

Chapter 3

Impacts of Medium and Long-Term External Environmental Changes on China and Countermeasures



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The coming period will be a critical period for China to adapt to the profound changes unseen in a century, and also a historical period in which the timeframes of the Two Centenary Goals converge. In the face of a more complicated and severe international environment, China remains in an important period of strategic opportunity for development in the new era. The period of strategic opportunity in the new era has distinct characteristics. First, from the perspective of driving force, the period of strategic opportunity in the new era is characterized by self-driven development. The previous driving force originated more from opportunities or conditions outside China, while the strategic opportunities in the new era depended more on China's own choices or behaviors. Second, from the perspective of nature, the strategic opportunity in the new era needs to be refined and transformed from challenges brought about by uncertainties, the strategic opportunities in the new era need to be refined and transformed from the challenges brought by uncertainty, instead of directly utilizing the ready-made opportunities. Third, in terms of conditions, China has a stronger capacity to create and seize opportunities in the period of strategic opportunity in the new era. China's market size, investment capacity, position in the global value chain and comprehensive national strength are not what they used to be. China's capacity to lead the reform of global governance system and its appeal to developing countries are not what they used to be with the implementation of the "Belt and Road" Initiative. China's ideological system and institutional advantages are not what it used to be with the increasing appeal of the concept of "community of a shared future for the mankind" in the practice of promoting global common development and cooperating to deal with non-traditional security issues such as the COVID-19 pandemic.

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3.1 External Environment for China's Medium-And Long-Term Development

It is predicted that by 2025, the trend of “ascending east and descending west” will continue, and China will step into the ranks of high-income countries, and its economic scale is expected to be closer to that of the United States. With its own strength, it has a certain capability to shape the external environment. This will lay a solid foundation for shaping a more balanced world pattern in a medium and long-term period in the future. At the same time, the external environment will also see obvious changes, such as the increasing external risks, the intensifying competition and confrontation in the international community, and the prominent uncertainty and instability faced by international cooperation. Judging comprehensively, China's development shows a steady upward trend and remains in an important period of strategic opportunities in the new era. It is also faced with various contradictions, increasing risks, and greater challenges posed by risks both at home and abroad. We must accurately understand the profound changes in conditions in the new era of socialism with Chinese characteristics, seize and make good use of the strategic opportunity period in the new era, and calmly cope with various risks and challenges.

3.1.1 International Balance of Power (Ascending East and Descending West), and Profound Changes in the Structure of World Powers

The world is undergoing major developments, transformation and adjustment, but peace and development remain the call of our day. The trend of “ascending east and descending west” continues, and the international balance of power is undergoing unprecedented positive changes in a direction conducive to peace and development. Institutional problems in major European and American countries had great impact on the global governance system dominated by Western countries, and led to comprehensive adjustment in international order. The rise of emerging and developing countries has become a general trend. China has become a leader in profound changes rarely seen in a century, and a mainstay for safeguarding world peace and development.

The most critical variable in the profound changes unseen in a century is the balance of power among major countries in the world. In the past two or three decades, the balance of power among major countries has undergone constant changes, and the accumulated quantitative changes have been transformed into qualitative changes to some extent. The strength of a country can be measured by many indicators, among which the most comprehensive and commonly used indicator may be economic strength. As far as economic strength is concerned, China has developed rapidly in the past 40 years. In 1978, China's per capita gross domestic product (GDP) was only US \$200, and in 2018 the figure jumped close to US \$10,000. Especially in the

past dozen years, China's rapid development has exceeded the expectations of all parties. In 2005, China's GDP was less than 1/2 of Japan's at the market exchange rate. In 2010, China's GDP began to surpass Japan's, and in 2014 it reached twice that of Japan. At this growth rate, it may triple that of Japan in 2022. More than 40 years ago, China's GDP was about 1/15 of that of the United States, and in 2018 the figure jumped to 2/3. China is rapidly approaching the United States in terms of economic aggregate, while the two great powers are increasingly distanced from the third country and following countries in the ranking.

In the medium and long term, the above-mentioned trend of "ascending east and descending west" will continue. The economic growth rate of emerging and developing economies will be significantly higher than that of developed economies by 2 percentage points or more, and the overall economic strength will come close to that of developed economies at a faster speed. In 1980s, the economic growth rate of emerging and developing economies was lower than that of developed economies in most years. Since 1990s, the economic growth rate of emerging and developing economies has been significantly higher than that of developed economies. From 1990 to 1999, the average annual economic growth rate of emerging and developing economies reached 3.6%, while that of developed economies was only 2.8%. From 2000 to 2018, the average annual economic growth rate of developed economies further decreased to 1.9%, while that of emerging and developing economies jumped to 5.7%. The International Monetary Fund predicts that the average annual economic growth rate of emerging and developing economies will be 4.8% and that of developed economies will drop to 1.7% from 2019 to 2024.¹

Against the background of the overall sluggish world economic growth, the gap between the overall economic strength of emerging and developing economies and that of developed economies will further narrow due to the weaker growth of developed economies. In current dollar terms, the GDP of emerging and developing economies was 31.9% of that of developed economies in 1980, and it rocketed to 65.9% in 2018. This figure is expected to reach 77.9% of developed economies by 2024. The economic strength of emerging and developing economies will be closer to that of developed economies, and their share in the world economy will further increase from 39.7% in 2018 to 43.8% in 2024.

3.1.2 Globalization Embarks on a Zigzag Path Due to Worldwide Problems and Challenges

One of the factual reasons why today's world has not changed fundamentally is that the interdependence between one country or region and another remains at a historically high level. The trend of globalization has not reversed, but it has encountered

¹ In April 2020, DIMF released data after considering the impact of COVID-19, but it only provided the predicted value until 2021. Among them, the average annual economic growth rate of emerging and developing economies from 2019 to 2021 was 3.1%, and that of developed economies was 0.

temporary setbacks. As an important stage in the historical process, globalization does not always evolve on a flat and straight road with flowers and trees along the roadside. The beginning of US President Trump's term in 2017 marked a turning point in globalization. The United States announced its withdrawal from the *Paris Agreement on Climate Change* and refused to appoint new judges. As a result, the dispute settlement mechanism of the World Trade Organization (WTO) was paralyzed, and globalization entered a rugged or even steep road.

If the forces for cooperative development fail to make due progress in globalization, they will instead seek some solution in regionalization. After the establishment of the North American Free Trade Area (NAFTA) and the Eurozone, the process of regional integration with higher standards has been accelerated by the formation of the "10 + 1" and "10 + 3" cooperation mechanisms, and by the negotiation or signing of agreements such as the Trans-Pacific Partnership (TPP). What is even more interesting is that the regional integration has not been severely hindered by the Trump Administration's exit from international organizations or agreements, but has been strengthened in some areas. For example, the NAFTA was renamed as the US-Mexico-Canada Agreement (USMCA) after renegotiations, and the TPP was implemented in the name of the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) after the withdrawal of the United States. Despite India's refusal to sign the RCEP, the Regional Comprehensive Economic Partnership Agreement (RCEP) ended its seven-year negotiations at the end of 2019. This major breakthrough has laid the foundation for the establishment of the "15 + 1" free trade zone. At the China-Japan-ROK Leaders' Meeting held in December 2019, three leaders reached a consensus on accelerating the negotiations of China-Japan-ROK Free Trade Area and building a higher standard free trade area as early as possible.

When multilateral efforts to promote economic globalization are faced with challenges, regional or plurilateral efforts have naturally become the main driving force for economic globalization. Whether multilateral or plurilateral, globalized or regionalized, great powers or important blocs (e.g. the European Union) are critical. In the world system that consists of one superpower and several powers, the intentions of leading countries are often realized, thus resulting in expansion and strengthening of the multilateral system. With economic globalization being checked and regionalization being accelerated, there will be several parallel systems dominated respectively by several major powers.

The lack of global coordination and solution to global problems is related to the fact that the international order framed by existing international mechanisms, organizations and relevant rules is increasingly unable to adapt to the rapid changes in the global landscape. On the one hand, emerging and developing countries believe that the existing mechanisms, organizations and rules mainly reflect the interests of developed countries that play a leading role in establishment of this system, so they hope these mechanism, organizations and rules can reflect and confirm the changes in relative strength of various countries in a timely manner. On the other hand, some developed countries believe that the existing mechanisms, organizations and rules have given emerging and developing countries greater and non-reciprocal growth opportunities, and can no longer protect their comparative advantages, so they have

begun to seek changes by withdrawing from these bodies and applying pressure on emerging and developing countries.

In order to consolidate and strengthen their competitive advantages, either developed economies or emerging and developing economies are intended to contend for the upper hand in revision and adjustment of future international economic mechanisms, organizations and rules. With a more active and radical position and greater power, developed countries often give rise to the inefficiency, disability or even shutdown of existing international or multilateral mechanisms, and deteriorate the problem of insufficient public goods in the international system, so as to cripple the international community in response to emerging global problems and challenges such as poverty, environmental pollution, climate change, natural disasters and infectious diseases.

In next few years, the process of globalization will keep zigzagging on a bumpy road, the old international order will be difficult to continue, and the new rules for international governance will be refactored. The game between developed economies and emerging and developing economies will get more intense for the right to make rules in stabilizing the world economy, promoting climate governance, ensuring health and environmental security, building a global financial safety net, and improving the multilateral trade system and global economic governance. Global problems and challenges will only be partially solved, and the game will become even more serious in some areas. The current international order may enter a turbulent period of disintegration and reconstruction, and the possibility of a parallel system of mutual competition and even fierce confrontation cannot be ruled out.

3.1.3 Scientific and Technological Progress Has a Far-Reaching Impact and Is Beset With Many Uncertainties, So Science and Technology Will Become a Strategically Important Area for Great Power Competition

Since the twenty-first century, global scientific and technological innovation has boomed, and a new round of scientific and technological revolution and industrial transformation is reshaping the picture of global innovation and reconstructing global economy. Technological progress is changing with each passing day; in particular, the rapid development of digital-related technologies, such as network information, has caused chain reactions in various fields such as production, circulation, distribution and employment. Automation or assembly line of manufacturing industry once created a large number of new jobs (such as engineers), but today's digitalization and artificial intelligence will not create enough new jobs while slashing a large number of service jobs. According to McKinsey and Company's estimate, up to 800 million

jobs in the world will be replaced by robots by 2030,² and in theory, almost all jobs may be replaced by increasingly cheap artificial intelligence.

Compared with economic globalization and national policies, technological progress has also been recognized by academic circles as an important reason for the widening income gap within countries or stagnation of working-class income growth. Whether in developed economies such as the United States, Europe and Japan or major emerging market countries, the growth rate of labor productivity has been declining since the twenty-first century, which is a sharp contrast to the huge R&D investment. This phenomenon has been called the “productivity puzzle” by economists, and will have a negative impact on the long-term growth of global economy.³

The field of science and technology has become a key arena for today’s international competition and an important source of maintaining national strength and innovation vitality. It has a vital impact on the global international division of labor system. The competition for the high ground of science and technology is becoming increasingly fierce, and disruptive technologies are rapidly approaching the critical line of breaking through bottlenecks. With the general intensification of scientific and technological innovation in various countries, there emerges a new round of scientific and technological revolution. Breakthroughs have been successively made in 5G mobile internet and cloud technology, big data, artificial intelligence, synthetic biology and bioengineering. The extensive penetration of information technology, biotechnology, new material technology and new energy technology has led to a mass technological revolution characterized by green, intelligent and ubiquitous in almost all fields, which is promoting profound changes in the global economy, human production and life, and even the way of war. A new round of scientific and technological revolution is ready to come out.

China’s power of discourse in research and development in high-tech fields is increasing day by day, and the gap between China and major developed countries is greatly reduced in some fields and thus leads to direct competition with western developed countries. The wide application of new technologies, especially the integration of information technology and industry, is triggering far-reaching industrial transformation with intelligent manufacturing at its core and the historic transformation of China’s economic development mode. This will also be a historic opportunity for the great rejuvenation of the Chinese nation. The new generation of information technology has become the primary goal of science and technology competition among great powers. In the name of “national security”, major developed countries call on national resources to attack and impose blockade and suppression on China’s leading science and technology enterprises. As a result, China’s access to information technology has been denied, including restricting data flow, controlling data transactions, and embargoing core hardware. For example, in the name of “security review”, the United States tried to “decouple” from China in

² Mckinsey Global Institute. (2017).

³ Zhang (2019a).

the field of science and technology, interfere in academic exchanges of information technology with China, hinder mergers and acquisitions of Chinese science and technology enterprises, disrupt global industrial chain in the field of information technology, and obstruct China's core technology research and development and industrial catch-up in the information field. The blockade and anti-blockade around high technology are gradually unfolding. In addition, the United States is launching the "Third Offset Strategy" against China, that is, using technology and mechanism innovation to occupy a leading position on the "new track", so as to defuse the pressure of narrowing gap on the "old track". The risks and impacts of competition in the field of science and technology will be more severe than trade friction. They may substantially hinder China's capability of scientific and technological progress and innovation, bring damage to international economic and trade relations, and even cause serious humanitarian disasters.

3.1.4 Far-Reaching Influence of Demographic Changes

The demographic structure can be subdivided into age structure and ethnic group structure. Nowadays, major developed countries in the world are experiencing population aging to varying degrees, especially Japan and Europe. In some emerging economies, including China, the aging process has also started. Population aging involves a series of issues, including the sustainability of the social security system, the government's macro policies, a country's savings and investment, the political attitude and voting participation rate of the elderly population, etc.

The aging of population coexists with the rejuvenation of population in many developing countries. Population explosion is seen in Africa, Middle East, India and other places. In some of these countries, the population under the age of 25 accounts for 40–50% of their total population. This highly rejuvenated population structure naturally brings about extremely high youth unemployment rate, which in turn exerts great pressure on social stability and resource demand.

Compared with the polarization of age structure, the change of ethnic or racial structure may have a more direct impact on a country's social integration, political stability and foreign policy. According to the survey data of European Muslim population released by Pew Research Center in November 2017, the Muslim population in Europe increased from 19.5 million in 2010 to 25.8 million in 2016, accounting for 4.9% of the total population of Europe. By 2050, the Muslim proportion will reach 11.2% in the context of moderate immigration growth, and the proportion of German Muslim population in the total population of Germany will reach 19.7% in the context of high immigration growth.⁴ Today, more than half of the newborns in the United States are no longer European-American. In 2024, more than half of the population under the age of 20 will be non-white. It is not difficult to understand that US President Trump issued the executive order of "Muslim ban" shortly after

⁴ Zhang (2019a).

taking office, and insisted on building a wall along the US-Mexico border to prevent Mexicans' entry into the territory of the United States.

The change of ethnic group structure results in the strengthening of ethnic identity. According to Eric Hobsbawm, author of *Nation and Nationalism Since 1780*, one of the essential features or functions of ethnic group or national identity is to judge who is innocent and who is the culprit, and the culprit must be responsible for "our" immediate sufferings. When "we" are suffering grievance and uneasiness, and feel at a loss about where to go, all these are caused by "them" who are "notus" and strangers. "They" are "our" enemy just because "they" are outcomes.⁵ Minority groups living in conflicts often reject the hospitality or tolerance of other groups, because ensuring the existence of certain enemies is sometimes part of political wisdom, which is the only way to effectively maintain group unity. The extreme situation of ethnic identity or ethnic opposition within and between countries is the topic of *The Clash of Civilizations and the Remaking of World Order*, a book by Samuel Huntington.⁶

3.1.5 Normalization of Network Security Game between Countries and the Public Consciousness of Rights Awakened By Network Technology

Cyberspace has become an important support for human civilization in the information age, a meeting point of national interests, and a new source of national conflicts. At present, the new round of scientific and technological revolution and industrial transformation based on the Internet developments reshaping the global innovation pattern has provided an unprecedented opportunity for China to chase after, keep pace with and even take the lead in scientific and technological progress. However, the cyberspace itself not only has security problems, but also provides conditions and media for the interactions of various traditional threats and non-traditional threats. This may amplify security incidents and bring new challenges to national security in the information age.

The confrontations around cyberspace governance have frequently occurred, including the growing conflicts between major powers in cyberspace and frequent occurrences of cyber security games between major powers, e.g. technology game, idea game and discourse power game. As a deterrent force, the cyber warfare capacity is being built by some great power, and it will become one of the important contents of military power contest among them in the future. The competition of network governance is greater than cooperation, showing a normalization trend.

Obviously, the development and popularization of network technology have resulted in the reduced cost, the expansion of spreading capacity and the accelerating speed of communication, thus greatly facilitating people to obtain information and new ideas and communicate with each other. With the deepening of people's

⁵ Hobsbawm (2006).

⁶ Huntington (2010).

cognition of their own rights and of how to obtain these rights, the awakening of people's consciousness of rights due to the development of information technology has become an important social force to propel evolution of the times. With the awakening of people's awareness of rights, populism and nationalism came into vogue in some countries and penetrated deeply into political and diplomatic practice, leading to the resurgence of the "clash of civilizations" theory mixed with racism. People of insight feel worried about this.

In 2019, the social disorder due to protests and demonstrations has triggered turmoil and riots around the globe. No exceptions were found in the UK, France, Italy and Spain in Europe, India in Asia, Ethiopia in Africa, and Chile, Ecuador, Bolivia and Colombia in Latin America. Although there were external incentives that had "ignited" these protests in these countries or regions, the long-term sluggish economic growth, the wide gap between the rich and the poor, the serious unemployment of young people, the lack of development opportunities, and the lower-than-expected social security have shown significant vulnerabilities for a long time, and no solutions were available for solving these problems. This was the essential factor that "fueled" these riots and turmoil. The convenient communication brought by network technology had also added a powerful combustion improver for them.

Another consequence of the digital age is the social divide. The information explosion in the online world makes the audience feel at a loss and pay less attention when facing massive information, that is, the so-called "paradox of plenty" appears.⁷ In view of the nature that people are more willing to hear or see the information they are willing to accept, various media have carefully arranged programs, designed algorithms and launched all kinds of highly targeted information in order to compete for attention, so that false information from "friends" looked more credible. The "Yellow Jacket" mass movement in France was the natural result of different opinions, lack of communication and mutual misunderstanding among all orders of society. The remarks made by the US House Speaker Nancy Pelosi, i.e. "I don't want President Trump to be impeached, but I'd rather see him go to jail", have proved the serious polarization of American society. The identity conversion of populist-nationalist political parties and politicians from the opposition to the ruling party was not only the natural consequence of the awakening of working class's rights consciousness caused by the negative impact of globalization and the progress of network technology, but also the power source that accelerated the spread of populism-nationalism in the world. In the transitional period between the collapse of the existing global system and the creation of the alternative system, whether there will be a long blank period also depends on the strength of this power source.⁸ In the medium and long term, the game between great powers around cyberspace security tends to be fierce, so the populist globalization will be likely to prevail, and the risk of national confrontation brought by the "clash of civilizations" will ascend.

⁷ Nye (2019).

⁸ Zhang (2019a).

3.1.6 *Worsening Sino-US Relations Boost the “Decoupling” Pressure*

The United States is one of the most important influencing factors of China’s external environment. The balance of power between China and the United States has crossed the “critical point”, with bilateral relations entering a period of qualitative change, and the US policy toward China has undergone major changes.⁹ With the rapid rise of China, the comprehensive strength of China is rapidly approach to that of the United States. In order to maintain its “super” status, the United States has constantly put pressure on China. In addition, with the increasing overseas interests of China, the conflicts and frictions between two countries are increasing all over the world, and the competitiveness in bilateral relations is on a rise. The United States’ purpose to effect “peaceful evolution” of China through economic cooperation has proven to be a failure, giving rise to the hostility of American political and economic circles towards China. The US government has made it clear that it is impossible for relations with China to come back to the past. The relationship between two sides has deteriorated rapidly due to the contradiction of national interests and the increase of international political conflicts, and the hostile and confrontational elements have risen sharply. The Sino-US cooperative partnership has been seriously challenged, and the future uncertainty of bilateral relations has increased. The hostility and confrontation of the United States towards China may become one of the most influential and most serious external risk factors.

Since the end of 2017, the United States has issued a series of national security strategies and national defense documents with negative strategic orientation towards China, and defined China as a strategic competitor and a “revisionist country”. Subsequently, it provoked trade disputes with China and boosted pressure on China in trade. The traditional “ballast stone” role of economic and trade exchanges between China and the United States has been greatly weakened, and economic and trade exchanges have become the competitive field with the most concentrated disputes, the fiercest struggles and the most prominent risks in bilateral relations. While trade is being suppressed, the United States is suppressing China’s strategic and growth enterprises. At the same time, the United States raised the threshold for Chinese-funded enterprises to invest in the United States, strengthened the security review and the review power of the Committee on Foreign Investment in the United States, expanded the scope of jurisdiction, and systematically and strategically evaluated the economic behavior of Chinese-funded enterprises in “sensitive industries” in the United States.

The United States has also directly interfered in China’s internal affairs such as the South China Sea, the Taiwan Strait and Hong Kong. The United States has continuously strengthened its military deployment in the South China Sea and its surrounding areas, and made the issue of the South China Sea more complicated. On the Taiwan question, the United States enacted the so-called *Taiwan Travel Act*,

⁹ Zhang (2019b).

making high-level “mutual visits” unrestrained between the United States and China Taiwan. In terms of diplomatic aspect, the United States has provided potent supports for Taiwan authority. This series of Taiwan-related actions hit China’s core interests and diplomatic bottom line, and brought about lasting tension and escalating risk of conflicts between the two sides of the Taiwan Straits. In addition, the US Congress passed Hong Kong—related Act, Xinjiang—related Act and Tibet—related Act to directly interfere in China’s internal affairs. It also abolished the special tariff treatment for Hong Kong, seriously threatening China’s political, economic and financial interests.

After the outbreak of the COVID-19 epidemic, the United States was disturbed by social tear, general election and other factors, and was eager to return to work, but neglected to guard against and fight against the epidemic, resulting in an epidemic spreading. In order to shirk its responsibilities, the U.S. federal government wantonly poured blame on China, and some people took the opportunity to promote the use of “whole government” means to vilify, contain and suppress China from all aspects, and decouple from China. Since 2020, American military aircraft have entered the sea area around China more than 2000 times. Since July 4th, the United States has continuously sent two aircraft carrier fleets to cruise and conduct military exercises in the South China Sea, undermining regional peace and stability. On July 13, US Secretary of State Pompeo issued a so-called statement concerning the South China Sea, which violated the public commitment of the US government not to take a stand on the sovereignty of the South China Sea, and denied China’s claims in the South China Sea. On July 21, the US defied international law and the basic norms of international relations, compelling China to close its Consulate General in Houston before 4 pm on July 24. On July 31, the US State Department and the Treasury Department announced sanctions against Xinjiang Production and Construction Corps and its two officials, and Secretary of State Pompeo issued a statement criticizing China’s policy of governing Xinjiang. On the evening of August 5, the US reconnaissance plane approached less than 100 km away from the coast of Guangdong to spy on China. On August 6th, President Trump abandoned the basic principles of market economy and violated WTO rules, and signed an executive order under the pretext of unwarranted national security threats to prohibit any American individual or entity from making any transactions with TikTok and WeChat apps and their Chinese parent company after 45 days, so as to force Chinese owners to transfer TikTok to the US at a low price. Trump also claimed to charge an “intermediary fee” for the acquisition, which was “extremely brazen” (spokesperson of Russian Foreign Ministry). On the same day, the US President Working Group on Financial Markets released a report on the website of the Department of Finance, suggesting that the Securities and Exchange Commission should take measures to improve the listing standards on American exchanges and delist Chinese companies that failed to meet the audit requirements of the United States in January 2022, thus forcing US-listed Chinese shares to withdraw from the US stock market. On August 7, the U.S. Treasury announced that it would impose sanctions on 11 officials from mainland China and Hong Kong, including Carrie Lam Cheng Yuet-ngor, Chief Executive of the Hong Kong Special Administrative Region. On August 9, then Health and Human Services Secretary

Alex Azar led a delegation arrived at Taiwan, a visit to Taiwan by a US cabinet officer of highest rank since 1979.

In the medium and long term, the competitive trend and pressure from the United States will continue to exist in Sino-US relations. Under the impact of specific events, there will be increasing constraints on China's international environment from the United States. However, it should also be noted that the maximum pressure measures taken by the US government before these elections posed certain threats to China's development and security interests, but they also caused huge losses to the strategic credibility, diplomatic resources, security and economic interests of the United States, much greater than the so-called cost that the United States was willing to bear or pay to compete with China as a big country in the *Strategic Policy of the United States Strategic Approach to the People's Republic of China* issued on May 20, 2020. Some Americans are sparing no effort to "demonize" and "stigmatize" China, just trying to seek "legitimacy" for their unscrupulous sanctions and attacks on China, and then calling on "allies" to "carve up" China. However, TikTok, a Chinese multinational private enterprise that fully meets the regulatory requirements of the United States and the principles of market economy is extorted by the U.S. government through administrative means, which has fully exposed the hypocrisy of the Trump administration's so-called maintenance of security, fairness and freedom. This has not only disappointed Chinese people, enterprises and markets, but also made multinational enterprises of other countries feel deterred by the danger, such as Germany's Volkswagen and Allianz, the Netherlands' Shell and EXOR Group, the United Kingdom's BP, France's AXA Group, Japan's Toyota and Toshiba, and South Korea's Samsung, simply because they have outperformed the United States in some fields. More than 2400 years ago, Zhi Yao, the most powerful patriarch of the Zhi family in the State of Jin, led his soldiers and the armed forces of Han Hu and Wei Ju to besiege Jinyang, the last city in Zhao's territory, for a year but did not occupy it, and then he ordered to flood the city with water. The city was on the verge of destruction. When patrolling along with Han Hu and Wei Ju, Zhi Yao was beside himself with joy and said: "I know today that water can subjugate a state". Upon hearing these words, Han and Wei felt panic-stricken, and secretly elbowed each other, implying that their cities surrounded by rivers could also be the target of greedy and cruel Zhi Yao's flood attack. Soon after, the Han and Wei joined hands with Zhao in occupying Zhi Yao and carving up the latter's territory. Take history as a mirror, if the United States drifts away from fairness and justice and refuses to turn back, TikTok that quivered some American politicians may be the last straw to crush American hegemony.

3.2 Influences of Medium and Long-Term Internal and External Environment on China

In the foreseeable future, the influence of external environment on China will be more complicated. These influences include the direct influence of external factors

on China and indirect influence of external factors transmitted through overseas stakeholders in China, the reverberating influence of external response induced by China's own policy measures, the influence of interests, the influence of systems and concepts, the positive and beneficial influences, the negative and adverse influences, and uncertain influences of mixed advantages and disadvantages. It is therefore necessary to analyze and clarify influences of the external environment on China's reform, opening up, development, overseas interests and participation in global governance from a multi-dimensional perspective, so as to make the best use of the situation, seek advantages and avoid disadvantages, and actively reshape the external environment to the benefit of China.

3.2.1 Influences on Promoting Supply-Side Structural Reform

In the coming period, the intensified competition in international community will be, in the final analysis, the competition for institutional superiority of different countries, especially major powers, i.e. competition for whether domestic reform can be carried out in a more timely, thorough and successful manner. In this process, influences in two aspects should not be ignored for China's supply-side structural reform. On the one hand, new and more efficient supply-side factors need to grow as quickly as possible while the old inefficient supply-side redundancies need to be smoothly eliminated and reconstructed, and related institutional adjustments and concept changes need to provide driving force under a rivalrous external environment. On the other hand, when we carry out supply-side structural reform, we also need the whole society to maintain sufficient security and resilience, and we also need to take into full consideration the "reverberating effect" of external impact of reform measures, so as to reach a dynamic balance with the increasing external environmental pressure, and avoid social division, market disorder or economic collapse due to external pressure arising from reform panic.

3.2.2 Influences on Achieving High-Quality Development

First, the United States has impacted China's innovation and development through its "confinement" policy. The United States intends to continue its access to the benefits provided by China at the low end of the global value chain, and it also intends to avoid or prevent China from catching up in the hi-tech field by leveraging a new set of international rules to normalize or limit China's behaviors in the high-tech field with a new set of international rules, so as to confine China's position in the global value chain and maintain a constant and as large a gap as possible between

China and the United States at the level of science and technology.¹⁰ The tug-of-war between “confinement” and “anti-confinement” makes it more difficult for China to achieve “introduction, digestion, absorption and re-innovation” of external advanced technologies, and forces China to increase its independent research and development power and make progress in “original innovation” and “integrated innovation”.

Second, the tightening of external environment has a great impact on China’s open-door development. On the one hand, the “close-door” pressure of the United States and the west countries has impacted China’s inland-coastal linkage and east–west economic development. The adjustment of global division of labor network, especially in Asia, has an impact on the distribution of China’s production factors both at home and abroad. The fragmentation of international economic and trade rules caused by the impact of power politics on the international economic order makes it more difficult for China to implement institutional opening up based on rules and related institutions. On the other hand, this also urges China to make greater efforts in making good use of the anti-driving mechanism and enhancing the balance between two markets, so as to achieve more institutional innovations in support of the country’s high-quality development. China can effectively integrate and expand domestic and foreign commodity and capital markets through International Import Expo and foreign direct investment expo, and drive other countries to create a super-large-scale common open development space supported by China’s huge product and factor markets.

3.2.3 Influences on Safeguarding and Shaping the Security of Overseas Interests

First, influences of geopolitical hot issues on China’s overseas energy resources and strategic channel security. Second, threats posed by terrorism and religious extremism to the security and interests of Chinese overseas institutions, personnel and assets. Third, threats posed by weaponization of financial hegemony and abuse of global financial infrastructure to China’s overseas fund security, capital security, offshore financial security and cross-border transaction security. Lastly, opportunities and challenges brought about by the rising expectations of developing countries for China to fulfill its international responsibilities. It should also be noted that the prominent problems including geopolitical hot issues and active terrorist extremist forces may have a negative impact on the safety of China’s overseas energy resources, strategic channels and institutional personnel assets. However, China’s ability to actively safeguard and shape the security of overseas interests will be strengthened if we can make a forward-looking layout, constructively intervene in relevant regional hotspots, and join hands with other members of the international community to establish an effective mechanism to curb terrorist extremist forces. There indeed exists the risk of weaponizing financial hegemony and abusing global financial infrastructure, but if

¹⁰ Zhang et al. (2018).

China can unite with other countries to properly deal with this risk, it may create favorable conditions for Renminbi internationalization and for the establishment of a more just and rational international monetary system. Effective management and reasonable response to the expectations of developing countries for China, and appropriate increase in the supply of public goods will help China gain more international support in maintaining and shaping the security of its overseas interests.

3.2.4 Influences on China's Participation in and Leadership over International Economic Governance

There are four possible adverse effects on China's participation in and leadership over international economic governance. First, developed countries are unwilling to cede power to emerging economies such as China in the existing international economic governance system, so as to prevent them from enhancing their influence in global governance. Second, developed economies launch attacks on China from outside and inside, and rejects or opposes new institutions and mechanisms advocated by China, or constrains its development. Third, the US-led west has excluded China from the process of reshaping international economic rules, and formulated new international economic rules to curb China's development. Fourth, they have chosen to compete with China in cooperation with developing countries, and raised China's costs for building and maintaining relevant international economic governance mechanisms. At the same time, the growth and decline of the international power pattern and the call of the international community to speed up reform and reconstruction of the international governance system also provide an opportunity for China to lead and promote the development of this system in a more fair and rational direction. First of all, the situation in which the economic growth rate of developed countries is obviously lower than that of emerging and developing countries will continue for a long time. The transfer of the discourse power for governance is the general trend, depending on the evolution of China and other emerging and developing countries. Then, the international cooperation mechanisms such as the AIIB and the "Belt and Road" Initiative advocated by China have won support and response from quite a few countries, and are expected to create more experience in follow-up operation and become the common intellectual wealth guiding the reform and reconstruction of human international economic governance. Finally, China will adhere to the correct concept of justice and interests, and keep being honest with emerging and developing countries, so most of them will help China lead the reform of international economic governance.

3.3 Strategic Choice in Response to the Changes of External Environment

At present, profound changes have taken place in the international environment, such as the disruptive effects produced in the new round of scientific and technological revolution, the growing competition and friction among great powers, the rising risk of China's external environment, and the changing global governance system. In the medium and long term, China is faced with a severe external environment and a period of strategic opportunities for initiative actions. So China is more capable and better conditioned to respond to and even lead the shaping of China's external environment from domestic, bilateral and multilateral levels. In next few years, China should further deepen its reform at home, and promote high-quality development and high-level opening up. For this purpose, we will promote major country diplomacy with Chinese characteristics, expand common interests with other countries, form an all-round, multi-level and three-dimensional diplomatic layout, further enhance China's international influence, appeal and shaping power, create better external conditions for our own development, and make new and significant contributions to world peace and development.

3.3.1 Transforming External Pressure into the Driving Force for Reform and Promoting Modernization of the National Governance System and Governance Capacity

Recently, China's external environment has changed significantly. The original world political and economic order has been disintegrated while the "new world trade order" is still being reconstructed. The uncertainty about China's external economic risks has suddenly increased, bringing new issues for economic and social development. Certainly, China will face a more complicated and severe external environment, so we should maintain strategic strength, insist on giving priority to internal affairs, hedge external uncertainties with the certainty of reform and opening-up and self-development, and transform external pressure into the driving force for reform and opening-up. Current problems encountered by China's economy are more structural problems, so it is necessary to take targeted measures, address structural problems with structural policies, and advance along the high-quality development route.

In addition, with the driving force for deepening reform and opening-up, we will continue to promote social organizations and governance systems to adapt to the development requirements of advanced productive forces, urge market to play its decisive role in resource allocation, encourage government to play its role, stimulate the vitality and creativity of market players, improve the business environment, and realize the development momentum from factor-driven to innovation-driven, and the development form from scale enlargement to high-quality development. Under

external pressure, China should speed up construction of a modern economic system and give emphasis on improving quality, structure and living standards. In practice, we will uphold and improve the socialist system with Chinese characteristics and modernize the state governance system and capacity, improve the Party's ability to lead the people in managing economic and social affairs, make the best of our institutional advantages and transform institutional advantages into the efficiency in managing economic and social affairs.

3.3.2 Guiding Other Countries' Opening Up To Facilitate an Open World Economy and Achieve Global Good Governance

The 70-year development course of the People's Republic of China has fully shown that China cannot develop in isolation from the world, and the world also needs China for its development. China has realized self-development through opening up to the outside world, but it does not gain the benefits of opening to the outside world at the expense of the interests of other countries. At the same time, China's development does not mean it will seek for hegemony or winner-take-all, but pursue share benefits, achieve win-win goals and promote the building of a community with a shared future for mankind. The 19th National Congress of the Communist Party of China proposed that China should open wider and actively participate in and promote the process of economic globalization, develop a higher-level open economy, and promote the formation of a new pattern of opening up in all respects. We will focus on the construction of the "Belt and Road" Initiative, insist on paying equal attention to "bringing in" and "going out", follow the principle of co-operation, co-construction and sharing, strengthen the open cooperation of innovation ability, and constantly promote the formation of a pattern of linkage between the mainland and overseas and mutual assistance between east and west.

As the socialism with Chinese characteristics enters a new era and profound changes have taken place in the international environment, China will further deepen reform and opening-up around high-quality and sustainable development. China has basically completed the role transition from passive adaptation to active involvement. At the current time of "ascending east and descending west" and when the West-dominated governance system and international order need to be restructured, China will play the role as an advocator, contributor and leader over such restructuring. This of course necessitates China's wider opening so as to lead and promote mutual opening and common opening of all countries in the world.

We should stand united to promote trade and investment liberalization and facilitation, and make economic globalization more open, inclusive, and balanced so that its benefits are shared by all. China will gain experience and learn lessons from building the pilot free trade zones and special zones in a timely manner, promote international dissemination of relevant experiences and alignment of domestic rules

with international rules, form and expand the pace of international open cooperation with high governance standards in which China is a main participant. China is committed to promoting world peace, contributing to global development and upholding the international order.

3.3.3 Building the System and Capacity of Scientific and Technological Innovation to Improve the Overall Efficiency of the Innovation System

Building the system and capacity of scientific and technological innovation, enhancing the scientific and technological governance system, and heightening the capacity of the scientific and technological governance are the powerful thruster of China's scientific and technological innovation, an essential toolbox for building an innovative country with strength in science and technology, and an inevitable requirement for modernizing national governance system and capacity.

To build the scientific and technological innovation system and capacity, we must increase government's investment in basic original research, encourage enterprises to reinforce R&D investment and innovation, and guarantee employment and entrepreneurship of global innovative talents in China. We will endeavor to achieve major breakthroughs in key core technologies, continuously enhance scientific and technological strength and innovation capability, and occupy an important position in the world's high-tech field.

Secondly, we need to improve national innovation system, further deepen reform of the science and technology system, and complete the change from "point-by-point breakthrough" to "system innovation". The China-US science and technology game has exposed the lack of system innovation ability in China. We will attach more emphasis to basic capacity than to "technological application". Technological development has its inherent laws. New technologies are created on the ground of solid basic capability. To a large extent, breakthroughs in key core technologies depend on the level of basic research. We will lay a solid foundation and make forward-looking arrangement and systematic planning in key areas related to national security and long-term development, so as to seize the high ground of future science and technology. We also need to give more emphasis to "inclusive environment" than to "picking winners". We will stimulate the creativity of scientific research institutes and enterprises and build an "innovation-friendly" policy and institutional environment for more enterprises to participate in fair competition. In addition, some outstanding problems such as repeated resource allocation, scattered scientific research strength and unclear functional orientation of innovation subjects need to be addressed so as to improve the overall efficiency of the innovation system.

Thirdly, we will continue to expand international scientific and technological cooperation. China should actively weaken and divide the intentions of the US-led

West to contain China, strengthen scientific and technological cooperation with European Union, Israel, Japan and South Korea, and vigorously promote scientific and technological cooperation, technical exchanges and enterprise mergers in areas with characteristics and advantages. At the same time, we will encourage the development of more “hidden champion” enterprises,¹¹ expand the procurement channels of key element devices, and utilize capital strength and market capacity to gain more discourse power in the industrial chain.

Fourth, we will actively strive for the power of discourse in international standards and trade associations. China has obtained fewer key positions and weaker power of discourse in the International Standard Organization than developed countries in Europe and America. Take Huawei as an example. Since Huawei was added to the “Entity List” by the United States, more than 60 international standards and industrial organizations have suspended its membership or restricted its rights and interests, resulting in the risk that technical standards will not be available to Huawei. We will promote cooperation between academic institutions and industrial entities, and make the best of non-governmental forces in China’s computer industry in an effort to strengthen our power of discourse in international standards industry organizations with the help of huge domestic market. We will continue to protect intellectual property rights and fully mobilize original investment of domestic enterprises and the enthusiasm to participate in international standards. We will continue to strengthen investment in basic research education, train and reserve international talents suitable for standards and industrial organizations.

Finally, we will strengthen safety in the field of science and technology. The science and technology security has become an important part of national security. We will strengthen the overall planning and organization of major scientific and technological security tasks, and build national strategic scientific and technological security forces. To speed up the building of early warning and monitoring system for scientific and technological security, we will accelerate relevant legislation for artificial intelligence, gene editing, medical diagnosis, automatic driving, unmanned aerial vehicles and service robots.

3.3.4 Actively Improving the Structure of Global Partnerships

To promote the building of a community with shared future for mankind, we must actively develop global partnerships and pull together all countries’ interests. We will rely on neighboring countries and major countries for China’s development, take multilateral measures to deepen pragmatic cooperation and strengthen political mutual trust. We will consolidate our social foundation, improve institutions and mechanisms, and develop friendly cooperation with other countries. We will improve China’s all-round, multi-level and three-dimensional diplomatic layout,

¹¹ It refers to small and medium-sized enterprises that occupy the vast majority of market share in the global market but are not generally known to the public.

build a “circle of friends” covering the whole world, and join hands with people of all countries to create a better future.

Following the principle of “developing partnership instead of alliance” with other countries, we aim to build a framework of relations between major countries that promotes overall stability, balanced development and healthy competition. The Sino-US relation is one of the most important bilateral relations. As the top two economies in the world, China and the United States should assume special and important responsibilities in maintaining world peace and stability and in promoting global development and prosperity. Developing long-term and stable Sino-US relations serves the fundamental interests of all people of two countries, and is also widely expected by the international community. Although Sino-US relations have undergone qualitative changes, and the United States has increased hostility and suppression against China, we will endeavor to maintain the principle of mutual benefit and mutual respect with the United States while conforming to principles and national interests, so as to improve Sino-US relations in pursuit of stable development of bilateral relations. We will focus on China-EU relations from a strategic perspective, endeavor to develop partnership with the EU on peace, growth, reform and civilization, enhance global influence of China-EU comprehensive strategic partnership, promote in-depth development of world multipolarization and economic globalization, and make greater contributions to world development and prosperity. China and Russia are each other’s most important strategic cooperation partners. The two countries will consolidate strategic and political mutual trust and enhance mutual support for issues involving each other’s core interests, expand pragmatic cooperation and deepen humanities exchanges so as to build close coordination and cooperation in international and regional affairs to safeguard world peace, security and stability. We will also comprehensively deepen the relationship between BRICS partners and emerging economies, devote ourselves to promoting pragmatic economic cooperation, strengthen the coordination of development strategies, promote international order in a more just and rational direction, and facilitate people-to-people exchanges.

In addition, we will forge sound relations with neighboring countries through the principle of amity, sincerity, mutual benefit and inclusiveness. We will properly handle and develop relations with Japan, India and other countries, and provide impetus in international relations. We are obligated to promote peace, stability and development in neighboring countries, deepen mutually beneficial cooperation and interconnection, and jointly build the community of shared future with neighboring destiny. With the principle of amity and sincerity, China upholds greater good and pursues shared interests with developing countries. A vast number of developing countries are fellow travelers along China’s peaceful development path. Despite great development achievements, China remains a developing country. We will earnestly strengthen unity and cooperation with developing countries, and closely link China’s development to the common development of developing countries.

3.3.5 Expanding and Upgrading the Space for the “Belt and Road Initiative” Cooperation, and Promoting Renminbi Internationalization

The “Belt and Road” Initiative is a grand idea and China’s solution put forward by President Xi Jinping after profound reflections on the future and destiny of mankind and the development trend of China and the world. The Initiative is designed to promote global common prosperity and build a community with shared future for mankind, which opens up a new realm for China to participate in and lead global open cooperation. Significant achievements have been made in building the “Belt and Road Initiative”. In the six years after the initiative was proposed, the trade volume between China and countries along the Belt and Road exceeded 6 trillion US dollars, and China’s investment in countries along the Belt and Road reached 90 billion US dollars. China has carried out large-scale international capacity cooperation in more than 30 countries and built more than 90 overseas industrial parks in countries along the Belt and Road. In the future, China will continue to create a new model of international cooperation based on international cooperation concept of mutual respect, fairness, justice and win–win cooperation along the Belt and Road, establish an innovative cooperation mechanism to promote sustainable development, and endeavor to improve the institutionalized level of cooperation.

Specifically, we will stay focused on the investment and financing needs associated with infrastructure construction to promote Renminbi internationalization. The capital demand for infrastructure construction along the Belt and Road and related cross-border M&A activities have provided an important opportunity for financial cooperation. Deepening financial cooperation between China and countries along the route, promoting construction of the investment and financing system and credit system, and expanding the scale of bilateral currency swap among countries along the route have created conditions for steadily promoting Renminbi internationalization. We will seize the strategic opportunity of RMB internationalization brought by the “Belt and Road” Initiative, expand the depth and freedom of China’s financial strategy, and contribute to a more stable multipolar international monetary system.

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