

# THE NEW NORMAL IN ASIA

*A National Bureau of Asian Research series exploring ways in which the Covid-19 pandemic might shape or reorder the world across multiple dimensions*

## Will Xi Jinping's Strongman Rule Leave China Weaker after the Pandemic?

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Some pandemics have changed the direction of history. Others have shifted history's gears. In the fourteenth century, bubonic plague decisively turned European history by reordering established economic, political, and religious power, even if the new order took decades, if not centuries, to fully manifest itself. In China's recent history, the Manchurian plague of 1910 gave a final nudge to the already debilitated Qing Dynasty, pushing it toward collapse the following year.

The Covid-19 pandemic will not immediately bring the demise of the current Chinese Communist Party (CCP) regime. Indeed, in the near term it may well help tighten the regime's authoritarian grip on the Chinese people. The party-state under General Secretary Xi Jinping continues to reverse the "reform and opening" policies that have brought China the 40 most prosperous years of its modern history. By shifting successful policies into reverse, Xi has weakened his regime on at least four counts: governance, economic growth, social cohesion, and international reputation. Although Xi's strongman rule seems secure for the moment, the pandemic has accelerated all four trends. As the pressure on him grows, Xi and his lieges may be tempted to take rash action to preserve their power.



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## Governance

From the outset of his term in 2012, Xi Jinping has pulled decision-making away from government agencies and institutions, beginning with the State Council. Premier Li Keqiang, the nominal head of government, has been marginalized, and Xi has instead arrogated power to party organs that he controls and to himself personally.

Even as Xi was consolidating power by remolding China's governing institutions around himself, he began wielding a far sharper tool: the scythe of an "anticorruption" campaign. The campaign gradually turned its sights from pursuing financial irregularities and moral turpitude to policing ideological orthodoxy and, above all, cadres' loyalty to Xi. This shift of emphasis made clear that the campaign was in its essence a political purge. It settled scores with those who would have impeded Xi's ascension to the party throne, eliminated potential rivals, and broke up party factions inimical to Xi's interests. The anticorruption agencies have become permanent fixtures in the party-state bureaucracy.

Xi's reshaping of the party-state institutions and his anticorruption campaigns have had, as one might expect, an intimidatory effect on the CCP rank and file as well as government employees. Xi's governance style has slowed decision-making at all levels of the bureaucracy and stifled what little initiative cadres might once have had to suggest policy solutions to policy problems. Meanwhile,

in the central bureaucracy and its line ministries, authority has become increasingly concentrated in "the leadership core": decisions must wait on Xi or his intimate courtiers.

Thus, when the coronavirus outbreak first erupted in Wuhan in early January, the authorities in Beijing tarried a full fortnight before they imposed draconian quarantines on Wuhan, Hubei Province, and then much of China. The delay cost countless Chinese (and foreign) lives, sank China's and the world's economy, and showed the frailty of a decision-making process that turns on a single person. Had China's vaunted alarm systems installed after the 2003 SARS epidemic actually worked, this year's pandemic might have been contained in its first phase.

## Economic Growth

Xi Jinping has turned back the clock on Deng Xiaoping's attempts to revitalize the Chinese economy by opening it to foreign trade and investment and by encouraging private enterprise. On the theory that bigger must be better, state-owned enterprises (SOEs) in steelmaking, shipping, shipbuilding, and other heavy industrial sectors have been recombined and then swallowed smaller state companies. When Zhu Rongji left the post of premier in 2003, he foresaw the number of central government-owned SOEs shrinking in five years from around 180 firms to around 15, all operating in national security areas like

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telecoms and energy. Today, there are still around 100 “central SOEs,” the total having been reduced chiefly through reconsolidation. There seems little economic sense in this retrogression: SOEs employ millions of people, but they account for no more than a quarter of national output and suck up 80% of bank credit. Many would be bankrupt by any Big Four accounting definition. In drawing an outsized quotient of bank loans, SOEs crowd out nimble, job-creating private firms.

Xi’s industrial policies, however, may be less about economics and more about politics—CCP politics, that is. For even as he builds a Jurassic Park of SOE dinosaurs, Xi has been explicitly tightening party control of both state- and private-sector companies. In the state sector, including SOEs listed in Hong Kong, company articles of incorporation have been revised to show the companies’ party secretaries as the chief decision-makers. These companies’ executive ranks have been shuffled so that Xi loyalists have taken the top jobs. C-suites mean Communist Party suites. In the private sector, analogous, though less overt, changes have occurred, with party committees now widely installed in both Chinese and foreign firms.

With state banks disbursing 80% of their loans to state companies, and the private sector still starved for credit, it is no surprise that Beijing’s fiscal and monetary stimuli for offsetting the Covid-19 blow to the economy should rely heavily on the state sector. Previous efforts to reduce SOE and local government debt have been abandoned. New central government funding mandates yet more infrastructure development. To the traditional “rails, roads, and rebars” projects have been added higher-tech modules like 5G buildout and a nationwide electric vehicle-charging network.

Criteria for bank lending have been loosened, nominally to aid the private sector, although anecdotal evidence suggests that smaller firms have yet to benefit. Property developers have been helped, of course, as real estate remains the strongest driver

of the economy; and local governments depend on land leases to fund their own operations. But the major property developers themselves have heavy debts, including U.S. dollar-denominated debt to foreign banks. Debt levels in the economy continue to rise and could constrain future government spending. Foreign observers estimate overall debt at about 310% of GDP, although some independent Chinese economists, trying to account for disguised SOE and state bank nonperforming loans, put the figure much higher.

While last year’s alarms about local and provincial government debt have gone silent, the People’s Bank and Finance Ministry continue to voice concern about indiscriminate bank lending. There also appears to be jitters over the value of China’s foreign exchange reserves, as those might need to be deployed (despite inflation risks) to cushion against further shocks from the world economy. Even as it aims to repatriate foreign assets, the central bank has been tightening controls on foreign-exchange outflows. As one sign of this new stringency, across the Yangtze Delta teachers, retirees, and others accustomed to foreign travel have been forced to turn in their passports to their work units’ party secretaries.

Of all their concerns for the post-pandemic economy, CCP leaders worry most about employment. Rightly so, for keeping people at work and earning an income determines both economic growth and social stability. Official statistics claim that first-quarter GDP contracted 6.8%, a risibly low figure for an economy in which hundreds of millions simply went home and stayed there. Lockdowns and local quarantines effectively halted most movement of people and goods through the economy. So it is small wonder that an estimated 80 to 100 million people remain out of work, perhaps more if one tallies migrant workers who reported to factories only to be laid off when the factories closed again for lack of orders.

Further darkening China's economic outlook are the demographic clouds of a fast-aging population and a shrinking workforce. China has in fact become old before it became rich. Xi had planned to celebrate 2020 as the year when China fulfilled the party's promise of giving Chinese citizens "a moderately well-off society," but the pandemic has only created new challenges for achieving this goal.

## Social Cohesion

The Covid-19 pandemic has also exposed the fissures in Chinese society between rich and poor, urban and rural, and coastal and interior provinces. These divisions are not new but have been growing for at least two decades. Former premier Wen Jiabao memorably identified them in his addresses to the National People's Congress and called them "unsustainable." Despite lip service from Xi Jinping, little has been done since Wen left office in 2013 to ameliorate these persistent imbalances.

As lockdowns and quarantines fractured China into shards of a mosaic, many migrant workers were stranded far from their homes and bereft of any income. Tales of this *lumpenproletariat* sheltering under highway bridges or in empty lots filled Chinese social media, and many faced discrimination in the cities where they had been stuck. When, with Covid-19 spreading, police, "neighborhood committees," and self-appointed vigilantes were deployed to enforce quarantines, their tactics recalled all too clearly previous

episodes of "struggle." Amplifying the effects of mass mobilization against the pandemic has been the surveillance panopticon installed across Xi's China. Tested first against the Muslim Uighurs in Xinjiang, the techniques—and ubiquitous CCTV cameras, facial recognition technology, artificial intelligence, and QR codes—have allowed police and other authorities to track citizens' behavior and movements as never before. The technologies enable the regime to learn a great deal about its subjects.

Moreover, the regime's controls on information allowed the coronavirus to spread rapidly through Wuhan, in surrounding areas, and, soon enough, throughout the country, wherever people had traveled from Wuhan in January ahead of the Lunar New Year holiday. Well-known is the story of the young ophthalmologist Li Wenliang, who detected a "novel SARS-like coronavirus" in patients in Wuhan in late December and early January and through social media alerted fellow physicians to the virus. Censors caught Li's messages, and local police detained him and forced him to confess to passing unauthorized information. Had Li's warnings been heeded and the Wuhan authorities shared information with the public, the pandemic might well have been stopped before it started.

When Li himself later fell ill and died of the virus, the Chinese public burst the censors' dams with outrage at the party-state regime, its manipulation of information, and apparent disdain for its citizens' health. The censors required a full ten days to bring

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these public expressions back under control, and they then began promoting their own narrative, which eventually transmuted Li into a “revolutionary martyr” for China. But the popular outburst had shown how deeply the Chinese public’s distrust of the regime and anger at its tactics run.

The work of NGOs has also been drastically curtailed by new laws, and foreign NGOs have effectively been pushed out of China. Whereas Chinese NGOs contributed immensely to relief efforts after the 2008 Sichuan earthquake, providing healthcare and education to people not served by government programs, citizen volunteers have played only minimal and informal roles in helping their fellow citizens during the Covid-19 pandemic. Citizens who wished to aid Wuhan residents are directed to the notoriously corrupt, party-run Chinese Red Cross.

## International Reputation

Xi Jinping has even more dramatically abandoned Deng Xiaoping’s foreign policy of “hide your strength, bide your time.” When beginning his second term in November 2017, Xi delivered a marathon inaugural address to the 19th Party Congress laying out a vision to promote China’s style of governance as an alternative to Western democratic models.

To express this vision, a lexicon of new jargon soon flowed from Beijing. Deeds were coupled with words to create new Sino-centric institutions. New transportation corridors and communications links radiating out from Beijing were developed under the Belt and Road Initiative (BRI), with Chinese money and contractors to construct them. At a time when China was building a blue water navy and seeking to protect party-state assets abroad, the BRI infrastructure offered opportunities for military bases and logistics hubs, another form of the “civil-military fusion” Xi had been advocating at home. As Xi’s signature foreign policy initiative, BRI was written into the party charter and national

constitution, ensuring its sanctity and plentiful state funding.

To complement BRI, Xi led efforts to establish the Asian Infrastructure Investment Bank (AIIB). A large international consortium of contributors and beneficiaries formed around the AIIB, despite U.S. opposition. The new bank became another piece of an edifice that Xi was building as an alternative to the liberal international order that developed after World War II under U.S. leadership. Nonetheless, as a chief beneficiary, Xi’s China has continued to use that order—the World Trade Organization, International Monetary Fund, World Bank, and UN system—to its advantage.

As the Covid-19 pandemic has raged, and foreign nations (with the United States in the lead for its own parochial reasons) have come to hold China responsible, if not for the virus’s eruption, then certainly for its rapid spread, Xi has encouraged and rewarded a rude, pugnacious, and threatening style of “diplomacy.” Dubbed “Wolf Warrior diplomacy” after a jingoist Chinese film, the practice has been adopted by spokespersons in Beijing and Chinese emissaries abroad. In many countries—such as Australia, France, and Sweden—this very antithesis of traditional diplomacy has deeply offended host nations and proved to be utterly counterproductive. China’s efforts to “control the narrative” through manipulating the World Health Organization have only deepened international distrust of the country.

## What to Expect

Xi Jinping no doubt believes that his strongman rule has strengthened China and that, now free from term limits, he can go from strength to strength. Yet, in all four areas covered—governance, economic policy, social cohesion, and foreign affairs—the Covid-19 pandemic has exposed and even exacerbated weaknesses in Chinese practice and policy under Xi. In some respects, China would be better off if Xi had left well enough alone, maybe

tweaked a policy here or there, adapted flexibly to slower economic growth and a changing external environment, but basically stuck to the policies that his predecessors had used to give China an unprecedented 40 years of rising prosperity.

In the highly personalized autocracy that Xi heads, his own position seems to be secure for the moment. Thanks to his systematic accumulation of power, and the no-holds-barred anticorruption campaigns that cleared his path, Xi through his trusted lieutenants controls the party's private army, the PLA; the paramilitary force used to quell domestic disturbance, the People's Armed Police; and the internal security agencies. That internal security apparatus not only supplies Xi's and other leaders' bodyguards; it also monitors the communications and activities of Central Committee members, senior army officers, and, of paramount importance to Xi, retired party elders like Jiang Zemin and Zhu Rongji.

Thus, "coup attempt" can be crossed off the immediate agenda. But when the pandemic comes under control and Xi attempts to rekindle the economy, pressures on his performance will increase. Like speed bumps on a country road, obstacles lie ahead on his calendar. Xi had imagined this year, 2021, and 2022 as a triad of triumphs: achieving the party's promised goal of making China "a moderately well-off society"; celebrating the CCP's centenary in 2021; and Xi's own coronation, for a third time, at the 20th Party Congress in 2022.

Covid-19 has already forced Xi to scrap the first goal. Party propagandists have retired "moderately well-off society" as they trumpet his leadership in crisis management and diplomacy. The extravagant CCP birthday party planned for 2021—parades and cultural events akin to the National Day he staged in 2019—will now be more subdued, although Xi will still be the star. It is 2022, however, that could become the *date fatidique* around which any opposition to Xi might coalesce. Xi faced considerable criticism when he engineered the abolition of limits to his party and state terms. Those critics have gone quiet, but they have not gone away. If in the run-up to the 20th Party Congress Xi senses opposition building among influential party heavyweights, perhaps some within his own coterie, he might be tempted to create distractions or manufacture crises that only he could then resolve.

Communist China's history suggests that frictions within the CCP's high echelons can lead to policy confusion, domestic disorder, and, occasionally, provocative behavior outside China's borders. While cause and effect cannot be proved, the Quemoy and Matsu crisis in 1954, the 1962 Sino-Indian War, fighting on the Soviet border in 1969, and possibly China's 1979 incursion into Vietnam come to mind.

Chinese foreign policy has traditionally been careful and cautious, and diplomatic bluster has given way to quiet solutions. But Xi is not the traditional Chinese leader that the world has come to expect since Mao Zedong's demise. To the contrary,

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he has striven to emulate Mao in many respects and has continued to pump up nationalism as a pillar for the party's legitimacy. That can be combustible. Xi already appears to be making provocative moves to take advantage of a world distracted by the pandemic, as well as perhaps to strengthen the party-political case for his indispensability. Threats to Taiwan, aggressive actions in the South China Sea, the Hong Kong national security law, and military clashes on the Indian border—these actions lift the vector of Xi's foreign policies to more dangerous levels.

Offsetting the sophisticated statecraft in the Chinese tradition and the prudence of much Communist practice, Chinese folk idioms suggest what can happen when a leader feels threatened. "The pot's already cracked, let's break it"—a sort of nothing-more-to-lose nihilism—says one proverb. Another, equally graphic, describes the cornered dog that goes crazy: "The mad dog jumps over the wall." There just might be that odd gene in Xi Jinping. ∞

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