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China in 2017

Back to Strongman Rule

ABSTRACT

Strongman rule returned to China in 2017 when Xi Jinping secured near-total political dominance. Repression remained intense while the Chinese economy performed reasonably well due to credit support. US–China relations are entering an uncertain phase. Strongman rule is likely to increase the risk of major policy mistakes and deliver few concrete achievements.

KEYWORDS: Xi Jinping, Chinese politics, repression, Chinese economy, US-China relations

For once, China watchers will probably agree with the Chinese government's own assessment of the significance of 2017: a new political era, the Xi Jinping era, has begun. At the 19th National Congress of the Chinese Communist Party (CCP) in late October, Xi not only expanded his power but also succeeded in winning formal endorsement from the party of his political supremacy. The congress revised the CCP's charter and labeled Xi's ideological contributions to the party "Xi Jinping Thought on the New Era of Socialism with Chinese Characteristics," elevating them to the same level as those of Mao Zedong and Deng Xiaoping. Neither of Xi's two immediate predecessors, Jiang Zemin and Hu Jintao, received this honor.

Although the 19th congress and the political machinations around the event dominated Chinese politics in 2017, the year marked not just the return to one-man rule in China, but also the continuation, if not the intensification, of the hard authoritarian political order that Xi established in his first term. Now that he has further strengthened his hold on power, Xi has an even greater capacity to implement his domestic and foreign policy agendas.

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A NEW ERA BEGINS

China's domestic political development passed a milestone in 2017 with the confirmation of Xi's political supremacy at the National Congress. Xi scored three decisive victories at this gathering of nearly 2,300 delegates that will likely cement his rule for the coming 10–15 years.

The first, largely symbolic, victory was the revision of the CCP's charter, giving Xi's thought the same status as the thought of Mao Zedong and Deng Xiaoping. Neither of his two immediate predecessors, Jiang Zemin and Hu Jintao, succeeded in attaching their names to a particular doctrine in the party charter. For example, although the doctrine of the Three Represents was formulated by Jiang in 2000 and written into the party's charter in 2002, it was labeled "an important thought," not "Jiang Zemin thought." Hu's "scientific outlook of development" was treated the same way in 2012 when he stepped down. Prior to the 19th congress the CCP had accorded only Mao and Deng this honor, the implicit recognition of their supreme political authority. Though it is hard to nail down the core ideas of "Xi Jinping Thought," other than its focus on reinvigorating the Chinese party-state with ideological re-indoctrination, tighter social control, and nationalism, the political message he and his allies intended to send to the party and the Chinese public could not be clearer: the era of Xi has officially begun.

The second and perhaps most important substantive victory for Xi personally was the end of the post-Tiananmen leadership succession arrangement. Although the CCP had never formalized this practice, which Deng established in 1992 with the anointment of Hu as Jiang's successor, it was followed by top Chinese leaders who observed it in 2007 when they picked Xi as Hu's successor. According to this tradition, a successor young enough to take over the position of general secretary of the CCP and serve for two full five-year terms would be designated five or 10 years before the expected transition of power. The anointed successor, as in the case of Hu and Xi, would be promoted to the Politburo Standing Committee (PSC) at a party congress, ensuring a smooth transition of power five or 10 years later. However, when the first plenum of the 19th Central Committee unveiled the party's new leadership lineup, none of the five newly promoted PSC members were under 60, let alone under 55 (the most desirable age for a successor since he is expected to assume power at around 60 and serve two five-year terms).

The upending of this norm governing succession will have profound medium-to-long-term consequences for the distribution of power and the dynamics of elite politics in Beijing. The designation of succession was a key procedure in enforcing the informal age and term limits the CCP set up in the post-Tiananmen era because this would make it politically costly, if not impossible, for the incumbent leader to refuse to step aside beyond his two-term limit. He would have had to purge the successor, a politically expensive and extremely risky move.

Without a designated successor, Xi has an open path to a third term in 2022 and beyond. With his allies dominating the PSC and the Politburo, as we will discuss below, Xi can easily obtain two more terms. He can ignore the informal two-term limit in 2022 (his allies on the Politburo are expected to argue for an extension of his term). Alternatively, Xi can revise the party's charter, restore the position of party chairman, and occupy it himself, thus restarting the clock for two more terms. In all likelihood, Xi will be China's top leader for at least 15 more years.

Xi's third victory was packing the Politburo and the PSC with loyalists. Of the 15 newly promoted members of the Politburo, 11 are his allies. After the reshuffling of the key Central Committee portfolios and provincial party positions following the 19th congress, Xi's allies now are party chiefs in Beijing, Shanghai, Guangdong, Tianjin, Chongqing, and Xinjiang. They control the two most important Central Committee departments, Organization and Propaganda, as well. Xi also promoted a trusted ally to be one of the two vice chairmen of the Central Military Commission, further tightening his grip on the People's Liberation Army.

Compared with his dominance of the Politburo, Xi may appear to have done less well in appointing supporters to the PSC, since four of its five newly promoted members seem to be allied with other factions. However, this reading underestimates Xi's real strength in the PSC. Among the five newly promoted PSC members, Li Zhanshu, the former head of the Central Committee's General Office and Xi's chief of staff, is unquestionably a Xi loyalist. Li will be the head of the National People's Congress. Wang Yang, a member of the Youth League faction who has a reputation of being a liberal, will lead the Chinese People's Political Consultative Conference. Zhao Leji, the former head of the Organization Department, will replace Wang Qishan as the new director of the Central Discipline Inspection Commission. Although Zhao's career did not overlap with Xi's, he hails from the same province

(Shaanxi), and it is unlikely that Xi would allow a member of a rival faction to assume this critical position. The other two new PSC members, Wang Huning and Han Zhen, are both from Shanghai. While their background may make them appear to be members of the so-called Shanghai Gang and allies of the former president, Jiang Zemin, both are low-key individuals who have worked with Xi. Wang, a former academic, has served three party chiefs (Jiang, Hu, and Xi) and does not seem to be a loyalist of any particular faction. Han, the former party chief and mayor of Shanghai, worked as Xi's right-hand man in Shanghai while Xi was its party chief in 2006–07. Based on the personalities, factional ties, and career paths of the newly promoted PSC members, it is evident that Xi filled the PSC with relatively weak but politically pliable members whose support he could safely count on in the coming five years.

The return to one-man rule in the Chinese party-state not only casts doubts on the once-popular idea that institutionalization of China's one-party state was well advanced, but also has far-reaching implications for political dynamics and regime stability in the coming decade. If anything, the overconcentration of power in the hands of one man, an outcome that post-Mao CCP leaders tried to prevent, means that the risks of major policy mistakes have increased significantly. Under the collective leadership that prevailed prior to Xi's rise, power-sharing among senior leaders and the accompanying consensus-based decision-making process might have been responsible for the risk-aversion and political stasis that characterized the era of Jiang and Hu. However, the CCP also avoided making calamitous mistakes, thanks to the implicit checks and balances built into the collective leadership. The benefits and risks of one-man rule are the inverse of those of collective leadership. While one-man rule will allow policies seen as Xi's top priorities (such as a more assertive foreign policy agenda) to be made and implemented more quickly, the concentration of decision-making authority in his hands could also result, paradoxically, in policy paralysis, because few other leaders will dare to assume responsibility without explicit endorsement from Xi. Worst of all, as there are few political constraints on Xi's exercise of power, his policy initiatives will not be subject to scrutiny or pushback. As a result, major policy mistakes are now far more likely.

One-man rule will also fundamentally change the dynamics of competition for power in China. Under collective rule, there were more paths to senior positions, because ambitious officials could join rival factions. Under one-man rule, the promotional pathway will be much narrower, and this will generate two types of competition for power. The loyalists of the dominant leader will compete for his favor, and one level down, the followers of each leading loyalist will compete for *his* favor. If these dynamics characterize elite politics in the coming years, politics in Beijing may increasingly resemble that of the Maoist era.

One focus of the competition among top elites in the Xi era will doubtless be succession. To be sure, the race to succeed Xi will not take place in the next decade, since Xi will still be in his mid-seventies in 2027, but the power struggle over succession will heat up soon after, especially if Xi himself, like Mao, makes no credible succession arrangements in the twilight of his rule.

REPRESSION CONTINUES

The crackdown on domestic dissent, the hallmark of China's newly established hard authoritarian order, showed no sign of abating in 2017. The most significant development was the death of Nobel Peace Prize winner Liu Xiaobo on July 15. The Chinese authorities had released little information about Liu's health since the Nobel laureate was sentenced to 11 years of imprisonment in December 2009. At the end of June 2017, the government announced that Liu had been diagnosed with terminal liver cancer, but denied his request to seek medical care abroad. When Liu died in a prison hospital in Liaoning Province in mid-July, the authorities cremated his body and scattered his remains in the sea, eliminating the possibility that a tomb containing Liu's remains could become a political monument and a symbol of freedom. Although Liu's death must have rid the Chinese government of a political headache, this event did not appear to allay the party's continuing fear of Liu's political appeal. This can be seen in the authorities' treatment of Liu Xia, his widow, who had been kept under extralegal house arrest for over seven years. After Liu's sea burial, the whereabouts of Liu Xia remained unknown.

Political repression continued to target human rights lawyers in 2017. Two years earlier, in July 2015, over 300 lawyers and human rights advocates were detained in the infamous "709 crackdown" (the date of the mass arrests was July 9, 2015). Most had been tried and sentenced or released (although some remained under surveillance, and the whereabouts of several others were unknown). The last "709" lawyers and activists were finally given show trials in 2017. Activist Wu Gan (a.k.a. Tufu, "Butcher") was indicted for subversion of state power in January and was indicted for subversion of state power in January and tried in secret in August in Tianjin. He received an eight-year prison sentence in December. Wang Quanzhang, a human rights lawyer, was formally indicted in February in Tianjin for subversion of state power. In April, after a secret trial, also in Tianjin, Li Heping, also a human rights lawyer, was sentenced to three years on charges of subversion of state power as well (although he received probation). And in a show trial in late August in Changsha, human rights lawyer Jiang Tianyong, charged with subversion of state power, was shown on television confessing his crimes and pleading for leniency (the court did not announce his sentence immediately).

Besides charging human rights lawyers with "subversion of state power," an obviously political crime, Chinese authorities have also resorted to trumped-up criminal charges to put lawyers and activists in jail. The most prominent victim in 2017 was Liu Rao. He was not included in the 709 crackdown but drew an unusually long sentence of 20 years in Guangdong in August for "extortion and fraud."

The Chinese government significantly escalated its efforts to further tighten its control of the flow of information in 2017. In late June the State Administration of Press, Publication, Radio, Film and Television ordered some of China's most popular websites, such as Sina Weibo and Phoenix, to immediately shut down their video streaming services because they did not have the required licenses. The development presaging a far more aggressive policy of government control was an announcement by the Ministry of Industry and Information Technology in January 2017 that all special cable and VPN (virtual private network) services in China would require government approval. In July the government ordered the country's top three Internet service providers, China Mobile, China Unicom, and China Telecom, not to allow services providing VPNs to access their networks starting in February 2018. This would eliminate one of the few remaining ways to access overseas sites banned by the Chinese authorities, such as Facebook, Google, YouTube, and the New York Times.

THE CHINESE ECONOMY IN 2017

Judging by the macroeconomic numbers, China bears were proven wrong again. Instead of continuing the growth deceleration that started in 2011, the

Chinese economy was on course to grow 6.9% in 2017, slightly faster than 2016's 6.7%. Bolstered by a recovering global economy, a buoyant real estate sector, and high fixed asset investment, Chinese economic growth beat Beijing's declared target. In the first three quarters, growth averaged close to 6.9%, ensuring that growth for the whole year will be comfortably above the stated target of 6.5–6.7%.

The news on the financial front also appeared encouraging. The Shanghai Stock Exchange Composite Index rose about 8% between January and early November (although it is still one-third below its peak at the height of the stock market bubble in June 2015). Perhaps the best development is the stabilization of capital outflows. Between the second half of 2015 and the end of 2016, China's foreign exchange reserves fell from US$ 4 trillion to US$ 3 trillion because of investor concerns about its economic deceleration and growing risks of excessive debt. However, Beijing's aggressive measures to tighten capital control bore fruit in 2017. Outflows stabilized. By the end of September, China's foreign exchange reserves had risen to US$ 3.1 trillion, the highest level since October 2016.

However, these relatively rosy numbers conceal major risks lurking below the surface. China exceeded its growth target in 2017 mainly with its tried-and-true approach of relying on credit to finance fixed asset investment, the engine of economic growth. In the first eight months of 2017, China's fixed asset investment totaled an astounding 39.42 trillion yuan (US$ 6 trillion), representing a year-on-year growth of 7.8%. At this pace, total fixed asset investment for the full year would reach US$ 9 trillion, or 80% of GDP.[1] Since a large portion of the new investment is financed with debt, this credit-fueled investment-driven model is hard to sustain.

Indeed, the International Monetary Fund (IMF) issued a blunt warning on China's growth and debt sustainability in August. Although the IMF revised upward China's growth rate for 2017–21 (from 6.0% to 6.4% per year), it cautioned that growth beyond 2021 could be imperiled because of very high debt levels and lack of reforms. Specifically, the IMF flagged the expected growth of non-financial-sector debt (household, government, and corporate) to rise from 242% to nearly 300% of GDP from 2016 to 2022. It also identified structural economic weaknesses resulting from the lack of

1. Xinhua News Agency, "China Fixed-Asset Investment Sees Slower Growth," September 14, 2017.

reform, such as restricted access to credit for private firms, low household consumption and social spending, and productivity lost by state-owned enterprises, which, according to the IMF's estimate, cost China about 0.4 percentage points of GDP in lost productivity growth.[2]

Besides excessive debt, a well-known risk to future growth, a new political risk emerged in 2017 that could have profound long-term economic consequences. In 2017 the Chinese government launched a high-profile crackdown on some of the country's largest tycoons and their sprawling commercial empires. Judging by the targets of the initial crackdown, political motives most likely influenced the government's decision. The first tycoon to fall was Xiao Jianhua, who actually holds a Canadian passport. Xiao, reportedly worth US$ 6 billion, was abducted by Chinese security agents on January 28 from his luxury-service apartment in the Four Seasons Hotel in Hong Kong. Since Xiao allegedly had conducted business deals with the family members of many senior leaders, a plausible explanation for his abduction is that he possessed valuable incriminating information that Xi could use against his rivals and to protect his allies on the eve of the crucial 19th party congress.[3] The second tycoon to disappear was Wu Xiaohui, founder of Anbang Insurance Group, who was married to one of the granddaughters of Deng Xiaoping. Although the government did not file any charges or confirm Wu's detention, Wu's disappearance in June 2017 sent a powerful message to China's tycoons that no one was wealthy enough or well-connected enough to be safe.

Immediately following Wu's detention, Chinese financial regulators warned state-owned banks to limit their exposure with regard to four large conglomerates, Anbang Insurance Group, Dalian Wanda Group, HNA Group, and Fosun International, which had borrowed heavily to finance their expensive overseas acquisitions. The inclusion of HNA Group raised eyebrows because it allegedly had close ties with China's anti-corruption czar, Wang Qishan, who was the target of salacious but unverifiable allegations of corruption made by Guo Wengui, a Chinese billionaire in exile in the US. However, HNA Group and its flamboyant chairman, Chen Feng, seemed to

2. International Monetary Fund, "China's Economic Outlook in Six Charts," August 15, 2017, <http://www.imf.org/en/News/Articles/2017/08/09/NA081517-China-Economic-Outlook-in-Six-Charts>.

3. David Barboza and Michael Forsythe, "With Choice at Tiananmen, Student Took Road to Riches," *New York Times*, June 3, 2014, A01.

have weathered the crackdown largely unscathed, an indirect affirmation of either their innocence or their political connections. Fosun Group, the smallest of the four private conglomerates, also survived the crackdown, perhaps because it was the least aggressive in overseas acquisitions and its chairman and largest shareholder, Guo Guangchang, is a low-key businessman who had already had his own brush with Chinese security agencies (in December 2015 Guo was detained briefly in Shanghai to "assist judicial investigations").

Only slightly luckier than Wu was Wang Jianlin, a real estate mogul and China's wealthiest tycoon in 2015 and 2016. In the wake of the crackdown by Chinese financial authorities, Wang had to salvage his debt-laden empire by unloading billions of dollars of assets to raise cash. In late August 2017, the stocks of his listed companies in Hong Kong plunged when Wang was rumored to have been prevented from leaving the country (however, he reappeared in public soon after).

While it is possible that the financial crackdown on these tycoons could be a one-off event aimed primarily at reducing risks in China's financial sector and reining in capital outflows disguised as overseas acquisitions, what happened to these well-connected tycoons, seen until recently as politically invulnerable, must have struck fear into the hearts of China's wealthiest private entrepreneurs. During the reign of Jiang Zemin and Hu Jintao, these tycoons purchased their security with deals that allowed China's top leaders and their families to amass immense wealth. But as the Xi era dawns, their political asset—ties to members of the old regime—may become a liability. From the perspective of Xi and his newly empowered faction, cracking down on these tycoons makes perfect political sense. As Vladimir Putin did to Russia's oligarchs in the early 2000s, selective elimination of a small number of tycoons could not only remove potential political threats but also distribute their assets to Xi's loyalists.

Regardless of the political objectives behind the crackdown on Chinese tycoons in 2017, this new development has almost certainly forced wealthy Chinese businessmen to reexamine their future in China. They will have even greater incentives to divest risks and move more of their assets offshore.

THE "CHINA DREAM" GOES GLOBAL

Like all other countries, China was jolted by the election of Donald J. Trump as the American president in November 2016. Initially, Trump's threats to tear up trade agreements and slap high tariffs on all Chinese imports greatly alarmed Beijing. However, Trump's erratic behavior in office, his widely criticized moves such as withdrawal from the Paris climate accord and the Trans-Pacific Partnership, and his penchant for transactional diplomacy soon brought enormous relief to Chinese leaders. It became clear to Beijing that the rise of Trump represented as much a strategic opportunity as a threat to Chinese interests. Consequently, China adopted a multi-pronged approach to take advantage of America's retreat from global leadership under Trump while trying to develop a friendly personal relationship with him.

The first prong of China's emerging foreign policy strategy is to rebrand itself as a champion of free trade and global cooperation. In his speeches in Davos in January and at the APEC summit in Vietnam in November, Xi turned himself into a strong defender of globalization and free trade. In a world weary of Trump's "America First" rhetoric and policy, Xi's support of globalization and cooperation was warmly received, even though there were deep doubts about the sincerity of China's new-found enthusiasm. China scored another diplomatic victory in June when it immediately reaffirmed its commitment to the Paris climate accord after Trump pulled the US out of the agreement.

The second prong was the continuing pursuit of the strategic objectives that would maximize China's comparative diplomatic or security advantages. The main thrust on this front was Beijing's push to build infrastructural projects that could reshape some of the world's key trading routes. Officially named the Bridge and Road Initiative and personally endorsed by Xi, the project received a huge diplomatic boost in May 2017 when China convened the first Belt and Road Initiative Summit in Beijing. With 130 countries and 70 international organizations in attendance, including 29 heads of state and government, the summit underscored China's newly expanded influence underwritten by its enormous and growing economic resources.

The third prong was learning to handle Trump and stabilizing the all-important Sino–American relationship in an era of great uncertainty and instability. Beijing got a big break in the early days of the administration when Jared Kushner, Trump's son-in-law and senior adviser, helped set up a summit between Trump and Xi at Trump's Mar-a-Lago resort in Florida in April. The outcome of the summit surprised nearly everyone, and vastly exceeded Beijing's expectations. Instead of pressuring Xi and extracting trade concessions, Trump warmly embraced China's new strongman, on whom he lavished praise afterwards. Initially, Trump's about-face on China was interpreted as a tactical move to gain China's cooperation in confronting the growing threat from North Korea, which had greatly accelerated its nuclear and missile programs with frequent tests (including a successful test flight of an ICBM in July and a nuclear test in September yielding the equivalent of 120 kilotons of TNT). However, Beijing provided only limited assistance. While China supported tough sanctions against North Korea at the UN Security Council and curtailed its trade with North Korea, it stopped short of adopting the most drastic sanctions, such as cutting oil exports and repatriating North Korean laborers in China.

On US–China trade, China made a few minor concessions, such as resuming the import of American beef and allowing American credit rating agencies to enter the China market, but negotiations over structural barriers to the Chinese market and trade imbalances yielded no results in 2017. Despite the lack of substantive progress in resolving bilateral trade disputes and cooperating on containing North Korea, Trump was not only uncharacteristically restrained in his rhetoric, but also appeared to have doubled down on building a personal relationship with Xi. In his state visit to China in November, Trump lauded Xi's leadership and called him "a special man" and "highly respected and powerful representative of his people."[4] Even more surprisingly, Trump blamed his own predecessors, not China, for its huge trade imbalances with the US. To be sure, given Trump's capriciousness and penchant for hyperbole, his rhetorical embrace of Xi may be just for show. But Chinese leaders must have been greatly pleased with their success in handling Trump in 2017.

If there is no disagreement that the return to strongman rule marked the beginning of a new era of Chinese politics (or the return to an old era few had thought possible), there is no consensus on what the Xi era will bring. Given his dominance at the apex of the Chinese party-state, few doubt that Xi faces negligible threats to his authority from his immediate colleagues in the near future. But it remains questionable whether such political dominance will enable Xi to impose his vision of a hard authoritarian order on the rank and file of the CCP, let alone a Chinese society transformed by four decades of

4. Mark Landler et al., "Trump, Aiming to Coax Xi Jinping, Bets on Flattery," *New York Times*, November 9, 2017, A01; Reuters, "President Donald Trump Praises Chinese Leader Xi Jinping as 'Highly Respected'," November 9, 2017.

rapid socioeconomic development. The bureaucracy of the Chinese state remains alienated from Xi, whose puritanical and disciplinarian measures have severely hurt their material interests. And even if they lack the means to challenge his power, Chinese bureaucrats have the ability to sabotage his policies. Over time, their passive resistance could lead to gradual deterioration of China's economic performance, an outcome that would reflect poorly on Xi's leadership. There are no signs that Xi's efforts to tighten social control have encountered serious resistance in Chinese society. In the short term, intensifying repression is highly effective. But over the long run, the costs of such repression, both material and moral, will accumulate and become less bearable. If these are coupled with persistent economic weakness, resistance to Xi's hard authoritarian order will most likely mount. In other words, a new political era may have dawned in 2017, but its future, given China's historical experience of one-man rule, looks less than bright.