Geopolitics drives Xi’s economic agenda

China’s economic statecraft is in service of its geopolitical ambitions

The Chinese Communist Party (CPC) has a very poor opinion of capitalists, both the home-grown variety and the foreign kind. They should certainly contribute to China’s development and making it rich, but they are, at the end of the day, mere instruments in advancing China’s geopolitical ambitions. As Chinese President Xi Jinping has demonstrated, wiping out over $1 trillion from the market value of China’s most successful technology platforms—Alibaba, Weibo and Didi Chuxing—is considered small change in the pursuit of the CPC’s political objectives. These include demolishing any potential centres of power and influence outside the Party and asserting that the role of commercial entities is to serve the Party’s interests and accept its authority and guidance in boardroom decisions.

Despite the renewed priority being given to economic self-reliance and the leading role of state-owned enterprises, China has redoubled its efforts to attract foreign investment and encourage foreign companies already invested in China to expand. In 2020, China opened up its large and growing financial market to foreign entities, who now set up wholly-owned banks, launch mutual funds, offer wealth management services and undertake underwriting activities. The most prominent American financial companies, including BlackRock, J.P. Morgan, Morgan Stanley and the Bank of America, have all announced plans to significantly expand their China business despite the prevailing US-China geopolitical tensions and the continuing trade war between them. According to a senior representative of one of these companies, China has a financial market now worth $31 trillion and a bond market worth $16 trillion and growing. No international finance company, he said, can afford not to be in the market.

There is a similar argument being advanced by US, Japanese and European companies for staying invested in China and even expanding their business: They are now “making in China for China.” In China’s playbook, these companies are geopolitical hostages, whose reluctance to pass up opportunities to earn large revenues over the risks involved and, therefore, are easy prey to Chinese predatory tactics.

What is the role assigned to these hostages? On December 2, 2021, Vice-Foreign Minister Xie Feng gave a speech to the US China Chamber of Commerce in Shanghai and the US-China Business Council. He urged the US business leaders present to “speak up and speak out and push the US government to pursue a rational and pragmatic policy towards China, stop conducting wars in trade, industry and technology and stop creating ideological and geopolitical confrontation and conflict.”

This was accompanied by a thinly veiled warning, “it’s good to enjoy the shade under the big tree. Conversely, if the relations between the two countries deteriorate, the business community cannot ‘make a fortune in silence.’”

While repeatedly criticising countries for mixing up trade and politics, here is an authoritative declaration that for China trade and commercial relationships can be used as geopolitical leverage whenever it suits China.

The CPC can sacrifice the commercial interests of its own companies for geopolitical objectives. It believes that foreign companies would be so fearful of losing access to the “shade under the big tree” that they would persuade their own governments to accommodate China’s interests. The US-China Business Council produced a detailed study last year spelling out the significant costs that the US economy would suffer if “decoupling” of the two deeply intertwined economies did take place.

A similar anxiety grips Japanese and European business, too, and this is skilfully used by China to chip away at the opposition building up to its assertive foreign policy not only in Asia but in other parts of the world.

We have witnessed how in India the effort to reduce the dependence of important segments of its economy on Chinese imports has not succeeded. For items like active pharmaceutical ingredients and electronic components, the dependence on Chinese imports is over 70 per cent and for magnets a 100 per cent. This cannot change overnight.

Despite concerns arising out of the disruption of supply chains dominated by China in the wake of the pandemic, few alternatives are available to India’s current trade partners. It is true that China has faced the threat of being replaced by other countries in these supply chains. Trade diversion has taken place from China to locations such as Vietnam, Indonesia, Bangladesh and even India. But this has so far been quite marginal in scale.

Economic interdependence is usually considered a good thing or as the Chinese would say, a “win-win” proposition. But China has articulated a strategy which aims at reducing its dependence on foreign partners while enhancing their dependence on China. Other countries should not be able to use economic and trade relations to undermine China’s interests, but China should, in deliberate fashion, seek to increase the vulnerability of others to its use of punitive commercial measures.

In a speech that Chinese President Xi Jinping gave at the 7th Central Financial and Economic Conference on April 10, 2020, soon after the Covid-19 pandemic began spreading across the world, this approach was explicitly spelt out. Mr Xi referred to the “hidden risks in China’s production chains and supply chains” which had surfaced in the wake of the pandemic. He urged the building of domestic supply chains “that is independently controllable and secure and reliable.” In this context, he specifically called for import substitution in key and sensitive industries. At the same time, it is also enhancing the dependence of “international production chains and supply chains” on China and in this context mentioned high-speed rail, electric power equipment, new energy and communications equipment where China has “superiority.” This was necessary, he said, “for forging a powerful counter-measure and deterrent capability against foreigners who would artificially cut off supply.” Thus China has a strategy to deliberately create dependence on China in critical areas so that this could be weaponised if that became necessary.

In light of these remarks by Mr Xi it is possible to explain the apparent contradiction in China shifting towards a more domestic-oriented economic policy, reducing its exposure to foreigners while at the same time selectively opening up important segments of its economy to the same foreigners. The opening up of its huge financial market is one such move. For the CPC, economics is politics; economics serves politics. The geopolitical intent behind this bifurcation of economic statecraft needs to be understood and factored into strategies for meeting the China challenge.

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