

China's Economic Security Growth Model

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October 8, 2025

Washington, DC

China's Economic Security Growth Model

Guiding political slogan: to “coordinate development and security”

Major Policy and Legal Components

1. Dual circulation

- Diversify away from USA, expand role of domestic market

2. Build a self-reliant innovation driven economy

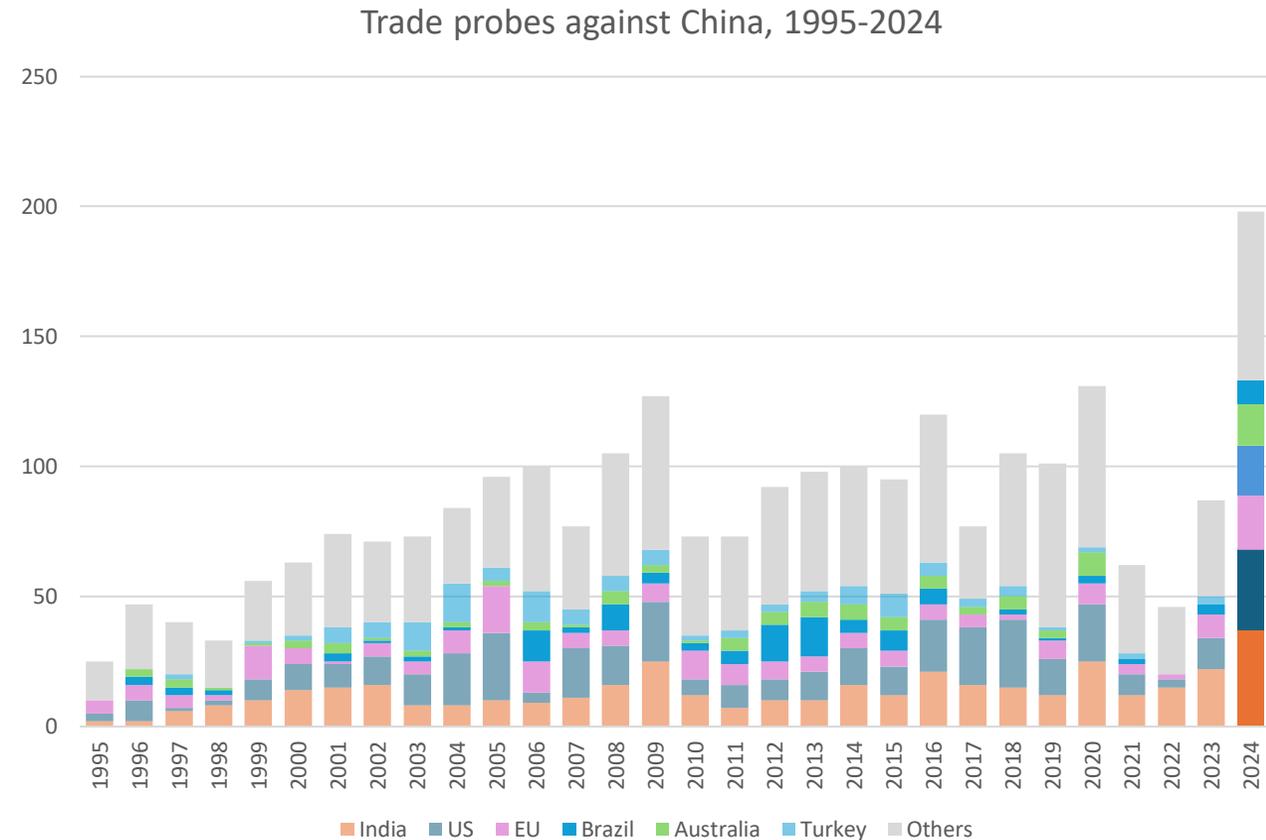
- Structural shift away from property investment, insure against geopolitical risk

3. Build out legal and regulatory regime for export controls

- Enhanced offensive and defensive measures

(1) 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 diversification is also generating a backlash
- Boosting domestic demand is hard
 - Chronically weak consumer confidence
 - Low household borrowing
 - Diminished expectations for the future

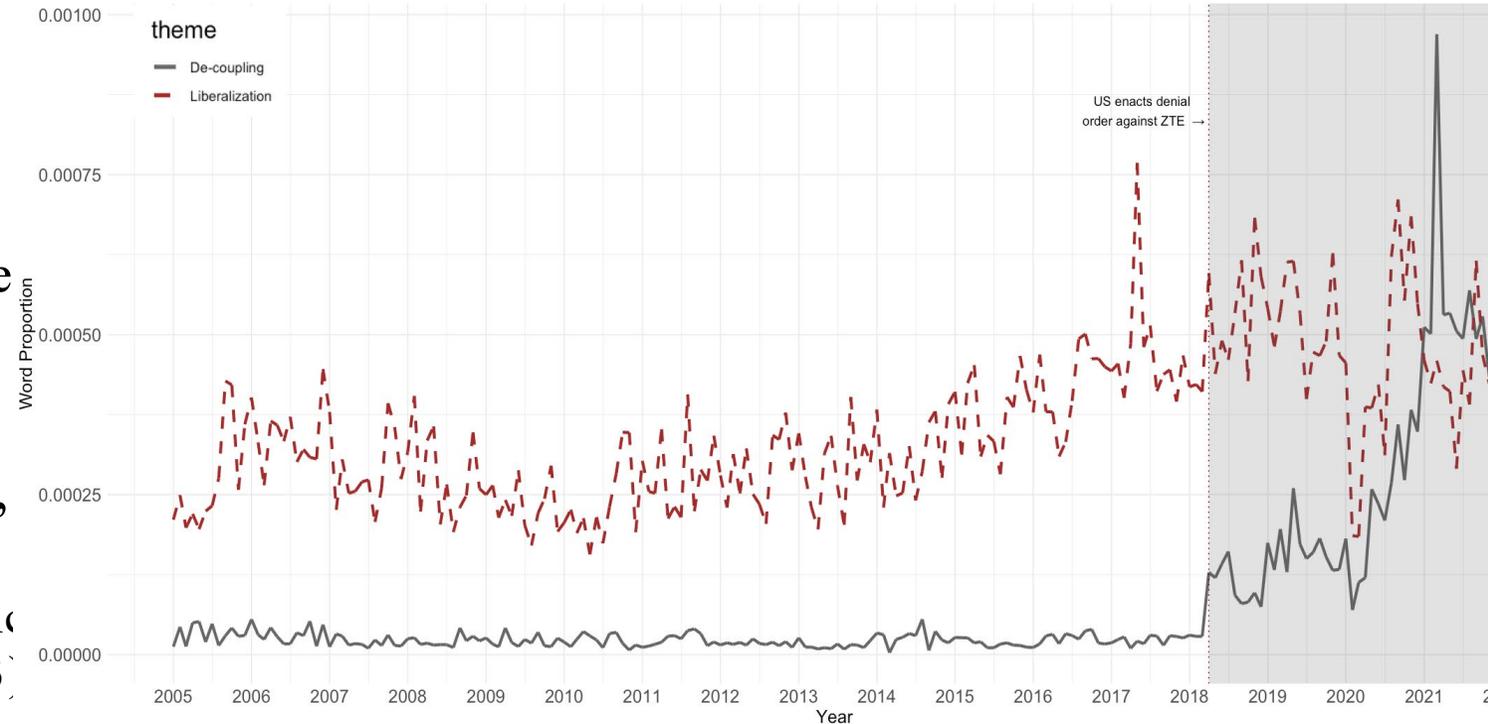


Sources: PRC Ministry of Commerce; Financial Times

(2) Self-Reliant Innovation

- Self-reliant innovation as political imperative
 - Emphasis on “whole-of-nation” effort
 - Domestic capital markets for S&T
 - Tightened linkages between universities & labs
 - “New productive forces”
- “centralized and unified leadership”
 - Establishment of Central Committee Science and Technology Commission (Spring 2023)
- Weaning off property-led growth

The turn toward self-reliant innovation

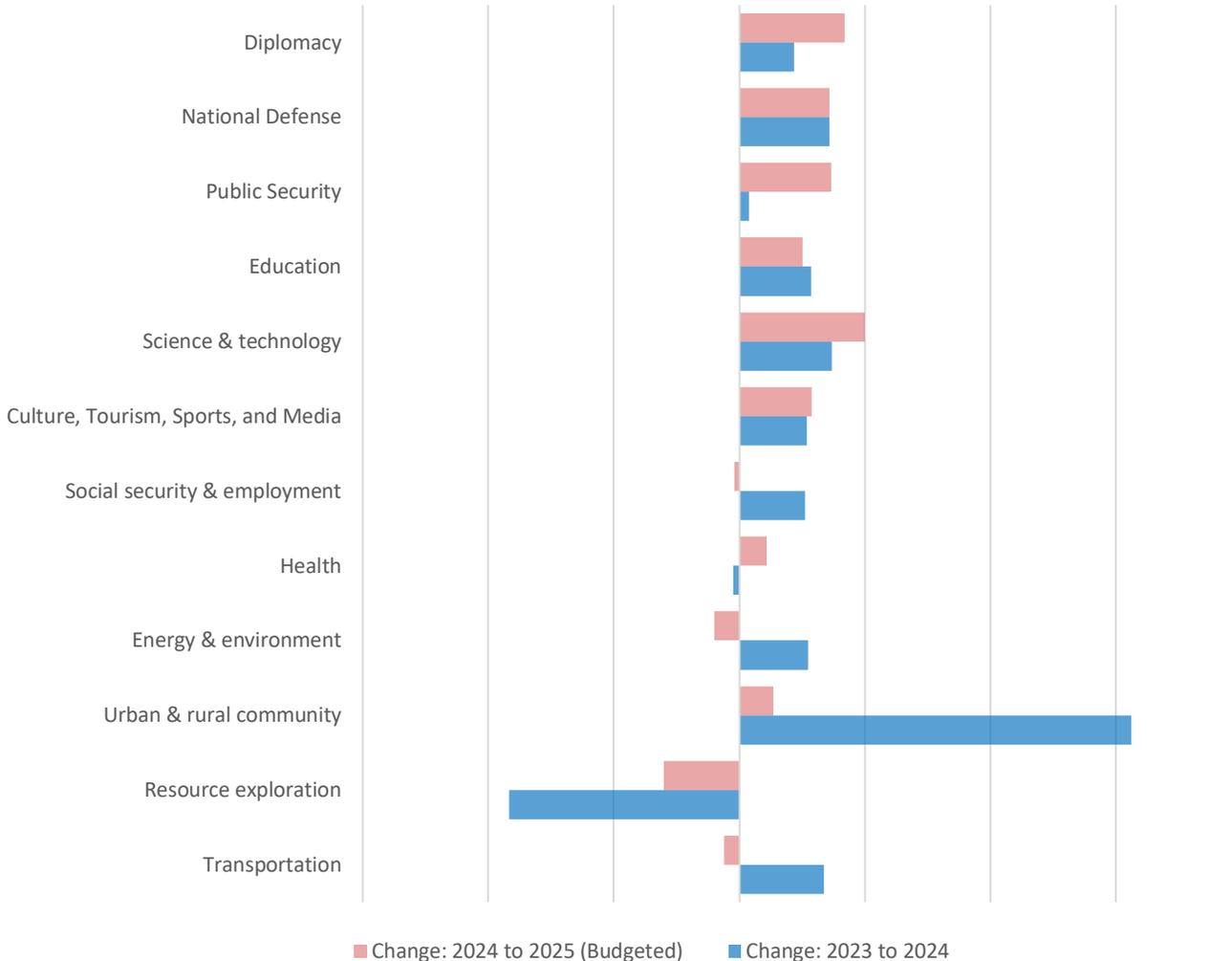


Source: “Driven to Self-Reliance” *International Studies Quarterly* (Yeling Tan, Mark Dallas, Henry Farrell, Abraham Newman)

(2) 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%



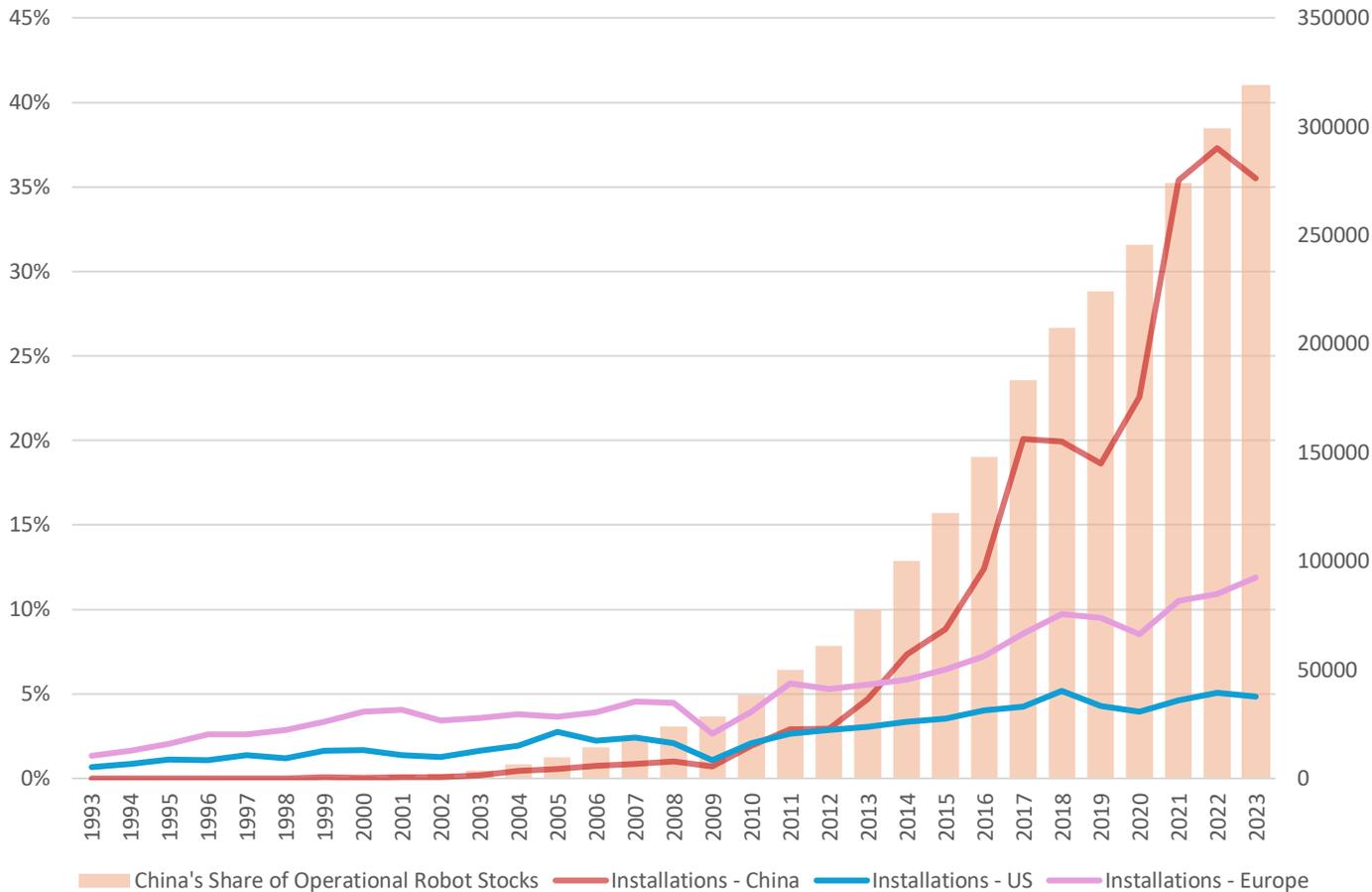
New Undergraduate Program Filing and Approval by the Ministry of Education

	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

(2) Self-Reliant Innovation

Industrial Robot Installations and Stocks: China vs the World



Potential concerns

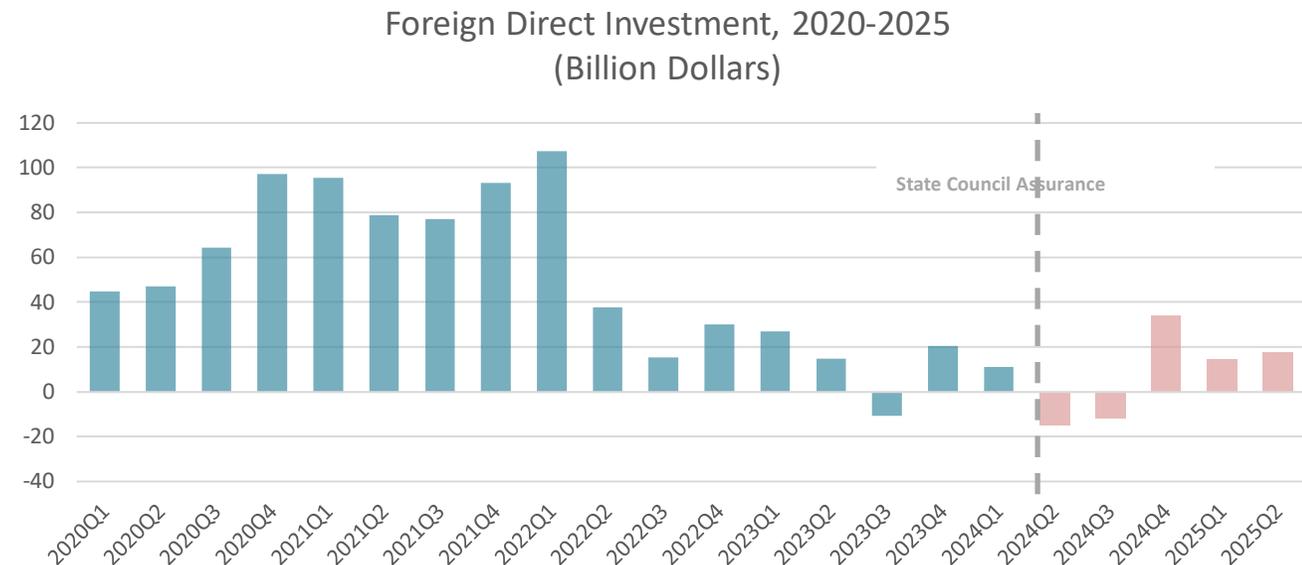
- Implications for job creation & youth unemployment?
- Which localities can/cannot switch from property/construction to high-tech innovation?
- How will focus on self-reliance impact firm decisions?

(3) New legal regime for export controls / coercion

- National Security Law (2015)
 - “Blocking Rules” (2021) Measures on Blocking Improper Extraterritorial Application of Foreign Laws and Measures
- Foreign Trade Law (revised 2022)
 - Provisions for Unreliable Entity List (2020)
 - Catalogue of technologies prohibited or restricted from export (2023 revision)
- Export Control Law (2020)
 - Implementing regulations (2024)
 - Control lists
 - Regulations on dual-use items + list (2024)
 - Entity list
- Foreign Relations Law (2023)
- Anti-Foreign Sanctions Law (2021)
 - Implementing regulations (2025)

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.”

State Council 4 April 2025



Source: PRC State Administration of Foreign Exchange

Challenges to Getting Economic Security “Right”

- How to coordinate between development and security?
- External trade downgraded in rhetoric, but exports continue to generate trade frictions
- How to boost domestic demand amidst weak credit demand & consumer confidence?
- Can innovation via political campaign work?
- How to wield export controls without harming investor confidence?
- What does a functioning economic security growth model look like?

Thank you

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