

# Memorandum

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## The National Congress of the Chinese Communist Party: stability and conspiracy

In late September, rumours spread through Chinese social media that there had been a coup d'état in Beijing; President Xi was said to be under house arrest and an armoured division had deployed north of the city. Such conspiracy theories are not new. In the autumn of 1989, following the Tiananmen crackdown, a Western diplomat warned that convoys of army trucks were headed for Beijing. That evening, journalists and diplomats eagerly relayed the news of an imminent coup. 'It is highly possible, as the photos of the military convoys are from our satellite photos,' said the diplomat. Later the following night, walking in a park near his embassy, he confided that he had been mistaken. After studying a second satellite photo, the clusters of helmets were revealed to be stacks of green cabbages being delivered to Beijing. Even today Beijing residents buy government-subsidised cabbages in the autumn from piles on street corners to freeze and consume over the winter.

This September's rumour turned out to be another 'cabbage coup', fuelled by one online source quoting another, until the story appeared to have multiple, corroborating sources. With the National Congress of the Chinese Communist Party only days away, conspiracy theories are inevitable in such an opaque political culture. Foreign observers in the anglophone media in particular tend to see political instability where there is none, and factions within the Party that do not exist. It is a form of negative wishful thinking. One enduring myth among China 'hawks' in the US and the UK is that anti-Xi factions within the government, centred around former leaders, are conspiring to replace him. But the chances of any disruption to China's political status quo as Xi commences his third term are remote.

A coup within the Chinese Communist Party would require more than dissent in the government ranks, or even a strong overt or covert faction in the Party. To challenge for the highest power in China, an aspirant needs a wide political support base and firm relationships with the military and security services. Xi Jinping restructured the military and security services as part of his anti-corruption drive over the past decade, and in doing so consolidated his political power — the military and public security leadership are now loyal to him personally. This is not new; Deng Xiaoping reformed the People's Liberation Army radically between 1981 and 1989 and retained his influence after his retirement as head of the Military Commission. Xi is not an aberration in the Chinese post-Mao reform era, and represents the continuation of a trend set by Deng, although he has greater national authority.

Between 16 and 22 October, 2,300 delegates of a party of 90 million will select a 200-member Central Committee, which will in turn vote for the 25-member Politburo, and its approximately seven member Standing Committee. The appointments will be the result of up to two years of lobbying, coercing and haggling. Most key people will be Xi loyalists, but not all. Despite Western assumptions that Xi is an unassailable dictator who picks people on loyalty alone, he is a politician within an established system of checks and balances, with unavoidable obligations making him answerable to the Chinese people. Alongside loyalty he promotes people of merit. It is true that Xi reduced the checks and balances in respect to himself when he changed the constitution to clear the way for his third term, but he did not change the underlying system. He may be the most powerful man in the Chinese Communist Party, but he is not more powerful than the Party itself.

Xi Jinping must manage the short-term ramifications of his zero-COVID policies and their negative impact on the economy, his radical attempts to break monopolies in the technology and real-estate sectors, and his need to circumvent the strengthening trade and technology blockade by the United States. Xi will remain powerful as long as he is flexible in dealing with these challenges, while delivering economic growth and maintaining the present high degree of domestic public confidence. Other leaders of modern Asia who have enjoyed uncommonly long tenures, such as Singapore's Lee Kuan Yew and Malaysia's Mahathir Mohamad, did not endure through the simple elimination of rivals but by delivering growth and common wealth, and by being catalysts to rising public self-esteem.

### The future for foreign investors in China

Foreign investors and exporters need to heed Chinese Government priorities stated at the upcoming congress, for they will indicate the sectors which will receive the greatest support in the coming years. These are likely to include the advanced manufacturing sector which can help China improve its technology and supply chain self-sufficiency, rural renewal, and poverty alleviation.

Exporters which do not have a presence in China would be wise to establish one. In the deepening trade war with the US, with its prohibitions and sanctions, the Chinese Government and consumers will favour those who are present in the domestic economy, even if only to manage their distributors and brands. The Chinese Government's commercial priorities are not the product of narrow state planning as they were in the 1980s and early 1990s, but the administration's responses to market forces and its desire to facilitate competitiveness and balance.

The US, the UK and Europe are sliding into recessions, partly self-inflicted through their governments' allowing global networks to deteriorate as they bowed to domestic nationalism, and also from poorly conceived sanctions imposed over the last decade that now hurt not just the sanctioned, but the countries imposing them. Parts of China will fall into recession, but much of the economy will recover to the substantial benefit of China's Western suppliers and partners once COVID-zero policies are lifted.

At the upcoming congress, Xi will probably refer to measures aimed at strengthening dual circulation, although specific policies are more likely to be announced in the National People's Congress in March 2023, a government meeting that will focus on practical commercial and social issues rather than principles and strategies. Dual circulation is often misinterpreted as thinly disguised economic nationalism when it is in fact a strategy to mitigate the disruption from US sanctions to crucial sectors in the food and technology sectors.

It also signals China's shift to a development model rather than one based on GDP growth alone. This does not mean that economic nationalism is not a force in China today. Consumers, particularly those under 35 years old, have increased their preference for local brands, but still value those foreign brands that manufacture, or in the case of food, grow and produce in China. Driscoll's berries, Coca-Cola and Nestlé dairy products, are examples of these, as are BMW and Volkswagen in the auto sector.

### An indispensable partner

As the congress confirms President Xi's third term, foreign observers of China and many in its political establishment will return to speculating whether he intends to rule for life, or whether he will craft a succession plan in the next three to four years. A great deal depends on China's social stability and economic robustness at the time. Xi is the last president who was a child of the Cultural Revolution, and whoever succeeds him will likely be more socially moderate, having grown up in relatively stable and prosperous times.

Much will also depend on how China is treated in the coming years. If the West drops the fabrication that China is an aggressor bent on humbling the US and the Western world order, and recognises it as a growing economic power that primarily seeks to protect its regional interests and influence, it is likely that China's domestic political culture will grow to be more balanced and open than it is today. If China is perceived as an enemy, it will become an enemy; if China is treated as a flawed but indispensable partner in the global economy, it may yet become a deeper partner of the West.

The coming congress is significant in the short term, but in the scale of China's development over the last 40 years and the changes still to come in the next 20, Xi's rule will constitute a phase rather than a radical shift in direction in the ongoing evolution of a culture that represents nearly a fifth of humanity. Foreign companies need to look at the arc of the last four decades and the momentum that has accrued, not only at the illiberal and at times peevish, nationalistic present. Observers should take some confidence in an essentially positive trend that, as always, has been driven by the collective aspirations, capacity for endurance, and hard work of ordinary Chinese people. This is not the time to isolate or bet against China.