

Hint of menace from China's new routemap

A huge technological gap stands in the way of another great leap forward for China

[By Ambrose Evans-Pritchard](#)

While Americans [decide their political fate](#) this week by vote, the Chinese had their fate decided for them behind closed doors last week at a fortified nomenclatura hotel run by the People's Liberation Army and famously used for show trials during the Cultural Revolution.

The Communist Party's Fifth Plenum – setting out China's economic and strategic path until 2035 – has ramifications for the world that may ultimately matter as much as the outcome of the US election.

The routemap marks a strategic rupture with the China we have come to know since Deng Xiaoping relaxed the Party's authoritarian grip 40 years ago and ushered in a flowering of free enterprise. Xi Jinping's regime is reverting to the Maoist doctrine of "autarkist self-sufficiency", with an added hint of menace in the language of Thursday's Plenum communique.

The text revives the potent term "prepare for war", last evoked in a five-year plan during the late 1960s, coupled with a declaration that China will achieve military parity with the US within seven years.

The Fifth Plenum leitmotif is "dual circulation strategy". It is ostensibly a plan to move further up the development ladder, switching from reliance on external trade to reliance on the vast internal market of 1.4bn people – on the face of it a sensible policy, long-suggested by the World Bank.

But the language masks a deeper shift: a revived national quest for self-sufficiency in core technology, energy supply, and food production, the trifecta of critical dependencies that leave China vulnerable to an external blockade.

It is driven by fears that a US-led alliance will step up the pressure and exploit the West's strategic leverage, as is already happening with advanced semiconductor chips. "Dual circulation is just a fancy term for Chinese decoupling," said George Magnus from Oxford University's China Centre.

Party officials deny that China is dialling down the American relationship or turning its back on globalisation. "Complete decoupling is a lose-lose for both countries, and for the world. It is not realistic at all," said Han Wenxiu from the Central Finance and Economic Commission.

Beijing undoubtedly wants to keep attracting western capital. It hopes to enmesh US banks and funds in the Chinese financial system through the Shanghai Connect pipeline, calculating that this will make it harder for Washington to cut China out of the dollarised global payments system should conflict reach that point.

Yet the deeper thrust of policy under Xi Jinping is a return to Maoist economic management and the asphyxiation of the free market, with commissars lodged inside private companies, and the ideological poisons of the West mostly kept at a safe distance.

"It's all about self-reliance," said Ho-Fung Hung, author of *The China Boom: Why China Will Not Rule The World* and a professor of political science at Johns Hopkins University.

"Xi Jinping was quite explicit about this on a visit to Guangdong. China is going back to autarky and the system is becoming more and more like North Korea," he said.

Prof Ho-Fung said intoxicating talk of supremacy in digital technology, artificial intelligence, and quantum computing is infused with wishful thinking. "It is the mentality of the great leap forward under Mao, and it's going to end in another disaster," he said.

"There is a huge technological gap. [China has been pouring money into advanced semiconductor](#)

[chips](#), but the money has gone down the drain. It still can't build a viable chip and has to rely on foreign hi-tech companies," he said.

Semiconductors are the raw material of the digital age. China spent \$300 billion on imported chips last year, more than it spent on crude oil imports.

Low-grade chips for laptops are easy to replicate. It is another matter to produce the advanced chips, or FPGA circuits that can be programmed, which are essential for 5G broadband cellular and AI. These are on the cutting-edge of materials science and miniaturisation.

Global production at this level is controlled by the US and its close allies. This became painfully clear in May when Washington – irritated by Xi Jinping's pandemic triumphalism and his treatment of Hong Kong – escalated the pressure by [restricting Huawei's access to chips from the Taiwanese foundry TSMC](#).

This doomed Huawei's bid for global 5G leadership at a stroke, exposing the limits of Xi's master plan to control the "internet of things" and the telecommunications infrastructure of the 2030s. It was the moment that the Sino-American shadow boxing over trade became a real superpower fight.

"Xi overplayed his hand with wolf warrior diplomacy. He alerted the whole world to China's aggressive ambitions and now it is going to be much harder to secure foreign technology transfers. Without that, it is going to be very difficult for China," he said.

The drive to build a world-class chip industry has been a sorry saga. Six major projects have been shut down over the last year, either because they have gone bankrupt or because they over-promised in the rush to profit from the semiconductor bandwagon.

This includes Wuhan Hongxin Semiconductor Manufacturing, supposedly leading a \$19bn drive to produce China's first 7-nanometer wafers, the level deemed *de rigueur* at the technology frontier. Technode said it never got beyond a few cranes and the workers's dormitories.

WHSM's one unused lithography machine – now mortgaged – was in fact a last generation 14-nanometer model. The three-year old venture has ground to a halt after accusations of fraud. The Dongxihu District government revealed in a report that there was "a huge funding gap", but this was quickly pulled down from the website to avoid a national embarrassment.

China has some superb science labs and pockets of excellence in technology. The regime landed a spacecraft on the back side of the moon last year. But the Soviet Union also had brilliant scientists. That is not the same as a broad-based technological ecosystem.

George Magnus says Xi Jinping is systematically reversing the process that underpinned China's explosive arrival on the global economic scene over the last 40 years.

"The great eruption was built on free enterprise and openness. It is what drove the gains in total factor productivity (TFP) but Xi won't recognise this. The fact is that no autocratic state-directed economy has ever broken out of the middle income trap," he said.

The damaging effects the Party's tightening stranglehold has on the economy under Xi are visible in World Bank data on stalling productivity, made worse by the legacy effects of post-Lehman credit saturation and over-investment in industrial state behemoths with no commercial logic.

The growth of TFP productivity – the true measure of China's economy – has collapsed to 0.7pc over the last decade, from nearly 3pc in the early 2000s. The country is no longer on the same "convergence" trajectory that lifted Japan and Korea into the world's elite tier. Autarky is a sure-fire way to cut productivity even further.

Prominent figures in China know the dangers. Deng Pufang, Deng Xiaoping's son, warned in 2018 that President Xi was embarked on an "utterly mistaken" course and was glossing over the central role of market forces and the open exchange of ideas in the post-Mao growth miracle. Few dare to utter such thoughts in public but many Party veterans concur.

“There is a strong strand within China that Xi has committed the country to a false path,” said Roger Garside, a former British diplomat in Beijing and author of a book on the Deng years called *Coming Alive: China after Mao*.

Mr Garside said it is hard to see how China can achieve technological and scientific supremacy under the “anti-innovation culture” of a totalitarian state that is systematically choking the exchange of ideas. “Xi doesn’t begin to understand how the free world operates. The hallmark of his reign is incoherence,” he said.

“The regime is incapable of self-correction and incapable of tackling its domestic problems under the current political system,” he said.

Premier Li Keqiang himself sponsored a report at the outset of the Xi years warning that the low-hanging fruit of top-down industrialisation and catch-up growth was near exhaustion. It concluded that China would have to relax its grip on society and let free markets thrive if it was to succeed at the technology frontier, or face stagnation and the middle income trap. But Li has been pushed to the sidelines.

It is an article of faith in Xi Jinping’s inner circle – and among the prophets of Chinese ascendancy in the West – that the global crisis exposed the deep rot in the Western economic and social model. America’s mishandling of the pandemic renders this claim all too plausible on the surface.

Jiang Jinqun, the Party’s propaganda chief, stated during the Plenum press conference on Friday that Beijing’s success in stamping out Covid-19 and the country’s quick return to economic growth had shown “the superiority of China’s political system”.

The Plenum communique notes that “the world is undergoing major changes unseen in a century” – code for what is deemed American decline – and suggests that China can profit accordingly. It reflects the Xi view that China’s economic sorpasso has been pulled forward by a decade and is now unstoppable. Yet there is also a hint of strategic angst in the strange text, with references to the “complicated international situation” and “hindrances on the road ahead”.

It is equally possible that the Xi regime has badly misread the landscape and that the great prize of global mastery is already slipping away for China. A bruised but reconstituted alliance of the world’s democracies under a multilateralist President Biden and his successors might not be such a pushover after all.