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FROM RISK TO RESILIENCE: UNDERSTANDING CHINA'S STRATEGY FOR ECONOMIC SECURITY

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In 2014, at the inaugural meeting of the National Security Commission, China officially introduced the concept of "comprehensive national security," framing economic security as its basis. Safeguarding economic security, under this framework, entails improving China's economic strength while controlling financial risks and fostering economic resilience. However, the unforeseen COVID-19 pandemic exposed China's economic vulnerabilities, leading to a post-pandemic recovery more sluggish than many observers had anticipated. With challenges from the external environment, theories such as "peak China" predict a pessimistic future for the Chinese economy and warn of a more aggressive Beijing if it loses its legitimacy rooted in decades of remarkable economic growth.

Domestically, China faces challenges from two fronts: demographic shift and financial risks concentrated in the property sector and local governments (LGs). The long-term effects of the one-child policy (1979-2015) and increasing life expectancy are straining China's shrinking labor force and fragile social safety net. In the near term, high urban youth unemployment rates reflect both cyclical and structural issues in the Chinese labor market. The highly competitive environment and financial stress of living in cities have led urban Chinese youth to "lie flat," rejecting the intensive work culture and delaying employment.

The financial stress of living in China is often connected to the country's extremely high housing prices, which can be traced back to the Chinese LGs' reliance on land finance. Since the late 1980s, land sales have been a major revenue source for the LGs, helping them fill fiscal gaps and finance public spending. To further raise off-budget money to boost the economy, local government finance vehicles (LGFVs) have been created. Such reliance on land finance has led to soaring housing prices and saddled local governments, LGFVs, and property developers with substantial debt, posing the risk of an economic bubble. To address the high debt levels in the property sector, China implemented a "three-red lines" policy package in 2020. However, this policy triggered defaults in many property developers, including Evergrande Group and Country Garden Holdings, stirring the property sector crisis.

The financial stress on developers has inevitably slowed the completion of housing construction projects and incited protests among unpaid construction workers and homebuyers across China. As a side effect, the downsizing of the property sector has also reduced land sales revenue for LGs, exposing them to financial vulnerability. According to Caixin, China's hidden debt, accumulated mainly through LGFVs has reached $9.8 trillion. The increasing risk to China's fiscal strength has led two major credit rating agencies, Moody's and Fitch Group, to revise the outlook on China from A1/A+ stable to negative, unsettling market confidence.

These domestic challenges are compounded by external pressures, further complicating China's economic landscape. The line between the private and the public has been increasingly blurred in China. Safeguarding economic security seemingly means subordinating economic development to national security, reflected in China's uncertain policies and tightening control over the economy. Foreign investors are now more cautious about investing in China. Meanwhile, the US-China trade war persists, and the world witnesses a fiercer great power competition, particularly in high-tech.

Nonetheless, economic security does not mean China has stopped its economic reform or closed its doors to foreign investors. In 2015, China initiated "supply-side structural reform," recognizing the diminishing demographic dividends and risks of the unsustainable financial and non-financial sectors. This reform emphasizes cutting overcapacity and excess inventory, deleveraging, reducing costs, and strengthening points of weakness in certain critical industries. It also emphasizes institutionalization to create a transparent investment environment for both domestic and foreign investors. Expanding on this, in 2020 China adopted the "dual circulation development paradigm." This strategy aims to expand domestic consumption, deepen supply-side structural reform, and achieve a high degree of self-reliance in high-tech. Rather than completely turning inward, China seeks to derisk external vulnerabilities and build domestic economic resilience.

Intentions are crucial when analyzing China's economic landscape. From Beijing's perspective, efforts to control risks may be painful and costly in the short term but are essential for sustainable economic development in the long run. The traditional growth model, driven by infrastructure investment, is no longer tenable due to LG debt and the exhausted supply of land. Restructuring the property sector becomes imperative to prevent future economic bubbles. Additionally, crackdowns on big-tech companies demonstrate China's resolution to rein capitalism and ensure these companies comply with national priorities on high-tech development and security. In other words, by tightening control over private sectors in certain industries, China aims to align these enterprises' interests with China's national goal of high-quality development, curbing rather than killing them.

China's state-led industrial policy is another controversial topic. Western countries are concerned about China's possible overcapacity and dumping behavior. However, from China's perspective, this kind of policy is designed to accelerate its high-tech development by providing subsidies to both state-owned and private enterprises, while creating a domestic competition arena. While a well-functioning exist-market mechanism is maintained, this policy would help cultivate leading firms in high-tech industries that are competitive globally. In sanctions and export controls from the US-led alliance that exclude Chinese enterprises, China sees an opportunity to force and incentivize Chinese enterprises to close technological gaps with the United States and its allies, realizing its ambition of being a high-tech powerhouse.

From a long-term perspective, China will continue to advocate for free trade agreements and actively promote its Belt and Road Initiative globally. However, it fundamentally believes that developing its own critical key technology is essential for addressing current internal and external challenges. This approach would not only provide new engines for economic growth but also build China with resilience against external risks, safeguarding economic security.

The outcome of Chinese economic policies and reforms will eventually be reflected in its economic data. Given its sheer size, the future of the Chinese economy is a concern not only for its people but also for the global community, including the United States. As the United States characterizes China as a competitor, both underestimation and overestimation of the Chinese economy could lead to strategic miscalculation. In this context, the United States should adopt a dual approach, balancing engagement with strategic competition to manage its complex relationship with China.

On the one hand, the Chinese market, with its growing number of middle-income households, still offers great economic opportunities for the US business. The United States should seek common ground to promote trade dialogues and deepen the trade ties in non-sensitive industries with China. Further tariffs on Chinese imports would not only escalate current bilateral tensions but also hurt US domestic consumers and drag the country into a protectionist mentality. On the other hand, as China has increasingly dominated industries such as electric vehicles, the United States should consistently pursue similar industrial policies to encourage research and development with its allies, fostering race-to-top competition with China.

In conclusion, China stands at a critical juncture in its economic transformation. Domestically, while it has implemented policies addressing demographic challenges and controlling risks, it has continued struggling with low consumer consumption. Internationally, China has dominated the global market shares of EVs, lithium-ion batteries, and photovoltaic products, known as the "new three," through industrial policies. According to a study conducted by the *South China Morning Post*, more than 86% of goals listed in "Made in China 2025" have been achieved despite pushback overseas. The upcoming third plenum this year is expected to unfold new technological strategies shaping China's high-quality development for the following decade.

The future trajectory of Chinese economic transformation remains uncertain. However, it is not in the interests of the United States or other countries to see the Chinese economy collapse considering the potential ripple effects. As Pacific Forum President David Santoro and senior advisor Brad Glosserman note, any strategy aiming to "defeat" China rather than outcompeting it could backfire. A resilient Chinese economy can still contribute to regional stability and global prosperity.

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