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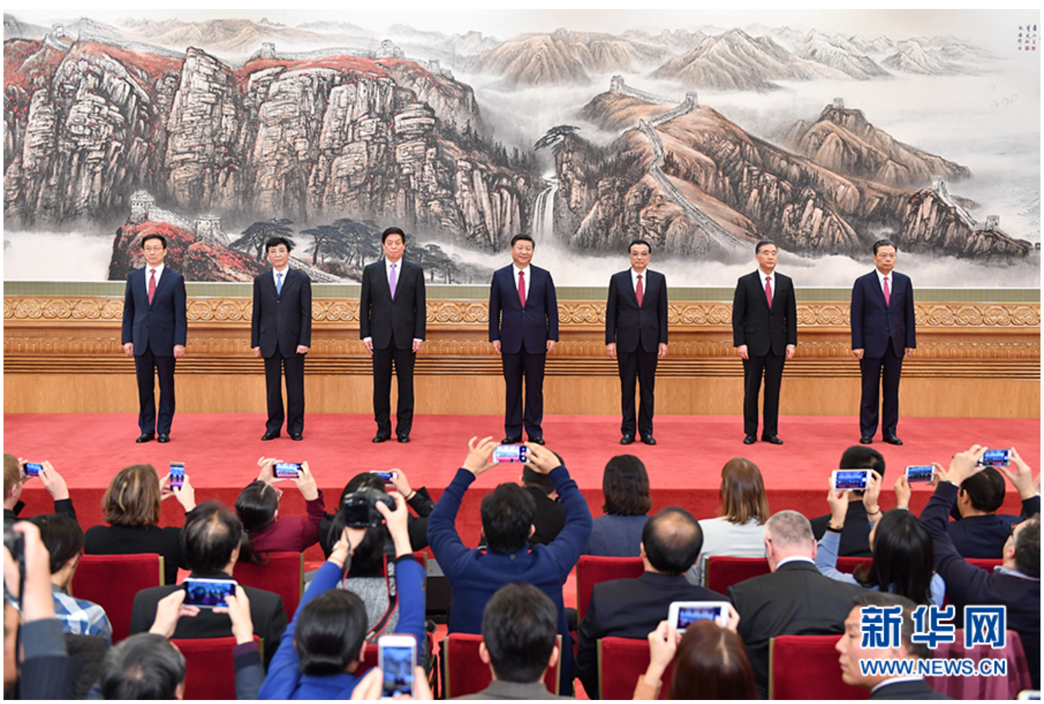
China in 2022: Xi's Time is Only Beginning, But Where Will it Lead?

The Chinese Communist Party's (CCP) official narrative holds that China is at a decisive moment. In the CCP's telling, China's long-sought goal of "national rejuvenation" is within reach, and can be attained by rallying around General Secretary Xi Jinping's leadership to fully implement "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era" (6th Plenum Communique, November 11). Not since Mao Zedong has a leader dominated China's political life to the extent that Xi currently does. For example, when the CCP's paper of record- *The People's Daily* includes photos above the fold on its front page, they are invariably of Xi giving remarks, meeting with other senior officials or holding video-conferences with foreign counterparts (People's Daily, December 15, 16). If Xi is not pictured, excerpts of his statements usually headline page one. This summer, seven new research centers devoted to the study of Xi Jinping Thought were established in key state bodies including the National Development and Reform Commission, the Ministry of Ecology and

Environment, and provincial governments (Xinhua, June 26). These new centers joined the eleven Xi Jinping Thought research centers that had already been inaugurated.

Xi has used mounting domestic and international challenges, the global pandemic and geopolitical competition with the United States and its partners, to justify his drive to transform China's economic model. Xi's policies seek to increase self-sufficiency through "dual circulation" (双循环, *shuang xunhuan)* and to reduce socioeconomic inequality through "common prosperity" (共同富裕, *gongtong fuyu*) (China Leadership Monitor, September 1; Jamestown Foundation, October 26). Under Xi, the party and state have also begun to reassert themselves in citizens' personal lives. This has included increased government monitoring to enforce the Zero-COVID policy; and restricting social behavior that contravenes socialist morality including youth video gaming, celebrity worship and gender nonconformity (China Brief, November 5). Xi has also used the occasion of the CCP's centennial to orchestrate only the third resolution on history in the party's existence, cementing his status as "core" leader for at least the next decade, if not life; and establishing Xi Jinping Thought as the nation's guiding ideology (China Brief, November 12). In this context, 2022 will be a politically decisive year for Xi that culminates with the 20th Party Congress in the fall, which will set the trajectory for Chinese politics in the next decade (2022-2032) and beyond.



(**Image:** the seven members of the Politburo Standing Committee at the 19th Party Congress in October 2017, from left to right: Han Zheng, Wang Huning, Li Zhanshu, Xi Jinping, Li Keqiang, Wang Yang and Zhao Leji, **source:** Xinhua)

The End of Institutionalized Succession

When the twice decade National Party Congress convenes in Beijing next fall, no inter-generational transfer of power will occur in an even year/numbered party congress for the first time this century. At the 16th Party Congress in 2002, Hu Jintao assumed leadership of the party and state from Jiang Zemin, who nevertheless retained the powerful Central Military Commission (CMC) chairmanship until 2004. With the 18th Party Congress in 2012, Xi assumed all three top leadership roles: CMC Chairman, General Secretary and President. The 20th Party Congress will be the first to open since a constitutional amendment in March 2018 that eliminated the ten-year term Presidential term limit (no term limits exist on the more powerful roles of General Secretary and CMC Chairman) (NPC Observer, March 11, 2018). This paves the way for Xi to retain the three core leadership positions beyond 2022.

At age 68, not only does Xi clearly have no intention of retiring, there is also no apparent successor in the top leadership body- the Politburo Standing Committee (PBSC) and Politburo. In a decade, Xi has effectively unwound the careful progress that Deng Xiaoping made to ameliorate a key structural flaw in one-party Leninist states, which is lack of a clear succession processes that produces uncertainty and fosters factional struggle.

Factional competition did occur in the runup to the two most recent leadership transitions from Jiang to Hu in 2002, and from Hu to Xi in 2012. Hu never obtained a complete grip on power due to Jiang's residual influence, as exemplified by his leadership of the CMC until 2004 (RUSI, March 18, 2005). Jiang continued to exert political pull even after his retirement, including through his protégé, Zeng Qinghong, who served on the PBSC from 2002-2007. As a result of Hu's relative political weakness, factional struggle intensified during his second term. Xi's ascent to power in 2012 came at the expense of rival Bo Xilai and his ally, security Czar Zhou Yongkang, both of whom were purged and sentenced to lifetime prison sentences (South China Morning Post, January 13, 2019).

Although leadership term-limits and retirement norms did not eliminate factionalism, they did facilitate two central leadership transitions in 2002-2004 and in 2012-2013, which were largely free of the open political turmoil that shook the system to its core during the processes to determine Deng's successor in the late 1980s, and the struggle to succeed Mao in the last decade of his life during the Cultural Revolution period (1966-1976). Xi's reversal of the progress made in institutionalizing the succession process, and his apparent desire to rule China for life introduces the specter of factional strife and political crisis whenever his health begins to wane.

The 20th Party Congress: Will Xi stack the Politburo?

Xi's continuation as core leader at the 2022 Party Congress next fall is almost certain. However, the composition of the PBSC, Politburo, and Central Committee will provide a barometer of how much power Xi will wield in the next decade. Xi has eroded retirement age norms established during the Jiang and Hu eras: 68 for Politburo and Central Committee members, and 65 for provincial leaders and ministers, by making exceptions to these conventions for himself and key allies. However, despite widespread speculation that Xi's then right hand man Wang Qishan would make the politburo at age 69 in 2017, the norm of "seven up, six down" (七上八下, *qi shang ba xia*) was upheld in 2017. The "seven up, six down" rule stipulates that leaders aged 67 and below are eligible for another term on the Politburo or Central Committee, whereas those aged 68 and above are not. While nothing is certain, this pattern will likely continue at the 20th party Congress with the substantial exception of Xi, who will be 68 years old next fall (SupChina, December 8).

If the "seven up, six down" norm holds for promotions and retirements from the top leadership bodies in 2022, National People's Congress (NPC) Standing Committee Chairman Li Zhanshu (born 1950) and Senior Vice Premier Han Zheng (born 1954) will be at or above the 68-year retirement age, and will likely step down from the PBSC **[1]**. Both Li and Han are close associates of Xi, and he has entrusted them with sensitive portfolios. For example, Han leads the Central Leading Group on Hong Kong and Macau Affairs (Beijing News, June 3, 2020). However, their retirements may also provide an opening for Xi to address another political obstacle, which is that Premier Li Keqiang, a close affiliate of Xi's rival Hu Jintao and leader in the Communist Youth League (CYL) faction, will only be 67 when the 20th Party Congress is held. Li will not be eligible for another term as Premier due to the two term-limit on the office- a restriction that was incidentally not lifted with the 2018 constitutional amendment. Nevertheless, Xi could still find it too politically costly to push his factional rival into complete retirement. However, Li Zhanshu's retirement opens the door for Li Keqiang to take over as head of the NPC, technically a promotion to the number two role in the system, but in reality, a more ceremonial position. This would still keep Li Keqiang on the PBSC, but reduce his role in policy-making. Jiang Zemin orchestrated this kind of maneuver in 1997 when conservative hardliner Li Peng was transferred from Premier to NPC Standing Committee Chairman [**2**].

Li Keqiang's lack of eligibility for another term as Premier provides Xi an opportunity to place a loyalist in this key head of government role. A more pliant Premier would enhance Xi's ability to command state organs and overcome bureaucratic inertia to implement his policy directives, particularly on economic matters. When the Xi-Li administration first assumed power, China adopted a more reform-oriented set of economic policies based on Li's technocratic approach that came to be known as "Likonomics", which focused on structural reform, deleveraging the financial sector and reducing reliance on economic stimulus (East Asia Forum, July 8, 2013). However, Li's influence on economics, which typically falls within the Premier's portfolio as State Council head, has lessened as Xi has consolidated his power. In a clear sign of Li's diminished role, he was notably absent from a planning symposium for the 14th five year plan in August 2020 (BBC, September 28 2020). As Xi has become stronger, China has also departed from Li's relatively liberal economic approach, allowing state owned enterprises to continue to dominate the economy, accruing high debt levels, and using regulatory and political pressure to reallocate resources from the private sector for the provision of public goods.

Assuming that Xi and the other leaders aged 67 or younger, Li Keqiang, Wang Yang, Wang Huning and Zhao Leji remain on the PBSC at the 20th Party Congress, this would leave two openings that Xi can fill with proteges. It is also unlikely, but not impossible that Xi could increase the PBSC to nine members, or decrease it to five. A precedent exists for both expansion and contraction of the PBSC. For example, if Xi wants to further consolidate his power, he could reduce the PBSC to five members as was the case from late 1987-1989, keeping allies Wang Huning and Zhao Leji in place to balance Li Keqiang and Wang Yang, leaders in the now greatly- weakened rival CYL faction (Marco Polo, June 17). Xi could also oversee an expansion of the PBSC to nine members, which Is how the leadership body was structured from 2002-2012. This would allow him to fill the top leadership body with additional supporters.

Per Joseph Fewsmith, there are currently eight Politburo members eligible for promotion to the PBSC in 2022, six of whom are close associates of Xi **[3]**. Potential candidates for elevation from the Politburo to the PBSC include Li Qiang, the Party Secretary of Shanghai, normally a stepping stone to top leadership who served under Xi in Zhejiang and will be 62 in late 2022; long-time Xi loyalist and Chongqing Party Secretary Chen Min'er who will be 61; and Tianjin Party Boss Li Hongzhong who will be 65 and has displayed obsequious loyalty to Xi Jinping, when many other powerful national leaders have been more lukewarm (China Brief, December 14)

The rollout of the PBSC lineup at the 20th Party Congress will attract the most media attention, but the composition of the 25-member Politburo and 200-plus member Central Committee will also be instrumental in determining the sustainability of Xi's power. It is in these bodies that a potential successor to Xi might emerge at a relatively young age that would allow them to spend sufficient time at the top-levels of power in preparation for top leadership. For example, Xi first joined the Central Committee at age 49 in 2002 and the Politburo/ PBSC at 55 in 2007. As Willy Wo-Lap Lam observes, Xi will probably remain in power through at least 2032, which is likely to result in the sixth generation of CCP cadres, those born in the 1960s, being skipped over entirely for top leadership (China Brief, November 12). As a result, early-career promotions of cadres in the Seventh Generation (those born in the 1970s) to the Central Committee and/or high provincial level positions should be monitored closely, as China's next leader is likely to emerge from this group.

Is the "Chairman of Everything" Wearing Thin?

Xi has long been called "the Chairman of Everything" and now there is "Xi Jinping Thought" on an expanding array of issues (diplomacy, economics, ecological civilization). For example, last week, the CCP's Institute of Party History and Documentation released a new volume of *Selected Excerpts from Xi Jinping on Respecting and Protecting Human Rights* introducing the prospect of "Xi Jinping Thought on Human Rights" (People's Daily, December 8). Despite, Xi's ubiquity, his popularity among fellow elites in the party, state, military, academia and business is in considerable doubt. As Willy Lam recently noted, despite the "hagiographic language" applied to Xi in the resolution on history, relatively few provincial and military leaders have taken up the tradition of making lengthy paeans to the core leader- "*biaotai"* (expressions of public fealty) (China Brief, December 14).

Furthermore, for ordinary Chinese people, the last two years have been dominated by the realities of living under the government's stringent zero-COVID policy. Lockdowns, travel limitations, mandatory testing, and state-supervised quarantines have blunted the epidemic, but have also imposed considerable economic and social strain on the populace (HKFP, November 20). Under these conditions, key set pieces for the regime such as the Winter Olympics, which opens in Beijing on February 4 and also coincides with China's biggest national holiday- the Spring Festival for which the Golden Week runs from January 31 to February 6, are unlikely to generate much enthusiasm. Many Chinese people have traditionally used the Spring Festival holiday "golden week" to travel to their hometowns and visit family. However, this is already being discouraged due to COVID concerns and the Olympics. For example, several municipalities, businesses and universities, especially in and around Beijing, have already begun calling for people to "stay put" during the Spring Festival holiday to stem the spread of COVID-19 (Global Times, December 12).

China's relative isolation due to its Zero-Covid orthodoxy, which looks set to continue through 2022, will also challenge Beijing's efforts to tamp down continued pushback from the U.S, Europe, Japan, India, Australia and others (China Brief, November 19). Economic challenges, including unmanageable debt in the property sector will also loom large. If these challenges persist they will likely continue the trend of passive resistance, and only pro forma support for Xi from most of his fellow elites, but few consumers of state media will have any notion of the sour mood at the top levels. Ultimately, Xi may believe that he can always fall back on his strong reputation for "clean governance" among the *laobaixing* (common people), but whether this will persist indefinitely as economic challenges pile up, and draconian COVID-19 limitations drag on for another year remains to be seen.

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Acknowledgement

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Notes

[1] All leader birth years and positions are taken from China Vitae.

[2] Joseph Fewsmith, *Rethinking Chinese Politics* (Cambridge, UK: Cambridge University Press, 2021, 81

[3] Ibid, 162

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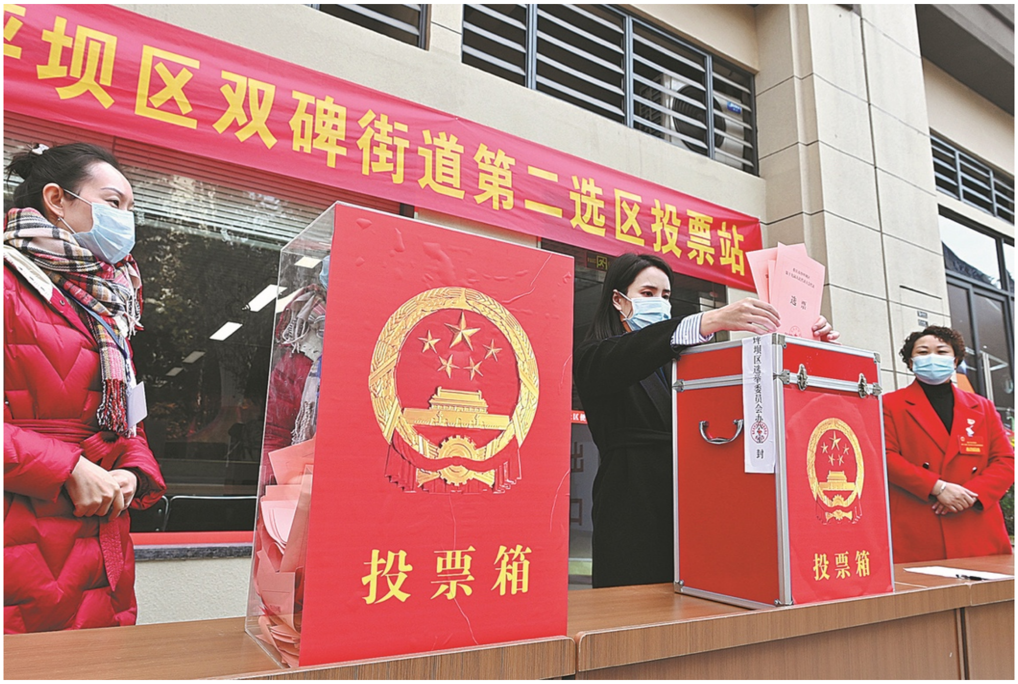
All-Out Defense of “Chinese-Style Democracy” Exposes Cracks in Xi Jinping’s Armor

By Willy Wo-Lap Lam



(Image: *A local election polling station in Chongqing's Shapingba district on December 6*, source: **China Daily)).**

Introduction

In the run-up to the U.S. “Democracy Summit” hosted by President Joe Biden on December 9-10, the Chinese Communist Party (CCP) pulled out all the stops to convince the world that China’s “whole-process democracy” (全过程民主, *quanguocheng minzhu*) is superior to the democratic ideals championed by the United States and its partners. The *White Paper on Democracy* issued by the State Council Information Office (SCIO) and other documents published by party and government units claim that the People’s Republic of China’s (PRC) “whole-process democracy” has realized the “processes of democracy and the fruits of democracy” (SCIO, December 4). The *White Paper* avers that in China there is a “synthesis between the people’s democracy and the will of the state,” and asserts that Chinese democracy is “the most comprehensive, most realistic, and most effective socialist democracy” (China Daily, December 8; Xinhua, December 4).

A Double-Edged Sword?

Despite the outward projection of confidence, the assertion that Chinese-style socialism is superior to representative democracy could boomerang on the CCP’s so-called “leader for life”, President Xi Jinping (China Brief, November 12). According to the State Council *White Paper*, a key criterion of whether a country’s political order is democratic and effective is "whether a country's leadership echelon can orderly replace itself according to law." However, Xi's revision of the constitution in order to abolish term limits on the state presidency – as well as the disproportionate magnification of his contributions to the party in the recently released *Resolution on the Major Achievements and Historical Experience of the Party over the Past Century* (hereafter *Resolution*), indicates that the supreme leader may not have a leadership rejuvenation plan at all.

The contrast between the CCP's rhetoric and reality is illustrated by a recent talk given by Politburo member and head of the party's Organization Department Chen Xi, wherein he contended that age is not the most important factor in finding successors to the current leadership. Chen, a longtime Xi protégé, said party authorities should not select potential successors "just because of their [young] age." "The selection is not about the younger the better," added Chen, who argued that "political loyalty" was the most important criterion. "Political loyalty" has been widely interpreted as fealty to Xi (SCMP, December 3, China Times, December 1). This is evidenced by the fact that the *Resolution* and other documents have emphasized values such as "the two safeguards"(两个维 护, *liangge weihu*), a reference to upholding Xi Jinping as the "core of the *dangzhongyang* 党中央 [central party authorities]" and "safeguarding the authority as well as the concentrated and united leadership of the *dangzhongyang*" (People's Daily, December 3; Xinhua, January 21). The lack of a well-thought-out succession mechanism to the party's "core for life" could lead to fierce factional in-fighting when Xi's health or grip on power begins to falter (China Brief, November 12).

The recent spate of papers and speeches eulogizing Chinese-style democracy also zero in on the fact that the great majority of Chinese take part in choosing grassroots-level legislators. For example, an early December document prepared by the Legal Work Committee of the National People's Congress (NPC), China's parliament, claims that 97.18 percent of Chinese over 18 years of age are registered voters for People's Congress polls in counties and villages as well as districts of cities. The document also asserts that voter turnout is consistently over 90 percent. However, the Legal Work Committee also points out that the NPC system "upholds the leadership of the CCP" and that Chinese politics revolves around the principle of the "synthesis among party leadership, the people being masters of the country, and administration according to law" (NPC.gov.cn, December 7). Furthermore, it is well known that to ensure "party leadership," eligible candidates for grassroots-level elections – who are almost all CCP members – must secure the imprimatur of local authorities. In October, 14 Beijing-based human rights lawyers and their relatives failed to stand as candidates in legislative elections in different districts of the capital and nearby counties due to their lack of CCP credentials (Deutsche Welle Chinese, October 18; VOA Chinese, October 17).

Growing Global Pushback

A day before the US-led Democracy summit, the CCP Central Committee's Institute of Party History and Literature published a new volume of *Selected Excerpts from Xi Jinping on the Respect and Protection of Human Rights* (习近平关于尊重和保障人权论述摘编, *Xi Jinping guanyu zunzhong he baozhuang renquan lunshu zhaibian*). The new anthology seeks to make the case that the CCP has consistently strove to "integrate the principle of human rights with China's reality by embarking on a path of human rights suited to national conditions" (People's Daily, December 8). However, just days later, a dozen odd dissidents and human rights activists including world-renowned lawyer Guo Feixiong, were either detained or prevented from leaving their residences (CNA.com.tw, December 10; Deutsche Welle Chinese, December 10).

Despite its efforts to portray itself as a world leader on human rights, the PRC's poor record of respect for individual rights has not escaped condemnation. A stern statement by the European Council condemned the deplorable human rights situations in China and other authoritarian states. A number of Western countries including the U.S., Canada and Australia also cited the PRC's ill-treatment of the Uighurs minority as justification for not sending officials to the upcoming Beijing Winter Olympics, which will be held in February 2022 (Consilium.europa.eu, December 9; Hong Kong Free Press, December 7).

Indeed, the recent criticism of the PRC's human rights record by democratic countries is significantly different from past choruses of international condemnation. The Biden-led coalition made it clear during the Summit of Democracy that greater pressure would be put on the PRC in the form of economic and technological sanctions. The U.S. President said the democratic bloc was committed to shaping "the rules of the road that are going to govern our progress in the 21st century, including on issues of cybersecurity and emerging technologies" (The White House, December 10). More bans are being imposed on PRC entities suspected of being part of China's defense-industrial complex. During the Democracy Summit, Washington announced that no U.S. capital would be invested in SenseTime, an IT company specializing in facial recognition that is associated with the repression of Uighurs. This followed a joint decision by the U.S. and EU authorities in September to prevent China from securing components or accessing supply chains in the semiconductor sector, along with agreement to enhance cooperation on artificial intelligence, cybersecurity and digital privacy (Nikkei Asia, December 9; Bangkok Post, September 30). This intensifying effort to decouple the Chinese and Western systems occurs as the PRC economy is battling strong headwinds. The Chinese economy is burdened by a severely debt-laden property sector, growing unemployment, stagnation in consumer spending, foreign manufacturers leaving China due to cost and other reasons, and shrinking government coffers as evidenced by hefty cuts in the salaries of civil servants in several provinces and major cities (Radio Free Asia, December 9; VOA Chinese, October 13).

Due to the state's tight control of the media in China, most official news outlets have condemned Washington's Democracy Summit as well as statements by Western countries denouncing the lack of citizens' rights in China. Yet it is possible that ordinary Chinese may feel unhappy over how the CCP's "anti-Western" policies might negatively affect the domestic economy and lower their standards of living. Moreover, at least among well-educated intellectuals, voices calling on the CCP leadership to adopt international norms, including "Western-style" constitutional governance have also become more vocal. For example, Zhang Qianfan (张千帆), a respected law professor at Peking University, recently slammed the authoritarianism of the CCP in a classroom talk. He noted that global experience had proven that "a kind of cunning and stubborn authoritarianism" often comes in the wake of revolution. He also accused the Chinese government of suppressing the wages of workers and over-exploiting the country's resources. "Only if each individual dares to assert his dignity can the Chinese really become masters [of their nation]," he explained (Zhang Qianfan Youtube, December 2).

A Blow to Xi's Prestige?

Moreover, the Western world's growing willingness to boycott China could begin to have a detrimental impact on President Xi's prestige and authority. Analysts are surprised that after the release of the *Document* on party history, which uses hagiographic language to glorify the strongman's spectacular exploits – only a relatively small number of regional and PLA leaders have taken up the tradition of *biaotai* ("express fealty in public") to sing Xi's praises. The party bosses of Tianjin and Shandong, Li Hongzhong (李鸿忠) and Li Ganjie (李干杰) are among the few provincial party secretaries who have pledged their loyalty to the supreme leader. For example, in a talk to college students, Li Hongzhong praised Xi for "coordinating the strategy of the great renaissance of the Chinese nation… and solving many long-standing problems that have not been resolved" (Tj.news.cn, December 6; Study Times, December 4). Top generals also appear largely reticent when it comes to the *Resolution* and Xi's historical position. In a study session on the Sixth Plenum of the Central Committee organized by the Central Military Commission (CMC), the two CMC Vice-chairmen, Generals Xu Qiliang and Zhang Youxia seemed to be merely going through the motions in seconding Xi's leadership. Each Vice Chairman's pronouncements of fealty amounted to merely 150 words or so, which is much shorter than the usual word counts for ritual *biaotai* (Xinhua, November 22).

Even more intriguing is a December 9 *People's Daily* article entitled "The Reform and Open-door Policy was the party's great awakening," which amounts to a pro-reformist explication of the *Resolution*. The author Qu Qingshan (曲青山) is the Director of the Party History and Party Archives Research Academy of the CCP Central Committee. Using the *Resolution* as the point of departure, Qu lavished praise on Deng Xiaoping's "profound understanding of socialist revolution and socialist construction." He quoted the Great Architect of Reform as saying that the leftist excesses of the Cultural Revolution had convinced him that "it won't do if we do not undertake reform and establish new policies in the political, economic and social [arenas]." Qu added that the great awakening precipitated by Deng's reform "has demonstrated the people's vivid realization of [the task of] creating history." The author also praised former presidents Jiang Zemin and Hu Jintao for developing Deng's market-oriented theories. The entire essay does not mention Xi even once. Nor was there any reference to the vaunted "Xi Jinping Thought on Socialism with Chinese Characteristics in the New Era" (People's Daily, December 9) in the piece. That an article that belittles Xi's accomplishment could be run in the *People's Daily* is an indication of a vast difference of views among senior cadres regarding the paramount leader's contribution to CCP history. Similarly, neither Xi's name, nor Xi Jinping Thought are mentioned in another official piece explicating the importance of the *Resolution*. Like the essay by Qu, the Xinhua article, entitled "Write a new statement of the new-era reform and open-door policy from a higher perspective," merely chronicled the progress made by the reform and open-door policy in different parts of China (Xinhua, December 10).

At the same time, Xi's control of the political-legal (政法, *zhengfa*) apparatus (the police, secret police and judicial departments) has continued to be cast in doubt by the repeated replacements of senior cadres in the Ministry of Public Security. In 2018, then vice minister of public security and head of Interpol Meng Hongwei (孟宏伟)was arrested. This was followed by the downfall of another vice minister of public security Sun Lijun (孙立军) in 2020. Both Meng and Sun were accused of committing economic crimes and organizing anti-Xi "conspiratorial cliques" within the internal security hierarchy (BBC Chinese, October 3; People's Daily, September 30). Even more stunning was the detention last October of yet another former vice-minister of public security Fu Zhenghua (傅政华), who had had an illustrious career in the *zhengfa* system. Fu was considered a Xi protégé due to his role in bringing down the latter's bitter foe, former Politburo Standing Committee and head of internal security Zhou Yongkang in 2014 (The Initium, November 5; Radio French International, November 5). Last month, Xi signaled that the purge of the *zhengfa* system had not ended by appointing Executive Vice Minister of Public Security Wang Xiaohong as Head of the CCP Committee of the ministry. Wang, who first worked with Xi when the latter was vice mayor of Xiamen in the mid-1980s, is considered a key member of the Xi Jinping Faction (HKOI.com, December 1; Radio French International, November 20). Wang's rise could mean that the incumbent Minister of Public Security and former head of the ministry's party committee Zhao Kezhi, who is deemed close to his former deputies Sun and Fu, might be removed in the foreseeable future.

Conclusion

For the first time in history, Western and pro-democracy countries have used China's abysmal human rights record as justification to levy sanctions and other forms of punishment on the PRC. While most of China's dissident and activist NGOs are under police control, Xi's apparent failure to mend fences with the U.S. and other leading EU and NATO members could be leveraged by his opponents to counter the paramount leader's push to achieve lifetime tenure.

The lengths to which members of the Xi faction have gone in lionizing their boss could also backfire. Take, for example, the essay by the Vice-Head of the Department of Propaganda Shen Haixiong exalting the greatness of Xi. Shen, who worked for Xi when the latter was party secretary of Zhejiang Province, said the supreme leader is a "great statesman, thinker and strategist" who abides by the dictum "I shall become selfless so as not to let the people down." Shen further claimed that Xi has in recent years "turned the tide [of national politics] and prevented the big mansion [of state] from collapsing" (挽狂澜于既倒，扶大厦之将倾, *wan kuanglan yu ji dao, fu dasha zhi jiang qing;* CCTV Net, December 8). Shen's characterization of Xi as a "selfless" cadre seemed a back-handed way of putting the spotlight on his lust for power. And by saying that Xi has "prevented the big mansion [of state] from collapsing," Shen appeared to imply that the PRC was about to give way due to its apparent failure to meet multi-pronged challenges. In sum, the Xi leadership's frantic defense of the national record on human rights and other issues – plus the "core's" paranoia about losing his all-embracing authority – has betrayed signs of malaise that permeates the CCP's top echelons.

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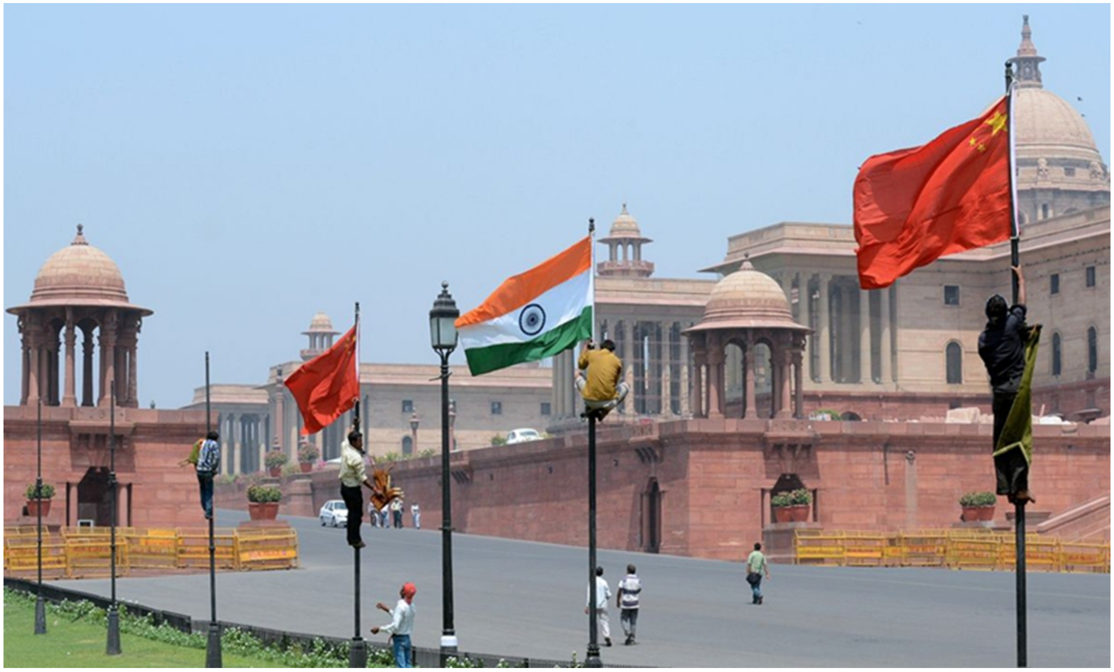
Foreseeing the China-India Boundary Dispute: 2022 and Beyond

By Jagannath Panda



(**Image:** *Chinese and Indian flags fly next to one another during a recent Shanghai Cooperation Organization summit meeting*, **source:** CGTN).

Introduction

Over the last year, Chinese politics have been acutely driven by President Xi Jinping's quest to further cement his leading role in the hierarchy of the Chinese Communist Party (CCP). Xi's drive to stamp his "strongman" image and personality-driven political ideologies on the CCP system have dominated Chinese politics, with the recently concluded Sixth Plenum only continuing this trend. The Chinese President's efforts to capitalize on his growing power, on both the domestic and international fronts, has greatly impacted geopolitical dynamics across the Indo-Pacific region. Between nationalist policy releases—such as the new coast guard law (海警法, *hai jing fa*) or dual circulation strategy (双循环策略, *shuang xunhuan celue*) (China Daily, August 6)—and continuing disputes with regional powers over land/territorial or maritime boundaries, Xi's focus has been on reinforcing his own legacy as he aims for an unprecedented third term in office. Thus, Xi has been stroking nationalist fervor to justify the regime's repressive measures (e.g., Hong Kong, Xinjiang and Tibet) and expansionist maneuvers (Taiwan, East and South China Seas and India's Ladakh).

Xi's "strongman" persona extends to his attempts to alter the regional geopolitical landscape, which is particularly evident in Beijing's continued aggressive posture in the China-India boundary dispute. Even after multiple rounds of talks between China and India, the objective of complete disengagement along the Line of Actual Control (LAC) in eastern Ladakh has not been achieved (Ministry of External Affairs, November 18). This impasse continued with the 13th round of border talks held on October 10, which produced no resolution over the contentious issues in eastern Ladakh. Indian representatives emphasized the importance of resolving ongoing issues along the border to improve bilateral relations (Ministry of External Affairs of India, October 11). However, constructive attempts have been met with strong resistance from the Chinese side, who have termed Indian suggestions as "unreasonable and unrealistic" (Ministry of National Defense of the People's Republic of China, October 11). The 14th round of the Corps Commander level talks on the Galwan disengagement will likely be held soon. Though it is highly improbable that the 14th round of border talks will yield any concrete outcome, it is worth reviewing the military and political developments since the last few rounds of talks and the tone they have set for a possible resolution in 2022, particularly amidst such a precarious scenario.

Continued Aggressive Posturing and Marketing of Soft Power

The goals of China's approach to border politics with India in 2021 have been twofold: improving military logistical support on the ground while highlighting diplomatic engagement to resolve disputes. This approach seeks to represent China as a flagbearer of peace and increase its international appeal. The next year is unlikely to reflect any change in such aims.

In late October, the Standing Committee of the National People's Congress, China's chief legislature, adopted a new law on the "protection and exploitation" of China's land border areas. This new law, which is set to take effect on January 1, 2022, lays down several important measures pertaining to the role of the state in safeguarding the integrity of China's land boundaries in the event of "any act that undermines territorial sovereignty" (*China Daily*, October 23). In seeking to "resolutely safeguard territorial sovereignty and land border security," Beijing seems to have found a new approach toward reinforcing its desire to resolve the boundary dispute with New Delhi on its own terms (*Global Times*, October 24). The new law stipulates that the People's Liberation Army (PLA) and the paramilitary People's Armed Police (PAP) are largely responsible for resisting armed invasion and responding to intrusions (officially called as "transgressions" between China and India) along China's border. Both institutions are under the command of the Central Military Commission (CMC), which is headed by Xi. The new legislation does not inherently change the calculus of how China handles security along its boundaries, but it does demonstrate increased resolve by the Chinese state to protect its "sacred and inviolable" sovereignty, and concurrently also serves to strengthen pursuit of the domestic objective of enhanced control over ethnic minority populations along the borders (*China Daily*, October 23).

Another significant aspect of the new law is its emphasis on the development of the towns along the border, which highlights the role of civilians in supporting the PLA and PAP in what can be interpreted as an extension of the CCP's "civil-military fusion strategy" (China Brief, October 8, 2019). This aspect might be the most significant concern for Indian operational planning, as the ambiguity of involving civilian populations and integrating civilian infrastructure into military strategy and utility is seriously challenging (*The Indian Express*, October 27). For instance, the Chinese state is also known to pay allowances to citizens living along the China-India border in Tibet in a bid to ensure their loyalty. As a part of its "civil-military fusion strategy," China displays and exerts superiority over the extent of development and economic stability of the villages on the Chinese versus the Indian side of the border. Moreover, subsidizing Tibetan citizens to move to border areas has also emerged as a key trend in the Chinese government's attempts to consolidate power along the boundary regions (China Tibet Net, January 28; South China Morning Post (SCMP), December 6, 2020). China's new land border law seeks to legitimize the use of civilian settlements to aid the Chinese territorial claims along the LAC—a move similar to China's construction of artificial islands in the South China Sea (*SCMP*, March 7).

Additionally, the PLA recently tested high-altitude conventional weapons that are designed for extreme conditions in the western sector of the border with India (SCMP, November 23). The PLA has been focusing on strengthening border infrastructure and upgrading logistics, using modern technologies to improve the living and working conditions of its soldiers along the LAC, especially during the harsh winter months (Global Times, November 9). Soon after border talks stalemated in November, the PLA tested precision weapons systems intended for use in the harsh environment, continuing China's build-up of advanced weapon systems along the border. Beijing is reportedly also improving its air combat power along the western front of the LAC, constructing new bases while upgrading existing ones and expanding connectivity ambitions by building helipads across the Qinghai–Tibet Plateau (Toutiao, November 18).

The military developments are an attempt to re-balance the status quo and undermine the border mechanism resolution processes that China and India have engaged in since the June 2020 Galwan clashes in a bid to reduce hostilities. For instance, even as the two countries held the 23rd Working Mechanism for Consultation and Coordination (WMCC) on India-China Border Affairs, which is one of the most important channels for dialogue, to "find an early resolution to the remaining issues along the LAC," China nevertheless expanded military and civilian facilities in the Tibetan Autonomous Region (TAR)—e.g., the number of heliports and airbases in the region doubled from 2017 to 2020 (Ministry of External Affairs of India, November 18*; Hindustan Times,* February 8).

Aggressive posturing by China has also increased tension in border areas overlapping with third party countries. For instance, satellite images recently revealed that four new Chinese villages have been built in Bhutanese territory near the Doklam plateau—the sensitive boundary tri-junction between India, China and Bhutan where China and India engaged in an extended standoff in 2017 (Twitter, November 17). As one of Bhutan's oldest partners—New Delhi is especially sensitive to its Himalayan neighbor's territorial integrity and has played a significant role in Bhutanese foreign policy. India is doubly cautious because in October, China and Bhutan signed a Memorandum of Understanding (MoU) on a Three-Step Roadmap for Expediting the Bhutan–China boundary negotiations, which has been heralded by China as "historic" (*Global Times*, October 15). Beijing has repeatedly disputed Bhutan's territorial claims over Doklam, and the two states had refrained from holding boundary negotiations after the 2017 standoff at Doklam, which was seen as a major military and diplomatic victory for India. The MoU is highlighted in Chinese media as a blow to India's efforts to contain China.

According to Chinese state media, "China-Bhutan boundary issues were used as an excuse by India to attack China during the Doklam standoff" and New Delhi is the "reason for the delay" in negotiations between China and Bhutan (*Global Times*, October 15). Still, the MoU works in China's favor, particularly in terms of expanding its sway in the Himalayan region. By securing a comprehensive agreement on the border with Bhutan, Beijing would gain inroads into Bhutan in terms of investments and tourism, thereby furthering China's objective to expand its strategic influence in the region. Nonetheless, India's influence over Bhutan remains a key area of geopolitical focus for New Delhi. As Himalayan neighbors, India's decades-old special relationship with Bhutan is still bound to enable close coordination between New Delhi and Thimphu on foreign policy issues. In 2022, the Bhutan-China MoU will have important ramifications for the China–India boundary issues especially considering the already tense state of relations due to the LAC standoff. That said, India's ability to diplomatically maneuver Thimpu may ultimately give New Delhi the upper-hand.

Political–Diplomatic Responses to the Stalemate

In response to Chinese military build-up and increased infrastructure activities along the LAC, India has boosted its defense capabilities by deploying Israeli Heron drones for surveillance operations in the eastern Ladakh sector and conducting airborne drills in the area (*Hindustan Times*, November 30; Army Technology, November 2). Although in recent months, the two sides have disengaged from some friction points following commander-level talks, the increased military presence along the border and respective unwillingness of both sides to make concessions in negotiations will not help to break the logjam.

The growing discontent between the Asian powers was also apparent at the 18th meeting of the Foreign Ministers of Russia, India and China held via video-conference on November 26. Chinese Foreign Minister Wang Yi indirectly referred to the Quadrilateral (Quad) initiative of India–Australia–Japan–U.S. as a "patchwork of small circles" and emphasized the need to get out of the "'democracy trap' of certain countries," an obvious reference to the growing U.S. clout in the region (*The Hindu*, November 26; *Global Times*, November 27).

As U.S.-India relations continue to grow stronger, China's insecurity about its ability to attain regional hegemony has also increased (*Global Times*, April 1; *Global Times*, November 1). Beijing has termed the U.S.-India rapprochement a "clique" orchestrated by the U.S., and Chinese media often alleges that the term "like-minded" is used as a strategy to bring together countries that are fearful of China—"an anti-China frontier" (*Global Times*, October 7). China's growing insecurities and Xi's need for absolute control will only boost its repressive tactics and expansionist maneuvers in the coming years, not just in 2022.

Foreseeing the Future of the Dispute

The Galwan impasse is likely to continue, as it is unlikely that Beijing will give up any border claims in 2022. Diplomatic avenues will remain open but so too are the military options, even if they are used only for deterrence purposes. As both sides continue to strengthen their combat preparedness and refuse to budge an inch during the military talks, the prospect for resolution in the near future remains rather dim (*South China Morning Post*, November 30).

To make matters worse, both countries are governed by regimes that thrive on whipping up nationalist fervor and headed by leaders that espouse strongman personality cults. For each leader then, making a compromise on the border issues will be akin to kneeling before the "enemy," and hence tarnish their long-held reputation. The new NPC law on the protection of land border areas amid escalating tension with India, too, highlights China's lack of intention to solve the ongoing border dispute. As long as the deadlock continues, the best that can be hoped for is that Beijing does not utilize its new border law as a justification for renewed conflicts.

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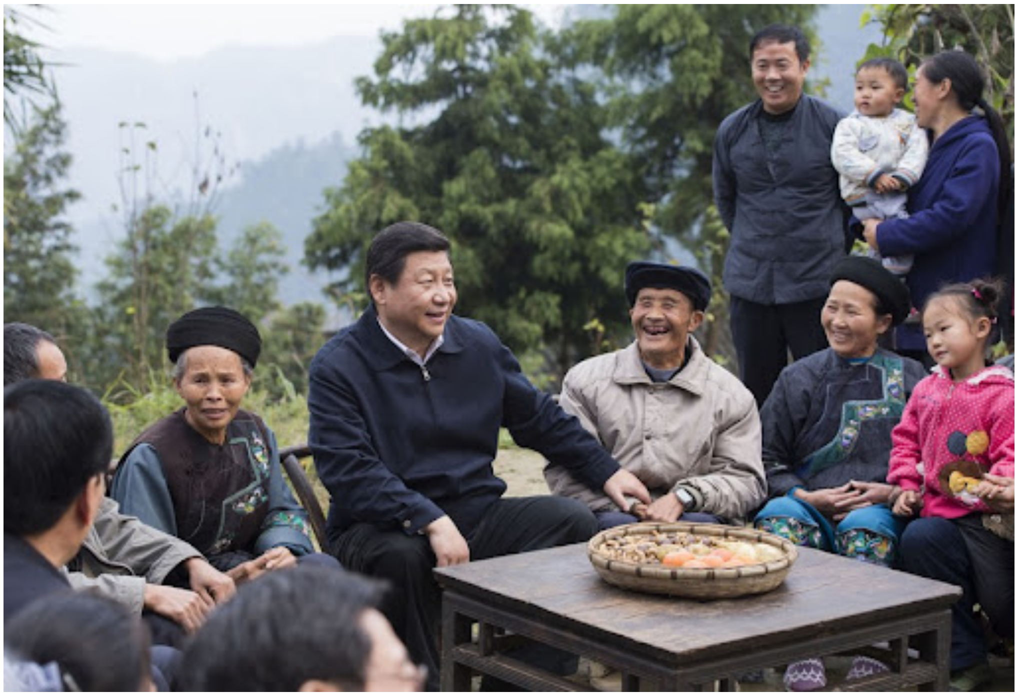
Xi Jinping and "Common Prosperity": New Governance Paradigm or Tool to Consolidate Power?

By Fatoumata Diallo



(Image: *Xi Jinping speaking with villagers, party cadres in Shibadong Village in Hunan Province*, source: Xinhua)

Introduction

During the 6th Plenum of the 19th Chinese Communist Party (CCP) Central Committee, held in November 2021, China's top political leadership passed a "historical resolution" that cements President Xi Jinping's (习近平) status as a transformative leader and secures his political legacy (People's Daily, November 11). In reviewing key experiences from the past, the meeting celebrated the achievements of Xi's rule, praising not only the "efforts to address corruption in both political and economic circles" but also the victory in establishing a "moderately prosperous society" (小康社会, *xiaokang shehui*) (People's Daily, November 11). This has paved the way for Xi to move forward with his pursuit of "common prosperity," a principle that has rapidly become the new leitmotif of his ambitious agenda.

What does the rise of this new rhetoric around "common prosperity" entail for the future direction of Chinese governance in the Xi Jinping era? While the leadership has primarily presented this policy shift as a way to promote social fairness—by redistributing wealth in society and bringing the country into a new stage of development—the crackdowns that have ensued also suggest strong political motives underlying the endeavor.

A New Governance Paradigm For A New Era

The emergence of "common prosperity" as a centerpiece of Xi's political rhetoric coincided with the 10th meeting of the Central Financial and Economic Affairs Committee in mid-August (Xinhua, August 17). Xi touted the principle as a "fundamental requirement of socialism and a key feature of Chinese-style modernization," which in essence, entails creating a better distribution of wealth within Chinese society (Qiushi, October 15).

The phrase "common prosperity" itself does not constitute a novelty, as it was first introduced by Mao Zedong (毛泽东) in the 1950s in the wake of land reforms and collectivization (China Media Project, August 27; People.cn, December 25, 2018). Deng Xiaoping (邓小平) also envisioned common prosperity as an ultimate goal for the country, albeit prioritizing a policy of "letting some get rich first" (让一部分人先富起来, *rang yibufen ren xianfu qilai*) in order to spur others to catch up (People's Daily, August 09, 2019). In contrast, Xi is now building a narrative that posits himself as the core leader with the capabilities to deliver on the ambitious goals set by his predecessors.

In that sense, the turn toward common prosperity carries strong symbolic significance. It officially closes the door on Deng's Reform and Opening-up era to make way for Xi's new age of modernity and realizing the "great rejuvenation" of the Chinese nation" (中华民族伟大复兴, *zhonghua Minzu weida fuxing*) (Qiushi, December 2013). While Deng's policy framework and economic strategy allowed the country to achieve four decades of exponential economic growth, it also resulted in deep-seated structural imbalances. Notably, in Xi's view, excessive emphasis on economic growth and its promulgation as the foundation for the regime's legitimacy were key factors in the emergence of an unsustainable development model, characterized by rampant corruption and systemic inequalities. This pro-growth model also gave rise to collusive relations between the government and corporate spheres, encouraging rent-seeking opportunities and entrenched corrupt practices such as trading wealth for power.

Against this backdrop, Xi's rhetoric around "common prosperity" and his recent actions can be seen as efforts to correct the negative legacy of preceding eras. In doing so, Xi seeks to direct structural changes that will lay the necessary foundations for the transition to a high-quality development model, underpinned by balanced economic growth, reduced financial risks and increased social fairness.

Xi has already cited the need to rebuild the legitimacy of the party around a new guiding force—namely common prosperity. The fact that the leadership abandoned its longstanding practice of setting a Gross Domestic Product (GDP) growth target for the first-time in 2020 is indicative of such a shift. Furthermore, Xi also rebranded the "main contradiction" (主要矛盾, *zhuyao maodun*) facing the Chinese society from "the ever-growing material and cultural needs of the people and backward social production" to "unbalanced and inadequate development and the people's ever-growing needs for a better life" (People's Daily, March 30, 2018).

To carry out this shift toward improved economic sustainability, the leadership has put particular emphasis on reducing China's substantial income and wealth gaps. After peaking at 0.491 in 2008, China's Gini coefficient has remained at an average of 0.467 over the past years, a figure above the international inequality alert line of 0.4 set by the United Nations, which evidences enduring inequalities (Finance.sina, August 19; UN Habitat, 2008/2009) **[1]**. By addressing income inequality, Xi hopes to grow and empower the Chinese middle-class to boost domestic consumption, which will serve as the main driver of future economic growth. This is partly set to be achieved through the implementation of the so-called three distributions (三次分配, *sanci fenpei*), which compels high-income groups to "give back to the society" through charitable donations (People's Daily, September 06).

The private sector has been put on the frontline of this new redistribution agenda, with Xi not only ordering a major clampdown on "excessively high income," but also accelerating efforts to curb the so-called "disorderly expansion of capital" (资本无序扩张, *ziben wu xu kuozhang*) in several industries including real estate, the internet, technology, digital finance and education (Xinhua, December 27, 2020). These efforts also seek to rein in negative business and financial practices—such as lax corporate governance, unsustainable lending and shadow banking—that have exacerbated volatility over the years (Beijing Local Financial Supervision and Administration, August 23).

The recent anti-monopoly and anti-trust regulations that have hit companies, such as Tencent and Alibaba with hefty fines are part of these efforts (Guancha, November 20). To further break down the oligopolistic market structure, the leadership has simultaneously put forward new measures to support small and medium enterprises, as well as individuals in the business sector (Xinhua, September 1). Authorities have also proposed a property tax pilot scheme, which will be introduced in selected regions over a five-year period as part of a push to rein in rent-seeking practices and speculation in the real estate sector (Global Times, October 23).

The crackdown on the private tutoring and education industry reflects broader efforts to better equalize the distribution of services within society. For example, Premier Li Keqiang (李克强) recently announced initiatives aimed at reducing inequalities in access to education, which include raising the national loan ceiling for students (Xinhua, September 1).

Finally, given that China's high-income inequality overall derives from significant regional disparities and a longstanding rural-urban gap, the leadership has initiated a growing urbanization drive to promote the "citizenization" of rural residents (NDRC, September 14; ISDP, December 3, 2020).

Reasserting Party Supremacy, Cementing Xi's Authority

Beyond the economic aspect, the shift to "common prosperity" and the renewed anti-corruption efforts undertaken in its name undeniably reflect Xi's core political goals and ambitions. Xi himself openly declared that "achieving common prosperity isn't just an economic issue; it's a major political matter bearing on the party's foundation to rule" (Qiushi, October 8). Indeed, neutralizing perceived threats and challenges to regime survival is an enduring concern for the CCP leadership, and consequently, tackling corruption and the ensuing social inequalities are key priorities. Xi has repeatedly warned throughout his tenure that "corruption will doom the party and the country" (腐败最终会亡党亡国, *fubai zuizhong hui wang dang wangguo*) (Xinhua, November 17). Corruption constitutes a systemic vice that has resulted in rising social unrest in recent years, and therefore poses major threats to the CCP's legitimacy and long-term stability.

The Chinese leadership's inordinate fear of social unrest is largely rooted in the trauma caused by the Tiananmen square uprising, which was triggered in part by government corruption. At the same time, in Beijing's view, the collapse of the Soviet Union, the "color revolutions" in Eastern Europe and the more recent "Arab Spring" uprisings all provide chilling lessons of fates that the CCP leadership is determined to avoid at any cost (Xinhua, February 23).

Xi's emphasis on common prosperity therefore seeks to eliminate politically threatening "social contradictions" (社会矛盾, *shehui maodun*) and ensure future social stability. While the anti-corruption struggle that he initiated upon assuming office has already made unprecedented headway in correcting imbalances, leveraging the "common prosperity" drive will allow him to generate fresh momentum for his efforts to rein in corruption and ensure popular support for the regime. The goal is to convey the image of a party steering back toward its socialist roots and its fundamental mission of "serving the people" first.

Nevertheless, the brutal crackdown that has accompanied the "common prosperity" rhetoric cannot veil Xi's underlying desire to break the vested interests of wealthy private entrepreneurs and force them to toe the party's line. Indeed, the reform-era growth model allowed private companies and entrepreneurs to accumulate sizable wealth, which they have increasingly leveraged for economic and political clout. Furthermore, many private companies have high-level connections in foreign financial markets and possess vast amounts of strategic data that could be leveraged against the regime. Due to the threats these interests pose to the party and thus to Xi's personal authority, the new restrictions will increase the CCP's oversight over the private sphere and compel its influential stakeholders to realign their priorities with those of the party.

Notably, a strong effort is underway to eliminate collusive relations between party-state officials and private entrepreneurs in an effort to weaken the latter group's political influence. The downfall of Hangzhou Party Secretary Zhou Jiangyong (周江勇) is a case in point. Hangzhou is the capital city of Zhejiang, a province which has been the stronghold for multiple large corporations and influential private entrepreneurs. Although Zhou is part of Xi's inner circle (his "Zhejiang clique"), it appears that his close relations with Alibaba and Ant Group founder Jack Ma and involvement in Ant Group's business may have led to his indictment (China Times, August 27). As Xi seeks to transform Zhejiang—his core political powerbase—into a "Common Prosperity Demonstration Zone" (NDRC, July 29), he has struck hard and made an example of Zhou. This sacrificial probe against a factional ally sends a strong message to other senior officials that collusion with the private sector will not be tolerated in the future.

Finally, as was the case with the anti-corruption struggle, the multi-pronged "common prosperity" crackdowns have also been used by Xi to eliminate factional rivals. A look at those targeted by these actions indicates that an accelerated purge against senior officials and wealthy families connected to the Jiang Zemin (江泽民) faction is underway. Xi continues to reiterate the need to eliminate "the lasting poison" and "lingering influence" of leaders associated with Jiang such as Zhou Yongkang—one of the biggest "tigers" to fall in his anti-corruption drive.

This year's sweeping campaign to purge the political-legal apparatus has helped restore the factional power balance in Xi's favor (China Brief, September 23). Nevertheless, the financial, entertainment and technology sectors are the last remaining bastions of Jiang's faction, which partly explains why Xi is targeting these specific areas. In fact, there has been speculation that key members of the Jiang faction provoked China's severe stock market crash in 2015 to outmaneuver Xi's faction and undermine his reputation (Epoch Times, July 23, 2015). In the aftermath, the three brokerage companies, CITIC, Guosen and Haitong Securities, were investigated by the Ministry of Public Security for allegedly engaging in market manipulation (Xinhua, May 26, 2017). Since then, Xi has initiated investigations into numerous institutions and officials operating in the financial sector in an effort to reclaim absolute control (Xinhua, September 26).

The most visible sign of this ongoing factional struggle is perhaps the recent encirclement strategy targeting the family and inner circle of Zeng Qinghong (曾庆红), former Vice President and Jiang's longtime right-hand man (China Brief, October 14). Notably, Xi's crackdown on the real estate sector and tightened lending rules have hit two high-profile figures connected to Zeng: Evergrande founder Xu Jiayin (许家印) (Epoch Times, October 6) and Zeng Baobao (曾宝宝) —Zeng Qinghong's niece and founder of the embattled Fantasia Holding Group (Finance.sina, October 9).

Conclusion

In embarking on this new journey toward "common prosperity", Xi is signaling a major paradigm shift in China's governance. This is a departure from the growth model of the Deng era, which, while generating enormous economic growth, also led to widespread imbalances and corrupt practices that threaten the party's long-term survival. By positing himself as China's new helmsman, Xi has set out to correct this negative legacy and to usher in a new era of high-quality development, underpinned by balanced growth and social fairness.

Despite Xi's unfeigned readiness to make systemic changes over the long term, the crackdowns that he has initiated as part of the "common prosperity" drive highlight the political motivations prompting these actions. In the near-term, Xi's foremost preoccupation is to eliminate highly visible inequality that is detrimental to both social stability and economic growth. If Xi achieves this goal, he will be able to generate stronger popular support for the regime and thus prop-up the legitimacy of its rule. Xi also seeks to leverage the "common prosperity" drive as a vehicle to break the vested interests of private entrepreneurs and companies whose political and economic clout threaten the party's supremacy.

At the same time, Xi's targeting of rivals and the business interests linked to them reflects his efforts to remain at the pinnacle of power and to thwart any potential challenges to his political authority. All in all, the historical resolution passed by the party to cement Xi's authority appears to the necessary political momentum from him to strike a decisive blow against his remaining rivals and to clean up the field ahead of the much-anticipated political reshuffling of the 20th National Party Congress (NPC) next year.

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Notes

[1] By comparison, the Gini coefficient of EU countries stood an average of 0.30 (OECD, January 26, 2017).

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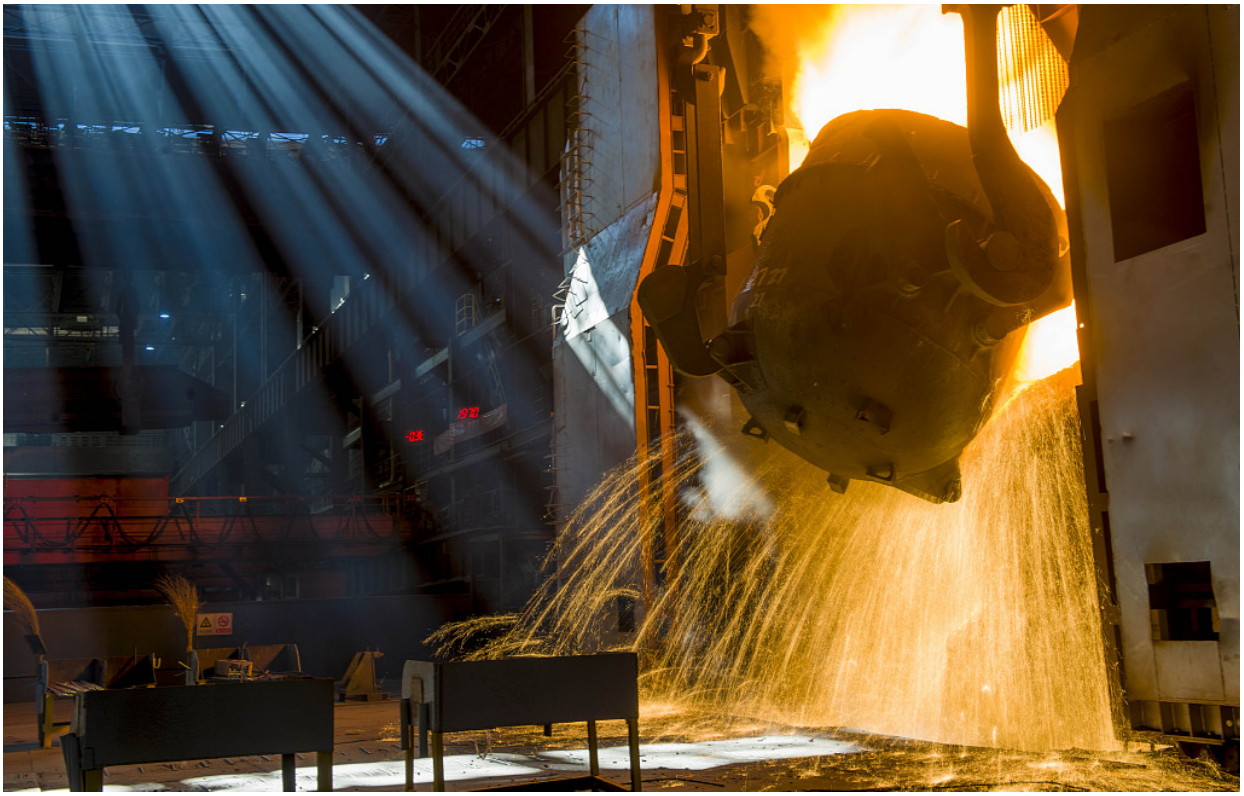
U.S.-EU Green Steel Alliance Confronts China's Excess Steel Production

William Yuen Yee



(**Image**: *A steel mill in China. In 2020, China's yearly steel output hit one billion tons for the first time*, **source**: CGTN)

Introduction

After striking a deal to terminate the U.S.-European Union bilateral dispute over steel and aluminum tariffs, U.S. President Joseph Biden hailed the opportunity to curb imports of "dirty steel" from China (Straits Times, October 31). The U.S. and EU jointly agreed to support sustainable steel and aluminum manufacturing and encourage greener production. Under the arrangement, both sides pledged to collaborate to "restrict access to their markets for dirty steel and limit access to countries that dump steel in our markets, contributing to worldwide over-supply" (The White House, October 31).

The issue of China's subsidized overproduction of steel and its resultant environmental damage is not new, although resolving this challenge has often been easier said than done. While China has criticized the latest U.S.-EU arrangement and rejected its "groundless accusations," the central government itself has sought to lower annual steel production in pursuit of President Xi Jinping's pledge to become carbon neutral by 2060 (Xinhua, September 23, 2020). But plans to create a sort of transatlantic "green steel alliance" against China will likely conflict with the World Trade Organization's (WTO) international trade rules (POLITICO, November 15).

Background

China has the highest carbon emissions in the world, contributing 31 percent of the world's carbon dioxide (CO_2) emissions in 2020. This year, Beijing's emissions are projected to rise by four percent compared with last year (South China Morning Post (SCMP), November 4). The U.S. ranks second with 14 percent, followed by the EU and India both at seven percent. Two primary sectors are driving China's high emissions levels: coal and steel. The latter has propelled both China's rise on the international stage and the rise in global temperatures.

To comprehend China's impact on the global steel industry, one must understand the sheer scale of its steel production. In 2020, China's output of crude steel reached a record high of 1.07 billion tons, more than all other nations in the world combined (SCMP, May 8). That year, China accounted for 57 percent of the global steel production and became the first country to produce over one billion tons in a single year (World Steel Association, January 26). India and Japan, the second and third largest steel producers, churned out 99.6 and 83.2 million tons, respectively. China's monthly output in May 2021 virtually matched India's annual level from last year, producing a record 99.5 million tons, although this number later fell as a result of Beijing's environment-related controls (National Bureau of Statistics of China, accessed December 15).

The Chinese government's industrial policies are largely responsible for this excess steel production. Despite regularly touting its commitment to market-driven policies, China has continued to heavily subsidize its domestic steel industry. The Chinese Ministry of Industry and Information Technology pledged to raise capacity utilization from 70 percent to 80 percent by 2020 and called for assistance from local governments to support the development of China's steel industry (American Iron and Steel Institute, September 16, 2020). A 2016 report from the American Iron and Steel Institute noted that Chinese steel firms receive loans "based on alignment with central or provincial governments' policy directives, rather than creditworthiness or other market-based factors" (Foreign Policy, May 19, 2020).

China's fragmented steel sector also previously contributed to this excess production, but the increased concentration of the industry has resulted in major improvements on this front. In 2010, most of China's 1,200 steelmakers were state-owned small mills that lacked the requisite technology to address environmental concerns (The Central People's Government of the People's Republic of China, March 21, 2009). This patchwork structure caused China's bigger steel manufacturers to expand production and outcompete smaller firms. By 2020, however, the bulk of China's production came from 25 companies (NetEase, October 31).

Chinese steel factories drove Beijing's air pollution surge in 2016, according to reports from the environmental non-profit, Greenpeace. While air quality in eastern China improved significantly in 2014 and 2015, increased steel and cement output reversed much of this progress, propelled by real estate construction and government infrastructure projects (Greenpeace, December 16, 2016). In 2016, ten Chinese provinces augmented their operating steel production capacity, with the greatest increases in Shanxi and Hebei, which boast some of the most toxic smog in the world.

In addition to environmental problems, the U.S. blames China for the economic woes caused by its steel industry. In a recently published op-ed, U.S. Trade Representative Katherine Tai and Secretary of Commerce Gina Raimondo argued that China's "dumping" of cheap steel and aluminum on the global market at artificially low prices has made it effectively impossible for American steel to compete. Dumping refers to the international trade practice in which a country exports a product abroad at a price lower than what it sells for at home, often to put competing products out of business. The Biden administration's criticisms echo those of its predecessor, which imposed tariffs on such steel and aluminum via Section 232 investigations (Congressional Research Service, May 18). Between January 2015 and October 2016, the U.S. lost 16,000 jobs in the steel industry. The biggest contributing factor to those losses was the excess of subsidized steel and aluminum from China, according to the American Iron and Steel Institute (Cleveland, January 11, 2019).

U.S.-EU Steel Pact

The U.S.-EU joint statement on combatting Chinese overproduction of steel was heavy on criticism but light on details. "There is a political commitment to try this," a European Commission official said, "but it will take a while to figure out what it will look like" (POLITICO EU, November 15). The move came after the U.S. and the EU ended a long-running dispute over steel and aluminum tariffs that dated back to the Trump administration in October. Under the deal, the U.S. will allow increased volumes of duty-free steel and aluminum from EU countries. In return, the EU removed its retaliatory tariffs on American whiskey, power boats and Harley-Davidson motorcycles (Nikkei Asia, October 31).

The U.S.-EU arrangement to limit Chinese steel imports was not without precedent. In 2017, the U.S., EU and Japan pledged to rein in excess steel production (Office of the US Trade Representative, December 12, 2017). In 2016, the U.S., Canada, EU, Japan, Mexico, South Korea, Switzerland and Turkey issued a joint statement that urged other nations to act "quickly" to reduce global steel output (NPR, April 20, 2016). Yet, both previous statements were mostly symbolic, as resolving the problem of steel overproduction is virtually impossible without buy-in and cooperation from China.

The Tai-Raimondo editorial sheds additional light on the new clean steel pact. Under the deal, the U.S. will allow a sustainable amount of steel and aluminum imports from the EU. In addition, both sides will initiate negotiations on the world's first "carbon-based sectoral agreement on steel and aluminum trade" (Pittsburgh Post-Gazette, November 28). In other words, the U.S. and EU will limit imports of steel from countries like China that is not produced using environmentally safe methods. The production of "dirty steel," which is widespread in China, relies on low-cost, highly carbon-intensive process that burns large volumes of coal, which spews CO2 into the atmosphere.

"The United States produces some of the cleanest steel in the world, while China produces some of the dirtiest," Tai and Raimondo observe (Pittsburgh Post-Gazette, November 28). Already, U.S. and EU steel producers tend to be more environmentally friendly than their Chinese counterparts, and are actively working to decarbonize the steel production process, partly by utilizing cleaner fuels like hydrogen and natural gas. While more environmentally sustainable, this technology is expensive. Discussions on the agreement will likely take several years to come to fruition.

U.S.-Japan Talks

As the EU and U.S. agreed to shelve their bilateral dispute over steel and aluminum tariffs to tackle the common challenge posed by China, the U.S. and Japan have also agreed to initiate discussions on the same subject. In a statement, Tai and Raimondo announced their intentions to discuss how to "hold countries like China that support trade-distorting non-market policies and practices to account" with their Japanese counterparts (Office of the US Trade Representative, November 12). Indeed, Tokyo shares similar concerns over Beijing's massive subsidization of strategic domestic industries like steel, which has led to allegations of dumping from Washington and Brussels. Japanese officials had planned to meet with their American and European counterparts on the sidelines of the WTO ministerial conference in Geneva, Switzerland, before it was postponed over concerns of the new Omicron coronavirus variant (The Japan Times, November 27). Nevertheless, Japan has also taken a more pragmatic, less combative approach than some of its Western counterparts and sought to work with China to resolve the issue of overproduction. In June, officials from the Beijing-based China Iron and Steel Association met with representatives from Nippon Steel, the world's third-largest steelmaker. Both sides discussed controlling production capacity and regulating pricing mechanisms, among other topics (Global Times, June 9).

Tto make progress on the China issue, both the U.S. and Japan will first need to set aside their own bilateral trade disputes. In 2018, the Trump Administration imposed duties of 25 percent on steel and ten percent on aluminum imports from Japan as part of an effort to revive U.S. domestic manufacturing in the industrial Midwest. The executive order was not limited to Japan, levying tariffs on every country except Canada and Mexico. While Tokyo did not adopt retaliatory tariffs like those of the EU, it has repeatedly asked for the situation to be resolved (Nikkei Asia, November 15).

Potential WTO Concerns

If the U.S., EU, and Japan successfully negotiate a historic first alliance against "dirty" steel by curtailing imports, the agreement will likely encounter resistance at the WTO where such import restriction practices will likely constitute discrimination. Others assert that this transatlantic pact could be construed as a global steel cartel that uses climate change as a pretext to disguise Washington's true ambitions of bringing back jobs to domestic steel workers left behind by globalization (POLITICO, November 15).

Reactions from Chinese media outlets and think tanks underscore such concerns. The nationalistic *Global Times* criticized America's use of "discriminatory barriers" and described the proposed alliance as a "pipe dream" (Global Times, November 3). Other state-backed news coverage of the announcement linked the green steel alliance to the Trump administration's Section 232 tariffs that drew "strong opposition domestically and abroad" (Xinhua News, October 31). A recent report from the Chongyang Institution for Financial Studies, a Beijing think tank, urged the Chinese government to pursue "all possible cooperation" with its global trading partners to combat initiatives like the U.S.-led pact (South China Morning Post, December 3).

The WTO provides a limited number of reasons under which nations can receive exemptions from its free trade rules. One eligible measure is if it relates to the "conservation of exhaustible natural resources" (WTO, accessed November 30). Under this line of reasoning, discriminatory tariffs against China's coal-based steel production to promote increased outputs of "clean" steel should qualify. Regardless, a successful agreement to limit imports of Chinese steel would certainly elicit vehement protests, a slew of WTO lawsuits, and potentially retaliatory tariffs from Beijing.

Conclusion

The success of a global alignment between the U.S., EU, and Japan against excess production of coal-based steel might come down to America's underlying intentions. If Washington wields such discriminatory tariffs as yet another battering ram in the escalating battle of great power competition against China, it will incur counterproductive scrutiny at the WTO and could decrease the appeal of the pact to other countries.

On this issue, the Biden Administration must navigate a delicate balancing act. The administration must emphasize the geostrategic importance of such a pact in countering China so as to increase the palatability of a green steel alliance to the domestic public. At the same time, Washington needs to highlight the ability of the alliance to reduce carbon emissions and restore economic parity to the strategic, although albeit distorted steel market to increase the deal's attractiveness on the international stage. Until then, the rest of the world can do little else but wait and see whether China will clamp down on its domestic steel manufacturers, restrict excess production to avoid flooding the global market and embrace cleaner technologies.

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