

CHINA MONTHLY

DECEMBER 2022

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*After the 20th Party Congress –
Whither China?*

The Big Picture



China's Long March-5B rocket, carrying the Mengtian space lab module, lifted off from the island province of Hainan on 31st October. This completes the Tiangong space station only 18 months after the initial module, Tianhe, was launched in 2021.

THE BRIEFING

Xi-Biden Talks

President Xi Jinping and President Joe Biden had their first in-person meeting since Biden became President at the G20 Summit in Bali, Indonesia. They agreed on a series of goodwill gestures following heightened tensions after Nancy Pelosi's Taiwan visit and additional US sanctions on semiconductor technology. US Secretary of State Antony Blinken is also planning a China visit early next year.

Scholz Visits Beijing

German Chancellor Olaf Scholz met with President Xi Jinping in Beijing, the first European leader to visit China since the start of Covid-19. He was accompanied by a high ranking delegation of executives from companies such as Volkswagen and Siemens. Scholz stressed that Germany does not want to decouple from China, and the country's rise did not justify "the calls by some to isolate China".

PPI Deflation

China's producer prices fell by 1.3% in October from a year ago, while consumer price growth slowed to 2.1%. Controlled inflation in China stands in contrast to other countries as the property slowdown and Covid-19 related lockdowns have subdued demand. These figures suggest that the government still has ample room to provide policy support.

16-Point Plan for Property

Beijing unveiled a sweeping 16-point set of directives in November to support the property sector, as regulators work towards the "stable and healthy development" of the industry. There will be financial support to ensure the completion and handover of projects to homeowners, with stronger real estate developers acquiring unfinished projects from weaker ones. "Quality" developers can also access up to 30% of funds from presold properties with letters of guarantee from banks.

Revised Covid Rules

China announced 20 zero-Covid policy guidelines in November, calling on local governments to stop imposing excessive anti-Covid measures. Citywide tests will be mandated only when the source of infection is unknown, and more hospital beds will be provided, while Covid medicine and equipment will be stockpiled. Inbound travellers' quarantines are cut from 10 days to eight, while "circuit breakers" for air routes that saw snap closures if some passengers tested positive have been scrapped.

AFTER THE 20TH PARTY CONGRESS – WHITHER CHINA?

By Tan Kong Yam

The five-yearly report to the National Congress of the Communist Party of China (CPC) is the fundamental guide for Chinese officials. This party document goes through numerous drafts. Formulations are very carefully thought through and everything in the document – or more crucially, omitted – means something. Each phrase, each tweak, each omission, is carefully weighed, to signal priorities.

This 20th Party Congress in October also heralded the monopolization of power by President Xi Jinping at the apex of China’s two most powerful institutions, the Politburo Standing Committee (PSC) and the Central Military Commission (CMC). The number of seats in the two bodies occupied by Xi’s loyalists had inexorably increased over the past decade, with each Party Congress resulting in the erosion of power for the Jiang Zemin, Hu Jintao, and Deng Xiaoping factions.

The Rise and Rise of Xi: Factional Control of the Politburo Standing Committee (PSC) and the Central Military Commission (CMC)

PSC	Xi	Jiang	Hu	Deng
2012	2/7	3/7	1/7	1/7
2017	4/7	1/7	2/7	0/7
2022	7/7	0/7	0/7	0/7
CMC				
2012	5.5/11	4.0/11	1.5/11	0/11
2017	7/7	0/7	0/7	0/7
2022	7/7	0/7	0/7	0/7

From Strategic Opportunity to External Threat

For two decades, successive Chinese leaders have declared at the congress that the country was in a “period of important strategic opportunity,” implying that China faced no imminent risk of major conflicts and could focus more on economic growth.

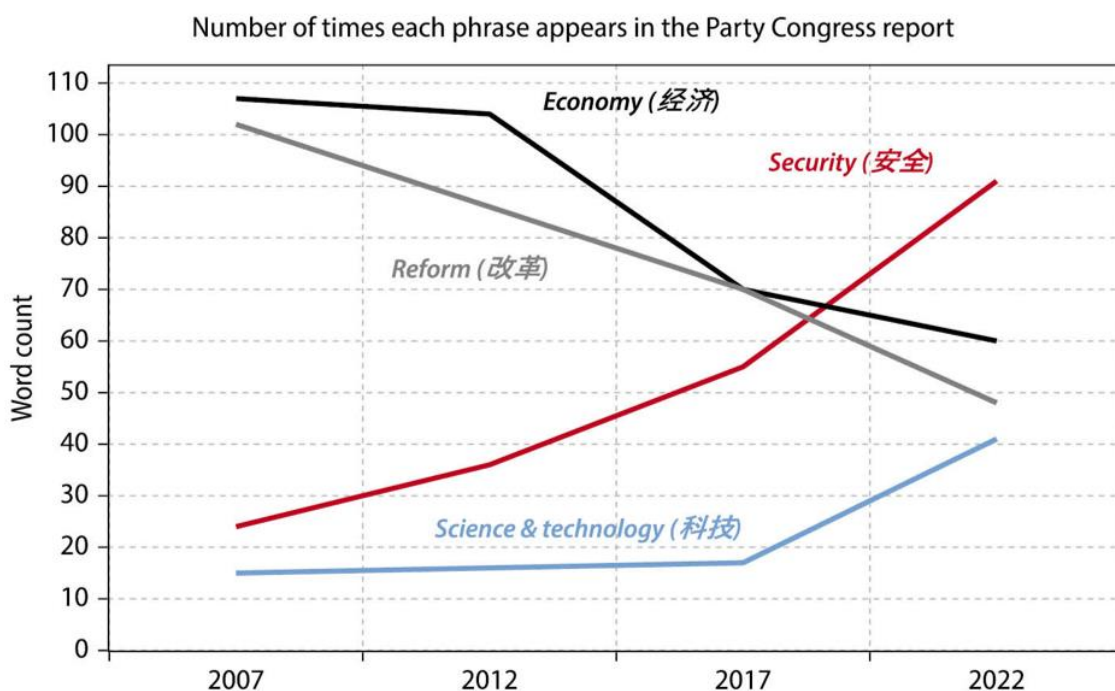
In Xi’s report to the congress, that phrase was replaced by “national security is the foundation of national rejuvenation”.

Xi’s warnings reflected his underlying political message to the congress, especially to liberal reformists like Premier Li Keqiang, Wang Yang, and Hu Chunhua: “I told you so”. All three were dropped from the latest Politburo Standing Committee lineup.

“The journey ahead is long and arduous, but with determined steps, we will reach our destinations,” Xi said. “We will not be daunted by high winds, choppy waters or even dangerous storms, for the people will always have our back and give us confidence.”

The report proposed to "promote national security in all fields and stages of the work of the party and the state" and adhere to "centralized and unified leadership of national security work".

Xi Jinping has Shifted the Party’s Priorities



Source: Gavekal Dragonomics, Macrobond

Selecting Party Cadres

On September 19, Xinhua News Agency released the CCP's revised "Regulations on Promoting the Ability of Leading Cadres to Go Up and Down", saying that "the focus is to solve the problem of being able to go down." It listed 15 situations where a leader is "not suitable for the current position", of which the so-called "political ability is not too strong" ranked first.

The second criterion listed is "loyalty to the party", "a clear stand on major issues, and withstood the test of storms at critical moments and major events", and "resolutely support the ideological, political, and action", with Xi Jinping at the core.

The third criterion listed is "have the ability to lead modernization construction", "have a high professional level", "emancipate the mind and be determined to reform", "dare to struggle and be good at struggle", and "seek truth and be pragmatic".

In previous promotions, this third criterion was ranked first.

Xi said that the path of socialism with the characteristics of the Communist Party of China "is in line with China's reality, reflects the will of the people, and adapts to the development requirements of the times. It is not only right, but also stable." He also said that the CCP has "honed a sword in ten years" and has continuously matured its strategy of building a "modern socialist country", enriched its practice, and promoted and expanded "Chinese-style modernization."

The western media outlets have generally portrayed Premier-designate Li Qiang rather negatively. I believe they will be surprised over the next 6-12 months.

Li Qiang's past actions reflect his strong support for the development of the private sector. In Shanghai, Li Qiang oversaw the establishment of the STAR Market, a new technology-focused stock market. He also oversaw the construction of Tesla's factory in Shanghai.

Li Qiang has decades of experience in development and regional economic management but, perhaps more importantly, he has strong rapport with Xi and has Xi's trust. This will be crucial for Li Qiang in his new position.

He has a much closer relationship with Xi compared to outgoing Premier Li Keqiang. When Li Qiang becomes premier, Xi will likely give him much more room and power to manage the economy. This will likely mean much improved policy consistency as well as clearer signals to global investors. In recent years, tension between Li Keqiang and Xi's economic czar, Vice Premier Liu He, led to conflicting policy signals, creating confusion for lower-level officials and investors alike. Within the state bureaucracy, there were complaints of two command centers (两个司令部). With Li Qiang as the new Premier, this sort of confusion will most likely be history.

Li Qiang's ties with the president date back to 2004, when Xi was the party boss of Zhejiang province and Li was his de facto top personal aide. Li served in that role for three years, until Xi left to head the party in Shanghai.

During the Zhejiang years, Li accompanied Xi on almost every inspection trip and edited all his speeches, including a personal column in the provincial party mouthpiece, called Zhijiang Xinyu, or "new words from the Zhi River".

The material was later compiled into a book widely circulated among party cadres looking for clues about Xi's thoughts.

Li was also credited with helping to draft and distil Xi's policy direction in Zhejiang, an approach that later became known as the "double eight strategy", a list of eight comparative advantages of Zhejiang and eight corresponding actions.

Many of those policies have now evolved into "Xi Jinping Economic Thought", the guiding principle for the economic policy of China's ruling party.

Many in the business community see Li Qiang as a relatively liberal party leader who prefers discussing commercial deals to politics. In the early 2000s, he served as the top commerce official in the coastal province of Zhejiang, home to upstarts that would become private sector giants, such as Alibaba Group Holding Ltd. Li was later promoted to party secretary of Wenzhou, a city in Zhejiang that became a thriving entrepreneurial hub after China opened up its economy in the late 1970s. Several of my former students who worked under Li testified to his pragmatic and pro-business approach to management.

With more allies holding key positions, Xi, who turns 70 next year, may start to delegate some of his authority to his trusted lieutenants as he gets more advanced in age. He has fewer political opponents to worry about, with most of them neutralized during anticorruption purges, and Xi has cut off retired party elders from meddling in the party's politics.

In our October APS China Monthly essay on the Beidaihe meeting, we noted that Shanghai's party secretary Li Qiang, long seen as Xi's preferred candidate to succeed Li Keqiang as Premier, appeared to have ruined his chances as public resentment boiled over due to Shanghai's unpopular, draconian implementation of Xi's zero-Covid policy earlier in 2022. This may have dented Xi's ability to minimize concessions to the other factions, helping clear the path for Hu Chunhua. However, if Xi's health were to falter over the next 3-5 years, Hu would have become the most senior among his generation of leaders and likely to be the most senior leader acceptable to the Jiang faction, the Hu Jintao faction, as well as key party elders and princeling families.

Against considerable odds, this scenario and its future implications did not come to pass.

There is now no clear successor for Xi five years from now. Most of the PSC members are too close in age to 69-year-old Xi, save for Li Qiang, 63, and Ding Xuexiang, 60. Ding has not served as the party secretary of a major province, a necessary qualification to reach the top. Xi loyalist Li Qiang was party secretary of Jiangsu province in 2016 and served for 15 months before moving to Shanghai.

Xi Jinping is now First, without equals.

The Rise of "Red Engineers"

The latest choices for the CPC's top decision-makers point to preference for experience in science, technology, and security. At least six new Politburo members boast qualifications in science and technology fields as Xi seeks to counter pressure from the West. Their areas of

expertise range from rocket science to nuclear power safety and public health. The emphasis on science and technology was evident not only in the new line-up of the powerful Politburo but also in the newly elected policymaking Central Committee.

Xinjiang party secretary (PS) Ma Xingrui, 63, and Zhejiang PS Yuan Jiajun, 60, were both former chief commanders of China's space program before they entered politics.

Shandong PS Li Ganjie, 58, and former Beijing mayor Chen Jining, 58, are environmental experts. Liaoning PS Zhang Guoqing, 58, was chief executive of China North Industries, China's biggest defense conglomerate. Fujian PS Yin Li, 60, is a public health expert.

In a similar vein, more officials with science and technology expertise have joined the 205-member Central Committee. They include 29 members of the Chinese academies of sciences and engineering, up from 25 five years ago.

Scientists in the Politburo



Ma Xingrui (63)
马兴瑞, PS Xinjiang



Yuan Jiajun (60)
袁家军, PS Zhejiang



Li Ganjie (58)
李干杰, PS Shandong



Chen Jining (58)
陈吉宁, Former Beijing Mayor



Zhang Guoqing (58)
张国清, PS Liaoning



Yin Li (60)
尹力, PS Fujian

Likewise, more military top brass have a science and technology track record. They include Central Military Commission (CMC) member Li Shangfu, 64; Academy of Military Science president Yang Xuejun, 59; and Zhao Xiaozhe, 59, director of the CMC's science and technology committee.

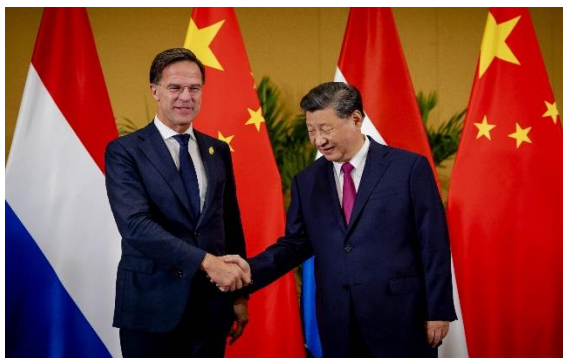
Other noteworthy new leaders with a military science background include Hunan PS Zhang Qingwei, 61, and Sichuan governor Huang Qiang, 59, who is known for his contribution in the design of China's J-20 stealth fighter plane.

European Reservations on the US Chip War?

In October, US President Joe Biden restricted the sale of semiconductors and chipmaking equipment to China in a bid to stem its economic development, asking key allies to comply – raising fears of a split in the global economy.

In November, French President Emmanuel Macron called for engagement with Beijing and resisting efforts to divide the world into competing blocs. That followed similar appeals from German Chancellor Olaf Scholz, who visited China in early November, and efforts by Dutch Prime Minister Mark Rutte to coordinate with other key chipmaking nations in resisting US pressure.

Former Treasury Secretary Lawrence Summers warned US policy makers to focus on building the country's own economic strengths in its contest with China, rather than on "tearing China down".



Clockwise from top left: German Chancellor Olaf Scholz and Chinese President Xi Jinping at the Great Hall of the People in Beijing in November 2022; French President Emmanuel Macron at the Asia-Pacific Economic Cooperation (APEC) Summit in Bangkok in November 2022; Lawrence Summers, former US Treasury Secretary and professor at Harvard University, at the Institute of International Finance (IIF) membership meeting in Washington, D.C., in October 2022; Xi and Dutch Prime Minister Mark Rutte in Bali, November 2022.

The US moves to restrict trade with China have also come under criticism in Asia, where nations like Singapore have warned other countries against cutting off Beijing economically. Many governments in the region also viewed US House Speaker Nancy Pelosi's trip to Taiwan earlier this year as unnecessarily provocative.

Taiwan

Referring to Taiwan earlier in his speech than he did five years ago – a sign of it taking on more importance, analysts said – Xi stressed that China would “continue to strive for peaceful reunification.”

It should be noted that Xi did not use the phrase “one country, two systems” in his references to Taiwan. It was in the written text of the work report, but not in his delivered remarks regarding Taiwan. The results of a regular poll released by Taiwan’s Mainland Affairs Council on August 18 showed that more than 80% opposed the “one China principle” in the mainland’s white paper, and even more (84.7%) were opposed to the “one country, two systems” conceptualization that treats Taiwan as a local government and a special zone. The vast majority (86.1%) advocated “maintaining the status quo in a broad sense”.

However, Xi also said that China reserved the right to use force and “all measures necessary.”

“This is directed solely at interference by outside forces and a few separatists seeking Taiwan independence,” he said. In this nearly two-hour speech, Xi drew one of the speech’s longest stretches of applause from delegates when he declared a firm line on Taiwan, opposing its independence. What is interesting is that in this major report, the Taiwan-related part is less than 600 words, the shortest since 2002.

This lack of substantive commitment to specific policy approaches or instruments signals that China is still exerting what Xi terms as “strategic patience” in the speech.

China’s live-fire military exercise hints at future strategies against Taiwan based on coercion rather than invasion. Encircling what Beijing views as its renegade province is equivalent to a temporary blockade. Therefore, one of the key outcomes of this exercise was the signals sent to protagonists in the region and across the Pacific Ocean. Some military analysts say that China in the future is more likely to use force to an extent that stops short of a direct conflict, dubbed a “grey zone” war by some experts. A partial or full blockade could force Taiwan into blackouts and an economic halt.

The Chinese Civil War’s “Changchun Siege” of May-October 1948 saw the Northeast Field Army under the command of Lin Biao practice “grey zone” warfare. “Surrounding without fighting”, they cut off the flow of food and other living materials, finally forcing the city to submit.

The report to the 20th National Congress mentioned that “the strategy and tactics of people’s war should be developed and a strong strategic deterrent force system should be developed.”

This sentence has not appeared in the past, and the strategic deterrence system refers to nuclear weapons.

The appointment of the two vice chairmen of the Central Military Commission is a clear indication of the paramount focus on Taiwan.

The first vice chairman Zhang Youxia – reappointed despite his advanced age of 72 – is widely viewed as a close ally and “sworn brother” of Xi. His father, General Zhang Zongxun, was the People's Liberation Army's (PLA) head of logistics in the 1970s. Three decades earlier, in 1947, the elder Zhang commanded a group army in China's northwest against Nationalist forces in the civil war when Xi's father, Xi Zhongxun, was the group army's political commissar.

Zhang Youxia joined the military aged 18 and was assigned to the 14th Group Army, based in Kunming, Yunnan province. He became a company commander during the Sino-Vietnamese war in 1979 while still in his 20s.

The second vice chairman He Weidong, has had three promotions in a decade, and was commander of the Eastern Theatre Command from 2019 to 2022.

He boasts extensive experience in military operations in the Taiwan Strait and is said to have been a key planner of the unprecedented military drill encircling Taiwan in response to US House Speaker Nancy Pelosi's visit to the self-governed island in August.

Strategists outside China say the PLA's short-range ballistic missiles as well as air and naval power is now so well developed that it would be nearly impossible for other countries' militaries to operate near China's shoreline in a conflict.

China's repeated stern warnings are not lost on the Taiwanese. At the local elections last week, the Kuomintang (KMT) thrashed the Democratic Progressive Party (DPP). Most Taiwanese are increasingly aware of the risks of upsetting the apple cart.

In summary, China will employ a Sun Tzu tactic – its ultimate objective is to prepare for war to avoid a war.

Party Legitimacy

Since Xi Jinping took office at the CPC's 18th National Congress in 2012, it is reported that more than 4.7 million officials have been officially investigated, including more than 500 central management cadres, that is, officials above the vice-ministerial level.

With slower growth, the party has focused on additional sources of “performance legitimacy”, including nationalism, and other measures of the party's right to rule, as well as new endeavors to rally support for, and redirect frustration away from, the CPC's rule.

Generally, the intellectuals, urban upper middle class, and entrepreneurs are critical of Xi: about 30% of China's population.

In my travels across all 31 provinces over the past 25 years and speaking to people from all walks of life, Xi is actually very popular in the western provinces, smaller cities, and rural areas: about 70% of the population.

The key reasons are his anti-corruption campaign that has disciplined 4.7 million lower level officials, his anti-poverty campaign, his focus on social equity, and improving the environment.

“Two Establishes” 两个确立 and “Two Safeguards” 两个维护

First emerging in November 2021 in the wake of the Sixth Plenary Session of the 10th National Congress, this new four-character (两个确立) “Two Establishes” phrase essentially:

- 1) Establishes Xi Jinping as the unquestionable “core” leader of the CCP, and
- 2) Establishes Xi Jinping’s ideas as the bedrock of the future under what the CCP has termed the “New Era,” a CCP historiography that envisions China as being in the midst of a grand new period of development, marking its restoration as a full global power.

At the fundamental level, the phrase cements the legitimacy of Xi Jinping’s rule, and is a challenge to any who might oppose him.

Also emerging from the Sixth Plenum was the notion of the “Two Safeguards” (两个维护), about the need to:

- 1) Safeguard the “core” status of Xi Jinping within the CCP, and
- 2) Safeguard the centralized authority of the Party.

Together, the “Two Establishes” and the “Two Safeguards” lay claim to the basic principles governing China today, centered on Xi himself. They define the protection of these principles as the chief task of the country.

This carries enormous significance as it implies that a challenge to these principles is not only a challenge to Xi personally, but a direct challenge to the party.

The implication is that Xi Jinping will continue leading China for a sustained period beyond 2022.

Both the “Two Establishes” and the “Two Safeguards” have been heavily emphasized in the official media.

“Two Establishes”, which appeared just once in the People’s Daily in 2020 prior to the Sixth Plenum, has appeared in more than 120 articles in the newspaper in 2021.

During the 20th National Congress of the CCP from 16-22 October 2022, the “Two Safeguards” was added to the CCP Constitution.

However, the “Two Establishes” was conspicuously not added to the CCP constitution.

This indicated that there must be considerable resistance to Xi, mostly probably from respected party elders like Zhu Rongji, Song Ping, maybe Hu Jintao, Wen Jiabao, Jiang Zemin, and Zeng Qinghong. Both Zhu (age 94) and Jiang (age 96) were too frail to attend the 20th Party Congress. However, Song Ping and Hu Jintao both attended and were two of the only three delegates who did not applaud after Xi’s speech. The other is Li Ruihuan, who is close to the Deng Xiaoping faction.

The mastermind behind both the “Two Establishes” (两个确立) and “Two Safeguards” (两个维护) is Li Shulei (李书磊, age 58). He is known as the Beida genius, having entered

Beijing University at the age of 14. At the 20th Party Congress, he was promoted to the slightly slimmer 24- member politburo and Minister of the Central Propaganda Department (中宣部部长).

Li Shulei is trusted by Xi Jinping and has been the key drafter of many of Xi's major speeches and party documents.

I have been watching him and reading his articles since 2008, when he was named vice president of the Central Party School, ascending to vice-ministerial ranks, and working directly under then-Central Party School president Xi Jinping.

He will likely be the next Wang Huning. We should all pay more attention to him.

Overall, China's potential growth may average 4% to 4.5% a year this decade and fall further after 2030. President Xi noted that "high quality development" is the Number One task of a modern socialist state, which may dispel some market concerns that China's government no longer cares much about economic growth, though he did emphasize that development needs to be "for the people".

Is Xi Anti-Capitalism?

One of the biggest questions investors are asking today is whether Xi is anti-capitalist, and if so, does his consolidation of power spell doom for private industry and investors? As I elaborated earlier, this is not likely the case as otherwise Li Qiang would not have been appointed as premier. There were many other candidates who have track records that lean towards nationalistic achievements, but they were not picked. This contrasts with the promotion of Li Qiang, who has been a big supporter of the private sector. Furthermore, the private sector has contributed more than 70% of China's technological innovation, more than 80% of urban employment, and more than 90% of new jobs. Xi and the party's legitimacy comes from improving the standard of living of China's citizens, and this cannot be achieved without continued economic progress.

The consolidation of power within Xi's administration does warrant consideration. On the one hand, policies that support security, modernization, and the environment will be implemented more effectively and efficiently because Xi views them to be issues of national strategic importance. On the other hand, there is a danger of a "collective blind spot" due to the lack of opposing views at the highest level, which is a risk that should be monitored.

Without any meaningful political opposition, Xi can now focus on realizing his China team – building a better quality of life for its 1.4 billion citizens, underpinned by a resilient, technologically advanced economy beholden to none.

Dr. Tan Kong Yam is a founding member and Deputy Chairman (China) of APS Asset Management. He is also professor of economics at the Nanyang Technological University. He serves as a board member at the Changi Airport Group (2015-present). From 1985-88, he was the chief assistant to Dr. Goh Keng Swee, the late Deputy Prime Minister of Singapore who was invited by Mr Deng Xiaoping to advise China on economic development strategy. From June 2002 to June 2005, he was a senior economist at the World Bank office in Beijing. In 2004, he was a member of the World Bank expert group on the eleventh five-year plan (2006-2010) for the State Council in China. He served as the chief economist of the Singapore government (1999-2002).

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