



VOLUME 22 • ISSUE 10 • MAY 27, 2022

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China Closes its Windows to the World: When Will they Reopen?

By John S. Van Oudenaren

Throughout the pandemic, the People’s Republic of China (PRC) has focused on sharply limiting international travel as a risk vector for the spread of COVID-19, and as a result has kept its borders largely closed. As Beijing edges closer to a total shutdown and lockdowns persist in several other large cities, including Shanghai; the already stringent entry and exit restrictions on Chinese citizens implemented as part of the “dynamic clearance” zero-COVID policy have been further tightened. At a special meeting on May 10, the National Immigration Administration (NIA) called for “strict implementation” of existing polices barring “non-essential outbound” travel ([China News Service](#), May 12). The NIA stated that full cooperation with these measures is vital to “win the battle to defend Shanghai” and to “vigorously support Beijing’s epidemic prevention work.” This week, the NIA

provided further guidance as to what constitutes “essential departures”(必要出境, *xuyao chujing*), which include business; scientific, technical, medical and research cooperation; academic study; and “urgent personal affairs” such as funerals and elder care ([Sina](#), May 24). The new regulations build on the NIA’s imposition of tighter restrictions on international travel last July, which institutionalized a pattern of strong discouragement of “non-essential” overseas travel by authorities since early 2020 ([Xinhuanet](#), July 30, 2021). The impact of this de facto moratorium on overseas travel was evident even before these restrictions were issued with the PRC issuing only 2% as many passports in the first half of 2021, as it did during the same period in 2019 ([Sixth Tone](#), August 4, 2021).



(Image: Foreign travelers at Pudong International Airport in Shanghai, source: Xinhua)

The immediate driver of China’s tighter exit and entry curbs is the COVID-19 pandemic. However, whether the travel restrictions that have been imposed since 2020 will be fully rolled back when the pandemic finally recedes is an open question. General Secretary Xi Jinping’s continued push to restore the centrality of political ideology in Chinese life is supported by limiting citizens’ international exposure to potentially corrupting foreign influences. Instilling both a nationalist and Marxist-Leninist mindset in China’s youth is central to these efforts. In an address to early career officials at CCP’s Central Party School last fall, Xi emphasized that the “world is undergoing changes unseen in a century,” and as a result, the period of “national rejuvenation has entered a critical phase” defined by mounting risks and challenges ([People’s Daily](#), September 2, 2021). Xi then called on young cadres at all levels to “abandon illusions” and “dare to struggle.” In this mindset, engagement with the world is not the priority; rather, emphasis is placed on the struggle against external forces to achieve Xi’s vision of China’s national rejuvenation in a challenging and often times hostile international environment.

Study At Home?

For years, top Chinese graduates flocked abroad to pursue advanced degrees, but those numbers were already in free fall before the recent travel curbs. Consider for example, recent trends for graduates from two of China's most elite universities: Tsinghua and Peking Universities. From 2019 to 2021, the number of Tsinghua graduates going abroad for graduate studies fell from 15.3 to 6.9 percent, while the proportion of Peking University students dropped from 14.8% to 8.17% ([China Youth Daily](#), February 14).

The Chinese Communist Party (CCP) has long taken an instrumental approach to Chinese students studying abroad using overseas student organizations under the umbrella of the United Front Work Department (UFWD) to support its influence operations in foreign countries. In an address to one such group — the North European and American alumni association — during the CCP's centennial celebrations last year, UFWD Deputy Minister Tan Tianxing (谭天星) called on overseas students to carry forward what General Secretary Xi Jinping identified as the CCP's "four great achievements" ([PRC National People's Congress](#), July 26, 2021). As laid out by Xi, the four achievements are- 1) Saving the country by fostering a new democratic revolution; 2) Bringing socialist revolution to China; 3) Enriching and strengthening the country through reform, opening and socialist modernization; 4) Creating great new achievements of socialism with Chinese characteristics in the new era ([Xinhuanet](#), July 29, 2021). Tan emphasized that overseas students have and will continue to make "important contributions" to these efforts. The prevalence of United Front affiliated Chinese student organizations in colleges campuses in Western countries means that many students from the PRC who express dissenting views face harassment and potential retaliation against family members at home ([ProPublica](#), November 30, 2021). As a result, Chinese students who venture overseas in search of greater academic freedom from the long arm of the party-state, may still not find it abroad.

In addition to COVID-19 constraints and political pressures, the cache of a foreign degree on China's domestic job market has diminished considerably over the last several years. As Chinese schools have moved up the global rankings, foreign schools have lost some of their luster, and are seen by some students as treating foreign enrollees as "cash cows" ([South China Morning Post](#), November 27, 2021). Such perceptions are further reinforced by Chinese youths' high levels of nationalist sentiment, which have been sharpened by official propaganda and state media, particularly amidst the intensifying geopolitical rivalry with the U.S. In 2020, the number of Chinese students enrolled at U.S. higher education institutions fell by 15 percent ([CGTN](#), December 7, 2021).

Keep the Flies Out

The decline in Chinese traveling overseas is mirrored by a drop-off in foreigners visiting China for tourism, work and study. The stringent COVID-19 requirements, which necessitate at least a 14-day quarantine upon arrival, strongly discourage all but the most determined foreign visitors ([U.S. Embassy & Consulates in China](#), Updated May 25). In the context of China's relations with the West, these developments damage people-to-people exchanges that were already atrophying before the pandemic. Hong Kong's 2020 National Security Law, and the repression that preceded it, has largely negated its place as Asia's hub for international civil society, and diminished the city's traditional role as a meeting point between China and the wider world. The nearly three year-long detention of Canadians Michael Kovrig and Michael Spavor (widely considered hostage diplomacy by Beijing in response to Ottawa's detention of Huawei executive Meng Wanzhou on a U.S. extradition request)

cast a pall over think tank and policy research exchanges between China and the West. Last summer, the Asia Society's *ChinaFile* surveyed China experts as to whether they planned to return to China once the current COVID-19 restrictions are relaxed. Of those surveyed, only 44 percent of respondents stated they would either definitely or probably return to the PRC, while 40 percent answered that they would definitely or probably not return ([ChinaFile](#), June 21, 2021).

Over the last decade, the number of Americans and Europeans living in China for work and study has also declined considerably. The decreasing foreign populations in Shanghai and Beijing, which have long been among China's top magnets for expatriates, illustrate this trend. From the 2010 to the 2020 census, the number of foreigners residing in Shanghai fell by 20% from approximately 209,000 to 163,000. Over the same period, the foreign population in Beijing declined by over 40% going from 107,000 to 63,000 (National Bureau of Statistics, [May 11, 2021](#); [April 29, 2011](#)). While zero-COVID restrictions have been a major driver of the declining number of foreigners in these cities, other politico-economic factors are also relevant. Last year, as part of the tightening of regulations on private industry through Xi's drive to promote "common prosperity", the government banned for-profit, private educational companies ([PRC Ministry of Education](#), July 24, 2021). The ban applied to the large number of English-language tutoring services that have sprung up in Shanghai, Beijing and other big metropolises around China over the last two decades. For example, following the new regulations, Wall Street English, an Italian international adult English training company that in mid-2021 had 30 tutoring centers with 1,000 employees, many of them foreign, was forced to close all of its locations in China ([Global Times](#), August 13, 2021).

China's former paramount leader Deng Xiaoping said that "when a window is opened, fresh air and sunlight may come in, but flies may also enter." Deng invoked this maxim to counter hardliners intent on stemming "spiritual pollution" from abroad during the early reform era. For Deng, it illustrated the need to strike a balance between engaging with the world, and protecting China's citizens from malign foreign influences. The saying was also often invoked to guide the PRC's early approach to the internet in the late 1990s and early 2000s, which was to allow some knowledge in, but also to establish the "great firewall" to limit the penetration of China by negative Western influences such as pornography and vulgar popular culture ([China Daily](#), August 4, 2009). However, over the last several years, the PRC's approach has seemingly shifted to one of closing the window to keep the flies out.

The decline in people-to-people interactions between China and the outside world parallels the government's increased focus on countering foreign espionage. Last April, the Ministry of State Security (MSS) issued new regulations to "strengthen and standardize" anti-espionage work, not only in government organs, but also in business enterprises and social organizations, hence emphasizing the need for a whole of society response to the threat from foreign spies ([Gov.cn](#), April 26, 2021). In addition to creating a list of high-risk "key entities" that are required to create systems to monitor and root out foreign espionage, the law greatly expands the investigatory powers of MSS and other security organs ([China Law Translate](#), April 27, 2021). The new regulations are likely to further damage people-to-people ties between China and the international community by discouraging overseas travel and increasing suspicion of foreigners in China. For example, a State-Owned Enterprise executive stated that in response to the legislation, staff planning business trips to foreign countries, particularly those in the Five Eyes alliance of the US, UK, Australia, Canada and New Zealand "have been told to strictly report their travel destinations, agendas, and meetings with foreign personnel, and they must get

approval from their direct superiors before the applications are reviewed” by headquarters ([Global Times](#), April 26, 2021). In response to the law, many SOEs have sought to minimize travel to such “high risk” countries altogether.

Conclusion

The political component of China’s fraying people-to-people ties with the rest of the world, particularly the West, and its increasing physical isolation from the international community, aligns with state promotion of nationalism and economic self-sufficiency. This suggests that China’s current closing of its borders to international travel is likely to outlast the pandemic.

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Xi Jinping is Poised to Become “Leader for Life” in Exchange for Sharing Politburo Seats with Rivals

By Willy Wo-Lap Lam



(Image: President Xi Jinping walks in front of Premier Li Keqiang, source: CPC)

Introduction

President Xi Jinping has presided over a dramatic enhancement of his own personality cult in the run-up to the 20th Party Congress this autumn. The latest sign of this hero worship is that national media have bestowed on Xi the title of *lingxiu* (领袖). *Lingxiu* is usually translated as “leader.” But in the Chinese Communist Party’s (CCP) lexicon, *lingxiu* is a more esteemed and grandiloquent version of “leader.” Throughout the CCP’s history, only the “Great Helmsman” Mao Zedong attained this elevated designation. Xinhua, CCTV and other major media have started running 50 video episodes highlighting Xi’s career, particularly his “momentous contributions” to the party and the country. According to Xinhua, Xi has “sketched out the big picture of the domestic and foreign situation, put forward reform, development and stability... and [is] responsible for progress in running the party, the country and the army” ([Ming Pao](#), May 23; [Xinhua](#), April 18).

Hagiographic references to Xi, who already gained the important title of “leadership core” in 2016, seem to debunk speculations in Hong Kong, Taiwan and the overseas Chinese community that the 69-year-old Shaanxi native is gravely sick and facing ingrained opposition from political foes –led by Premier Li Keqiang –on both economic and foreign policy. Famous overseas key opinion leaders (KOLs) such as New York-

based Chen Pokong are adamant that the pro-market policies of Premier Li and Chinese People's Political Consultative Conference (CPPCC) Chairman Wang Yang are trumping Xi's quasi-Maoist views on the party's near-absolute control over the economy ([Chen Pokong Youtube](#), May 18; [Radio French International](#), May 12). Some have even gone so far as to speculate that Xi has been forced to yield his number one position in the party and state to Li ([Radio Free Asia](#), May 18; [VOA Chinese](#), March 27).

The practice of referring to Xi as *lingxiu* traces back to last April, when the supreme leader went on an inspection trip to Guangxi Province. The provincial media started eulogizing Xi as “the core of the whole party and the people’s *lingxiu*.” “The emotions of the people’s *lingxiu* are tied to Guangxi residents; his great thoughts are shining over the entire province,” local newspapers said. Guangxi media also indicated that the people would “forever support the *lingxiu*, protect the *lingxiu*, and follow the *lingxiu*” ([Nanning Daily](#), April 28; [HK01.com](#), April 20). In a recent meeting, senior cadres in Guangdong intoned that China was becoming wealthy and strong only due to “the power exercised by General Secretary Xi Jinping in making [sole] decisions [through his] personal authority and giving the final word [on policies]” ([Rthk.hk](#), May 21; [Hk.finance.yahoo.com](#), May 21)

There is therefore little question that President Xi, who is also General Secretary of the CCP and Chairman of its Central Military Commission, will secure at least one more five-year term as supreme leader of China at the 20th Party Congress later this year. It is also probable that his status as “core and *lingxiu* [of the leadership] for life” will be officially recognized and that he will be handed a fourth term at the 21st Party Congress in 2027. This means that Xi will rule until at least 2032, when the conservative, quasi-Maoist leader will be 79 years of age.

Xi Plays a Strong Hand

Xi's continuation in power looks set to continue despite widespread speculation that he has been severely criticized by party elders such as former premier Zhu Rongji, or that current Premier Li – who will serve as head of government until next March – may be scheming to undermine his powers. In a May 25 televised conference with thousands of national and local leaders, Li doubled down on the imperative of arresting the palpable signs of economic decline that have become particularly glaring in March and April. Li saluted Xi's leadership and the importance of the latter's “zero tolerance” COVID policy, but also urged officials to “complete their task of economic and social development even as they do a good job of preventing and controlling the pandemic.” “We must have a firm grip over the overall situation [of the country] and avoid “focusing on only one goal (单打一, *danday*) and “imposing rigid uniformity on policies (一刀切, *yidaoqie*),” Li added. The Premier further noted that logistics and supply-chain snarls must be curbed “so as to resume production and meet [economic] targets.” As Xi's zero-COVID policy approach has been widely criticized for maiming the economy, Li seems to be mounting a not-so-subtle challenge to the supreme leader's authority ([Xinhua](#), May 25; [United Daily News](#), May 25).

However, the fact of the matter is that as Mao Zedong said regarding internecine bickering among factions: “political power grows out of the barrel of a gun.” Xi is the only Politburo Standing Committee (PBSC) member with control over the People's Liberation Army, the People's Armed Police, as well as the ordinary

police and the intelligence establishment. Xi's confidante Ding Xuexiang, the Director of the CCP General Office, assigns drivers, secretaries and security details to most of the Politburo members and party elders. Ding also maintains a surveillance system over both civilian and military leaders, which includes phone-tapping and close monitoring of their out-of-office activities ([The Diplomat](#), February 1; [South China Morning Post \(SCMP\)](#), March 11, 2015). The General Office of the CCP Central Committee issued a directive on May 16 warning party elders not to "give improper opinions" (妄议, *wangyi*) on the central party leadership (i.e., supreme leader Xi). Former top cadres must also respect the country's recently tightened immigration regulations when seeking to go abroad. Both retired and serving cadres have also been asked to divest themselves of their overseas assets – and to bring this precious foreign exchange back to the country ([Radio Free Asia](#), May 17; [Xinhua](#), May 15).

A Bargain with Rivals?

Due to the fact that the economy is facing problems such as flagging consumer spending and tepid manufacturing – which have been exacerbated by Xi's uncompromising stance on his "zero tolerance" pandemic policy – the supreme leader has apparently agreed to make compromises on both economic policy and personnel issues ([Caixin.com](#), May 25; [China Brief](#), May 5). As the official China News Service underscored in a May 19 commentary, "the direction of the wind is changing and the e-platform economy is witnessing one encouraging sign after another" ([China News Service](#), May 19). Premier Li has repeatedly stressed the importance of upholding economic growth and employment while ignoring the kind of ideological obsessions that are the hallmark of Xi. As a result, Xi has had to significantly moderate his policy of upholding the party's ironclad control over technology conglomerates ([China Brief](#), May 5). This policy shift is demonstrated by the relatively liberal statements that his key advisor, Politburo member and Vice Premier Liu He recently made on how regulations over IT firms must be "based on [the principles of] marketization, legalization and internationalization" and that control mechanisms must not harm the market ([People's Daily](#), March 16; [Gov.cn](#), March 16).

On the personnel front, members of the Xi Jinping Faction are apparently facing challenges. Chances are high that the political fortunes of Politburo member and Shanghai Party Secretary Li Qiang – who is reportedly Xi's favored candidate to succeed Premier Li – have been damaged due to negative fallout from the extended lockdown in Shanghai. Other Xi protégés who have run into trouble include the former party secretary of Hubei Province Ying Yong and the former party secretaries of the key cities of Hangzhou and Zhengzhou, respectively Zhou Jianyong (周建勇) and Xu Liyi (徐立毅) ([Cnstock.com](#), April 20; [Radio Free Asia](#), March 30).

The upshot is that while Xi still towers over all other Politburo- and ministerial-level cadres, he has to make concessions in the key area of personnel arrangements to be endorsed by the 20th Party Congress. Take, for example, the composition of the Politburo Standing Committee (PBSC), China's de facto, highest ruling political body. The projection of the make-up of the seven-member Standing Committee to be confirmed by the party congress is as follows: General Secretary Xi Jinping; Head of the General Office of the CCP Central Committee Ding Xuexiang; and either Li Qiang or Chongqing Party Secretary Chen Min'er. Two seats are expected to be reserved for the rival Communist Youth League Faction (CLYF) led by Premier Li. Li is

pushing for the Vice Premier in charge of agriculture and CYLF stalwart Hu Chunhua to succeed him. According to party convention, one key qualification for the premiership is that the successful candidate must have served as vice premier. None of Xi's preferred cadres to carry Li's mantle is a current or former vice premier. Either Premier Li or CPPCC Chairman Wang, both of whom will be one year shy of the usual retirement age of 68 at the 20th Party Congress, may remain on the PBSC. If Li were to stay in the supreme council, there is a good possibility that he might move to the National People's Congress as Chairman. The sudden prominence that Premier Li has enjoyed in the media over the past two months can be seen as an effort to strike a bargain with Xi. Namely, Li will not oppose the extension of Xi's tenure at the Party Congress in return for Xi's support for fellow CYLF members such as Vice-Premier Hu and CPPCC chief Wang ([VOAChinese](#), March 22; [Heritage.org](#), March 7; [The Diplomat](#), August 4, 2020).

Zhao Leji (born 1957), the youngest PBSC incumbent who heads the Central Commission for Discipline Inspection, China's topmost anti-graft body, will also get a second term as Standing Committee member despite having gone from being a Xi confidante to the latter's political foe ([Facebook.com](#), October 28, 2020; [VOAChinese](#), January 9, 2019). The last slot may be given to a rising star with no obvious factional affiliations. If this were to come to pass, the Xi faction will control three out of seven PBSC spots. However, changes in the line-up of both the Politburo and the PBSC are likely in the run-up to the Congress.

After Xi, Who?

In light of the possible composition of the PBSC, one of Xi's top priorities after the 20th Party Congress will be to thrash out a mechanism for his succession. If Xi were to rule until the 22nd Party Congress in 2032, a good number of Sixth-Generation rising stars – those born from 1959 to 1969 – including Li Qiang, Chen Min'er and Ding Xuexiang will have reached the retirement age of 68 by the early 2030s. As a result, the senior cadre who eventually succeeds Xi might come from a member of the Seventh Generation (7G) of CCP leadership born in the 1970s ([China Brief](#), November 12, 2021). At this stage, however, it is too early to speculate who among the 7G affiliates – who have only risen to the rank of vice minister, vice provincial governor or vice mayor – have a chance of making it to the top ([Thinkchina.sg](#), December 6, 2021; [SCMP](#), June 26, 2021). Clearly, Xi's bid for lifetime tenure – and the fact that his economic and pandemic policies are meeting strong opposition within the ruling elite – demonstrates the highly undemocratic and non-transparent institutions of the party and state. It also shows the dangers of the Xi leadership's ignoring institutional reforms pioneered by Greater Architect of Reform Deng Xiaoping and reinstating the earlier norms inaugurated by the late chairman Mao Zedong.

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China and Sri Lanka's Debt Crisis: Belt and Road Initiative Blowback

By Sudha Ramachandran



(Image: A recent protest in front of the president's office in Colombo, Sri Lanka, **source:** VOA)

Introduction

Sri Lanka is in the grip of an unprecedented crisis. For several months, the country has been reeling under a severe foreign exchange crisis. In early May, Foreign Minister Ali Sabry said that its usable forex reserves were just \$50 million ([Daily News](#), May 5). As a result, Sri Lanka has been forced to suspend repayment of \$51 billion worth of debt owed to China, Japan and other foreign creditors ([The Hindu](#), April 12; [The Island](#), April 13). The country has also been unable to pay for imports of essential commodities, and has experienced serious shortages of food, fuel and medicine ([The Island](#), January 15). The economic crisis has in turn triggered a political crisis. Public anger has boiled over onto the streets. Angry protesters have been calling for the resignation of President Gotabaya Rajapaksa and his brother, Prime Minister Mahinda Rajapaksa ([Colombo Telegraph](#), April 7). The Rajapaksa family has dominated Sri Lankan politics for decades and several members of the family are in positions of power as ministers, legislators or heads of corporations and departments. Sri Lankans want the entire clan out. Some of them, including Mahinda, resigned under public pressure in recent months ([Island](#), April 17). Although Gotabaya remains president and under the country's executive presidential system, continues to wield enormous power, it is evident that the influence of the Rajapaksas has declined.

The unfolding crises in Sri Lanka have implications beyond the island. China is among Sri Lanka's largest bilateral lenders and has played a big role in the island's infrastructure development. Sri Lanka is a part of China's Belt and Road Initiative (BRI). Despite China's pledges that BRI would boost Sri Lanka's economic and social development by transforming it into "the hub of the Indian Ocean", Chinese loans are widely believed

to have pushed the country into a 'debt trap' ([Embassy of the People's Republic of China in Sri Lanka](#), June 16, 2017). How have the crises impacted China's image in Sri Lanka and will the decline of the Rajapaksas, widely regarded as 'pro-China,' impact Sino-Sri Lankan relations? Finally, will the Sri Lankan crises affect the fate of BRI?

Sino-Sri Lankan Relations

Relations between China and Sri Lanka, which have been traditionally close, warmed considerably beginning in 2005, when Mahinda began the first of his two terms as president. China was among the strongest supporters of his government's unrestrained military offensives against the secessionist Liberation Tigers of Tamil Eelam (LTTE) and provided it with weaponry ([Economic Times](#), June 8, 2009). Following the defeat of the LTTE in May 2009, the Rajapaksa regime came under western pressure for alleged war crimes against Tamils in the final stages of the civil war. Despite widespread charges of human rights violations, China largely shielded Sri Lanka from international pressure ([The Hindu](#), March 22, 2012).

During Mahinda's second presidential term (2010-15), China significantly expand its role in Sri Lanka. China extended Colombo massive loans for infrastructure projects including ports, airports, bridges, highways and a city on reclaimed land ([China Daily](#), September 17, 2014). Analysts warned that the "ill-conceived, uneconomical and environmentally costly projects [would] bring little or no benefits" to Sri Lanka ([Colombo Telegraph](#), September 18, 2024). China's strategic influence in Sri Lanka also grew. For instance, in 2014, Chinese submarines docked at Colombo harbor twice, despite India's objections ([China Brief](#), December 3, 2021).

In January 2015, Mahinda Rajapaksa was defeated in the presidential election as was his Sri Lanka Podujana Party (SLPP) in parliamentary elections a few months later. The end of Rajapaksa rule, during which Sino-Sri Lankan relations had grown remarkably, was expected to result in a decline in the Chinese presence in Sri Lanka and a more balanced relationship with the other big powers. After all, President Maithripala Sirisena had promised "equal relations" with India and China ([The Hindu](#), December 20, 2014). Besides, the new Prime Minister Ranil Wickremesinghe is known to be close to the West and India ([Deccan Herald](#), May 12). Indeed, his government did push through security agreements with the U.S. ([Economy Next](#), July 10, 2019).

However, neither China's role in Sri Lanka's economy nor its strategic grip diminished in the 2015-2019 period, when the Rajapaksas were the political opposition. Sri Lanka's borrowing from China continued throughout that period ([Adaderana](#), March 24, 2021). As Sri Lanka's capacity to repay loans has diminished, China's grip on the island nation has tightened. The Wickremesinghe government was hoping to renegotiate the terms of debt repayment on the Hambantota Port with China but the talks culminated in Sri Lanka giving Beijing a controlling equity stake and handing over the strategic port to China on a 99-year lease along with providing 15,000 nearby acres for an investment zone in lieu of unpaid loans ([The Hindu](#), December 9, 2017).

Return of the Rajapaksas

In November 2019, Gotabaya Rajapaksa, who was minister of defense during Mahinda's presidency, was elected president, while Mahinda returned as prime minister. The return of the 'pro-China Rajapaksas' to power set off alarm bells in New Delhi ([News18](#), November 20, 2019). This concern was not misplaced as the

India-China contest for infrastructure projects in the island saw Beijing gain at New Delhi's expense. This was the case with the East Container Terminal project at Colombo Port, for instance. In 2019, India, Japan and Sri Lanka had signed a Memorandum of Understanding to jointly develop the project. Citing opposition from port worker unions to India and Japan holding 49% stake in the ECT project, the Rajapaksa government scrapped the deal in February 2021 and awarded the project to the China Harbour Engineering Company in November of that year ([The Hindu](#), November 24, 2021). India was 'compensated' with a deal to develop and operate the West Container Terminal along with a 51% stake in the project ([The Print](#), October 1, 2021).

While China's role in Sri Lankan infrastructure building continued to grow during Gotabaya's presidency, India's economic and strategic footprint has also expanded in recent years. In January, India signed agreements with Sri Lanka to refurbish and use the Trincomalee Oil Tank Farm, which is adjacent to the strategic Trincomalee harbor. In reaching this agreement, India pre-empted several other powers, which had been seeking to develop their presence in the area. The Indian presence here is expected to offset China's expanding presence in Sri Lanka ([The Diplomat magazine](#), February). Thus, unlike Mahinda Rajapaksa's second presidential term, when India rapidly lost economic and strategic ground to China, the return of the Rajapaksas to power in 2019 saw an Indian diplomatic pushback that resulted in New Delhi recovering some ground in the island. Thus while Mahinda Rajapaksa's presidency, especially the second term saw his government strongly embrace China, the post-2019 Rajapaksa rule has sought a more balanced relationship. Its cautious approach may have been the outcome of the role that Indian intelligence agencies reportedly played in sewing together a coalition that defeated Mahinda in 2015 ([Adaderana](#), January 18, 2015).

China and Sri Lanka's Economic Crisis

Unlike India, China has not had to contend with anti-China sentiment and protests in Sri Lanka in the past, but this has changed with the recent economic crisis. Beijing is widely seen as responsible for running Sri Lanka into a debt trap. "The Rajapaksas' corruption and closeness to China and their heavy borrowing from China for projects, which earned Sri Lanka little, are being blamed for the collapse of the Sri Lankan economy and the food and fuel shortages," a Sri Lankan government official said. [1]

Under the Rajapaksas, Sri Lanka borrowed heavily for swanky vanity projects that were intended to boost the Rajapaksas' image among their supporters in the family's stronghold rather than strengthening the national economy overall or serving the needs of ordinary Sri Lankans. Projects like the Hambantota port and the Matalla airport were white elephants that drew little business and earned Sri Lanka no tangible benefits. From the start, the Hambantota port lost money ([The Hindu](#), May 11, 2022).

Analysts have highlighted that 10% of Sri Lanka's total foreign debt is owed to China, which is around the same amount that it owes Japan and far less than its obligations to international sovereign bondholders and the Asian Development Bank. However, Chinese loans are particularly burdensome due to their unfavorable terms. For example, Chinese loans carried an average interest rate of 3.3% compared to Japan's 0.7%. The maturity period for Indian and Japanese loans were 24 years and 34 years respectively, compared to 18 years for Chinese loans ([Nikkei Asia](#), May 13).

However, blaming Sri Lanka's economic crisis on China's financing practices alone is flawed. As noted security analyst, Nilanthi Samaranayake argues, "Sri Lanka's economic crisis and failure to adapt its debt management approaches predate the rise of China and reflect some of the challenges associated with middle-income transitioning countries. In particular, most of Sri Lanka's external debts are in the form of international sovereign bonds and loans from multilateral development banks. This proportion is significantly larger than debt owed to China." [2]

While the Rajapaksas did drive the island into a debt trap, the roots of Sri Lanka's economic crisis go back to policies pursued over decades by successive governments. Furthermore, an import-oriented economy that is dependent on tourism with little manufacturing capacity was bound to run into trouble in the event of a crisis such as the recent onset of the pandemic.

Future of Sri Lanka's Ties with China

China's image and credibility in Sri Lanka has taken a severe beating in recent months. Given the mood at the protest sites, China's stock in Sri Lanka has never been lower. "That Beijing has been less generous than India has not gone by unnoticed," the Sri Lankan government official interviewed for this article said. Should the political situation in the island worsen and result in the resignation of Gotabaya as well, China would lose its strongest patrons in the island – the powerful Rajapaksa family, he said. [3]

Despite the bleak outlook, the current crisis is not the end of the road for Chinese influence in Sri Lanka for several reasons. First, the Rajapaksas may be down, but they are not defeated. The family has risen from past political setbacks and the possibility of them doing so again cannot be ruled out. Second, Sri Lanka has turned to the International Monetary Fund (IMF) for loans which comes with conditions that will not be popular with the masses. The anti-IMF/West sentiment and mass protests that are likely to follow could serve to reduce anger with China. Third, Sri Lanka turned to China for loans because other countries and banking institutions either lacked the resources or were unwilling to lend without conditions, which remains the case. As Samaranayake points out, "regardless of who is in the domestic political leadership [that is whether or not the Rajapaksas are in power], any Sri Lankan leader will need to work with China as a critical development partner." [4]

Lessons from Sri Lanka's Crisis

This is the case with other BRI countries too. China's deep pockets and willingness to fund their infrastructure development drew several Asian and African countries to join BRI. Of course, these countries have been observing Sri Lanka's experience in recent years, including its handing over of Hambantota Port to China and they have drawn lessons from it. "Bangladesh has been careful to maintain healthy foreign exchange reserves, while Nepal has discussed its preferred approach of relying on grants and avoiding commercial loans as it has graduated from low income to lower middle-income country," Samaranayake observed. [5] They will be monitoring the current crisis for the role that Sri Lanka's Chinese loans played in triggering the crisis. If Sri Lanka, a country with relatively good socio-economic indicators had to collapse the way it did, what would be the fate of less developed BRI countries like Myanmar or Ethiopia? Asian and African countries would be watching to see how China responded to Sri Lanka's crisis.

In January, the Gotabaya government appealed to China for a restructuring of its debt payments ([Daily Mirror](#), January 10). That Beijing has been reluctant to do so – its hesitancy is being attributed to a difficult economic situation at home due to the pandemic and a reluctance to get mired in a messy political situation in Sri Lanka – would not have been missed by other BRI borrowers ([Straits Times](#), April 14). Certainly, Sri Lanka's economic crisis will make BRI countries more cautious borrowers but given their need for financial resources, they may continue to engage with China.

Conclusion

The Sri Lankan political and economic crises are a setback for China. It has sullied its image as a lender in the eyes of not just the Sri Lankan people but also, governments and people in other developing countries, especially BRI member-states. However, given their need for funds to finance infrastructure development and the fact that as of now, only China has the deep pockets to extend loans, their dependence on Beijing will continue. How Sri Lanka manages its borrowings from the IMF and deals with its crises will also impact the future of Sino-Sri Lankan relations.

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Notes

[1] Author interview, official in the Ministry of Finance, Sri Lanka, May 24.

[2] Author interview, Nilanthi Samaranyake, Director of the Strategy and Policy Analysis Program at CNA, a non-profit research organization in the Washington, D.C. area, May 22.

[3] Sri Lankan official, n. 1.

[4] Samaranyake, n.2.

[5] Ibid.

China's "Dynamic Zero-COVID" Policy Weighs on a Weak Global Economy

By Alicia García Herrero



(Image: People wait in line to be tested in Pudong, Shanghai, Source: Global Times)

Introduction

The long lockdown in Shanghai may finally be nearing an end. Stores in parts of the city have been permitted to gradually reopen, and limited public transportation has resumed ([Sh.news.cn](https://www.shnews.cn), May 23; [Xinhua](https://www.xinhuanet.com), May 11). Nevertheless, for much of the city the lockdown drags on, as do lockdowns in other urban centers. Furthermore, China appears unlikely to pivot away from its "dynamic Zero-COVID" policies anytime in the foreseeable future. At a Politburo Standing Committee meeting earlier this month, General Secretary Xi Jinping reaffirmed his support for the current epidemic prevention approach. He stated that "practice has proven our [epidemic] prevention and control policies can stand the test of history, and our prevention and control measures are scientific and effective. We have won the battle to defend Wuhan, and we will certainly be able to win the battle to defend Shanghai" ([People's Daily](https://www.peoplesdaily.com.cn), May 6).

Images of lockdowns and empty cities in China are surely not as worrisome for Western observers as the war in Ukraine, but the negative consequences of Beijing's continued adherence to its "dynamic Zero-COVID" policies might ultimately be more detrimental to the global economy than Russia's invasion of Ukraine. Two reasons exist for this. The first and most obvious is that the Chinese economy is about ten times larger than Russia's economy and many more times the size of that of Ukraine. Secondly, Chinese policymakers, long renowned for their pragmatism, are increasingly obsessed with controlling the virus, to the point of prioritizing this objective above what has always been considered China's top priority in the reform era—achieving high economic growth.

A Major Economic Hit

Over the course of this year, the “dynamic Zero-COVID” policy has led several large cities to implement rigid human mobility restrictions to curb disease transmission. In late March, these cities accounted for 40 percent of China’s gross domestic product (GDP). Chief among the cities that have been subject to extended, draconian lockdowns is Shanghai, which is China’s most important city in terms of its contributions to the national GDP ([China Securities Network](#), March 31). Accounting for nearly 5 percent of China’s GDP and holding the flag of the nation’s most important onshore financial center, Shanghai has endured two months of strict lockdown. China’s consumption declined sharply in March with retail sales falling 3.5 percent and restaurant sales plummeting 18 percent, a drop off which was largely due to the stringent epidemic prevention measures ([National Bureau of Statistics](#), April 18).

Local authorities have tried to create closed loops to ensure the lockdown does not affect Shanghai’s manufacturing capacity, but many factories have been unable to operate and forced to temporarily stop their production lines ([People’s Daily](#), April 27). Beyond the difficulty of keeping their workers within loop, the logistics of receiving production input and transporting final products from the factory to market has become a nightmare. According to local GPS information, around half of China’s highways appear closed and air cargo and ports are operating inefficiently due to mobility restrictions and cross-border quarantine rules. In April, the manufacturing Purchasing Managers Index (PMI) dropped to 47.4 percent, a decrease of 2.1 percent from March and the lowest number in the past year ([National Bureau of Statistics](#), April 30). Based on this data, the Chinese economy is severely weak in both the service sector and the manufacturing sector, the latter of which has entered recession territory.

Global Consequences

The consequences of China’s rapid economic slowdown on the rest of the world are already noticeable. In March, China’s imports unexpectedly collapsed- falling 15% from the previous months ([South China Morning Post \(SCMP\)](#), April 13). The decline in imports reflects the detrimental impact of quarantine rules that have recently been imposed on foreign merchandise, which has added another hurdle for goods entering China. As if this were not problematic enough, restrictions on manufacturing are clearly a major shock for the global economy, as China exports as much as one-third of the world’s intermediate goods. Transportation problems, which stem from cross-border mobility restrictions and high shipping costs, are also likely to persist, and as a result, global supply chains will continue to experience significant disruption.

Beyond the reduction in domestic mobility, since the COVID-19 pandemic started in late January 2020, China’s borders have been largely closed off to the world ([SCMP](#), May 13). This situation has an important—but unfortunately negative—bearing on the global economy. An obvious immediate consequence is the plummeting number of physical people-to-people exchanges between China and the rest of world, including both tourists and business exchanges.

Curbs on Chinese citizens traveling abroad have wreaked havoc on the economies of several countries that were major tourist destinations for Chinese travelers before the pandemic. For example, this month, the Thai

baht hit a five-year low against the dollar as China further tightened curbs on overseas travel, which has had a devastating impact on Thailand's tourism industry ([Nikkei Asia](#), May 14). The slowdown in business exchanges is one of the main reasons why China's outward foreign direct investment has stalled since the pandemic started. This is particularly relevant for emerging economies with large financing needs, since they rely on external capital to build their infrastructure and upgrade their industrial capacity.

The second unintended consequence of China's closed borders is increasing lack of mutual understanding between China and the rest of the world of recent developments. The much larger number of COVID cases in most countries compared with China has fostered a strong impression among Chinese citizens of security at home and risk abroad, which has contributed to waning interest in traveling to the rest of the world.

This perception obviously does not bode well for future scientific or business collaboration between China and the broader international community, although it is difficult to measure the immediate impact of this on the global economy. The current Russia-Ukraine conflict and its devastating consequences offer a relevant example of how strict border restrictions can promote dystopian views of the outside world.

Conclusion

The dynamic zero-COVID policy is likely to further damage the Chinese economy, especially with lockdowns looking set to continue for the foreseeable future. The global economy is likely to experience severe consequences due to China's continued adherence to zero-COVID policy as well. Beyond the reduced demand for imports from China, an even more immediate effect is continued inflation, given the world's dependence on Chinese production of intermediate goods. Finally, the lack of exchanges between China and the rest of the world for close to two and a half years constitutes an additional force for deglobalization, acting as a driver of further decoupling between China and West.

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Mongolia's Currency Crisis: Made in China?

By Antonio Graceffo



(Image: A rail crossing at the China-Mongolia border, Source: Xinhua)

Introduction

When COVID-19 lockdowns closed the People's Republic of China's (PRC) borders in 2020, imports entering Mongolia came to a grinding halt, leading to domestic inflation and product shortages. Exports also declined significantly, further constricting the flow of U.S. dollars into the country. More than two years later, China continues to pursue its "Zero-COVID" policy and the Russia-Ukraine war is driving up global gas and energy costs. An unwitting victim of decisions made in Beijing and Moscow, Mongolia is facing currency devaluation, high inflation, and a shortage of dollars.

Deep Economic Ties to China

As Mongolia entered 2022, the economy was already in a bad state, as domestic COVID-19 lockdowns, combined with the ongoing stringent epidemic prevention measures in China, had done severe damage. Government stimulus programs increased the country's public debt to 81 percent of gross domestic product (GDP) in 2021 ([World Bank](#), April).

Mongolia's economy is extremely dependent on mineral exports, such as Coal Briquettes, Copper Ore, and Iron Ore, with the majority bound for China ([Observatory of Economic Complexity \[OEC\]](#), accessed May 19). In 2019, Mongolia's total exports stood at \$7.62 billion, of which China accounted for \$6.6 billion ([OEC](#), Accessed May 9). After China closed its borders in early 2020, Mongolian exports to the PRC fell to \$5.49 billion ([Trading Economics](#), Accessed May 9). As a result, the economy contracted 4.6 percent in 2020 ([Asian Development Bank](#), April 6).

During the first quarter of 2021, pandemic-related restrictions began easing on both sides of the border, which, combined with a rise in private investment, led to an increase in raw material exports ([Mongolbank.mn](#), March 2021). As a result, Mongolia's economic growth rebounded. However, President Xi Jinping's rigid adherence to the "Zero-COVID" policy hampered its economic recovery. In 2021, Mongolia's economy grew just 1.4 percent ([ADB](#), April 6). Mongolia is also highly dependent on China for imports, which accounted for over 39 percent of its imports in the first quarter of 2021 ([Xinhua](#), April 15, 2021). Global supply chain disruptions caused by the border closures pushed inflation to 13.4 percent, as of December 2021 ([Asia & The Pacific Policy Society](#), February 21). Since the beginning of this year, the situation has worsened. Mongolia lacks domestic oil refineries, and as a result relies on Russian gas and fuel. According to recent reports, the ongoing war in Ukraine has caused gas prices in Mongolia to rise 64.2 percent year-on-year ([Macau Business](#), April 16).

As Moscow Invades, the Tugrik Falls

In addition to dampening economic growth and increasing gas prices, the Russia-Ukraine conflict has also adversely impacted Mongolia's official currency- the tugrik. While the tugrik has been in decline against the U.S. dollar since January, this trend greatly accelerated following Russia's invasion of Ukraine in late February ([Exchange Rates](#), Accessed May 9). The owner of Credit Dash LLC said: "Do you know what the selling price of a dollar is right now? We're selling at about 3350 tugriks. If you'd asked me the same question a few months ago, I'd have said 2850 tugriks. Things aren't looking so good for the Mongolia tugrik and the economy." [1]

The impact of tugrik's collapse has been especially bad for the average Mongolian, as higher gas prices around the world have resulted in increased real-prices for imports. Meanwhile, a falling tugrik means Mongolians are forced to use larger quantities of their weaker currency to buy more expensive goods. Furthermore, the average inflation rate hardly tells the whole story. Solongo, a senior manager of business processes at Ard Securities, reported that for some products, prices had increased by as much as 70 percent over the past year. "The main reason for this would be transportation. Transportation prices have increased by 1.5 times," she explained. [2]

Faced with surging import prices, companies are scrambling to convert their cash holdings into dollars. Similarly, private citizens, who have seen their savings steadily depreciate, are attempting to buy dollars, but supply is running low. Bilguun, a department head at Golomt Bank, reported that people are converting tugriks to dollars. He explained: "They think that, because the tugrik is being devalued, by converting it to another currency, they're able to prevent their money from being devalued. The flight from the tugrik is causing banks to limit the amount of foreign currencies available." [3] Galsanbat Narantogtoh, manager at Uran Uurgach, a non-banking financial institution, confirmed this trend, saying: "There's been an increase in demand for U.S. dollar, but also a lack of supply from the banks." [4]

Bat-Orgil, who works at Tsagaan Sumiin Gol currency exchange, said this about the tugrik: “It’s been falling a lot lately. Banks have set a daily limit for the dollar. This is why it’s been going up. We’re selling dollars at an even higher rate than the banks.” [5]

High Demand for Limited U.S. Dollars

The three main markets for foreign currency in Mongolia are commercial banks, currency exchange kiosk markets, and Facebook. When the dollar gets particularly high, private citizens sell limited numbers of dollars, a few thousand at a time, via a Facebook group called ВАЛЮТ АРИЛЖАА ТОХИРОЛЦОО (“Currency Trading Negotiations”). The three markets’ rates can vary by hundreds of tugriks ([news.mn](#), April 14). On a given day, when the Bank of Mongolia’s (BOM) official buy rate was 3,250 and sell was 3,551, traders on Facebook were offering to buy dollars for 3,150 and sell for 3,160. At the same time, a commercial bank was buying for 3,470 and selling for 3,530. Money changers were buying between 3,420 and 3,460, and selling for 3,510 to 3,550. In theory, one could earn a profit by buying on Facebook and selling at the bank.

The BOM issued several statements, the conversion of dollars has not been limited ([news.mn](#), April 14; [news.cn](#), April 12). Both the commercial banks and the Naiman Sharga currency exchange market, however, were permitted to impose whatever restrictions they deemed necessary ([news.mn](#), April 14). The daily limit dropped from 50 million Mongolian tugriks (about \$16,550) in March, to 300,000 tugriks (about \$99) in April ([news.cn](#), April 12).

Sharav Battur, manager at Nomin-Tsengel currency exchange, complained that: “Inflation is going up in Mongolia... Gas prices are at an all-time high... The past few months, the change has been very noticeable to the point where they [the people] are starting to rebel against the government.” [6]

Protests in Ulaanbaatar

In April, Mongolians gathered in Sukhbatar Square in central Ulaanbaatar, and began demonstrating in front of the Parliament building ([News.mn](#), April 8). Led by young people, the citizens protested the state of the economy, particularly skyrocketing inflation. The protestors also called for greater transparency and a reduction in government corruption.

Many Mongolians blame China for the currently adverse situation. Bataa, the owner of Arvijih Guur, a non-banking financial institution, stated: “It’s China’s fault that there’s a shortage of goods in Mongolia. Prices have gone up too much. We should have more riots at the square.” [7]

From time to time, Mongolians turn out to protest what they consider their government’s over-conciliatory attitude toward Beijing ([Reuters](#), September 15, 2020). However, due to Mongolia’s near-complete economic dependence on the PRC, the government in Ulaanbaatar generally refrains from openly criticizing Beijing, and will sometimes silence outspoken China hawks ([France24](#), February 22). Regardless of the geopolitical perils of biting the hand that feeds one, Mongolian citizens are not shy about blaming China for their nation’s woes. According to Sharav Battur, the disruption of supply chains from China is the main reason for shortages and price increases. [8] Oyuttseten, CFO of Ard Financial Group, also blamed supply chain disruption from China,

stating it has increased the costs of services and products. “It also has an emotional effect which further makes inflation higher,” he said. [9]

Conclusion

Many Mongolians consider the current economic outlook quite bleak. When asked how Mongolians can protect their money, S. Gantulga, co-owner of Noyon Tugrik Hiimori currency exchange, recommended that citizens take their money out of the banks, because “no one can guarantee that your bank will still be here tomorrow morning in these unstable times.” [10]

The owner of Credit Dash LLC had a similarly negative outlook. He stated, “Hopefully things will turn out alright for the country, but at this point the future seems very unstable.” This opinion was seconded by N. Batbayr, a currency trader, who said: “This trend will not stop for the next two or three years.”

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Notes

[1] Interview with the owner of Credit Dash LLC. Currency Exchange, (preferred to keep his name private), Ulaanbaatar, currency exchange market, Date:19 April 2022

[2] Interview with Solongo, Senior Manager of Business Processes at Ard Securities, Ard Securities, Ulaanbaatar, Mongolia, Date 17 April, 2022

[3] Interview with Bilguun, Department Director, Golomt Bank, Golomt Bank, Ulaanbaatar, Mongolia, Date: 17 April, 2022

[4] Interview Galsanbat Narantogtoh, Manager at Uran Uurgach LLC, Ulaanbaatar, Mongolia, Date: 18 April 2022

[5] Interview with Bat-Orgil, Tsagaan Sumiin Gol currency exchange, Ulaanbaatar, Mongolia, Date 19 April

[6] Interview with Sharav Battur, manager of Nomin-Tsengel currency exchange, Ulaanbaatar, currency exchange market, Date: 21 April, 2022

[7] Interview with Bataa, the owner of Arvijih Guur, a non-banking financial institution, at Arvijih Guur, Ulaanbaatar, Date:19 April 2022

[8] Interview with Sharav Battur, manager of Nomin-Tsengel currency exchange, Ulaanbaatar, currency exchange market, Date: 21 April, 2022

[9] Interview Oyuttsetsen.B, CFO, Ard financial group, Ulaanbaatar, Mongolia, Date April 11, 2022

[10] Interview with S. Gantulga, co-owner of Noyon Tugrik Hiimori currency exchange, Noyon Tugrik Hiimori currency exchange, Ulaanbaatar, Date:20 April 2022