

China Watch

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S P R I N G 2 0 1 8

*The greatest directors of men are those who yield place to others.
This is called the Virtue of not striving, the capacity for directing humankind;
This is being the compeer of Heaven. It was the highest goal of the ancients.*

Laozi, fifth century BC

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The era of Xi Jinping

Since the global financial crisis, educated Chinese people have lost a degree of confidence not only in the Western neoliberal economic model, but also in the West's democratic political systems. It is an illusion in the West that Chinese people imagine a future where their country resembles a developed Western nation. But there is a deep shared aspiration in China that the country will develop its own unique model adopting the best international principles of democracy, transparency, and the rule of law. Some now feel that the Chinese Communist Party is leading them away from that goal, but the reality is more nuanced.

The Party's decision to remove the constitution's presidential term limit has come as a surprise to many. Some observers noted that Xi signalled an intention to hold on to power beyond his current second term when he revealed the members of the new Politburo Standing Committee in late-2017, all of whom were too old to succeed him. The argument was that in creating the option for Xi to continue indefinitely as president, the Party was demonstrating that the checks and balances that evolved within the political system over the past three decades have been reduced.

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This constitutional change is not in itself crucial, given Xi's consolidation of power over time. He has been in an unassailable position for some years, having been named the Party's 'core' leader, with his political thoughts added

to the constitution, and under his leadership the Party and government have converged to form a more monolithic political and administrative system. Xi's actions have certainly empowered the Party, but it remains to

be seen whether the removal of the presidential term limit is a personal power grab or more about guaranteeing that his and the Party's radical agenda is preserved. The move does not mean that the Party is totally subservient to Xi or that his political longevity is guaranteed; much will change over the next seven to ten years that neither he nor the Party can

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forecast. Unless the Party, with Xi at its head, can continue to deliver results for the people, it will lose its mandate to govern, just as emperors who were perceived to have lost the mandate of heaven never held onto power for long.

From the mid-90s, provincial governments and the central administration were able to lobby for their own interests and engage in limited debates on both social and economic policy. Years of high economic growth flowed from China's relative openness and often chaotic commercial experiments. China became and remains one of the most internally competitive economies in the world. Villages, counties, cities and provinces compete with each other relentlessly, driven by ambitious business leaders and officials. A degree of graft, seen as being universally bad in the West, bound state and private sector interests together; the state released assets or conferred use-rights to private companies, fuelling a period of sustained economic growth. This got out of hand as state, army, and security-services officials became increasingly profligate and greedy. China's environmental degradation accelerated and the consumption of local officials, and their often millionaire business cronies, became so conspicuous that the general population began to be cynical about the Party and its claim to 'serve the people'. Social networks teemed with images of officials sporting \$20,000 watches, gorging on banquets costing many times a monthly urban wage, and driving expensive imported cars.

It was in this context that President Xi came to power in late-2012, implementing a harsh anticorruption campaign, which reduced the potential for economic instability and social unrest. In his first term, Xi gained unprecedented popularity among the masses and garnered fear and respect from Party officials. He restructured the military, arresting and dismissing corrupt officers while empowering the police and judiciary. At the same time he confronted interest groups centred on powerful political families which had been distorting the economy and stoking the ire of ordinary Chinese people. Xi consolidated his power to a degree unknown since the era of Mao Zedong, but critics miss the fact that he has also empowered the courts to become more independent and strengthened legal institutions.

Of course it is a bad precedent to end term limits. They exist throughout the system, ensuring that party secretaries and mayors are rotated every five years or so to prevent them building up too much power. Xi did not need to do this. He could have appointed a figurehead president. My colleagues are concerned not so much about Xi abusing his power as the fact that there are few people left to challenge his economic and political decisions. China is too complex to be governed by the understanding of one man. We were moving toward a form of democracy within the administration and Party. Over the last five years this has been reversed. I am not afraid, but I am disappointed.

Beijing official

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Chinese and foreign observers alike have expressed concern at what they see as Xi's personal power grab, possibly setting up life-long rule. But if Xi wanted to rule indefinitely, he need not have expended political capital to change the constitution. He could have instead

given up the presidency at the end of his current term while retaining his posts as General Secretary of the Chinese Communist Party and Chairman of the Central Military Commission, neither of which is bound by a term limit. It is striking that he chose to consolidate his power through legal means, by amending the constitution. Counterintuitively, some Chinese observers have noted that this may reflect the actions of a man who does recognise the importance of the rule of law. Instead of risking the political imbalance of ruling through the Party while placing a figurehead in the role of president, Xi has restructured the constitution to reflect the fact that there is no real separation between the government and Party. As head of the Party, military, and state, Xi sets a precedent that the leader chosen and supported by the Party will have unquestioned control and sufficient time to advance the Party's agenda, but that this person must in turn be bound by the diktats of the Party and its constitution.

The enduring masses

Western analysts have long assumed that the Chinese middle class (between 200 and 350 million people, depending on how it is defined) would evolve to challenge China's one-party rule. This has been predicated on the experiences of other Asian states that emerged from authoritarian or single-party-rule systems after a majority of their people became moderately affluent. South Korea and Taiwan are commonly cited, but they are misleading examples because they are much smaller, lack China's internal dynamics, and chose, over the last 60 years, to develop democratic systems closely modelled on the West through their dependence on the Western bloc and in the context of the Cold War.

Those belonging to the Chinese middle class may perceive that they have the most to lose in the event that China becomes politically unstable. This group has experienced a very different recent history and therefore possesses a collective identity and aspirations different to their Asian neighbours. As long as China's middle class is allowed to grow and prosper under the rule of the Party, significant political activism aimed at regime change is unlikely. Demographic trends and the current rise in per-capita urban incomes indicate not only that the middle class will expand in the next decade, but that urban aggregate wealth will double. Educated Chinese people do express concern with the dangers of political power becoming overcentralised. But this tends to be balanced with a concern that there is too much to lose if the political structures established by the Party are discarded without consideration for what would replace them. Incremental progress is preferred over bloody, chaotic revolution. There was little sympathy among ordinary mainland Chinese people toward the student protestors in Taiwan and Hong Kong agitating for independence from the Party's influence; this goal is not a practical reality or desired by most people in China now, and it is unlikely to become so in the foreseeable future.

Democracy is for Western countries. Asians, Africans and others are not culturally suited to it. They have a different view of the world. They like to be led by strong men. Dictatorships are good for these cultures.

Caucasian expatriate based in Hong Kong

Condescending views are still prevalent among business people from developed Western countries. They stem from a colonial mindset which produces an enduring sense of Western exceptionalism, and a propensity to dehumanise cultures that they cannot or are unwilling to try to understand. There is a lack of appreciation that Chinese people — and particularly the

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growing middle class — aspire to the same material and emotional well-being as people around the world. They tend to have a deep understanding about the challenges in their own society, a relatively pragmatic and long-term stance regarding how to achieve their goals, and greater familiarity with the West than the West has with China. The

determination and common sense of the increasingly technologically connected masses in small towns and the countryside is another, equally important pressure on the Chinese leadership. The Party may be able to control the public dialogue to some extent, but it cannot alter the shared experience of millions of increasingly globally minded people. Instead, it is more focused on understanding their needs.

Over 300,000 Chinese students study in the United States each year (as did President Xi's daughter), and another 200,000 in other developed countries. In 2016, 135 million Chinese tourists travelled the world, observing social and economic models that are markedly different from China's. The years of exposure to Western systems have had an impact on this cohort, and their growing expectations in the form of demands for better environmental conditions, safer food, and greater transparency are changing China. This force is more subtle and gradual than disruptive. On the surface China changes swiftly, as can be seen in the expansion of the high-speed rail system (22,000 kilometres by 2016, 60% of the world's total) and the doubling in size and population of many coastal cities. Culture and people's attitudes, however, change more slowly.

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Social network conversations and anecdotal evidence indicate that a significant number of China's middle class are apprehensive about the term-limit change, as it may open the leadership (more probably a successor of Xi) to a dictator like Mao. There has been no widespread negative reaction, but this is in part due to media censorship and the government's

disruption of social networks. In China surveillance is extensive and the budget for internal security exceeds that allocated to external defence. Private debate is, nevertheless, generally unrestricted, and while people may disapprove of some of Xi Jinping's actions, he remains widely popular.

I don't mind what he does with term limits. China has waited a long time for a man of the calibre of Xi. His new environmental rules have hurt our profits severely and some of the factories in the city have had to close, but we must stop damaging our environment and the health of our children, and fight corruption. He has taken on so many powerful Party families that he has no choice but to stay on. His thinking was shaped by the chaos and injustices of the Cultural Revolution, and so he must understand the potential of strong interest groups to destabilise the country and take revenge on him and his family. I support him.

Jiangsu factory owner

The term-limit change is dangerous. I am not concerned about Xi Jinping himself as he seems a pretty balanced person, but this change may license his successors to hold onto power indefinitely, or at least trigger some disruptive power struggles between factions in the future. It will probably be in ten to fifteen years rather than now. But it is still a bad move.

Beijing bank clerk

No one in China, let alone China watchers in the West, can accurately predict the implications of recent events. But Chinese people will likely deal with this and future challenges as they have over the preceding heady decades, waiting to see how their own prosperity and freedom is impacted before deciding whether and how to make a stand. Just as the Party sets long-term strategies, the Chinese people have become used to maintaining a longer-term view.

Investing in a vision

A small but influential group of Western China watchers over the last forty years have forecast or simply wished for the demise of the Chinese Communist Party. But the growth in China's prosperity and the expansion and privatisation of its markets have strengthened the Party, which has adapted and mutated. Over the four decades of economic reforms, China's

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wages have doubled every ten years while wages in the West have been stagnant. China is a one-party state but demonstrably more stable than it was in the 80s. The Party can likely manage the coming decade without relinquishing its singular powers, although at the probable cost of not fulfilling China's true economic and social potential.

Xi Jinping has bought himself more time to complete his programmes and realise his vision. Less reported than the presidential term-limit change was the State Council's proposed plan to radically restructure its ministries and agencies, which is all but certain to be adopted into law as part of the 13th National People's Congress. Among the changes is a significant transfer of authority from China's central planning agency, the National Development and Reform Commission (NDRC), to a raft of other empowered agencies. The NDRC formerly held an outsized mandate in any issue that concerned economic development, which in practice impacted sectors ranging from the environment and transport to the setting of energy prices. After a number of high-profile corruption cases, many in the Party began to see the NDRC as having become too big. Soon, many of the responsibilities of the NDRC will be passed to specialised agencies: oversight of 'key national projects' will be passed to the National Audit Office; climate-change policies will be the responsibility of an upgraded and enlarged environmental ministry; and development zone policies will be set by the national resources ministry, to name just a few examples. While Xi Jinping continues to centralise the Party's power, the Party may use this authority to decentralise parts of the administrative state.

Three of Xi's key focuses during his first term — fighting corruption, shoring up financial stability, and improving environmental protection — have been reflected in ministerial restructurings. The anticorruption

agency has been further empowered in the form of a National Supervisory Commission (NSC), which will rank alongside the central government and above the judiciary. This is a formalisation of the reality that in China, the Party is above everything, including the courts. The NSC will see its powers expanded, but these powers are now more clearly defined. In China's ongoing effort to shore itself against systemic financial risk, the banking and insurance regulatory agencies will be combined into a more-powerful Banking and Insurance Regulatory Commission; this amalgamation comes alongside a strengthening of China's central bank, the People's Bank of China. And a new Ministry of Ecology and Environment will aim to develop and execute a more co-ordinated, prioritised environmental protection agenda, away from the NDRC's economic development focus.

For a country that has managed incremental but nonetheless radical change, China appears to be investing in a vision of its future, at a time when many Western countries are preoccupied with preserving historical gains. As an alternative to seeing Xi Jinping as a dictator in waiting, we

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may see a man who, haunted by his experiences of the Cultural Revolution and unrest of the late-80s, and taking into account the reality of the people's deteriorating confidence in the Party, saw few choices but to take a path of greater discipline and authority. Or perhaps Xi is aware of forces against his rule that are

invisible to external observers. None of this resolves the difficult question of what happens when Xi dies or is no longer able to rule. Xi's legacy will depend as much on his ability to leave behind a more participatory political system as on his ability to continue to deliver prosperity and stability. In contrast to today's rigid, illiberal system, the China of the future may need to be much more inclusive and pluralistic.

The Chinese economy will become even more challenging to manage in the coming years as it continues to expand in a world of growing protectionism. Capitalism's crisis is not over. While some in the world tasted the benefits of freer trade and globalisation, an inability of the global elite to share their gains more broadly has created widespread public antipathy and suspicion toward the global project, an attitude which is being exploited by political movements trading in populism and tribalism. Powers falter, stagnate and fall, but older societies have the potential to fall back on their history and draw upon the continuity of their culture.

China has a strong domestic economy, a pivotal place in the world's manufacturing and consumption systems, and a degree of shared cultural confidence that sets it apart from most other major economies. China will need to consider how open its markets are to global participation,

particularly in the increasingly vital services sector. Its services market is still too closed, and its trading partners need to consider more sophisticated dialogues than scapegoating China for their own economic ills or resorting to crass measures such as slapping tariffs on steel and aluminium.

China already faces similar problems to the United States, where wealth is held by too few, monopolies and the forces of social inequity grow, and some regions languish in economic stagnation. Xi Jinping has cast China as the new champion of globalisation. To lend this credibility he must make China the example. China grows and prospers best when it faces global competition. Deng Xiaoping opened the door partially to China's economy, at first in order to attract Western investment, technology, and know-how. He kept his experimentation with the private sector within a handful of manufacturing cantonments for almost a decade. He then adjusted his approach to what China needed to fully recover its backward and broken economy, and eventually encouraged openness and free-market reforms across the country. Xi has to date achieved reforms that no one would have imagined when he first came to power. His people's confidence in him is understandable, as he has achieved his ends through strength but also pragmatism.

A pragmatic country has the capacity to produce very practical leaders. No single man or woman can change China. An individual may guide it and even reshape it for a while, but it is more likely that he or she will ultimately be changed by China and its people. ☺