

## Xi's Gamble

### The Race to Consolidate Power and Stave Off Disaster

By Jude Blanchette

Xi Jinping is a man on a mission. After coming to power in late 2012, he moved rapidly to consolidate his political authority, purge the Chinese Communist Party (CCP) of rampant corruption, sideline his enemies, tame China's once highflying technology and financial conglomerates, crush internal dissent, and forcefully assert China's influence on the international stage. In the name of protecting China's "core interests," Xi has picked fights with many of his neighbors and antagonized countries farther away—especially the United States. Whereas his immediate predecessors believed China must continue to bide its time by overseeing rapid economic growth and the steady expansion of China's influence through tactical integration into the existing global order, Xi is impatient with the status quo, possesses a high tolerance for risk, and seems to feel a pronounced sense of urgency in challenging the international order.

**Why is he in such a rush?** Most observers have settled on one of two diametrically opposite hypotheses. The first holds that Xi is driving a wide range of policy initiatives aimed at nothing less than the remaking of the global order on terms favorable to the CCP. The other view asserts that he is the anxious overseer of a creaky and outdated Leninist political system that is struggling to keep its grip on power. Both narratives contain elements of truth, but neither satisfactorily explains the source of Xi's sense of urgency.

A more accurate explanation is that Xi's calculations are determined not by his aspirations or fears but by his timeline. Put simply, Xi has consolidated so much power and upset the status quo with such force because he sees a narrow window of ten to 15 years during which Beijing can take advantage of a set of important technological and geopolitical transformations, which will also help it overcome significant internal challenges. Xi sees the convergence of strong demographic headwinds, a structural economic slowdown, rapid advances in digital technologies, and a perceived shift in the global balance of power away from the United States as what he has called "profound changes unseen in a century," demanding a bold set of immediate responses.

By narrowing his vision to the coming ten to 15 years, Xi has instilled a sense of focus and determination in the Chinese political system that may well enable China to overcome long-standing domestic challenges and achieve a new level of global centrality. If Xi succeeds, China will position itself as an architect of an emerging era of multipolarity, its economy will escape the so-called middle-income trap, and the technological capabilities of its manufacturing sector and military will rival those of more developed countries.

Yet ambition and execution are not the same thing, and Xi has now placed China on a risky trajectory, one that threatens the achievements his predecessors secured in the post-Mao era. His belief that the CCP must guide the economy and that Beijing should rein in the private sector will constrain the country's future economic growth. His demand that party cadres adhere to ideological orthodoxy and demonstrate personal loyalty to him will undermine the governance system's flexibility and competency. His emphasis on an expansive definition of national

security will steer the country in a more inward and paranoid direction. His unleashing of “Wolf Warrior” nationalism will produce a more aggressive and isolated China. Finally, Xi’s increasingly singular position within China’s political system will forestall policy alternatives and course corrections, a problem made worse by his removal of term limits and the prospect of his indefinite rule.

Xi believes he can mold China’s future as did the emperors of the country’s storied past. He mistakes this hubris for confidence—and no one dares tell him otherwise. An environment in which an all-powerful leader with a single-minded focus cannot hear uncomfortable truths is a recipe for disaster, as China’s modern history has demonstrated all too well.

## **A MAN IN A HURRY**

In retrospect, Xi’s compressed timeline was clear from the start of his tenure. China had become accustomed to the pace of his predecessor, the slow and staid Hu Jintao, and many expected Xi to follow suit, albeit with a greater emphasis on economic reform. Yet within months of taking the reins in 2012, Xi began to reorder the domestic political and economic landscape. First came a top-to-bottom housecleaning of the CCP. The party had repeatedly demonstrated its ability to weather domestic storms, but pressures were building within the system. Corruption had become endemic, leading to popular dissatisfaction and the breakdown of organizational discipline. The party’s ranks were growing rapidly but were increasingly filled with individuals who didn’t share Xi’s belief in the CCP’s exceptionalism. Party cells in state-owned enterprises, private companies, and nongovernmental organizations were dormant and disorganized. Senior-level decision-making had become uncoordinated and siloed. The party’s propaganda organs struggled to project their messages to an increasingly cynical and tech-savvy citizenry.

Xi took on all these problems simultaneously. In 2013 alone, he initiated a sweeping anticorruption drive, launched a “mass line” campaign to eliminate political pluralism and liberal ideologies from public discourse, announced new guidelines restricting the growth of the party’s membership, and added new ideological requirements for would-be party members. The size of the party mattered little, he believed, if it was not made up of true believers. After all, he noted, when the Soviet Union was on the brink of collapse in the early 1990s, “proportionally, the Soviet Communist Party had more members than [the CCP], but nobody was man enough to stand up and resist.”

Next on Xi’s agenda was the need to assert China’s interests on the global stage. Xi quickly began land reclamation efforts in the South China Sea, established an air defense identification zone over disputed territory in the East China Sea, helped launch the New Development Bank (sometimes called the BRICS Bank), unveiled the massive international infrastructure project that came to be known as the Belt and Road Initiative, and proposed the Asian Infrastructure Investment Bank.

Xi continued to slash his way through the status quo for the remainder of his first term and shows no signs of abating as he approaches the end of his second. His consolidation of power continues uninterrupted: he faces no genuine political rivals, has removed term limits on his tenure in office, and has installed allies and loyalists in key positions. New research centers are dedicated to studying his writings and speeches, party officials publicly extol his wisdom and virtue, and party regulations and government planning documents increasingly claim to be based on “Xi Jinping Thought.” He has asserted the CCP’s dominance over vast swaths of Chinese

society and economic life, even forcing influential business and technology titans to beg forgiveness for their insufficient loyalty to the party. Meanwhile, he continues to expand China's international sphere of influence through the exercise of hard power, economic coercion, and deep integration into international and multilateral bodies.

Many outside observers, myself included, initially believed that the party's inability to contain the outbreak of COVID-19 highlighted the weaknesses of China's system. By the summer of 2020, however, Xi was able to extol the virtues of centralized control in checking the pandemic's domestic spread. Far from undermining his political authority, Beijing's iron-fisted approach to combating the virus has now become a point of national pride.

## **A UNIQUE MOMENT**

Xi's fast pace was provoked by a convergence of geopolitical, demographic, economic, environmental, and technological changes. The risks they pose are daunting, but not yet existential; Beijing has a window of opportunity to address them before they become fatal. And the potential rewards they offer are considerable.

The first major change is Beijing's assessment that the power and influence of the West have entered a phase of accelerated decline, and as a result, a new era of multipolarity has begun, one that China could shape more to its liking. This view took hold as the U.S. wars in Afghanistan and Iraq became quagmires, and it solidified in the wake of the 2008 financial crisis, which the Chinese leadership saw as the death knell for U.S. global prestige. In 2016, the British vote to leave the European Union and the election of Donald Trump as president in the United States fortified the consensus view that the United States, and the West more generally, was in decline. This might suggest that China could opt for strategic patience and simply allow American power to wane. But the possibility of a renewal of U.S. leadership brought about by the advent of the Biden administration—and concerns about Xi's mortality (he will be 82 in 2035)—means that Beijing is unwilling to wait and see how long this phase of Western decline will last.

The second important force confronting Xi is China's deteriorating demographic and economic outlook. By the time he assumed office, China's population was simultaneously aging and shrinking, and the country was facing an imminent surge of retirees that would stress the country's relatively weak health-care and pension systems. The Chinese Academy of Social Sciences now expects China's population to peak in 2029, and a recent study in *The Lancet* forecast that it will shrink by nearly 50 percent by the end of the century. Although Beijing ended its draconian one-child policy in 2016, the country has still recorded a 15 percent decline in births during the past 12 months. Meanwhile, the government estimates that by 2033, nearly one-third of the population will be over the age of 60.

Contributing to these woes is China's shrinking workforce and rising wages, which have increased by ten percent, on average, since 2005. Larger paychecks are good for workers, but global manufacturers are increasingly moving their operations out of China and to lower-cost countries, leaving a rising number of low-skilled workers in China unemployed or underemployed. And because only 12.5 percent of China's labor force has graduated from college (compared with 24 percent in the United States), positioning the bulk of the country's workforce to compete for the high-skilled jobs of the future will be an uphill battle.

Directly related to this worrying demographic picture is the slowdown of China's economy. With annual GDP growth having dropped from a high of 14 percent in 2007 to the mid-single digits today, many of the long-standing problems Beijing had been able to sweep under the rug now require attention and a willingness to accept economic and political pain, from unwinding the vast sea of indebted companies to demanding that firms and individuals pay more into the country's tax coffers. At the heart of China's growth woes is flagging productivity. Throughout the first several decades of the post-Mao reform period, realizing productivity gains was relatively straightforward, as the planned economy was dissolved in favor of market forces and droves of citizens voluntarily fled the countryside for urban and coastal areas and the promise of higher-wage jobs. Later, as foreign companies brought investment, technology, and know-how to the country, industrial efficiency continued to improve. Finally, the massive amounts spent on infrastructure, especially roads and rail, boosted connectivity and thus productivity. All of this helped a poor and primarily agricultural economy rapidly catch up with more advanced economies.

Yet by the time Xi assumed power, policymakers were finding it increasingly difficult to maintain momentum without creating unsustainable levels of debt, just as they had done in response to the 2008 global financial crisis. What is more, the country was already saturated with transportation infrastructure, so an additional mile of road or high-speed rail wasn't going to add much to growth. And because almost all able-bodied workers had already moved from the countryside to urban areas, relocating labor wouldn't arrest the decline in productivity, either. Finally, the social and environmental costs of China's previous growth paradigm had become both unsustainable and destabilizing, as staggering air pollution and environmental devastation provoked acute anger among Chinese citizens.

Perhaps the most consequential shifts to have occurred on Xi's watch are advances in new technologies such as artificial intelligence, robotics, and biomedical engineering, among others. Xi believes that dominating the "commanding heights" of these new tools will play a critical role in China's economic, military, and geopolitical fate, and he has mobilized the party to transform the country into a high-tech powerhouse. This includes expending vast sums to develop the country's R & D and production capabilities in technologies deemed critical to national security, from semiconductors to batteries. As Xi stated in 2014, first-mover advantage will go to "whoever holds the nose of the ox of science and technology innovation."

Xi also hopes that new technologies can help the CCP overcome, or at least circumvent, nearly all of China's domestic challenges. The negative impacts of a shrinking workforce, he believes, can be blunted by an aggressive push toward automation, and job losses in traditional industries can be offset by opportunities in newer, high-tech sectors. "Whether we can stiffen our back in the international arena and cross the 'middle-income trap' depends to a large extent on the improvement of science and technology innovation capability," Xi said in 2014.

New technologies serve other purposes, as well. Facial recognition tools and artificial intelligence give China's internal security organs new ways to surveil citizens and suppress dissent. The party's "military-civil fusion" strategy strives to harness these new technologies to significantly bolster the Chinese military's warfighting capabilities. And advances in green technology offer the prospect of simultaneously pursuing economic growth and pollution abatement, two goals Beijing has generally seen as being in tension.

## **THE PARANOID STYLE IN CHINESE POLITICS**

This convergence of changes and developments would have occurred regardless of who assumed power in China in 2012. Perhaps another leader would have undertaken a similarly bold agenda. Yet among contemporary Chinese political figures, Xi has demonstrated an unrivaled skill for bureaucratic infighting. And he clearly believes that he is a figure of historical significance, on whom the CCP's fate rests.

In order to push forward significant change, Xi has overseen the construction of a new political order, one underpinned by a massive increase in the power and authority of the CCP. Yet beyond this elevation of party power, perhaps Xi's most critical legacy will be his expansive redefinition of national security. His advocacy of a "comprehensive national security concept" emerged in early 2014, and in a speech that April, he announced that China faced "the most complicated internal and external factors in its history." Although this was clearly hyperbole—war with the United States in Korea and the nationwide famine of the late 1950s were more complicated—Xi's message to the political system was clear: a new era of risk and uncertainty confronts the party.

The CCP's long experience of defections, attempted coups, and subversion by outside actors predisposes it to acute paranoia, something that reached a fever pitch in the Mao era. Xi risks institutionalizing this paranoid style. One result of blurring the line between internal and external security has been threat inflation: party cadres in low-crime, low-risk areas now issue warnings of terrorism, "color revolutions," and "Christian infiltration." In Xinjiang, fears of separatism have been used to justify turning the entire region into a dystopian high-tech prison. And in Hong Kong, Xi has established a "national security" bureaucracy that can ignore local laws and operate in total secrecy as it weeds out perceived threats to Beijing's iron-fisted rule. In both places, Xi has demonstrated that he is willing to accept international opprobrium when he feels that the party's core interests are at stake.

At home, Xi stokes nationalist sentiment by framing China as surrounded and besieged by enemies, exploiting a deeply emotional (and highly distorted) view of the past, and romanticizing China's battles against the Japanese in World War II and its "victory" over the United States in the Korean War. By warning that China has entered a period of heightened risk from "hostile foreign forces," Xi is attempting to accommodate Chinese citizens to the idea of more difficult times ahead and ensure that the party and he himself are viewed as stabilizing forces.

Meanwhile, to exploit a perceived window of opportunity during an American retreat from global affairs, Beijing has advanced aggressively on multiple foreign policy fronts. These include the use of "gray zone" tactics, such as employing commercial fishing boats to assert territorial interests in the South China Sea and establishing China's first overseas military base, in Djibouti. China's vast domestic market has allowed Xi to threaten countries that don't demonstrate political and diplomatic obedience, as evidenced by Beijing's recent campaign of economic coercion against Australia in response to Canberra's call for an independent investigation into the origins of the virus that causes COVID-19. Similarly, Xi has encouraged Chinese "Wolf Warrior" diplomats to intimidate and harass host countries that criticize or otherwise antagonize China. Earlier this year, Beijing levied sanctions against Jo Smith Finley, a British anthropologist and political scientist who studies Xinjiang, and the Mercator Institute for China Studies, a German think tank, whose work the CCP claimed had "severely harm[ed] China's sovereignty and interests."

Mao Zedong and Deng Xiaoping demonstrated strategic patience in asserting China's interests on the global stage. Indeed, Mao told U.S. President Richard Nixon that China could wait 100 years to reclaim Taiwan, and Deng negotiated the return of Hong Kong under the promise (since broken by Xi) of a 50-year period of local autonomy. Both leaders had a profound sense of China's relative fragility and the importance of careful, nuanced statesmanship. Xi does not share their equanimity, or their confidence in long-term solutions.

That has sparked concerns that Xi will attempt an extraordinarily risky gambit to take Taiwan by force by 2027, the 100th anniversary of the founding of the People's Liberation Army. It seems doubtful, however, that he would invite a possible military conflict with the United States just 110 miles from China's shoreline. Assuming the PLA were successful in overcoming Taiwan's defenses, to say nothing of surmounting possible U.S. involvement, Xi would then have to carry out a military occupation against sustained resistance for an indeterminate length of time. An attempted takeover of Taiwan would undermine nearly all of Xi's other global and domestic ambitions. Nevertheless, although the more extreme scenarios might remain unlikely for the time being, Xi will continue to have China flaunt its strength in its neighborhood and push outward in pursuit of its interests. On many issues, he appears to want final resolution on his watch.

## **THE MAN OF THE SYSTEM**

Xi's tendency to believe he can shape the precise course of China's trajectory calls to mind the economist Adam Smith's description of "the man of system": a leader "so enamored with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it." In order to realize his near-term goals, Xi has abandoned the invisible hand of the market and forged an economic system that relies on state actors to reach predetermined objectives.

Critical to this shift has been Xi's reliance on industrial policy, a tool of economic statecraft that had fallen out of favor until near the end of the tenure of Xi's predecessor, Hu, when it began to shape Beijing's approach to technological innovation. The year 2015 marked an important inflection point, with the introduction of supersized industrial policy programs that sought not just to advance a given technology or industry but also to remake the entire structure of the economy. These included the Made in China 2025 plan, which aims to upgrade China's manufacturing capabilities in a number of important sectors; the Internet Plus strategy, a scheme to integrate information technology into more traditional industries; and the 14th Five-Year Plan, which outlines an ambitious agenda to decrease China's reliance on foreign technology inputs. Through such policies, Beijing channels tens of trillions of yuan into companies, technologies, and sectors it considers strategically significant. It does this by means of direct subsidies, tax rebates, and quasi-market "government guidance funds," which resemble state-controlled venture capital firms.

Thus far, Beijing's track record in this area is decidedly mixed: in many cases, vast sums of investment have produced meager returns. But as the economist Barry Naughton has cautioned, "Chinese industrial policies are so large, and so new, that we are not yet in a position to evaluate them. They may turn out to be successful, but it is also possible that they will turn out to be disastrous."

Related to this industrial policy is Xi's approach to China's private-sector companies, including many of the technological and financial giants that just a few years ago observers

viewed as possible agents of political and social change. Technological innovation put firms such as Ant Group and Tencent in control of critical new data flows and financial technology. Xi clearly perceived this as an unacceptable threat, as demonstrated by the CCP's recent spiking of Ant Group's initial public offering in the wake of comments made by its founder, Jack Ma, that many perceived as critical of the party.

Xi is willing to forgo a boost in China's international financial prestige to protect the party's interests and send a signal to business elites: the party comes first. This is no David and Goliath story, however. It's more akin to a family feud, given the close and enduring connections between China's nominally private firms and its political system. Indeed, nearly all of China's most successful entrepreneurs are members of the CCP, and for many companies, success depends on favors granted by the party, including protection from foreign competition. But whereas previous Chinese leaders granted wide latitude to the private sector, Xi has forcefully drawn a line. Doing so has further restricted the country's ability to innovate. No matter how sophisticated Beijing's regulators and state investors may be, sustained innovation and gains in productivity cannot occur without a vibrant private sector.

### **GRAND STRATEGY OR GRAND TRAGEDY?**

In order to seize temporary advantages and forestall domestic challenges, Xi has positioned himself for a 15-year race, one for which he has mobilized the awesome capabilities of a system that he now commands unchallenged. Xi's truncated time frame compels a sense of urgency that will define Beijing's policy agenda, risk tolerance, and willingness to compromise as it sprints ahead. This will narrow the options available to countries hoping to shape China's behavior or hoping that the "Wolf Warrior" attitude will naturally recede.

The United States can disprove Beijing's contention that its democracy has atrophied and that Washington's star is dimming by strengthening the resilience of American society and improving the competence of the U.S. government. If the United States and its allies invest in innovation and human capital, they can forestall Xi's efforts to gain first-mover advantage in emerging and critical technologies. Likewise, a more active and forward-looking U.S. role in shaping the global order would limit Beijing's ability to spread illiberal ideas beyond China's borders.

Unwittingly, Xi has put China into competition with itself, in a race to determine if its many strengths can outstrip the pathologies that Xi himself has introduced to the system. By the time he assumed power, the CCP had established a fairly predictable process for the regular and peaceful transition of power. Next fall, the 20th Party Congress will be held, and normally, a leader who has been in charge as long as Xi has would step aside. To date, however, there is no expectation that Xi will do so. This is an extraordinarily risky move, not just for the CCP itself but also for the future of China. With no successor in sight, if Xi dies unexpectedly in the next decade, the country could be thrown into chaos.

Even assuming that Xi remains healthy while in power, the longer his tenure persists, the more the CCP will resemble a cult of personality, as it did under Mao. Elements of this are already evident, with visible sycophancy among China's political class now the norm. Paeans to the greatness of "Xi Jinping Thought" may strike outsiders as merely curious or even comical, but they have a genuinely deleterious effect on the quality of decision-making and information flows within the party.

It would be ironic, and tragic, if Xi, a leader with a mission to save the party and the country, instead imperiled both. His current course threatens to undo the great progress China has made over the past four decades. In the end, Xi may be correct that the next decade will determine China's long-term success. What he likely does not understand is that he himself may be the biggest obstacle.

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