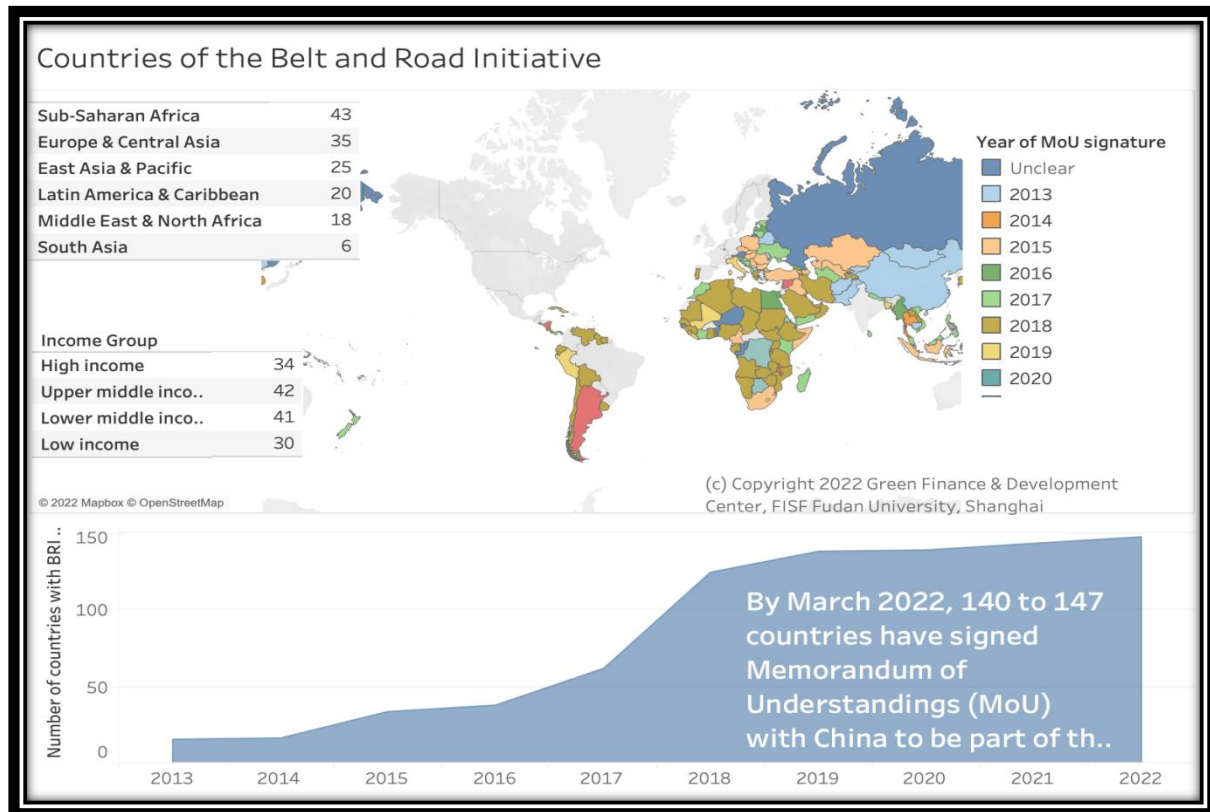
BRI covers much of Asia, Europe, and Africa through land and sea routes. Through BRI, China will be able to control trade routes, supply chains, and emerging markets. Under BRI, China funds critical infrastructure like railways, ports, power plants, 5G, and fibre optic cables. Although China is somewhat opaque on BRI contracts, however, as per the Belt and Road Portal, 147 countries have joined BRI since its inception.³¹ BRI has now jumped the silk road's historical boundaries and has found its way into the Caribbean Islands and Latin America. Even close partners of the US, like Qatar, Saudi Arabia, Portugal, and Italy have joined BRI.

Of the 147 BRI countries, 30 are low-income countries, 41 are lower-middle-income countries, 42 are higher middle-income countries, and 34 are high-income countries.[†] Considering that more than 50% of BRI countries are upper-middle- and high-income countries, therefore, they make an excellent alternative market for China's exports. Developing an internal demand through Dual Circulation Economy and new markets through

[†] Figure reached at by collating data from World Bank data.

BRI are essential components of China's quest for self-reliance and decoupling from the United States.

Map 1: Countries that are Part of the BRI



Source: <https://greenfdc.org/countries-of-the-belt-and-road-initiative-bri/?cookie-state-change=1663654791396>

Building Economic and Financial Substitutes to Bretton Woods Institutions and De-Dollarisation

China is an integral part of the liberal international financial and economic institutions like the World Bank, the International Monetary Fund (IMF), Society for Worldwide Interbank Financial Telecommunications (SWIFT), and the World Trade Organization. For years, China has been trying to undermine them or build up an alternative with initiatives like BRI, Asian Infrastructure Investment Bank (AIIB), and Cross-Border Interbank Payment System

(CIPS). China has also been trying to circumvent trading in dollar through digital currency and bilateral agreements with countries.

BRI and AIIB: Threat to Bretton Woods Institutions

BRI is a significant threat to the World Bank. Through International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA), the World Bank lends developmental loans to low and middle-income countries. BRI also does something similar wherein Chinese banks give loans to partner countries for infrastructure development. However, Chinese loans are often opaque and come with stipulations and high-interest rates. It has been alleged that China, a significant borrower of the World Bank, uses cheap loans from the World Bank and in turn uses these loans to lend money to BRI countries. BRI has proved to be a challenger to World Bank as countries like Pakistan, South Africa, and Ethiopia owe China more than they owe the World Bank.³² BRI loans are often mired in corruption due to their opaqueness, but, they continue to attract countries due to the ease of getting them.

Chiang Mai Initiative Multilateralization (CMIM): A threat to IMF

Not just China but the whole of East Asia has been trying to find a counter to IMF and the World Bank for decades. The first initiative was taken post the Asian Financial Crisis of 1997 in the form of the Chiang Mai Initiative (on similar lines with the Asian Monetary Fund) proposed by the Japanese Government. Initially, CMI consisted of bilateral swap agreements between ASEAN+3 (China, Japan, and South Korea), amounting to US\$80 billion. However, CMI was still linked to IMF as the funds to the borrower country were to be released only if they were in negotiations with the IMF for standby agreements. Further, CMI was not able to substantiate due to China and the United States apprehensions and the over-reliance on IMF for disbursement of funds.³³

ASEAN+3 took another shot through Chiang Mai Initiative Multilateralization (CMIM) in 2010. CMIM replaced the bilateral swap agreements in CMI with a reserve pool of US\$120 billion.³⁴ The pool further doubled to US\$240 billion in 2014.³⁵ CMIM also moved towards delinking from IMF by giving clients access to 30% 'without IMF backing'. However, with China's growing economic clout, CMIM faced opposition from Japan. Also, during Covid,

with a surging dollar demand, three major partners of CMIM viz. Japan, South Korea, and Singapore, preferred the Federal Reserve over CMIM.³⁶ That is not to say that CMIM is not a challenge to IMF. In the long run, CMIM have the potential to become a threat to IMF. CMIM has gradually increased its reserve pool and moved away from IMF stipulations. With China's growing economy, it may eventually replace IMF and the dollar in East and Southeast Asia.

AIIB and the World Bank

China proposed AIIB in 2013 as an alternative to western led financial institutions like World Bank and IMF. It was proposed to overcome the 'unequal voting rights' system in the World Bank. For example, in International Financial Cooperation (IFC), China had only 2.50% voting shares, while economies much smaller than China like Japan, Germany, and the United Kingdom, have more voting rights than China.

Table 1: Voting shares of countries in IFC and IBRD[‡]

| Country | IFC voting Share (%) | IBRD voting share (%) |
|----------------|----------------------|-----------------------|
| United States | 20.19 | 16.42 |
| China | 2.50 | 5.70 |
| Japan | 7.98 | 7.70 |
| Germany | 5.35 | 4.38 |
| United Kingdom | 4.78 | 4.04 |
| India | 3.86 | 3.16 |
| Italy | 3.21 | 2.68 |
| Canada | 3.70 | 2.81 |
| Australia | 1.96 | 1.44 |
| | | |

IFC Source: <https://thedocs.worldbank.org/en/doc/c80cbb3c6ece4fa9d06109541cef7d34-0330032021/original/IFCCountryVotingTable.pdf>.

IBRD Source: <https://thedocs.worldbank.org/en/doc/a16374a6cee037e274c5e932bf9f88c6-0330032021/original/IBRDCountryVotingTable.pdf>

While there have been attempts at reforming the voting system at the World Bank, the United States Congress have so far refused to approve it.

AIIB has found precedence over the World Bank in many countries due to its supposed 'apolitical' nature. In contrast, the World Bank aid comes with stipulations like spreading

[‡] IBRD: International Bank for Reconstruction and Development.



liberal democracy and a liberal institutional framework.³⁷ At the same time, AIIB has restricted its members from influencing politics in a member country. AIIB has embedded its apolitical nature in its articles of agreement as clear from Article 31 (2) that bans “Bank, president, members, officers, and staff from interfering in political matters of member countries or being influenced by decision-making through political nature of a member state”.³⁸

AIIB primarily works on the same principles as the World Bank, except for its political meddling. However, like the western bloc, China enjoys a virtual monopoly in decision making in AIIB— all decisions in AIIB are taken with 3/4th approval from members, and China has 26% voting share in the bank. AIIB is a major Chinese led competitor to the US led World Bank. For the moment, most members prefer to hedge between the World Bank and AIIB. However, with China’s rapidly growing economy, AIIB’s apolitical nature, the Western bloc’s refusal to bring reforms to the voting system, and World Bank’s emphasis on promoting liberal democracy, AIIB might become the go-to bank for aid in developing economies.

CIPS and Digital Currency

The Ukraine war saw the West sanctioning Russian banks from the SWIFT system. SWIFT is used by over 200 countries and more than 11,000 institutions³⁹; being sanctioned from SWIFT entails that a bank or institution will not be able to interact with banks or institutions of other countries while making cross-border payments. This will have consequences for Russia as it is a net exporter of oil, gas, and minerals. Considering that ten Western countries oversee SWIFT except for Japan (a treaty ally of the USA), China is aware that, SWIFT can be weaponised against it, in the event of a conflict.

If SWIFT sanctions Chinese banks, it would have devastating effects on the Chinese economy as it is more integrated into the global system than Russia. To counter this possibility, China has developed an alternative called CIPS. was launched in 2015 to clear and settle Renminbi payments and trade. As of January 2022, CIPS have 1,288 users in 103 countries, including 76 directly participating banks and 1,212 indirect participants.⁴⁰ China aims for a global user base of CIPS as its president Zaiyue Xu said, “they aim to provide service all around the globe and CIPS will be wherever there is Yuan”.⁴¹



In the wake of the West' sanctions on Russia, China is trying to move away from western led systems that include substituting trading in dollar with Yuan. The first step towards this is to buy oil from Saudi Arabia in Yuan instead of dollars.⁴² CIPS is still miles behind SWIFT or the Clearing House Interbank Payment System (CHIPS), but with China's increasing footprint throughout the world through BRI, and its push to use Yuan for trade, may very well become a potent rival to SWIFT and CHIPS.

Bounded Globalisation

Two types of orders marked the Cold War— *one*, was the international order in which both the rival blocs i.e. the Western bloc (led by the United States) and Eastern bloc (led by the Soviet Union), participated, and the *second*, was a bounded order wherein both blocs had their own institutions.⁴³ The International Order was where both the blocs had overlapping interests that they pursued jointly, like the Nuclear Suppliers Group (NSG) and Nuclear Non-Proliferation Treaty (NPT). The other order that formed was a 'bounded order' wherein both the blocs had their 'own security and financial institutions'. The Western bloc had security institutions like North Atlantic Treaty Organization (NATO) and economic institutions like International Monetary Fund (IMF) and North American Free Trade Agreement (NAFTA). While, the Eastern bloc had security institutions like the Warsaw Pact.

Like the Cold War orders, China is also trying to make a 'bounded order' through BRI and Dual Circulation of Economy while still being engaged in international institutions. China is trying to establish a Eurasian bloc consisting of Russia, the Central Asian Region (CAR), Eastern Europe, and Pakistan. Russian President Vladimir Putin met Xi Jinping in Beijing in February 2022 before the Winter Olympics. The Joint statement by the two countries pointed towards an implicit alliance.⁴⁴ China and Russia have been working in tandem for years; China voted in favour of Russia in the UN Security Council— a meeting called by the US to discuss Russian troop build-up on the border with Ukraine.

BRI has given China access to more markets which have the potential to replace its trade with the US. China's alliance with Russia can also cater to its energy and mineral needs. The coalition will also solve China's need for metals like lithium, titanium, uranium, and cobalt. China has significant economic partnerships with Central Asian and Eastern



European regions; through BRI, CIPS, AIIB and Dual Circulation, these regions may form a part of China's bounded order.

Developing Maritime Strategy and Modern Military

After the disintegration of the Soviet Union (USSR), the CCP concluded that the Soviet Union disintegrated due to ideological confusion. The Party further concluded that the loss of political control allowed Americans to enforce the collapse of the USSR.⁴⁵ For the CCP, China is now the main political target of the US— the CCP sees US as an existential threat to the party's survival.

The party is aware that, there is a significant power imbalance between China and the US. This realisation brought forward Deng Xiaoping's strategy known as: "*Tāoguāngyǎnghuì yǒu suǒ zuòwéi*" (biding time by keeping a low profile).⁴⁶ The Party figured that, it was imperative to build economic strength and military might and avoid giving the West any chance of complaining. US' constant entanglement in military conflicts, from the early 1990s to 2015, have helped China's strategy of 'hiding and biding'.⁴⁷

Military Strategy

The party started to look for a military strategy to counter the United States after the Tiananmen Square and the collapse of the USSR. China's immediate strategy to counter the US, in the early 1990s, revolved around Sea Denial to prevent the United States from controlling the waters around China's periphery. Deng Xiaoping and Jiang Zemin personally oversaw this strategy.

Under the strategy of Sea Denial, China made considerable investments in submarines, sea mines, and anti-ship ballistic missiles to deter the US. The Party's Standing Committee repeatedly turned down proposals to adopt the 'sea control strategy' by building aircraft carriers.⁴⁸ CCP long believed that the power imbalance between China and US is yet to be bridged, and China needs to invest in 'sea denial' capabilities instead of 'sea control'. The thinking however changed in the wake of the 2008 financial crisis wherein China saw that the US power had dented due to the crisis, and it was China's time to "actively achieve something".⁴⁹ China, by then, had achieved considerable economic strength. Thus, it was

time to end the strategy of '*taoguang yanghui, yousuo zuowei*'. Historically reluctant, China decided to go ahead with the plan of building aircraft carriers in 2009. China, in 2012, announced its aim to become a "medium-sized maritime great power by 2020".⁵⁰

China's Defense White Paper 2012 emphasised on the need for China to develop a modern "Blue Water Navy" along with a consistent strategy and move away from the 'sea denial strategy'.⁵¹ The 2015 Defense White Paper reiterated the same thinking and stated that the 'traditional mentality of building land power in lieu of sea power should be abandoned, and the focus should be on sea control by protecting maritime rights and interests'.⁵²

Apart from gaining sea control, China has also been developing enhanced interoperability between the three arms of its military as part of Xi Jinping's mission of modernising the PLA. In October 2017, at the 19th National Congress of the CCP, he stated that "PLA will achieve complete modernisation by 2050 and will turn into a world-class force".⁵³

China needs a 'thoroughly modernised and interoperable military' to achieve its political motive of reunifying the motherland, which is what it has been focusing on.

Conclusion

The US has termed its current relationship with China as one of 'strategic competition'. The Biden Administration's first meeting with its Chinese counterpart in Anchorage on 18 March 2021 set the tone for this relationship. However, the meeting led to heated exchanges between China and America while discussing about the 'World Order' and China's Human Rights record.⁵⁴ China was named as one of US' National Security threat in Biden Administration's Interim National Security Strategic Guidance (2021)⁵⁵ and subsequently in the National Defense Strategy 2022. This stand further became rigid when US by reinvigorated the Quadrilateral Security Dialogue (QUAD) and entered into a security agreement with the United Kingdom and Australia termed as AUKUS.

China, on the other hand, has been giving public statements of avoiding 'block mentality' and 'cold war syndrome'. However, China's domestic policies like the 'Dual-Circulation of Economy', Foreign Policy like BRI, and rapid military modernisation, falls contrary to China's public stand. China has been watching the Ukraine war closely. It has seen how the US and its allies have influences over economic and financial institutions. In that case, China's quest

for self-reliance and eventual decoupling becomes more imperative. Albeit China led institutions like AIIB, BRI, CIPS, CMIM are yet to mature, and they certainly have the potential to counter the US led institutions in the long run and make it possible for China to achieve its endgame —to form a ‘world order with Chinese characteristics’.

End Notes

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