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Chinese Economic Insecurities: Where they Come From (and Why they Matter)

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KEY TAKEAWAYS

- The size of the Chinese economy means that policy changes in China can have indirect implications for Europeans, even when Europe is not part of Chinese considerations at all.
- Many such policy changes have their origins in Chinese insecurities rather than perceptions of Chinese strength and power.
- The current Chinese leadership is more insecure about its grip on power the way that it projects itself to foreign audiences often suggest.
- Rhetorically at least, these insecurities are increasing as China's leaders attempt the twin tasks of shifting both the basis of economic growth and also the basis of party legitimacy.
- Understanding the extent and nature of these insecurities can help others – and not just Europeans – prepare for the consequences of future policies designed to ameliorate them.

Keywords

Economic security

Energy security

Regime security

Self-sufficiency

Technological self-sufficiency

Introduction

In a previous EH4S Policy Paper published in June 2024, we outlined the origins, meaning and objectives of Xi Jinping's emphasis on the need to develop *New Quality Productive Forces*. Other previous papers have discussed Chinese responses to both the *US's increasingly hawkish China policies*, the *de-risking/de-coupling discourses* more generally, and also focussed on China's desire to *increase technological self-reliance*. While the individual focus of each of these papers are very different, there is a common thread that runs through them; the role that economic insecurities play in shaping not just debates in China about its economic future, but also policies designed to mitigate risks and create a more predictable, stable and sustainable future trajectory. The aim of this long read is to act as a supplement to these earlier more focussed papers by fleshing out in more detail the nature of these insecurities, how they have emerged and evolved, and what the Chinese leadership things it needs to do to address them.

At times, China's search for security can have very clear and significant impacts on Europe. The rather rapid *emergence of DeepSeek* in early 2025 as a much cheaper and yet still very effective alternative to pre-existing global leaders had an immediate (and almost panic driven) impact on stock markets, and a more fundamental impact on perceptions of what the future might hold. In no small part driven by Chinese responses to the potential of being cut it off from "*global R&D ecosystems*", it the prospects of China attaining global leadership in key economic sectors (and perhaps even to use its economic clout to attain geostrategic political goals). Indeed, there is a strong argument for saying that what Chinese economic actors are doing overseas, including in Europe, are in large part driven by a desire to resolve Chinese economic insecurities. For example, as argued in some detail *elsewhere*, the Made in China 2025 initiative that did so much to raise concern in Europe about Chinese global ambitions was largely inspired by Chinese insecurities; the Chinese economy was *described* as being big "but not strong", with weak Innovation capability, and a heavy dependence on foreigners for "core technologies and high-end equipment", with most Chinese enterprises unable to "operate globally" effectively.

In addition to these effects, Europeans are also indirectly affected by economic shifts in China that are primarily driven by insecurities. Moreover, the argument here is that the current Chinese leadership is more insecure than the way that it projects itself might suggest, and also that these insecurities are increasing. What we see is a combination of concerns that emerge perceptions of national (in)security and the nature of the global order, and perceptions of economic (in)security built both on the nature of the global economy and also the nature of China's own domestic growth model. Underpinning all of these insecurities, though, is the party's view of its own grip on power and perceptions of political or regime (in)security.

European's might not have the ability to do much (or even anything) to change the nature of many of these insecurities. And where there is some potential room for a European impact, there may well not be the desire to assuage Chinese concerns. But understanding the nature of what Susan Shirk back in 2009 called a "*fragile superpower*" should provide the basis for planning for a range of potential futures that are not all just built on an understanding of a strong, confident and immovable Chinese leadership.

Why Insecurities Matter: The Consequences of Scale and Mass

In 2007, the UK newspaper The Daily Mail ran *a story* about panic buying amidst rapid price rises in the cost of garden fence panels. The reason was in part a surge in demand due to bad weather over the winter, and in part a reduction in available supplies. Poor softwood harvests in Northern Europe explained some of this reduction. More important, though, was increased demand for wood from countries that were undergoing rapid economic transitions and seeing rapid urbanisation, construction and growth.

Not surprisingly, China was one of the most significant of those rapidly changing economies, where timber consumption "*increased nearly threefold*" between 2000 and 2015. Similarly, Chinese demand was also part of the reason for a shortage of *timber pallets* in 2013-14, used to transport a whole range of different goods and commodities; though the flip side of this coin was a tripling of *European softwood exports* to China in 2013 alone. The introduction in China of environmentally driven restrictions on logging to prevent deforestation, most notably in 2017, only served to increase *the importance of imports* for China, and thus further increased China's significance for global supplies and prices. As *Russia* is the main source of softwood lumber into China (including after the Ukraine invasion), it also has at least some impact on European security concerns and strategies too.

Pretty much any other commodity could be chosen as an example of how Chinese growth impacts on Europeans in often indirect ways. For example, as *Hansen and Wingender* argue, China's transition from a net food exporter before it joined the WTO to the world's biggest importer has transformed global agriculture. In addition to its impact on prices of key commodities, they argue that increased Chinese demand alone is the cause of a massive diversion of land to crop production across the world, which will have huge long term global environmental consequences. As too does the above mentioned increase in wood and other "forest based" imports into China, which maybe ironically were in part driven by local environmental concerns within China itself.

Much has been written about China's impact on global energy trade and pricing. China *accounts for around* 18 per cent of the global trade of both oil and coal and 16 per cent of the global gas trade. Quite simply, "*China's centrality* to global oil demand growth this century" has become a major determinant of the price of oil for everybody on the planet. For example,

the *stimulus measures* announced in China in September 2024 were directly credited (if that's the right word) for an almost immediate increase in global oil prices (and as a result, of the prices of *iron and steel* too).

It is not exactly the world's greatest insight to say that China matters in ways that most other countries don't and cannot. Its sheer size alone might be enough. Or perhaps size plus increasing wealth is enough. Even when there is no direct China-Europe interaction involved and there is no Chinese intention try and influence or affect Europe, what Chinese consume – or indeed, at times don't consume or consume less of – impacts on Europe and Europeans in different ways.

Of course, the consequences of size or mass are then often compounded by the nature of the Chinese political economy, and the way that the state supports privileged domestic actors to create an uneven global playing field. Such measures include the provision of a range of different types of *subsidies* and tax breaks, easy access to cheap capital, currency and exchange rate controls, limiting market access for foreigners, and so on. That's why "ensuring reciprocity, achieving a level-playing field, and addressing asymmetries in the relationship" have been "matters of priority" *for the EU* in its relations with China for many years. In addition to the frustrations of not being able to fully access the Chinese market to the same degree that Chinese actors access the EU, European producers can be disadvantaged in the home market too. As *Kratz and Oertel* have argued, the way that the state provides what they call a "protected home market advantage" can have (and indeed, already has had) had huge implications for European companies in some sectors when these protected Chinese companies internationalize their activities and take their commodities overseas[1]. Strategies designed to *export Chinese overcapacity* in some sectors have also already directly impacted on domestic producers in a number of economies, including in Europe.

So what happens in China indirectly impacts on Europe even when there is no clear intention to target Europe at all because of the size, scale and mass of the Chinese economy. It also has a direct but secondary impact when the **primary** Chinese objective is not to do things to Europe, but to do things overseas to reduce Chinese insecurities. Which then leads to the twin questions of what are the nature of these insecurities, and where do they come from?

The nature of Chinese economic insecurity

The evolution of the Chinese discourse

As *Wang Zhengyi has outlined*, the specific concept of "economic security" (经济安全) was not a feature of Chinese academic or policy debates until the second half of the 1990s. Until then, concern with generating economic growth on the one hand and issues relating to security on the other hand largely evolved and were discussed in two separate domains with

very little cross-fertilization. The Asian Financial Crisis of 1997 is typically credited with starting a *Chinese debate* over the nature of economic (in)security, as it highlighted how quickly (and unexpectedly) China's hoped for trajectory of economic growth could be derailed by events outside its control. Foreign investment (not least from the rest of Asia) had rather rapidly become a major engine driving the growth of Chinese exports in the earlier part of the decade, and the concern now was that both investment and exports would now decline. And as China's most influential trade official, Wu Yi, put it at the time, this was not a case of worrying about "exports for exports' sake", but instead a "political issue .... critical in helping the nation reform State-owned enterprises, create jobs and promote social stability".

This was also a period when maintaining export growth faced considerable political challenges too. Though the international response to the Tiananmen crackdown in 1989 had proved to be rather shallow and short lived, access to the US market for Chinese exporters was dependent on China being granted Most Favored Nation status by the US every year. As it turned out, this was always granted, and China gained permanent access to the US market in 1999 as part of the process of gaining WTO entry (in 2021). Indeed, trying to take politics out of trade relations was one of the reasons that China's leaders *pushed to join the WTO* in the first place; to take disputes out of the hands of politicians and into the hands of technocratic and legally bound trade experts instead. But until 1999, China's leaders could never be certain of that.

In addition, the second half of the 1990s also saw the emergence of *energy security concerns* in China. Although China had switched from being a net exporter of oil to a net importer in 1993, this was initially not really seen as a problem. This is because, crucially, there is a difference between (self) sufficiency and security. There is no inherent insecurity in being dependent on either imports or foreign markets at all if you are confident that those supplies will keep coming and those markets will remain open. And such confidence – or the lack of it – is the key to the spread of Chinese economic insecurities and anxieties.

In the case of oil, as the volume of imports increased, then the question of whether these supplies could be guaranteed increased too, not least because of the "*Malacca Dilemma*". With so much of China's oil imports passing through the narrow Straits of Malacca on the way (and indeed, with many Chinese exports to Europe going the other way too), then what would happen if a hostile state like India or the US hindered or blocked sea lanes for political/security reasons? Hence the expansion of "*resource diplomacy*" in and with Africa and other developing countries in a search to diversify sources of supplies (preferably to places where trade was not already dominated by companies from the West).

Typologies of Insecurities

To sum up then, what we might call *economic security with Chinese characteristics* entails a bundling of three different types of insecurities.

National (in)security: Those concerns that relate to the nature of the global order, and China's place within it. Most clearly, the fear that for political reasons, other countries might do things that make it harder or even impossible for China to get what it wants and needs (resources, commodities, markets) so that China's leaders can run the economy in the way that they want to want to run it. This includes fears of military blockades, sanctions, tariffs, investment screening and other punitive actions.

There has also been concern that the US is trying to establish relationships with its allies designed to drive a *wedge between them and China* with important economic (as well as broader security) concerns. And at times that the US is trying to build regional economic structures like the Trans Pacific Partnership that would "*exclude China from regional economic affairs*".

Economic (in)security: Which can be divided into two halves. The first half relates to the nature of the global economy, and what we might call "normal" (which means non-politically motivated) economic vicissitudes that all economies face. This includes fluctuations in the price of key commodities, and at times the supply of them too. We might also include here conflicts and other geopolitical uncertainties that do not directly involve China, but have potential economic consequences for China (and indeed, for all global economies). Conflict in the Middle East is an obvious case given China's energy concerns; hence the increased interest in playing a *diplomatic role* in the region. There has also been growing concern with the impact of piracy in the *South China Sea* and off the *Horn of Africa* as China's global economic presence increased.

Perhaps most clearly of all, though, is the spillover effect of economic problems elsewhere that China simply cannot control. In particular, economic crises elsewhere have twice had a profound impact on Chinese thinking; as already noted, first in 1997, and then again when the Global Financial Crisis led to *Chinese exports falling dramatically* and suddenly in November 2008.

This brings us directly to the second half, which is the nature of the Chinese (political) economy. There has been *considerable debate* over how important exports have been for Chinese growth. If you just count exports as a percentage of GDP, then in 2007 (ie: just before the global financial crisis), then the figure was 40 per cent. But this ignores the high degree of imported components in Chinese exports at the time. So adjusting the calculation to take this into account, then the value added of net exports to GDP in 2007 was only 20 per cent; which to be fair is still not insignificant. To

complicate matters even further, though, this ignores the domestic spillover effects of trade; if you build a new port and infrastructure to access it, this does not count as trade, but is clearly a trade driven growth. *Factor this back in* and you could argue that trade related growth was as high as 50 per cent of GDP in 2007.

Whatever the true number, China's leaders have certainly acted at times as if they think that economic growth was too dependent on exports. And this meant that China's economic fortunes were even more vulnerable to the sort of politically motivated action outlined under national (in)security above.

There is also a concern that as the significance of exports has declined, growth has become too *dependent on investment* instead. Not least because in the period after the financial crisis as expanding investment was seen as a key means of maintaining growth during global economic turmoil.

Political/Regime (in)security: Crucially, both national and economic insecurities were part and parcel of a more fundamental and existential insecurity relating to the nature of the Chinese political system. In the post Mao era, the party went to great lengths to *establish the idea* that generating growth was a key indicator of its wisdom and effectiveness. Growth (and announcing that growth targets had been met and exceeded) thus became a crucial part of its strategy of justifying and legitimating its monopoly on power. Quite simply, then, if growth could not be maintained, then the party ran the risk of failing to meet the benchmarks, standards and expectations that it had set for itself, and communicated to the Chinese people. And while many political parties lose elections when the economy isn't doing well, this is not an option in a one-party state where it is the entire party-state political system that is at stake.

Mitigating risks

As the growth of concern about over-reliance on investment and China's changing strategy in the Middle East both clearly show, Chinese economic insecurities (and the responses to them) are not static. So nearly three decades after the emergence of the economic security discourse in China, how do things stack up today?

China's leaders have been proactive in trying to reduce uncertainties and insecurities. We have already noted the move to increase technological self-reliance, and to make more of the high tech components that drive advanced modern manufacturing at home. Even before the launch of DeepSeek, there was already evidence that it had made *considerable progress* in some high-tech sectors. The Australian Strategic Policy Institute's 2024 *Critical Technology Tracker* calculates that China had become the global leader in *57 of its 64 tracked technologies* in the 2019-23 period (up from leading in just three at the start of the millennium).

Overseas investment has increased access to and often control over a range of resources, and also diversified the sources of supplies in many cases. This includes *oil supplies*, with Russia and Angola now two of the top three suppliers, with a rapid expansion of refining capacity also playing a role. Even so, oil from the Middle East still plays a very important role, and countries like *Australia* which have had a fractious recent relationship with China supplies more than half of Iron Ore and Coal imports. At times, China has used *export controls* for commodities deemed to be essential for domestic economic growth and the transformation into a new type of economy built around the promotion of new productive forces (as detailed in a previous *EH4S paper*). Starting in 2008, China has also become an active actor in *anti-piracy operations* too.

China's leaders have become an active promoters of *forms of regional integration* that promote their interests, and actively pursued and promoted *Free Trade Agreements* (FTAs). At the time of writing, alongside the FTA with ASEAN as a whole and the Regional Comprehensive Economic Partnership (with ASEAN, Japan, South Korea, Australia and New Zealand), 17 bilateral agreements were in place (19 if you include the FTAs with Macao and Hong Kong), there was one Service and Investment agreement (with Belarus) and 12 FTAs were under negotiation. It has also developed a range of institutional mechanisms to pursue its economic (and other) agendas with different regional groupings that span the globe (as explained in detail in a previous *EH4S paper*). Amongst other things, the *Belt and Road Initiative* is meant to open up new markets, suppliers, trade routes and production networks. More recently, major Chinese producers (particularly if they have a large US market) have *diversified their production* bases to "bypass market access or trade barriers".

Chinese Insecurities Today

The external environment

The USA and the EU are notably absent from the list of Chinese FTA partners. And despite joining the WTO in 2001, access to these two important markets remains a concern in China. This is not really surprising for a number of reasons. Not recognising China as a *market economy* within the WTO in 2016 (as many assumed would automatically happen after 15 years of Chinese membership) appeared to be a case of the western powers moving the goalposts when viewed from China (rather than the view from elsewhere that China had not met its contracted obligations). *European debates* over de-risking and how Europe can respond to the China challenge and enhance its own security have been heard in China, and *taken as a sign* that the EU is turning away from free trade towards protectionism; at least when it comes to trade with China.

Most important, though, is the deterioration of relations with the US. A *White Paper* issued in September 2018 outlined China's anger at the initiation of tariffs by President Trump

which led to what has widely been described as a *trade war*. The four different Biden administrations restrictions on microchip and high tech exports to China (including one of his last acts as President in 2025) very clearly demonstrated this this view of China is now a bipartisan one, and not a Trump or Republican specific phenomenon. That said, Trump's re-election did raise the prospects of things getting worse, with the promise of more and/or higher tariffs in his second term. Even the status quo ante access to the US (without market economy status) seemed to be at risk as well, with calls to revoke the *permanent normal trade relations* that China had gained in 1999.

The Domestic Context

So significant **economic** and **national** insecurities remain. And they exacerbate ongoing **political/regime** insecurities. In previous EH4S papers we have covered both the promotion of a new ever more nationalist and Chinese (rather than Marxist) *ideological basis* of party legitimacy, and (as already noted) the attempt to move on from a focus on growth to *high quality development*. Despite these moves (and others) it has proved difficult to shift the basis of growth away from investment (and exports) *to consumption*, and to deal with the consequential problems of the old model (such as *local government debt*). It also seems to have proved difficult to move away from past impulses relating to the importance of maintaining growth.

Rising Concerns?

To be sure, we have to be careful how we treat what Xi and the rest of the party say about security. Talking up insecurity too much might lead to questions about the party's role in allowing them to emerge or persist. Particularly if they have persisted for some time and been identified as a problem without finding any effective solutions for many years. However, it is also potentially beneficial for the party to construct a discourse of insecurity and a degree of fear in two main ways. First, to encourage the people not to complain or rock the boat and do anything that might undermine the party's ability to keep them safe and (relatively) wealthy. Second, to try and shift the benchmark of success and wisdom from simply generating growth to focussing on the quality and utility of growth, and in the process, to show their skill and effectiveness in dealing with these urgent challenges and problems as they set a new course to an even brighter future.

That said, it is notable that Xi Jinping has been very open and clear about the extent of these insecurities. At the *20th Party Congress* in 2022, Xi told the Chinese people to be "prepared to deal with worst-case scenarios, and be ready to withstand high winds, choppy waters, and even dangerous storms". This was partly because of domestic challenges, and the existence of "many deep-seated problems regarding reform, development, and stability that cannot be avoided or bypassed". But these domestic insecurities were compounded by geopolitical concerns as "external attempts to suppress and contain China may escalate at

any time" as a result of what is often *referred to* as "changes not seen in a century".

A *People's Daily editorial* on 11 th November 2024 gave a bit more detail, pointing to four main "difficulties and problems". In reverse order, the four listed was "hidden dangers"; local government debt, increasing unemployment levels for college graduates, slowing income growth for urban residents, and (some) enterprises laying off employees and cutting salaries. There is a clear overlap with the third, namely "weak sales, declining profitability, and weakening market expectations" for some companies. This in turn is a consequence of the second, weak domestic demand and a lack of "willingness" to consume. But as Kewalramani notes, it is very notable that the first of the listed difficulties and problems was the "external environment".

> *The instability of the world economy has increased, the uncertainty of international politics has increased, global trade protectionism has intensified, and some countries have continued to increase their containment and suppression, which has increased the pressure on China to stabilize foreign trade and foreign investment.*

A change of Gear?

The People's Daily editorial was published a month before the annual *Central Economic Work Conference* (CEWC), which since 2012 has become them main meeting of key economic policymakers to set the broad economic priorities for the next year (which are then fleshed out the following spring at the annual National People's Congress session).

The 2024 CEWC saw a renewed emphasis on "boosting domestic demand, especially consumer demand". This was not unexpected given what was being said in the official press beforehand, and the announcement of a new stimulus package *designed to* "address China's economic slowdown, focusing on liquidity improvements, boosting the property market, and stabilizing financial markets" in September 2024. Nevertheless, it formally marked a shift in gear, with "more proactive and impactful macro policies" promised for 2025 to include:

"a higher deficit-to-GDP ratio"

"the issuance of ultra-long special treasury bonds and local government special-purpose bonds"

"a moderately loose monetary policy …. with reductions in the reserve requirement ratio and interest rates"

And if there was any doubt as to why the economy needed this boost, it was made very clear; in words that echoed what Wu Yi said in the wake of the Asian crisis nearly three decades before, it was all about providing "people's wellbeing and security" in order to "maintain overall social stability".

While *official reports* of the CEWC did not directly reference Donald Trump's return to power in the US, they did refer to "the deepened adverse impact brought about by changes in the external environment" alongside the persistent domestic challenges noted in the People's Daily. It is difficult to imagine that Trump was not discussed at the conference. After all, as *Chi Lo* argues, "the timing for another tariff war under Donald Trump's new presidency could hardly be worse. China's economy is now much weaker than it was in 2018 when the Sino-US trade war started.

Yet perhaps ironically *Wang Xiangwei* (the former editor of Hong Kong's South China Morning Post) argues that the threat of tariffs "might be just what China's ailing economy needs". This is because it will force the leadership to push through with the sort of "painful reforms" that are needed to make the transition to a more domestic consumption driven model of economic growth.

The obvious next question is why haven't they done this before given that the need to make this transition was identified many years ago now, and the leadership's oft repeated commitment to do things differently in the "new era"? And given that the growth of debt has long been identified as a potential source of future economic uncertainty, why does the expansion of credit and liquidity and *repeating past policies* so often seem to be the go to solution when the economy slows? The answer to both of these questions appears to be that the leadership thinks that the costs of making the transition – the domestic "difficulties and problems" in the People's Daily opinion piece – would at the very best make governing China more difficult, and might even jeopardise the party's grip on power. Which brings us back to the basic argument that you don't have to dig very deep into national security or economic security discourses in China before you get to more fundamental questions about regime (in)security.

Conclusion

The 2024 CEWC also included a comment on the importance of "improving management of expectations". The things said by Xi and in the People's Daily repeated in this paper are part of that process of trying to shift expectations of what is a realistic economic future given the nature of domestic and global challenges. It thus forms part of the broader strategy of shifting the basis of party legitimacy by redefining what represents a good performance worthy of the people's support or even adulation. Or in the words of the Party's theoretical journal, *Qiushi*, in 2024"

> *in this new stage of development, to determine whether the economy is doing well or not, we must go beyond aggregate volume and rate of growth. We must see if the engines of development are robust and if the economic structure is rational. We must consider whether the drivers of innovation are stronger, development is more balanced, the foundation for green development is more solid, the standard of opening up is improved, and people's wellbeing and happiness are higher.*

It is less about what the economy is doing now than it is about getting the fundamentals in place for what the economy might do in the future.

What might make sense, though, from a national perspective in the long term doesn't necessarily assuage the individual whose personal fortunes are being affected in the here and now.

Moreover, we now have a generation of Chinese university graduates who – for the first time in decades – do not expect to have a better life than their parents (even if they have found a job). This is also a generation whose education (and personal development too) was interrupted by Covid, many of whom do not view the way the party managed the pandemic as a sign of its wisdom, greatness and success. Managing the expectations of those whose expectations are already quite low could prove to be a very tricky task indeed. And while we are thinking about future trends, the implications of the *demographic challenges* of an aging population are not insignificant either.

The freezing of the *EU-China Investment Agreement*, the move towards investment screening and more generally the way that China has been spoken about in recent years all feed the idea of a West that does not want to accommodate China's rise. But it is doubtful – to say the least – that European policy makers will think that putting aside their own insecurities (about China) to assuage Chinese ones (about the future nature of the global economy) is a price worth paying. And even then, US-China relationship looms so large in Beijing that any European changes would only have an impact on these Chinese insecurities at the margins.

It is not the intention here, though, to try and predict what they future might hold. Nor to suggest that Europeans should do anything to make China's leaders feel more secure. Rather it is simply to argue that much of what these leaders do is driven by insecurities that are not always immediately obvious if you just focus on the headlines (and particularly the headlines produced in China for overseas audiences). And that the resultant policy changes can have indirect implications for Europeans simply because of the size and scale of the Chinese economy compounded by the relationship between states and markets in China's political economy. Understanding domestic dynamics, then, might at least increase awareness of potential or even likely changes to come in China as the party attempts the twin tasks of shifting both the basis of economic growth and also the basis of party legitimacy.

[1] Because it allows them to "leverage the vast size of China's market to build scale, amass profit, and improve productivity, technical capabilities, and product design and quality" which "enables some of these firms to enter foreign markets on a strong financial footing and to sell tried-and-tested, more tailored products at highly competitive or below-market prices".

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