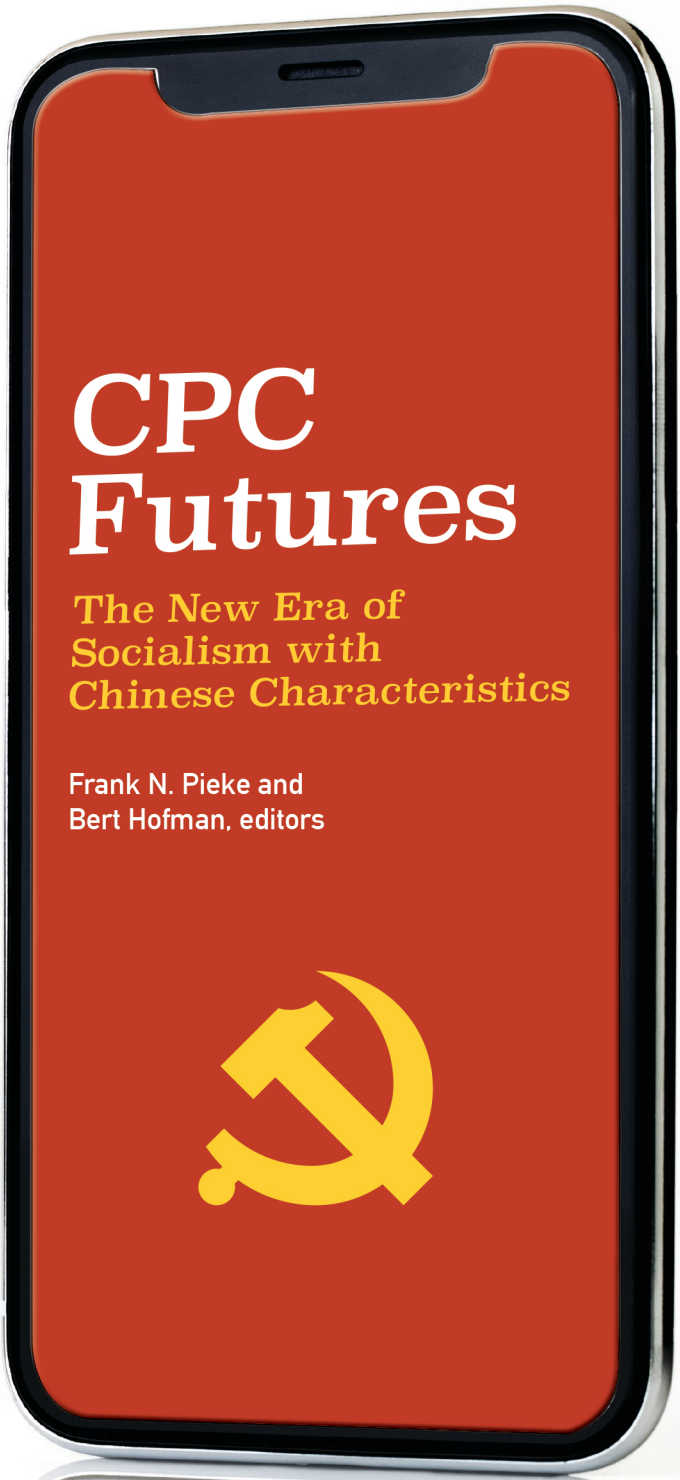
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The New Era of Socialism with Chinese Characteristics

Edited by
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Contents

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Introduction

Frank N. Pieke and Bert Hofman

The 20th Party Congress in the fall of 2022 will be a pivotal moment for the Communist Party of China (CPC). As China is the second largest economy in the world, the decisions at the Congress are relevant not only to China, but also for the global economy and for the shape of the world order as well. Inner-party politics is complex and opaque for most outside observers, but some key trends have become clear in the months leading up to the 20th Congress. Among others, the Congress will clarify whether General Secretary Xi Jinping will obtain a third term, what the generational and factional composition of the new Politburo and Central Committee will be, and whether an heir apparent to Xi will be designated. These personnel appointments will be the first indications about the future direction that the CPC will take after the Party Congress, whether further ideological changes are in the offing, and whether new directions in CPC approaches to the economy, society and in international relations are to be expected.

Over the past few years, the CPC leadership has provided a clear vision of what China will have to become in the "New Era", or in Xi Jinping's words, "a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful by the middle of the century". The 20th Congress is expected to provide a blueprint for how this will be pursued over the next five years and beyond. At the previous Party Congress, the 19th in 2017, Xi introduced the New Era and "Xi Jinping Thoughts for Socialism with Chinese Characteristics for the New Era" as the major new direction for the CPC and China. Both have subsequently become part of the CPC constitution, and have been substantiated with core ideological and policy concepts, such as "common prosperity", "dual circulation", "national security" and "cyber sovereignty". These concepts are likely to be further developed at the 20th Party Congress. We may also expect more clarity on the future of Xi's anti-corruption campaign, ideological renewal, the tightening of party building and inner-party discipline, and the centralisation of power, all of which will determine the course of the Party in the years ahead.

Much of the groundwork for the upcoming Party Congress has been laid in recent years. In early 2021, the 14th Five-Year Plan (2021–2025) and Outlook for 2035 already specified many of the more concrete policy plans and priorities. The political turmoil in the summer of 2021 showed that political debates and ideological directions were far from settled in the CPC leadership. "Leftist" initiatives to curb the wealth and power of private enterprises and even a brief resurgence of Maoist ideology were used by Xi Jinping to take quickly an even firmer grip on the Party to ensure the passing of the November 2021 Third Resolution of Party History. The correction away from too much political steerage in economic policy development in the spring of 2022 also suggests that the debate on the future direction for economic management is still in flux.

Whatever serious factional opposition Xi may have faced in the summer of 2021 seems to have waned, and no serious challenge can be expected to Xi's third term in office in the run-up to the Party Congress. Nevertheless, there still are many important decisions to make. At the time of writing, in the early summer of 2022, the economy is stuttering, bogged down by the leadership's commitment to a zero-COVID policy, a serious real estate slump, uncertainties over the direction of economic ideology that keep investors on the side-lines, and a deteriorating international environment in the aftermath of Russia's invasion of Ukraine. Critical questions are whether this has affected Xi's position, and whether he will have to compromise on who will be elevated to the Standing Committee of the Political Bureau of the CPC, the party's core leadership.

This volume brings together the highlights of the East Asian Institute online conference on CPC Futures that was held from 19 to 21 November 2021. The Institute, now in its 25th year, has been analysing China and its interaction with the world since its founding, and over the years has brought together a variety of perspectives on China for debate in its conferences, lectures, research seminars and publications.

The 2021 conference aimed to take stock of the transformation of the CPC and its leadership during the first two terms of Xi Jinping's administration and to gauge the likely direction that the Party will take around the Party Congress in the fall of 2022. Selected speakers at the conference were subsequently invited to write a commentary for this volume, assessing the trends and likely future trajectory of the CPC's New Era that has now officially succeeded the era of "Reform and Opening" since 1978.

The volume provides authoritative statements by leading China experts on current and future trends in CPC politics and governance, intended for a professional audience. The authors' main focus is the significance of one or more

specific aspects of the CPC's New Era, not just for China but also for countries and societies outside of China and the international order more generally.

The volume does not offer one all-encompassing narrative or voice on the future of the CPC. Rather, a variety of different views and approaches are represented in this volume, in some cases addressing the same or similar issues, such as leadership succession at the next Party Congress, the nature and impact of national security thinking, ideological renewal, party building and party discipline, and economic policy. Readers can inform and shape their own views by reading the various articles, and by weighing the approaches and evidence that they present and views that they express.

The volume consists of six sections, each tackling a different aspect of the politics of the CPC's New Era. The first section, *Chinese Politics with Xi Jinping at the Core*, starts with an article by Jude Blanchette that provides an overview of the most important developments and challenges that the Chinese leadership will have to confront. The other three articles, by Chen Gang, Victor Shih and Lee Jonghyuk, home in on the questions that always invite the most speculation in the runup to a Party Congress, namely, what will be the composition of the next Politburo and its standing committee, and what could be the policy implications.

The second section of the volume, *Ideology and Legitimacy*, consists of four articles, by Heike Holbig, Lance Gore, Yang Yao and Wang Zhongyuan. Ideology provides more than a language, code of political communication and agenda setting. Under Xi Jinping, ideological renewal again occupies centre-stage in Chinese politics. Differently put, CPC ideology has again been "ideologised". CPC ideological renewal draws both on Marxism and Confucianism in an effort to fuse China's "excellent traditional culture" with socialism and communism. The leadership insists that grand concepts like socialism and cultural and national greatness are not mere slogans, but lofty yet concrete aims that give CPC rule its purpose and an enduring legitimacy, both domestically and internationally. Communist ideology has often been dismissed abroad as no longer relevant to reform-era China. This denial went so far that current competitors and rivals of China overreact when they "discover" that the CPC is still very much a communist party. This lack of understanding of communism requires a fundamental reappraisal of the role of ideology in Xi's tremendous efforts in party building, especially in areas of shoring up central authority; anti-corruption and party discipline; cadre loyalty and compliance; organisational cohesion and efficacy; and regime legitimation.

The third section, *Building the Party-state's Governing Capacity*, consists of articles by Nis Grünberg and Vincent Brussee, Diana Fu and Rui Hou, Frank

Pieke and Li Nan. Under Xi Jinping, the party's presence, leadership and direct governance across the government, military, business and society have been further expanded. The CPC has made systematic efforts at building and upgrading its own membership, organisation and governing capacity. At the grassroots both within China and abroad, party members are recruited, trained, educated and discipled, and party branches are built and activated. The articles in this section show that the CPC has never been a mere "governing party", but is an organisation with a mission to create a "new China" able to take its rightful place among the world's nations. Under Xi Jinping, the CPC treats China increasingly as one collective body with itself as the head that plans, directs and coordinates the actions of its parts, and with General Secretary Xi at the core. The energies and interests of individuals, business and state, as well as military and other institutions are captured by top-down plans or strategies in service of the long-term goals of the Party. Rules, regulations and the rule by law are strengthened, but serve as tools not to empower but to direct and contain the state and society.

In the fourth section, *Development, Security and the CPC*, we turn to economic policy. In response to the economic downturn in China and the more hostile external environment, the CPC has recently even more firmly taken the reigns of the economy, emphasising both greater equity and fairness, and greater self-reliance for China. This is mainly achieved through market-based tools and incentives, such as government-guided funds and incentives for sanctioned activities. Meanwhile, efforts have been made to revamp regulatory institutions in response to emerging complexities in the business world. In addition, ad hoc administrative measures, together with tightening party discipline, remain important. The articles in this section, by Barry Naughton, Bert Hofman, Sarah Tong, Christine Wong and Wendy Leutert, ask several key questions about CPC economic policy making. Under Xi Jinping's "New Development Philosophy" for the New Era, China has embarked on a strategy that Barry Naughton calls "Grand Steerage", in which the market has a place, but should be a market guided by government, and in the end by the CPC. "Dual Circulation" is the broad policy under which China aims for more self-reliance, as Sarah Tong discusses, while Bert Hofman debates whether "Common Prosperity" will lead to a more equal distribution of income and wealth without slowing economic growth. Christine Wong discusses the crisis in the performance of a critical policy area, public finance, and the reforms needed. Finally, Wendy Leutert reviews recent SOE reforms (or the lack thereof) and the prospects of more reforms during Xi Jinping's reign. What are the implications of the CPC's strategising, regulating and disciplining for China's businesses and market development? Is this the end

of China's type of free-ranging market socialism? If so, what will take its place and what will be the implications for the CPC's rule and its claim of the lasting significance of socialism?

The fifth section, *Comprehensive National Security*, consists of three articles, by Joel Wuthnow, John Lee and Tai Ming Cheung. As a rising superpower, China increasingly perceives both domestic and international issues through the lens of national security. The CPC's "comprehensive national security outlook" is deliberately inclusive. Disasters, pandemics, food security and civil unrest are as much a part of national security as defence, cybersecurity and intelligence. China's civil-military fusion policy also infuses a security dimension into government-business relations, whereas economic security plays a critical role in China's five-year plan. The shrinking space for debate and discussion in society and academia could also be interpreted in the light of national security. Yet despite the explicit link made between foreign and domestic national security threats, the new national security bureaucracy overwhelmingly limits its work to domestic issues. There is little evidence that military or defence planning is being incorporated into the work of the new National Security Commission, despite the frequent references to "national security" in defence and foreign policy planning and documents, begging the question whether this will continue to be so in the future.

In the final section, entitled *The CPC, China's Rise and Geopolitical Shifts*, the articles by Richard McGregor, Xiaoyu Pu and Paul Haenle and Nathaniel Sher shift the focus from China itself to how the CPC's increasingly self-aware great power behaviour is perceived abroad, especially by the United States, and what the consequences for China could be. In the New Era, China and the CPC seek a global leadership role. This ranges from a proactive involvement in numerous existing international organisations to its own well-known international initiatives like the Belt and Road Initiative and the Asian Infrastructure Investment Bank. Soft and hard diplomacy assert Chinese interests and views across the world. National security in China's defence strategy has become much more expansive and proactive, preparing for the possibility of engagement with other powers, particularly in the West Pacific and Indian Ocean. Yet at the same time China is becoming much more selective in its engagement of the world. "Dual Circulation" of the economy aims to limit strategically risky dependencies on global markets for critical supplies, while remaining open for international trade in other goods. In the summer of 2022, when most countries had lifted their COVID-19 travel restrictions, China was among the few countries that kept them in place, only selectively issuing visas to visitors considered vital to Chinese interests. China's

globalisation has entered a fundamentally new phase, in which China seeks to set the terms and degree of its engagement with the world, rather than being content to ride in the slipstream of an international order determined by other, mostly Western powers.

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Section 1

Chinese Politics with Xi Jinping at the Core

1

The CPC under Xi: Ten More Years?

Jude Blanchette

While the duration of Chinese leader Xi Jinping's time in office remains—at the time of writing—unknowable and likely undecided, after ten years of his leadership what he intends to do in power is more certain. Indeed, it is one of Xi Jinping's strong points as a leader that he has clearly articulated his vision for the next phase of China's modernisation and that he has identified the obstacles the country and the Party need to overcome to achieve these objectives. In the "New Era", advancing China's full transformation into a "great modern socialist nation" has been the lodestar of Xi's tenure in office and will undoubtedly continue to drive Beijing's choices and decisions for the foreseeable future.

But what does it mean to construct a "great modern socialist nation"? What are the domestic and international dynamics that will shape this agenda over the duration of the 20th Party Congress period (2022–27) and potentially beyond?

Official Party discourse frames the approach and trajectory for socialist modernisation as clear and certain, if also necessitating focus, determination and sacrifice. As articulated across Xi's speeches and government and party documents such as the 14th Five-Year Plan or the November 2021 "Resolution on the Major Achievements and Historical Experience of the Party over the Past Century" (*Xinhua* 2021), China has entered a "new stage of development" which demands policy and structural upgrades to ensure that future economic growth minimises environmental externalities, supports widespread innovation and meets the qualitative aspirations of an increasingly expectant Chinese citizenry. To support these goals, Beijing has unveiled a host of macro policy frameworks, from "supply side structural reform" to "dual circulation" to "common prosperity", which are discussed in more detail in the chapters by Bert Hofman and Sarah Tong in this volume.

Taken together, these initiatives signal Xi's elevated comfort level with directly "steering" the allocation of capital, technology and talent compared to previous Party leaders (see Barry Naughton's chapter on "grand steerage" in this volume). This does not equal a return to the central planning of the Mao era, with dictates on prices and quantities for all manner of goods and services. Nevertheless, Xi is attempting to centralise China's previous patchwork approach to national development and replace it with a more "rationalised" policy planning approach.

Regional approaches to development, such as the Greater Bay Area or fiat cities like Xiong'an, and new nationwide regulatory and standards policies, such as the recent Party Centre and State Council guidance on "Accelerating the Construction of the National Unified Market" (*Xinhua* 2022), speak to Xi's deep-seated antagonism towards a decentralised approach to development. Xi's logic for this more hands-on, top-down economic development model is fairly clear: the stakes are too high and the objectives are too complicated to leave resource allocation solely to the market and local governments. Indeed, similar discussions are occurring in the capitals of market economies as well, where calls for industrial policy have sprung to life after years of disfavour.

This updated blueprint for China's modernisation is placing extreme pressures on the CPC to adapt in order to realise Xi's ambitions. Xi has used his first two terms to shape the Party accordingly. This has meant both rewiring the operating procedures of the Party, as well as re-integrating the CPC back into the sinews of social, political and economic life. Both these trends will continue after the 20th Party Congress this fall, reflecting Xi's view that absent a self-imposed understanding of perpetual risk, the Party will slide—inevitably—into indifference and irrelevance, a fate he believes led to the collapse of the Soviet Union. The key to the Party's success and survival, Xi said in a 2021 speech, "lies in us always insisting that the Party manage itself, that it engage in strict, unrelenting Party self-governance in all respects, and that it thoroughly carry out self-revolution while advancing social revolution" (Xi Jinping 2022a).

Finally, socialist modernisation, as it is understood by Xi Jinping, also entails an acute sense of risk and vulnerability, and the need to build comprehensive systems for identifying and stamping out perceived threats to the national security, broadly (and amorphously) defined. Of course, all previous leaders of the CPC had a healthy dose of suspicion about "hostile foreign forces" and the prospects for domestic political unrest, but Xi has channelled such concerns into a comprehensive framework for managing threats to the regime. In a 2014 speech outlining his "holistic national security concept", Xi argued that China's national security faced a "new situation" and "new tasks" that necessitated building a

"centralised, unified, efficient and authoritative national security system" (Xi Jinping 2022b).

As the chapters by Cheung, Lee, Pu and Wuthnow in this volume discuss in more detail, Xi's concept of national security includes institutional changes, such as the formation a "national security commission", as well as a mobilisational ideology that attempts to have cadres up and down the Leninist hierarchy place emergent and existing threats to the regime at the core of their governance work. More importantly, traditional demarcations between internal security and external security, or traditional and non-traditional threats are all but eradicated. Instead, the "National Security Outlook" articulates a bundled vision that positions security as the foundation of all of China's other development goals. As one researcher at the Central Party School summarised, "Security is the core interest of the nation and a prerequisite for the state's orderly development" (Blanchette 2020).

Mentioned at the extreme end of Xi's national security vision is the campaign to control and "assimilate" ethnic minorities through terror, re-education, cultural eradication and systematic surveillance. But even in China's major cities, the effects of Xi's holistic national security concept are evident through the chilled political climate. Furthermore, the increasingly sophisticated tracking capabilities enabled by digital technology add to the presence of the state, as is explained in more detail in John Lee's chapter in this volume. The vision has also induced a shift in the calculus for Party cadres, who see stability and order as taking prominence over growth and prosperity.

COVID-19, which for much of the world was first and foremost a public health emergency, was in Xi's China, a national security threat. As one analyst at the state security-linked China Institute of Contemporary International Relations argued just after the outbreak of COVID-19, China's "war" against the epidemic "is indeed a vivid practice and best example of implementing the overall national security concept" (Chen 2020).

Taken together, what are the consequences of Xi's vision for achieving socialist modernisation, both for China and for the Party? Will Xi succeed in his efforts to upgrade China's economic and governance system? And what does this mean for the CPC as an institution? Answers to these questions are difficult to arrive at with any certainty, at least for those who have been watching China navigate its path to modernity over the past four decades. Stretching back to the death of Mao Zedong in 1976, many foresaw the beginning of the end for the CPC. Economic headwinds, social unrest, political volatility—the expectations of collapse by external observers have had a certain rhyme and regularity that has

remained unchanging. Yet, the Party's track record in sailing close to the shoals of disaster but surviving is impressive and undeniable.

However, many outside observers think that this time could be different. As of this writing, in the late spring of 2022, China appears to be entering a period of pronounced economic malaise, a downturn in its international reputation and perhaps even domestic political unrest.[1] Its economy is contracting, its tacit support for Russia is provoking significant international backlash, and increasingly, foreign companies and investors are re-thinking their long-term strategy for engaging with the country. Behind closed doors, senior US and European policymakers and corporate boards openly describe China's current predicament as a crisis. Xi's dominance of the political system is now widely seen as one of the country's greatest vulnerabilities, as this limits the political system's ability to correct away from costly policies, most especially China's severe approach to containing COVID-19. Even long-standing China optimists are now questioning Beijing's management of the economy.[2]

Crucially, it is Xi Jinping's precise policy and political agenda, and the uncertainty around its duration, that many outside observers now see as an obstacle to China's long-term stability. His vision of "grand steerage", while not as stultifying as the command-and-control policies of the past, is seen to be exacerbating China's current productivity slump by constraining the private sector's access to capital and freedom to innovate. His attempted reinvigoration of the Party, while clearly addressing many of the pathologies that plagued the bloated and corrupt CPC of the past, has trimmed the pragmatism and flexibility of cadres that served growth and innovation. Instead, they must ponder how to address local issues without violating Beijing's mandates. Xi's expansive vision of national security is institutionalising a hostility towards the foreign and the new at precisely the time that China must further embrace both if it is to modernise its economy and governance system. Of course, the Xi administration still views globalisation as a critical component of China's path to modernisation, and thus clearly Beijing sees no contradiction between its national security strategy and remaining integrated with the rest of the world. But this will be an increasingly difficult balance to strike, for an increasing focus on security will almost certainly stoke nationalism and a sense of paranoia within the Party-state bureaucracy.

In light of the above-described dynamics at work under Xi's rule, tensions appear to be building within the system between the imperatives of China's continued social, economic and governance modernisation programme and the very specific types of regime dynamics that Xi's increased power consolidation are often unintentionally unleashing.

The first and most consequential is the very real risk to China's leadership succession process now that Xi appears to be heading towards a third term as General Secretary and without any clearly identified successor. While Xi, who was born in 1953, is still relatively young, the prospects of his sudden death and incapacitation can no longer be ignored. Sudden leadership transitions are difficult in *any* organisation, even those with fairly robust procedures governing power transitions, be this a democratic nation or a Fortune 500 company. Authoritarian systems, including China's, struggle to achieve a sustainable equilibrium on power sharing, which is why it is not uncommon for an authoritarian leader to either die in office or be forcibly removed (Svolik 2012).

Another unintended consequence of Xi's tight grip on the political arena is the negative effect this has on the information ecosystem in which he must make decisions. The larger Xi's role in shaping China's policy trajectory, the more critical it is that he have the most unvarnished data inputs on which to make effective decisions. Yet anecdotal evidence (and a comparative analysis of other authoritarian systems) indicates that, paradoxically, the more powerful Xi becomes, the more his access to accurate data and information will suffer. Cadres understand that feeding negative information up the chain-of-command might hurt not only their immediate, but also their future career prospects. Advisors to Xi have enormous power to indirectly shape the policy agenda through decisions on what information gets passed up, and what does not. And, of course, Xi's very clear priorities and proven willingness to marginalise or purge political opponents itself send a clear warning to anyone seeking to challenge the affirmed Party line. Similar information ecosystems have been a detriment to China in the best of times, but emerging, as it does, precisely at the moment when China is facing significant economic and foreign policy headwinds, it might well constrain the CPC's ability to adjust or adapt, as it has done so many times before.

Can Xi's control endure as the costs of his governance philosophy mount? If China's economy continues its slide (both structurally, and as a result of COVID and weakening global demand), will this necessitate a pivot to a new path or, more extremely (and less likely), Xi's removal from office? Will near-term challenges force Xi's hand and lead to a possible resumption of a more collective style of leadership? And might some of Xi's more aggressive bets—such as industrial policy to help achieve meaningful and sustainable technological innovation— ultimately pay off? It is, of course, too early to tell, and so much of what will determine the answers to these questions will depend on choices and dynamics that have yet to take form. Prognosticating on China's future has always been an invitation to be proven wrong. But the most sensible starting position is that Xi is not going anywhere, and for all the apparent setbacks China

is now facing—many of which can be directly tied to actions taken by Beijing in recent years—the discrepancy between public frustration and an organised leadership challenge remains significant.

This opens up a third path for Xi somewhere between unchallenged dominance (which he may well lose if problems continue to mount) and full-on leadership change (which he is unlikely to have to confront): Xi as a bruised autocrat with China as a diminished global power. In this scenario, Xi is able to retain his grip on power, but without the elan and appeal that seemed to follow him over the 18th and 19th Party Congresses. His major policy pronouncements would receive a polite reception, and then be ignored summarily or (purposefully) misconstrued. Policy paralysis and policy dislocation would typify the rollout and implantation, or lack thereof, of new government regulatory efforts. Xi would respond with yet further efforts to rectify the Party, unleashing wave after punishing wave of intra-Party inspections and investigations. Propaganda organs would again become a tool for elite contestation and rivalry, and rumours would again become tools of dissent as Xi's star begins to dim and rivals look to close off his exits. China's position in the world remains significant in this scenario, but its more expansionist aspirations for global leadership are curtailed as it confronts rising financial scarcity and consequently needs to retrench its overseas diplomatic, financial and military aspirations.

No scenario is certain yet. Choices made by China's leadership, and Xi in particular, will shape the path China travels in the months and years ahead.

Notes

[1] Recent polling conducted by the ASEAN Studies Centre at the ISEAS-Yusof Ishak Institute in Singapore, for example, shows that more than 75 per cent of respondents in ASEAN are "worried about [China's] growing regional economic influence". See "The State of Southeast Asia 2022," ISEAS-Yusof Ishak Institute, 2022. Polling by the Lowy Institute finds that 63 per cent of Australians now view China as more of a security threat than an economic partner, up from 41 per cent just two years ago.

[2] For example, leaked comments by PAG founder Weijian Shan to the *Financial Times* quote the investor as stating, "We think the Chinese economy at this moment is in the worst shape in the past 30 years". See "China in 'deep crisis', says Hong Kong private equity chief," *Financial Times*, 28 April 2022.

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2

CPC Elite Politics and the 20th Party Congress

Chen Gang

Power succession is at the core of Chinese elite politics. Through examining potential rising stars on the eve of the 20th Party Congress and how the CPC handles power succession under Xi's leadership, this chapter aims to reflect on some new socio-cultural characteristics about today's Chinese elite politics and to assess whether and to what degree the selection of top leaders is being institutionalised.

Rising Stars from the Provinces and Regions

Chinese provincial leaders constitute the largest bloc in the CPC Central Committee. They form a major link through which the central leadership implements its policies. These officials are heavyweights in Chinese politics who manage the economies of provinces and regions that dwarf those of whole countries.

The provincial leadership reshuffle preceding the Party Congress may shed some light on the upcoming restructure in the CPC Politburo and other leading apparatus. In 2021, Ma Xingrui replaced Chen Quanguo, a Politburo member, as the Xinjiang party chief, likely paving the way for promoting Ma to Politburo membership in 2022. Younger provincial party secretaries are also frontrunners for a seat on the Politburo, including Liaoning Party Secretary Zhang Guoqing, Shandong Party Secretary Li Ganjie (both born in 1964), Hainan Party Secretary Shen Xiaoming (1963), Shaanxi Party Secretary Liu Guozhong (1962), Zhejiang Party Secretary Yuan Jiajun (1962) and Fujian Party Secretary Yin Li (1962) (Appendix 1).

The young provincial leaders have diverse backgrounds, including working experience in coastal areas like Zhejiang, Shanghai and Fujian, in the military and aerospace industry, Communist Youth League, technology and engineering fields, and public health. Against the backdrop of the COVID-19 pandemic, it is noteworthy that two officials with a public health background, Yin Li and Shen Xiaoming, have been promoted to become party secretary of Fujian and Hainan provinces, respectively.

Many technocrats at the ministerial/provincial level have been promoted during Xi Jinping's tenure, including from the military and aerospace industries, and electronic and environmental engineering, medical or other strategic new industries. Behind this new round of technocratic appointment lies China's ambition to gain tech supremacy, a cleaner environment and closer integration of military and civilian industries (see also Tai Ming Cheung's chapter in this volume).

Ma Xingrui, Zhang Qingwei, Zhang Guoqing and Yuan Jiajun all rose through the aerospace industry (Chen 2020: 124–34). Yin Li and Shen Xiaoming are both highly experienced health professionals. These groups of promotions reflect the rising priority of industrial innovation and social welfare respectively in Xi's administration. Of these technocrats, Zhang Guoqing and Shen Xiaoming are younger provincial party secretaries with ties to Xi. Zhang's doctoral studies at Tsinghua University overlapped with those of Xi (1998–2002). Shen was Secretary to the CPC Education Committee in Shanghai when Xi served as the city's party secretary (2007). Both seem well-positioned to ascend to the Politburo in 2022 or 2027.

Shen Yiqin, the only female and ethnic minority (Bai) provincial party secretary, may be promoted to a deputy-national-level position after the 20th Party Congress, or even replace Sun Chunlan as the single female Politburo member in 2022. Shen's career in Guizhou also means she has worked closely with Xi allies such as Li Zhanshu or Chen Min'er (Thomas 2021).

Frontrunners in the Ministries, CPC Central Agencies

Compared to their provincial peers, cabinet ministers usually have smaller chances of being promoted to the Politburo or other national-level leadership positions. Nevertheless, it is still possible for some with close connections to the top leadership or who have earlier experience as provincial party secretaries to join the top echelon. Incumbent Politburo members like Liu He (former deputy minister in charge of the National Development and Reform Commission) and Yang Jiechi (former foreign minister) were cases in point during the leadership reshuffle at the 19th Party Congress in 2017.

Among the 26 ministers in the State Council, 14 were born in the 1960s (Appendix 2). Like their colleagues in the provinces, ministers born in the 1960s have brighter prospects for further promotion in 2022 compared to their older peers. Lu Hao, minister of natural resources and former governor of Heilongjiang province, is currently the youngest minister in the State Council (Appendix 2). He was born in 1967 and worked as the first secretary of the Chinese Communist Youth League, which has served as a cradle for generations of Chinese leaders, including former CPC General Secretaries Hu Yaobang and Hu Jintao. In the League's bureaucracy, cadres are on average much younger than their peers in other government or party departments. They are usually promoted at a faster speed and this kind of comparative advantage in age can be decisive at a Party Congress when age becomes an important criterion for promotion.

While many rising stars have not worked with Xi directly, they appear to have enjoyed the political patronage of Xi's allies or clients on the Politburo. Both Chen Xiaojiang and Hou Kai (Appendix 2) proved themselves in anti-corruption agencies, working under Zhao Leji and Yang Xiaodu. Tang Renjian was twice Liu He's deputy in the general office of the Central Financial and Economic Affairs Commission. Hu Heping was a protégé of Chen Xi in the Tsinghua University administration (Thomas 2021).

Minister of Commerce Wang Wentao, the second youngest minister after Lu Hao, may also be promoted in the future. Foreign trade continues to be strategically vital despite the COVID-19 pandemic and US-China trade row. Moreover, Wang was governor of Shanghai's Huangpu District in 2007 when Xi himself was Shanghai party secretary. Both Lu Hao and Wang Wentao, the two youngest ministers on the State Council, served as governor of Heilongjiang province in the Northeast before being transferred to Beijing. This may reflect the State Council's focus on the development of this stagnating region, as is seen in the 2021–25 revitalisation plan for the Northeast approved by the State Council in September 2021. Moreover, Premier Li Keqiang worked as party secretary of Liaoning province in the Northeast before he became executive vice-premier in 2008.

Huai Jinpeng, a software expert born in 1962, became minister of education in August 2021. A typical technocrat, Huai served as president of Beijing University of Aeronautics and Astronautics (Beihang University), and as vice-minister of industry and information technology. Beihang University is one of the "seven sons of national defence", public research universities that collaborate closely with the People's Liberation Army. Huai's appointment reflects the intention to reform the education system to better serve the goal of science and technology self-reliance in both the military and civilian realms.

Another important official in promoting China's industry and technology capacity is Minister of Industry and Information Technology Xiao Yaqing, who was born in 1959 and graduated from the Materials Department of Central South University. Xiao, a professorial senior engineer, has been working at the State Council since 2009 in important posts like deputy secretary-general of the State Council, director of the State-Owned Assets Supervision and Administration Commission (SASAC), and director of the State Administration for Market Regulation.

Ministerial-level officials working in CPC Central Committee agencies may also have a chance to be promoted to higher national leadership positions. Jiang Jinquan, director of the Central Policy Research Office, may have a good chance of joining the Politburo or the CPC Central Secretariat. The Central Secretariat, which is mainly responsible for carrying out routine operations of the Politburo, is empowered by the Politburo to make day-to-day decisions and act as a coordinator among the hierarchies of the Party, the State Council and the military. A Secretariat member may wield more actual power than a Politburo member. Jiang's predecessor, Wang Huning, had held the directorship of the Central Policy Research Office between 2002 and 2020 and served three paramount leaders, Jiang Zemin, Hu Jintao and Xi Jinping. For 18 years, Wang had been the chief adviser to the top leaders, and since 2017, he has been a Politburo Standing Committee member.

Military Reshuffle

In July and September 2021, Xi promoted two batches of senior military officers to the rank of general. Some of these newly-promoted generals may join the elite Central Military Commission (CMC) in 2022, which is chaired by Xi himself. To many observers' surprise, Xi promoted Wang Haijiang to head the military's Western Theatre Command bordering India in September, only two months after Xi had appointed Xu Qiling in that job. The Western Theatre Command leadership has undergone several changes since the retirement in December 2020 of the long-serving General Zhao Zongqi who had headed the command since its inception. General Wang has particular expertise in the Western Theatre, having earlier served as Commander of the Tibet military region, which also borders India, and previously as deputy commander of the southern Xinjiang military region, the military region that has been directly engaged with India in the border crisis that began in the summer of 2020.

Commander of the People's Liberation Army (PLA) Air Force Chang Dingqiu, born in 1967, is now the youngest full general in the PLA. In 2014, he became

the youngest officer at corps level when he was promoted to chief of staff of the air force in the former Shenyang Military Region. Later on Chang became the deputy commander of the newly-formed Southern Theatre Command, making him the youngest PLA officer of his rank. Along with Wang Haijiang, Liu Zhenli and other newly-promoted generals, Chang is now a strong contender for Central Military Commission membership in 2022. In addition, Zhong Shaojun, a long-time political aide of Xi in the PLA, is another formidable candidate for joining the CMC. Zhong, born in 1968, served on Xi's staff since Xi's time in Zhejiang province, followed Xi to Shanghai and then Beijing. A lieutenant general, Zhong currently serves as director of Xi's office and as director of the General Office of the CMC.

Air Force General Xu Qiliang and Army General Zhang Youxia, two vice-chairmen of the CMC, are more than 70 years old and therefore are expected to retire after 2022. They are expected to be replaced by other incumbent members in the CMC, among whom Admiral Miao Hua, born in 1955, and Discipline Inspection Commissioner of the Central Military Commission Zhang Shengmin, born in 1958, seem most eligible for such a promotion due to their age.

The Politburo and its Standing Committee

Up to now, no heir apparent for CPC General Secretary Xi Jinping can been identified. Such a void has sent a signal to the outside world that Xi may seek a third term after 2022. If the informal retirement age criterion of 68 is observed at the 20th Party Congress, with Xi an exception, Li Zhanshu and Han Zheng will leave the apex Politburo Standing Committee, while Wang Chen, Liu He, Xu Qiliang, Sun Chunlan, Yang Jiechi, Yang Xiaodu, Zhang Youxia, Chen Xi and Guo Shengkun will leave the Politburo (Appendix 3). Nevertheless, age has never been the only criterion in China's elite politics, with other important yardsticks including length of incumbency, performance and loyalty to the paramount leader.

Li Keqiang (born in 1955) has been China's premier for two terms, and a Politburo Standing Committee member for three terms since 2007, while Wang Yang has also acted as a Politburo member for three terms since 2007. Li has indicated that his premiership will end by March 2023. It is still not clear whether Li or Wang will serve a fourth term on the Politburo, but past experience indicates that such a chance is slim (Appendix 4).

Wang Huning may also leave the Politburo Standing Committee, as he was replaced in 2020 in the position of director of the CPC Central Policy Research Office by Jiang Jinquan. Zhao Leji, the youngest Standing Committee member,

and member in charge of the unrelenting anti-corruption campaign, may stay on the Standing Committee after 2022. Zhao has a strong connection with Shaanxi province, Xi's ancestral home province. Zhao served as Shaanxi party secretary from 2007 to 2012 before moving to Beijing to head the Central Organization Department, where he cemented his position through loyalty to Xi in his first term. Zhao played a key role in consolidating Xi's power by filling the vacancies left by a legion of cadres caught up in the anti-corruption campaign.

In the Politburo, Ding Xuexiang, Chen Min'er, Hu Chunhua, Cai Qi, Li Qiang, Li Xi, Li Hongzhong, Chen Quanguo and Huang Kunming, at the next Party Congress, will all be younger than 68. Thus some of them will very likely make it on to the Standing Committee (Appendix 4). Among them, Ding Xuexiang, Hu Chunhua and Chen Min'er, born in the 1960s, are frontrunners due to their relatively young age, while Li Qiang, Cai Qi and Huang Kunming, ex-Zhejiang officials who have forged a close relationship with Xi, are also competitive. However, the long zero-COVID lockdown in Shanghai that infuriated residents and caused severe economic damage in April and May 2022 may complicate Li Qiang's path to the top echelon.

Conclusion

Amid what Xi called "changes unseen in 100 years", the CPC's power succession and elite politics are facing uncertainties ahead of the 20th Party Congress. Past experience and existing informal rules may not necessarily guide future reshuffles, but in general, the CPC has institutionalised its power transition through establishing a set of criteria for promotion that include loyalty, performance, age and qualifications. The consistency of the application of these criteria helps to avoid a disruptive power struggle. If past practice holds, a majority of the Politburo and its Standing Committee members at the next Party Congress should have work experience as provincial leaders. Proximity to Xi does not necessarily hold more explanatory power for personnel shifts in Chinese elite politics than do technocratic backgrounds, age or performance.

References

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Appendix 1: List of provincial leaders (May 2022)

Provincial Units	**Party Secretary**	**Mayor/Governor**
Anhui	Zheng Shanjie (郑栅洁) (1961)	Wang Qingxian (王清宪) (1963)
Beijing	Cai Qi (蔡奇) (1955)	Chen Jining (陈吉宁) (1964)
Chongqing	Chen Min'er (陈敏尔) (1960)	Hu Henghua (胡衡华) (1963)
Fujian	Yin Li (尹力) (1962)	Zhao Long (赵龙) (1967)
Gansu	Yin Hong (尹弘) (1963)	Ren Zhenhe (任振鹤) (1964)
Guangdong	Li Xi (李希) (1956)	Wang Weizhong (王伟中)(1962)
Guangxi	Liu Ning (刘宁) (1962)	Lan Tianli (蓝天立) (1962)
Guizhou	Shen Yiqin (谌贻琴) (1959)	Li Bingjun (李炳军) (1963)
Hainan	Shen Xiaoming (沈晓明) (1963)	Feng Fei (冯飞) (1962)
Hebei	Ni Yuefeng (倪岳峰) (1964)	Wang Zhengpu (王正谱) (1963)
Heilongjiang	Xu Qin（许勤）(1961)	Hu Changsheng (胡昌升) (1963)
Henan	Lou Yangsheng (楼阳生) (1959)	Wang Kai (王凯) (1962)
Hubei	Wang Menghui (王蒙徽) (1960)	Wang Zhonglin (王忠林) (1962)
Hunan	Zhang Qingwei (张庆伟) (1961)	Mao Weiming (毛伟明) (1961)
Inner Mongolia	Sun Shaocheng (孙绍骋) (1960)	Wang Lixia (王莉霞) (1964)
Jiangsu	Wu Zhenglong (吴政隆) (1964)	Xu Kunlin（许昆林）(1965)
Jiangxi	Yi Lianhong (易炼红) (1959)	Ye Jianchun（叶建春）(1965)
Jilin	Jing Junhai (景俊海)(1960)	Han Jun (韩俊) (1963)
Liaoning	Zhang Guoqing (张国清) (1964)	Li Lecheng (李乐成) (1965)
Ningxia	Liang Yanshun (梁言顺) (1962)	Xian Hui (咸辉) (1958)
Qinghai	Xin Changxing (信长星) (1963)	Xin Changxing (信长星) (1963)
Shaanxi (陕西)	Liu Guozhong (刘国中)(1962)	Zhao Yide (赵一德) (1965)
Shanxi (山西)	Lin Wu (林武) (1962)	Lan Fo'an (蓝佛安) (1962)
Shandong	Li Ganjie (李干杰) (1964)	Zhou Naixiang (周乃翔) (1961)
Shanghai	Li Qiang (李强) (1959)	Gong Zheng (龚正) (1960)
Sichuan	Wang Xiaohui (王晓晖) (1962)	Huang Qiang (黄强) (1963)
Tianjin	Li Hongzhong (李鸿忠) (1956)	
Tibet	Wang Junzheng (王君正) (1963)	Che Dalha (齐扎拉) (1958)
Xinjiang	Ma Xingrui (马兴瑞) (1959)	Shohrat Zakir (雪克来提·扎克尔) (1953)
Yunnan	Wang Ning (王宁) (1961)	Wang Yubo (王予波) (1963)
Zhejiang	Yuan Jiajun（袁家军）(1962)	Wang Hao (王浩) (1963)

Numbers in parentheses indicate year of birth.

Appendix 2: List of ministers in the state council (May 2022)

Position	**Current Holder**
Minister of Foreign Affairs	Wang Yi (王毅) (1953)
Minister of National Defence	Wei Fenghe (魏凤和) (1954)
Minister in charge of the National Development and Reform Commission	He Lifeng (何立峰) (1955)
Minister of Education	Huai Jinpeng (怀进鹏) (1962)
Minister of Science and Technology	Wang Zhigang (王志刚) (1957)
Minister of Industry and Information Technology	Xiao Yaqing (肖亚庆) (1959)
Minister in charge of the State Ethnic Affairs Commission	Chen Xiaojiang (陈小江) (1962)
Minister of Public Security	Zhao Kezhi (赵克志) (1953)
Minister of State Security	Chen Wenqing (陈文清) (1960)
Minister of Civil Affairs	Tang Dengjie (唐登杰) (1964)
Minister of Justice	Tang Yijun (唐一军) (1961)
Minister of Finance	Liu Kun (刘昆) (1956)
Minister of Human Resources and Social Security	Zhang Jinan (张纪南) (1957)
Minister of Ecology and Environment	Huang Runqiu (黄润秋) (1963)
Minister of Natural Resources	Lu Hao (陆昊) (1967)
Minister of Housing and Urban-rural Construction	Wang Menghui (王蒙徽) (1960)
Minister of Transport	Li Xiaopeng (李小鹏) (1959)
Minister of Water Resources	Li Guoying (李国英) (1963)
Minister of Agriculture and Rural Affairs	Tang Renjian (唐仁健) (1962)
Minister of Commerce	Wang Wentao (王文涛) (1964)
Minister of Culture and Tourism	Hu Heping (胡和平) (1962)
National Health Commission	Ma Xiaowei (马晓伟) (1959)
Governor of the People's Bank of China	Yi Gang (易纲) (1958)
Auditor-General of the National Audit Office	Hou Kai (侯凯) (1962)
Minister of Veterans Affairs	Sun Shaopin (孙绍聘) (1960)
Minister of Emergency Management	Huang Ming (黄明) (1957)

Numbers in parentheses indicate year of birth.
Source: Compiled by the author.

Appendix 3 Ages and Positions of the Politburo and Its Standing Committee Members (2017–22)

Politburo Standing Committee

Name	Age	Position
1. Xi Jinping	69	CPC general secretary, CMC chairman, China's president
2. Li Keqiang	67	Premier
3. Li Zhanshu	72	Chairman of the National People's Congress
4. Wang Yang	67	Chairman of the Chinese People's Political Consultative Conference
5. Wang Huning	67	Secretary of the CPC Central Secretariat
6. Zhao Leji	65	Secretary of the Central Disciplinary Inspection Commission
7. Han Zheng	68	Executive Vice Premier

Other Politburo Members

Name	Age	Position(s)
1. Ding Xuexiang	60	Chief of the General Office of CPC Central Committee
2. Wang Chen	71	Vice chairman of the National People's Congress
3. Cai Qi	66	Beijing party secretary
4. Liu He	70	Vice premier
5. Xu Qiliang	72	CMC vice chairman
6. Sun Chunlan	72	Vice premier
7. Li Xi	66	Party secretary of Guangdong Province
8. Li Qiang	63	Party secretary of Shanghai Municipality
9. Li Hongzhong	66	Party secretary of Tianjin Municipality
10. Yang Jiechi	72	Director of the Office of the Central Commission for Foreign Affairs
11. Yang Xiaodu	69	Director of the National Supervisory Commission
12. Zhang Youxia	72	CMC vice chairman
13. Chen Xi	69	Director of the CPC Central Organisation Department
14. Chen Quanguo	66	Party secretary of Xinjiang Autonomous Region
15. Chen Min'er	62	Party secretary of Chongqing Municipality
16. Hu Chunhua	59	Vice premier
17. Guo Shengkun	68	Secretary of the Central Political and Legal Affairs Commission
18. Huang Kunming	65	Director of the CPC Central Propaganda Department

Source: Compiled by the author.

Appendix 4: Top Candidates for the Politburo and Its Standing Committee at the 20th Party Congress

Politburo Standing Committee

1. Xi Jinping
2. Wang Huning
3. Zhao Leji
4. Ding Xuexiang
5. Hu Chunhua
6. Huang Kunmin
7. Cai Qi
8. Chen Min'er
9. Li Xi

Other Politburo Members

1. Ma Xingrui
2. Li Qiang
3. Li Hongzhong
4. Zhang Qingwei
5. Zhang Guoqing
6. Yuan Jiajun
7. Yin Li
8. Shen Xiaoming
9. Shen Yiqin
10. Zhou Qiang
11. Lu Hao
12. Xiao Yaqing
13. Wang Wentao
14. Wang Xiaohong
15. Chen Xiaojiang
16. Hou Kai
17. Jiang Jinquan
18. He Lifeng
19. Miao Hua
20. Zhang Shengmin

Source: Projected by the author.

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3

Age, Factions and Specialisation in the Path to the New Leadership at the 20th Party Congress

Victor Shih

In an institutionalised one-party state, power is typically concentrated in the hands of the top few officials. Therefore, scholars have paid a great deal of attention to the composition and policy preferences of senior officials in one-party regimes. In predicting the potential outcomes at the top level of the 20th Party Congress, I take three major factors into consideration in order to deduce two possible scenarios for the Politburo Standing Committee. These are age, factional affiliation and job specialisation.

In terms of age, an informal rule of retirement for Politburo and Standing Committee members who surpass the age of 67 at the time of the party congress has been in place since the 1990s, namely, the "seven up, eight down" (at 67 you can stay, at 68 you have to go) rule. With the exception of the secretary general, this rule has been applied consistently since the late Jiang Zemin years. To be sure, quite a number of officials on the borderline of 67 received promotions into the Standing Committee, including Li Zhanshu at the 19th Party Congress. As discussed below, one way in which a supremely powerful Xi Jinping can change the rule to his advantage is by changing the "seven up, eight down" rule to a "six up, seven down" one to force everyone 67 or older to retire.

The second consideration is factional affiliation. Typically measured as overlapping school or career experience between high-level patrons and mid-level clients, such affiliations have a significant impact on the promotion prospects of the clients (Jia, Kudamatsu and Seim 2014; Meyer, Shih and Lee 2016; Shih, Adolph and Liu 2012). Both on the way up and on the way down, the fate of

a senior patron can meaningfully affect the promotion prospects of his clients. At the 19th Party Congress in 2017, the vast majority of newly promoted Politburo members had previous work or school ties with Xi, while no one with previous work ties with Hu Jintao joined the Politburo as a new member. One can expect factional affiliation with Xi to continue to play a major role in Standing Committee and Politburo level promotions. Given the dominance of the Xi faction in the Party, one can expect some balancing among the various tendencies within his faction. Four major experiences in Xi's career shaped his faction: Fujian, Zhejiang, Shanghai and Tsinghua University. In addition, he also acquired a few faction members through his family connections in north-western China.

Finally, although factional affiliation is an important factor, some of the positions at the Standing Committee or Politburo level are highly specialised, and require at least some prior experience in those domains. For example, although law and politics committee secretaries typically had rich local governance experience, since the 1990s, they all have had central level experience in the law and politics apparatus, especially in the Ministry of Public Security. Given the sprawling and complex bureaucracies and enormous power wielded by the law and politics and State Council bureaucracies, there are major benefits to having experienced officials leading them. Xi can simply rotate his favourites to lead these bureaucracies into the relevant positions prior to their promotion to the top positions in these bureaucracies.

Given these factors, the remaining factor driving top level promotion outcomes at the 20th Party Congress will be the degree to which Xi can dominate the appointment process. Even up to the 19th Party Congress, Xi did not completely dominate; officials not in his faction, including Han Zheng and Wang Yang, still received promotions to the Standing Committee, although he clearly wielded much more influence at the Politburo level. However, we can imagine that at the 20th Party Congress, Xi might exercise even greater power than he did at the 19th Party Congress, resulting in the near complete elimination of non-Xi officials from the Standing Committee and from the Politburo. Below, I sketch out two scenarios reflecting these two levels of dominance at the Standing Committee level.

A Weakly Dominant Xi Scenario

In creating the two scenarios, I begin by eliminating all current Standing Committee and Politburo members who will be above 67 in the fall of 2022. In the weakly dominant scenario, those who have not surpassed 67 will remain

in the Standing Committee or the Politburo, though they may be rotated to different positions. We know that this will happen already since Li Keqiang, for example, announced that he will step down from the premier position in 2023. As someone who is 67 this year, he is entitled to serve another term in the Standing Committee, possibly as the National People's Congress (NPC) chairman, as Li Peng did. In the weakly dominant scenario, he will then be able to serve a full term as NPC chairman.

Table 1 outlines the possible membership of the 20th Standing Committee in a weakly dominant Xi scenario. To be sure, Xi remains the secretary-general of the CPC even in this scenario, giving him a third term in office. Similarly, Wang Yang, who also is 67, will remain in the Standing Committee with a possible move into the premier position vacated by Li. Wang is eminently qualified for the position since he has served as party secretary for major provinces, as well as a stint as State Council vice-premier.

This arrangement is not necessarily disadvantageous for Xi. Wang's age will limit his tenure as premier to one term, allowing Xi to appoint someone closer to him to be the next premier of China at the 21st Party Congress in 2027. Like Li and Wang Yang, Wang Huning initially benefited from Jiang Zemin's patronage, but has since enjoyed the support of both Hu Jintao and Xi Jinping, culminating in his elevation into the Standing Committee at the 19th Party Congress.

Again, given his age at 67, Wang Huning should be able to remain in his current position as the propaganda tsar of China for five more years, perhaps with a rotation to the Chinese People's Political Consultative Conference (CPPCC) Chair position if that were to be vacated by Premier Wang Yang. Among incumbent Standing Committee members, Zhao Leji, currently the secretary of the Central Discipline and Inspection Commission (CDIC), is the most likely to remain in his current position, in addition of course to Xi Jinping. At 65, Zhao is well below the 67 cut-off; moreover, he is a long-standing Xi follower from his north-western roots. Since 2019, Zhao also oversaw the "two upholding" campaign to ensure absolute obedience to Xi among party and state cadres (Xinhua 2019). There is every reason to believe that Zhao will remain in the Standing Committee and continue as the secretary of the CDIC.

As for the two Standing Committee seats vacated by Li Zhanshu and Han Zheng, the two most likely newcomers are long-time Xi secretary Ding Xuexiang and former Xi personal secretary Li Qiang, who is now the party secretary of Shanghai. Clearly, these two officials are trusted by Xi as they both served as his personal secretary and saw very rapid promotions in the past ten years, culminating to their entries into the Politburo in 2017.

If Wang Yang takes the premier position, Ding will likely become the CPPCC chairman or replace Wang Huning as the propaganda tsar of China. Because Ding can serve two terms in the Standing Committee, either position would allow him to take an even more powerful post in 2027, perhaps as the new CDIC secretary or NPC chairman. Of the four major provincial secretaries in Xi's faction (Li Qiang, Li Xi, Cai Qi, Chen Min'er), Li Qiang likely has the best chance of landing a seat in the Standing Committee as Han Zheng's replacement. Besides serving as one of Xi's closest confidantes in Zhejiang, he is following in the footsteps of Han Zheng, who was also the party secretary of Shanghai. Despite some grumblings about his performance during the lockdown in Shanghai in April and May 2022, the similarity of his trajectory with Han makes Li a natural candidate for the executive vice premier position.

Table 1: Standing Committee Arrangement in a Weakly Dominant Xi Scenario

	Age in 2022	**Xi-affiliated**	**Potential Position**
Xi Jinping	69	Yes	Secretary General
Li Keqiang	67	No	NPC Chairman
Wang Yang	67	No	Premier/CPPCC Chairman
Wang Huning	67	No	Propaganda Tsar/ CPPCC Chair
Zhao Leji	65	Yes	CDIC Secretary
Ding Xuexiang	60	Yes	CPPCC Chair/ Propaganda
Li Qiang	63	Yes	Executive Vice Premier/ Premier

A Strongly Dominant Xi Scenario

Xi's power has likely strengthened since the 2017 19th Party Congress. Thus, the political equilibrium which dictated promotion patterns in 2017 might not hold in 2022. A much stronger Xi Jinping would have the ability to force officials not in his faction, but at the borderline retirement age of 67 to retire. This may allow him to elevate a few more of his followers into the Standing Committee.

One should note that none of the likely entrants into the Standing Committee from Xi's faction has reached 67 in 2022, except for Cai Qi. This was perhaps by design as Xi considered whom to elevate into the Politburo in 2017, which excluded older officials in his faction such as Liu Cigui. The most convenient tool to do this might be to modify the retirement age in the Politburo from "seven up, eight down" to "six up, seven down". Li Keqiang, Wang Yang and Wang Huning would then all have to step down from the Standing Committee as they are 67 (Table 2).

As Table 2 shows, in their place, Li Xi, Chen Min'er, and Huang Kunming would be elevated. Of course, instituting a "six up, seven down" rule would compel 67-year-old Cai Qi, the current Beijing party secretary, to also step down from the Politburo instead of winning a promotion into the Standing Committee.

The new rule would also compel Wang Huning's retirement, even though Wang apparently is a trusted advisor of Xi. For Xi, this might be a worthwhile trade-off since with one stroke he can eliminate the last remaining bloc that can curtail his power. Both Wang Yang and Li Keqiang owe their careers more to Hu Jintao than to Xi himself and have networks that are independent of Xi. As long as they hold senior positions in the Party, they remain potential rallying points for an inner-party opposition to Xi. By forcing them into retirement, this potential threat would be all but eliminated. Given that Xi has a healthy supply of officials whom he can elevate to the Standing Committee, the loss of Cai Qi does not change his ability to dominate the Standing Committee much. Wang Huning, meanwhile, can continue to advise Xi on global affairs as an advisor without a senior party position.

As seen in Table 2, in this strongly dominant Xi scenario, Li Qiang, someone who has not worked in the State Council, may suddenly find himself the next premier of China, while Li Xi, the party secretary of Guangdong, would take the executive vice premier position. Following Li Zhanshu's footstep, Ding Xuexiang can take the NPC chairman position, while Huang Kunming, the current head of the Central Propaganda Department, can replace Wang Huning as the propaganda Tsar of China. Chen Min'er, meanwhile, can replace Wang Yang as the head of the CPPCC. In this scenario, Xi's faction controls all of the Standing Committee level positions, allowing him to dominate politics in the Party completely.

Table 2: Standing Committee Arrangement in a Strongly Dominant Xi Scenario

	Age in 2022	**Xi-affiliated**	**Potential Position**
Xi Jinping	69	Yes	Secretary General
Zhao Leji	65	Yes	CDIC Secretary
Ding Xuexiang	60	Yes	NPC Chair
Li Qiang	63	Yes	Premier
Li Xi	66	Yes	Executive Vice Premier
Chen Min'er	62	Yes	CPPCC Chair
Huang Kunming	66	Yes	Propaganda Tsar

The above analysis presents two extreme ends of a spectrum, and it is entirely possible that an intermediate scenario may emerge whereby Li Keqiang remains in the Standing Committee while Wang Yang and Wang Huning retire. Alternatively, Li Keqiang, Wang Yang and Wang Huning may all retire, but Hu Chunhua is elevated to take the premier position, making him the lone non-Xi official in the Standing Committee. In any event, it is all but certain that the "weakly dominant" scenario is the minimum one for Xi at the 20th Party Congress. It is hard to imagine a situation where Xi, if only two seats in the Standing Committee were vacated, would choose someone other than his trusted followers to fill them. Even if he were to obtain five vacated seats, he at most would offer one of the seats to someone not in his faction, again perhaps Hu Chunhua.

Implications for the Politburo and the 21st Party Congress

Whether the weak or strong Xi dominance model plays out at the 20th Party Congress will have implications for policymaking in the next five years, and will also have longer-term implications for Politburo positions and promotions at the 21st Party Congress in 2027. If Xi remains weakly dominant, policymaking will be a stronger version of policymaking today with Xi dictating all of the major trends in the Party and government. Yet, because senior leaders from other factions remain in office, they still have some room to interpret political dictates from the highest level when implementing policies.

One can see the pro-market orientation of Li Keqiang as a selective interpretation of the full agenda laid out at the 19th Party Congress. In the strongly dominant case, Xi followers, all of whom had obtained their positions by displaying strict loyalty to Xi, will devote considerable efforts to finding out Xi's policy preferences and implementing policies in fulfilment of these preferences, regardless of other considerations. This tendency may be especially strong among younger officials in Xi's camp, such as Chen Min'er, who looks forward to another term in high office after 2027.

In terms of personnel, a weakly dominant Standing Committee will leave the door open for officials from the other factions to get to high-level positions in the Politburo after the 20th Party Congress. Although the Xi faction will likely dominate the personnel process, the other factions at least retain some bargaining power. In the meantime, fewer Xi followers will get the chance to enter the Standing Committee and Politburo because many face retirement age by 2027.

Obviously, if the strong dominance outcome takes place at the 20th Party Congress, there will be more vacancies at the Politburo level which then can be filled with even more junior members of Xi's faction or followers of Xi's close

associates. As it stands, we already know that Ma Xingrui, an official who has never worked closely with Xi (but who may have close ties with first lady Peng Liyuan), is a likely candidate for a Politburo seat as the newly appointed secretary of Xinjiang. There are also strong rumours that long-time Xi follower and National Development and Reform Commission (NDRC) chairman He Lifeng, may be promoted to the vice-premier position, making him a Politburo member.

To watch over the security services, it is all but certain that either Chen Yixin or Wang Xiaohong, both long-time Xi followers, will take over as the secretary of the Law and Politics Committee, again a Politburo seat. If the Party maintains its informal rule to have at least one woman in the Politburo, former Tsinghua University Party Secretary Chen Xu, who was recently promoted vice-director of the Central Committee United Front Department, may become the lone woman in the Politburo, replacing Sun Chunlan. In a strongly dominant Xi scenario, officials with weaker ties to Xi, or only ties to followers of Xi such as foreign ministry Party Secretary Qi Yu and Central Liaison Department head Song Tao, also will receive Politburo seats.

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4

A Data-driven Assessment of the CPC Leadership

Lee Jonghyuk

Xi Jinping occupies the three highest positions of the Party, state and military organs in China, namely president of the People's Republic of China (PRC), general party secretary of the Communist Party of China (CPC) and chairman of the Central Military Commission (CMC). These titles enable him to run the country in his own manner. However, Xi himself cannot rule the country alone. He needs a team of subordinates who are competent and loyal to him. To Xi, the selection of subordinates for maintaining regime legitimacy is therefore a high-stakes affair.

In order to predict who will become the new top leaders in China, there have been many studies that attempt to describe Xi Jinping's selection methods (Li 2014a, 2014b; Miller 2013). However, these studies focus only on the supreme leaders in the Politburo and its Standing Committee, neglecting the selection of the lower ranks, especially the approximately 200 members of the Central Committee. This is mainly due to the methodology (i.e. the use of qualitative and case study analysis) to evaluate a cadre's political strength. Such work tends to predict cadre selection by using only a small number of observations of top-level selection or by examining the top leader's career profile. Moreover, qualitative evidence may differentiate officials with political connections from those without, but cannot predict the likelihood of promotion among politically-connected officials. If there are many possible candidates for high-ranking positions, who among them are most likely to be promoted? In other words, given the likelihood that promotion is associated with the level of Xi's preference for a particular official, who will ultimately be selected for Politburo membership?

In this chapter, I use machine-learning predictions to measure quantitatively and systematically the promotion prospects of the Chinese high-ranking officials. For the machine-learning analysis, I used the database Victor Shih and I constructed in 2020. We first constructed a CPC elite database containing extensive biographical and career information on over 20,000 positions for 4,700 individual cadres, including all the Central Committee members and Provincial CPC Standing Committee members from 1982. The database includes thousands of affiliations with administrative organisations, including 645 of the CPC, 550 of the government, 394 of the military and 77 of social organisations, in addition to other administrative units and 1,040 universities. Overall, the database tracks over 13,500 individual jobs per year.

Using this extensive database, I derived a predicted probability of political advancement (i.e. prior likelihood of promotion) as a proxy to measure promotion prospects. In order to maximise the accuracy of the predicted probabilities, I built an ensemble model that combines a variety of parametric and non-parametric machine-learning techniques, including generalised linear models, penalised regression models, tree-based classifications, gradient boosting machines, discriminant analysis and support vector machines. The ensemble model was trained with over 250 variables of individual features, including biographical information (e.g. age, gender, education level and minority status), career (e.g. seniority-years, tenure-years, administrative experience and job diversity), context (e.g., geopolitical characteristics of working experience), faction (e.g. competing affiliations in Chinese top politics), and network (e.g. centrality measures and political connections).

In each iteration round, the machine-learning algorithms chose important variables, removed irrelevant ones and decided on a sufficient subset for predictions. The final ensemble model retroactively correctly identifies a promotion at the vice-ministerial level 88 per cent of the time. By ranking the predicted probabilities of promotion, I can compare officials' relative promotion prospects with their contemporaneous rivals at any given point in time. By using the above ensemble machine-learning model, I calculated the rankings of predicted probabilities of promotion for the incumbent Central Committee members to predict who will become members of the Politburo at the coming 20th CPC Party Congress (PC) in the fall of 2022. The ensemble results represent an official's relative political strength by measuring how likely the official is to be promoted to the next level compared to his or her rivals.

When applying the machine-learning estimations, we need to consider several norms and conventions that limit appointment decisions. First, there is a nomination age restriction. The "seven up and eight down" rule prevents cadres

aged over 67 from being considered candidates for the Politburo. Second, cadres currently working in "second-line" positions, such as the People's Congress and the People's Political Consultative Conference, can no longer move back to party or government positions. Third, there are a few positions in the Politburo that are reserved for female cadres and military leaders (see below). Overall, at least eight slots will become vacant according to the "seven up and eight down" rule. Wang Chen, Liu He, Xu Qiliang (military), Sun Chunlan (female), Yang Jiechi, Yang Xiaodu, Zhang Youxia (military) and Chen Xi are supposed to retire at the coming Party Congress.

Since the 15th Party Congress, there has been one designated slot for a woman (held by Wu Yi, Liu Yandong, and currently Sun Chunlan) on the Politburo. After incumbent Sun Chunlan's retirement at the upcoming Party Congress, the strongest candidate for the female slot is Shen Yiqin (62, ranked 38th among the current Central Committee members in terms of the predicted promotion probability), party secretary of Guizhou. Along with Xian Hui (63, ranked 94th), the chairperson (governor) of the Ningxia government, Shen is one of the two women to hold a provincial leadership position in China. Moreover, both Shen and Xian are members of an ethnic minority. Occasionally (for example, at the 16th and 17th Party Congresses), the CPC appointed one minority member in the Politburo. Thus, either Shen or Xian would help Xi maintain diversity in the leadership.

Even without machine-learning predictions, it is clear that the female slot will most likely be granted to Shen Yiqin as she is the highest-ranked female leader in China. Shen has spent most of her career in Guizhou, which should have helped her build political connections with many high-ranking leaders like Li Zhanshu, Chen Min'er and Zhao Kezhi.

Normally, there are two slots for military personnel from the Central Military Commission. At the 20th Party Congress, these two positions will be vacated by Xu Qiliang's and Zhang Youxia's retirement. Miao Hua (66, ranked 14th in the machine learning exercise) and Zhang Shengmin (63, ranked 30th) are the two most probable military candidates predicted by the machine-learning model. Miao Hua has worked closely with Xi Jinping since Xi's years in the province of Fujian where Miao spent most of his career. Zhang Shengmin is also connected with Xi through his birthplace connection (i.e. Shaanxi), and has served in the security apparatus. Both factors are important in my machine-learning predictions.

The remaining 17 in a total of 20 positions on the Politburo are normally given to Han-Chinese, male and civilian cadres. The machine-learning predictions include Hu Heping (59, ranked 1st by the model), Lou Yangsheng (62, ranked

3rd), Wang Dongfeng (63, ranked 5th), Wang Zhimin (64, ranked 9th) and Chen Jining (59, ranked 12th) as the top candidates for one of these slots.

In the model, Hu emerges as the most promising candidate to serve on the next Politburo. Hu has had many connections with Xi Jinping throughout his career at Tsinghua University and Zhejiang and Shaanxi provinces. However, this case also demonstrates one of the weaknesses of the machine-learning model, and why its findings still have to be interpreted in the context of qualitative and other information. Whilst Hu was a rising star in the past when he was the party secretary of Shaanxi, there is some speculation that Xi was disappointed with his performance. Therefore, Hu was transferred to the Ministry of Culture and Tourism in 2020, the post which is usually associated with a low probability to be promoted to the Politburo.

Instead, the current party secretary of Henan, Lou Yangsheng, may have a higher chance to be promoted. After serving as mayor in Jinhua and Lishui prefectures in Zhejiang when Xi was the party secretary of Zhejiang, Lou was quickly promoted to positions in Hainan and Shanxi provinces. Lou was selected in the aftermath of political storms in Shanxi province when many high-ranking officials of the "Shanxi faction" were arrested on corruption charges in 2015. Equally bright are the prospects of Wang Dongfeng, the current party secretary of Hebei province, who is connected with Xi through Shaanxi province. Wang replaced Huang Xingguo to stabilise the city of Tianjin, a token of Xi's trust. Wang Zhimin, a former director of the Hong Kong liaison office, will be a perfect replacement for Yang Jiechi in foreign affairs. Lastly, Chen Jining is clearly on a very fast career track: he was elevated from president of Tsinghua University to mayor of Beijing in 2017.

Due to the multicollinearity and related inefficiency caused by the numerous inputs, the above machine-learning model is not suitable for identifying causal relationships. Although the marginal effect of each promotion determinant is impossible to calculate, we can still measure the importance of variables by computing the Area Under the Curve (AUC), one of the most widely used indexes for a model's accuracy. The contribution of each variable to the AUC indicates which variable is relatively more important than others in predicting promotion outcomes. This yields the important finding that when trained only with the dataset of Xi's period, the model yields quite different results from when data from earlier periods are included as well. While the latter tends to favour officials with strong objective credentials (e.g. age, education level and administrative experience), it is when using only data from the Xi period that the model renders such objective criteria unimportant and focuses on connections with Xi as the most crucial determinant for promotion.

However, holding political network variables constant, age, seniority, tenure year, job experiences and network centralities are consistently selected as crucial variables in machine-learning predictions. This result may serve as evidence that Xi's political dominance should be treated in a more complex and multifaceted way. The current scholarship criticises Xi's attempt to revive a personalistic system by emphasising political connections in leadership selection (Shirk 2018; Baranovitch 2020; Chen 2018). The recent provincial reshuffling highlights this concern. For example, the newly appointed party secretaries of Shanghai, Chongqing and Guangdong (i.e., Li Qiang, Chen Min'er and Li Xi) are known as Xi's close confidants.

A carefully-conducted quantitative model like the one presented here is needed to consider the initial likelihood of being appointed before evaluating the impact of the political connections with Xi. The machine-learning analysis of this study enables us to sift through large amounts of data to uncover the interplay between different considerations. Even though Xi values his personal connections, this does not necessarily mean that he selects candidates connected to him. There are numerous intersections between network factors and other promotion determinants. Even if an official is a trusted ally of Xi, the formal ranking or other qualification of the cadre is not always high enough. Even Xi himself cannot or perhaps also does not always want to be consistent in promoting only his personal favourites.

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Section 2

Ideology and Legitimacy

5

Canonising Xi Jinping Thought – Ideological Engineering and Its Real-world Relevance

Heike Holbig

Of the five leadership generations ruling the People's Republic of China (PRC), none of the paramount party-state leaders saw such a swift and systematic elevation to the pantheon of Communist Party ideologists as that of Xi Jinping. It took decades for Mao Zedong Thought and Deng Xiaoping Theory to be included in the national and party constitutions. Jiang Zemin and Hu Jintao were merely granted contributions to party theory that did not bear their name—the Important Thought of "Three Represents" and the Scientific Outlook on Development, respectively—after a decade in power. In the case of Xi Jinping, however, the process of canonisation of his Thought started immediately following his installation as the new secretary-general at the 18th Party Congress in late 2012.

This chapter delineates the canonisation process of what would come to be known as "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era" (a.k.a. Xi Jinping Thought). The objective is not only to illustrate the ever-growing importance of party ideology in contemporary China, but also to highlight the real-world implications of a process that might appear opaque and parochial, yet intersects closely with political, economic, social and cultural developments at home and abroad.

Elevating Xi Jinping's Leadership Authority

When Xi Jinping came to power in November 2012, the expectations for him were high after what was perceived inside and outside of the Party as a decade

of stagnation under Hu Jintao. Xi Jinping took on an aura of self-confidence, resolve and foresight that starkly contrasted with his predecessor, who had presented himself much more modestly as just first among equals of a collective leadership. Just three weeks into his first term, state media celebrated him as the harbinger of a better future when he announced the "Chinese Dream of Realising the Great Rejuvenation of the Chinese Nation", to be realised by the middle of the 21st century. The choreography of Xi Jinping's appearance at an exhibition on "The Road to Rejuvenation" set the precedent for similar performances to come. Always centre-stage, standing slightly above and apart from his colleagues, or walking alone, Xi's role as the "core" of the Party's leadership has been enacted in ways not seen since the Mao era.

Within a year, Xi Jinping's elevated authority had been enshrined in a new governing ideology. The "Decision on Some Major Issues Concerning Comprehensively Deepening the Reform", adopted by the Third Plenum of the 18th Central Committee in November 2013, spelt out an ambitious reform programme to refurbish Socialism with Chinese Characteristics by enhancing the quality and efficiency of governance at all administrative levels of the party-state. In order to tackle the decentralisation and fragmentation of the bureaucracy and to target areas of reform that had been left untouched by previous leadership generations, Xi Jinping proposed a new "top-down design" of governance. Instead of Deng's "crossing the river by groping for stones", Xi put himself at the apex of a hierarchy of comprehensive and co-ordinated steering. His chairmanship over multiple newly established leadership groups and commissions reflected his significantly enhanced personal authority (see the chapter by Grünberg and Brussee in this book). In speeches and separate documents, Xi offered his personal explanations of top-level party documents, referring to himself as "I" instead of hiding behind the language of collective leadership. In official party language, Xi's authority was put on a par with Mao Zedong's during his first term with labels such as "core" or "great leader".

Crafting the Canon

Party theorists and propaganda workers intensified their efforts to cast Xi Jinping's elevated authority into a new vocabulary. The formula of "Three Self-Confidences" (i.e. self-confidence in China's own development path, theory and system of socialism with Chinese characteristics) was created in late 2012. In 2016, "cultural self-confidence" was added as a fourth element, in line with long-standing ambitions by propaganda czar Wang Huning to render China's "excellent traditional culture" into a prominent ingredient of party ideology and

a powerful resource for theoretical innovation. Propaganda material showcased Xi's outstanding rhetorical talent, featuring a combination of historical statecraft adages and populist vernacular. In 2014, the state media praised as the "Xi-style hot phrase" of the year the concept of the "new normal", which had been introduced to prepare the nation for a lasting shift toward slower but higher-quality economic growth.

Another example of ideological engineering under Xi Jinping is the twelve "Socialist Core Values", an idiosyncratic mix of traditional Chinese and modern Western notions. Official definitions offered in May 2013 made clear how these values were supposed to be understood. The value of "democracy" interpreted as a national-level value, for example, emphasised national sovereignty vis-à-vis other nations. Similarly, "freedom", defined as a value not at the individual but at the societal level, was to denote the freedom of choice for Chinese society to follow its own development path. While the Socialist Core Values were not ascribed to Xi Jinping in person, a massive poster campaign launched in 2013 (and still being used during his second term) amalgamated the twelve values with Xi's Chinese Dream narrative, impersonated by a sweet little red-dressed girl, the "Chinese Dream Child".

The delegitimising of Western values also had a much sharper edge. Around the same time as the propagation of the Socialist Core Values, the Party Central Committee's leaked internal Document No. 9 of 2013 with the title "Communiqué on the Current State of the Ideological Sphere" forbade the use of notions such as "universal values", "constitutionalism", "civil society" or "media freedom" in public discourse (Central Committee 2013). Bans on foreign textbooks in schools and universities further signalled the leadership's claim to re-establishing party ideology as the locus of discourse hegemony inside and outside the Party.

Efforts to craft the canon culminated in the run-up to the 19th Party Congress in October 2017. In July of that year in a speech to ministers and provincial leaders, Xi Jinping had launched the idea of the "New Era". In his words, since the PRC's founding, the nation had experienced a historic rise from "standing up" (under Mao), "growing rich" (under Deng, Jiang and Hu) to "getting strong" (under Xi). While the country would remain in the Primary Stage of Socialism (a slogan coined under Deng to rationalise the continued existence of capitalist pockets in a socialist economy), the time had come to inaugurate a new era of socialist modernisation and to tackle the principal contradiction characterising this new era.

The Mao era of class struggle had been characterised by the contradiction between the proletariat and the bourgeoisie, while ensuing leadership generations

had tackled the contradiction "between the ever-growing material and cultural needs of the people versus backward social production". Now, the new principal contradiction identified by Xi Jinping was the one "between unbalanced and inadequate development and the people's ever-growing needs for a better life", including, in Xi's words, demands for democracy, rule of law, fairness and justice, etc. Hailed as the latest achievement in the Sinification of Marxism at the Party Congress in October 2017, this key insight into the necessities and opportunities of a "New Era of Socialism with Chinese Characteristics" became the core of Xi Jinping Thought.

Cultivating True Belief

To complete the process of canonisation, Xi Jinping Thought had to be anchored in the national constitution. This time, the new leader's legacy was not only inserted in the Preamble as in previous rounds. Rather, the constitutional architecture was thoroughly modified to accommodate the spirit of the New Era by integrating the principle of party leadership into the constitution's main body for the first time. While state organs had been treated as normatively separate from the Party, the 2018 constitutional amendment cemented the Party's supremacy. With the Party formally morphing into the state, it appeared as a logical next step to remove the term limits for the state presidency to concur with the unlimited post of the Party's secretary-general, thereby allowing Xi Jinping to remain in power for life. As if to seal the canonisation of Xi Jinping Thought, all public servants would from now on have to swear an oath of loyalty (an act previously reserved for party members) to the national constitution and, implied in this act, to the "sacrosanct" nature of party supremacy in the New Era.

The mass dissemination of the canon was launched in October 2018 by the publication in the *People's Daily* smartphone app of an authoritative mind map which colourfully visualised Xi Jinping Thought in its myriad ramifications (Needham 2018). The same technology was used in January 2019 for the launch of a propaganda app called "Study to Strengthen the Country" (which can also be read as "Study Xi to Strengthen the Country"). The app functions not only as a platform for textual and visual materials expounding Xi Jinping Thought in theory, but also actively as a means to test and train the user's knowledge with interactive tools, quizzes, study and bonus point systems. While the app is mandatory for party members, it also appears to be used widely among other groups. Already in April 2019, the download numbers surpassed those of the country's most popular messaging, social media and e-payment apps.

Also in 2018, the party centre launched a full-fledged campaign against disloyal party and state cadres. In the past, party cadres' rhetoric had to be in line with party ideology, but what they said and believed privately was conventionally regarded as being another matter. The campaign against so-called "two-faced individuals" sought to eradicate this long-standing practice of tacitly acknowledged hypocrisy. By handing out severe sanctions against a number of high-ranking cadres accused of such "two-faced" behaviour, the Party sent a strong signal that personal loyalty, integrity and a sincere belief in party ideology were obligatory for party members in the New Era both in their official and their private capacities.

In November 2021, the indisputable authority of Xi Jinping Thought was finally ratified in the resolution on party history, only the third of its kind since 1945. This watershed document streamlined the achievements of the first four leadership generations to form a teleological narrative culminating in the dawn of the New Era in 2012, thereby legitimising party rule under Xi Jinping far into the 21st century. With the phrase of the "Two Establishments", the document declared that the Party "has established Comrade Xi Jinping's core position on the Party Central Committee and in the Party as a whole, and the guiding position of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era". In language reminiscent of the Cultural Revolution, the document called for the whole party to undergo "self-purification, self-perfection, self-renovation and self-improvement" and for all party members to undergo "self-revolution", "criticism and self-criticism" in line with the new guiding thought. Knowing the canon "by heart" and demonstrating one's true belief has become not just a pragmatic exercise, but a necessity to survive as a party cadre and to promote one's professional career.

Real-world Implications

As this brief analysis of the process of canonisation of Xi Jinping Thought has shown, the importance of party ideology has significantly grown inside the Communist Party, shaping discourses, practices and claiming to win the hearts and minds of party members across the country. However, its impact does not stop here. While the real-world relevance is obvious in the field of governance, Xi Jinping Thought has also been normatively and institutionally integrated into the economy, society and cultural sphere.

The New Normal for example is part of the forward-looking goal to maintain "high-quality economic development" in the future. As such, it supports the Party's ambition of more environmentally friendly growth as well as the promise

of "common prosperity". The latter was introduced in 2021 to justify a set of new regulations aimed at private businesses and tech giants. In the name of restoring the Party's original mission of serving the masses, the party leadership appears to aim for a long-term redistribution of wealth accumulated by the country's socioeconomic elites (see the chapter by Hofman in this volume).

Other examples abound of the real-word relevance of party ideology in education and culture. The banning of "Western universal values", foreign textbooks or, most recently, private tutoring classes seems to have met with some resentment by middle class families. Xi Jinping's motto of "cultural confidence" seems to be more popular and has translated into the streamlining of China's "excellent" traditional culture in the mass media and recent restrictions of young people's video gaming and fandom culture.

Beyond its domestic reach, the Party has also stepped up its external propaganda. It remains to be seen to what extent the dissemination of slogans such as "Community of Destiny for Humankind" or the recent set of "Common Values of the Whole of Humanity" (i.e. peace, development, equity and justice, democracy and freedom) will strike a chord with audiences outside China. The global ambition behind the canon, however, is clear: to contest what is perceived as the United States' discursive and political hegemony and to test to what extent China's own discourses resonate in a world increasingly torn by Manichaean ideologies.

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6

Behind Xi Jinping's Resurrection of Ideological Orthodoxy

Lance Gore

So far, the consequences of Xi Jinping's massive shift to the left have been detrimental to China's rise, as manifested in the accelerated economic slowdown and comprehensive deterioration of the country's relationship with many of the world's great powers, especially the United States. Why did Xi make such a drastic turn to the left and where has it led him and China? This article examines two contexts that have shaped Xi's left turn: Leninist party rule and China's rise on the global stage.

The Context of Leninist Party Rule

As the vanguard of the proletariat, a Leninist party thinks of itself as having a superior mastery of the laws of history based on the Marxist scientific theory of socialism, facilitating the historical progress towards the ideal society of communism. The vanguard party is not subject to popular election because the Party knows better than the general population which is backward. Without periodic elections, the discipline within a Leninist party rests on the faith in the official ideology of every party member. The condition of the official ideology therefore has direct consequences for the integrity of the party and the efficacy of its rule.

Mao Zedong pushed the role of ideology for the Communist Party much further than Lenin and Stalin had ever done before. For Mao the "proletarian" revolution was a matter of political consciousness irrespective of the objective class position of the proletariat or the peasantry. During the Cultural Revolution Mao went even further, making revolution in pursuit of his ideals even against

the Party and its leading elite themselves, whom he believed were turning into a new bourgeoisie.

The weakening of the official ideology in the reform era caused the degeneration of the CPC, prompting Xi to make restoring ideological faith the first priority of his massive effort at rebuilding the Party. Xi has been the first CPC general party secretary after the reforms who re-asserted that realising communism is the highest ideal and ultimate goal of the Party, reprimanding those who dismiss communism as unpractical or irrelevant (Xi 2019a).

According to Xi, faith in the communist ideal is the "calcium" in the spine of a communist party member, the deficit of which would cause "osteoporosis", that is, political degeneration, economic avarice, moral decay and decadence (Xi 2014b). The restoration of faith is the key factor that would allow a communist to stand upright politically in the face of all the temptations of a capitalist market economy.

Xi is fighting hard against the centrifugal forces that come with market-oriented reforms and the disintegration of central authority experienced by his predecessors. The CPC has a sprawling establishment of 4.86 million party organisations at the grassroots level, reaching every corner of society and economy in addition to the state. The linchpin holding them together is the official ideology, which furnishes the common identity to the 95 million plus party members in all walks of life (Xi 2016). Several times he has led the Politburo Standing Committee in a public ritual repeating the oath that every CPC member has to pledge when joining the Party. On his "southern tour" in late 2012, he posed the question: "Why wasn't there a single man brave enough to stand out when the Soviet Union broke up?" Xi's answer was the collapse of the communist faith among the party members (Xi 2019b).

Faith and discipline are the two strengths that, Xi believes, the CPC relied on for past successes, and also the key to its future. In the Leninist tradition of "democratic centralism", Xi incessantly emphasises the party constitution's exhortation of "upholding centralised and unified leadership of the Party Centre", and "individuals obeying the organisation, the minority obeying the majority, the subordinates obeying the superiors, and the whole party obeying the party centre" (Communist Party of China 2017). Ideology is also vital in cementing the bond between the Party and the masses. Instead of electoral success, a communist regime gains legitimacy through a strategy of winning people's hearts but not their votes. In addition to the promise of a future ideal society, the ideology also prescribes an exemplary role for each party member as vanguard or role model. On this Xi has said: "Why do some folks curse the Communist Party? Because some party members betrayed the communist faith. They are not real

communists. They harm the masses in the name of our Party and hence smear our Party. They joined the Party for private gain and are hollowing out the Party" (Xi 2014a).

Xi emphasises that "the greatest politics is (winning) the people's heart, and (ideological) consensus is the energy source of our struggle" (Yang 2019). Xi's rehabilitation of Mao invokes the CPC's legacy of "serving the people" and its spirit of sacrifice for national liberation. Xi further builds on Mao by asserting that "political power consists of the people and the people constitute political power. The CPC fought to gain political power but to retain political power is to retain the hearts and minds of the people" (*Renmin ribao* 2021).

The greatest challenge to the CPC in the reform era is perhaps the much greater diversity of Chinese society that comes with marketisation of the economy. Today, party members hail from diverse class backgrounds, often with conflicting material interests. Jiang Zemin grappled with this reality by broadening the social basis of the party with the "three represents", while Hu Jintao advocated a "harmonious society". Both are inclusive approaches. Xi Jinping, on the other hand, has taken the Maoist road of ideological re-indoctrination. He has repeatedly emphasised that the CPC is built on a shared ideology, not on aggregated material interests, and hence that the ideological faith of party members takes precedence over their material interests (Xi 2021).

The Context of China's Rise

China's rise is one of a civilisational state on a truly global stage. In order for the country to be accepted as a rising superpower, the CPC believes that China must compete with the long-established Western civilisation and have something different to offer to the world.

Xi's core diagnosis of China's problems, as well as his prescription for its future, is that the country has a missing soul and sagging spirit. Reform and opening up have created enormous material wealth. However, public morality, social trust and personal integrity have sunk to new lows; corruption is like a cancer penetrating the bone marrow of the party-state. In Xi's mind, a nation without a soul cannot really rise, no matter how wealthy it becomes (Xi 2019c).

The consequences of the breakdown of ideological faith among party members include corruption, extreme individualism, immorality, hedonism, money worship, superstition, fearing and respecting nothing, mocking Marxist orthodoxy and the communist ideal, embracing fortune-telling, seeking help from God, deities and *qigong* masters, moving family members and assets abroad to prepare for "jumping ship" at any moment, etc. (Central Committee 2013).

A nation ruled by a party in such a condition is hardly a source of inspiration for the world.

Reviving the soul and elevating the spirit of the nation is a precondition for national rejuvenation. Here, Xi draws on two major sources. The first is the CPC's revolutionary legacy. Why were millions of party members and their allies willing to lay down their lives to bring China where it is now? Xi believes that it was their faith in the Party's cause. According to Xi, faith in "revolutionary ideals is loftier than the sky" (Xi 2013b).

The second source of national rejuvenation is the revival of China's five thousand years of cultural, philosophical and ideological history. Here Xi runs into the problem of integrating two fundamentally incompatible traditions. Marxism is revolutionary and forward-looking, while China's cultural traditions are inherently conservative and look to the past. Xi has to improvise to marry the two.

First, he claims that Marxism activated China's cultural tradition, breathing life into an ancient civilisation on its last legs. Secondly, he claims substantial overlap between the ideal of communist society in Marxism and the Confucian ideal of a world of universal harmony of all under heaven, where benevolence, justice and virtue prevail. Third, he also claims that the roots of the Maoist ideal "serving the people wholeheartedly" lie in the Confucian people-oriented philosophy, for instance in the saying of Mencius that "the people are the most important, the state comes second, and the ruler is least important of the three".

Last but not the least, Confucianism, Buddhism, Taoism and other cultural traditions of China are a remedy for the unwanted militancy of Marxism-Leninism and Maoism in times of peace. Whilst Marxism discriminates along class lines, the thrust of Chinese traditional philosophy is inclusive, which is expressed in some of the central policy themes of the Xi regime, such as harmony between people, humans and nature, state and state, a masses-centred administration, moral integrity as first principle of governance and selection of officials, as well as his effort to revive traditional family values.

Xi rose to power at a time when he believed there was an acute crisis of liberal democracies and capitalism, one to which he alludes as presenting changes unseen in a century. To him, the West has lost both the moral high ground and systemic superiority, especially after the 2008 financial meltdown on Wall Street and other Western financial centres. Right after assuming power on the 1st of January of 2013, Xi claimed that "the scenery is ever more beautiful on our side", full of anticipation of a resurgence of socialism worldwide (Xi 2013a).

Xi sees this moment as an opportunity for China to seek a leading role in world history. Upon the shoulders of the CPC rests the historical responsibility to

prove the vitality, viability and superiority of socialism, and hence lead mankind to its manifest destination: communism.

Prognosis

With the crisis of neo-liberalism in the early 21st century, China appears as the only major alternative still standing. That alone gives China the confidence to forge ahead and open up a new path for mankind. Xi-ism, while inheriting Marxist teleology, is characterised not by theoretical innovation but by instrumentality.

On the flip side, Xi-ism is in many ways misguided. It is Maoist in form but not in content: its goals are fundamentally different from what Mao attempted but failed to achieve. Xi's crude understanding of Marxism tends to make him blind to other options in policy and institutional solutions. As a result, his resurrection of orthodoxy also brings back some of the problems of 20th century communism: dictatorial rule, ideological intolerance and repression. It is questionable whether his ideological reformulation and institutional building, in his zeal to restore the integrity to the Leninist party, have made enough allowances for the diversity and dynamism that come with a market economy.

Xi also misconstrues the success of reform and opening up. The things he puts at the top of his agenda—restoring the Marxist faith, strengthening party discipline, recentralising power, fighting corruption, beefing up state-owned enterprises, tightening information control, purging Western influence, restraining freedom of speech, cracking down on dissent and so on—played no positive role in China's developmental success. They may indeed strengthen the CPC's rule, but at the cost of social vitality and economic dynamism.

Finally, Xi's turn to the left has placed the CPC in an ideological position that makes it hard to fend off forces from even farther to the left. It has created a political environment that is nurturing radical forces incompatible with much of what the reform era has accomplished, eroding or even reversing those achievements. It has also set China on a collision course with Western liberal democracies at a time when China is still ill-prepared for such a confrontation.

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7

Sinification of Marxism – The CPC's Most Urgent Ideological Challenge

Yang Yao

At its 100th anniversary, the Communist Party of China (CPC) faced a serious ideological challenge. One hundred years ago, it was established by a group of intellectuals searching for a viable way to pursue a modernised China. Marxism was more of a tool adopted to mobilise revolutionary forces and aim for its ideal society, rather than a theory to understand society.

The political movements during the CPC's first 30 years of rule were instrumental in China's modernisation process, notwithstanding their Marxist outlook. From 1978, the CPC turned back to China's traditional values, particularly pragmatism and meritocracy, to guide its reform process and ultimately, state governance.

It is no exaggeration to say that China's economic success has been a result of the CPC's sinification. Yet the CPC's political legitimacy still rests on its theoretical allegiance to Marxism, creating a great tension between what it says and what it does. Realising this tension, the CPC has put the sinification of Marxism at the top of its priorities for theoretical innovation.

Thus far, however, only limited success has been achieved, mainly because China's Marxist theorists have not taken traditional Chinese thought, particularly Confucianism, seriously in their quest for the sinification of Marxism. For them, Marxism is the basket, and Chinese thought is something that basket can contain. The right approach should be reversed: Chinese thought should be the basket that selectively picks up pieces from Marxism to carry.

This article first reviews the CPC's role in China's modernisation process, ending with an emphasis on the CPC's return to Chinese traditional values in the reform era. Then it turns to the contradictions of Marxism and what the CPC

has done right in the reform era. Lastly, the article suggests several areas in which Marxism can be made congruent with Confucianism.

Modernisation: The CPC's First Hundred Years

The CPC was founded as a Marxist-Leninist party in 1921. At that time, China was in a period of change that had not occurred for more than two thousand years. The empire had fallen apart, and China had entered a period of warfare among warlords. The belief was widespread, and reinforced by leading intellectuals like Liang Qichao and Yan Fu, that China's problems could not be solved without bringing China together again.

As in every period of drastic change in any country, radical ideas were more likely to prevail, because they could bring quick and major regime change. The success of the Bolshevik victory in Russia inspired a group of intellectuals to establish the CPC. From the very start, the CPC was therefore a product of China's learning from the "West". In this sense, the CPC was also a product of China's modernisation process because China's modernisation was imposed by the West.

In its first 30 years of rule after 1949, the CPC followed the Soviet model and the Soviet version of Marxism to build a socialist China. After the initial land reform that gave land to tillers, the CPC quickly moved to collectivisation of agricultural production. One of the strong reasons for this move was to facilitate rapid industrialisation. With the commune system, the state could control food production and procurement to accelerate capital accumulation.

Although visible successes were limited, industrialisation laid a foundation for China's economic take off in the reform era by accumulating a considerable amount of physical and human capital. In addition, the CPC also raised the country's average educational level, built a public health system and lifted women's status. Thus, by 1978, China was socially ready for the fast economic take off. Notwithstanding its big mistakes (the Great Leap Forward and subsequent Great Famine, the Cultural Revolution), the CPC consciously paved the way for China's modernisation. The process was painful, but later generations benefitted. By 1978 when the country began to open up, China was more ready than other large developing countries (such as India) for economic take off. The CPC in its first 30 years of power, therefore, was instrumental in China's quest for modernisation. Marxism at that time was instrumental for its policy.

Under the pragmatic leadership of Deng Xiaoping, the CPC changed its course in the reform era. Although Marxism was still written in its charter as the guiding ideology, in practice the CPC irrevocably turned back to Chinese

traditional thought. At the philosophical level, pragmatism guided the Party on the ground. Absolute truth pursued by Marxism gave way to the idea that truth should tested by practice. Deng's "cat theory"—goals are more important than means—prevailed.

As a result, China's reform has taken a gradual approach. At the organisational level, the CPC embraced China's traditional political meritocracy. Officials were selected more on their merits than on their allegiance to Marxist orthodoxy. The Party set up various programmes to discover and train young talents; the party school system provides systematic training for officials at all levels. Promotions gave officials strong incentive to grow the economy amidst corruption.

The CPC also brought tradition back to Chinese society. A market economy, often believed to be coeval with capitalism, had existed also in China for a long time before 1949, at least since the Northern Song dynasty a thousand years ago. Hard work and talent should be rewarded. This meritocratic belief runs deep in the Chinese blood. The CPC's reestablishment of the market released the inner energy of ordinary Chinese. On top of that, the CPC also brought back traditional culture to Chinese society. Traditional festivals were restored, traditional ethical values were promoted, Chinese arts and poems became popular again and the government spent large amounts of money to support the study and restoration of Confucian archives.

Legacy and Reality

In effect, the CPC has sinified itself. Its goal is no longer to build a communist society, but to create a fully modernised China. Modernisation has replaced Marxism as the Party's *de facto* ideology. However, this has created a great tension between the CPC's theory and its practice. Its theory is still Marxism, but its practice is guided by Chinese values. This tension in turn created deep anxiety in the Party about its political legitimacy. The economic success since 1978 has allowed the CPC to win great support from the Chinese people. However, economic success is not enough to prove that a political system is right. To do that, the system must be based on a political philosophy that embraces values which are widely held by citizens.

Marxism in its current form does not fulfil that function. To find a way out of this conundrum, the CPC must find an alternative theory. However, it is not ready to completely give up Marxism because such an act would run the risk of negating the Party's past. Sinification rather than rejection of Marxism has therefore become the Party's major theoretical pursuit.

However, the current efforts to sinify Marxism have not obtained meaningful results. The most popular approach, often adopted by orthodox Marxist scholars, is to apply Marxism to explain what the CPC has done in the reform era. Because of the reasons laid out in the opening section, it is very hard for orthodox Marxist scholars to explain the CPC's success. Instead, their views are often critical. This is not surprising, because Marxism was a critical theory in the first place.

Another approach, taken by Marxist scholars who are more sympathetic towards Chinese traditions, is to compare what Marx and Confucians wrote to try find commonalties. However, this approach does not pay attention to the systematic and fundamental differences between Marxism and Confucianism, so their comparison is mechanical and selective because of the many conflicts between Marxism and Confucianism. Below, I will show that this does not mean that there are no commonalities between these two political theories, but just that such an effort should be based on a more fundamental understanding of what unites and separates them.

Marxism was created as a theory to guide the proletarian revolution, putting exploitation at centre stage. After 1978, the CPC no longer concerned itself with exploitation and in practice gave up Marx's political economy. Indeed, the Party had to give up Marx's whole theory of revolution and its auxiliary proposal of proletarian dictatorship (or "people's democratic dictatorship", in the CPC's jargon after 1978).

Communism is a utopia by definition because it is based on the premise that all of the people's needs have been met—a kind of "end of history" in which man's desires are sated. The role of communism is at best to inspire a society to increase the supply of goods and services so that it moves asymptotically close to that premise. Dictatorship of the proletariat is merely a transitory phase between capitalism and communism.

Nevertheless, the "people's democratic dictatorship" often becomes a Sword of Damocles to private business owners when the mood turns to the left in China. They fear that their wealth will be taken by the state. In response, they often move their wealth to other countries. To the extent that the private economy is one of the pillars of China's sustainable growth, "people's democratic dictatorship" is detrimental to the rejuvenation of China. The CPC has to find a new political philosophy that is accepted by ordinary Chinese.

Marxism meets Confucianism

The CPC's new political philosophy must borrow from Confucianism because Confucianism is firmly grounded in Chinese values and has been the model of state

governance for most of the last two millennia. Both Marxism and Confucianism should be sources for the CPC to build its new political philosophy. To do that, the CPC needs to find commonalties and complementarities between the two strands of thought. Although the Marxist theory of political economy is flawed, Marxist philosophy is more likely to offer opportunities. Here are a few of them.

First, Marx and Engels put individual achievements before collective achievements. If they lived in today's world, both thinkers would be progressive liberals. Contrary to conventional wisdom, classical Confucianism does not reject liberal ideas. Both Confucius and Mencius put personal efforts at the centre of their theories of personal perfection. *Shi* (scholars) are self-regulated agents, not subjects who merely follow the king's orders.

Second, historical materialism offers viable methods for us to understand human beings and human history. Man is not just defined, as by Hobbes, Smith and Locke, by self-interest. The starting point of the construction of human society is not some normative claim, but an empirical observation of what human beings really are. Confucius held such a view. For him, human nature had many forms; it was fluid and could be moulded by personal effort.

Third, dialectics has been a long-time part of Daoism. Confucianism is not as dialectic as Daoism, but quite agrees with dialectics when it comes to practice. One of the central ideas held by Confucianism is Keeping the Mean (*zhongyong*), the middle way. Engels expressed similar ideas when he discussed dialectics: "Differences are harmonized in the middle stage; all the contradictions are transformed by each other through intermediating steps (…) Dialectic reasoning does not recognize rigid and fixed boundaries. Nor does it recognize universal 'not this, but that' (…) Dialectics recognizes 'this and that' when it appears appropriate".[1] *Zhongyong* has guided China's reform process since 1978. The CPC adopted a gradual approach to reform, creating many transitory institutions that were not perfect but solved the most urgent problems of the time. *Zhongyong* is also reflected in the CPC's governance model. For outsiders, many of China's laws only reflect the Party's arbitrary will. But in reality, most of China's legislation is deliberated and even contested during many rounds of consultation before going up for voting. In the end, Chinese laws are the result of compromise among many interests at stake.

Fourth, Marx's ideas about democracy can be combined with the Confucian theory of human nature to create a new form of state governance. For Marx, democracy created by Locke was a false form of democracy because it ignored the existence of classes in society. Real democracy can only be established when people become self-regulating agents. However, agency is an ideal rather than reality. We have to accept Confucius' view that man is constantly engaged in a

process of perfection. As imperfect agents, not all people are qualified to make all political decisions.

Thus emerges a political meritocracy, a society ruled by a political hierarchy in which commensurate quality is required of officials at each level. However, decisions by these officials are not without any constraint. The last say belongs to the people: through their representatives, they approve or disapprove the decisions of officials. Unlike in the current form of democracy where people's sovereignty is positively defined—people, through their representatives, are entitled to make the law—people's sovereignty is passive in the Confucian state: i.e., people, also through their representatives, are only entitled to approve or disapprove the law recommended by officials.

Concluding Remarks

Sinification of Marxism is itself an example of *zhongyong*. It is neither a continuation of orthodox Marxist teachings nor a wholesale acceptance of China's traditional values, but something in between. Confucianism experienced similar transformations in historical times. The introduction of Buddhism was the first cultural shock China had had in recorded history. It challenged the Confucian order and the Confucian belief that virtues were given by Heaven. As a response, Neo-Confucian scholars in the Song dynasty absorbed Buddhist ideas and introduced self-reflection into Confucianism.

The introduction of western ideas was the second cultural shock in China's history. The country is still in the process of that shock. On the material front, China has done a good job in absorbing the knowledge created by the West. On the spiritual front, China has not yet decided how to absorb the values and ideas created by the West. Marxism is by far the most consequential western idea in China, but other western ideas, such as liberalism, have also impacted Chinese society. The period of introducing western values and ideas is probably approaching an end; China is now at a point where it will go back to its own traditional values. The task of the CPC is to lead the process to create a new Chinese culture. In that culture, Chinese values should be the basket that carries universal values and western ideas that are congruent with Chinese values.

Note

[1] Translated from *Makesi Engesi xuanji* 马克思恩格斯选集 [Collected Works of Marx and Engels], Vol. 9: 471. Beijing: Renmin chubanshe 人民出版社 [People's Press], 2009.

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8

Democracy with Chinese Adjectives: Whole-process Democracy and China's Political Development

Wang Zhongyuan

Since the 1990s, new views and forms of democracy have emerged. A number of countries have redefined democracy in ways that differ from Western multi-party democracy. Political scientists have used various adjectives to capture the characteristics of these new forms of democratic politics. Some notable examples are "authoritarian democracy", "illiberal democracy" and "neo-patrimonial democracy" (Collier and Levitsky 1997).

The People's Republic of China is one of these countries. The Communist Party of China (CPC) has always included democracy as part of its governing system, insisting on the essential difference and superiority of its own concept of "socialist democracy". Very recently, the CPC has taken a further step, formulating a new and distinctive conception of democracy, the "whole-process people's democracy". Three adjectives, *whole*, *process* and *people's*, are thus put together in front of democracy, in a new effort to frame an alternative brand of democracy to counter the hegemony of Western liberal democracy and to blaze the CPC's own trail.

Rise of a new narrative

The development and propagation of whole-process democracy have taken place in three stages. The first stage was distilling a new concept from existing practices. On 2 November 2019 when inspecting the grassroots consultative centre of the National People's Congress in Shanghai, President Xi Jinping remarked for the

first time that "China's people's democracy is a type of whole-process democracy" in which all legislation is made "after going through procedures and democratic deliberations to ensure that decision-making is sound and democratic".

Whether prepared in advance or not, at this initial stage whole-process democracy (i.e. still without the further qualifier of "people's") may just seem to amount to old wine in new bottles, just a call for developing socialist democracy with Chinese characteristics in the Xi era. However, the new term also serves to describe the experiments with democratic elements in the legislative process and local-governance activities. It seeks to boost confidence by acknowledging the many unique democratic processes at play in China, and that these can deliver better outcomes for the people.

During the second stage, whole-process democracy was formally made part of China's system of governance. At its annual plenary session in March 2021, the Chinese National Congress (NPC) voted to pass the *Decision on Amending the Organic Law of the NPC*, which included the phrase "adherence to whole-process democracy" (Xinhua 2021). As a relatively weak and marginalised institution, the NPC capitalised on the new idea of whole-process democracy as an area in which it can try to make a difference, the perfect opportunity to show its contribution to the consolidation of the rule of the Party. Spearheading a nationwide campaign for promoting whole-process democracy, the NPC and local people's congresses at all levels prominently promoted the new concept.

Subsequently, whole-process democracy was incorporated into the Party's ideology as an improved model of socialist democracy for the 21st century. The Party took over the job from the NPC by presenting further interpretations of the term and constructing a more comprehensive narrative on that basis. Xi Jinping then took a further step. On 1 July 2021, on the significant occasion of his speech at the celebration of the 100th anniversary of the founding of the CPC, Xi called for the Party to "develop whole-process people's democracy", thus adding the word "people's" to the term (we continue to use "whole-process democracy" for short in this chapter). Significantly, he did so in the context both of his promotion of social fairness and of his other ideological innovation of 2021, "common prosperity" (see the chapter written by Bert Hofman in this volume) (Xi 2021).

Party organs and theorists have lost little time seizing the momentum, further incorporating the new concept into the Party's ruling ideology and promoting the new narrative nation-wide. The emphasis on "people" is driven by the re-emphasis on the Party's Maoist mass-line tradition and Xi's own "people-centred" approach, thereby underscoring both the legitimate foundations of the new concept and the Party's influence on the nature of democracy.

The third stage is about propagandising the new discourse to international audiences, in ways that seem not to have been thought through very well. In December 2021, China issued a white paper called *China: Democracy That Works* (State Council of the PRC 2021). It was published just days before the "Summit for Democracy" convened by the United States on 10 and 11 December 2021 to which China had not been invited and which Beijing condemned as the "Anti-Chinese International" (Tavrovsky 2021). The white paper was followed by an organised flurry of articles discrediting American-style democracy[1] and a joint statement on a democratic alliance with like-minded Russia.[2]

Democracy itself, so it seems, has been turned into an ideological weapon of hegemonic contestation. In the beginning, whole-process democracy was put forward mainly for domestic aims, either as a means to encourage innovative practices and rally self-confidence in China's own path, or as a new legitimation strategy to compensate for economic slowdown. As it is being increasingly rebuked for its lack of democracy, the party regime picked up this newly-coined ideological weapon and pushed for a tougher tone by launching a massive global propaganda campaign.

Overall, the rise of whole-process democracy makes full use of theoretical possibilities in political science, both the richness of democratic concepts and the diversity of democratic models. We should not ignore the fact that there is no shortage of politics scholars among China's top advisors who are familiar with the democracy literature and are able to make theoretically sophisticated ideological arguments.

However, whole-process democracy has also caught on to the latest political dynamics at home and abroad. Domestically, local governance innovations, achievements in poverty alleviation, success in handling the coronavirus, and technological progress have all been held up as evidence of the superiority of the Chinese political system. Internationally, dysfunction in crisis management, socioeconomic turmoil, electoral conflicts and political polarisation are presented as evidence for the demise of Western democracy. As China rises on all fronts, it is steadily emboldened to challenge the Western monopoly of democratic discourse.

Democracy "Made in China"

The recent campaign promoting whole-process democracy is not completely new, but amounts to an upgraded extension of a strategy that started decades ago. The Tiananmen Incident in 1989 left the Chinese system vulnerable to democracy critics within and outside of China, pushing the country to avoid

talking about democracy while focusing only on securing economic growth. It was not until the beginning of the new millennium that the leadership in Beijing recognised the need to win the understanding of its political system of the outside world. This led to the recrafting of socialist democracy. Research institutions such as the Chinese Academy of Social Sciences were tasked to deepen relevant research, based on which in 2005 the State Council issued the first white paper on democracy in the history of the People's Republic of China (Information Office 2005).

Back then, "socialist democracy" served mainly as a bridge narrowing the distance between China and the West at a time when Sino-Western relations were in their honeymoon period. This move was to show the rest of the world that China had made remarkable progress in political development along with its rapid economic growth. Beijing was eager to convince the West that it was still cherishing the value of democracy and was open to exchanging ideas, albeit insisting on its own characteristics.

By explaining its democratic traditions and institutions, the leadership at the time aimed to help the world better understand China's recent political development and thus increase mutual trust. China was no longer ashamed to talk about democracy; instead, it showcased democracy to garner domestic support and international sympathy.

The 2005 White Paper defined socialist democracy as a three-in-one model, that is, "a combination of the Party's leadership, the rule of law, and the people's democracy". For Chinese leaders, these three seemingly contractionary elements actually go well together. The rule of law and people's democracy require the leadership and guidance of the Party, while the realisation of the rule of law and people's democracy in return consolidate the Party's ruling power.

In practice, however, the three did not proceed so smoothly together. The people's democracy first gained momentum in the 1990s and early 2000s when rural elections and local congressional elections were in full swing, and some localities even experimented with township elections. However, with the need for maintenance of social stability appearing on the political agenda in 2007 and the outbreak of colour revolutions overseas in the first years of the twenty-first century and again with the Arab Spring in 2011, the CPC felt the urgent need to re-bolster its leadership. Since then, China has begun to promote "mobilised representation" and "good governance" vigorously while downplaying competitive local elections, justifying its political system through output legitimacy instead of input legitimacy (Wang 2020).

The rise of whole-process democracy continues this trend, but far more aggressively and ambitiously. In comparison with earlier CPC approaches to democracy, the new concept made four key changes:

1. Democracy's "Chinese characteristics" are further defined. The emphasis on "whole-process" seeks to distinguish it from the procedural tradition of liberal democracy, criticising the latter for its focus on short-term electoral processes and arguing that only Chinese democracy "works" for the people.
2. China lays out its own standards for evaluating democracy. Xi put forward a long list of criteria. The most important one is that democracy should "solve the people's real problems"[3] (i.e. primarily consequentialist). A democracy where "the people are awakened only for voting" is not a true democracy.
3. No longer performing as a bridge that seeks mutual understanding, Chinese democracy nowadays serves as both a spear and a shield. As a shield, it serves to protect the party regime from Western accusations. As a spear, it can be weaponised to attack liberal democracy. The Party claims that whole-process democracy is "more extensive, more genuine and more effective" than American democracy (*Global Times* 2021).
4. With whole-process democracy, China is building its own system of discourse and allies. By gaining a foothold in the democracy arena, China can not only fend off ideological threats to the stability of its regime, but also become more able to unify anti-Western forces and promote its political values internationally. This plays into China's larger ambitions to build its global leadership and discursive power.

The December 2021 White Paper *China: A Democracy that Works* is on this point quite different from its predecessor in 2005. The superiority and virtues of China's political system are repeatedly emphasised to demonstrate its "institutional self-confidence". Moreover, China's instrumentalisation of democracy is evolving with its growing power and the international status it believes it deserves.

Expanded Audience

Whole-process democracy targets at least four audiences. First, the new concept immediately attracted the attention of bureaucrats at all levels of administration. After receiving the signal from the leadership, they are trying to experiment with various innovations (such as community deliberations) in their own domain in the name of whole-process democracy or label their work as part of whole-process democracy, as we have already seen in the case of the people's congress system.

The second audience is academia. Like policy entrepreneurs, many pundits will seize on this new concept, leaving no stone unturned to help government interpret and justify it in scholarly terms. However, some liberal-minded scholars and political activists may still try to take advantage of this concept to push for meaningful democratic reforms on the ground, such as rejuvenating local elections.

The third audience is domestic citizens. The real challenge of whole-process democracy lies in turning the discourse into tangible added gains for the people, both materially and institutionally. Overclaiming could always expose the government to risk, especially when a new initiative fails to meet the standards it has put forward itself.

The fourth group is foreign audiences. This is the first time that China is portraying and promoting its democracy in such a high-profile way. Yet a balance must be struck between aggressively boosting China's discourse power and winning the hearts of foreign audiences more gently. Otherwise, having any impact internationally will be extremely difficult.

Some Pitfalls

Whole-process democracy also comes with some worrying pitfalls that the party regime must avoid. First, championing whole-process democracy only tends to make democracy more "whole-process" rather than simultaneously making the whole process more democratic. It may encourage local authorities to downplay elections or even give up elections if necessary.

Second, many argue that whole-process democracy has already been achieved in China and it is not to be considered as a goal for future political development. Thus celebrating it too much fails to recognise various problems and challenges the country is facing.

Third, the high-profile propaganda on whole-process democracy may lead China to wallow in blind self-confidence. Being excessively assertive and offensive could potentially cause misunderstandings and distrust abroad.

Fourth, democracy may be reduced to a discursive weapon for global power competition. For China, this could result in further isolation and confrontation. For democracy, all that remains in the end might just be an empty shell.

It might therefore be better for the rest of world to "let the bullets fly for a while" and give China time and opportunity to explore and demonstrate different democratic possibilities, rather than taking the bait and asserting the superiority of its own democracies at every opportunity.

Notes

[1] For instance, Chongyang Institute for Financial Studies, Renmin University of China (RDCY), "Ten Questions for American Democracy", 6 December 2021; available at http://download.people.com.cn/waiwen/eight16388399461.pdf (accessed 5 June 2022); Waijiao bu 外交部 [Ministry of Foreign Affairs]. *Meiguo minzhu qingkuang* 美国民主情况 [On American Democracy], 5 December 2021; available at https://www.fmprc.gov.cn/web/zyxw/202112/t20211205_10462534.shtml (accessed 10 May 2022).

[2] The joint statement between China and Russia was made when Vladimir Putin visited China to attend the opening ceremony of the 24th Winter Olympics in Beijing: *Zhonghua renmin gongheguo he eluosi lianbang guanyu xin shidai guoji guanxi he quanqiu kechixu fazhande lianhe shengming* 中华人民共和国和俄罗斯联邦关于新时代国际关系和全球可持续发展的联合声明(全文) [Joint statement of the People's Republic of China and the Russian Federation on the sustainable development of international relations and globalization in the new era (full text)], 4 February 2022; available at http://www.gov.cn/xinwen/2022-02/04/content_5672025.htm (accessed 10 May 2022).

[3] For a Chinese collection of Xi Jinping's comments on standards for evaluating democracy, see http://www.qstheory.cn/zhuanqu/2021-10/15/c_1127962266.htm (accessed 12 May 2022).

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Section 3

Building the Party-state's Governing Capacity

9

The Central Commission for Deepening Reform as Policy Accelerator

Nis Grünberg and Vincent Brussee

Core leadership in the new era: central commissions and leading small groups

Over the past decade, political leadership in China has steadily been centralised. Reforms and adjustments have strengthened the organisations within the CPC's central leadership with Xi Jinping's authority as its "core", while streamlining state administrations and ministries. Party ideology for the New Era further cements Xi's role and the indisputable authority of the central CPC leadership. The message: the Party leads everything, and Xi leads the Party.

A main mechanism to bring Xi's central leadership into organisational practice has been the strengthening of central leading small groups (LSGs) and commissions, chaired either by Xi personally or by one of his trusted deputies. These core executive organs are the commanding heights of decision-making within the central leadership. This chapter homes in on the Central Commission for Deepening Reform (CCDR) to illustrate how Xi's influence over strategic policymaking has been institutionalised, and discusses how the CCDR exercises a key role in defining and coordinating domestic structural reforms.

LSGs and commissions are neither new nor uncommon organisations in the Chinese bureaucracy. They have existed as long as the CPC has been in power, numbering in the tens of thousands across the administration. LSGs often serve as missing joints to connect otherwise separate bureaucratic party-state agencies, such as ministries or departments of a local government. When decisions with inter-departmental/ministerial relevance need to be coordinated,

they integrate leadership and decision making by bringing the leaders of all party and state agencies concerned together. The group's chair usually outranks these leaders by at least half a bureaucratic rank, providing the authority to make and enforce decisions across all members of the group. LSGs thus use one of the most valuable resources in the Chinese bureaucracy—administrative rank—to overcome problems of poor coordination, non-compliance or even sabotage.

During the administrative restructuring of 2018, several LSGs were turned into central commissions. These commissions have gone beyond being mere organs of deliberation and coordination. As we shall see below, they have become tools of active governance and control, and the locus of the CPC's centralised rule under Xi.

The Central Committee for Deepening Reform as Xi's key policymaking vehicle

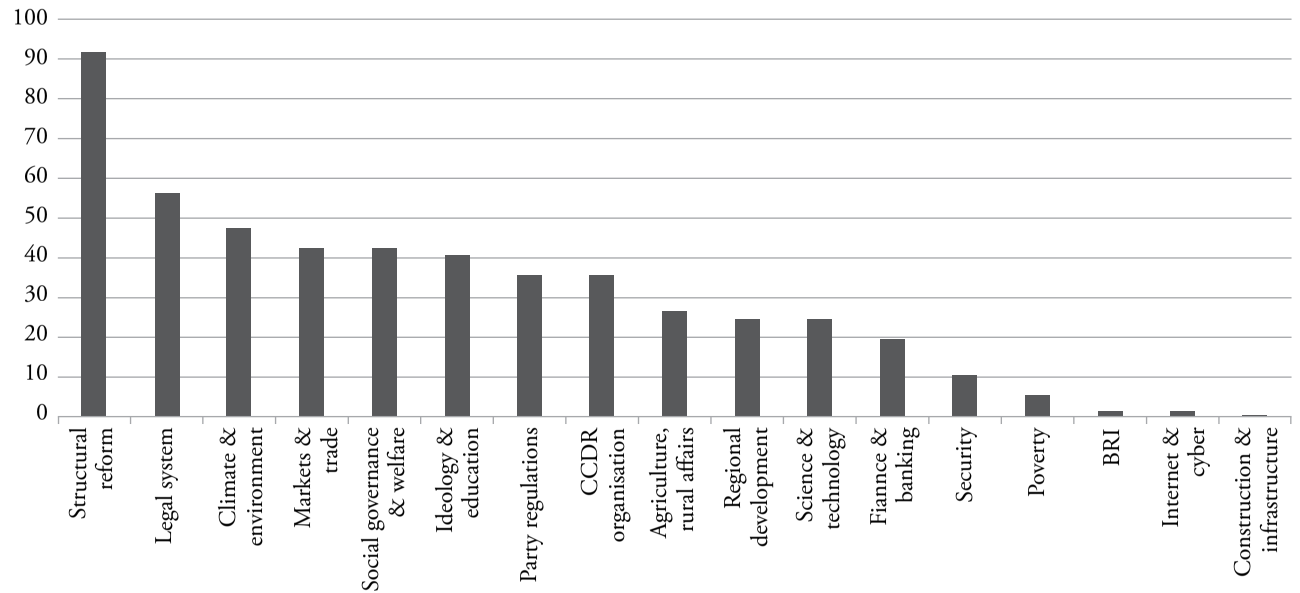
The CCDR has become the primary instrument for "top-level design" policymaking. As a CPC organ under Xi's chairmanship, in practice it outranks all other decision-making bodies of the state administration, including the National Development and Reform Commission and even the State Council. This further institutionalises the CPC's direct grip over strategic policymaking and the state apparatus.

The CCDR was initially formed in 2013 to oversee and coordinate the implementation of the Central Committee Third Plenum's *Decision of the Central Committee of the Communist Party of China on Several Major Issues Concerning Comprehensively Deepening the Reform*.[1] The CCDR has local branches at the provincial, city and county levels, likewise coordinating the implementation of policy. Compared to other central commissions, the CCDR is special in its integration in policymaking processes. For instance, there is no evidence that the National Security Commission (see the chapter by Joel Wuthnow in this volume) delegates tasks as systematically as the CCDR does.

The CCDR is organised into six subgroups, each with its own office and managing director:

1. Economic and ecological civilisation system reform
2. Democratic and legal system reform
3. Cultural system reform
4. Social system reform
5. Party building system reform
6. Discipline inspection system reform

Figure 9.1 Policies Deliberated by the CCDR, Categorised by Topical Focus



Note: "CCDR organisational" refers to the CCDR's internal work reports.
Source: MERICS Policy Database, calculations by authors.

The CCDR thus started as a LSG for a specific, time-limited task. However, thanks to its success, the CCDR (alongside four other central LSGs) was converted into a commission in 2018. With at least two dozen ministerial-rank leaders gathered under Xi's chairmanship in the CCDR, and the specific task to drive the policy priorities of his administration, it embodies the individualised centralisation of power under Xi. And it is used frequently: between its first meeting in early 2014 and the end of 2021, the CCDR has convened 61 times, deliberating on no less than 516 policy documents.

The portfolio of policy issues deliberated in the CCDR (see Figure 9.1) shows that it sticks to issues pertaining to domestic structural reforms, while leaving security (including public order) and defence, cyber and foreign affairs to other party commissions. In line with its sub-groups' themes and its mandate to steer top-level design, it deliberates mainly on structural and legal reforms of the Party and the state, on policies relating to strategic infrastructure and industry, as well as social, macro-economic and environmental issues. This general portfolio competes with the responsibilities of the National Development and Reform Commission (NDRC) and the State Council. What remains unclear at this point is how the CCDR coordinates or perhaps supervises the work of one or more of the commissions or LSGs with a more specialised remit, such as law and governance or finance and economy.

The CCDR as a policy accelerator

The CCDR is used not only to deliberate on and approve strategic policies but also for its members to report on progress. The tasks of its local branches are similar to those of the central CCDR. This means that the CCDR and its work plan (issued yearly) essentially set a priority task list for governments at both the central and local levels. Key policy areas are coordinated by the CCDR, with the drafting and implementation of actual policies delegated to government ministries or CCDR local branches. Progress on these tasks is tracked through reports submitted to CCDR meetings and subgroups. In practice this means that the central CCDR's national work plan directly sets, delegates and monitors priority policies across the administration.

An important factor enabling the CCDR's function as a policy accelerator is its ability not only to assign and supervise policy drafting, but also formally to pass it. Once the CCDR has passed a policy, it is considered to have gone into effect, unless specifically stated otherwise. This makes the CCDR different from other central commissions, which (at least judging from available information) do not sign off on policy. Our analysis of the policy documents passed by the

central CCDR suggests that often weeks or even months go by between the CCDR's passing of a policy and the formal promulgation of that same policy, for instance by the State Council, the NDRC or a ministry. This is significant, since strictly speaking the CCDR, as party organ, does not have formal authority to make state law and policies.

A concrete example of this process is the creation of national parks. Setting up a system of national parks was one of the tasks put forth by the 2013 Central Committee *Decisions*, the founding document of the CCDR. In 2015 under the leadership of the NDRC, a pilot plan to set up national parks was issued. At the same time, several individual parks were planned (today a total of 10 have been established), again with the NDRC in the lead. In July 2017, the CCDR passed the *General System Plan for Establishing National Parks*, ending the trial period. Two months later, this plan was formally issued jointly by the State Council and the CPC Central Committee. Meanwhile, starting in 2015, the NDRC reported to and received guidance on drafting plans for individual parks from the CCDR, with its subgroup on Economic and Ecological Civilization System Reform (directed by Liu He) in charge of coordinating the process.

Several of the plans for individual national parks also went through this process. The NDRC reported to the CCDR during the drafting phase and submitted both trial and final versions of the planning document for deliberation and passing by the CCDR. All plans were later formally publicised either by the State Council (the national plan) (*Zhonggong zhongyang* 2017), or the NDRC (plans for individual parks such as the Giant Panda National Park) (Guojia fazhan 2021). A 2019 draft seeking public opinions on the General Outline on the National Panda Park even mentions Xi Jinping speaking about the park during a meeting of the Central LSG for Economy and Finance (which is also a commission today) (Guojia linye 2019).

There are indications that local CCDR branches mirror the central CCDR's function of fast-tracking policy decisions by issuing task lists. How proactive local CCDR branches are differs. For example, the Henan province CCDR announced its successful coordination of, among others, the "River Chief" system (for flood warning and waterway safety), and announced completed delegation of 176 key tasks for 2021 to the relevant units.[2] The CCDR branch in Dali county (Shaanxi) published a list of 24 very general reform items (e.g. "continue to improve the business environment") on its task list for 2020 (Zhonggong dali 2020). There even are structures equivalent to the CCDR in large state-owned enterprises. These examples suggest that the CCDR has become pervasive across the administrative structure with branches reaching all the way down to

the county level and with the political authority to define key policy tasks and delegate them to individual departments.

Conclusion

Xi Jinping chairs all important central party LSGs and commissions, extending his influence across all strategic policy areas. Among these LSGs and commissions, the CCDR serves as the core instrument for top-level design policymaking and implementation. The CCDR is not just one of the largest and most powerful organs at the central level, but also defines and delegates tasks at lower levels.

Many party LSGs and commissions have existed for decades; Xi has institutionalised a select few of them as formal executive organs of the Party at the expense of the state. Among them, the CCDR remains special in its degree of involvement and control over policymaking and implementation. It is unmatched in its mandate to define policy tasks, coordinate and delegate implementation, and therefore serves as a prime policy accelerator for the political programme of the central leadership and Xi Jinping.

The CCDR can be seen as a typical product of the hierarchy-based bureaucracy of the party-state, in which, to gain control over decision making, leaders create or reorganise agencies that outrank existing ones. Upgrading central LSGs and commissions into the core of policymaking can thus be seen as a move by Xi to impose his policy programme onto a fragmented and inert system in which inter-ministerial contests and local-level obstruction remain a problem. However, it is likely that they merely transplant implementation issues to other parts of the bureaucracy. Solving decision making bottlenecks for the specific issues the CCDR concerns itself with does not resolve the deeply rooted structural issues of China's fragmented authoritarianism in other policy areas.

Notes

[1] The official English translation of the Decision is available online at http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm, 16 January 2014 (accessed 4 May 2022).

[2] Zhonggong henan shengwei quanmian shenhua gaige weiyuanhui 2021 nian gongzuo yaodian《中共河南省委全面深化改革委员会2021年工作要点》专题发布会 [Special press conference on the work points of the Comprehensively Deepening Reform Committee of the Henan Provincial Party Committee of the Communist Party of China in 2021]. Available at http://www.scio.gov.cn/xwfbh/gssxwfbh/xwfbh/henan/Document/1701427/1701427.htm (accessed 30 July 2022).

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10

Rating Citizens with China's Social Credit System

Diana Fu and Rui Hou

Under the leadership of Xi Jinping, the Chinese party-state has embarked upon an ambitious mission to shape the citizenry through what it calls the "social credit system". At its initiation in 2012, the first year of Xi's rule, foreign media depicted the system as an Orwellian instrument of control, one which allows the state to monitor and punish any social and political behaviour that it deems undesirable or harmful to its interests.

Western media articles initially compared the system to an episode of the British sci-fi series *Black Mirror* in which individuals' everyday behaviour, down to the minutiae, were tracked and rated by other people and a "big brother" government. Since then, scholars and journalists have sought to dispel this dystopian depiction of the social credit system, but the image continued to live on, particularly after the Trump administration started to use it as part of its anti-China policy in 2017 and 2018.[1]

Will the social credit system evolve into an instrument of enforcing political and ideological conformity? This chapter argues that the system is still far from a comprehensive instrument of behavioural control. First, if the trajectory of fragmented and uneven implementation of the system across localities in China continues, it is unlikely to be able to monitor, rate and control citizens' behaviour in a totalising way. Second, the social credit system is part of a much broader agenda of building citizenship which entails propaganda, patriotic education and citizenship cultivation campaigns that pre-date the current era of surveillance technologies. Third, the high social acceptance of the social credit system among the populace indicates that citizens in China may have a different baseline of expectations of privacy and surveillance than in liberal democracies.

The Social Credit System's Origins

Inspired by Western commercial credit score systems such as Fico, Equifax and TransUnion, the Chinese government's original idea in the 1990s and early 2000s was to build a rating system to assess citizens' financial performance. At the 16th Party Congress in 2002, the Jiang administration proposed a social credit system to promote a "unified, open, competitive, and orderly modern market system" (Jiang 2002). The plan was to set up a system for monitoring individuals' financial creditworthiness and for regulating economic transitions.

Under Xi Jinping in 2014, the State Council expanded the concept of social credit to the political and social realm. In their 2014 blueprint document, "Guidelines of Social Credit System Construction (2014–2020)", the central authorities proposed to build "a national system covering the whole society as the basis to promote government integrity, business integrity, social trust and judicial credibility" (Guowuyuan 2014). In transitioning from a financial credit rating system to a comprehensive one, the social credit system became a system that rated citizens, not just consumers. Moreover, social credit mainly monitors and rates companies and government organisations, and at present focusses much less on non-state "social organizations" and individual citizens (Drinhausen and Brussee 2021).

Social credit is not a singular, state-monopolised and all-encompassing rating scheme. Instead, it comprises multiple systems, some of which are designed and operated by the state, while others are operated and served by commercial companies.

State-run social credit systems are divided between the central state and local states. At the central level, more than 47 different institutions coordinated by the State Council implement the system and keep track of various "blacklists" (lists of individuals and corporations engaging in untrustworthy behaviour and their punishments), as well as "red lists" (lists of trustworthy individuals and corporations and their rewards).

At the local level, municipal governments have implemented at least 62 social credit pilots to govern their residents and companies using score-based and/or list-based schemes. Implementation across these pilot cities has been uneven. The level of citizen participation in government-run pilots is low and many ordinary people living in pilot cities are even unaware of such a system (Kostka 2019; Kostka and Antoine 2020; Liu 2019).

Simultaneously, there are also commercially-run social credit schemes that are different from government-run systems. In 2015, the People's Bank of China gave permission to eight companies to develop personal credit ratings. Commercial

pilots of social credit systems are offered on a voluntary basis by companies such as Ant Financials' Zhima Credit and Tencent Holdings' Tencent Credit. Users with a good credit score are given a wide range of benefits (Kostka 2019).

Rating More than Political Behaviour

The social credit system's original depiction as an Orwellian nightmare stems from the fact that "disrupting social order" was listed as serious untrustworthy behaviour in the 2014 blueprint document issued by the State Council. This document is vague as to what specific activities constitute disrupting social order, and individual state and party agencies have developed their own interpretation. For example, some local governments designate certain forms of protest as disruptive behaviour and will for instance blacklist aggressive petitioners as untrustworthy citizens.[2]

However, to the extent that social credit is used to control citizen behaviour, explicitly political behaviour constitutes only some of the criteria. Other forms of untrustworthy behaviour include legal non-compliance, economic misbehaviour and professional misconduct. A major category of untrustworthy citizens is that of a debt-dodger (*laolai*). The term refers to people who have the ability to meet their legal obligations but choose not to do so.[3]

A famous *laolai* in China is Jia Yueting, the founder and former CEO of a company called LeEco. His company suffered a serious financial crisis, and he has been put on the *laolai* blacklist since 2017 for failing to repay his loans (Zhong and Zhang 2017). This blacklist is maintained by the Supreme People's Court of China. Its "National Judgment Defaulters List" was created in July 2013 to deal with the problem of non-compliance with court rulings. In other cases, professional misconduct can also land an individual on a government blacklist. For example, a high school teacher in Shandong province was blacklisted for her violation of teaching ethics. She lost her job and was downgraded in the local social credit system for inflicting corporal punishment on her student and being a bad influence.[4]

An Instrument of Political Socialisation

The social credit system should be viewed in the broader context of the party-state's long-term efforts to socialise the populace into the norms of modern citizenship. In the Xi era, the social credit system has become a mechanism through which this civilising project continues to operate.

In 2019, for instance, the National Development and Reform Commission issued a document regarding electing moral models across the country as

trustworthy citizens who should receive social credit incentives.[5] To the extent that the social credit system and its selection of models of trustworthiness work in concert with patriotic education and political education, it aids the regime in actively moulding the next generation into what to become and also what not to become.

High Social Acceptance of the SCS

Despite depictions of the social credit system as evidencing China's digital dictatorship, social credit is highly accepted among the population. According to a survey study conducted in 2018, 80 per cent of respondents reported approving or strongly approving of the system, while just one per cent reported either strong or some disapproval (Kostka 2019).

Chinese citizens have a relatively high level of tolerance for state intervention. The fact that the state monitors and rates their behaviour is not as troubling as it may be for citizens in the United States or in other liberal democracies with a baseline expectation of limited government interference in citizens' daily lives.

Nevertheless, it is reasonable to assume that the evolution of the social credit system will be shaped by legal considerations of privacy as much as by political priorities around cultivating a compliant citizenry. Citizen concerns around big data governance have prompted the government to pass new privacy laws aimed at regulating the collection and usage of personal information by both governmental and commercial actors (Horsley 2021).

In 2021, the 13th National People's Congress enacted the Personal Information Protection Law, which complements the existing Cybersecurity Law and Data Security Law to establish a broader framework governing cybersecurity and data privacy protection in China (*National Law Review* 2021, see also John Lee's chapter in this volume). The new Privacy Law places greater restrictions on companies' processing of people's personal information (Lee et al. 2021). However, the impact of this new legislation specifically on the social credit system remains to be seen.

The Future of Social Credit

The Chinese Communist Party will hold its 20th Party Congress in the fall of 2022. The work report that will be delivered at the Congress will present China's political, economic and foreign policy trajectory for the next five years and beyond. The social credit system has already begun to be incorporated into other institutions to address various newly emerging governance issues. For instance, the system has been applied to contain the spread of the COVID-19

virus as local governments have backlisted as untrustworthy citizens individuals who have refused to abide by pandemic health measures.[6] Many government ministries have also adopted the system to centralise data and regulation. In 2018, the Ministry of Civil Affairs adopted the social credit system to regulate social organisations.[7] In 2021, the Ministry of the Environment incorporated social credit scoring into its enterprise assessment system.[8] Since 2020, the Ministry of Commerce has begun to apply the corporate social credit system to the management of foreign enterprises whose production and business activities are located within Chinese territory.[9]

The next five years will see the expansion and integration of the social credit system across government agencies, but exactly how remains yet unclear. At a minimum, the system may continue to operate in a decentralised manner, with each locality implementing their own rating. In 2020, the State Council issued a document stating that the next step will be to focus on standardising the criteria for blacklisting and punishing untrustworthy citizens.[10] In an updated 2022 directive, the State Council indicated it will "actively explore innovative ways to use the credit concept and methods to solve difficulties, bottlenecks, and painful points that restrict the country's economic and social activities".[11] This suggests a continued push from the central state to standardise and expand the social credit system across government agencies.

In short, there is little indication that the social credit system will be abandoned. If anything, it will become even more prevalent in all aspects of societal governance. However, as this article has argued, social credit should not be seen strictly as a monitoring and surveillance system. Rather, it is also an instrument of political socialisation in which the authoritarian state is teaching the populace how to be good citizens.

Notes

[1] For instance, "Vice President Mike Pence's Remarks on the Administration's Policy Towards China" given at the Hudson Institute on October 4, 2018; available at https://www.hudson.org/events/1610-vice-president-mike-pence-s-remarks-on-the-administration-s-policy-towards-china102018 (accessed 30 July 2022).

[2] For example, the Yangzhou government in 2019 blacklisted six petitioners because they signed a mediation agreement with local government but still went to Beijing or other non-designated locations to petition; see "Guanyu dui Ge Zhengjun deng liu ming yanzhong shixin xinfangren shishi lianhe chengjiede baogao" 关于对葛正军等六名严重失信 信访人实施联合惩戒的公告 [Announcement on implementing joint punishment against Ge Zhengjun and six other seriously untrustworthy petitioners;

Announcement on joint punishment for petitioners], 25 April 2019. Available at http://cxyz.yangzhou.gov.cn/m_662/1879.html (accessed 5 May 2022).

[3] "Decision of the Supreme People's Court on Amending the Several Provisions of the Supreme People's Court on Issuing the Information on the List of Dishonest Judgment Debtors (2017)", 28 February 2017; available at http://www.lawinfochina.com/display.aspx?id=23163&lib=law (accessed 5 May 2022).

[4] "Shandong Wu Lian huiying 'jiaoshi tifa bei naru xinyong heimingdan': wei jinru guo xitong" 山东五莲回应"教师体罚被纳入信用黑名单"：未进入全国系统 [Shandong Wulian responds to "Teachers' corporal punishment is included in the credit blacklist": not entered into the national system], posted online on 11 July 2019; available at https://www.thepaper.cn/newsDetail_forward_3894105 (accessed 5 May 2022).

[5] "Guanyu dui mofan jianxing chengshi shouxin geren shishi lianhe jili jiakuai tuijin geren chengxin tixi jianshede zhidao yijian (zhengqiu yijian gao)" 关于对模范践行诚实守信个人实施联合激励　　加快推进个人诚信体系建设的指导意见（征求意见稿）[Guiding Opinions on Implementing Joint Incentives for models of honest and trustworthy individuals and accelerating the construction of the personal integrity system (draft for comment)]; available at http://www.gov.cn/hudong/2019-06/03/content_5397131.htm (accessed 5 May 2022).

[6] "Dalian shi xinguan feiyan yiqing fangkong qijian shixin xingwei wei xinxi (di 28)" 大连市新冠肺炎疫情防控期间失信行为信息（第28）[Information on untrustworthy behaviour during the prevention and control of COVID-19 epidemic in Dalian (No. 28)], 30 November 2021; available at https://credit.dl.gov.cn/credit-portal/gxq/article/detail/575190 (accessed 5 May 2022).

[7] *Shehui zuzhi xinyong xinxi guanli banfa* 社会组织信用信息管理办法 [Credit information administration measures of social organisations], 24 January 2018; available at http://www.mca.gov.cn/article/gk/fg/shzzgl/201801/20180115007671.shtml (accessed 5 May 2022).

[8] *Guanyu quanmian shishi huanbao xinyong pingjiade zhidao yijian (zhengqiu yijian gao)* 关于全面实施环保信用评价的指导意见（征求意见稿） [Guiding opinion on the full implementation of environmental credit evaluation (draft for comments)], 23 May 2021; available at https://www.ndrc.gov.cn/yjzxDownload/20210323fj1.pdf (accessed 5 May 2022).

[9] *Shangwu bu, shichang jianguan zongju, waihui ju guanyu kaizhan 2019 niandu waishang touzi xinxi baogao niandu baogaode gongbao* 商务部, 市场监管总局, 外汇局关于开展2019年度外商投资信息报告年度报告的公告 [Announcement of the Ministry of Commerce, the State Administration for Market Regulation and the State Administration of Foreign Exchange on launching the 2019 annual report on foreign investment information], 3 January 2020; available at http://www.mofcom.gov.cn/article/zcfb/zcwgtz/202001/20200102927881.shtml (accessed 11 May 2022).

[10] "Guowuyuan bangongting guanyu jin yi bu wanshan shixin yueshu zhidu goujian chengxin jianshe changxiao jizhide zhidao yijian guobanfa (2020) 49 hao" 国务院办公厅关于进一步完善失信约束制度构建诚信建设长效机制的指导意见国办发（2020）49号 [Guiding Opinions of the General Office of the State Council on further

improving the dishonesty restriction system and building a long-term mechanism for integrity construction, State Council General Office document 2020, no. 49], 18 December 2022; available at http://www.gov.cn/zhengce/content/2020-12/18/content_5570954.htm (accessed 5 May 2022).

[11] "Guanyu tuijin shehui xinying tixi jianshe gao suliang fazhan cujin xingcheng xin fazhan gejude yijian" 关于推进社会信用体系建设高质量发展促进形成新发展格局的意见 [Opinions on promoting the construction of a social credit system with high-quality development and promoting the formation of a new development pattern], 29 March 2022; available at http://www.gov.cn/zhengce/2022-03/29/content_5682283.htm (accessed 10 May 2022).

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11

The CPC's Global Power

Frank N. Pieke

Much has been said and written about the Communist Party of China's (CPC's) influence abroad, often on the assumption that whatever a communist party does is inherently dangerous and part of a systemic rivalry with democratic political systems.

In this chapter I will show that the CPC does indeed assume a coordinating and controlling role over China's presence outside its borders, but does so mainly as an extension of its domestic ways of governing. The CPC does not want to control the politics and societies of other countries. Like the governments of many other great powers, some of its activities are aimed at gaining political influence and "soft power", but the bulk of the CPC's work abroad seeks to tie global Chinese actors (overseas Chinese, enterprises, media, associations) more firmly back into the "system" in China itself. These activities are a far cry from the CPC's spotty but persistent attempts at spreading communist ideology and revolution across the world in the Mao Zedong period (Lovell 2019).

The CPC's foreign work and party building that are discussed here are a specific and discrete part of the build-up of China's global influence that has many different faces and aims. Richard McGregor in his chapter in this volume, for instance, discusses the Chinese government's strategy to modify the existing international order to better suit Chinese interests and preferences. Local government friendship ties, Confucius institutes, public diplomacy, research cooperation and exchange, and talent recruitment programmes serve a strategy on the part of the Chinese Communist Party and government to gain influence in foreign countries.

A deliberate thrust to build Chinese influence certainly exists, but should be distinguished from directly malign political interference, espionage, IP theft and strategic acquisition of critical infrastructure. Chinese influence usually caters for

fairly modest aims that can be dealt with without resorting to the hyperbole of systemic rivalry or existential competition. This is even true for most, if not all, of the CPC's own foreign activities, as I hope this chapter shows.

Internationalism and international liaison

The Party's International Department is the principal agency responsible for liaison with foreign communist parties and other political parties, and more generally for dealing with foreign party elites visiting China. After the year 2000, there has been a considerable uptick in the Department's work. In countries under one-party rule, the Department works exclusively or mainly with the ruling party of that country; in democracies, the Department hedges its bets by also working with parties or elites currently not in power (Hackenesch and Bader 2020: 727; Lovell 2019; Shambaugh 2007).

The International Department tends to deploy what in international relations is often called "Track II" diplomacy that targets leaders of political parties, upcoming or retired politicians, academic or think tank researchers, and others not (currently) in executive positions of power. This serves two aims. First, the Department can act as a conduit for exchange or negotiations when China's direct political or diplomatic contacts with a foreign government have stalled or been broken off. In the past, this for example included countries in Latin America or the Pacific that recognised the Nationalist government on Taiwan rather than the People's Republic of China.

Second, the work of the Department seeks to gain long-term influence by emphasising cooperation and a better understanding of and sympathy for China, its system and its foreign policy goals at some remove from the cut and thrust of day-to-day international politics and the government that happens to be in power in a country at a particular time.

Under Xi Jinping, the International Department's focus has shifted and expanded perceptibly. The CPC much less feels the need to push China's long-standing foreign policy goals, such as non-recognition of Taiwan, non-interference with activities in Tibet and Xinjiang, or support for China's territorial claims in the South China Sea and elsewhere. Instead, and more ambitiously, the CPC looks for ways to cultivate support across the world for China's global role as a great power and its vision of the future world order, including the Belt and Road Initiative, the Community with a Shared Future for Mankind and the Chinese Dream (*Chai Shangjin* 2021).

Complementing this new global goodwill strategy is the effort to spread the experience and governance model of the CPC. The International Department

coordinates training courses, visits and other exchange events, and even sets up party schools where members of foreign partner parties are instructed in the CPC's organisation, party building and discipline inspection, and more generally China's model of governance and development.

Borrowing Jessica Chen Weiss's phrase, this effort is not intended to make the world "safe for autocracy" (Chen Weiss 2019). The CPC seeks to present China as a world power with a proven alternative model of government and development that many other countries may want to learn from and one that will establish a more pluriform and multi-polar world order. This order will reassert the principle of national sovereignty and the cooperation of nations unfettered by Western impositions, demands and norms (Caffarena 2022). China, so the Party argues, does not seek a new alliance of autocratic countries against the democratic world, but merely offers up its example for others to emulate.

The United Front and the Chinese abroad

Distinct from the International Department, the foreign activities of the CPC's Department for United Front Work focus mainly on the overseas Chinese. Xi Jinping imagines the overseas role of the United Front Department to be complementary to the work on non-Chinese foreigners by the International Department. Moreover, in speeches given in 2015 and 2016, Xi explicitly connected the overseas Chinese work of the United Front with his Belt and Road Initiative (Sapio 2019).

Whilst the United Front Department's main responsibility remains domestic, recently the Department's overseas Chinese work has become more prominent and pervasive among overseas Chinese communities. The new united front foreign strategy emphasises not just support for but also loyalty to China and its system, model and foreign politics (Pieke 2021).

The United Front is thus rapidly developing from a somewhat antiquarian mechanism which aimed to broaden the CPC's support base into a cornerstone of the Party's grip on internal and external security, and of the monitoring (and possibly enforcement) of political orthodoxy at home and among overseas Chinese. This steady expansion of the United Front Department's responsibilities and administrative scope is causing rising reservations and suspicions abroad about Chinese influencing or even interference (Fedasiuk 2020; Joske 2020).

Overseas Party Building

In addition to the work of the United Front and International Departments, the CPC also builds its own organisation and membership abroad. In 2017 and

2018, Western media exposed the presence of a number of party "cells" (branches) at universities abroad (Allen-Ebrahemian 2018). Surprisingly, some Chinese newspapers also openly reported on this (Zhang Yu 2017). The immediate consequence of these "revelations" was that the CPC gave much less publicity to foreign party work, without intending to end it. Nevertheless, in the Chinese literature it is not difficult to find ample evidence of the existence of active Party branches at foreign universities. In particular, Chinese universities with many exchange students abroad continue to set up temporary Party branches for the party members among their students at foreign universities.

Party members are also found in many Chinese state-owned institutions and companies abroad as they are in China itself. Moreover, commercial labour recruitment agencies in China often send large groups of Chinese to work on temporary contract on projects abroad, and here too party members are quite naturally present.

Party building work abroad explicitly concerns party members who in principle have gone abroad temporarily. It does not concern ordinary Chinese citizens or party members who have emigrated permanently. The latter must give up their party membership or at least de-activate membership of their original party branch in China, after which they are subject to the Party's overseas Chinese policies run by the United Front Department.

State-owned enterprises, state-coordinated projects and Chinese exchange students are seen as foreign extensions of China's domestic economy and society and are therefore "part of the system" of the Party and the state. Party members abroad will in principle remain members of the party committee to which they belong in China. The party committees of universities and companies are required to involve their members abroad in their activities and, if possible, to organise activities abroad for them. In addition, party members abroad must also remain locally involved in the Party.

In practice, these arrangements present a number of major problems. Without an active connection to a real party branch, "only those party members with strong ideals and beliefs can resist the temptation" of the "sugar-coated bullets"[1] of a Western lifestyle and "international hostile forces". With the erosion of their party spirit and party discipline the Party is in danger of losing control of its own members abroad (Feng Liujian 2021).

To address these issues, the CPC Centre in 2016 issued a "leading opinion" on party building work among state-owned enterprises abroad. Although this opinion has remained confidential, its gist can be distilled from other Chinese articles and documents.[2]

The document also reveals which agencies at the Centre are responsible for foreign party building. In addition to the Party's Central Organization Department as first responsible for party building in general, the document was co-issued by the Party Committee of the State-owned Assets Supervision and Administration Commission of the State Council, the Party Committee of the Ministry of Foreign Affairs and the Party Group of the Ministry of Commerce. In other words, through its party committee structure, the CPC Centre also enlists in its foreign party building efforts those parts of the government that are most directly involved in foreign affairs, trade and investment.

The Ministry of Commerce, for instance, plays an important role in foreign party building among state-owned enterprises. The Ministry does so directly through its foreign trade and investment sections at Chinese embassies, and more indirectly through organisations that are directly associated with the Ministry, in particular the China Council for the Promotion of International Trade (CCPIT) and the China Chamber of International Commerce (Pieke and De Graaff 2022, Chapter 6).

According to the 2016 regulations, in many countries overt party activities are often not possible, especially in situations where, for example, employees of a Chinese company frequently work with non-Chinese colleagues. Although the CPC is only formally banned in a few countries like Indonesia, many other, especially Western, countries treat CPC activities, should they occur, with suspicion.

The 2016 regulations stipulate that party activities in such countries must take place on the basis of "the principle of the 'five non-disclosures'": the non-disclosure of party organisation, internal party positions, party member status, internal party documents and internal party activities in overseas party building activities.

For the consumption of foreign employees and visitors, party activities should be presented as a part of the company's "corporate culture and team building". Improving corporate efficiency, enhancing corporate competitiveness, and maintaining and increasing the value of state-owned assets are "the starting point and the end point" of party organisation work in enterprises abroad. In other words, not ideology nor influencing, but business and profit are the main point of foreign party work.

Party building in companies and projects abroad is intended to ensure that they do not stray too far from the interests, plans and objectives of the CPC and its vision for the Chinese nation. Overseas party building work also concerns itself with business interests coupled with China's larger aims in international politics, especially those that concern China's public diplomacy and soft power

strategies, rather than with influencing or interfering in foreign societies, economies or politics.

Conclusion

CPC activities abroad cannot be compared to the international branches and activities of political parties operating in competitive multi-party political systems. The latter's foreign activities chiefly serve to garner electoral support and financial contributions (Von Nostitz 2021).

The CPC as a ruling Leninist party is a fundamentally different entity. The International Department serves the broader foreign policy objectives of the regime. The CPC's United Front work is in certain respects more akin to the diasporic policies of governments of countries with very large emigrant populations, such as the Philippines, India or Turkey. As with these countries, the focus is on return migration, remittances and ensuring that the diaspora does not become a political liability to regime stability at home and the government's foreign policy abroad.

CPC foreign party building, in turn, caters to three quite different agendas. First, party building work principally helps Chinese businesses in their local operations and strengthens the brand of Chinese business. Second, party building ties Chinese actors abroad to the system back home and the interests of the CPC. Third, party building work also contributes to China's foreign policy strategy in promoting the "Chinese story", the "Chinese way", the "Belt and Road" and the "shared community of mankind".

Overseas party building has been borne from finding solutions to a range of often contradictory, practical problems arising from China's globalisation. It does not constitute a plan hatched in advance and systematically rolled out across the globe. Instead, the Party is learning by doing. Nevertheless, a deliberate drive continues to step up party building efforts, particularly in countries with a large number of Chinese-invested firms, especially state-owned and -controlled ones.

Foreign party building will likely become more prominent, especially where Chinese firms and other agencies are most active. It is also quite possible that foreign party building over time will evolve to connect more with the Party's overt influencing work through the International and United Front Departments, particularly as China's foreign relations become more expansive, forceful and they meet with increasing pushback. It is also possible that the Party will start to recruit new members among resident overseas Chinese (for instance locally-recruited employees of state-owned enterprises), thus further blurring the line with the overseas Chinese work of the United Front. Countries with a

large Chinese presence are therefore well-advised to monitor the degree—and especially the nature and aims—of CPC foreign party work and party building.

However, this ought not be premised on the assumption that all types and aspects of party building and party work by definition run counter to the interests or national security of the receiving country. For now, they chiefly seek to build up soft power and influence, especially among overseas Chinese communities, and target party members abroad with the aim to tie them back more firmly into the system in China. As long as this stays within the confines of the local law and does not facilitate unwanted influencing or interference in local affairs, this is neither particularly good nor particularly bad, but should be considered a normal aspect of the Chinese presence in their country.

Notes

[1] "Sugar-coated bullets" is a CPC phrase used during the early 1950s' Three Anti- and Five Anti- Campaigns that targeted capitalists and party members that had been corrupted by capitalists.

[2] Reportedly, these regulations are called Zhongyang zuzhibu, guowuyuan ziwei dangwei, waijiaobu dangwei, shangwubu dang zuzhi guanyu jiaqiang zhongyang qiye jingwai danwei dangjian gongzuode zhidao yijian 中央组织部、国务院国资委党委、外交部党委、商务部党组关于加强中央企业境外单位党建工作的指导意见 [Guiding Opinions of the Central Organisation Department, the Party Committee of the State-owned Assets Supervision and Administration Commission of the State Council, the Party Committee of the Ministry of Foreign Affairs, and the Party Group of the Ministry of Commerce on Strengthening the Party Building Work in Overseas Units of Central Enterprises]. One of the sources that summarises the document is Liang 2019.

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12

The People's Liberation Army as a Party Army

Li Nan

Unlike liberal democracies where the military is at least nominally apolitical and non-partisan and pledges its allegiance to the state constitution, the People's Liberation Army (PLA) in China is a party army that pledges its allegiance and loyalty to the Communist Party of China (CPC), a Leninist party that monopolises political power. Several distinctive features help discriminate the PLA from non-party armies.

Distinctive features

One such feature is that most military officers, like the civilian elite in China, are party members. This makes it possible for the PLA to be represented on the CPC Central Committee and its Politburo and thus be included in top-level decisions and policymaking.

Other mechanisms for the CPC to link up with and control the PLA include the political work system which is deeply embedded across the military. This system has three major components. The first is known as the "dual-command system": each major PLA unit is headed by both a commander and a political commissar. The latter has the same bureaucratic grade as the commander and has the power to co-sign orders with the commander.

Second, to provide functional and staff support to the political commissar in his or her areas of responsibilities, the headquarters of each major PLA unit include a political work department. This department has divisions that specialise in: party organisation; cadre work and human resources; political education; public relations; political intelligence and warfare; and discipline inspection and supervision.

Third, each major PLA unit is presided over by a party standing committee on decision-making. The committee members include the commander, the political commissar and their deputies. Major decisions on important military and political issues of the unit are made based on collective discussions and voting among the members, and both commander and political commissar are held accountable for implementing these committee decisions. In times of crisis and war, however, the commander has the authority to command according to circumstances without consulting the party committee.

Limits of the political work system for party control of the gun

It is commonly assumed that the political work system is externally imposed on the PLA by civilian CPC authorities to supervise the PLA for political loyalty and discipline and report back to the civilian party authorities. Organisational theory, for instance, postulates that for a supervisory agency to be effective, it must be external to and independent from the performing agency it is tasked to supervise (Downs 1967: 149).

The political work system of the PLA, however, reports only to their superiors in the PLA. It has no authority relationship with external civilian party authorities and does not report to such authorities. Political officers are selected from the ranks of the PLA and trained in PLA institutions. Finally, political officers are subject to the PLA's incentive structure, including its bureaucratic grades, military ranks and pay scales. To enhance their promotion prospects in the PLA, political officers are incentivised to cooperate with the commanders of the units that they co-command by reporting good performance to their superiors and covering up major errors and failures.

As an internal constituency of the PLA, the political work system thus cannot be expected to function as an effective supervisory agency; its supervisory role has largely been compromised by its incorporation into the PLA structure. Xi Jinping's counter-corruption drive in the PLA, for instance, reveals that political officers are not more loyal to the Party and less corruptible than the commanders they are supposed to oversee. Just as many political officers are investigated and prosecuted for corruption as military, logistics or armament officers.

Reform to enhance party control of the gun

In the post-2015 military reform, Xi made several institutional changes to enhance the power of the Central Military Commission (CMC) chair, the civilian commander-in-chief position that he holds as the top leader, to control the PLA. First, he dismantled the PLA General Staff, Political, Logistics and Armament

Departments, which he believed constituted an independent and powerful administrative layer that undermined the authority of the CMC leadership and served as venues of military corruption. He then integrated the major functional agencies of these general departments into the CMC itself to provide functional and staff support to the CMC leadership.

Second, he has reiterated the importance of the CMC chair responsibility system, which was largely neglected in the Hu Jintao era. Thus, all major PLA organisations are required to "report to the CMC chair on all important matters, and decisions on all important issues must be made by the CMC chair" (Li 2016).

Third, Xi separated the supervisory agencies from the traditional political work system, including those that specialise in discipline inspection, criminal investigation and prosecution, and the courts. These agencies have turned into separate chains of command, reporting directly to the CMC chair without interference from the organisations they supervise. This change serves to enhance the independence and authority of these agencies to improve their effectiveness in supervising the PLA operational organisations.

Finally, Xi has enhanced his control over the PLA by dividing the power between PLA service chiefs and its regional theatre chiefs. The power of the PLA service chiefs is now limited to peacetime force construction and administration, while the power of the theatre chiefs is confined to operational command in times of crisis and war. Before this change, these powers were fused in the commanding officers of major PLA organisations, which enabled these officers to become the "lords of their own estates" particularly in engaging in corruption.

Shifting away from domestic politics

Since the PLA is a party army, historically it was heavily involved in party and domestic politics, particularly in the eras of Mao Zedong and Deng Xiaoping. Post-Deng leaders, however, have developed a stronger sense of insecurity stemming from their lack of revolutionary and military credentials and the associated political capital and personal networks in the PLA. This sense of insecurity has motivated them to adopt a policy that stresses effective civilian governance and the promotion of economic development along with political and social stability. Effective governance enhances the party's legitimacy to rule, but more importantly prevents major political and social upheavals that may incentivise the military's intervention in domestic politics, which these leaders may find difficult to control and manage.

Some analysts suggest that post-Deng leaders attempt to buy off the military with higher ranks and more money to cultivate their personal networks in the PLA, which they can leverage in power struggles against their political opponents. This view, however, is flawed for two reasons.

First, all top leaders after Deng who served as CMC chair have regularly promoted PLA senior officers and increased the defence budget. However, candidates for promotion are mostly recommended by military professionals in the CMC, rather than being picked by top civilian leaders. Top leaders will interview the most senior candidates, but their knowledge of these officers is limited since they have not worked with them before. Moreover, there is only sketchy evidence to show that military officers are mobilised for intra-party leadership power struggles in the post-Deng era. Officer promotion and budget increases thus can be explained better on functional and professional grounds rather than by personal and factional reasons.

Second, top leaders are careful not to develop dependence on the military for political support and survival. Such dependence would suggest a failure of civilian governance and incompetence on the part of these leaders to resolve major political and social crises. This kind of vulnerability could be exploited by the military for political advantage. In the end, a new threat may emerge against these leaders: a military that is itself politically ambitious. In this regard, leaders have learned the lessons from the Lin Biao incident under Mao and the Yang brothers incident under Deng (Li 2021: 70–5 and 86–91).

"Objective control"

Xi Jinping's military reform has largely been promoted along the line of what Samuel Huntington has called "objective control" (Huntington 1957: 80–5), confining the PLA to perfecting its functional and technical expertise and fulfilling its external missions (Li 2021: 124–6). Xi downsized the PLA by 300,000 billets and replaced the seven ground force-dominated military regions with five joint-services theatres. Thus, eighteen ground force-based group armies were reduced to 13 and technology-based naval, air, conventional rocket, and strategic support service forces were expanded and fully integrated into the new joint theatres.

To cope with the growing security challenges from outer and cyber space and the electromagnetic spectrum, Xi established a PLA Strategic Support Force to develop and manage the capabilities in these three domains. He also renamed China's strategic missile force the PLA Rocket Force, and expanded China's nuclear deterrence capabilities that is its main responsibility. The 2021

Pentagon report on China's military predicts that the "accelerating pace of the PRC's nuclear expansion may enable it to have up to 700 deliverable nuclear warheads by 2027. The PRC likely intends to have at least 1,000 warheads by 2030, exceeding the pace and size the Department of Defense projected in 2020" (Office of the [U.S.] Secretary of Defense 2021: viii).

By downsizing the ground force and expanding the technology-intensive services that are more appropriate for forward deployment and power projection, Xi's military policy clearly aims to reduce the domestic role of the PLA and enhance its capabilities to carry out external missions.

Besides safeguarding what China perceives to be its sovereignty and security interests regarding Taiwan and the "near seas" including the Yellow, East and South China Seas, China's 2019 Defence White Paper highlights the role of the PLA in providing security for China's expanding development interests overseas, including energy and resources supplies, vital sea lanes, and overseas Chinese personnel, property and investment (The State Council Information Office of the People's Republic of China 2019).

The White Paper also underscores the role of the PLA in carrying out non-traditional security missions such as counter-piracy, United Nations peacekeeping and humanitarian assistance and disaster relief. Safeguarding the stability on the Korean Peninsula has been a traditional task of the PLA, while providing security at the Sino-Indian border is becoming more important following the 2020 border clash.

These missions, however, are primarily decided by the civilian leadership and assigned to the PLA. The PLA itself is largely confined to improving its doctrinal, technological and organisational efficacies for fulfilling its missions.

The Chinese government's *Outline of the 14th Five-Year Plan for National Economic and Social Development and Vision 2035* issued in 2021, for instance, requires the PLA to "accelerate the integrated development of mechanization, informatization and intelligentization" as the three concrete goals of military modernisation (Xinhua 2021). Twenty years earlier, Jiang Zemin first endorsed the concepts of "mechanization" and "informatization"; both stress the equal importance of acquiring new hardware weapons platforms and developing information technology-based software and networks to integrate these platforms.

Hu Jintao particularly operationalised the concept of "informatization", endorsing the notion of an "information system-based system of systems operations" to guide PLA modernisation. This concept emphasises the integration of the PLA's highly heterogeneous service forces into a "system of systems" that is capable of multi-spatial and variable distance deployment and presence. Laterally networked by a shared information system architecture (known as "C4ISR":

command, control, communications, computers, intelligence, surveillance and reconnaissance), this operations system enables transparency-based "information superiority" on the battlefield. This superiority in turn allows for synchronised, parallel operations by multiservice forces, giving PLA forces a "battlefield initiative" against the opponent.

Under Xi Jinping, the PLA has made substantial progress in realising all the three goals. For "mechanization", for instance, the PLA has continued to acquire a substantial number of new and advanced weapons platforms in all operational domains. For "informatization", Xi's military reform has laid the organisational foundation for assembling the PLA's "information system-based system" of systems. Meanwhile, he has integrated the new concept of "intelligentization" in modernising the PLA, leading to substantial investment in emerging technologies such as quantum computing, big data analysis, artificial intelligence, military drones and hypersonic weapons.

For the 20th CPC Congress to be held in the fall of 2022, a likely scenario is that Xi would extend his tenure for a third term and remain as the top leader until the 21st Party Congress in 2027. While Xi's governance record may have been negatively impacted by his zero-COVID policy, he has managed to avoid a power struggle in the transition to the new CPC leadership. In this scenario, the PLA is likely to play a minimal role in the leadership transition and it remains focused on military modernisation.

A less likely scenario is that Xi's zero-COVID policy has caused a severe economic recession. The policy thus has triggered an intra-leadership debate and a power struggle. Rather than taking sides, however, the PLA is likely to stay out of the power struggle among the civilian ruling elite. In the end, it would pledge loyalty and allegiance to the winner of the power struggle after the dust settles. In both scenarios, therefore, the PLA would play a minimal role in the leadership transition.

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Section 4

Development, Security and the CPC

13

Grand Steerage as the New Paradigm for State-Economy Relations

Barry Naughton

By the time Xi Jinping assumed power in 2012, it was evident that the Chinese economic system was developing in new and unprecedented directions. One sign of change was that industrial policy objectives, originally modest, were bundled into the much grander "Innovation-driven Development Strategy", first mentioned at the 18th Party Congress in that year.

In 2017, I proposed "Grand Steerage" as a label to describe the Chinese government's use of massive resources to drive a market-based economy towards a visionary outcome (Naughton 2020). The term incorporates two fundamental features of China's contemporary economy. First, increasingly ambitious Chinese leaders have embraced a model in which government shapes China's development trajectory towards hi-tech manufacturing and the incorporation of information technology into every aspect of the Chinese economy and society. Second, in order to steer the economy, Chinese leaders predominantly use indirect, market-conforming instruments such as investment funds, subsidies and tax breaks to achieve their ambitious goals.

"Planning" is not the right word for this, since it suggests outdated instruments and a focus on short-run coordination, while China's economy is now predominantly market-based, and thus fundamentally different from the old "planned" economy in its institutions and information flows. "Steerage", on the other hand, unmodified, fails to capture the magnitude of planners' ambition. The provisional term "grand steerage" thus captures key features of the Chinese economy and politics, the salience of which has only increased over the last five years.

Chinese leaders have steadily intensified their drive to shape the economy, in part under the pressure of increased tension with the U.S. Most recently, though, Xi Jinping has pushed the idea of steerage to its limits, throwing off some of the constraints that policymakers had previously accepted as necessary to preserve the dynamism and gains of the market economy. In the process, Xi has imposed significant costs on the economy. This has already invited policy push-back, and while Xi has created new uncertainties about China's policy direction, he may also have inadvertently revealed some of the internal logic of the grand steerage model. Despite the new uncertainties, I will argue that the most likely outcome is some form of backtracking that leads to a reassertion of the grand steerage model.

Where Did "Grand Steerage" Come From?

Grand steerage emerged at the end of the 2000s, in the wake of the Global Financial Crisis, as Chinese planners doubled down on previously tentative industrial policies. The steadily increasing priority given to policies like "Strategic Emerging Industries" and "Made in China 2025" naturally derived from the bottom-to-top priority given to economic growth in the Chinese system since the 1980s. But with annual Chinese GDP growth falling below 10 per cent in 2011, Chinese policymakers had a choice essentially between two options: rebalancing or increasing government intervention.

Rebalancing would have aimed to increase the share of consumption and domestic demand in the economy, allowing growth to slow but leading to more diverse and higher quality output. Instead, Chinese policymakers chose to reduce the rate of growth of consumer demand and keep the investment rate high (above 40 per cent of GDP ever since 2009) and step up government intervention, driving investment into infrastructure, housing and high-tech industry. Although the subsequent GDP growth slow-down was irreversible—given the exhaustion of one-time structural growth factors—policymakers were propping up growth as much as they could.

The government used this massive, sustained and unprecedented investment effort to steer the economy in the direction of their vision, and effectively abandoned the idea that China's middle-income economy would be shaped primarily by consumers' wishes.

Chinese policymakers were already firmly on this path when the U.S.–China "trade war" began in 2018. Increased threat perceptions, especially the potential for technology embargoes and sanctions, strongly increased the perceived need for a high degree of technological—and even economic—self-reliance. In 2020, Chinese policymakers floated a programme of "dual circulation"

(explained in more detail in the chapter by Sarah Tong in this volume), which essentially declared that Chinese policymakers would pro-actively manage an expected decline in export demand by selective supply-side policies that would reduce import dependence. The strategy also provides a means to reduce the dependence on foreign technology and rely more on "indigenous innovation". The accompanying extension of the concept of "economic security" to cover full supply chains has meant that government techno-industrial policies are now reaching into previously untouched corners of the economy.

The impetus behind grand steerage is thus in a broad sense a continuation of China's traditional growth orientation, but with an even greater emphasis on national security considerations, causing important tensions and trade-offs. Chinese leaders are diverting substantial resources into defence preparedness, civil-military fusion and priority implementation of social control systems based on surveillance and artificial intelligence (see also the chapters by Joel Wuthnow, John Lee and Tai Ming Cheung in this volume).

Over-investment in infrastructure and in immature technologies is a feature of the model, leading to significantly lower returns on investments. Over a longer term these investments will still contribute something to growth, and smarter cities and intelligent factories will contribute to future productivity. Yet, from a purely economic standpoint, a more effective growth strategy would include liberalising and developing labour-intensive services and increasing the range of employment opportunities. This would increase the output of hundreds of millions of less-educated workers, under-employed and stuck in the informal sector, who are neglected under the current policy settings.

From a growth perspective, China is overdoing its high-tech push. However, there is no inherent contradiction between the economic and the technological goals: it is easy to imagine a superior policy mix that would consist of further liberalisation and a more even-handed and supportive policy for labour-intensive sectors, but still include affirmative policies for the substantial high-tech investment that would doubtlessly come from China's entrepreneurs and engineers. Yet the enormous strategic ambition of Chinese leaders has made it clear that national security and national greatness are the ultimate objective, and technological primacy trumps simple economic growth as the essential contributor to this goal.

Instruments and Policy Restraint

The instruments that characterise grand steerage have always implied a degree of restraint by policymakers, especially top leaders. Acknowledging

the indispensable role of a well-functioning market in maintaining efficiency, China's leaders have effectively committed themselves to mainly using market-compatible instruments. Policymakers do not simply issue commands, as they did in the old system. Instead, grand steerage is implemented primarily through instruments that guide resources through the market economy.

The most distinctive instruments are "Government Guidance Funds" (GGFs). The purpose of these funds is to expand government influence by channelling resources into favoured sectors, yet the institutional setup of such funds is intentionally patterned on that of venture capital funds. There is a managing partner (usually a government or financial agency), which is responsible for specific investments and day-to-day operations, while limited partners provide funds and meet periodically to approve the funds' strategic orientation. This division of labour fosters professionalisation and enables high-powered incentives that reward successful investments. GGFs proliferated rapidly from 2014, and by mid-year 2020 had reached a total authorised funding scale of RMB 11.27 trillion, which equalled no less than 11 per cent of China's GDP that year (about USD 1.6 trillion).

Government industrial guidance funds are one of the largest funding instruments, but other instruments taken together are even larger. A pioneering attempt to estimate the aggregate size of annual industrial policy support in China, using conservative assumptions and methodologies, yields a figure of 1.73 per cent of GDP in 2019, far higher than any other country (DiPippo, Mazzocco and Kennedy 2022). Tax breaks and rebates for depreciation and R&D are significant. Policymakers have learned that they can exploit the stock market to raise money, laying out investment themes that will attract funds looking to bandwagon on state priorities. All of these are dwarfed by the flood of credit that comes from state-owned banks, guided by the general priorities and favoured projects of the leadership. Notionally, we can think of a gigantic development budget that flows through multiple channels without any unified accounting or perhaps even a clear knowledge of just how big the aggregate flows are.

This is hardly a seamless operation: as befits a "grand" policy project, it forswears tight coordination and sometimes spurns small-scale efforts. Policymakers are well aware that future technological paths are uncertain and they have been careful to lay out their visions in broad terms, such as "contending for global innovation leadership by 2050".

China's technology thinkers frequently cite the Silicon Valley maxim that a venture capitalist will invest in ten start-ups, knowing that nine will fail, but that the one successful game-changing start-up will pay for those nine. Planners accept that they will have an even lower success rate than the savviest Silicon Valley

venture capitalist, but they will do well enough, and besides the government has plenty of money.

Similarly, Chinese industrial policy has seemed entirely comfortable getting behind successful private companies *after* they had proven the success of their business concepts in market competition. Many new sectors were regulated lightly—or not at all—in their early stages, allowing maximum scope for entrepreneurship. Only later, as winners emerged, were those firms retrospectively anointed "national champions", and brought under somewhat tighter political scrutiny. This pattern seemed to fit very well such firms as Huawei, the electronics hardware giant; Alibaba, the internet platform; and Didi the ride-hailing monopoly.

The Disruptions of 2021

These patterns were profoundly disrupted by the policy initiatives of Xi Jinping in the summer of 2021. It is not that the drive and impetus behind Grand Steerage had faded—quite the contrary, the high-tech securitisation of everything continued unabated. But Xi Jinping abruptly discarded much of the restraint that had marked Grand Steerage up until that point. High-tech growth and technological self-sufficiency were maintained as priority objectives, but a host of new objectives was introduced that had little to do with growing national power or technological self-reliance. Objectives that, for a period, achieved rhetorical parity included: common prosperity; an easier life for families and stabilisation of the plummeting birth rate; data privacy for Chinese individuals combined with data security for the nation; heightened control of unhealthy internet activities; and carbon neutrality. These may all be worthy objectives, but they are challenging to implement and, more crucially, to balance one against the other. Under "Grand Steerage" the overall principle was fundamentally simple: if investments contributed to China's technological strengthening and development, they should be supported to the maximum possible. Abruptly, in the summer of 2021, it seemed that this was not enough. Rather, Xi Jinping was apparently assembling a broader and more populist programme to bring to the Twentieth Party Congress, in order to insure his coronation for an unprecedented third term as General Secretary. Additionally, it cannot have escaped Xi's notice that many of these measures had the side-effect of tightening political and ideological control.

The sudden proliferation of priority objectives in mid-2021 was not accompanied by consideration of appropriate policy instruments. This was most obvious with respect to "Common Prosperity" (see the chapter by Bert Hofman

in this volume). All over the world, the first and most effective means to reduce income inequality is to make taxes, and especially income taxes, systematically progressive: yet China introduced a common prosperity programme in 2021 without proposing serious tax reforms.

Instead, China threw together some ad hoc measures, such as insisting that profitable corporations, including previous "national champions" like Alibaba, make generous "voluntary" contributions to a range of charities, many of which were non-profits with close links to government agencies. These actions provoked a serious crisis of confidence within China's private business class: Why was China picking fights with its own most successful high-technology firms, which had so recently been national champions? China's leaders shattered the simple coherence of the visionary outcomes that had animated grand steerage previously and at the same time discarded the restraint embodied in the choice of instruments and the inclusiveness of the programme. Does this mean that "Grand Steerage" is over?

The Future of Grand Steerage

In fact, in the course of the first half of 2022, the Chinese economy went through substantial economic turbulence, much of it related, directly or indirectly, to the abrupt summer 2021 policy shifts mentioned above. Capital has again been flowing out of China; the RMB has depreciated; and youth unemployment has spiked to an unprecedent 18 per cent in cities. To be sure, these effects are partly due to the damaging "zero COVID policy" lockdowns in Shanghai and other cities. But they are also partly down to the increased intervention by top officials and crisis of confidence among business leaders.

Chinese policymakers have noticed. From mid-March 2022 through the end of May (when this was written), policymakers, including key economic adviser Liu He and Premier Li Keqiang, have been trying to walk back the most damaging initiatives from the summer of 2021. They have promised a new regime of stable and predictable regulatory policy ("with green lights as well as red lights"); greater financial support to the housing sector, stock market and macroeconomy; and renewed support for overseas listing of Chinese companies. So far, though, these promises have not been credible enough to restore confidence in the orientation and capability of policymakers, badly shaken by recent events.

In fact, these episodes may have inadvertently demonstrated the internal coherence and logic of grand steerage. The grand steerage model worked reasonably effectively in China because the commitment to market-based instruments limited both the costs for the government and the damage the initiative could

do to the economy. To be sure, the overall cost of the full "development budget" is still huge. This is not surprising, since China has an enormous economy with a powerful government able to mobilise vast resources to achieve priority objectives. But the commitment to market instruments kept the *excess* costs to a minimum and prevented planners from driving the economy into bottomless pits of failed investments. The system is far from fully transparent, but there is a surprising amount of economic information available, at least to insiders, financial institutions and policymakers. Companies and projects in China go bankrupt when they are not able to meet their targets and funders tire of losing money. Financial accounting reveals costs and cost overruns.

In 2021, Xi Jinping showed himself willing to override the information about investments and initiatives available to policymakers, specifically by presiding over a massive destruction of stock market value. Having already demonstrated that he did not put economic growth above all other objectives, Xi Jinping displayed even greater ambitions and asserted his right to steer society in more dimensions than ever. Yet the things Xi Jinping was discarding are precisely those fundamental components that make grand steerage work: restraint in the choice of instruments to conform with market forces, and adherence to a broad vision that can be readily communicated to a very diverse set of actors.

Whatever happens at the 20th Party Congress, it is likely that policymakers will learn at least something from their mistakes and patch together a new form of Grand Steerage that will look remarkably like the old one. The market economy is the foundation of the growth China has created, and without economic growth, China has no chance of ascending to "the centre of the global stage", as Xi Jinping demands. Yet, due to missteps in policy, China's growth rate in 2022 will fall short of its growth target and probably will end up below 4 per cent, a rate not consistent with rapid catch up to the US. Eager to prevent further slowdown, policymakers are already looking to restore credibility, provide more stimulus to the economy and repair the damaged "animal spirits" of the business class. Policymakers cannot flip a switch and turn back the clock, but they are likely to grope towards a more satisfactory (and familiar) set of policies. This will require that they recover the focus and self-restraint that contributed to the general coherence of the grand steerage policy orientation in the past.

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14

Common Prosperity

Bert Hofman

On 17 August 2021, the Communist Party of China's (CPC) Central Committee on Economy and Finance (CCEF), chaired by General Secretary Xi Jinping, announced the new goal of "Common Prosperity" (Xinhua 2021). Broadly, the goals of common prosperity are to address the inequalities in society, to control what Xi termed the "excessive expansion of capital" and to deliver prosperity for all in the "New Era". Common prosperity is an integral part of the "New Development Philosophy for the New Era", which in turn is a cornerstone of the "China Dream" of the rejuvenation of the Chinese nation.

The origins of common prosperity

Common prosperity is first and foremost a political objective. The concept itself still is a moving target, and until now few concrete measures to achieve it have been announced. This is not unusual for China: the exact meaning of the previous socio-economic target, *xiaokang,* or a Moderately Prosperous Society, was only vaguely defined after Deng Xiaoping had declared it to be the goal of China's reforms in 1981. Only by 2011 was it given a more precise interpretation in terms of a general GDP and GDP per capita target to be achieved by the centennial of the birth of the CPC in 2021, in addition to the eradication of extreme poverty. The *xiaokang* society was officially declared as having been achieved in the spring of 2021.

Common prosperity was gradually conceived after the 19th Party Congress in 2017. The Congress announced a change in the "major contradiction", or major challenge, for the Party. The last time such a change had happened was in 1981, when "the ever-growing material and cultural needs of the people versus backward social production" had been identified as the major contradiction.

In 2017, the new contradiction became the one "between unbalanced and inadequate development and the people's ever-growing needs for a better life". Both contradictions may seem quite similar but, as we shall see, have vastly different implications.

The term common prosperity itself is hardly new. The China Media Project traces the use of the term back to the 1950s (Bandurski 2021). It first appeared in the *People's Daily*, the Communist Party's official newspaper, on 25 September 1953, and was used by Mao Zedong in the 1950s collectivisation campaign. The term faded into obscurity in the three decades after Mao's death to be replaced by Deng Xiaoping's "some may get rich first" in the early reform period. The policies under the "rich first" slogan fuelled China's extraordinary growth, but resulted in rising income and wealth inequality which increasingly became a major political issue.

The Hu-Wen Harmonious Society programme had started to address these issues by expanding social spending on health, education and welfare. It had some modest success: over the past decade, income inequality has come down slightly, and people at the bottom part of the income distribution have seen their incomes rise by more than the average.

How unequal is China?

Despite China's leadership's concerns, China's income inequality is not exceptional for an upper-middle-income country. Wealth inequality, though more difficult to measure, is unremarkable and hardly rising according to data from Credit Suisse (Credit Suisse Research Institute 2021). China's own data from the National Bureau of Statistics show that the Gini coefficient of income inequality—a measure that is zero with total equality of income and 100 with maximum inequality—peaked at 49 in 2008 to drift down to 47 in 2019, the latest available number.

The World Bank, which publishes internationally comparable numbers, puts the 2010 peak in the Gini coefficient at 43.7, and at 38.2 in 2019 (World Bank n.d.). This is lower than the US (41.5), Brazil (48.9) and Mexico (45.4) and comparable to Indonesia (37.3). China's Gini coefficient of income is higher than most European countries and former Soviet republics, but China's inequality is likely to be on a downward trend. In recent years, a declining labour force and higher education have resulted in wage increases that outpaced the growth of the GDP. This is a pattern not unlike the experience of other countries, and is known as the Kuznets curve, after the statistician who detected a pattern of increasing and decreasing inequality as incomes rise.

It is also hard to detect Xi's "excessive expansion of capital" in available national account numbers. The share of capital is best measured by the share of "operating surplus" (or profits before interest and taxes) in the primary income distribution. This share in China is now about 36 per cent of GDP, about the same as Germany's, and slightly less than the European Union's or the United States' at around 40 per cent. The share of labour in the economy has been rising in the past decade. From 54 per cent in 1992 it bottomed out at 46 per cent in 2011, but has since bounced back to 52 per cent, which is higher than the EU, and definitely higher than most developing countries.

What is common prosperity?

Irrespective of the numbers, with the "moderately prosperous society" achieved, the goalposts are shifting. The *Decisions* of the Third Plenum of the 18th Central Committee in 2013, Xi's first programme to focus on economic reforms, already alluded to this shift:

> We will improve the regulatory mechanism of income redistribution mainly by the means of taxation, social security and transfer payments and enhance the regulatory role of taxation (...) We will regulate excessively high incomes, redefine and clear away hidden incomes, outlaw illegal incomes, increase the incomes of low-income groups, and increase the proportion of the middle-income group in society as a whole.

These words were not dissimilar to those spoken at the August 2021 CCEF meeting mentioned at the beginning of this chapter. Xi's CCEF speech clarified that common prosperity is not a return to Maoism, as some had hoped and others had feared. To realise it, he said, hard work and innovation remain necessary. Making the pie bigger is as important as distributing the slices fairly, and "welfarism" should be avoided.

The speech contains six areas of objectives and instruments to achieve common prosperity:

1. Identifying a more balanced, coordinated, and inclusive development path;
2. Endeavouring to expand the middle-income group;
3. Facilitating equal access to basic public services;
4. Intensifying the regulation and adjustment of excessive income;
5. Promoting common prosperity of the people's spiritual life;
6. Promoting common prosperity in rural areas.

Of the policy measures to achieve common prosperity, "regulating and adjusting excessive incomes" drew the most attention. Though it started before the policy was announced, the regulatory clampdown on internet companies was increasingly presented as part of the common prosperity campaign. The wide-ranging campaign, triggered by the speech of Alibaba founder Jack Ma in Shanghai in October 2020, addressed issues such as monopolistic behaviour in e-commerce, financial risk in online finance, online tutoring, high income of influencers and contents of online video games.

Also noteworthy has been the emphasis on philanthropy as a means to achieve common prosperity. Though desirable in itself, in no country in the world is philanthropy large enough to make a dent in income inequality. In the United States, which has a long philanthropic tradition, philanthropy adds up to some 0.4 per cent of GDP, whereas the Netherlands, the world's most generous country by this measure, spends about 0.9 per cent of GDP according to the Global Philanthropy Report (Johnson 2013).

Where China stands out is in the limited redistribution though the government budget. Redistribution is by and large the route European countries have taken, as have to some extent the United States and Japan. Strikingly, these countries all have Gini coefficients of market incomes similar to or higher than China's. However, after redistribution though taxes and transfers, most have Gini coefficients of disposable income below that of China.[1]

Remarkably, despite the concerns about income distribution, China's actual income-tax takings remain very modest (Hofman 2021; Table 1). Though the highest rate of income taxation is 48 per cent, comparable to that of OECD countries, the revenues it generates have been relatively small. Income tax yielded only 1.1 per cent of GDP according to OECD data, or only 4 per cent of total revenues. This is far less than the 8.4 per cent of GDP for an average OECD country, where personal income tax constitutes some 20 per cent in revenues. In the United States, personal income taxes bring in almost 11 per cent of GDP. Even in India, the yield is 2.3 per cent of GDP.

China exempts most people from paying personal income tax. The basic exemption is relatively high, which leaves most out of the tax net. China also does not tax capital gains taxes or inheritance, and income from dividends and interest—income sources particularly relevant for the rich—are taxed at a flat rate of 20 per cent. The bulk of China's tax revenues comes from value-added tax (VAT), consumption (luxury) tax and social security contributions. The VAT, which is a very efficient tax to raise, puts a higher burden on the less well-off than on the rich. Relatively poor people spend more of their income on consumption, which is why VAT makes the tax system regressive. Social security

contributions have a minimum contribution at the low-income end and a cap at higher incomes, which also makes these taxes regressive, not just in China but in most other countries as well.

China's heavy reliance on the value-added tax and modest income taxes mean that the tax system needs to be reformed for it to contribute to the common prosperity agenda. This is technically hard, and politically even harder, as more direct, visible taxation through income taxes is likely to be highly unpopular.

Table 1. Tax Structure 2019, various countries and country groupings (per cent of GDP)

	Personal income taxes	**Corporate income taxes**	**Social security contributions**	**Taxes on goods and services**	**Taxes on property**	**Other**	**TOTAL**
China	1.1	4.4	6.1	9.1	1.4	0.0	22.1
OECD average	8.1	3.1	9.0	10.9	1.9	0.8	33.9
New Zealand	12.8	4.0	0.0	12.6	2.0	0.9	32.3
Japan	6.1	4.1	12.9	6.2	2.6	0.1	32.0
Australia	11.8	5.5	0.0	7.3	2.7	1.4	28.7
Korea	4.8	4.3	7.3	7.1	3.1	0.8	27.4
Asia-Pacific (24) average	3.6	3.6	1.6	9.9	0.7	1.5	21.0
Philippines	2.6	3.7	2.6	7.7	0.4	1.1	18.0
Viet Nam	1.8	4.5	0.0	11.1	0.0	0.0	17.4
Thailand	1.8	4.4	1.0	9.5	0.5	0.1	17.2
Singapore	2.4	3.6	0.0	3.8	1.8	1.6	13.3
Malaysia	2.6	5.6	0.3	3.2	0.0	0.8	12.4
Indonesia	1.1	3.7	0.5	4.7	0.2	1.3	11.6

Source: OECD, *Revenue Statistics - Asian and Pacific Economies: Comparative tables, OECD Tax Statistics 2021*; available at https://www.oecd.org/tax/tax-policy/revenue-statistics-in-asia-and-the-pacific-5902c320-en.htm (accessed 29 July 2022).

In the context of common prosperity, the idea of a tax on real estate was revamped. China does tax property at a level comparable to that of OECD countries (Table 1), but Chinese *households* do not pay any real estate tax (or "recurrent taxes on immovable property" as the OECD parlance goes). China actually already levies a variety of taxes on real estate (a house tax on firms

operating properties, an urban maintenance tax, stamp duty, a deed tax and land appreciation tax). Together, they make up some eight per cent of total taxes in China, higher than the average for OECD countries. None of these taxes, however, classifies as a real estate tax on households currently under discussion.

A real estate tax on households is a good tax for local governments according to the "bible" of local government finances (Bahl, Linn and Wetzel 2013). It is a relatively stable source of revenues with a good correspondence between those who pay the tax and those who benefit from the services a local government provides. The tax would also be vastly superior to the current dominant source of revenues—land sales. That source is highly pro-cyclical, pushes local government to excessive land use, and, as we have seen in 2021, ties in local government revenues (and spending) with the vagaries of the real estate sector. Given that richer people usually own more property in China, taxing real estate would also contribute to a fairer tax burden overall.

Two pilots on real estate taxes, one in Shanghai and one in Chongqing, have been under way for some time. Xi Jinping's August 2021 CCEF speech suggested that the tax would be rolled out nationwide soon. At the Central Economic Work Conference in December 2021, this was toned down to an addition of more pilots in several other cities.

The Central Economic Work Conference also clarified that common prosperity would avoid western "welfarism" (tax-and-spend policies). If that is true, China needs to ensure that market outcomes become much more equal. This is by and large the approach that South Korea and Taiwan have chosen, and, to some extent Japan in the past. Redistribution is far more modest than in the European model, but market outcomes are more equal than in China.

China still has numerous opportunities to achieve more equal market outcomes. Investing in education, especially rural education; abolition of the household registration system to allow all workers to go to the place where they are most productive; and further strengthening farmers' rights to land would all contribute to a more equal division of the pie—but are also hard to do. Some of the reasons are that urban citizens do not like more competition for public services from their rural counterparts, while the fiscal system is slow to include new taxpayers in urban areas, making cash-strapped local governments reluctant to accept new citizens.

Fine-tuning common prosperity

In the wake of a major slowdown in the economy in 2022, the common prosperity goals seem to have been put on hold. The regulatory crackdown on

internet companies and cooling off of the real estate market had already slowed growth in 2021. Russia's invasion of Ukraine and the outbreak of the omicron variant of COVID-19 in major population centres in China further affected growth, and the ambitious growth target the government had set at the annual NPC meeting in March 2022 seemed increasingly out of reach. The priority has shifted to maintaining stability.

In response, on 16 March 2022, the State Council Financial Stability and Development Committee (FSDC) met and decided that regulatory agencies should take "coordinated steps to support markets and confidence" and "actively introduce policies that benefit markets". In addition, the "rectification" of internet platform companies should be brought to a close. Any new policy that impacts the capital markets should also be checked with the FSDC. Separately, on the same day, the Ministry of Finance announced that it would postpone further experiments with the property tax. These messages were confirmed at a meeting of the CPC Political Bureau on 29 April 2022 (Xinhua 2022).

The delay in the pursuit of common prosperity is hardly a retreat. Economic necessity may slow down some of the fervour to achieve common prosperity, but is unlikely to derail it. President Xi Jinping has said that common prosperity is a goal like that of the *xiaokang* society that came before it—one that cannot be achieved overnight. Undoubtedly, the concept itself will evolve and policy measures to achieve it will change over time. But common prosperity is here to stay.

Note

[1] See "The Standardized World Income Inequality Database V9.1", https://fsolt.org/swiid/ (accessed 21 March 2022).

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15

Dual Circulation and Its Impact on China and the World

Sarah Y. Tong

In May 2020, while the country was battling a devastating global pandemic, the government of China proposed the "Dual Circulation Strategy" as an important policy initiative and a key pillar of a new development paradigm. This raises several intriguing questions. What does the dual circulation strategy really entail and what does the government hope to achieve? What underlying rationales prompted the new strategy? Should China's dual circulation strategy be viewed as an economic policy initiative or a geostrategic one? And finally, what are the economic implications, in China and the world at large?

The Main Idea and Key Objectives

The term "dual circulation" first appeared in a news report on the Communist Party of China (CPC) Central Committee's Politburo Standing Committee meeting on 14 May 2020. The report noted that "it is necessary to deepen the supply-side structural reforms, give full play to China's advantages of a huge domestic market and the potential of domestic demand, and build a new development pattern in which domestic and international dual circulation reinforce each other" (*Xinhua* 2020a). The official phrasing on dual circulation was later modified by President Xi as "it is necessary to promote the formation of a new development pattern which takes the domestic circulation as the mainstay while internal-external dual circulation reinforce each other" (*Xinhua* 2020b).

The frequent emphasis on "dual circulation," and especially the importance given to domestic circulation, points to an evident shift in the leadership's

strategic thinking about development. For over three decades since the late 1970s, the overriding approach has been to open up China, from coastal to inland regions and from goods to services, and to bring China out into the global market place through trade and investment. Such a strategy was termed "two ends outside, big import and big export" (*Xinjingbao xin jiemei* [Beijing News New Media] 2015). The new strategy is intended to cultivate a strong domestic-based economy that serves as an anchor for China's economic interactions with the rest of the world. In other words, the dual circulation strategy aims to re-orient economic activities towards building up and satisfying domestic demand, production and supply chains.

Such a strategic reorientation is considered essential to China from at least two viewpoints. One is the long-term perspective of domestic sustainable development. In his speech at the 7th Meeting of the Central Financial and Economic Commission on 10 April 2020, later published in *Qiushi* (Seeking Truth), Xi Jinping emphasised that "the world is undergoing profound changes unseen in a century (…) We must (…) carry out more long-term thinking, improve the strategic layout, turn crises into opportunities, and achieve high-quality development" (*Qiushi* 2021).

The other is the external environment, in which dual circulation aims to provide China with new and stronger advantages in the country's international economic engagement. In the speech delivered at the Forum of Experts in Economic and Social Fields on 24 August 2020, President Xi highlighted that "this new [dual circulation] development paradigm (…) is a strategic choice to reshape our country's new advantages in international cooperation and competition" (*Xinhua* 2020c). Moreover, in the speech Xi stressed that the new approach builds on China's advantages of a super-large market, complete industrial system, and significant enhancement in independent innovation capabilities and the resulting technological advancement. To some, this indicates that the dual circulation strategy aims at "the pursuit both of economic self-reliance and of greater economic leverage over foreign countries" (Fengyang 2020).

Motivation and Prerequisites

On 25 November 2020, China's official newspaper, the *People's Daily*, published an article on China's dual circulation strategy by Liu He, China's vice-premier and a main economic advisor to President Xi (*Renmin ribao* 2020). The article highlighted three key considerations underlying China's dual circulation strategy, namely, to meet the inherent demand for sustaining China's economic development; to respond to the complex and changing international environment; and to take advantage of China's super-large economy.

On the first of Liu's considerations, the government deems economic development a progressive process, one that advances in stages. A country's development strategy must be dictated by its level of development. New forces are now needed to sustain future growth. When China's annual per capita GDP approached and subsequently passed the USD 10,000 mark in 2019, new challenges and contradictions emerged. China's dual circulation strategy, which focuses on innovation-driven quality development, is viewed as a proactive solution to many of these challenges.

While the intrinsic need to upgrade the economy has long been recognised, the rapidly changing external environment is a more direct factor for the shift in development strategy. These changes include "the shrinking global market, depressed world economy, and weakening international circulation", resulting in "prevalent populism and growing protectionist tendencies [in major Western countries] and a widespread backlash against globalization". In addition, the ongoing COVID pandemic has "intensified anti-globalization tendencies, leading to major shocks to worldwide production chains and supply chains, and increased risks". Therefore, the article concludes, China has to adjust its development path: "while striving to open up international circulation, we should further unblock the domestic circulation, enhance self-reliance, sustainability, resilience, so as to maintain stability and healthy development in the economy".

Liu's third consideration concerns China's advantages due to its super-sized economy. On the demand side, the advantages come from the rapidly expanding domestic market with a population of 1.4 billion, a middle-income group of over 400 million people and the country's continued march towards a high-income economy. On the supply side, China has a relatively high savings rate, a large and complete industrial system and comprehensive material and social infrastructure. These conditions, it is believed, will enable the implementation of the dual circulation strategy that not only facilitates China's sustainable development, but also serves to drive economic recovery and growth for the world at large.

Economic Rationale vs. National Security

While the above discussion points to important economic factors for the proposed dual circulation strategy, there is clearly a significant national security element in China's overall policy thinking as well. This is shown first and foremost by the prominence given to the advancement of science and technology (S&T) and innovation, which are considered the key to boost domestic circulation and enable China's active role in international circulation. In particular, greater efforts are called for to strengthen China's self-reliance and overall capability in S&T,

especially in basic research and original innovation. Furthermore, a stronger S&T capability is considered significant to strengthen China's production and supply chains, to advance China's position in the global technological league, and to further enhance such ability through open international exchange and cooperation.

National security considerations are also reflected in the government's repeated emphasis on managing risks. Indeed, China's dual circulation strategy, with domestic circulation as the mainstay, is considered central to help reduce the vulnerability of the economy to external shocks. Due to its heavy reliance on global markets, China is vulnerable to a deceleration in global growth, rising populism, protectionism and anti-globalisation. Even graver are the risks of the economic and technological decoupling and geopolitical rivalry between China and the United States.

Perhaps somewhat counter-intuitively, China's focus on national security in the dual circulation strategy corresponds with the country's insistence on continued opening and international cooperation. Having recognised the danger of escalating geopolitical tensions with countries like the United States and Australia, China considers it significant to improve and cultivate relations with other countries, especially its main economic partners. By insisting that domestic and international circulations will interact and reinforce each other, China hopes to minimise the risk of rising geopolitical tensions and possible international isolation.

Economic Implications for China and Its Major Trading Partners

As a long-term policy of innovation-driven and domestic demand-based economic development, the dual circulation strategy will have important implications for China and the world, especially those with close economic ties with the country.

Regarding China's domestic economy, the dual circulation strategy promises to enhance capacity and accelerate progress in science, technology and innovation, as well as to better coordinate domestic supply and demand. Moreover, the government's drive for common prosperity (see the chapter by Bert Hofman in this volume), important for building up domestic consumption,[1] forms another important pillar of the so-called new development paradigm. These could considerably improve the allocation of domestic resources and overall efficiency, thus helping to sustain China's long-term development.

China's drive for stronger self-reliance and sustainability will have an important but varying impact on its trading partners. Countries that are less

industrialised, and thus less in direct competition with China, could benefit from the reconfiguration of supply chains in East Asia as a result of China's efforts to move up the technology ladder towards high-value-added activities. Relatively more resource-based economies could also gain from China's greater demand for raw materials. Meanwhile, China's drive to enhance its technological progress and improve domestic production chains will apply more competitive pressure on countries that currently still possess a technology lead over China.

Internationally, China's dual circulation strategy could also have important economic implications. China continues to be committed to economic opening and international cooperation, largely due to its own national security considerations. China's sustained development could therefore continue to generate regional and global growth. Moreover, to minimise the risks from a possible deterioration in Sino-U.S. relations, China would likely seek to enhance cooperation with regional economic partners like the ASEAN member states.

It is useful to note that China's dual circulation strategy is more like an aspiration for long-term development than a concrete plan of action. Thus, the strategy faces numerous challenges and uncertainties. Domestically, the supply-side structural reforms and policies to reduce income disparity and strengthen consumption, having been in place for nearly a decade, have yet to produce significant results. More importantly, it remains to be seen to what extent China's state-driven and domestic-oriented efforts will in fact materially accelerate technological improvement.

Greater uncertainties lie in China's external environment, including how China's dual circulation strategy is perceived and how China's trading partners react. Despite serious tensions between China and some other countries, there are areas where common interests and mutual gains from cooperation continue to exist. In addition to combating climate change and developing green technologies, there are many other challenges that require a concerted response, such as global pandemics, regional conflicts and other humanitarian tragedies.

China's Dual Circulation Strategy is considered a long-term initiative directing the country's future development, although specific policy designs and implementation will be affected by evolving domestic and external circumstances. In particular, the upcoming Party Congress may introduce changes in policy priorities, notwithstanding that the Dual Circulation Policy as a guiding strategy will likely be retained. In the meantime, given weakening growth performance and rising external risks, the government will likely place stronger emphasis on stimulating the domestic economy and reinforcing domestic circulation, such as providing more policy support to the private economy and emerging sectors.

Note

[1] Many believe that wide income inequality is an important cause of sluggish consumption in China (e.g. Chi Hung Kwan, "'Dual Circulation' as China's New Development Strategy: Toward a Virtuous Cycle between Domestic and International Circulations", available at https://www.rieti.go.jp/en/china/20101301.html [accessed 18 May 2022]). However, some believe that the common prosperity policy may not be sufficient; see Michael Pettis, "Will China's Common Prosperity Upgrade Dual Circulation?"; available at https://carnegieendowment.org/chinafinancialmarkets/85571 (accessed 18 May 2022).

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16

Reforming Public Finance for the New Era

Christine Wong

With the war in Ukraine, growing geopolitical tensions, and the spread of the COVID Omicron variant crippling the economy at mid-year, 2022 is shaping up to be China's *annus horribilis*. The sharp slowdown in growth so alarmed the top leadership that Premier Li Keqiang convened a 100,000-person meeting on 25 May to exhort local government officials to do all they can to support growth and jobs.[1]

Against all expectations, the fiscal policy response has been anaemic. There are multiple causes for this, but at the heart is a fiscal system in crisis, hobbled by internal contradictions left by decades of piecemeal, incremental reform that have left local governments underfunded and tied down by contradictory policies. During the COVID pandemic the fiscal system has repeatedly failed fully to deliver the intended stimulus approved by the National People's Congress, underspending the budget by three per cent of GDP in both 2020 and 2021 (Wong 2022).

This underspending has translated into a shortfall in services on the ground. In one egregious example, despite repeated promises by top leaders, the government provided little assistance to those suffering economic hardship through the lockdowns in 2020 and its aftermath (Wong and Qian 2020a and 2020b). In 2021, the most salient failure was to leave untouched RMB 1.2 trillion in special project bonds (SPBs), one-third of the quota for local government borrowing intended for growth-supporting investment in infrastructure.[2]

The biggest bottleneck is at the county level.[3] In a recent article in the journal *Party Building*, Finance Minister Liu Kun noted that "The central government attaches great importance to the fiscal challenges faced by the county and district

governments", and vowed to direct more resources towards them (Liu 2022). According to Premier Li Keqiang, the 2022 budget provides a one-time transfer of RMB 800 billion for grassroots local governments to help meet "increased pressure from expenditures for ensuring people's basic wellbeing, payment of salaries, and normal government functioning" (Xinhua 2022). The special transfer is a concrete but miniscule step towards resolving a problem whose size is one order of magnitude bigger, with China's budget due to spend an estimated RMB 40 trillion in 2022, roughly half of it by counties.[4]

Genesis of the problem

Since embarking on the transition to a market-oriented economy in 1978, China has substantially overhauled and rebuilt its public finances. Under the strategy of "crossing the river by feeling the stones", fiscal reforms have been incremental and reactive, relying on small fixes to alleviate the most urgent problem of the day. One exception was the Tax Sharing System (TSS) reform in 1994, which radically overhauled revenue-sharing arrangements between central and local governments. Even then, this sweeping set of reforms was focused on reversing the decline of government revenue, and especially the share controlled by central government. Less pressing (or regime-threatening) issues such as how the transition affected government expenditures and their intergovernmental assignment were deferred (Wong and Bird 2008).

Since the TSS reforms, China's economy has grown and prospered. At the official exchange rate, its GDP has grown from a tiny fraction of the U.S. GDP to more than two-thirds, and annual per capita GDP from USD 375 to over USD 10,000. The country has urbanised. Almost half of the labour force is now employed in services, with a majority in the "gig economy". These structural changes have required changes in government spending and public services, such as meeting increased demands for social spending and moving their provision out of the old work units, creating pension schemes, unemployment insurance and social assistance programmes, including, for the first time, rural residents (Wong 2021).

Because these services are overwhelmingly delivered at the county level, the expansion of social spending significantly shifted the locus of budget expenditures to local governments, whose share of expenditures rose from 65 per cent of the total in 2000 to 85 per cent in 2012, and the county-share from 26 per cent to 45 per cent. Since revenue-sharing remained largely unchanged from 1994, transfers from the central government grew to fill the gap. By 2012, they were financing nearly 40 per cent of subnational spending.

As China exited its miracle growth phase (see the chapter by Barry Naughton in this volume), economic growth has slowed since 2010, along with government revenues (Table 1). The combination of slower growth, tax cuts since 2015 and a waning willingness of the central government to provide transfers has put local finances under growing strain. While the Hu Jintao-Wen Jiabao administration had seemed willing to provide transfers as needed, this has changed under the Xi Jinping administration. Instead, local governments are encouraged to find efficiency savings and make fuller utilisation of their resources. By 2019, transfers were funding only 31 per cent of local spending (Wong 2021).

Table 1. Changes in revenue, expenditure and transfers (annual growth)

	Revenues			**Expenditures**			**Net transfers**
	Total	**Central**	**Local**	**Total**	**Central**	**Local**	
2000–2010	20.0%	19.8%	20.3%	18.9%	11.2%	21.7%	26.8%
2010–2015	12.9%	10.3%	15.4%	14.4%	9.8%	15.3%	13.1%
2015–2019	5.7%	6.6%	5.0%	8.0%	8.3%	709%	5.6%
2019–2020	**–3.9%**	**–7.3%**	**–0.9%**	**2.9%**	**–0.1%**	**3.4%**	**14.0%**
2020–2021	**10.7%**	**10.5%**	**10.9%**	**1.6%**	**–0.1%**	**1.8%**	**–0.8%**

Source: calculated from China Ministry of Finance data.

The squeeze on transfers has intensified the struggle for resources among the subnational levels of government, all of which have significant expenditure responsibilities and face fiscal gaps of their own (Table 2).

Table 2. The changing shares of the budget across levels of government (% of total)

Revenues	**2000**	**2002**	**2006**	**2010**	**2016**
Central	52.2	55.0	52.8	51.1	45.3
Provincial	10.7	11.7	12.1	10.6	11.2
Prefectural	17.4	16.3	16.5	15.8	17.5
County	19.7	17.1	18.6	22.5	26.0
Expenditures					
Central	34.7	30.7	24.7	17.8	14.6
Provincial	19.1	19.6	18.3	17.1	14.4
Prefectural	20.0	21.0	22.5	22.5	24.5
County	26.2	28.6	34.4	42.6	46.5

Source: Caizheng bu (China Ministry of Finance), various years.

Information on the division of expenditures by administrative level has ceased to be published after 2016, but the dilemma is illustrated by these figures: if counties were to maintain their 2016 revenue- and expenditure-shares, in 2019 their fiscal gap of RMB 6.17 trillion would have been equal to 98 per cent of central transfers for the year. The likely outcome is that the share of county spending was trimmed to save resources for provinces and prefectures, leaving some expenditure needs unfunded. This is apparent in the overall decline in social spending (almost all of which is made at the county level) from 8.5 per cent of GDP in 2016 to 7.6 per cent in 2019 (Wong 2021).[5]

Deleveraging pressures

Local governments faced two additional challenges in 2021. One was the campaign to reduce financial risks in the economy, of which a principal target is local government debt, especially off-budget, hidden debt. This began in 2016 when the State Council ordered a classification system for local government debt risks and set "redlines" for triggering fiscal consolidation. This was followed by debt audits, tightened control over bank lending and imposition of rules assigning responsibilities for direct and contingent debt to leading officials and tying their performance to their personnel records.

Through 2019, the multi-pronged campaign had succeeded in slowing the growth of hidden local government debt until the COVID pandemic interrupted. In 2021, the campaign was resumed, with the Ministry of Finance calling on local governments to pay down and restructure their hidden debt, and to establish market-based, legal mechanisms for resolving their debt in the so-called financing vehicles, enterprises created as workarounds to borrow on behalf of local governments.

Amidst the intensifying pressure to deleverage came the housing market downturn set off by the Evergrande default (itself an outcome of the deleveraging campaign),[6] which delivered a big hit on construction and real estate-related activities that account for one-third or more of local tax revenues. It also hit land lease sales, the principal source of revenue for financing local infrastructure as well as debt servicing.

The confluence of these challenges caused a dramatic shrinking of spending in 2021. Evidence of curbs on local spending is rife, including widespread reports of cuts or cancellation of bonuses and allowances, including in rich local governments in Shanghai, Guangdong and Zhejiang.[7] Through November, local governments were collectively underspending the budget by 6.5 per cent, with deep cuts in public investment across sectors. Even though a last-minute burst of spending in December brought the total to just 1.3 per cent short of the

budget, the intended stimulus had shrunk even as growth was slowing, with a consolidated deficit that was smaller than in pre-COVID 2019 (Wong 2022).

The urgent case for intergovernmental fiscal reform

Fiscal reform was high on the agenda at the outset of Xi Jinping's administration, when a plan for comprehensive reform of the fiscal system was introduced in 2013 that promised a significant realignment of the central-local relationship as the end goal, to be completed by 2020. Reforms to date have focused on building institutions of financial control but without any significant realignment of revenues or expenditures (Wong 2021). Although intergovernmental reform is said to be continuing and now extends to the subnational levels, this re-iterates past reforms that have to date shown little effect. To restore the vitality of local finance will require a wholesale reform of the intergovernmental system.

Through four decades of rapid economic growth and structural change, China has muddled through with piecemeal, incremental tweaks to a fiscal system that has grown increasingly off-balance, with local governments unable fully to meet their assigned responsibilities. While pausing the campaign to reduce local government debt would lift some of the pressure off local finance and improve the prospects for implementing the 2022 budget, longer term improvements will depend on reform of the intergovernmental fiscal system, not only at the central-local level but also among subnational levels, that ensures that local governments are provided with appropriate funding and incentives.

To start with, a long-neglected but urgent reform is to specify clearly the role of provinces in the fiscal and administrative hierarchy. Over the past two decades, as social spending ramped up and transfers increased, provinces acquired more responsibilities for programme implementation in their jurisdictions, including the equalisation of public services. While provinces have the authority to determine revenue-sharing with lower levels, they have also been pressed to push more resources to the grassroots levels. Given such conflicting mandates and demands, many provinces have chosen to "lie flat", simply passing resources on to the counties.

The passive option has now been decisively closed under the deleveraging campaign. Under the budget law, provinces are the legal entities for all local government borrowing. Although much is on-lent to lower-level governments, provinces retain the responsibility for managing the associated fiscal risks. More specifically, the 2016 policy makes provinces the unit of account for risk classification, as well as first responder to "local government debt risk events" (Guowuyuan bangongting [General Office of the State Council] 2016).

When even a single municipality or county default can put the whole province under tightened scrutiny and restriction, provinces hold back resources to hedge against such events. This was likely a source of the fiscal contraction in 2021 discussed earlier, which occurred while treasury accounts were abnormally flush with cash.[8] An active role for provinces will require more resources to be placed under provincial allocation, which in turn requires a wholesale rejigging of revenue- and expenditure assignments across all levels of governments.

Another area where reform is urgently needed is the financing of investment in infrastructure, a key driver of economic growth in China and an area in which the gap between local government responsibilities and resources is huge. Through the fiscal decline in the 1980s and 1990s, investment expenditures were spun off the budget and decentralised to local governments. Over the past decade, local governments have accounted for up to 90 per cent of China's massive investment in infrastructure (Wong 2013, 2014). In 2017, the last year for which data is available, budget resources accounted for only 17 per cent of total infrastructural investment, with the rest financed through debt and non-budgetary resources, largely by local governments (Guojia tongji ju, *China Statistical Yearbook* 2018).

Due to the functional split where capital spending is managed by the National Development and Reform Commission and not the Ministry of Finance, capital needs are not well-integrated into budgeting considerations. Even the 2018 State Council document that laid out the division of central-local responsibilities in public services made no mention of capital needs (Guowuyuan bangongting [General Office of the State Council] 2018). The financing costs of building schools, clinics, roads, etc. and restrictions on borrowing had, in past decades, driven local governments to reach outside the budget to rely on land revenues and hidden borrowing through financial vehicles (Wong 2013).

Reforms to clarify and set limits to the scope of local government responsibility for financing infrastructure are a necessary step towards finding a sustainable resolution of the local government debt problem going forward. With fiscal policy compromised by problems of local finance, the experience of the past two years shows that China may be at the proverbial "end of the road", where "kicking the can" is no longer an option for deferring the difficult task of intergovernmental fiscal reform.

To design a good intergovernmental fiscal system fit for an advanced, prosperous China, reforms might start with a review of all the current tasks performed by government and streamline them by asking the classic questions of *why* (whether they belong in the public sector), *how* (whether by direct provision or through subsidy to supplier or consumer), *and by whom* (which level of

government). This would be followed by designing a system to finance the tasks efficiently and equitably.

Unfortunately, a bold reform is unlikely to happen under the current leadership, which seems to prefer keeping local governments on a tight leash through doling out transfers. It also seems intent on holding the overall budget deficit to less than three percent of GDP even while urging local governments to take on debt under the special project bonds.

Notes

[1] Christine Wong, *Wen jingji dapan jianghua luyin* 稳经济大盘讲话录音 [(Personal) Recording of Speech at the Economic Stability Conference], 25 May 2022, on file with the author.

[2] Special project bonds are a vehicle introduced in 2015 to allow local governments to borrow against their government fund budget (almost entirely based on land revenues) for capital spending.

[3] In this chapter, "county" refers to the administrative level that includes counties, county level cities and urban districts.

[4] The estimated RMB 40 trillion is the sum of general budget expenditure and government fund expenditure, net of transfers between them.

[5] Social spending is calculated as the sum of budget expenditure on education, health and social security and employment net of public sector pensions and support for demobilised soldiers.

[6] Evergrande was the biggest property developer to default on a loan repayment in 2021, after the government imposed tougher financing standards on the real estate sector that curbed the flow of credit to developers and forced many to retrench.

[7] Fieldwork information, December 2021–January 2022. See also Katsuji Nakazawa, "Analysis: China's Mandarins Face 25% Pay Cut as 'Alchemy' Fades", *NikkeiAsia,* 30 Dec, 2021; available at https://asia.nikkei.com/Editor-s-Picks/China-up-close/Analysis-China-s-mandarins-face-25-pay-cut-as-alchemy-fades (accessed 10 May 2022).

[8] Fieldwork information, Beijing, December 2021.

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17

China's Enduring Pursuit of State-Owned Enterprise Reform

Wendy Leutert

State presence in China's economy remains strong, despite decades of market-oriented reforms since the late 1970s. State-owned enterprises (SOEs) account for approximately a quarter of GDP and have done so for nearly 25 years (Batson 2020). SOEs are leading players in Chinese industry, equity markets and overseas direct investment. Today, there are 97 central SOEs under the administration of China's national-level government ownership agency, the State-Owned Assets Supervision and Administration Commission (SASAC) (Guoyou 2021). Subnational governments also own and operate large portfolios of local SOEs at home and abroad. China now ranks first worldwide with both the largest total number of SOEs and the highest share of SOEs among its biggest companies (OECD 2017).

Chinese SOEs endure because they serve crucial functions for the state. They contribute to central and local government revenues through dividends and taxes, support urban employment, keep key input prices low, channel capital towards targeted industries and technologies, promote sub-national redistribution to poorer interior and western provinces, and aid the state's response to natural disasters, financial crises and social instability (Batson 2017). For Xi Jinping, as for earlier Chinese leaders, SOEs "constitute an important pillar of the national economy and play a role as pillars of the economic foundation of the CCP's rule and China's socialist state power" (see Barry Naughton's article in this volume) (Xinhua 2014).

Although SOEs hold nearly a third of China's industrial assets, they account for less than a fifth of total industrial profits. SOEs also deliver weak returns on assets: only 3.9 per cent compared with 9.9 per cent for private firms as of the

end of 2017 (Rosen, Leutert and Guo 2018: 9). At the same time, SOE debt as a percentage of GDP reached a record high of more than 142 per cent in 2020 (Yeung 2021).

China's SOE reform has long pursued political as well as economic goals. Xi Jinping, like his predecessors, aims to achieve CPC control and market competitiveness on a global scale through concentrated state ownership and overseas expansion (Leutert and Eaton 2021; see also the chapter by Frank Pieke in this volume). The Xi administration's reform efforts have combined limited steps to increase SOE marketisation while deepening Party influence in corporate governance. What are the main elements, outcomes and prospects of SOE reform under Xi?

SOE reform under Xi Jinping

Xi's assumption of leadership in 2012 initially raised hopes for a far-reaching overhaul of China's state sector. At the 2013 Third Plenum meeting, Xi outlined an array of ambitious market-oriented reforms (Central Committee 2013).

Subsequent developments have failed to realise initial reformist hopes. The use of SOEs to arrest domestic equity market turmoil in the summer of 2015 solidified Chinese leaders' conviction in the importance of state ownership and control. That fall, the Xi administration's first major SOE reform policy document, *Guiding Opinions of the CCP Central Committee and the State Council on Deepening the Reform of State-Owned Enterprises*, made no mention of a "decisive role for markets in resource allocation", the core promise of the 2013 Third Plenum (Central Committee 2013).

As Xi nears a decade in political office in 2022, the key elements of his SOE reform agenda have become clearer. The Xi administration is committed to SOEs serving non-market objectives under tighter CPC control, combined with limited steps towards market liberalisation.

Party building

The first policy document released after the 2015 *Guiding Opinions* in September 2016 ordered SOEs to make the Party the "political core" of their "corporate governance structures".[1] The following month, Xi chaired a national work conference on party building in SOEs. There, he made clear that party organisations should serve a "leadership core" function as well as a "political core" function, giving party actors the green light for a more expansive role in directing enterprise activities (Xinhua 2016).

In January 2017, SASAC ordered SOEs to revise their articles of association to formalise requirements for party building work and the party committee's role in corporate governance.[2] Later that year, the Xi administration even revised the CPC constitution to enshrine the Party's leadership role in SOE governance (*Zhongguo gongchandang* 2017). The China Securities Regulatory Commission's (CSRC) *Code of Corporate Governance for Listed Firms*, released in September 2018, further required publicly-listed firms of all ownership types to support party building activities, and for state-controlled listed firms to codify party leadership into their articles of association (Zhongguo zhengquan 2018). Such activities and leadership include but are not limited to the Party's ability to influence personnel appointments and proposals going to the board.

Mixed ownership

Another key element of Xi's SOE reform agenda is mixed ownership. This concept, which dates back to the 1980s, refers to the diversification of state-owned enterprises' shareholding structures via publicly listing a proportion of state-owned enterprises' assets, selling a portion of state shares to the private sector, and/or granting employees stock ownership. The 2013 Third Plenum Decisions revived the idea of mixed ownership as a strategy to inject private capital and expertise into SOEs, thereby making them more responsive to market conditions (Central Committee 2013).

Mixed ownership under Xi targets SOE subsidiaries rather than group companies. Large Chinese SOEs are typically organised as enterprise groups with multiple levels of member entities—including joint venture firms, research institutes and publicly listed and non-publicly listed subsidiaries—layered under a group company (Leutert 2020). Levels of mixed ownership decrease significantly as one moves up the levels of the SOE enterprise group (Wang 2020: 426).

Implementing mixed ownership reform in SOEs at the group company level will be far more challenging. Despite a November 2017 directive urging central SOEs to implement mixed ownership reform at the group company level, no companies have done so yet, and a successful model for scaled-up implementation of mixed ownership reform has yet to emerge (Guojia 2017).

State capital management

State capital management is another key element of the Xi administration's SOE reform agenda. It encompasses two types of reforms. The first involves granting some SOEs increased autonomy for capital management decision-making within

their own firms. The second calls for treating SOEs with broad cross-industry holdings as asset management companies, allowing them to manage state-owned assets on the government's behalf (Rosen, Leutert and Guo 2018).

Implementing state capital management reform has been slow and its results uneven. The government has tapped 10 central SOEs as state capital investment company pilots, and local SASACs in provinces and major municipalities have also established a limited number of state capital investment companies and state capital operations companies.

A closer look at some of these pilots underscores that more autonomy does not automatically yield better performance. Despite its potential, some SOEs simply treat state capital management reform as a means to pursue empire building via risky acquisitions in non-related industries (Xie 2016).

Mergers

Central SOE mergers have occurred routinely in the past, with more than 70 occurring between 2003 and 2010, and the pace of mergers is picking up again under Xi.[3] The current wave of SOE mergers has two main aims. The first is to create bigger, more competitive national champions with a larger share of global markets in sectors like nuclear power and railways. Theoretically, these mega-mergers will reduce price competition among Chinese SOEs abroad and help to integrate upstream and downstream industries.

The second aim of SOE mergers is restructuring of surplus capacity industries like steel and heavy machinery. Xi's proposal of a new strategy of "supply-side reform" at the Central Committee's economic meeting in November 2015 renewed momentum for SOE mergers. It also shifted focus from fostering "national champions" to tackling "zombie firms": commercially unviable enterprises that rely on government and bank support to survive. Such mergers appeal to China's leaders because they avoid state-owned asset sales, which raise corruption concerns, or bankruptcies that could involve layoffs that trigger social unrest.

Obstacles to SOE reform

Xi's reform agenda faces multiple political and economic hurdles. Shortly after assuming leadership, the Central Leading Small Group (LSG) for Comprehensively Deepening Reforms charged its "Economic System" sub-group with integrating inputs from SASAC, the National Development and Reform Commission, Ministry of Finance, and others to design its SOE reform agenda (see the chapter by Nis Grünberg and Vincent Brussee in this book). In practice,

however, the inclusion of diverse bureaucratic actors, as well as the divergent interests of SOEs themselves, resulted in a watered-down blueprint for SOE reform, revealing both the limits of Xi's LSG approach to bureaucratic gridlock and the stickiness of entrenched interests (Leutert 2016; Zhonggong 2015).

Financialisation of SOEs is also running into obstacles. The first wave of SOE initial public offerings (IPOs) in the 2000s targeted Hong Kong and international equity markets. Today, the Xi administration's drive to strengthen China's industrial base—and mounting scrutiny from international regulators—is instead pushing some SOEs towards exiting stock exchanges in Hong Kong and New York.

Marketisation of SOE assets via mixed ownership reform must additionally overcome participant concerns. Private sector investors wary of state control remain reluctant to, quite literally, buy into the reform (Beck 2022: 12). Government departments, local SASACs, and SOEs themselves also worry about the risk of losing state-owned assets through corruption and bribery during mixed ownership reform (Yue et al. 2018: 15).

State firms today frequently have sprawling corporate structures. The lure of profits in real estate, finance and unrelated industries has prompted stubborn sectoral sprawl. The increasingly global scope of Chinese SOEs' business further complicates reform and regulation alike, with central SOEs alone holding more than RMB 6 trillion (USD 906 billion) in assets abroad in more than 185 countries and regions (Reuters 2017).

In 2019, SASAC formally devolved new powers to central SOEs, explicitly authorising them to approve their subsidiaries' mixed ownership reform plans, unless they operated in a handful of industries related to national security, key sectors or major projects (Guoyou 2019). While this and other formal steps to promote greater marketisation of SOE organisations and operations are notable, in practice SOEs remain bulky conglomerates strongly subject to state influence.

Conclusion

Xi's SOE reform agenda combines limited steps to increase state firms' marketisation and international competitiveness, while simultaneously strengthening party control. Efforts to promote mixed ownership, state capital management and mergers continue, despite delays and mixed results. At the same time, intensified party building aims to specify and institutionalise the CPC's leadership role in SOE corporate governance.

Reform under Xi aims to improve SOEs' performance, boost their competitiveness, and realise other economic goals like industrial restructuring.

However, the Xi administration is also willing to sacrifice these economic objectives to a certain degree in favour of political priorities and stronger party control.

The administration during Xi's putative third term (2022-2027) is unlikely to remake SOEs to approximate the form and function of private companies. However, this does not mean that the objectives of SOE reform under Xi are entirely political. The administration will almost certainly continue efforts to enhance SOEs' performance at home and abroad and use them to serve other economic aims, ranging from crisis management to urban employment to technological development.

As China's enduring pursuit of SOE reform continues, its context, content and consequences are becoming increasingly global. State firms own and operate assets worldwide, and international investors have greater exposure to Chinese SOEs on equity markets. As a result, policy makers and regulators abroad are increasingly concerned about the national security implications of SOE business, especially technology exports and involvement in critical infrastructure.

Notes

[1] *Guanyu zai shenhua guoyou qiye gaige zhong jianchi dang de lingdao jiaqiang dang de jianshede ruogan yijian* 关于在深化国有企业改革中坚持党的领导加强党的建设的若干意见 [Several opinions on adhering to party leadership and strengthening party building in deepening the reform of state-owned enterprises], 20 Sep. 2015. While this document is not publicly available, its main ideas are expressed in the official explanation accompanying its release and subsequent documents issued by local governments.

[2] Guoziwei weiyuanhui 国资委委员会 [SASAC], *Guanyu jiakuai tuijin zhongyang qiye dangjian gongzuo zongti yaoqiu naru gongsi zhangchengyouguan shixiangde tongzhi* 关于加快推进中央企业党建工作总体要求纳入公司章程有关事项的通知 [Notice on matters regarding speeding up and advancing the inclusion of overall requirements for central state-owned enterprises' party-building work in articles of association], 3 Jan. 2017. While this document is not publicly available, official sources state its key ideas. For example, see Guoziwei weiyuanhui 国资委委员会 [SASAC], *Cong "luoshi" dao "tisheng" guoqi dangjian kaiqi xin zhengcheng* 从"落实"到"提升" 国企党建开启新征程 [From "implementation" to "elevation," party building of state-owned enterprises starts a new journey], available at http://www.sasac.gov.cn/n2588025/n4423279/n4517386/n9320196/c9321179/content.html, 1 Aug. 2018 (accessed 6 June 2022).

[3] Calculations based on author's research about the survival outcomes for all 189 central SOEs officially under SASAC's administration since 2003.

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Section 5

Comprehensive National Security

18

Securitisation and Governance in the Xi Jinping Era

Joel Wuthnow

Images of protesters taking to the streets in Shanghai during the 2022 COVID lockdown underscore a contradiction in Chinese governance. On one hand, a powerful security state has been erected during the Xi era, with areas of governance such as public heath securitised, i.e. regarded as national security issues subject to the coercive machinery of the Communist Party of China and the Chinese state (Heath 2015). On the other hand, protests revealed the limits of the Party's ability to control the narrative and to coordinate effective responses during a crisis. This chapter considers the nature of securitisation during the Xi era, addressing three interrelated questions: how has the concept of security expanded under Xi, how have institutional reforms influenced decision-making and implementation, and what challenges will the Party likely face in sustaining the system after the 20th Party Congress in late 2022?

An Expanding Security Concept

In April 2014, at the first meeting of the Central National Security Commission (CNSC), Xi introduced an "overall national security concept" in which 11 distinct policy areas were linked to national security (Xinhua 2014). As originally formulated, these included politics, territorial management, the military, economics, culture, social affairs, technology, information, ecology, natural resources and nuclear development. Xi encouraged cadres working in all areas to "be prepared for danger in times of peace" and cultivate a proper "attitude of distress" based on evolving challenges to the regime.

Broadening the definition of "security" beyond traditional military and defence concerns is not new. In 1994, for instance, the UN's *Human Development Report* discussed "human security", including economics, food, health and the environment (UNDP 1994). What makes the "overall national security concept" unique is its focus on the Communist Party.

A study guide for cadres published in April 2022 explained that the "most fundamental" security is protecting the leadership of the Party; if "political security" is not guaranteed, the country will be "torn apart and scattered like loose sand and national rejuvenation will never get off the ground" (CNSO and CPD 2022: 58). Echoing a persistent theme in party discourse, the study guide asserts that "colour revolutions" stoked by western nations are among the Party's top threats. Its surest bet for survival, in this analysis, is exercising tight social control. Special attention is paid to the internet (the "frontline" in an "ideological struggle" with the West), enhancing party narratives in the educational system, and keeping national minorities and religious groups in check (CNSO and CPD 2022: 62–8).

The study guide explains that adverse trends in many other areas could negatively influence the Party's security: "if we can't effectively control [these developments] in a timely manner, they will evolve into political threats and ultimately endanger the party's governing status" (CNSO and CPD 2022: 58). The Party has thus refined Xi's expansive definition of security, including new topics in the "overall national security concept".

At the Sixth Plenum of the 19th Central Committee in November 2021, the Party endorsed a revised list of 16 subfields (Xinhua 2021), with the new additions including outer space, the deep seas, polar regions, biology and overseas interests.[1] In practice, the Party also discusses other issues, including epidemic control, in the context of national security; there are now few, if any, domestic governance areas that have not become securitised.[2]

Xi's focus has been on the security situation within China, but he has also explicitly stressed the interconnections between internal and external developments.[3] The addition of "overseas interests" to the "overall national security concept" in 2021 suggests that party control is increasingly seen as linked to problems emerging farther afield. In April 2022, Yuan Peng, president of the Chinese Institute for Contemporary International Relations (CICIR), elaborated on Xi's security concept, highlighting major international trends, including the Russia-Ukraine conflict and U.S.-China strategic competition. He also promoted a linkage between the "overall national security concept" and a diffuse "global security concept" (Yuan 2022). Yuan's essay not only connected

these developments to party security but also promoted the role of actors such as the Foreign Ministry and foreign intelligence services in its defence.[4]

Institutional Design and Practice

Xi's articulation of the "overall national security concept" accompanied a set of institutional reforms designed to strengthen the party's ability to set and monitor the implementation of security policies. The key innovation was the creation of the Central National Security Commission (CNSC) at the end of 2013 (it was clarified in April 2014 that the body would be a *party* organ under Xi's leadership, rather than an institution of the state). Xi explained that the CNSC, chaired by himself, would establish a "centralised, unified, efficient, and authoritative national security system" (Xinhua 2014) Chinese analysts suggested that the Commission would help do this by coordinating policy at a high level, with its staff directed by one of Xi's key lieutenants (Li Zhanshu, replaced in 2018 by Ding Xuexiang), improving strategic planning and sharpening crisis response (Wuthnow 2017).

After the 19th Party Congress in October 2017, additional National Security Commissions began to appear at lower levels of the Party structure. Party committees down to the county level now have commissions that meet periodically to discuss major governance issues in a security context, ranging from government debt to social stability and COVID response. These meetings include attendance and briefings from representatives of relevant parts of the bureaucracy and discussions of Xi's speeches and other higher-level party guidance. The practical purpose is to unify party thinking on how to define and respond to security challenges while promoting comprehensive planning and response. Politically, with Xi at the top, there could also be no doubts about who was responsible for setting the agenda and monitoring implementation down through the party hierarchy and across the bureaucracy (Wuthnow 2021).

Placing the National Security Commissions in a pivotal position meant that the party leadership alone would define the security environment and decide the best ways to address challenges. Ultimately it would be the party's (and Xi's) diagnosis and prescriptions that mattered; no other voice would be legitimate. To some extent, the Party also strengthened and centralised its control over policy implementation. Xi took several steps to enhance the institutional position of the central party leadership, including expanding the party's anti-corruption investigation system to cover state employees and eliminating the ability of State Council and provincial officials to mobilise the People's Armed Police (Lawrence 2018; Wuthnow 2019). He also reasserted his influence as the Party's top civilian

in the Central Military Commission, having concluded that too much power had been delegated to People's Liberation Army officers under Hu Jintao (Saunders and Wuthnow 2019).

Nevertheless, implementing policy still largely fell to the *state* apparatus, from the State Council down to bureaucracies located within provincial and lower administrations. To promote efficiency, the slate of State Council ministries was reorganised in March 2018. This included the creation of a new Ministry of Emergency Management that would handle responses to natural disasters and the consolidation of border control into a new National Immigration Administration. During the pandemic, the Party also needed to rely on the civilian public health apparatus to conduct disease prevention and maintenance, and local governments (including law enforcement forces) to maintain social order.

Questions also remained about how far the CNSC's mandate would travel as the definition of security broadened to include overseas interests. Historically, key decisions about the development and employment of military capabilities were made by the Central Military Commission (CMC), which Xi also chairs (Cheung 2015). There may be a continuing division of labour in which the CNSC predominantly focuses on domestic and transnational security issues, while the CMC takes charge of military operations and crisis response farther afield. The CNSC, which also features representation from the foreign ministry and other externally focused bureaucracies, might be useful from the perspective of encouraging military-civilian coordination (discussed more fully in the chapter by Tai Ming Cheung in this volume), which Xi can compel (or at least support) from his role at the apex of the system.

Future Challenges

To protect its own security and that of the country, the Party has developed new decision-making and control mechanisms. One problem concerns institutional capacity. Despite the impressive machinery of control that the Party has at its disposal, the spread of information that conflicts with the party's messaging—including alternative views on how crises arise and should be handled—can still circulate, especially when there is a gap between policy performance and popular expectations, and individuals have still managed to organise (Qian, Mozur and Wang 2022). The Shanghai case mentioned at the start of this chapter demonstrates the limited effectiveness of party propaganda during a crisis and suggests that control of information, which the 2022 study guide treated as being of paramount importance, remained contested.

A second challenge concerns resentment against excessive securitisation of governance. In a 2022 article on the overall national security concept, Beijing University professor Jia Qingguo, who serves as a member of the standing committee of the Chinese People's Political Consultative Congress, argued that a "necessary balance should be made between the pursuit of national security and other values", including "individual privacy", "individual freedom", "individual rights" and "democracy". He added that while security "is the premise and guarantee for realising other values, it cannot replace other values, let alone sacrifice other values" (Jia 2022: 23). Jia's critique—which bears some similarity to the more vocal debates in the United States following the expansion of the security state after 9/11—suggests not only pushback in China, but also that there is space even in the Xi era for such voices to be aired.

A third challenge is whether Xi's focus on security might also be creating political vulnerabilities. From the beginning, the overall national security concept and its institutional manifestations have been closely associated with Xi. A political benefit of the collective decision-making model that followed Mao was that blame could be distributed among party leaders. A more personalistic model, by contrast, means greater political risk for Xi when policies fail. Political sensitivities could have counterproductive consequences as those around Xi seek to protect him either by misattributing blame (for example, to the United States, thus accelerating mutual distrust and competition) or by failing to modify ineffective policies that he endorsed, such as the zero-COVID strategy that led to rolling lockdowns from 2020 to 2022. Accepting unparalleled authority at the 20th Party Congress might only aggravate these tendencies.

A final challenge is whether the system that Xi designed can outlast his tenure. Party leaders might be unwilling to grant as much latitude in the security arena to his successor, either to prevent strategic miscalculations on the part of a single leader or, more likely, to reduce that person's ability to monitor and control the illicit activities of the elite. This could involve a reduction in the importance of the CNSC as well as control mechanisms such as the anti-investigation agents currently based in the National Supervision Commission.[5] Such an outcome would be most likely under a weaker successor. A less influential successor might also have greater trouble than Xi in compelling bureaucratic coordination between the historically-secretive military and civilian agencies, which could reduce the effectiveness of China's strategic planning and crisis response. At some point during or after the Party Congress, Xi could attempt to protect his legacy by announcing a successor, but would then have to assume the risk of his own influence being diluted by the presence of a leader-in-waiting.

Conclusion

The securitisation of Chinese governance reflects an underlying sense of unease within the Party about its own security in the face of mounting domestic and external challenges. The dominant solution is to prevent alternative narratives from gaining currency at home, though as the Shanghai lockdowns have demonstrated, the Party is not always fully in control. A stronger decision-making and control system has also been fashioned, helping to break down bureaucratic stovepipes and increase unity of thought among cadres, but the durability of this system after Xi leaves office is questionable. In the meantime, officials will maneuver to claim support for, and potentially broaden, the overall national security concept, attaching their own agendas and interests to the cause.[6] By securitising all aspects of governance, the Party might have ultimately diminished its own ability to set priorities and focus on the top challenges.

This essay reflects only the views of the author and not those of the National Defense University, Department of Defense, or U.S. Government.

Notes

[1] Four of the five new additions were new domains that have also been considered together in the 2020 *Science of Military Strategy*. Chapter 9 of that volume addresses space, cyberspace, the deep sea, polar regions, biology and artificial intelligence. Thus, adding them to the "overall national security concept" gives greater prominence for these domains, and for the institutions (military and otherwise) responsible for them; see Xiao 2020: 142–80.

[2] See, for instance, "Xu Dazhe zhuchi shengwei guojia anquan weiyuanhui di'si ci huiyi" 许达哲主持省委国家安全委员会第四次会议 [Xu Dazhe Presided Over the 4th Meeting of the National Security Commission of the Provincial Party Committee], Hunan sheng renmin zhengfu 湖南省人民政府 [People's Government of Hunan Province], 8 February 2021; available at http://www.hunan.gov.cn/hnszf/hnyw/sy/hnyw1/202102/t20210208_14430011.html (accessed 10 May 2022).

[3] Sheena Chestnut Greitens, *Testimony before the Senate Armed Services Committee*, 8 June 2021; available at https://www.armed-services.senate.gov/imo/media/doc/06.08%20Greitens%20Testimony.pdf (accessed 2 June 2022).

[4] Yuan's essay also explains that CICIR itself has adopted new initiatives to promote the "overall national security concept", including new education programmes. He himself also gained the new title of "Secretary General of the Center for the Study of the Overall National Security Concept".

[5] The National Supervision Commission, created in March 2018, is responsible for combatting corruption and investigates party members and state employees who are not members of the Party. Its authorities include the ability to detain suspects for up to six

months without the right to consult a lawyer and other extralegal provisions. For details, see Horsley 2018.

[6] A parallel can be drawn here to the equally nebulous Belt and Road Initiative.

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19

The CPC and Sovereignty in a Digitally Connected World

John Lee

The Party's View of Security in a Digitised World

The goal of China becoming an "advanced information society" was endorsed by the Politburo in 2000. "Informatisation" has continued to guide the state's steerage of China's social and economic development over the past two decades, most recently in the form of a new plan published in late 2021 (Webster et al. 2022). But the Party also recognised the threat to its authority from the internet's enabling of information flows and their potential exploitation by "Western anti-China forces". Edward Snowden's leaks concerning U.S. capabilities in cyberspace and the vulnerabilities of China's digital networks further convinced China's leaders that informatisation could destroy the Party, even while being indispensable to its vision for China and ideological claim to rule. This basic two-sided challenge presented by cyberspace was summarised in 2014 by Xi Jinping: "Without cybersecurity, there is no national security; without informatisation, there is no modernisation" (Xinhua 2014).

Since 2013, the party-state's efforts to harness information and communications technology (ICT) for China's development have been matched by expansion of the policymaking and regulatory apparatus for exerting and securing its authority over cyberspace, conforming with the centralising tendency that has marked Xi's New Era. Accordingly, a Central Commission for Cybersecurity and Informatisation (CCCI) chaired by Xi Jinping now sits atop a new bureaucratic grouping, through which the party-state plans comprehensively to manage activity on China's digital networks (Creemers 2021a).

As the amount of data flowing over digital networks continues to rise exponentially, the party-state is keeping pace by building a comprehensive regulatory system for data transfers and storage. It is seeking to reduce China's vulnerabilities in cyberspace vis-à-vis foreign actors, by building Chinese industry's ability to provide the technologies that constitute digital networks and the cybersecurity capacities to defend them. Asserting the CPC's discourse power on the international stage regarding governance of cyberspace is the foreign policy counterpart to these internal measures to establish China's cyber sovereignty and build China into a cyber superpower that need not fear any external enemy in the CPC's "New Era".

Visibility of Cyberspace

China's well-known system of internet-based information control (including but not limited to the digital border control system known as the Great Firewall) utilising automated filtration and blocking of data transfers, plus extensive manual censorship is now just one element of a growing apparatus that gives authorities access to digital networks. All information networks in China must comply with a tiered security regime (the Multi-Level Protection Scheme) administered by the Public Security Bureau, which has extensive powers to access digital networks and the data stored on them.

China's social credit system, discussed in more detail by Diana Fu and Rui Hou in their chapter in this volume, was conceived to bring a vast scope of activity within a state-regulated environment of trust (or "credit"). The system will increasingly be built on integrated digital databases and data-management tools. The social credit system remains limited and uneven in its scope and application, and is far from completely digitised or rationalised nationwide. But it reflects the general trend of the party-state reimposing control over a society that has grown highly complex over the preceding decades. Regarding corporations, for instance, social credit already centralises legal compliance records for all entities registered in China and automates punishments and rewards based on these records.

Growth in the use of digital networks to deliver both government and private services has simultaneously created a new infrastructure through which the state can exercise control. This was highlighted during the COVID-19 pandemic. Digitised identification technologies and internet-based commercial platforms like WeChat and AliPay were used to monitor and control individual movement (Von Carnap et al. 2020).

The highly intrusive surveillance regime imposed in the Xinjiang region represents the extreme end of the possibilities for societal control that ICT provides to the party-state (Byler 2021). With China moving towards a cashless economy and a state-run digital currency, informatisation is providing the party-state with the means to achieve full transparency of Chinese society by penetrating a cyberspace which is itself increasingly all-pervasive.

Data Governance

China now has in place the world's most comprehensive regulatory regime for data (Creemers 2021b). Built around the three pillars of the Cybersecurity Law, Data Security Law and Personal Information Protection Law—the latter two enacted only in 2021—regulation is being progressively expanded in detail and tailored to different economic sectors. All actors that handle data are required to provide catalogues of data they hold to state agencies, to store certain categories of data inside China and to conduct self-assessments or submit to bureaucratic review before transferring data across China's borders. Internet businesses holding large amounts of personal data are subjected to additional obligations, like submitting to government security reviews before listing on foreign stock exchanges, or ensuring that their recommendation algorithms meet certain requirements.

This still expanding and highly intrusive regime makes no distinction between Chinese and foreign actors. Indeed, the latter are exposed to greater regulatory risk, given the onerous cross-border data transfer controls, the Data Security Law's introduction of a yet unspecified export control system for data, the assertion of extraterritorial jurisdiction over data-related activities that have impacts inside China, and provision for retaliation against foreign government measures concerning the data economy that are perceived to harm Chinese interests. The regime puts constraints on bureaucratic discretion, but these are couched in such broad terms, like "national security" and "public interest", that, unless the constraints are further articulated, it would be hard to predict how much data Chinese authorities may access, or what decisions they make when reviewing data-related activities.

Another element of this new data governance regime is its introduction of state-managed frameworks for data markets, following official endorsement in 2021 of data as an economic factor of production (alongside land, labour and capital). Provision is being made in some sectors and regions for more relaxed controls on cross-border data transfers, reflecting the continued importance of international exchange to China's economic and technological development.

A Chinese Cyber-Industrial Complex

China's 2016 National Cybersecurity Strategy gives equal to weight to countering internal and external threats in cyberspace (Guojia hulianwang xinxi bangongshi [Cyberspace Administration of China] 2016). However, Chinese networks in general appear to remain highly vulnerable to exploitation or attacks by capable foreign actors. One foreign 2021 study judged that China's core cyber defences remained comparatively weak, and that the nation was still in the early stages of building resilience into its critical information infrastructure (International Institute for Strategic Studies 2021).

China has a severe deficit in qualified cybersecurity professionals and a relatively underdeveloped cybersecurity industry. Past failure to prioritise cybersecurity development in line with China's expanding digital economy and infrastructure means it has been playing catchup in this field since the top leadership's attention was focused on it by Edward Snowden's revelations.

Over 2016–17, the CCCI approved a thorough restructuring of China's system for generating a cybersecurity workforce, potentially putting the nation on a path to meet its cybersecurity personnel needs by the late 2020s. China's cybersecurity software sector is growing rapidly and is exploiting new technologies such as artificial intelligence (AI). For the party-state, the goal is a domestic "cyber industrial complex" that provides cybersecurity services of a quality and scale comparable to its U.S. counterpart, and which is considered a prerequisite for China becoming a true cyber superpower.

Being at the leading edge of designing and implementing new technologies should help China close its cybersecurity gap with foreign adversaries. For example, researchers are trying to build "endogenous cybersecurity" into next-generation (6G) telecoms networks, a key element of China's informatisation goals. 6G telecoms and AI are expected to enable intelligent information security systems to better protect military forces during operations (Xie, Xie and Zhang 2020). Such undertakings will directly influence China's prospects in any armed conflict with, for example, the U.S.

ICT Supply Chain Security

Having joined the globalising ICT industry in the 1980s as technological laggards, Chinese firms remain reliant on foreign inputs at many points in their supply chains. In 2016, Xi Jinping identified the greatest hidden danger to China as the foreign powers' control over the core technologies upon which cyberspace is built (Creemers 2018). This judgment has been vindicated over the following years by US export controls targeting selected Chinese firms' dependencies on

foreign suppliers. Restricting access to semiconductors by Huawei, for instance, has significantly reduced the Chinese firm's revenue and led to a slowdown in China's nationwide deployment of 5G telecoms infrastructure.

The need to mitigate risks from such politically driven decoupling and to develop secure and controllable ICT systems that minimise vulnerabilities to foreign exploitation have super-charged Chinese import substitution efforts. But China's leaders also recognise that complete independence from foreign suppliers is impossible for the time being, especially in the most complex technologies like semiconductors. The solution, as described by Xi Jinping, is to build structural dependence on China into international supply chains, ensuring that advanced foreign technology providers keep doing business in China, while Chinese firms upgrade their capacity to meet the nation's ICT needs (Xi 2020).

China's centrality in transnational electronics supply chains creates great inertia against foreign efforts to decouple these industries from China, especially given the range of countries and interests involved. This position is being reinforced by China's prominence in developing and commercialising new ICT-enabled technologies, supported by ambitious goals in the 2021–25 14th Five Year Plan (Lee 2021). Meanwhile, Chinese authorities are increasingly mandating import substitution regarding the most severe cybersecurity vulnerabilities.

Normative Dominance Internationally

Since the internet's emergence as a subject of international politics, Chinese diplomacy has used the term "cyber sovereignty" to emphasise the right of national governments to manage cyberspace within their jurisdictions according to their own values and priorities. However, the internet is a globally connected system that originated outside China and has been built largely by private enterprise. Accordingly, on certain issues of global internet governance that bear upon the internet's functioning within China, the party-state has had to accommodate the role of private corporations and some foreign non-government bodies, notably the Internet Corporation for Assigned Names and Numbers (ICANN) (Galloway and He 2014).

Generally however, Beijing's preference has been for matters of global internet governance to be decided in state-centric bodies, such as the International Telecommunications Union, rather than in forums that give more power to corporations or civil society actors. As Chinese firms' technical capabilities have improved, their influence has grown in the international standardisation processes that shape the evolution of telecoms and the internet.

Perceived Chinese state-led efforts to enlist Chinese firms in shaping the design of future ICT infrastructure on an international scale have provoked foreign concerns, sometimes out of proportion to the technical issues involved (Lee 2020). Nonetheless, just as design and governance choices for cyberspace structure power relations within China, so international relations are structured by preferences embedded in global ICT infrastructure. There is not a simple relationship between the CPC's goals and technical choices in internet governance, but the latter do have implications for how China's party-state can exercise power internationally.

China's cyberspace diplomacy has reflected the assertive turn in China's foreign policy under Xi Jinping. In 2014, China began hosting an annual forum for normative discussions about cyberspace, the *World Internet Conference* (WIC), inviting foreign government and ICT industry leaders to China. At the second WIC in 2015, Xi Jinping spoke of "four principles to advance transformation of the global Internet governance system" with respect for cyber sovereignty foremost, and five propositions to build a "community of common destiny" in cyberspace (Xinhua 2015).

China's 2017 *Strategy of International Cooperation in Cyberspace* likewise calls for reform of global internet governance "in the interests of the majority of countries", and positions China as the developing world's champion against western hegemony (China Ministry of Foreign Affairs 2017). China's positions in United Nations forums on cyberspace governance often conflict with those of western countries. Accordingly, minimum levels of cooperation to maintain the internet's basic functionality across borders may be the only realistic prospect for international agreement (Broeders 2015).

Conclusion

By the CPC's own judgment, it cannot stay in power without overcoming the challenges presented by the internet (Zhongyang 2017). The Party now has in place the tools to establish its vision of sovereignty across all key aspects of cyberspace, even if in many areas the necessary conditions remain far from realised. The CPC has achieved this in the context of the profoundly interconnected nature of cyberspace, which facilitates not just reassertion of the Party's control across Chinese society, but also increasingly the extension of its power to the rest of the world. China is arguably one of a few actors capable of shaping the character of international connectivity on a global scale. The party-state's success or failures in the domain of cyberspace will be of profound consequence worldwide and will determine sustainability of its rule over an informationised China.

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20

The Rise of the Chinese Techno-Security State[1]

Tai Ming Cheung

Since coming to power at the 18th Chinese Communist Party Congress in 2012, Xi Jinping has significantly elevated the importance of national security concerns and technological innovation in the country's overall priorities (see the chapter by Wuthnow in this volume). Xi has invested considerable time, effort and political capital to establish an expansive techno-security state based upon his strategic and ideological vision and under his close personal control through direct command of key institutions.

The techno-security state refers to an innovation-centred, security-maximising regime that prioritises the building of technological, defence and national security (covering matters such as intelligence, internal security, cyber and surveillance) capabilities to meet expansive national security requirements based on perceptions of heightened threats and on the powerful influence of domestic pro-security coalitions. This building of a techno-security state is being pursued through four major lines of effort:

1. A national security state that integrates the domestic and external security arenas and emphasises the development of internal security and information control capabilities across a wide array of domains under the watchful eye of the party-state;
2. An innovation-driven development strategy that represents a new comprehensive model of national economic development closely coordinated with military and security goals;
3. A comprehensive strategy for military strengthening designed to turn the People's Liberation Army (PLA) into a top-tier global military power by the

mid-2030s capable of challenging competitors such as the United States for overall dominance by mid-century;

4. A military-civil fusion strategy that seeks to integrate the compartmentalised civilian and defence portions of the Chinese economy into a seamless, cohesive dual-use system better able to cater to the needs of the military and national security apparatuses.

The National Security State

Xi moved expeditiously after taking office in 2012 to engineer a far-reaching reframing of the country's national security approach. There was no single seminal shock that triggered this hard national security turn. For China's realist-minded security policymakers at the helm in the early 2010s, the country's national security situation was complicated but manageable. For Xi, however, these traditional realpolitik perspectives painted only a partial and far-too-rosy picture of China's actual security environment. He brought to office a very different set of assumptions and viewpoints as to what constituted the most worrying sources of danger to the Party and the country and how they should be addressed.

As a long-time provincial apparatchik, Xi's worldview was dominated by domestic and Party concerns. Xi was in particular haunted by the collapse of the Soviet Union two decades earlier. Xi was determined that the Chinese Communist Party should avoid the same fate, even though China in the 2010s bore little resemblance to the decrepit Soviet regime. Xi's answer was a hand-in-glove strategy of hard-hitting ideological renewal, political purification and comprehensive national security.

According to Xi, the most dangerous threats to national security are internal, non-traditional, political and emerging, rather than external, traditional, geo-strategic and imminent. On the issue of core national interests, the balance between development, security and sovereignty has also been revised under Xi's tenure. From Deng Xiaoping to Hu Jintao, development was by far the most important national priority, but Xi has elevated security to the same level, if not higher. "We not only emphasise development issues but also security issues", Xi said at the first meeting of the Central National Security Commission in April 2014 (Xinhua 2014).

According to Xi, national security and development are deeply intertwined: "security and development are two sides of the same issue, two wheels in the same driving mechanism. Security guarantees development, and development is the goal of security" (Xinhua 2015). China needs to pursue a more pro-active and assertive approach in shaping and protecting its security environment to promote development, rather than its previously more reactive and low-key posture.

Innovation-Driven Development Strategy

The Innovation-Driven Development Strategy (IDDS) represents the Xi administration's bold, overarching development strategy of realising China's long-term ambition of becoming a world power by mid-century. The strategy is state-directed but market-supported, globally engaged but framed by techno-nationalist motivations. It seeks a seamless integration of the civilian and military domains, and employs a selective authoritarian mobilisation approach targeted at core and emerging critical technologies.

The IDDS represents a whole-of-nation effort in the pursuit of technological innovation. This allows the authorities to have access to enormous institutional capabilities and material resources that can be applied to critical objectives. This selective authoritarian mobilisation model is what Xi calls the superiority of the socialist system and has been successfully used on a number of pivotal science and technology projects in the past.

A key measure of the authoritativeness and ability of the IDDS to guide China's development is the extent and long-term commitment of top-level leadership support. The IDDS is personally intertwined with Xi, who first put forward the concept and was intimately involved in its formulation, approval and rollout. In a political setting where power rests more in the person of Xi and less in institutions, the IDDS is likely to benefit from its tight association with Xi in at least two ways. First, Xi's strong commitment to the IDDS sends a clear signal to the bureaucracy that it should vigorously implement the strategy and associated policies and plans, or else suffer the consequences. Second, the lifting of term limits in 2018 on Xi's tenure in power means that the IDDS can expect to enjoy an extended shelf life, which is important because of its long-term focus.

A fundamental issue that will determine the overall effectiveness of the IDDS in driving China's long-term development is the evolving role of the state and its relationship with the market. The state remains of central importance in the IDDS umbrella, but its functions and responsibilities are being redrawn to handle a more complex and advanced innovation ecosystem.

The IDDS mentions building a modern innovation governance system, which would replace the existing rigid top-down, monolithic, bureaucrat-driven and administratively micromanaged model. Replacing it would come a pluralistic, decentralised, streamlined, expert-informed and enterprise-focused system which takes an indirect governance approach with a clearer division of labour between the state and market. In this reconfiguration of the state's guiding hand, some functions and responsibilities are being enhanced, while others are being curtailed or eliminated. Areas being strengthened include strategic planning,

policy formulation, supervision and evaluation, the implementation of major and strategic tasks, and supporting fundamental research (Guowuyuan 2016).

The indigenous development of strategic and core technologies is one of the foremost priorities of the IDDS and its associated plans. Strategic and core technologies refer to capabilities that are crucial for national security and long-term national competitiveness. The IDDS puts forward a two-step development approach with the first near-to-medium stage to 2020 and the second long-term stage to 2030 (since extended to 2035). In the first step, the focus was on accelerating the implementation of megaprojects already underway under the 2006–2020 Medium and Long-Term Science and Technology Development Plan (MLP) (Guowuyuan 2006). These projects included new generation nuclear reactors and mid-sized passenger aircraft, and most were completed by the time this MLP ended in 2020. A successor MLP covering the period from 2021 to 2035 covers the second stage of the IDDS.

Military Strengthening

The possession of a strong, vibrant and technologically advanced military and defence apparatus is pivotal to forging a potent techno-security state. Xi's thinking on the building of China's military power is formally known as "Military Strengthening in the New Era", shorthand for his grand goal of transforming the PLA and the defence science, technology and industrial apparatus from being big to being strong.

Achieving this goal rests on a three-pronged strategy of reform, innovation and modernisation. Reform refers to undertaking a concerted restructuring of the existing defence establishment to improve its readiness and ability to fight and win future wars as well as to ensure its political reliability for the CPC. Innovation concerns the development of novel ways and means of strengthening China's military power and influence through hard (material, technological, industrial) and soft (normative, strategy and tactics, processes) factors. Modernisation is the result of the implementation of reforms and innovation in the development of defence capabilities.

Although reform, innovation and modernisation are coordinated, there are different timeframes set for them. Xi declared at the 19th Party Congress in 2017 that the bulk of structural reforms will be accomplished by the beginning of the 2020s, while overall defence modernisation will be only "basically completed" by 2035 (Xinhua 2017). Achieving the ultimate goal of becoming a world-class defence innovation power on a par with the United States is envisioned for the middle of this century.

Reform and modernisation have been at the top of the defence establishment's policy agenda going back to the 1970s, but innovation came to the fore only after the beginning of the 21st century. Xi's predecessors Jiang Zemin and Hu Jintao emphasised the importance of innovation, especially related to technological development, during their tenures. However, Xi has elevated innovation to a core priority and extended its application to far more military areas than his predecessors did.

Military-Civil Fusion

At the heart of the Chinese techno-security state is the grandiose idea of a strategic economy that seamlessly serves civilian and military needs. This is a daunting challenge because of the long-standing and deeply entrenched separation between the civilian and defence sectors.

The means to achieve this integrated national strategic system is through military-civil fusion (MCF). Before Xi took office, military-civil fusion was a mid-level policy priority that vied for attention with other issues, but Xi elevated MCF to a national-level priority in 2015 (Jiefangjun bao 2015).

The formulation of the MCF development strategy took more than five years and steadily grew bolder and bigger over time. This can be largely attributed to Xi's increasing interest and involvement in MCF-related matters. At the beginning of his tenure, Xi was keenly interested and engaged in military modernisation, national security, and science, technology and innovation. As he intensively worked on these domains during his first several years in power, he came to appreciate the role that MCF could play as a crucial link between these topics. This experience led Xi to become more actively involved in MCF policymaking and strategic thinking from the mid-2010s onwards. This is most evident in the creation of the Central Military-Civil Fusion Development Commission that was established in January 2017 to manage the MCF effort, and which is headed by Xi himself.

The MCF development strategy was formally approved in March 2018 and is officially known as the "Military-Civil Fusion Development Strategy Outline" (Qiushi 2018). The MCF development strategy represents a crucial link in Xi's efforts to coordinate between national security, economic development and technological innovation. The strategy is the last piece in the jigsaw puzzle of national strategies that Xi has drawn up spanning from the IDDS to the holistic national security strategy.

Conclusions

China is making steady progress in its efforts to build a world-class techno-security state, but faces stiff challenges ahead. Externally, the United States is stirring to thwart China's techno-security rise while endeavouring to preserve its own long-cherished dominance. Moreover, the far-reaching geo-strategic fallout from Russia's 2022 invasion of Ukraine that has plunged the world into a fully-fledged Cold War is further deepening the rift between China and the West. Domestically, the Chinese techno-security state along with the rest of the country is scrambling to turn from being a dependent follower into an advanced and self-reliant science, technology and innovation power. But the prolonged pandemic lockdown and abrupt regulatory and political crackdowns against big tech companies and the private sector threaten to disrupt this transformation.

Note

[1] This commentary is derived from a longer study of the Chinese techno-security state (Cheung 2022).

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Section 6

The CPC, China's Rise and Geopolitical Shifts

21

The CPC as a Global Force: A Long-Term View

Richard McGregor

As Chinese leaders do, Xi Jinping has set targets for his country and the ruling communist party to reach, the most important being in the year 2049. To coincide with the centenary of the success of the revolution that brought the Communist Party of China (CPC) to power, Xi says China in 2049 should be a "strong, democratic, civilized, harmonious, and modern socialist country" (Bandurski 2021).

Some of those terms need to be translated for western audiences. "Democratic" and "harmonious" taken together are code for a united country under the leadership of a single party. "Socialist" means that the state will remain central to the economy.

All of that is true today, as far as it goes. But to give Xi's ambitions their proper geo-political dimension, the aim is to make China the largest and most powerful country in the world by 2049, standing alongside the U.S. globally, but above it in the region.

Essential to this vision is Taiwan, which must be formally brought under Beijing's rule by then, if not earlier. China should have prevailed in its expansive claims in the South China and East China Seas. Every country in the region will have learnt both to internalise Beijing's priorities and to respect them.

Without these benchmarks being met, Xi's "China Dream" would have become something more akin to a national nightmare.

The China Dream and its ultimate target date, though, involve more than raw power and territorial settlements. In Xi's vision, it also involves the transformation of the ruling party into the kind of governing vehicle that can meet these targets.

It is no coincidence that Xi's multi-volume collection of speeches and articles is called *The Governance of China* (Xi 2017, 2018, 2020). Xi aims to transform the Party into something which has the capacity and legitimacy to successfully execute the historic mission he has set for it.

Put another way, the Party should be a smooth-running machine, run by upright officials who are simultaneously capable technocrats, ideologically loyal and selfless in the service of the mission.

How does Xi's vision of the Party match that of his most prominent predecessors, Mao Zedong, who led the 1949 revolution, and Deng Xiaoping, who kick-started China's economic take-off thirty years later? In other words, is there a continuum from the revolution in 1949 to Xi's dream in the current day and beyond?

To answer that question requires an overview not just of Chinese politics, but also of its relations with the rest of the world, especially the U.S.

The Party has evolved in its 70 years in power from a revolutionary party to a governing one. Under Xi, it is undergoing a fresh, and, for the rest of the world, a far more important transition. Not only will the CPC be a governing party at home. China's superpower status and expansion of its interests and influence around the world mean that it will be a global party as well (see also the chapter by Pieke in this volume).

Such a transition will be felt on two fronts. Over time, as its economy continues to develop and its military power expands, Beijing will expect to be much more of a rule-setter than a rule-taker in the global order.

In Xi's own words, the task of the Party and its leaders is to "lay the foundation for a future where we will win the initiative and have the dominant position" (Clarke 2020). That does not mean that China will try to export its own model to other countries. Much sloppy analysis which asserts that Beijing is "exporting its model" misses the point (Young 2021). Even well-credentialled analysts like Elizabeth Economy argue this case, by listing various aspects of its system that Chinese officials are promoting around the world (Economy 2019).

But the China model, which combines a centuries-old bureaucratic culture with a Leninist structure imported from the Soviet Union, is neither replicable elsewhere, nor fit for purpose in other countries.

Beijing is self-aware enough to know that other countries cannot structure their governments along the exact same lines as its own. In other words, the China Dream does not anticipate other countries remoulding their systems in the image of the CPC.

But if China cannot export its model lock, stock and barrel, it is already exporting segments of it in ways that will extend its influence, in both governance

and tech standards. With the CPC in charge, the world will not simply look more like China. China will want to change the international environment to serve its own interests and purposes rather than those of the U.S. and other Western powers.

That means that China will set and export technological standards, political values and the rules that go with them. Over time, China will talk less about the benefits of the current rules-based order, and more about its own rules. That by itself, will mark a seismic shift in the global order.

That process—of the Party "going global"—is already well underway. China has long been pressing its case in United Nations forums, initially quietly and now with more confidence, for a new way of looking at the concept of universal human rights.

The Western concept focuses on political values and rights. China, in line with its own domestic politics, insists that this is too narrow and that human rights norms should be focused on economic outcomes, material well-being and the inviolability of national sovereignty.

If the Chinese political system, or at least elements of it, is going global, that naturally accentuates conflict with the U.S. The contest between Washington and Beijing is already multifaceted. They are competing on trade, on the economy and technology. They are competing militarily in the Asian region. Increasingly, as the CPC's global reach and influence grow, the contest is pitting the two countries' political systems against each other.

Through U.S. eyes, this is a contest that Washington is just waking up to.

It is not so much that a clash between the U.S. and China was always inevitable, although that is probably true, given their size and their conflicting spheres of influence. More to the point, the question being asked in Washington is whether Beijing has been tailoring its diplomacy in preparation to take on the U.S. all along. In Deng's much cited and famous phrase, was China "hiding its light and biding its time" until it was powerful enough to confront the U.S. head-on?

One can take this line of argument back even further, to 1949, and ask the same question, whether the character of CPC is essentially unchanging. In other words, are the values and aims of the revolutionary party in 1949 much the same as those designed for the global party in 2049?

Increasingly, the prevailing sentiment inside the U.S. system is that Chinese statecraft has been up until now a kind of shell game, concealing its greater long-term ambitions until it was in a powerful enough position to realise them.

To quote the title of Rush Doshi's 2021 book, Beijing was playing "the long game", retreating tactically in the face of superior U.S. firepower, and advancing

later with confidence and near impunity as it felt its national strength nearing par with its rival.

Doshi's analysis has resonance beyond the academy these days. Once a scholar at the Brookings Institution think tank in Washington, Doshi now sits in Joe Biden's National Security Council, advising on China. His book divides China's grand strategy since Reform and Opening into three distinct eras, starting respectively in 1989, 2008 and 2016.

The late 1980s and the early 1990s were marked by U.S. strength and internal turmoil in China, with the collapse of the Soviet Union and the first Gulf War. Unable to match the U.S., Beijing's aim was to blunt Washington's influence and standing at home and in the region.

After the 2008 financial crisis, Beijing judged that the U.S. was weakening and began to challenge it. With the election of Donald Trump in 2016, followed by the rolling chaos of his administration, COVID and the 2020 presidential election, Beijing shifted into a decisive new phase for the coming decades, convinced that the U.S. was in irretrievable decline.

Around 2016, Beijing started talking about "great changes unseen in a century", just as the West was weakening. The phrase is laden with vengeful irony in China, echoing the lament of Chinese leaders in the late 19th century when they were being forced to cede sovereignty to Western nations. At the time, they complained that the world was undergoing "great changes… not seen in 3,000 years".

Doshi makes his case well, backing his analysis with a forensic reading of Chinese-language official documents and commentaries over decades. Whether one subscribes to it or not, the analysis seems broadly reflected in current-day U.S. policymaking circles. Far from U.S. and China relations offering "win-win" outcomes, as Beijing has long said, the Washington consensus by and large believes that the CPC is playing a zero-sum game, aiming to supplant U.S. power in Asia, and perhaps even globally.

In the wake of Joe Biden's 2020 election victory, the two countries have displayed signs of co-operation, for instance on climate change. But the relationship is more typified by ongoing adversarial competition developing into that between competing systems, giving the rivalry an ideological dimension that sits in tension alongside a massive two-way trade relationship.

The ideological divide was there from the start of the revolution. The U.S. was anti-communist, while "Red" China was anti-capitalist. China and the U.S. were divided along Cold War lines until 1971, when the Sino-Soviet split offered the two countries a chance to talk.

The ideological catfights were muted during the early years of Reform and Opening in the 1980s but began to regain clarity after the 1989 military crackdown on protesters in Beijing and other cities.

Deng reintroduced a tighter political line. Jiang Zemin and Hu Jintao, who followed him as the country's top leaders, never really stepped back from this position, even as they experimented with economic reform and repositioning China around the world.

Xi, by contrast, has been much more open and explicit about the ideological gulf and the inevitable competition that comes with it. It is no coincidence that one of the most popular catch phrases in Beijing in 2022 has deep historical resonance: "The East is rising; The West is declining".

Yang Jiechi, Beijing's top diplomat and a Politburo member, set the tone for the ideological dimension of the China Dream at his first meeting with senior members of the Biden administration in Alaska, in March 2021.

On the Chinese internet, the sharpest parts of the lengthy and now infamous diatribe delivered by Yang, directed across the table at Anthony Blinken, the Secretary of State, and Jake Sullivan, the National Security Adviser, went viral. In China, street vendors drummed up a brisk trade almost overnight in selling T-shirts and tea mugs adorned with his words, about how America should "stop interfering in China's internal affairs" and so forth.

But the substance in Yang's exposition lay elsewhere, and was not destined to gain transitory fame as a meme. Unprompted by his American interlocutors, Yang enunciated how Beijing believed the world should be ordered, and how its viewpoint differed from that of the United States.

China's focus, Yang said, was on what he called the United Nations-centred international system, underpinned by international law. The "so-called rules-based order" led by the U.S., by contrast, he said, was only followed by a "small number of countries".[1]

China's objections to the "so-called rules-based order" run wide and deep, and across institutions and continents, but they can also be summed up simply. China believes that the rules-based system was established by the U.S. for the ultimate benefit of the U.S. and its allies.

Once that it understood, it is not hard to see how Beijing has concluded that the global system must be modified to suit its interests. Lacking such modification, the system could work against China and corrode Beijing's grip on power at home.

Beijing's prime target is not global trade rules, governed by the World Trade Organization. China benefits from an open trading system and has been a prolific dealmaker in bi-lateral and multilateral forums. Rather, Beijing is focused on

geo-economic objectives, such as gaining the high ground on tech issues. That would allow it to reap economic benefits and offer other states the benefits of its surveillance state.

Neutralising external threats to the Party's internal rule is also important. Xi has now almost completed the transition of the CPC into a global party. Outwardly, he and other senior leaders project an air of confidence that the ruling party's ascent is an unstoppable historical phenomenon.

At least, that's the theory. In practice, Xi Jinping's dream of a ruling party that has a dominant presence around the world is yet to be tested, let alone realised.

Note

[1] Beijing has a habit of attaching the adjective "so-called" to a concept or idea when it aims to denigrate it. Its spokesmen often refer to America's "so-called" democracy; they call the four-country grouping of the U.S., Japan, India and Australia the "so-called Quad"; and they disparage western efforts to investigate human rights atrocities in Xinjiang by referring to the "so-called Uyghur tribunal".

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22

National Security and Chinese Foreign Policy

Xiaoyu Pu

After the Russian invasion of Ukraine in February 2022, Beijing's refusal to condemn Moscow generated an international backlash, especially in the U.S. and Europe. A *New York Times* article, for instance, speculated that Chinese officials knew about Putin's military plan but asked Russia to delay the invasion until after the Beijing Winter Olympics (Wong and Barnes 2022). Almost two weeks later, the Chinese ambassador to the United States, Qin Gang, finally stated Beijing's position. Qin emphasised that Beijing did not have prior knowledge of Putin's plan and would not support the war (Qin 2022).

The perception of Beijing's potential colluding with Putin certainly damaged China's reputation in the eyes of the elites and public in the West. Whilst China's partnership with Russia is strategically important, it also damages Beijing's broad economic ties with Europe and the U.S. that are even more essential for the Communist Party of China (CPC) to continue delivering economic growth.

This chapter will show how the CPC's evolving notion of national security increasingly shapes the conflicting interests and incentives that inform Chinese foreign policy. It is widely recognised that Beijing has a hierarchy of security concerns with regime security at the top. Beijing must also balance competing incentives, including potential tension between security interests and economic development.

National Security with CPC Characteristics

The CPC's top concern is regime security; the second is regional security in Asia; and the third is global security. Together, they constitute the "holistic view of national security" that Xi Jinping put forward in 2014 (Xi 2014).

During a study session on national security held by the Politburo of the CPC Central Committee in 2020, Xi Jinping specified 10 requirements for pursuing such a holistic approach to national security. At least two of his key points are related to CPC regime security, including "upholding the Party's absolute leadership over national security work" and "giving top priority to political security, safeguarding the security of state power and the political system" (Xinhua 2020).

These narratives on national security are consistent with the analysis of leading international China watchers. According to former Prime Minister of Australia Kevin Rudd, Xi Jinping's worldview has ten concentric circles of interests, and the first is the politics of staying in power (Rudd 2022). Andrew Erickson of the U.S. Naval War College argues that China has a hierarchy of security interests. In descending order of importance these include: "party leadership, centralised administration of the core Han heartland, stability of ethno-religious borderlands, integrity of land borders and security of coastlines, resolution of near-seas sovereignty claims, and safeguarding of overseas interests" (Erickson 2019).

Beyond domestic security, China has traditionally emphasised regional security in East Asia. Within Asia, the U.S. military presence in Asia is seen as a threat to Chinese security interests (Liff 2018). Beyond the region, China has several reasons to be concerned about global security. As China has a growing economic footprint in many parts of the globe, Beijing must carefully think about how to preserve its expanding overseas interests (Ghiselli 2021). As a major nuclear power and a permanent member of United Nations Security Council, China also has responsibilities for security issues like non-proliferation.

The Chinese notion of holistic security emphasises the interaction of international security, domestic security and regime security. Such a holistic view also means a broader perspective on national security, including traditional security and non-traditional security in multiple policy domains. Highlighting the notion of common security, China emphasises that national security should be balanced and sustainable, and Chinese leaders often assert that countries should not seek absolute security in their foreign relations (Zhang and Feng 2021). Recently, Xi Jinping rebranded the vision of common, comprehensive, cooperative and sustainable security as a part of China's "Global Security Initiative" (China Ministry of Foreign Affairs 2022).

Chinese Foreign Policy in Xi Jinping's New Era

As China emerges as a global power, Xi Jinping implements a more ambitious and assertive foreign policy. While not necessarily challenging all aspects of the

liberal international order, Beijing is strongly resolved to defend its interests. As China's diplomatic signalling is domestically oriented, Beijing's soft power promotion is sometimes counter-productive. Rather than seeking to appeal to international audiences, Chinese diplomatic efforts to cast the CPC in a more attractive light are predominantly aimed at China's domestic audience. Chinese "wolf warrior" diplomats are popular at home, even though they often damage rather than improve China's international image and soft power.

China has been trying to play a more active leading role in regional affairs (Pu 2018). Beijing wants to reassure its neighbours that China's rise is not a threat, but provides more opportunities for development and international public goods for the benefit of all. On the other hand, Beijing also wants to maintain its credibility for coercion or deterrence to maintain its leverage in territorial disputes. While Beijing is concerned about U.S. military presence in Asia, "China is focused on diminishing the ability of the United States to play a decisive role in China's sovereignty disputes, especially Taiwan, not kicking the United States out of the region" (Fravel 2020: 96).

China has an ambivalent attitude toward Western powers, foremost the U.S. but also including Australia, Canada and increasingly Europe. For the Chinese, the West has always been a significant source of both desire and resentment. In the post-Cold War era, Chinese elites feared that Western political influence could damage China's national unity and regime security.

Furthermore, China's strategic partnership with Russia is partially driven by the two countries' shared resentment against U.S. domination in global affairs. While dissatisfied with some elements of the U.S.-dominated order, China's approach towards the existing world order is different from that of Russia. While Russia is essentially a risk-taking, declining challenger, China is a cautious rising power which benefits from the current order. While today's China is economically more powerful than the Soviet Union ever was, China cannot yet balance the U.S. militarily as the Soviets did during the Cold War. Even in Africa where China might have strong political influence, China's military presence is minimal.

The Global South is important for China because it has been traditionally regarded as the basis of China's international support. Even as China has emerged as the second largest world economy, Beijing often emphasises its developing country identity to indicate solidarity with the global South. Moreover, as China's economy continued to grow, the global South became a crucial source to satisfy China's increasing resource and energy needs.

The CPC's holistic notion of national security has important implications for Chinese foreign policy. Many American analysts assert that Beijing has a

coherent grand strategy to replace the U.S. as a global leader (Pillsbury 2015; Doshi 2021). The Biden administration views China as the most significant challenger with both the intention and the means fundamentally to reshape the global order (U.S. Department of State 2022). However, China's rise as a global power remains contested domestically and internationally (Pu 2019; Jones and Hameiri 2021). With domestic security as its top concern, China's international ambition might be more limited than is often assumed. Unable to offer a universally appealing ideology, the CPC promotes a parochial brand of authoritarian nationalism, often generating international backlash instead of providing an attractive alternative vision to the liberal order (Weiss 2019). Unlike the Soviet Union, China does not seek to spread its political model around the globe. That being said, the external ramifications of China's domestic governance still generate international concerns in many parts of the world on issues such as human rights and cyber security.

Moreover, the holistic notion of national security has potentially negative ramifications for China's foreign policy. Chinese leaders often emphasise that absolute security is not an achievable goal internationally; nevertheless, it seems that the CPC is increasingly seeking absolute security internally. Overemphasising regime security might create a paranoid mindset among the CPC's leadership and even in Chinese society more generally. For decades, China has benefited from its economic and social openness to the outside world.

With the securitisation of domestic policy, Beijing might treat an increasing number of policy issues as matters of national security. Beijing prioritises political information control in cyberspace, weakening its technological resilience rather than enhancing its cybersecurity (Lindsay 2014). Through civil-military fusion, the CPC has expanded its political control over business and educational sectors (Bitzinger 2021, see also the chapter by Tai Ming Cheung in this volume). Through various laws, regulations and policy initiatives, the CPC increasingly disciplines private enterprises and tech companies (Pearson, Rithmire and Tsai 2021). Viewing COVID-19 not only as a public health problem but also a political concern to CPC regime security, the Chinese leaders have refused to fundamentally change their zero-COVID strategy despite its huge social and economic costs (Huang 2022). Tightening political control confirms Western convictions that China is indeed a strategic competitor with an alternative vision of domestic governance and global order. Conversely, with the securitisation of almost all policy areas, the CPC will inevitably perceive threats everywhere, both domestically and from abroad.

Conclusion

To understand the implications of China's global rise, it is crucial to understand China's notion of national security with CPC characteristics. While CPC leaders emphasise a holistic view of national security, regime security has always been Beijing's top concern. This domestically-oriented notion of national security has shaped Chinese foreign policy in a fundamental way. It has constrained China's ambition to become a truly global power even though its economic power has grown dramatically. Beijing's assertive foreign policy has generated a backlash in the West as well as in some neighbouring countries. Regarding regional security in Asia, China seeks to play a more active leadership role. While Beijing has several reasons for concern about global security, China is not yet seeking to build a global military presence. In this context, the assertion of China becoming a new global hegemon might be overblown.

Ultimately, Beijing must carefully balance competing priorities as it handles its national security challenges. One of the most important aspects in Chinese strategic thinking is the coordination between domestic and international policy. The other challenge is the potential tension between security and economic development. Since the late 1970s, China has achieved impressive economic growth and rapid social development through pragmatic reforms and its openness to the world. In preparation for the 20th Party Congress to be held in late 2022, the CPC is increasingly tightening political control in many domains with regime security as its top concern. Meanwhile, China is facing rising economic, social and foreign policy challenges. With the relentless pursuit of absolute security in so many issue areas, the CPC might potentially damage China's openness as well as its social dynamism. If the CPC's policies weaken China's economic growth and innovation, the security-enhancing measures could ultimately weaken the foundation of China's national security. This is China's paradox of national security in the new era.

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23

To Change, to Compete, or to Coexist? The United States' Perceptions of the Communist Party of China from Mao to Now

Paul Haenle and Nathaniel Sher

Signed on 27 February 1972, the first U.S.-China Joint Communiqué stated that "regardless of their social systems, [the U.S. and China] should conduct their relations on the principles of (…) peaceful coexistence." (Wilson Center Digital Archive 1972). Despite stark differences between the two countries, Nixon and Mao agreed to table their disagreements in the interest of advancing broader strategic objectives. Each side sought to mitigate the risk of bilateral confrontation in Vietnam and refocus on competing with the Soviet Union.

Today, political differences between the United States and China are but one factor among many leading to a deterioration in the bilateral relationship. Each side views the other's form of government—and its international approach—as a risk to its own. The Communist Party of China's resilience has undermined American hopes for political modernisation in China, and China's efforts to expand its strategic influence abroad have stressed the U.S.-led liberal international order. U.S. officials frequently express concern about growing repression in China and the Party's attempts to make the world "safe for autocracy". What began in 1972 as an agreement to disagree on governing principles has, in the 21st century, given way to a "systems competition", pitting the effectiveness of China's system against that of the United States.

Explanations for the growing competition between the United States and China, in other words, are not limited to the fact of China's rise as a great

power in the 21st century. Changes in China's domestic governance and foreign policy have contributed to worsening perceptions of China in the United States and in the international community. These perceptions are important to understand when considering how to manage competition and prevent a conflict that neither country wants. After decades of experience, the United States and China should recognise that neither country has the wherewithal to induce fundamental transformations in the other's political system. Based on that understanding, the two countries must establish a new framework of coexistence for the coming decade.

To Change China

The honeymoon that existed between the United States and China after the signing of the Shanghai Communiqué devolved into a partial breakup in June 1989. In the aftermath of China's crackdown in Tiananmen Square, the George H.W. Bush administration instituted export controls on military technologies and led efforts to impose multilateral sanctions on Beijing. Then Chinese leader Deng Xiaoping, for his part, cited nefarious influences from the United States as the cause of domestic turmoil.

The events of 1989, therefore, exacerbated the United States and China's worst fears of one another. China came to view the United States as an unfriendly superpower, intent on meddling in China's domestic affairs, while the United States abandoned illusions about its erstwhile partner's commitment to political reform. When the Berlin Wall fell in November 1989, the primary driver behind U.S.-China normalisation—Soviet aggression—disappeared, and the Communist Party of China came to feel increasingly isolated in the international arena.

In the subsequent two decades, the United States did not renounce its policy of engagement with China, but instead sought to use engagement to induce positive changes in the country. Shortly after his inauguration in 1993, President Bill Clinton signed an executive order making the renewal of China's Most-Favoured-Nation status contingent on China's efforts to "begin adhering to the Universal Declaration of Human Rights" (American Presidency Project 1993). Beijing's interest in deepening trade relations with the developed world gave the United States leverage to press China on issues of concern and encourage further political and economic reform.

While the Clinton administration began by using sticks to pressure change in China, it later shifted to a strategy of inducement. This strategy culminated in the latter's accession to the World Trade Organisation in 2001. The Clinton

administration had hoped that the reduction of trade barriers would help create the conditions for political change. "By lowering the barriers that protect state-owned industries", Clinton declared in March 2000, "China is speeding a process that is removing government from vast areas of people's lives" (Institute for Agriculture and Trade Policy 2000). Many constituencies in China feared that trade liberalisation could threaten China's stability, even though reformist leaders believed that China's success at export-led development would ultimately prove the superiority of its socialist system.

When President George W. Bush was inaugurated in 2001, he carried forward the strategy of integrating China into the international economic and political architecture. At the same time, the administration "hedged its bets" in the event that China would later decide to reverse course and pursue policies inimical to U.S. interests. This hedging strategy manifested in upgraded security and economic partnerships with Japan, South Korea, Australia, New Zealand, the Philippines and India—partnerships that continue to form the bedrock of America's footprint in Asia. While the Bush administration maintained steady encouragement and pressure for reform in China, it made clear that the United States would push back on China's human rights abuses and mercantilist trade policies.

U.S. officials were not the only ones hopeful for change in China. In the three decades after the Cultural Revolution, high-profile members of the Communist Party, from Deng Xiaoping to Zhu Rongji, sought not only to encourage economic openness but also to inject more democratic characteristics into China's bureaucracy. The decisions of subsequent leaders to reverse that process constitute one of the key reasons for Washington's reassessment of its relationship with Beijing.

To Compete with China

Indications of a more competitive relationship began to emerge during the second term of President Obama's administration. U.S. officials grew increasingly concerned about the Chinese government's suppression of the Umbrella Movement in Hong Kong, its refusal to prosecute cybercriminals, and its efforts to militarise islands in the South China Sea. Speaking at a Congressional hearing in 2014, one U.S. senator rattled off a growing list of grievances with China: "Cyber theft, threats to democracy in Hong Kong, illegal and unfair trade practices, denial of visas to foreign journalists…and a crackdown on human rights activists, including advocates for the Uyghurs in Xinjiang" (U.S. Government Publishing Office 2014). While many of these areas of friction had been present in the U.S.–China relationship since diplomatic normalisation, they did not come to the fore

until American officials perceived major transformations in China's domestic governance and foreign policy.

Perhaps the most striking shifts occurred with the rise of China's current leader, Xi Jinping. U.S. observers watched with dismay as Xi centralised Party control at home and reasserted China's influence on the international stage. Soon after coming to power, Xi side-lined political rivals through his anticorruption campaign and incited nationalism through appeals to the "great rejuvenation" of the Chinese nation. On the domestic front, China's grip on public discourse tightened and violations of human rights worsened. Internationally, China abandoned its "low profile" strategy in favour of a more aggressive foreign policy with the stated goal of reforming the global governance system.

Inheriting many of the grievances that emerged and intensified over the course of the Obama administration, the Trump administration labelled China a "strategic competitor" in 2017. While the administration's framework of strategic competition betrayed its less than strategic actions—not least its alienation of U.S. allies and partners—the administration nevertheless identified the challenges that China posed to U.S. interests. To push back on intellectual property theft, human rights violations, and the repurposing of American technology for military ends, the Trump administration instituted a raft of tariffs, export controls and sanctions on Chinese products, businesses and government officials.

In addition to the grievances built up towards the end of the Obama administration, the Trump administration also inherited the goal of prior administrations to induce changes in China's economic system. In 2018, the Trump administration launched the trade war in hopes of reducing the U.S.–China trade deficit as well as pressuring Beijing to lower industrial subsidies, strengthen IP enforcement and come into compliance with its WTO commitments. Expectations of reform, however, were soon dashed when, in May 2019, Beijing sent U.S. negotiators a revised trade agreement that included a "sea of red" markups. The inability of Trump officials to pressurise sweeping reforms in China led the administration to believe that defending U.S. interests was a more viable strategy than changing China. In 2020, the administration published its *Strategic Approach to China*, which suggested that "United States policies are not premised on an attempt to change the PRC's domestic governance model... Rather, United States policies are designed to protect our interests and empower our institutions to withstand the CCP's malign behavior" (White House 2020).

To Coexist with China

The Biden administration has carried forward the recognition of the United States' limited ability to induce changes in China. Before entering office, two key White House officials warned that the "basic mistake of engagement was to assume that it could bring about fundamental changes to China's political system, economy, and foreign policy. Washington risks making a similar mistake today, by assuming that competition can succeed in transforming China where engagement failed" (Campbell and Sullivan 2019).

Indeed, in the years since the Trump administration announced strategic competition, China had doubled down on many of the same aspects of its model that had most unsettled American observers. The Communist Party of China reasserted its role in nearly every facet of Chinese society and the economy, lifted presidential term limits, eroded the autonomy of Hong Kong's judicial and political systems, ramped up efforts to challenge Western conceptions of the international order, and reinforced its strategic partnership with Russia and other autocratic regimes.

Rather than seek to change China's trajectory, the Biden administration has instead focused on strengthening the United States and its allies to better defend the liberal international order from Chinese challenges. As Secretary of State Antony Blinken stated in his speech on China policy, "we cannot rely on Beijing to change its trajectory. So we will shape the strategic environment around Beijing to advance our vision for an open, inclusive international system" (Blinken 2022). Initiatives to this effect include the Biden administration's efforts to strengthen the Quad and NATO, form new coalitions like AUKUS, re-join international agreements and organisations like the Paris Accords and the UN Human Rights Council, renew the Visiting Forces Agreement with the Philippines and promote trilateral coordination with Japan and South Korea.

At the same time, the administration has sought to engage Beijing diplomatically to ensure that competition does not result in confrontation or conflict. The U.S. Department of Defense has made multiple attempts to reopen high-level security dialogues with the Chinese Central Military Commission, while President Biden has spoken of the importance of establishing "guardrails" with Beijing. In his speech on China policy, Secretary of State Blinken underscored that there is "no reason why our great nations cannot coexist peacefully, and share in and contribute to human progress together" (Blinken 2022).

Chinese officials often lament that the Biden administration has pursued "bloc politics" to suppress China's rise. But the fact is that Biden has taken a less confrontational approach towards the Communist Party of China than that of

his recent predecessors. According to the Chinese readout of the first Biden-Xi virtual summit, Biden reiterated that "the U.S. does not seek to change China's system" (China Ministry of Foreign Affairs 2021). Although Biden is a supporter of universal values, he has said that he presses Xi on human rights only because "it's who we [Americans] are", not because he is trying to change China (White House 2021). In doing so, Biden has been able to stand up for political values held by the majority of the American public while also speaking out against human rights abuses abroad.

If competition between the United States and China is not about which side is able to compel changes in the other's system, then it must be over something else. Whose system is more effective at promoting prosperity and social stability? Which side is better equipped to provide global public goods? Who is able to win the hearts and minds of the international community? Over the coming decade, the United States and China will be more secure and more prosperous if they focus on shoring up their own shortcomings rather than forcing the other side to fix theirs.

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