

China: A Look Ahead at 2021 and Beyond

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INTRODUCTION

This paper looks at the main challenges and priorities of the Chinese Communist Party (CCP) for the coming year, and the main challenges the CCP poses to other countries. None are new, some may have added urgency, all will continue beyond 2021. The outpouring of last autumn's 5th Plenum and subsequent pronouncements clarifying the Party's intentions have required a severe triage, because of length constraints.

The larger part of this essay focuses on domestic concerns. Understanding what is happening inside China is crucial to understanding the Party's behaviour outside: foreign policy is domestic policy played out abroad. If 2021 is the start of a new phase for China, as Xi Jinping says, it is also a time for democracies to re-evaluate their policies towards China.

VISIONS AND GOALS

CCP documents often include the sentiment that the coming year is crucial. Certainly 2021 must give a solid start to the raft of goals announced or reinforced at or around the Party's 5th Plenary session (Plenum) last October:

- The 14th Five Year Plan proposals (2021-25)
- Ensuring the building of a modernised military by 2027 (a new 'centennial goal' on the anniversary of the founding of the People's Liberation Army (PLA) [but note that Politburo Standing Committee (PBSC) member Han Zheng more realistically talked of modernisation by 2035, with a world-class army achieved by 2050¹]
- 'Basically realising' a modernised socialist country by 2035 (defined as having a middle income country's per capita GDP of \$20,000) as a step towards....
- building a powerful modern socialist country by the centenary of the People's Republic in 2049 (read: rival superpower to the US or better)
- Achieving carbon neutrality by 2060

The path to those specific goals was tweaked at the 5th Plenum. The first of the 'Four Comprehensives' was changed from "comprehensively building a moderately prosperous society" – now achieved – to "comprehensively building a modern Socialist country". The other three 'comprehensives' - deepening reform, governing the nation according to law, and strictly governing the Party - remain. Meanwhile modernisation by 2035 and 2050 requires a new version of 'the Four Modernisations' of Zhou Enlai and Deng Xiaoping (agriculture, industry, science and technology, and defence): they are new industrialisation, informatisation, urbanisation, and agriculture.²

¹ http://www.gov.cn/guowuyuan/2020-11/19/content_5562458.htm

² 5th Plenum Communique. http://www.gov.cn/xinwen/2020-10/29/content_5555877.htm

The eight themes above represent the overall direction for the future. More specifically, in December the highly important Central Economic Work Conference listed eight tasks/priorities for 2021:

1. Strengthen strategic science and technology
2. Strengthen independent control over the industrial supply chain
3. Expand domestic demand
4. Promote reform and opening-up
5. Solve the problems of seeds and arable land
6. Work against monopolies and prevent the disorderly expansion of capital [ie control debt]
7. Solve the problem of housing in big cities
8. Work toward carbon neutrality

BACKDROP TO 2021: CHALLENGES

Despite a relatively successful recovery from Covid, 2020 was not an easy year for China. 2021 will not be easy either, even if the centenary of the Party and the achievement of a 'moderately prosperous society' is to be immoderately celebrated.

CCP documents often include references to the difficulties of the times, arising both domestically and abroad. This is what lies behind the oft-used phrase 底线思维 or 'baseline thinking' (literally 'bottom line'), which is a call to tackle the risks which China faces.

The 5th Plenum communique 'problem page' lists the following main domestic threats (slightly edited):

- the quality of development is unbalanced and inadequate
- reform in key areas remains 'arduous'
- innovation lags behind
- agriculture is still backward
- the inequality gap (regional, urban/rural, income) is too wide
- ecological protection is poor
- shortcomings in social security remain
- 'there are weaknesses in social governance' [ie social stability is a problem]

To these one could add for the longer term, coping with the problems of debt, demography and drought (between 40 - 50% of the population, industry, power generation and agriculture are based in provinces suffering from water scarcity or acute water scarcity)³.

The picture abroad also has some dark clouds. Not only is "the world today undergoing major changes that have not occurred in a century", but there is a technological and industrial revolution, "while the international environment is becoming increasingly complex; instability and uncertainty are obviously increasing"⁴ – a reference among other things to Covid, global recession, tense US relations and worsening relations with many major democracies, and technological divergence, if not decoupling.

³ For a detailed look at China's water scarcity problem, see Chinadialogue, 'China's Looming Water Crisis' https://cdn.chinadialogue.net/content/uploads/2020/05/20093454/China_s_looming_water_crisis_v.2_1_.pdf

⁴ Section 2, Proposals by the Central Committee of the Communist Party of China for the Fourteenth Five-Year Plan for National Economic and Social Development and the Vision for the Twenty-third Five-Year Plan http://www.xinhuanet.com/politics/zywj/2020-11/03/c_1126693293.htm

THE MAIN DOMESTIC CONCERNS FOR 2021

National Security

Unsurprisingly, given the background, national security looms large. For the first time it merits its own section in the draft Five Year Plan (FYP). National security is a broad concept, encompassing economic security, infrastructure, finance, ecology and more. Security of food, energy and strategic mineral resources receive separate mention in the FYP, because tensions with the US have raised the threat of interference. Given CCP perceptions of ubiquitous hostile forces, political and social security (control and stability) are paramount.

National security is indivisible from CCP security – and Xi security. The most important refrain from the political canon is '442': the 'four consciousnesses, the 'four self-confidences', and the 'two safeguards'⁵. This last, safeguarding the authority of the Party centre and particularly Xi Jinping, is crucial. National security is intimately bound up with bolstering Xi's power, strengthening and disciplining the Party, and the Party maintaining its control. All will see considerable emphasis in 2021.

Xi has already achieved great power in five of the seven important centres of power: the Politburo Standing Committee, the Politburo, the Secretariat (which controls top-level business), the Standing Committee of the Central Military Commission, the Standing Committee of the Central Commission for Discipline Inspection. For the sixth, the Central Committee age restrictions will ensure a large clear out at the next Party Congress in 2022, although most of the important posts which CC members occupy, in particular the leadership of the provinces and Party organisations, are already in the hands of adherents of Xi. The seventh centre – important because its members implement policy – comprises the 2,851 county level Party secretaries. Xi's power is slowly permeating downwards. 2021 will see further appointments of county level officials whom Xi can trust. His own apotheosis and the adoption of 'Xi Jinping Thought' *tout court* is likely to be formalised at the Party Congress in autumn 2022, but 2021 will see further moves towards a status equalled only by Mao.

Party strengthening and discipline have long been Xi priorities. The war on corruption hogs the headlines, but the 'struggle' on discipline has been felt more widely. 2021 is going to be an uncomfortable year for those Party members wavering in their discipline and loyalty. Xi has overseen a wholesale rewriting of Party regulations. Party members are enjoined to live a life of strict public and private virtue. This and other tightening requirements were laid out starkly by Chen Yixin, Secretary-General of the Central Political and Legal Affairs Commission, in November in the Party's magazine 'Seeking Truth'⁶.

Following pilot experiments last year,⁷ 2021 will see the start of a nationwide rectification campaign lasting several years and focusing on the political and legal affairs cadres (police,

⁵ The 'Four Consciousnesses': consciousness of maintaining political integrity, thinking in big-picture terms, upholding the leadership core, keeping in alignment. The 'Four Confidences: in [the Party's] chosen path, guiding theories, political system, and culture.' Two Protections: protect the core status of General Secretary Xi Jinping, and protect the central, unified leadership of the Central Committee.

⁶ "Cultivating 'The Six Bests' of Party Spirit in the New Era" <http://cpc.people.com.cn/n1/2020/1116/c64102-31932774.html>

⁷ http://www.chinapeace.gov.cn/chinapeace/c100007/2020-11/24/content_12417966.shtml

courts, prosecutors, security services). Promises of scraping poison from bones, 'Yan'an rectification style'⁸ and moulding souls indicate torrid times ahead. The reason for the campaign is not just to ensure strict political control of those who are the watch-dogs of the Party and society. That is important, but, judging from the list of crimes focused on by the pilot measures, so is advancing the on-going campaign against mafia groups and mafia 'umbrellas', officials in the security and legal organisations who help or benefit from collusion with serious crime. In some, particularly rural, areas it has been hard to know where Party ends and mafia begins. A third purpose of the rectification is educational: to 'promote the spirit of heroes' of this vanguard sector as examples for the rest of society, whose soul increasingly Xi Jinping wishes to engineer (an echo of Stalin which appears in Xi's speeches).

Social stability and domestic security (section 52 of the FYP) is the third major element of national security. It has long been thus, but in the last year has gained a greater urgency. In April the CCP set up a 'Safe [literally peaceful] China Construction Coordination Group', which will "strike hard on activities that could undermine China's political security". It builds on years of promoting methods of social control, such as the 'grid system' and the 'Fengqiao experience' (essentially systems of informants and self-policing by communities of themselves down to street level, but linked to a pervasive police presence); and it embraces "inseparably scientific and technological support", which will "widely use the Internet, big data, cloud computing and artificial intelligence technology"⁹, the so-called surveillance 'panopticon'.

The Economy

GDP growth figures, despite doubts about their reliability, usually command attention. Xi's approval for the 2035 target of \$20,000 per capita GDP implies an average annual rise of 4.73%.¹⁰ Xi has said that the target is achievable. 2021 may be high as it will benefit from a low base in 2020.¹¹ 4.73% in year fifteen would be a very much greater absolute figure of growth than in 2021, so presumably growth in the early years is expected to be a higher percentage. Depending on Covid recovery, that might be difficult.

The Party's fundamental challenge is reconciling contradictions between politics and performance. Leninist logic requires the CCP to control the main economic levers. Hence the primacy of the state-owned sector, hence the establishment and strengthening of Party cells in private companies. Hence also part of the reason for cutting down to size Ant and Jack Ma. It is striking that in a speech at a forum of 'grassroots representatives' last September Xi Jinping put patriotism before other qualities needed by entrepreneurs if they were to become "a new force in promoting high-quality development".¹² This contradiction is evident in the main economic themes of this year.

⁸ A reference to the notoriously brutal rectification movement led by Mao from 1942.

⁹ http://www.xinhuanet.com/english/2020-11/11/c_139508731.htm for XJP on its importance.

See also: http://www.chinapeace.gov.cn/chinapeace/c100007/2020-11/10/content_12412972.shtml

¹⁰ See the explanation of the 5th Plenum given by Han Wenxiu's a senior National Development and Reform Commission official.

¹¹ On balance it seems likely that a GDP target for 2021 will be declared at the National People's Congress in March: firstly, given 2020, it will be easy to achieve a satisfactory figure in 2021, the year of the Party's centenary; secondly, as Xi said in his 'explanation' of the proposed 14th FYP, "corresponding quantitative targets can be put forward on the basis of careful calculation."

¹² http://www.gstheory.cn/zhuangqu/2020-09/23/c_1126531690.htm

Take employment. At the top end, around eight million university graduates each year. For them, it is not just a question of creating jobs, but good jobs - to match aspirations. For lower end workers, meeting hopes of a steady increase in living standards is also important. The problem with the nearly 300 million migrant workers is that their education and skill levels are increasingly falling behind as China moves to higher tech and automated manufacturing and services. Failure to meet aspirations could have implications for stability. Yet despite the rhetoric, the private sector, which provides around 80% of jobs, is deeply disadvantaged in favour of a strong state sector.

This same dissonance arises in the renewed call to rebalance the economy away from investment and exports towards consumption and domestic demand. Consumers will only spend more, if their wages and benefits are higher, a move away from the low wage model which has led to China's extraordinary growth. The FYP calls for "promoting the building of a strong domestic market and a strong trading nation", but those two aims may be incompatible, if the success of the latter depends upon keeping wages and benefits low. Increasing consumption means diverting assets and resources away from state-led investment and the state-owned sector, reducing bloated bureaucracies (the Party itself is enormously expensive), reprioritising away from military build-up, cutting back the unproductive surveillance state, and other politically difficult choices. And it requires a far higher level of productivity. Yet according to the World Bank, the growth in China's total factor productivity "has declined markedly in recent years".¹³ Many economists view such productivity as the key to successful economic development, especially for countries attaining China's level of income per head.

The new buzzword is 'dual circulation'. There is less to it than meets the ear. Behind it lies the recognition that the outside world, and the US in particular, will not be as accommodating of China's rise as in the past. Another reappearance, of the Maoist phrase '自力更生' (self-sufficiency), does not signify China turning its back on the world, but it does imply strengthening innovation and strategic technologies, and relying more on domestic supply chains. It acknowledges a greater need to ensure unimpeded access to resources, such as energy and food, and to rely more on the huge potential domestic market than in the past. Even so, opening up will remain on the menu, not least since, wherever permitted, China must seek new technology, help with innovation, and trade and investment opportunities. Negative lists will continue to protect new industries and national security (widely defined). Mention of the industrial policy 'Made in China 25' project (emerging industries from which foreigners are largely excluded) has been rare since other countries objected. But it remains in place. In September four ministries issued a plan to build a complete strategic industrial system based on state planning and state investments.¹⁴ Meanwhile as ever, those sectors which China feels it is now able to dominate can be opened to foreign participation.

Reform is another area high on the 14th FYP agenda where change is less than implied (the 3rd Plenum of 2013 promised to complete reform of the economic and social system by 2021). Moreover 2013's emphasis on the market at the expense of government

¹³

<https://openknowledge.worldbank.org/bitstream/handle/10986/33993/Chinas-Productivity-Slowdown-and-Future-Growth-Potential.pdf>

¹⁴<https://www.scmp.com/economy/china-economy/article/3102911/china-unveils-strategic-emerging-industries-plan-fresh-push>

*"We must actively and in an orderly manner promote market-oriented reform in width and in depth, greatly reducing the government's role in the direct allocation of resources, and promote resources allocation according to market rules, market prices and market competition....."*¹⁵

has given way to 2020's

"... give full play to the decisive role of the market in the allocation of resources, give better play to the role of government, and promote a better combination of effective markets and proactive government."

Reform is more about raising efficiency, further centralising control, and getting the market more efficiently to serve the Party's will. It is hard to see anything new coming out of a three-year state-owned enterprise (SOE) action plan announced in July, which stresses that "State-owned enterprises are an important material and political foundation for socialism with Chinese characteristics... the key pillar and force for the party's rule and the country's revitalisation"¹⁶. Or out of a speech by Xi last April on the hukou (registration) system, which is important for allowing greater mobility of labour¹⁷ and, through the provision of social security, reducing the need to save. Xi's 'new' vision of urbanisation is to encourage migrants to steer clear of not just Beijing, Shanghai, Guangzhou, but provincial capitals and other big cities. There is little new on land reform and how many times have we heard about "clarifying the powers and expenditure responsibilities of the central and local governments"? Meanwhile we still await long promised reforms of the pension age, property tax and prices.

This is not an analysis with which Xi Jinping would agree. In a speech on 31 December he declared that, "The reform goals and tasks proposed by the Third Plenary Session ...were generally completed on schedule."¹⁸ Really? Over the last seven years SOE reform has been at the top of the agenda. Then why is another action plan needed? Why is the need for their reform still seen as urgent?

Finally, the problem of debt remains a serious concern. The 5th Plenum communique refers to "resolving the hidden debt risk of local governments" and "improving the government debt management system". This points to a tension between on the one hand the central authorities, which would like to restrain credit and lower debt, and on the other local governments and interests such as property companies and SMEs, which are desperate for credit and worry about a financial crisis, for which they would be blamed. Balancing these competing concerns in a time of Covid will be tough.

¹⁵ http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm

¹⁶ <https://www.scmp.com/economy/china-economy/article/3092339/china-approves-plan-boost-prominence-state-firms-despite>

¹⁷ <https://www.scmp.com/economy/china-economy/article/3108185/xi-jinpings-thoughts-chinas-urbanisation-revealed-new-speech>

¹⁸ http://www.gov.cn/xinwen/2020-12/31/content_5575831.htm

Innovation

The importance of promoting innovation has been emphasised for some years. The CEWC listed “Strengthen strategic science and technology” as the top task for 2021. There are three reasons for innovation’s top billing:

- China must produce its own hi-tech supplies and component as liberal democracies limit access to their technologies;
- it is seen as the key to increasing productivity, wealth and employment, thereby cutting through some of the contradictions in the economy noted above;
- it can help China to dominate new technologies and industries, the key to achieving the ‘superior position’ over capitalism which Xi spoke about in his first Politburo speech in January 2013.¹⁹

What is noticeable in the language is a clear swing towards state-led innovation [draft FYP sections 7-10]. The private sector is of course not excluded: there are measures, such as tax incentives, to encourage entrepreneurs [section 8]. But whereas the 2013 Plenum spoke of “improv[ing] the mechanism that encourages market-based technological innovation, and giv[ing] free rein to the market’s guiding role in technological research.”²⁰, now it is the Party which will “unswervingly implement the new development concept of innovation” [section 4], and set up national projects and laboratories aimed at “frontier fields such as artificial intelligence, quantum information, integrated circuits, life and health, brain science, bio-breeding, space science and technology, and deep earth and deep sea..” [section 7]

The resources applied will no doubt ensure success in many areas. The Soviet Union produced some fine, usually military, technologies, and it would be unwise to assume that China’s more agile and competent system will not achieve far wider success. It has already, particularly in consumer facing products. Nevertheless, there does remain a question as to whether the CCP is hobbling its innovation efforts by not allowing a free flow of information, by exercising over-rigid controls over education, and by discouraging the questioning of authority, risk-taking and iconoclasm.²¹ Emphasis and investment in science and technology has led to incremental and considerable advances. But innovation – and its sibling invention – may be as much dependent upon a permissive culture as upon resources thrown at a problem. Certainly, the CCP’s model for innovation is duplicative and expensive. To cover this China will need to establish itself as the world leader in several new key technologies, earning sufficient rent therefrom to cover the costs of failures in innovation programmes.

¹⁹ For a translation of the speech see: <https://palladiummag.com/2019/05/31/xi-jinping-in-translation-chinas-guiding-ideology/>

²⁰ Section 13, 3rd Plenum Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform. see:

http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602_3.htm

²¹ On the importance of the free flow of information for innovation, see for example Mockyr ‘A Culture of Growth: The Origins of the Modern Economy’

Inequality

The problem of rising inequality is a long-standing worry for the Party (and a sensitive one - China no longer publicises its Gini coefficient). As Xi noted in his 'Explanation' of the 5th Plenum proposals: "There is a large gap between urban and rural regional development and income distribution"; and furthermore "the solid promotion of common prosperity" is "stated for the first time in the Party's plenary document".

For all that victory has been declared in the war on rural poverty, over 600m people still live on a per capita income of less than 1,000 yuan (\$140) a month, as Premier Li Keqiang recently said²². In 2019, per capita disposable income of residents in the central, western, and north eastern regions was respectively 66.0%, 60.8%, and 69.4% of the eastern region; while the per capita disposable income of urban residents was 2.64 times higher than that of the rural population.²³ On top of that, in terms of wealth inequality, those who benefitted from receiving ownership of housing in the early days of reform are disproportionately ahead of later generations, something the tax system does little to redistribute.

The countryside is a particular worry. 60 per cent of Chinese are now listed as urban²⁴, but 40 per cent – nearly 600 million souls - are not. Several hundred million migrants to the cities, who still retain their rural *hukou* registration, miss out on urban social security. Furthermore, large numbers will be using what disposable income they have to help out relatives back in the countryside, making their own urban lives a struggle.²⁵ Worse, 71% of China's children are in the rural areas, where their education and health suffers, affecting their ability to 'learn how to learn', something which experts say cannot be rectified later. Only just over 30% have currently finished high school; no country has escaped the middle-income trap with such a low figure.²⁶

Thus this inequality may stymie the China Dream. It is also a potential cause of instability, if the disadvantaged lose hope. Unsurprisingly, therefore, the FYP proposals talk of continued efforts to prevent any relapse into absolute poverty, as well as continued building of the social security net. In section 30 there is a renewed commitment to accelerating development of the regions which lag, and in section 31 talk of reforming the household registration (*hukou*) system, shifting financial transfer payments and improving basic social services. Past FYPs have said the same, but the need to reduce inequality has sharpened. Xi Jinping can claim that the poverty alleviation programme is complete, but now he faces the much harder task of narrowing the gap between regions, urban and rural dwellers, and individuals.

²²<https://www.caixinglobal.com/2020-06-06/opinion-china-has-600-million-people-with-monthly-income-less-than-141-is-that-true-101564071.html>

²³ http://paper.people.com.cn/rmrb/html/2020-07/24/nw.D110000renmrb_20200724_1-11.htm

²⁴ http://www.gstheory.cn/dukan/gs/2020-10/31/c_1126680390.htm

²⁵ For an account of this common phenomenon, see 'The Countryside Through a (PhD Educated) Rural Daughter-in-law's Eyes':

<https://chinadigitaltimes.net/2020/12/translation-the-countryside-through-a-daughter-in-laws-eyes/>

²⁶ <https://www.csis.org/events/online-event-invisible-china-how-urban-rural-divide-threatens-chinas-rise-book-talk>

The Countryside, Agriculture and Food Security

Commentators on China often underestimate the importance of rural and agricultural affairs. For the Party, they loom large, which is why for the last 17 years Central Document no 1 has focused on that area. Following the Plenum, Hu Chunhua, Politburo member in charge of agriculture, set out the reasons in the People's Daily. He started by emphasising that the plenum's agricultural measures were important because compared to urban areas "the development of agriculture and rural areas has not kept up, the gap between infrastructure and public services is obvious, and the problem of 'one long leg and one short leg' is rather prominent." As Xi said "without the modernisation of agriculture and rural areas, there will be no modernisation of the entire country."²⁷

If the inequality gap is one reason why the draft FYP "insists on solving the 'Three Rural' issues as a top priority of the whole Party",²⁸ food security is another. Hu Chunhua's second point was, "Ensuring the security of the country's food and important non-staple food supplies is the top priority of 'Three Rural' work. However, we must see that current external risks, challenges and uncertainties have increased significantly, and food security must not be taken lightly."

Three considerations lie behind this. First, actual food shortages and resultant unrest would deeply threaten the Party. Second, increases in food prices are sensitive: the Party does not forget that in 1989 inflation was a prime reason for protest. Third, the Party is increasingly worried that food imports are a geopolitical vulnerability. As Hu said, "The rice bowl should mainly contain Chinese food."

To ward off the threat, the CCP has laid down targets for self-sufficiency of 90% for cereals and 95% for rice and wheat. While sticking to the red line of maintaining 1.8 billion mu of arable land (120 million hectares), it has also set a new target of 100 million mu (6.66 million hectares) of farmland to be upgraded to a "high standard". This is a 25% increase from 2020 and equivalent to the size of the Republic of Ireland²⁹. In November the State Council issued its "Opinions on Preventing the De-graining" of Cultivated Land to discourage the planting of other crops.³⁰ It has promised to increase minimum purchase prices and continue subsidises. Imports are also reaching record highs.

It is worth noting that food security is an important component of the Belt and Road Initiative plan of March 2015. Finally, we should not overlook that the CEWC's eight tasks for 2021 included "solve the problems of seeds and arable land". China imports nearly half a billion dollars of seeds each year. Seed quality is important to meeting yield targets, but seeds is another area which the CCP fears could be used by exporters as a geopolitical weapon.³¹

²⁷ http://paper.people.com.cn/rmrb/html/2020-12/01/nw.D110000renmrb_20201201_1-06.htm

²⁸ Section 7, draft 14th FYP: http://www.gov.cn/xinwen/2020-10/29/content_5555877.htm?mc_cid=8c06aec0b4&mc_eid=c8292ef9bf

²⁹ <https://www.scmp.com/news/china/politics/article/3114483/china-aims-upgrade-farmland-size-republic-ireland-heres-why>

³⁰ http://www.gov.cn/xinwen/2020-11/17/content_5562088.htm?mc_cid=179a82c924&mc_eid=c8292ef9bf

³¹ For an excellent consideration of this problem, see <https://pekingnology.substack.com/p/after-microchips-whats-the-next-big>

There remain important impediments to Beijing's ambitions. Farmers prefer to grow crops other than grain because they are more profitable. The rural population is ageing, 25% will be over sixty by 2025³², and many young prefer the cities. According to the National Bureau of Grain and Material Reserves, "The annual loss of China's grain in storage, transportation and processing amounts to 46 million tons."³³ More fundamentally, land reform progresses slowly and is bound by ideological restrictions on private ownership; the Party puts its hopes on "deepening the reform of the rural collective property rights system". The environmental costs are coming home to roost after years of abuse. Pollution and a shortage of water in over 40% of grain growing areas are taking their toll. And if that were not enough, climate change may cause weather extremes leading to drought, flood and storm.

The costs of what the Party proposes for the countryside and agriculture are enormous, not least the grain subsidy and storage costs. The global effects are big too. Not only is China the biggest food importer – 115 million tons in the first ten months of 2020, three quarters of it soy – but it is also affects many countries. For example, Belarus exported little before 2018; last year it exported \$120 million of agricultural goods.³⁴ Large swathes of countryside in places such as Brazil and Argentina are being used to feed China – not always to the approval of locals.³⁵

Rule by Law

[Note: 依法治国 is translated by Xinhua as 'rule of law'. 'Rule by law' is more accurate, but for consistency the Xinhua version is used.]

Of the three big reforms launched in 2013-15 - economy, law and the military – governance by law has received the least attention. Yet it is central to Xi's plans. A reminder of this came with the holding in November of the first ever Central Committee Work Conference on Comprehensive Rule of Law, which Xinhua declared important because it clarified "Xi Jinping's thought on the rule of law."³⁶ It was followed in December by the 'Implementation Outline for the Construction of a Legal Society (2020-2025)'.

It is easy to be cynical about rule of law, not least when Xi Jinping continually stresses that "We must uphold the Party's leadership in the comprehensive rule of law."³⁷ When it comes to human rights, controlling dissidents and anything considered potentially threatening to the power of the CCP (or often individual cadres), the law, if observed, is there to serve the Party. This is openly implied if not stated: for example, when the 'Implementation Outline' discusses the importance of civil society under rule of law, we read about "Uphold[ing] the party's leadership over social organisations, strengthen[ing] party building in social organisations, and ensur[ing] the correct political direction for the development of social organisations."³⁸

³² <https://www.scmp.com/economy/china-economy/article/3097781/china-food-security-country-faces-grain-supply-gap-130>

³³ http://www.ce.cn/xwzx/gnsz/gdxw/202008/25/t20200825_35601431.shtml

³⁴ <https://chinaobservers.eu/china-fails-to-deliver-on-its-promises-in-belarus/>

³⁵ <https://www.theguardian.com/global-development/2020/aug/14/chinas-billion-dollar-pig-plan-met-with-loathing-by-argentinians>

³⁶ http://www.xinhuanet.com/politics/leaders/2020-11/17/c_1126752206.htm

³⁷ http://www.xinhuanet.com/politics/leaders/2020-11/17/c_1126752206.htm

³⁸ Part 19 of the "Implementation Outline": <http://cpc.people.com.cn/n1/2020/1207/c419242-31958319.html>

But Xi is serious about the need for law-based governance to help the economy, prevent corruption and regulate “the country, government and society based on the rule of law” by 2035, as is set down in the 5th Plenum proposal. The ‘Implementation Outline’ lays down four major tasks: a more complete corpus of legislation, particularly covering new areas such as technological innovation, biosecurity, ecology; building a culture of law which standardises government administration and powers; a reformed judiciary; and educating the people and raising awareness of the rule of law.³⁹

What happens in China no longer stays in China. Xi Jinping is keen that this “historical leap forward in Marxist thinking on the rule of law”, which aims to bring order and trust while being subordinate to the Party’s interests, “has contributed new wisdom to the maintenance of the international legal order and has global influence” and is “contributing China’s wisdom and Chinese solutions to promote changes in global governance.” Given also the claim that “China’s rule of law civilization has a long history and deep roots, and the Chinese legal system is unique among the world’s five major legal systems”,⁴⁰ in coming years, we can expect further pressure to mould global governance into line with the Party’s view of law – including the idea that international law must doff its cap to the concept of the Party’s ‘core interests’.

The Environment

The environment has long been one of Xi Jinping’s “three critical battles”. His provincial visits usually include an environmental component. A favourite phrase is “Green waters and green mountains are gold mountains and silver mountains”, for which a Xinhua commentary on the 14th FYP proposal could act as an explanation: “While seeking quality development, the country will not cross the red line of ecological protection or ease regulations because of concerns over economic and social fallout.”⁴¹

Or will it? Will China’s carbon emissions peak in 2030 and will it achieve carbon neutrality by 2060? There is every reason to set those targets: the costs to health and happiness – paid in protest and stability – will only continue to rise if air, water and soil pollution is not successfully tackled. And no country will suffer from climate change on the scale that China will: its population is concentrated on the eastern seaboard, while there could be great harm to harvests and food security. So we can expect ambitious and quantified targets in the final plan in March.

But balancing the environment against development and employment will be tricky. Plans to tackle pollution are in place; government responsibilities are being reinforced; the FYP proposals talk of strengthening the ‘river and lake chief system’ and the environmental courts; and in the face of a water scarcity crisis in the north, perhaps the most serious threat to China’s long term success, “China will implement national water conservation actions and establish a rigid water resource restraint system.” (FYP section 38)⁴² But as ever in China, intention and implementation can be distant cousins.

³⁹ http://www.xinhuanet.com/politics/leaders/2020-11/17/c_1126752206.htm

⁴⁰ http://www.chinapeace.gov.cn/chinapeace/c100007/2020-11/18/content_12415617.shtml

⁴¹ http://www.xinhuanet.com/english/2020-10/28/c_139473748.htm

⁴² For a detailed look at China’s water scarcity problem, see Chinadialogue, ‘China’s Looming Water Crisis’ https://cdn.chinadialogue.net/content/uploads/2020/05/20093454/China_s_looming_water_crisis_v.2__1_.pdf

Perhaps the acid test will be whether the centre can rein in provincial plans for greatly increased wattage from coal-fired power stations. So far, the picture is not encouraging. The alternatives are not easy. While China leads the world in the use of non-fossil sources of power, it cannot match the surging demand for power. Hydropower is clearly on the Party's mind and the FYP includes an interesting mention of putting very large dams on the lower reaches of the Brahmaputra (which will deeply disturb India). But transmitting the electricity to the main population centres is problematic; and despite China's prowess in ultra-high voltage transmission, much power is lost and the building costs are enormous. Nuclear power is an option in the less water scarce areas of the south. If the CCP does indeed put the environment before the economy and employment, it is quite possible that this winter's power cuts will become a common occurrence.

Once again, the question arises whether China can afford the costs of decommissioning coal and moving to other sources of power.

LOOKING ABROAD

Some may not go as far as persecuted professor Xu Zhangrun, who warns that “A polity that is blatantly incapable of treating its own people properly can hardly be expected to treat the rest of the world well”,⁴³ but we should recognise that the CCP’s behaviour and intentions abroad are a piece with its domestic comportment. The leopard does not change its spots merely because it moves off its home range. Moreover, because the Party never relinquishes power at elections, its foreign policy can be as consistent and unified for as long as its leadership remains both.

Many things could be said about the nature of the CCP’s international relations. In recent years four are prominent and will affect China in the world in 2021.

First, the number one consideration of CCP behaviour abroad is to reinforce its legitimacy at home. The external propaganda campaign around Covid exemplifies this. At first sight, tin-eared and leaden-footed, it deeply offended European countries in particular, even though they might be useful in the longer battle to counter the US. But it was necessary in order for the Party to make up lost ground internally: on the back foot for its inept initial handling of Covid, the Party erased criticism by distracting attention to a worse situation in other countries, and through propaganda about its role as saviour and supplier of medical equipment. For all that the 5th Plenum spoke of “enhancing the country’s cultural soft power”,⁴⁴ that had to be sacrificed.

Second, the leadership believes – even before Covid – that China is sufficiently strong and the liberal democracies sufficiently weak that bullying is a paying tactic (this also plays well domestically, given the ‘century of humiliation’ narrative drilled into everyone from childhood). The rash of ambassadors threatening and abusing their hosts is a deliberate tactic and approved from above, as Foreign Minister Wang Yi made clear in his press interview of 2 January: “We also have a fighting approach to wicked people.”⁴⁵

Third, the Party does not mind if there is a yawning gap between rhetoric and reality. Australia might disagree with Wang Yi: “After experiencing this epidemic, China’s diplomacy has become more warm and caring.”⁴⁶ Rhetoric with its emphasis on ‘win-win’, ‘shared future for mankind’, principles, peaceful intent, respect for international law is a tool to put others on the back foot. To question China’s stated aims is to be insincere, to have a ‘Cold War mentality’. This is reinforced by a massive propaganda apparatus, with China expanding its press abroad, buying up foreign media outlets, or supplying news and film footage free or cheaply.

Fourth, in all important aspects of China’s foreign policy the US is the elephant in the room. It lurks in the common formulation “...the world has entered a period of turmoil and change. Unilateralism, protectionism and hegemony pose a threat to world peace and development.”⁴⁷ And for all that outwardly the Party talks of adhering to the principles of multilateralism and

⁴³ Xu Zhangrun: ‘Viral Alarm: When Fury Overcomes Fear’

<http://www.chinafile.com/reporting-opinion/viewpoint/viral-alarm-when-fury-overcomes-fear>

⁴⁴ <http://politics.people.com.cn/n1/2020/1029/c1001-31911511.html>

⁴⁵ <http://world.people.com.cn/n1/2021/0102/c1002-31986935.html>

⁴⁶ <http://world.people.com.cn/n1/2021/0102/c1002-31986935.html>

⁴⁷ Section 2 of the 14th FYP proposal

common interests, actively participating in the reform and construction of the global governance system...enhancing the application of international law"⁴⁸ etc, inwardly it talks of 'struggle' (斗争- a strong word), of Chinese socialism 'gaining the superior position over western capitalism" (Xi's first speech to the Politburo in January 2013⁴⁹) and of banning western values (the infamous 'Document no 9' of April 2013⁵⁰).

The Party believes that decoupling or at least serious divergence is coming, whether in economic, political or values systems. In some areas, such as internet governance, it is itself pushing divergence. Further, it is "contributing Chinese wisdom and Chinese solutions to the reform and construction of the global governance system", as Xi said to the Central Committee meeting on the rule of law on in February 2020⁵¹ with a view to advancing its own interests, setting standards, influencing international law and norms – no different from the western powers after the Second World War. Ultimately it is aiming not to impose a political system on other countries – socialism with Chinese characteristics can only be unique to China – but to ensure that they adopt certain norms and standards, so that the world sings to its tune, not an American one.

The CCP's main method for working towards this goal is the **united front strategy**. Originally a domestic concept, it distinguishes between friends, the neutral and the enemies. Among the last is the principal enemy, in this case the US. The strategy aims to isolate the principal enemy, gradually to move those in the enemy camp to the neutral and the neutral to the friendly. This lies behind policy towards the EU for which Wang Yi prescribes "cooperate to meet global challenges, jointly promote world multi-polarisation, economic globalisation, and democratisation of international relations", all of which come with unspoken 'Chinese characteristics'.⁵² A good example in action is the signing of the Comprehensive Agreement on Investment last December. Xi is reported himself to have pushed this through, doubtless aiming to do so in the interregnum between Presidents Trump and Biden, and thus make it more difficult for Europe and the US to come together to work towards a level playing field for business in China. As an example of fissiparous diplomacy, it also works on another level by dividing the ranks of Europeans.

⁴⁸ 14th FYP Proposal section 59

⁴⁹ For a translation see: <https://palladiummag.com/2019/05/31/xi-jinping-in-translation-chinas-guiding-ideology/>

⁵⁰ https://en.wikipedia.org/wiki/Document_Number_Nine

⁵¹ http://www.qstheory.cn/dukan/qs/2020-11/15/c_1126739089.htm

⁵² <http://world.people.com.cn/n1/2021/0102/c1002-31986935.html>

WHAT DOES THIS MEAN FOR 2021 AND THEREAFTER?

A word of caution: most of what follows reflects an OECD-centric view. Some Asian and African countries may see things with different eyes.

Assertive (or bullying) diplomacy

One of the CCP's main pre-occupations for 2021 is surely to prevent the new US administration building a consensus amongst liberal minded democracies (LMDs) (a better term than 'the West' because it includes India, Indonesia, Japan, Brazil and others) in defence of national security, interests and values. So the tactic of dangling economic carrots while holding a big stick will be to the fore in the case of the smaller nations (for the US, the CCP may wait to see how President Biden shapes policy). Australia has been the experimental zone (试点). Other members of the '5 Eyes' intelligence alliance, the UK, Canada and New Zealand will feel the stick if they do not take the carrots. Meanwhile China's successful 'divide and rule' will continue to be applied to the EU.

Interference and the United Front strategy

It is important to be clear on the difference between legitimate influence work (or public diplomacy) and interference – defined best by Australian Prime Minister Turnbull as 'covert, coercive or corrupting' behaviour – as well as to get the balance right between hysteria and indulgence over CCP interference. Exaggeration of the threat puts off potential allies; it also allows those in our countries who benefit from going along with CCP interference to downplay the threat and distract from their collaboration.⁵³

The aggressiveness and activity levels of the Ministry of State Security and its military brother have been rising markedly. While officials of the United Front Work Department (UFWD) posted abroad are not intelligence operatives – although they do feed in leads and personality information – they work with an undeclared mandate to bring foreigners into conscious or unconscious support for Beijing's aims. Their first port of call for this work is the ethnic Chinese community ("We will comprehensively implement the Party's policy on overseas Chinese affairs, unite the hearts and minds of overseas Chinese, and serve the overall situation", says section 56 of the 14th FYP draft), but increasingly they work directly to make foreign politicians and opinion formers, the press, universities and others advance the 'China narrative' or viewpoints which help CCP aims.

In 2021 LMDs will have to take this activity more seriously and devise ways of countering it, centring on greater transparency and declaration of finances.

⁵³ For a discussion of influence v interference, see: 'China-UK Relations: Where to Draw the Border Between Influence and Interference?'

Russia

It might flatter Russian pretensions to award Sino-Russian relations a mention. For all that Xi and Putin affirmed their vows on 28 December, it remains a marriage of convenience, with both partners bound by a distaste for the US. That, energy, the benefits of a long border without tension, Russia's military technology sales (for a few years yet), China's learning from Russian experience in how to conduct joint military operations are sufficient to keep them together. But it is hardly the love match propaganda portrays. Russia has to deal with an increasingly mutinous Russian Far East, unhappy at China's exploit of local timber and other resources; its dependency on China is humiliating, particularly given age-old racism; and the Arctic leg of the BRI may be concerning. China meanwhile wants to preserve (with changes) a world order which has served it well and must worry about Putin upsetting that. 2021 will not see a divorce, but the lop-sided nature of the Sino-Russian relationship may be rendering it less stable than it looks.

Hong Kong

Concerned by the threat that the protests of 2019/20 might set a bad example on the mainland, Xi has moved fast and hard towards 'One Country, One Party System' through the agency of the national security law (NSL). The arrest of 53 democrats on 6 January under the NSL was crude, but effective, in its aim of ensuring that the September Legislative Council elections will not return a Democratic majority. It seems likely that perhaps by June the National People's Congress will pass measures to give some glaze of legitimacy to this imposition of control over Legco elections. Also likely is far more overt imposition of 'patriotic education' in the school and university system. This has been talked of already and the FYP proposals to "enhance the national awareness and patriotism of compatriots in Hong Kong and Macao" are suggestive.⁵⁴ Intimidation of the judiciary is ongoing, but formal change to the legal system is probably not for the immediate future. Measures attempting to stymie the British offer of citizenship to British Overseas National status holders are certain.

Foreign governments will have to be ready to react to these developments. And in a broader context than Hong Kong, they will need to work out how to deal with a CCP which respects international undertakings only so long as circumstances require it to do so.

Xinjiang – and maybe Tibet

For those in the LMDs who hope for business as usual with China – literally and metaphorically – 2021 will see Xinjiang growing further as a source of friction. The CCP is in no mood to allow what it calls interference in its internal affairs. But democratic politicians, press and people are paying increasing attention to actions which meet the criteria of crimes against humanity, as laid down in the Article 7 of the Rome Statute of the International Criminal Court. Unlike the small numbers of human rights defenders, the scale of the concentration camps and slave labour make abuses impossible to ignore. Tibet has recently attracted less attention, even if oppression

⁵⁴ Section 57 of the 14th FYP Proposals

is still horrific. But this will change when the Dalai Lama dies, given that he embodies more soft power in one person than the 92 million CCP, and that CCP control of the search for his reincarnation will be deeply resented.

Governments of the LMDs will have to react with measures which will strain relations with the CCP. Meanwhile foreign companies will have to look far more closely at their supply chains if they are to avoid reputational damage. It will also be increasingly difficult for foreign individuals, companies and universities to defend working for and with companies such as Huawei and Hikvision, which work closely with the security authorities in Xinjiang to develop the Integrated Joint Operations Platform, its surveillance panopticon. Ignorance is no longer an excuse.

Taiwan

The year of the Party's centenary is not going to be spoilt by launching forceful unification with Taiwan. Nor is invasion likely in the next decade. But the strategy of building psychological pressure through military threats, tiring defences using probing air and sea territorial incursions, mixing economic incentive and threat, cyber warfare, disinformation and more will continue apace. The UFWD will be working overtime, amongst other things "supporting Fujian in exploring new paths of integration and development across the Straits; strengthening cross-straits grassroots and youth exchanges."⁵⁵

At some stage – it will not happen immediately – the LMDs may have to face up to the choice of either allowing 24 million Taiwanese to lose the freedom to choose their way of life or adopting more robust policies in defence of values and geopolitical interests (if China gains Taiwan, the South China Sea, through which so much of LMDs' trade passes, would become waters controlled by the CCP). This could easily be the issue of the decade. To handle it successfully requires four things: unity of approach; making it clear to Beijing, in advance and quietly, that forceful unification would lead to sanctions and breaking of relations; a gradual build-up of relations with Taiwan, done in small incremental steps which are difficult to call out individually, a form of the reverse 'salami-slicing' so often practised by the CCP, for example in the South China Sea; and a coherent American approach.

⁵⁵ Section 58 of the 14th FYP Proposals.

CONCLUSION: ON THE ROAD TO BECOMING THE NEW SUPERPOWER?

Many commentators assume that China will become the biggest economy and a superpower. CCP propaganda pushes that conviction. Even if it is so, there are reasons why such status may not be sustainable. Foremost among these are the '4 Ds', debt, demographics, drought and (e)ducation (the low number of those who have finished high school). Other questions centre on whether the CCP can overcome the contradictions between its priorities and policies, such as the environment and energy; whether society and the body politic is stable (why the vast resources expended on control and suppression?); and whether China can afford the enormous costs of development, control and security, BRI, social security, PLA modernisation, food security and more.⁵⁶

But whatever the outcome of Xi's plans for global pre-eminence, LMDs will need to plan on the basis that China will remain a massive influence in the world.

HOW DO WE DEAL WITH CHINA?

Many learned papers have already set out their nostrums. The length of this paper has exceeded its welcome. So here are five short pieces of (obvious, but difficult) pieces of advice to governments:

1. Increase your knowledge of China. Understand clearly how the CCP works, its strengths and weaknesses, its aims and methods.
2. Do not demonise China, and remember the distinction between the Party and the people.
3. The EU's formulation is correct: China is a partner, competitor and systemic rival. However the devil is in the definition of and division between the three.
4. Governments should set down and continually revise a China strategy, which should be transparent throughout its departments, business, civil society – and much of it to China. Few have done so.
5. Unity between LMDs is essential. The UK and EU must put aside Brexit tensions in dealing with China; the US must reassure and consult its allies after four years of eroding their trust. Europe and the US will need to work more closely with countries such as Australia, Canada, India, Indonesia and Japan.

Those recommendations are easy to make, hard to implement, not least when Covid and other factors have led to less coherent governance. First of all, we need to get our own houses in order. And quickly, because China poses unprecedented challenges. How are we to be a partner, competitor or rival with a power which has an economic model, a science and technological research model, all of which are fundamentally opposed to ours? How do we deal

⁵⁶ For a paper on whether China can be a sustainable superpower see: Foresight 2020 The Challenges Facing China. <https://rusi.org/publication/rusi-journal/foresight-2020-challenges-facing-china>

with its ambition and ability to accumulate and use data? The conundrum is not new, but 2021 must mark the start of a more serious search for an answer.