

## **CHINA'S DIGITAL DEVELOPMENT: BETWEEN ISOLATIONISM AND THE NEXT ROUND OF OPENING-UP**

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### **SUMMARY**

This paper argues that current policy on the digital economy symbolizes two possible directions: firstly, as a vehicle for delivering the promises of a dual circulation economy with limited interaction with the external world, and adopting an isolationist stance while enforcing strict government control over the people's preferences. However, this dual circulation approach will also see China extending its international opening-up possibly based on a proposed national digital currency and the standards of the digital economy. Taking a historical perspective: although Xi Jinping might follow Deng Xiaoping's strategy of opening up, this time it will be based on China's principles and regulations, rather than those that originated from the Western-led liberal world order, as was the case in the past.

## KEY FINDINGS

1. The path towards a digital economy will result in the semi-isolationism of Mainland China, which is seen not as the ultimate goal but as part of a dual-circulation economy.
2. The Chinese government plans to follow Deng Xiaoping's opening up, but China will this time not adjust its principles to those of the West.
3. In the long-term, Xi Jinping will need to fulfil his promises of China's rejuvenation. The state sets the standards of the digital economy, especially in the digital currency project.
4. From an international perspective, the US lacks solutions to improve its 'payment problem', with the possibility that its status as leader in the global payment infrastructure may come under pressure.

## INTRODUCTION

Along with the growing role of new technologies in economic development, the Chinese government has attempted to seize control over domestic resources and create a space for the development of its own national e-currency. This process, however, is a double-edged sword. On the one hand, developing innovative forms of payment limits the possibilities of engagement in the global arena. Still, when domestic success is achieved in the mid-term, China's digital currency will change the global payments framework. Regardless of the outcome, priority is given to providing stability that is seen as a driving force behind China's future development and might ultimately act as "an example" for the global community on how to govern domestic economic growth with strict control mechanisms.

The paper aims to answer the following questions: what are the basic motivations of the Chinese government for introducing regulations regarding algorithms? What is the significance of the digital currency from the perspective of a dual circulation economy? What kind of comparative advantages does China have in terms of technological solutions for the digital economy's future? Does the introduction of a "stable currency" signify the Chinese government's concern about social and economic inequality that has the

potential to fuel instability in the country? And would a digital currency deliver a "common prosperity" that would dampen the flames of instability?

### DOMESTIC CONTROL AND STABILITY BY ALGORITHMS

Along with digital currency initiatives and international standardizations, Beijing is also tightening its control on algorithms. Nine government agencies have issued guidelines on how algorithms play a role in disseminating information and their impact on society. One of the guidelines states that "the persistence of positive energy (a CCP euphemism for ideological compliance) is the overriding requirement, the ability to control is a solid directive, and usability is a real strength. And with safe, reliable, high-quality and innovative algorithms as the basis, we are building a healthy governance mechanism on algorithms and forging a sophisticated regulation on algorithm security for building a web-savvy strong nation" (Central Committee Cyberspace Administration 2021). Algorithm governance will involve "technological ethics" with the ability to predict illegal behavior and disseminate "socialism with Chinese characteristics". Meanwhile, sectors such as corporations, education, technologies, medical technology, and communications are expected to be part of this regulation and be accountable for algorithm misconduct (Central Committee Cyberspace Administration 2021).

**This new regulation further showcases the fact that China wants to control what its netizens can and cannot see online, which correlates with banning shows about effeminate men, online games and historical nihilism.**

When implemented, it will imply that China's internet society will be further isolated from the wider web. The central administration will guide the Chinese public's preferences, both commercially and politically. China's tech giants have been quick to get the message. With their pledge to "common prosperity" and against a backdrop of tightening regulatory scrutiny, they have promised to donate hundreds of billions to charity and technological innovations. At the same time, the Chinese tech giant Alibaba has been fined USD 2.8 billion in an anti-monopoly probe, and its competitor and video game giant, Tencent, has pledged to put money into social initiatives as part of the "national strategy". These developments come at a time when China is placing restrictions on video games.

In parallel with China's increased oversight of its digital currency landscape, Beijing has also tightened its grip on information sources online and the dissemination of content. Its publication of the latest approved list of trusted sources, "List of Sources of Internet News and Information," aims to "regulate the order of information dissemination...to further nurture online information and be a stronger source of 'positive energy'...while fighting the sharing of illegal content and being the 'main filter' of information flow" (National Cyberspace Administration (2021).

Furthermore, the Personal Information Protection Law of the People's Republic of China, introduced in August 2021, is expected to place tighter regulations and compliance requirements on Chinese investors wishing to conduct cross-border transactions. The new law requires information flow under governmental safety audits to prevent possible illegal actions with foreign entities. As a result, popular Chinese trading platforms such as Futu face regulatory risks regarding information security and compliance. These platforms may face additional internet regulatory assessments if they seek to be listed abroad (People.cn 2021).

As a consequence of these regulatory moves, Microsoft decided to shut down its social network, LinkedIn, in China, citing difficulties in complying with Beijing's increasingly tightening regulations (BBC 2021). LinkedIn had been the only major Western social media platform present in China and was accused by critics of overly appeasing China's censorship laws. While it has banned prominent Western journalists from its platform, Chinese regulators have reportedly punished LinkedIn for failing to meet censorship requirements. The platform's exit may signify that China's internet will become even more isolated. China has also placed tight restrictions on teenagers' access to video games as a means to "protect adolescents from addiction" (National Press and Publication Administration 2021). The new directive limits online video gaming to one hour on Fridays, Saturdays and Sundays, with the use of a person's real name being required. The two developments are part of a bigger trend with Beijing opting for tighter ideological control over the use of the internet, with its development following the official line of a China which is impervious to Western or individualistic influences.

### RELATIONSHIP WITH "CHINESE STANDARDS 2035"

The timing of such a development is also noteworthy. China has placed significant emphasis on implementing the "Chinese Standards 2035" initiative to standardize its industrial practices and regulatory requirements by 2035 in strategies, internationalization, education, company evaluation standards, and reforms. Beijing's defense industries have marked this scheme as their way to address a perceived "acute need" for modernizing their technical capabilities and standardization, including the nuclear sector (State Administration of Science 2021).

A closer look into "Chinese Standards 2035" will reveal why this scheme is of such importance. Beijing hopes to expand its bargaining power by incentivizing companies worldwide to adopt Chinese standards by offering greater market access. Foreign firms would be prompted to adopt Beijing's rules and regulations to counter the West's monopoly on regulatory issues. This is concurrent with an expanded effort to participate in more international organizations in order to shift existing regulatory standards and norms in China's favor. Beijing's motive is to take a proactive role in formulating international industrial regulations. Instead of merely decoupling from the existing system, the country is presenting itself as a viable global alternative in high-value and technical sectors (Huang Jianquan 2021).

Moreover, the current effort is also about aligning most domestic standards with international standards across sectors as well as driving a "quality-oriented" transformation. This would eventually lead to a greater role being played by China in leading international standards (CQN 2021). As argued by Aleksander Koty (2020), "the tech industry, along with other industries worldwide, use standardized processes and specifications to ensure that products are built to work together seamlessly. If each country or company set its own standards, technologies would not be able to easily work with products designed by other companies or work in other markets". Research has revealed that alignment efforts have started with BRIC group members such as Brazil and Russia along with the APAC forum, focusing on the International Organization for Standardization (ISO). Judging from the active participation of Chinese bureaucrats and

companies worldwide, the spillover could very much impact all levels of international standardization (M. Sheehan, M. Blumenthal, M. Nelson 2021).

### CHINA'S DIGITAL CURRENCY AND INTERNATIONAL POSITION

The July 2021 whitepaper announced that the e-CNY (digital renminbi) was "ready for cross-border use" as long as the system was able to share information with foreign counterparts. Success is more likely among developing countries, where China has placed more geopolitical emphasis, and where US-regulated payment systems are harder to access. Hence, China could, if this collaboration proves to be successful, build a multi-CBDC arrangement that could loosen the effectiveness of US sanctions. If the US lacks solutions to its inefficiency of payment issues, it could lose its leading position in the global payment infrastructure (Robert Green 2021). Currently, business-to-business transactions involving China and its neighbors use the US dollar, with only 20% of China's exports using the RMB. Beijing's official view is that the US dollar's dominance is a threat to the world's financial stability, and especially that of China. By undermining the US dollar's dominance, Beijing could, in its view, alleviate risks related to its financial stability. In this way, Beijing could be safe in the case of Washington shutting out Chinese financial institutions from the global payments infrastructure if these organizations were to facilitate transactions involving U.S.-sanctioned businesses or persons. Beijing is pursuing alternative cross-border payment channels that are built on its central bank digital currencies (CBDC). The scheme is a means to erode the dominance of existing trading arrangements reliant on US dollars and US-regulated entities. Beijing is in a good position to leverage existing frustrations with the inefficiencies of existing cross-border payments, and create a lower-cost alternative for developing countries that could compete with the US dollar. The resulting digital renminbi could do just that.

**China's efforts to build a CBDC is attracting interest. A recent survey showed that of 65 central banks surveyed, 60% are experimenting with CBDCs, with interest markedly higher in emerging markets. With its first-mover advantage, China is well-positioned to share its infrastructure, with this already being the case in Thailand, Hong Kong and the UAE.**

In addition, the director of the People's Bank of China's Institute of Research, Zhou Chengjun, predicted that BRI investment could one day be pegged to the RMB which may lead to it becoming a regional currency.

The timing of e-CNY has been uncanny. China's central bank announced in September 2021 that all cryptocurrency trades were now illegal (Tech News 2021). The announcement cited that "speculation on cryptocurrencies like Bitcoin has been prevalent and adversely affects financial order, and leads to money laundering, illegal fundraising, fraud and other illegal acts". Analysts believe that the anonymity of cryptocurrency has alarmed Beijing, which is due to launch its own regulatable digital currency.

The state is gaining control over digital payments and, in the long term, would drive illegal financial operations out of China's markets. Once the central bank has a large amount of transaction data, it would be able to control the amount of money at the macro level and formulate more specific macroeconomic policies; at the micro-level, it could achieve traceability in specific scenarios such as poverty alleviation, disaster relief, and charity, and even use big data analysis to prevent money laundering.

**As argued by Chinese sources, people no longer need to deposit paper money in commercial banks, and the "super central bank" will have the ability to attain the transaction information and loan placement capabilities of the entire society.**

This would also be implemented in all other commercial banks. This move to consolidate and expand China's influence in the financial sphere illustrates how the country's government sees its role as the primary provider of stability.

At the same time, General Secretary Xi Jinping believes developing a digital economy will foster a "new round of revolution in science and technology as well as industrial transformation and encourage new development". Xi's iteration hints that China's developmental paradigm is that of self-reliance and control. He commented that:

"Digital technology and economy are at the forefront of the global tech revolution and is a hotspot for a new round in international competition [The Party] needs to seize the

moment and conquer the vantage point of future development...breaking the siege of core competencies and realizing a high level of self-reliance will help us firmly grasp the self-determination of digital economic growth" (Xi Jinping 2021).

In addition, Xi Jinping has stressed aspects of governance and control, saying "development and regulations are equally important and must be equally firm - regulating within the development and developing within regulation", with information as the "artery" of socio-economic development. What is noteworthy from his speech is that he has hinted at an overall digital transformation of China's industries, which includes a full transformation and implementation of digital capabilities in a range of sectors to accelerate economic output.

"We need to push for the deep-level integration of the internet, big data and artificial intelligence and nurture our next generation of 'specialized, new and strong' corporations as well as blue chip companies. We also need to further enhance digital technological capabilities of key sectors and focus on strategic and focal aspects while making significant breakthroughs and catering to the needs for change. Furthermore, we must enhance competitiveness in all stages of the value chain, optimize key industries' supply chain mechanisms and accelerate product and service innovation" (Xi Jinping 2021).

Another of Xi's comments also hinted that China aims to take a leading proactive role to drive the world's digital economic initiatives. As declared by the Chinese president, "We need to be proactive in international cooperation regarding the digital economy and play a key role in the agenda-settings on digital currencies within international organizations, initiate multilateral cooperation in digital governance and maintain and perfect the governance of a multilateral digital currency. We must push forward China's initiatives (experiences) and raise the Chinese voice." (People's Daily 2021). The comment "Chinese voice" demonstrates that Beijing aims to steer this sector's development on its terms, with one of its goals being to chip away at the dominance of the USD.

## CONCLUSIONS

China's latest tech and digital currency development should not be interpreted as having isolationism as its ultimate goal. However, isolationism should be understood as a



temporary solution for building self-sufficiency, and as a viable alternative in the global tech-economic order, should be considered part of China's global outreach. It might also be seen as part of China's negotiation strategy with the West over a new global economic order. As reported by Reuters (2021), China's Personal Information Protection Law has resulted in China no longer giving information to foreign companies about shipping. Information about cargo volumes had assisted companies in optimising logistics by predicting 'bottlenecks' and allowing companies to make key decisions on shipping routes to circumvent these issues. In fact, "ships in Chinese waters are disappearing from tracking systems following the introduction of a new data law in China".

But the processes of achieving self-sufficiency may, on the domestic front, result in severe, horizontal competition that might ultimately lead to the experiment's failure. Furthermore, the push for a Chinese-oriented international standardization would mean that instead of isolating itself from the outside world, the mobilization of its national resources and tech capabilities to forge an international alternative in digital currency, as well as tech and standardization processes that would be capable of challenging Western hegemony in these arenas, would draw China closer to certain countries. From a long-term perspective, China is positioning itself as a norm provider in the global economy. Throughout the promotion of international digital currency payments, the state's role as a setter of agendas with strong enforcement capabilities will be promoted by China's initial engagements with the developing world.

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