KKI POLICY BRIEF

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CHALLENGES FOR CHINA IN THE XI JINPING ERA
THE FIRST TEN YEARS OF XI JINPING
PART 1

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Abstract: Xi Jinping, who was re-elected as Party General Secretary in October 2022, has been in power for a decade, and significant changes have taken place in China's domestic and international situation during these ten years. This three-part study presents the most important developments and the most significant changes implemented by Xi Jinping during the past decade. The first part focuses on the situation and problems Xi Jinping inherited in 2012, the second part introduces the steps Xi has taken to strengthen both his own position and the Chinese Communist Party's control over society and the economy, while the third part focuses on the policies implemented by Xi.

Keywords: China, People's Republic of China, Xi Jinping, Chinese Communist Party

Összefoglalás: *Hszi Csin-ping, akit 2022 októberében újraválasztottak pártfőtitkárnak, már több mint egy évtizede van hatalmon. Ez idő alatt jelentős változások mentek végbe Kína belső viszonyaiban és nemzetközi helyzetében. Ez a három részből álló tanulmány bemutatja a Hszi Csin-ping által az elmúlt évtizedben végrehajtott legfontosabb fejlesztéseket és legjelentősebb változtatásokat. Az első rész a 2012-ben Hszi Csin-ping által örökölt helyzetre és problémákra fókuszál, a második rész bemutatja azokat a lépéseket, amelyeket Xi tett saját pozíciója és a Kínai Kommunista Párt társadalom és gazdaság feletti kontrolljának megerősítése érdekében, míg a harmadik rész a Xi által megvalósított politikákra összpontosít.*

Kulcsszavak*: Kína, Kínai Népköztársaság, Hszi Csin-ping, Kínai Kommunista Párt*

Introduction

In October 2022, as expected, the Central Committee of the Chinese Communist Party (CCP), newly elected by the 20th National Congress of the Party, extended Xi Jinping's position as general secretary for another five years.* Xi first became the CCP's General Secretary and Chairman of the Central Military Commission in the autumn of 2012. Since the spring of 2013, he has also been serving as President of the People's Republic of China, and he is also expected to be re-elected for this position by the National People's Congress, which will convene in the spring of 2023. Xi Jinping's first two five-year terms have brought about fundamental changes, both within China and regarding the international environment in which

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Beijing manoeuvres. The following sections review the most important developments of the first decade of the Xi Jinping era. Since these developments are likely to continue, examining what Xi has done so far makes it possible to predict his guiding principles and priorities for the upcoming years, outlining the most significant tendencies.

The legacy of Hu Jintao: an overview

China's economic development speeded up under the leadership of Hu Jintao, who held the top positions before Xi Jinping between 2002 and 2013. Development was accelerated by China's WTO accession in 2001 and the continuation of the "reform and opening up" policy (*gaige kaifang*, 1978-). At the beginning of the 2000s, China was only the sixth largest economy in the world; in contrast, by the end of that decade, it came second after the US, leaving, among others, Germany and Japan behind. This growth did not suffer a considerable setback even during the global financial crisis that began in 2008, and Beijing dealt with the emerging problems efficiently, which further boosted the self-confidence of the country. The parallel processes of modernization, urbanization, and the expansion of the middle class had never reached such a pace before, and these were accompanied by such symbolic events as China sending a man into space, successfully organizing the summer Olympic games in Beijing, and hosting the World Expo in Shanghai.

As a result, Xi Jinping took over the leadership of the party and the state after a very successful period. At the same time, the rapid development under Hu Jintao and his predecessors led to many economic, social, and political problems that were on the verge of undermining the stability of the system, at least that was the prevailing view within the party leadership. These issues had to be managed by the fifth generation of Chinese leaders led by Xi Jinping because leaving them unresolved could have endangered both the power of the CCP (which has been in power for more than sixty years) and the achievements of the country. The Arab Spring, which began in 2010, was a warning sign: it swept away corrupt dictators that had been in power for decades and provided serious lessons for the Chinese leadership. The developments in the Middle East in the 2000s and the colour revolutions in the post-Soviet region also made it clear that the United States was ready to interfere and support the removal of regimes it deemed undesirable, either through the use of military force or by the application of soft methods. In addition, the country was surrounded by an international environment that, from the Chinese viewpoint, had changed for the worse. The domestic difficulties are well exemplified by the fact that Xi took over the lead right in the middle of the gravest corruption scandal (and presumably, power struggle) in the modern history of the PRC, the Bo Xilai case. The unique circumstances of Xi's coming to power are also evidenced by his disappearance for two weeks and the cancellation of his meeting with the American Secretary of State when Xi was already the designated leader but had not been elected yet.

Many problems had remained unaddressed and put aside before, but the new leadership could simply not risk not dealing with them. These problems determined Xi Jinping's room for manoeuvre to a large extent and explain many of his steps. The following parts of this paper summarize the most acute problems Xi Jinping has had to face.

Social inequalities

Thanks to the policy of reform and opening up, Chinese society has become increasingly unequal, even in comparison to other societies worldwide. There was a period when China's Gini index was even more unfavourable than that of the US (with its value rising from 0.32 in 1990 to 0.4 by 2002, and further to 0.42 by 2012). Disparities between the poorest and richest groups in society, as well as those between geographical regions, cities, and villages have grown significantly — all this in a country that upholds equality as part of its official ideology. Even though Hu Jintao made some efforts to reduce these social differences, he could only slow down the widening of the gap, but he could not stop it. A factor that could have contributed to this failure was that his predecessor, Jiang Zemin, who preserved considerable influence in the 2000s, pushed for further developing areas that were already advanced, thereby obstructing Hu's efforts.

The decline of party control

Since the beginning of the 1980s, the CCP has been gradually withdrawing from numerous areas of life, and its control over society and the economy has weakened considerably. During the era of reform and opening up, the party's influence decreased both on the private life of citizens and on the private sector of the economy, even though the latter has become increasingly significant. Civil organizations and movements emerged that seemed to be more or less independent from the state, and the party did not have complete control over the media (which operated on a market-based logic) or the internet, which became available in the 1990s, either. Powerful actors that did not fit in the traditional power hierarchy entered the picture. The party made efforts to integrate them in the name of the three represents concept articulated in the final years of the Jiang Zemin era, and as a result, even wealthy capitalists and private entrepreneurs could join the CCP. This brought about changes in the party itself.

However, the party leadership, still functioning on a Leninist basis, was convinced that Chinese unity and integrity can only be preserved and its goals can only be achieved as long as the power of the party is unquestioned and its influence stretches over all areas of life (even if in practice it is not always used). This is a paradigm evident to all leaders of the party, and they believe that the whole society should accept it. Deng Xiaoping, the initiator of the reform and opening up policy, had already formulated the four cardinal principles (*sixiang jiben yuanze*) at the beginning of the new era, one of which was insistence on the leading role of the CCP. Thus, Deng himself indicated that he would not give up on party control even amidst the stormiest economic and social transformations. The withdrawal of party influence took place for pragmatic reasons, but it did not mean that the party had given up on the core principle of party leadership. By the end of the 2000s, however, many party cadres had come to believe that certain social and economic actors were functioning too much as independent centres of power, not always adhering to party guidance, which gravely endangered the power of the party. According to the prevailing logic in Beijing, this equalled to jeopardizing Chinese unity and further development. Whether this fear was well-grounded is not relevant when it comes to assessing the consequences.

The decline of the power of the party centre

As CCP control over Chinese society was fading, the power of the central leadership over the party and the state also deteriorated. Judging by today's standards, Hu Jintao was a weak leader: his decisions had to be endorsed by his party comrades, and sometimes it even happened that the top leadership could not make a decision due to disputes and conflicts of interest. In other words, Hu's was the golden era of collective leadership. In the provinces and certain sectors such as state-owned enterprises and the military, local power centres emerged that were deeply embedded in the party. Local and sectoral leaders were sabotaging the decisions made by Beijing, trying to assert their own interests over that of the centre, and building local networks of power. It was seen as a real possibility that, as it had happened many times in history, provincial leaders would grow independent of the central government, and the sensitive equilibrium of local and central authority would be disrupted for the benefit of the former. Chinese history is marked by the fluctuation of periods characterized by centralization and decentralization, and by the end of the Hu Jintao era, China was clearly in the stage of decentralization. It is a historic experience that powers of disintegration and cohesion are in constant motion, and when disrupting forces become dominant, it brings about chaos, internal wars, and the falling apart of the country. It is irrelevant whether China was actually about to reach this stage in the early 2010s, what matters is that many in the party centre saw it that way.

Corruption

Not independent from the factors mentioned above, corruption in China grew to almost unbearable levels during the 2000s. The rapid economic development, the transformation of public to private property on a mass scale, and the fact that the influence of officials over the economy remained extensive provided ample opportunity for the cadres to abuse their position and power for their own benefit and growth. The privatization of lands originally in communal use became a widespread phenomenon, and these were usually sold to private entrepreneurs who had some ties (friendship or kinship) to local decision-makers, hence traditional Chinese nepotism was reborn. For thousands of years, Chinese society had been accustomed to a certain level of corruption, but the phenomenon during the third decade of reform and opening up was about to surpass this limit. The case of the schools that collapsed in the 2008 Sichuan earthquake — an example of widespread negligence in construction — and the 2011 Wenzhou train accident clearly signalled that corruption was endangering citizens' lives. The series of corruption scandals seriously undermined the legitimacy of the CCP. The leadership was aware of this, and even Hu Jintao himself named corruption as one of the main sources of danger for the party.

Environmental pollution

Rapid economic growth from the 1980s put a huge strain on the environment. One of the reasons for the international competitiveness of Chinese products was that their price did not include costs related to environmental protection. Modernization,

industrialization, and urbanization went on with almost complete disregard for environmental concerns. Energy consumption, based mostly on coal, multiplied, private vehicles became commonplace, and factories did not care about pollution. Chinese society had accepted for many years that economic growth temporarily takes priority over any other consideration, but the urban middle class, which started to articulate its interests in the 2000s, found it increasingly difficult to live together with the environmental pollution that so negatively impacted their quality of life and outlook. Dangerous smog often settled over Chinese cities, and water and soil pollution also caused serious health risks and damage. The state of the environment started to turn into a political issue. While relatively strict rules on environmental protection existed, they were continually disregarded by authorities, which led to growing dissatisfaction that manifested in protests, petitions, and movements, many organized online.

International changes

The first three decades of reform and opening up were characterized by a favourable international environment for China. The Soviet Union, which had long been treated as the primary threat to Beijing, declined and disintegrated, while the United States and its allies did not yet see China as a rival but rather as a land of business opportunities. As a consequence of opening up, enormous amounts of capital and technology flowed into the country. China also became institutionally integrated into globalization by joining the WTO in 2001 and even became its main beneficiary. On the one hand, the dominant approach in Chinese foreign policy until the late 2000s was characterized by keeping a low profile, avoiding conflicts, and prioritizing solutions based on compromise (this was the so-called peaceful development theory.) On the other hand, the West still believed in the illusion according to which, in line with the end-of-history theory, economic development and the expansion of the middle class would eventually lead to the liberalization of the Chinese political system. However, the global financial and economic crisis that started in 2008 brought about a major psychological turn. Trust in the omnipotence of the market was generally shaken, as was the belief that liberal democracy and free market capitalism are a panacea to every problem in the world. China's prestige and self-confidence grew, as it was only superficially affected by the crisis, and the Chinese model became considered by many a competitor of the Western model (for the purposes of this analysis it is unimportant whether this China model actually exists or not). Western elites started to recognize that China would not fit seamlessly into their ideal world order, its democratization would not take place, and the ever more assertive Chinese, whose economy had become the second largest globally, would be the challengers of Western dominance. As a result of this recognition, and not independent from China's growing assertiveness, the West, crawling out of the crisis, started to formulate the prevention of China from gaining further ground as an increasingly open strategic goal. The institutional manifestation of this was the heralding of the Pivot to Asia policy by the Obama administration in early 2012, which was covertly aimed at counterbalancing China. While Beijing progressively became an active participant in the international arena, anti-China voices were also

becoming louder, and the China threat theory started to dominate the Western discourse on the country. As a consequence, it was clear that the Chinese leadership of the 2010s would have to navigate a significantly more hostile international environment.

Demographic changes

Until the early 2010s, it was not only China's population that was growing, the ratio of its active population did so as well. Thus, the country's development was facilitated, among other factors, by the demographic dividend. Due to modernization and the policies on birth control introduced at the end of the 1970s, however, the growth of the working-age population slowed down, and by the early Xi Jinping era, its share started to drop, having reached its peak in 2014. The Chinese population was to quickly become an ageing one, with the proportion of elderly residents increasing. This means that Xi Jinping inherited a demographically declining society, in which there were no adequate pension and health insurance systems in place. No previous leaders of the PRC had had to face a similar problem; in fact, it was globally unprecedented that a society started to age at such a relatively low level of development.

Economic slowdown

During the Hu Jintao era, China broke all former growth records as the country underwent unparalleled development. However, the annual rate of GDP growth had slowed down by the beginning of the 2010s. In 2011, it dropped below 10%, and since 2012, it has only exceeded 8% once, in the year of bouncing back after Covid-19. This slowdown primarily stemmed from structural reasons, as a two-digit growth rate becomes unsustainable after a certain period of time for any country, indicating that this is a natural process. Starting from a lower base, it is much easier to achieve quick growth than upgrade from a medium level. The significantly slower pace of growth brought new problems to the surface, which had to be handled by the Xi Jinping administration.

The second part of this three-part paper focuses on power politics, while the third part examines Xi Jinping's policy choices aimed at managing the problems and challenges outlined in this first part.

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