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'TROUBLED TIMES AHEAD FOR CHINA AND XI JINPING'

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China is headed for a difficult period. A variety of factors have converged to make this a potentially volatile period. With barely six months to go for the crucial 20th Party Congress, it will be a period of particularly heightened concern for Chinese President Xi Jinping. This especially as he has been in charge of the economic and foreign policy portfolios, both of where major problems loom. Chinese academics and strategists have for some years blamed Xi for China's deteriorating relations with the US. Now, following the Xi-Putin Summit on February 4 in Beijing, he is additionally personally associated with China's support to Russia and Putin and imposing further strain on Sino-US relations. The latter has raised the uncomfortable prospect for Chinese Communist Party (CCP) members and China of being targeted with sanctions by the US and West.

2. China's economic situation has been going downhill since 2018 and the trend has accelerated with onset of the Covid pandemic. The cost of living is increasing, graduate unemployment is above 14 per cent and rising, joblessness has spread from the rural countryside where tens of millions are unemployed to urban areas, and private businesses and small and medium entrepreneurs -- who in 2019 provided an estimated 80 – 90 per cent of non-government jobs -- are confronting strict new regulatory controls at the time they face liquidity problems. Xi's crackdown first on the tech sector and now on the property sector, which accounts for some 29 percent of China's economy, has added to the volatility in the country's economic system. The growing unemployment and government's inability to create adequate jobs prompted Chinese Premier Li Keqiang, while on a visit to Chongqing in August 2020, to urge citizens to set up stalls and sell dumplings. This triggered a strong push-back from China's official media suggesting that differences in approach exist in the CCP's echelons. The slowing economy and drop in people's living standards threaten to erode the legitimacy of the CCP.

3. There are other indicators of the severity of economic problems that China faces. The budgets of most Ministries which were slashed in 2020 have not yet been fully restored; bonuses paid to employees this year, including in the more prosperous eastern seaboard provinces, have been recovered; and salaries of employees in almost all provinces have been reduced. This has naturally added to the widespread dissatisfaction.

4. Though the State Council's National Development and Reform Commission (NDRC) this April sought to play down the impact of the pandemic on consumption, it conceded that "some factors that have exceeded expectations are weighing on consumption", but claimed

the impact is “phased” and consumption will gradually recover once the pandemic is kept under effective control. The claim has been belied by the series of high-level meetings focussing on the economy and stability.

5. Nevertheless, the matter is receiving the serious attention of the Politburo and the Leading Group on Economic Affairs headed by Xi and one of his closest sides, Vice Premier Liu He. China’s important Central Finance and Economics Committee, an apex body on economic policy chaired by Xi, met for the first time this year on April 26. The meeting emphasised it is necessary to coordinate the “two major issues of development and safety, firmly establish bottom-line thinking, effectively strengthen the ability to predict and early warning of major risks, and have practical and effective response plans and specific actionable measures”. It urged all regions and departments to accurately understand the spirit of the Central Finance and Economic Commission's decision-making, take responsibility and act actively, guide market expectations, and stabilize market confidence.

6. Within days, on April 29, Xi chaired a meeting of the Politburo to “analyse and study the current economic situation and economic work”. Liu Yuanchun, Vice President of Renmin University addressed those present on “Regulating and guiding the healthy development of capital in China according to Law”. The meeting’s assessment of the economy was stark. Xinhua (April 29) reported that the meeting observed “that the new crown pneumonia epidemic and the Ukraine crisis have led to increased risks and challenges, the complexity, severity and uncertainty of China's economic development environment have increased, and stable growth, employment, and prices are facing new challenges”. The 9-paragraph Xinhua report said the meeting stressed that “leading cadres at all levels must have a sense of responsibility” be active and “always take responsibility for their actions, seek truth and be pragmatic, and prevent all kinds of “black swan” and “grey rhino” incidents from happening”. Party committees and governments at all levels were directed to “lead the cadres and the masses” and make concerted efforts “to welcome the victory of the 20th Party Congress with practical actions”. Giving teeth to this, the meeting warned that more corruption cases are coming. The importance of the meeting was underscored by its extensive coverage in the People’s Daily and leading official provincial newspapers.

7. Though since the advent of Xi, the State Council and Premier Li Keqiang have generally been relegated to the background in economic policy-making, the severity of the economic problems has prompted them to become more active. Chinese Premier Li Keqiang presided over a meeting of the Executive State Council on May 5. The difficulties caused by the series of lockdowns affecting numerous cities and regions because of the “zero Covid” policy were addressed. The meeting discussed: further relief measures for small, medium and micro enterprises and individual industrial and commercial households to ensure stable employment of market players and determined measures to promote the stability and quality of foreign trade to help stabilize the economy and the industrial supply chain. It noted that “the difficulties of relevant market entities have increased significantly” and unveiled a series of decisions such as tax rebates, tax reductions and fee reductions, logistics guarantees, and promotion of enterprises' resumption of work and production. All localities were instructed to arrange special funds for the relief of small, medium and micro enterprises and individual industrial and commercial households, and provide subsidies for rent, guarantee fees, loan interest and other subsidies for those with operational difficulties. In order to help foreign

trade enterprises cope with difficulties, the meeting decided that the focus should firstly be on securing orders and stabilizing the import and export of key industries and labour-intensive industries; secondly on sea and airport and making good use of air cargo capacity etc. It also asked that the RMB exchange rate be kept basically stable.

8. On May 7, Premier Li Keqiang followed this up with a National Video and Telephone Conference on Employment Stabilization in Beijing. Li Keqiang "pointed out that stable employment is related to the livelihood of the majority of families and is the key support for the economic operation in a reasonable range. The current employment situation is complex and severe". He warned of a "complicated and grave" employment situation as China imposes lockdowns. Politburo member and Vice Premier Hu Chunhua also attended the meeting.

9. Yet again on May 25 Premier Li Keqiang chaired a 'National Video Conference on Stabilizing Economic Situation' where he addressed more than 100,000 central, provincial, municipal, and county government officials. He emphasised that China is "facing difficulties worse than 2020". He stressed the need to "solidly promote implementation of economic stabilization policies and ensure economic stability within a reasonable range". He said they should ensure "reasonable economic growth" and decline of unemployment rate in Q2, 2022. The meeting came two days after the State Council rolled out a 33-point program to stabilize the Chinese economy, which is buckling under the weight of repeated COVID-19 lockdowns.

10. The Covid pandemic and particularly the "zero-Covid" policy and harsh isolation procedures have contributed substantially to the growing discontent. More than 340 million people in regions, including Beijing, that contribute almost 40% of China's GDP have been affected by Covid-related lockdowns. The full or partial closure of ports and offices has severely dislocated logistics and affected the supply of food and essential supplies resulting in deprivation or hunger for those in isolation. Shanghai is a vivid example. There is nervousness among Beijing residents too. Despite strict censorship, China's social media is awash with complaints by citizens about the harsh, insensitive measures and financial hardships the "zero-Covid policy has caused.

11. Even Hu Xijin, former Editor-in-Chief of Global Times and a supporter of Xi Jinping, was reported by Reuters (May 5) to have posted on May 4: "Shanghai has fallen," and "Beijing has to either find less costly ways of tackling its outbreak" or "to tell the whole Chinese society the truth" that disruptive consequences cannot be avoided. "The former requires wisdom, the latter courage." The post was swiftly removed and Hu Xijin did not respond to a Reuters request for a comment sent to his Weibo account.

12. Nevertheless, the Politburo Standing Committee meeting chaired by Chinese President Xi Jinping on May 5, reasserted that the "dynamic zero-Covid" policy will continue. "Persistence is victory" the meeting declared! It asserted: "practice has proven that our prevention and control policy is determined by the nature and purpose of the Party, our prevention and control policies can stand the test of history, and our prevention and control measures are scientific and effective. We have won the battle to defend Wuhan, and we will certainly be able to win the battle to defend Shanghai". It made no mention of balancing Covid prevention and the economy.

13. Hinting that discontent is high in Party ranks, the meeting issued a sharp warning: "We should have a profound, complete and comprehensive understanding of the epidemic prevention and control policies set by the Party Central Committee, resolutely overcome the problems of inadequate understanding, inadequate preparation and inadequate work, resolutely overcome the ideas of contempt, indifference and self-righteousness, always keep a clear head, unswervingly adhere to the general policy of dynamic zero-Covid, and resolutely oppose all distortions, doubts and denials. We will resolutely struggle against all words and deeds that distort, doubt and deny our epidemic prevention policies".

14. The other major issue causing anxiety is the protracted conflict in Ukraine which shows no signs of ending despite the lapse of nearly 100 days. This delay is making China's position increasingly difficult. Xi's unwillingness to modulate his support has raised serious concern within the CCP that sanctions against China are imminent. At least 300 million CCP members will be adversely impacted in case sanctions are imposed. 70 percent of CCP cadres at the level of Department head or above across China have children studying in the US and West and have large sums of 'illegal' wealth secreted abroad. Chinese citizens too have gotten used to the presence of leading multinational consumer and other outlets and if they withdraw China will be hit by the economic fallout and, psychologically too, the citizens will begin to question their country's economic might. This will get accentuated as, in the wake of the Covid pandemic, lessons learnt and the surge globally in anti-China sentiment, the U.S. and West begin to restrict access to their markets.

15. Despite the personal risk, Chinese citizens including academics and CCP cadres have criticised China's support for Putin and Russia's invasion of Ukraine. Indicating that such criticism is widespread and causing Xi a lot of anxiety, are the spate of "political education" campaigns across China and the numerous articles in Party publications like Qiu Shi (Seeking Truth), People's Daily and Guangming Daily on 'historical nihilism', the contributions to China at this difficult time of the CCP with Xi at the "core of the leadership", 'common prosperity' etc. Security and surveillance controls have been elevated and China's official media, which severely criticises the US almost every day, refers frequently to the threat from "colour revolutions". This last was asserted also in the Xi-Putin Joint Statement of February 4. The majority of posts on China's social media, though, continue to support the government, Putin and Russia and demonise the US and West.

16. Two recent developments suggest this anxiety bordering on apparent paranoia is affecting the Party leadership. One is the directive to all *danwei*, or work units, to return their computers and peripherals by May 1 and replace them with domestic ones to obviate the possibility of foreign hacking or cyber snooping. The second is the subtle, but unmistakable, warning to Chinese citizens in the People's Daily of May 3. It publicised that a Chinese citizen had been charged on suspicion of "inciting secession and subversion of state power"! It accused him of being "brainwashed" by foreign anti-China hostile forces online, acting as a domestic agent of foreign hostile forces and being "incited to split the country" etc. Stating that his activities had caused "serious harm to China's national security and social stability", the People's Daily declared "Anyone who attempts to harm the interests of national development, endanger national security, or betray the motherland and nation will be severely punished by the law".

17. Additionally, at least three major articles strongly endorsing Xi's policy on Putin and Russia and listing the benefits of the conflict to China, were published recently. One was by the Head of the Sichuan Branch of People's Daily, the other by a senior researcher of the PLA-affiliated Kunlun Institute and third by well-known Chinese International Relations academic Yan Xuetong. This has been accompanied by a noticeable effort by most provincial Chiefs to endorse and praise Xi's policies.

18. Obviously with an eye to career advancement at the 20<sup>th</sup> Party Congress, there has been a noticeable spurt in political activity in provinces like Chongqing where Politburo member and Party Secretary Chen Min'er eyes a position in the Politburo Standing Committee (PBSC), Tianjin where Party Secretary Li Hongzhong is expecting elevation to the PBSC, and Hunan where the incumbent Party Secretary Zhang Qingwei has been in the Central Committee for four terms and would expect to be promoted to the Politburo. Other provinces like Beijing, Guangxi, Guizhou, Jiangsu and Jiangxi have also been quick to emphasise 'loyalty' and 'political reliability' and support Xi's policies and programmes.

19. However, the article by Lin Zhibo, head of the Sichuan Branch of People's Daily, contained an interesting sentence which could have alluded to Xi. Enumerating Russia's failures in the war in Ukraine, it said: "the information he (Putin) can receive is inevitably one-sided. This kind of information cocoon room is unfavourable for strategic decision-making, and even dangerous".

20. Dissatisfaction with Xi, noticed since 2017, increased appreciably in 2019-2020. Successful billionaire entrepreneurs signed a letter addressed to Xi asking him to step down and the 'princelings', who normally keep a low profile, posted a letter on social media calling on Xi to quit and suggesting a couple of Politburo Standing Committee members as replacements. This has not dissipated and the rising discontent amid rumours of factional infighting in the CCP just prior to the 20<sup>th</sup> Party Congress, will cause Xi a lot of anxiety.

21. If he is unable to control the situation or if conditions worsen and he feels boxed in (by the Indo-Pacific strategy, Quad and AUKUS), Xi could well opt to bolster his domestic image as a 'strong' leader and order a military operation against one of Taiwan's outlying islands, or the South China Sea or India. In the first two cases Xi runs the risk of U.S. intervention. With India there is no such risk, but China has lost the element of surprise and will this time face a strong military riposte. The remaining months are ones of high risk for all China's neighbours.

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