

CHINA MONTHLY

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The Big Picture



The world's first commercial land-based small modular reactor, or SMR, is under construction in southern China's Hainan Province. China is a global leader in adopting nuclear power technology as it plans to build an additional 150 plants by 2035, with SMRs among them.

THE BRIEFING

Benign Inflation

China's consumer prices and factory-gate inflation slowed in August. The consumer price index (CPI) rose 2.5% year on year, easing 0.2 percentage points from July, on efforts to contain Covid-19 and weather impacts, noted the National Bureau of Statistics (NBS). China's producer price index (PPI) climbed 2.3% YoY in August, slowing from July's 4.2%.

China Travel

Chinese President Xi Jinping's September visit to Kazakhstan and Uzbekistan would be his first trip abroad since the start of the Covid-19 pandemic, just weeks ahead of the 20th Communist Party congress in mid-October. Xi also plans to attend the Group of 20 summit in Bali in November. These overseas trips could be signs of China gradually opening up to international travel.

"Five-in-One" Model

The Central Comprehensively Deepening Reforms Commission (CCDRC), chaired by Xi Jinping, in September endorsed using China's "whole-nation system" to develop high technologies, with Chinese media saying it was likely referring to the semiconductor and aerospace industries. The system, mooted by Xi in October 2019, refers to the "five-in-one" collaboration among government, companies, universities, research institutions, and consumers, to develop high technologies. The CCDRC said private companies would have a bigger role in technological applications.

Weakening Global Demand

China's export growth slowed more than expected in August, expanding 7.1% in US dollar terms from a year earlier, the slowest pace since April but still well above the pre-pandemic level. Global demand for Chinese goods is waning as consumers cut back spending because of soaring inflation and shift away from pandemic-related goods towards services. Factories in Europe and the rest of Asia are also scaling back production, making domestic demand more important for China as a growth driver.

Dynamic Zero-Covid

Shenzhen in September removed restrictions in areas deemed low risk, though lockdowns remained in place in "high" and "medium" risk neighborhoods, while restaurants are allowed to host dining-in at half capacity. To the surprise of many, Chengdu, Sichuan Province's capital, lifted the lockdown imposed from 1st September, reducing testing for the virus to at least once a week.

POST BEIDAIHE HORSE TRADING – WHITHER CHINA?

By Tan Kong Yam

Leading to Beidaihe

Heading into August every year, high-level Chinese Communist Party leaders disappear from the public arena. This is the beginning of China's political horse-trading season at the Beidaihe meeting. This year is particularly significant due to the upcoming once-every-five-years party congress.

On the evening of 2nd August 2022, it was noted that reports on the public activities of the seven members of the Standing Committee of the Communist Party of China indicated that they all attended the "1st August" reception of the Ministry of National Defense on 31st July. Subsequently, they all became collectively absent from public functions.

The meeting ended on 14th August as the top leaders all subsequently reappeared.

After the Beidaihe Conference, the mainstream view is that President Xi Jinping has likely reached a certain degree of compromise with all factions. Xi was expected to have made a major political deal with the Jiang Zemin faction, and more critically, the Hu Jintao faction, in order for Xi's term to be extended for the next five years.

As in previous years, during the Beidaihe meeting from 1-14 August 2022, the headlines of the People's Daily provided valuable information on the progress.

Articles feting Xi have always been placed at the most prominent position on the People's Daily's front page. From 2nd August to 6th August, the People's Daily published five commentaries in a row focusing on Xi's speech at a seminar for provincial and ministerial cadres.

According to well-placed sources, there was still animated and tireless horse trading between the factions during the first week over the key leadership positions, against the backdrop of rising pressure on Xi due to dissatisfaction among the populace with the zero-Covid policy, rising youth unemployment, and weak economic performance, as well as the loss of confidence among private businesses.

The final 6th August article in the People's Daily's series of five commentaries reflected the tough negotiations. Its title was "Unity Needed to Achieve Victory, Struggle Essential to Attain Success". One can probably guess the dissenting voices and the non-consensus on several key positions at the Beidaihe Conference.

On 7th August, the lead article on Xinhua News Agency's webpage was "Efficient Coordination, Taking the Helm and Steering Confidently". It noted that the Party Central Committee with Xi at the core had "assessed the general situation and planned the overall strategy"; and once again emphasized that Xi "authorizes the final word".

On 9th August, the People's Daily's lead article was "The Epidemic Must be Prevented, the Economy Must be Stabilized, and Development Must be Strengthened – a Review of General Secretary Xi Jinping's Efficient Coordination of Epidemic Prevention and Control and Economic and Social Development." Published simultaneously by Xinhua News Agency, this article continued to defend the "zero" policy. Note that the emphasis is on the prevention of the epidemic, rather than sticking persistently to the zero-Covid policy.

From 10th to 13th August, the People's Daily published on its front page a four-part series of articles with the themes of "Stability as the Paramount Objective, Progress Within the Stability Framework" and "Firmly Doing One's Own Thing Well". These are the standard slogans of Xi's developmental strategy, suggesting that many past strategies had worked, though some observers viewed those endorsements as being lukewarm.

Reading between the lines, one can deduce that there were opposing views about the zero-Covid policy and economic policies. It appeared that Xi had to offer concessions on some significant positions to the other factions, especially the Hu Jintao faction. While it is likely that Xi's re-election to a third term is to be expected, it is by no means a foregone conclusion.

After the Conference, Xi went to Shenyang, China's largest robotic industrialization base, to visit Siasun Robot and Automation on 17th August. He reiterated that China must promote scientific and technological self-reliance and strive to control key core technologies and equipment manufacturing in its own hands.

Hu Chunhua as the Next Premier?

On 27th July, the People's Daily published a long article by Hu Chunhua, titled "Following General Secretary Xi Jinping's Important Expositions on 'Agriculture, Rural Areas, and Farmers' as a Guide; Striving to Create a New Situation in Comprehensively Promoting Rural Revitalization".

Hu Chunhua is the vice premier of the State Council, in charge of agriculture, rural areas, poverty alleviation, commerce, and trade. He also heads the central rural work leading group. While it is logical for him to write an article on rural work, it was somewhat out of place for the party's top media outlet People's Daily to so prominently place Hu's article on the front page. Was it intended to convey a subtle political message?

Hu mentioned Xi Jinping more than 50 times in this article but did not mention his factional comrade Premier Li Keqiang at all, even though as vice premier, Hu ostensibly reports directly to the premier. Is this Hu's way of pledging his allegiance to Xi? The 20th Party Congress will convene on 16th October, and Xi is aiming to break convention by securing a third consecutive term as President. Consequently, Hu's article can also be interpreted as

supporting Xi's re-election at the 20th Party Congress. The significance of Hu's out-of-the-ordinary public statement cannot be overstated.

On 22nd August, the Chinese People's Political Consultative Conference (CPPCC) held a meeting of its standing committee to discuss the "employment priority policy". Wang Yang, the chairman of the CPPCC, attended this meeting, but against normal protocol, Hu Chunhua was invited to attend the meeting. Hu even took the stage to present a report to the CPPCC Standing Committee.

In the five years that Wang Yang has been in charge of the CPPCC, there was no precedent of inviting a junior non-PSC vice premier to deliver a report to the Standing Committee. In my assessment, the treatment that Wang gave Hu was not customary. Most significantly, party media reported prominently on Hu Chunhua's speech but not Wang Yang's speech. Although Party proceedings are highly guarded secrets, my assessment is that the Party is probably preparing the ground for Hu's appointment as the next premier of the State Council of the People's Republic of China.

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 in recent months. This likely dented Xi's ability to minimize concessions to the other factions and helped clear the path for Hu Chunhua.

Xi's younger loyalists in particular would have preferred an older premier, as Hu is relatively young compared with the other contenders. However, Hu has very outstanding credentials, and enjoys strong support from Hu Jintao and other Party elders. Hu's rise in China's power hierarchy might have been a bone of contention during the meeting, as Party elders believed Hu Chunhua has much to contribute. Hu being younger might mean he could be Premier for 10 years, putting him in pole position to take over should Xi's health falter. If this comes to pass, Hu could potentially steer China towards a softer approach both at home and abroad.

From all the signs I've seen in recent months, Hu's ascendancy seems rather certain. It is very likely that his mentor, former President Hu Jintao had made great efforts to push him up during the Beidaihe meeting. Though they are not relatives, they are often called "Big Hu" and "Little Hu", reflecting their longstanding mentor-protégé dynamic.

It is likely that Xi's faction would prefer Wang Yang as the next Premier, as his age limits him to only one five-year term, making Wang a lesser threat to Xi's protégés compared with Hu. Of course, nothing is cast in stone in politics. However, if the elders had prevailed, then Hu's promotion would be almost assured.

Xi: Factional Struggles and Compromises

Immediately after the Beidaihe meeting, Premier Li Keqiang headed south on 16th August to Shenzhen. The itinerary included a "meeting of major economic provinces", inspecting private industrial parks, and **laying flowers at the bronze statue of Deng Xiaoping**. During this period, he emphasized "**reform and opening up**", and this trip was dubbed Li Keqiang's "Southern Tour" by some observers.

On the night of the 16th, CCTV reported on Li Keqiang's meeting in Shenzhen, and numerous videos of Li interacting with the people on the streets were widely circulated online.

At the Yantian Port in Shenzhen, Li Keqiang said that "reform and opening up must continue to move forward, and like the Yellow River and Yangtze River, must not flow backwards." Both videos were quickly deleted in social media.

As much as I would like to lean towards the conventional view, I cannot help but rely on my long years of studying and analyzing China politics and combined that with recent official media reports to posit that at the Beidaihe meeting strong opposing views against the zero-Covid measures — especially after Shanghai's lockdown — must have been voiced, as the economy has been hit hard and investor confidence badly shaken this year. Given Li's relatively weak political position, he would not have gone public with such direct criticism had he not had the support of senior Party cadres such as Zhu Rongji, Hu Jintao, Wen Jiabao, and the influential princeling families of Deng Xiaoping and Liu Shaoqi. We had heard from various sources that this time, an unusual number of senior party cadres came out of retirement and voiced their grave concern on Covid policies, the health of the economy, and so on and so forth. Unlike in the West, current leaders in China show tremendous respect to their elders and often take their advice seriously.

While most political analysts believe that there is no strong evidence to suggest that Xi would fail to secure a third term, one must not rule out the possibility that senior Party cadres might have successfully persuaded Xi to step aside for another candidate whom Xi can also accept. Such a scenario is deemed unlikely but not impossible even in China politics.

On the other hand, if Xi had secured his third term, there is a high chance that Xi must have promised the senior cadres that he would **ease on zero-Covid policies** and do what he can to **restore business confidence, revive the economy, and improve the employment situation**. Observers outside Beidaihe can only make deductions and inferences, as what was negotiated and decided within are tightly guarded secrets.

Another possible scenario is that Xi had already struck a compromise with the weakened Jiang faction, even before the Beidaihe meeting.

Chinese-born Canadian billionaire financier Xiao Jianhua, who is close to the Jiang Zemin and Zeng Qinhong families, might have been in a key figure behind China's 2015 stock market crash. According to Forbes relating to the 2015 stock market crash, "Due to the heavy presence of the state in the Chinese stock market, some onlookers surmised that the stock market crash was engineered to create a financial coup d'état. This coup might have been

caused by the Jiang Zemin faction to damage the reputation of President Xi Jinping. This group purportedly maliciously shorted the market.” What is less certain is whether the shorting was of an economic nature or had a political agenda.

After Xiao Jianhua was taken from a Hong Kong hotel and brought back to China, Xi was reported to use Xiao as a major chess piece to deter the Jiang faction from blocking his re-election before the 20th Party Congress. However, the verdict on 19th August at the end of Xiao’s trial showed that the charges against him were all of an economic/financial nature, with no political ramifications. Xiao’s 13-year jail sentence also seemed light. Was there a compromise? Perhaps Xi did not pursue Xiao’s allies, thus gaining their support at the Conference?

Xi and his Protégés

In return for supporting Hu Chunhua and not pressing hard on the Jiang faction, Xi might have succeeded in securing support for a third term, as well as in the promotion of his key protégés into the PSC.

They include Ding Xuexiang (director of the General Office of the CCP), Chen Min-er (party secretary of Chongqing), Li Qiang (party secretary of Shanghai), and Li Xi (party secretary of Guangdong).

Apart from promoting Hu, Xi would have had to concede one or two more positions in the currently 7-seat PSC to the other factions: mostly likely either Wang Yang or Li Keqiang will head the National People’s Congress (NPC), making that person the second most powerful in China.

Although there are still many uncertainties, a probable outcome for the line-up of the new PSC next month may be:

Xi as the General Secretary of the Party, Wang Yang (or less likely Li Keqiang) as the NPC chairman, and Hu Chunhua as the Premier, with three or four of Xi’s protégés taking up the remaining positions in the 7-seat PSC.

Historically the PSC has been composed of five to eleven members, and currently has seven members. Xi might appoint his loyalist, Vice Premier Liu He, as the Vice President. There is the precedence of Vice President Wang Qishan attending the previous PSC meetings as the eighth man. Liu is a loyal childhood friend and has extensive experience on the economy and in dealing with the US.

Xi’s protégés in the military will also likely be promoted. Among the up-and-coming military generals, Miao Hua is a recognized confidant of Xi Jinping. In 1999, he was the director of the Political Department of the 31st Group Army. At that time, Xi was the governor of Fujian Province and the First Political Commissar, Fujian Provincial Anti-aircraft Artillery Reserve Division. Miao was transferred to be the political commissar of the navy in 2014. Miao could become the first vice chairman of the Central Military Commission (CMC) to come from the navy, a strong warning signal to Taiwan, Japan, and the US.

The other vice chairman of the CMC could be Lin Xiangyang. He was promoted to general in July last year. At that time, he was the commander of the Central Theatre and later the Eastern Theatre Commander. During Xi Jinping's stay in Fujian, he was also a cadre of the 31st Army. As the Eastern Theatre Commander, Lin played a critical role in the military response after Nancy Pelosi's visit to Taiwan.

What Happens if Xi's Health Falters

If Xi's health remains robust for the next 10 years, he is likely to wield considerable power. Hu Chunhua will have to find a way to work with Xi for the betterment of China, without which he may turn out to be a weak Premier.

Very likely, the current assertive and nationalist policy stance in domestic and foreign policy will be toned down in a rapidly changing domestic and external environment.

However, if Xi's health falters, Hu would be the most senior among his generation of leaders. None of Xi's present protégés like Ding Xuexiang, Chen Min-er, Li Qiang, and Li Xi in the upcoming PSC, would have the seniority and gravitas to challenge Hu.

Moreover, Hu is likely to be the most senior leader acceptable to the Jiang faction, the Hu Jintao faction, as well as the key party elders and the still powerful princeling families. The military might probably also support this arrangement.

Unlike Xi, Hu is not a princeling and is a "commoner". He has no bloodline link to the founders of the CCP. Some of the people who have worked under him (in Tibet, Inner Mongolia, and Guangdong) have noted that he is, at heart, moderate and more relaxed about party control.

As an aside, it is not common knowledge that Hu's wife, Xie Ru, though of vice governor rank in Jiangxi province's CPPCC, is not a CCP member!

As Xi's four other protégés are more junior, the overall policy direction of China under Hu Chunhua and Wang Yang might shift – at first gradually and later more significantly – away from Xi's collectivist, socialist, nationalistic policies, towards the more moderate middle.

A steady change in China's domestic and foreign policies, in substance and philosophy, can be expected. A steady return to a moderate style of governance that was experienced under Deng Xiaoping, Jiang Zemin, and Hu Jintao must not be ruled out. A pullback of the state sector and a resurgence of the private sector may occur again. A more tolerant stance on censorship, media, and dissenting views is also a strong possibility. Like in the past, unity and pragmatism may once again prevail over ideology, if they can help in the modernization and rejuvenation of the nation.

Last but not least, China may contemplate a new, less hawkish strategy towards Taiwan.

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