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[Home](#) > The Problem With Xi's China Model

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The Problem With Xi's China Model
Why Its Successes Are Becoming Liabilities
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As China's National People's Congress and its advisory body, the Chinese People's Political Consultative Conference, gather this March in Beijing for their annual two-week sessions to discuss the country's challenges and path forward, President Xi Jinping may well be tempted to take a victory lap. Within his first five years in office, he has pioneered his own style of Chinese politics, at last upending the model Deng Xiaoping established 30 years ago. As I wrote in *Foreign Affairs* last year ("[China's New Revolution](#) ^[1]," May/June 2018), Xi has moved away from Deng's consensus-based decision-making and consolidated institutional power in his own hands. He has driven the Chinese Communist Party (CCP) more deeply into Chinese political, social, and economic life, while constraining the influence of foreign ideas and economic competition. And he has abandoned Deng's low-profile foreign policy in favor of one that is ambitious and expansive.

And yet the mood in Beijing is far from victorious. As Xi begins his second five-year term as CCP general secretary and (soon) president, there are signs that the new model's very successes are becoming liabilities. Too much party control is contributing to a [stagnant economy](#) ^[2] and societal discontent, while too much ambition has [cooled](#) ^[3] the initial ardor with which many in the international community greeted Xi's vision of a new global order "with Chinese characteristics."

Xi has given few signals publicly that anything has gone awry: the [first speeches](#) ^[4] of his second term even suggest that he is doubling down on his current approach. Doing so will only exacerbate the challenges that are emerging. But fortunately, because most of the country's current problems are of Xi's own making, he still has both the time and the power to correct his course.

HE'S GOT THE WHOLE WORLD IN HIS HANDS

Xi's accomplishments to date are undeniable. His efforts to consolidate institutional power paid off in March 2018, when he successfully maneuvered to [eliminate the two-term limit](#) ^[5] on the presidency, ensuring that he could continue to hold three of the country's most powerful positions—CCP general secretary, chairman of the Central Military Commission,

and president—through at least 2027, if not beyond. His anticorruption campaign also continued to gain steam: in 2018, 621,000 officials were punished, a marked increase ^[6] over the 527,000 detained in 2017. And dozens of universities have raced to establish ^[7] new institutes and departments devoted to the study of Xi Jinping thought, a 14-point manifesto that includes the inviolability of CCP leadership, the rule of law, enhanced national security, and socialism with Chinese characteristics, among other broad commitments.

Under Xi's leadership, the party now has eyes everywhere—literally. As many as 200 million ^[8] surveillance cameras have already been installed in an effort to reduce crime and control social unrest. The surveillance technology will also play an essential role in the 2020 national rollout of the country's social credit system, which will evaluate people's political and economic trustworthiness and reward and punish them accordingly. The CCP has now established party committees within nearly 70 percent ^[9] of all private enterprises and joint ventures, in order to ensure that the businesses advance the interests of the state. Beijing has also succeeded in constraining outside influences: thanks to a law passed two years ago, for example, the number of foreign nongovernmental organizations operating in China has fallen from more than 7,000 ^[10] to just over 400. And "Made in China 2025"—China's plan to protect its domestic firms from foreign competition in ten areas of critical cutting-edge technology—is well under way. The Sichuan provincial government, for example, has stipulated ^[11] that for 15 types of medical devices, hospitals will be reimbursed only for procedures that use Chinese-manufactured devices.

Xi's efforts to establish greater control at home have been matched by equally dramatic moves to assert control over areas China considers its sovereign territory. Xi has militarized seven artificial features in the South China Sea, and in January 2019, a Chinese naval official suggested ^[12] that China might "further fortify" the islets if it feels threatened. As Beijing negotiates a South China Sea code of conduct ^[13] with the Association of Southeast Asian Nations, it seeks to exclude non-ASEAN or Chinese multinationals from oil exploration and to bar foreign powers from conducting military drills, unless agreed to by all signatories. Meanwhile, Xi has increased the mainland's political and economic control over Hong Kong, banning ^[14] a pro-independence political party, calling ^[15] on the Hong Kong media to resist pressure from "external forces" to criticize or challenge Beijing, and constructing ^[16] a rail terminal on Hong Kong territory, which includes a customs check by China for travel to the mainland. Xi has also adopted a range of coercive economic and political policies toward Taiwan, including reducing ^[17] the number of mainland tourists to the island, successfully persuading ^[18] multinationals not to recognize Taiwan as a separate entity, and convincing ^[19] five countries to switch their diplomatic recognition from Taiwan to the mainland, to try to advance his sovereignty claims. The Belt and Road Initiative—Xi's grand-scale connectivity plan—now extends beyond Asia, Europe, and Africa to include Latin America. A little more than a year ago, the People's Liberation Army set up a logistics base in Djibouti, and in private conversations, Chinese military officials acknowledge ^[20] that scores more could follow.

Even as China expands its hard infrastructure—ports, railroads, highways, and pipelines—it has become an increasingly essential player in the technology sphere. Brands such as Alibaba, Lenovo, and Huawei have gone global, and more are on the horizon. A book ^[21] by the Chinese tech guru Kai-Fu Lee proclaims that China will inevitably dominate in artificial intelligence—unsurprisingly, the book has become an international bestseller.

Although Lee's prediction may yet fall short, China is laying the foundation for AI leadership: two-thirds ^[22] of the world's investment in AI is in China, and China already boasts a commanding presence in areas such as drone and facial recognition technologies.

All these successes have made China attractive to smaller countries not only as an economic partner but as an ideological standard-bearer. Xi has admonished that the so-called China model offers countries disenchanted with Western-style market democracy a different path to development. In countries such as Ethiopia, Tanzania, and Uganda, the message resonates, and officials are learning ^[23] from their Chinese counterparts how to control the media and constrain political dissent.

WITH GREAT POWER COMES GREAT PROBLEMS

For all its successes so far, however, the Xi model, fully realized, may simply be too much of a good thing. Too much party control—perhaps too consolidated into Xi's hands—has contributed to economic stagnation. The constant stream of often competing directives from Beijing has produced paralysis at the local level. In August 2018, China's Finance Ministry reinforced ^[24] an earlier directive calling on local governments to issue more bonds to support infrastructure projects to help boost the slowing economy; many local governments had been resisting the government's call because the projects have low returns. That same month, however, Beijing announced that officials who failed to implement Beijing's policies could lose their jobs or be expelled from the party.

Xi's predilection for state control in the economy has also starved the more efficient private sector of capital. His desire for enhanced party control within firms led one state-owned enterprise head to quit; he commented privately that the party committees wanted to make decisions but wouldn't take responsibility when they failed. Evidence of economic distress abounds. The government is deleting statistics from the public record, a sure sign that things are not moving in the right direction. One economist has suggested ^[25] that growth in 2018 fell to 1.67 percent, and the Shanghai stock market turned in the worst performance of any stock market in the world. Birthrates, which correlate closely with economic growth and optimism, fell ^[26] to their lowest rate since 1961. Beijing has pulled back ^[27] on its air pollution reduction targets—after some noteworthy initial success—out of concern that pollution control measures might further slow the economy.

The economic downturn has also stoked social discontent. Multiprovince strikes have galvanized crane operators as well as workers in food delivery ^[28] and van delivery. A nationwide trucker strike erupted in the summer of 2018, as the online platform Manbang established a competitive bidding system that exerted downward pressure on haulage fees, highlighting the potentially disruptive effect ^[29] of the gig economy on the Chinese work force. Most troubling to Xi, however, was likely the news that university Marxist groups were converging ^[30] on Shenzhen's Jasic Technology plant to stand beside workers and retired party cadres in support of efforts to organize independent labor unions. The protest was quickly shut down, but the moral legitimacy of its demands remains to be addressed. At the same time, broad social movements that cross age, gender, and class, such as those advocating women's and LGBTQ rights, have arisen alongside the traditional protests around the environment, wages, and pensions.

Xi's consolidation of power has not only cost China's economy but raised suspicions around its enterprises abroad. The deepening penetration of the party into Chinese business has caused all Chinese companies to be viewed as extended arms of the CCP. Foreign firms and governments no longer have confidence that a Chinese company—private or not—can resist a CCP directive. Because of this assessment, they are cautious about drawing technology made by the Chinese national champion Huawei ^[31] into their critical infrastructure.

Even the Belt and Road project risks bending under the weight of its ambitions. Some countries, including Bangladesh, Malaysia, Myanmar, Pakistan, and Sierra Leone, among others, have reconsidered the deals they've made with China as their debts have mounted and/or environmental, labor, and governance concerns go unaddressed. Some experts within China now question ^[32] the wisdom of the country's foreign investments as many of the large state-owned enterprises driving the Belt and Road projects dramatically increase ^[33] their debt-to-asset ratios—well beyond those incurred by other countries' firms.

Amid all this turmoil, Xi's efforts to project Chinese soft power have fallen flat ^[34]. Beijing's draconian treatment of its Uighur Muslim population in Xinjiang and its abduction of foreign citizens in China, such as the Swedish citizen Gui Minhai or the Canadians Michael Kovrig and Michael Spavor, undermine its efforts to shape a positive narrative of international engagement and leadership. In addition, Beijing's mobilization of its overseas students globally for political and economic purposes, such as informing on other students who do not follow the Communist Party line, has led to a backlash ^[35] in a number of countries. Moreover, Xi's regulations have created a difficult operating environment for foreign nongovernmental organizations and businesses, the two constituencies most supportive of deeper engagement with China.

THE TRUMP FACTOR

The Trump administration's reaction to Xi has only made things worse for Beijing. Most obviously, the U.S. government's enforcement of tariffs on \$250 billion ^[36] in Chinese exports to the United States has weakened Chinese consumer confidence and caused some multinational corporations to shift or consider shifting manufacturing out of China to other countries. More profoundly, however, the administration and Congress have adopted a more bare-knuckled approach to Chinese global assertiveness. The White House has enhanced relations with Taiwan, increased the number ^[37] of freedom of navigation operations in the South China Sea, constrained ^[38] Chinese investment in areas of core U.S. technology, elevated international attention to Chinese human rights practices, and begun to compete directly with the Belt and Road Initiative through infrastructure investments in partnership with other countries, such as Australia, Japan, and New Zealand, as well as through the establishment of a new development finance institution ^[39], the U.S. International Development Finance Corporation.

The United States is not alone in resisting Xi's charms. In the spring 2018 Pew Research Center polls ^[40], a 25-country median of 63 percent said they preferred a world in which the United States was the leading power, while 19 percent favored China (although Donald Trump himself fared poorly in the polls in comparison with Xi Jinping). Market democracies collectively have adopted a number of measures similar to those of the United States, and despite Trump's questioning of the importance of partners and allies,

his team has proved remarkably adept at coordinating approaches to many of these countries. Even in China, some intellectuals and entrepreneurs quietly state to visiting foreigners that the Trump administration provides an important bulwark against the worst excesses of the current Chinese model.

XI 2.0

For Xi to tackle the rapidly mounting problems his political model has created, he will need to undertake a significant course correction and modify many of his first-term initiatives. On the economic front, his priorities should include structural economic reform that gives preference to the private sector over state-owned enterprises and provides a level playing field for multinationals that want to do business with China. He should also take a revised approach to the Belt and Road Initiative that adopts international standards around governance—including transparency, risk management, and environmental and labor practices. Politically, China’s image and soft power would be greatly enhanced by a reduction in the government’s use of Chinese citizens abroad as tools of its political and economic objectives, a step back from its coercive policies toward Hong Kong and Taiwan, and a sharp reduction in its repressive policies toward its own citizens in Xinjiang and Tibet.

In his description of leadership, Xi is fond of using the analogy of a relay race: a baton is passed from one runner to the next, and each runner builds upon what has come before while delivering his own contribution. With the baton in Xi’s hand, the Chinese government has expanded its reach and influence at home and abroad. Yet the negative consequences of Xi’s approach—local government paralysis, a declining birthrate, and international opposition, among others—have begun to hold China back from the finish line. Xi needs to course correct—or perhaps pass the baton to the next runner.

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