

China's Competing Ideological and Economic Policy Objectives in 2023

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ABOUT THE CENTER FOR CHINA ANALYSIS

With a solution-oriented mandate, the Asia Society Policy Institute (ASPI) tackles major policy challenges confronting the Asia-Pacific in security, prosperity, sustainability, and the development of common norms and values for the region. As part of ASPI, the Center for China Analysis (CCA) serves as a leading global center for policy-relevant, objective analysis of China's politics, economy, and society, and its impact on the region and the world in an era of growing strategic competition.

These remarks serve as a reflection on where China is headed during Xi Jinping's third term: where he is headed in domestic politics, on the economy and in the future direction of China's foreign and security policy. My comments also offer insight into Xi's perspective on the future from the inside out, including the various constraints and opportunities apparent to him, rather than how the rest of us impact on China from the outside in.

As many would know, in October 2022, I was fortunate to launch the Center for China Analysis at Asia Society Policy Institute. The Center prides its work on understanding China from the inside out and utilizes original Chinese language material for primary analysis. The Center's work spans domestic politics; economy and technology; foreign policy and national security; climate, energy and environment; and society, culture, public health and education.

I often say there is no shortage of China analysis but there is a lack of synthesis. The remarks I shared at the China Matters Oration attempt to embody a synthesis of complex ideas. I have carefully constructed an analytical narrative in my comments that begins with the 20th Party Congress and explores the changes of ideology, the economy, foreign and security policy, ending Zero COVID, declining economic growth, and new efforts to stabilize the US-China relationship. I also pose questions on a course correction for the Chinese economy, changing the economic narrative, and look at par-

allel adjustments to China's foreign and security policy settings for 2023.

My own reflections attempt to make sense of current complex ideas. I draw extensively from recent papers from the Asia Society's Centre for China Analysis dealing with the 20th Party Congress last October and the complex developments that have unfolded since. I also supplement these analyses with my best reflections on Xi's recent speech to the Central Party School, which in many respects is the Chinese ideological equivalent of the annual "State of the Union" address in the United States. And it is very much a "command performance" for the entire central party leadership.

In a time where careful, rather than overheated analysis is crucial, I intend these remarks to serve as a synthesis of thought—emblematic of the Center for China Analysis' purpose but also for the Asia Society as an institution.

THE 20TH PARTY CONGRESS OF OCTOBER 2022

If the international community needed further evidence that China under Xi Jinping has radically changed from that of the Deng Xiaoping, Jiang Zemin, and Hu Jintao era (1978-2013), then the ideological, political, economic, foreign policy, and personnel outcomes of the 20th Party Congress provided it in definitive abundance.

Indeed, Xi himself, in his last Congress

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Report in 2017, proclaimed the beginning of a New Era. Some at the time thought this to be little more than a propagandistic over-claim. They were wrong. Xi is now the embodiment of his new ideological mantra of “the spirit of struggle.”

Ideological Change

Ideology has always mattered to the Chinese Communist Party. But with Xi Jinping, we have seen the reification of his own brand of Marxist-Leninist nationalism. This was clear from Xi’s earliest writings in 2013 that accompanied the reassertion of the party’s Leninist control of Chinese politics. His Marxist ideological worldview began extending to the economy after the 19th Party Congress in 2017 when he formally redefined the party’s ideological priorities away from the rip-roaring days of “reform and opening” to develop the economy, to a new era dealing with the “imbalances of development” which the Deng Xiaoping, Jiang Zemin and Hu Jintao periods had created.

The 20th Party Congress report was more ideological in tone and content than we have seen in congress reports for the last 40 years. The report speaks to the great ideological progress which has been achieved over the previous decade in developing a “new chapter in a modern Marxism for the 20th century.” Xi enjoins the party to “grasp both the worldview and methodology of Socialism,” and to apply the analytical tools of dialectical and historical materialism to the Party’s understanding of the great challenges of the time. Indeed, this ideological lens should be applied “to advance every aspect of our work”—and, in so doing, also develop “a new normal for the civilization of all humankind.”

Chinese Communist Party officials (for whom the work report is intended) are acutely

attuned to changes in the ideological phraseology of these core party documents. This goes down to an analysis of basic word counts for particular phrases.

For example, the term “Marxism” itself is referred to 26 times in the latest work report—double what we saw in the already-ideologized report of 2017.

The Marxist-Leninist concept of “struggle” (violent or non-violent) as the means by which to realize domestic or international progress against the party’s stated objectives has 22 references in the report—about the same number as in 2017.

The Marxist concept of “common prosperity” is also emphasized in equal measure compared to the 2017 document.

But Xi Jinping’s overriding nationalist objective of building a powerful state (*qiangguo*) together with the term “Marxism” itself, represent the dominant ideological thematic for the 2022 report: there are 32 references to a “powerful state” in 2022, versus 20 such references in 2017.

And just in case Chinese officials were unclear about the significance Xi Jinping attached to this new ideological framework, it was reinforced by the Congress’s formal amendments to the party constitution to enhance the already-elevated status of Xi Jinping Thought.

In other words, ideology is back in force as a concept in its own right; Marxism-Leninism is to be embraced as the fundamental ideological framework of values, of end goals, and importantly as an analytical methodology; and Xi Jinping Thought is now the primary embodiment of contemporary Chinese Marxism to be applied across the board.

All of this is compatible with Xi's embrace in his Congress report of a "high level" of opening to the outside world – in contrast to less- conditional past formulations on "reform and opening" without the qualification of a prefix that had long been seen as central to China's growth performance.

Economic Policy Change

On the economy, the central question for the 20th Party Congress report was whether development remained the core task of the party, or whether that had now been equaled (or even surpassed) by national security.

One indication of the shift away from the absolute centrality of the economic growth agenda lies in the number of references simply to the term "the economy" in the text of the 2022 report. In the 14th Congress report of 1982, when Deng relaunched his economic agenda of market reform and opening, the "economy" was referenced 195 times. By the time of Xi's first Congress report in 2017, that number had come down to 70. In this report, "the economy" is referenced on only 60 occasions.

By contrast, at the 14th Party Congress in 1992, the term "national security" appeared only once; it was used four times in the 18th Congress in 2012, rising to 18 references at the 19th Congress in Xi's first Congress in 2017; and there are now 27 references in the 20th Congress report.

This declining emphasis on economic development in the 20th Party Congress report was reflected in the report's more cautious treatment of the Party's growth objectives for the five years ahead; the CCP now aspired to only "reasonable growth rates," no longer a specific number, presumably mindful of the vast array of domestic and international headwinds bearing down on the Chinese economy today.

The party's overall economic policy settings in the Congress report were accompanied by a continuing qualification and correction of market principles back towards the disciplines of state direction and control. Whereas the report does make reference to an earlier

party mantra of "giving full play to the decisive role of the market in resource application," this continues to be tempered by parallel reference to the need for "a better role being played by the state." The same sort of parallelism is evident in the report's treatment of state-owned enterprises and the private sector: the party is told to "consolidate the public economy" while simultaneously "encouraging the non-public economy."

The report also speaks of the need for "national self-reliance" in science and technology, the "strategic" allocation of resources for the development of new technologies. The party is directed to undertake the strategic deployment of human capital, rather than allowing talent to be allocated according to competitive opportunities of the market. This is reinforced by a call to "increase the security and resilience of China's own industrial supply chains" in anticipation of future national security challenges. All of this is compatible with Xi's embrace in his Congress report of a "high level" of opening to the outside world—in contrast to less- conditional past formulations on "reform and opening" without the qualification of a prefix that had long been seen as central to China's growth performance.

The Congress report's overall statist emphasis is nonetheless still tempered by a number of more reformist concepts. For example, there is a new call to increase total-factor productivity across the economy, although little indication is given as to how this might be achieved in practice.

Similarly, there is an indication that China will reduce the exclusion list for the categories of permissible inbound foreign direct investment for the future. Just as there are references to China's desire to bring about "the increased internationalization of the

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renminbi” although this would appear to be part of a more general strategy to reduce China's future international dependency on global financial markets which continue to be dominated by the U.S. dollar.

Nonetheless, whatever pro-market signals might be contained within these measures, they are qualified once again by Xi's new, overriding ideological narrative of “a Chinese-style of modernization.” This is a direct critique of Western, neoliberal globalization. It also reflects Xi's embrace of what is now termed the “correct direction of globalization” for the future. Indeed, it is to this emerging thematic of “a Chinese-style of modernization” that Xi returns in his most recent February 2023 address to the Central Party School, which I will return to later in this lecture.

In summary, on the economy, Xi has consciously changed Deng's 35-year-old growth model along fundamental ideological lines. He started this process in the 19th Congress report in 2017 by formally adjusting the party's definition of its “principal contradiction” to focus on the many “imbalances” left over from the period of “reform and opening.” And, since then, Xi has added a “New Development Concept” whose essential components are the revitalization of state-owned enterprises, the re-emergence of large-scale state industrial policy; and new restrictions on the private sector, particularly in relation to the tech, property, private education industries and, of course, Xi's “common prosperity agenda.”

This has been matched with a new, more-qualified approach to international economic policy anchored in his broader doctrine of the “dual circulation economy,” national self-sufficiency, and re-securing China's own

global supply lines in response to what Xi has concluded to be a U.S. strategy of systematic decoupling. Indeed, there was little evidence in last October's 20th Party Congress report that Xi intended to move away from his increasingly statist development model and back toward the market, the private sector or to more open, unconditional international economic engagement.

Foreign and Security Policy Change

As for foreign and security policy, the 20th Party Congress report also dispensed with a number of sacred nostrums from the past. We have become familiar with Xi's abandonment back in 2013-14 of Deng's cautious approach of “hide your strength, bide your time, never take the lead” in favor of a new strategy of “striving for achievement,” whereby China now sought to change the regional and global status quo in a direction more compatible with Chinese national interests and values. Xi doubled down on this approach in his most recent Congress report by indicating that national security (in dealing with threats both at home and abroad) rather than the economy should be China's central preoccupation for the coming period.

The most clear-cut changes in the 20th Party Congress report, however, lie in its formal analysis of China's rapidly evolving external strategic environment. In previous Party Congress reports back to the 1990s, there has been a standard reference to “peace and development” as the major, underlying trend of our times. Indeed, a benign external environment had long been seen by Deng and his successors as providing the analytical underpinning for China focusing exclusively on its economic development imperative. This formulation was complemented by another standard phrase in Congress reports since

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2002 that China was “experiencing a period of strategic opportunity” (*zhanlue jiyuqi*).

The important analytical point to note here is that neither of these long-standing expressions that have accompanied the many decades of the “reform and opening” period feature any longer in the 20th Congress report. The analytical and policy implications of this are clear. The party no longer rules out the possibility of major war in the future. As a result, the party’s security agenda now rivals, and arguably surpasses, the central priority attached to its economic agenda over the previous 40 years.

This conclusion is reinforced by a new set of formulations that lace the document’s analysis of China’s rapidly deteriorating external environment. Xi now describes a “severe and complex international situation” where the party must be “prepared for dangers in peacetime” as well as “preparing for the storm.” In doing so, Xi once again calls on the party to adhere to “the spirit of struggle.” And in all of the above, Xi refers to the next five years as “critical” for the continued building of a powerful Chinese nation.

Indeed, the Congress report goes on to refer to “national security” as the “foundation of national rejuvenation.” Xi also uses the report to entrench earlier statements he had made on the need for “a total security agenda” incorporating ideological security, political security, economic security, and strategic security. The report then directs the party to apply this concept of “comprehensive security” across the full spectrum of the Party’s internal processes.

On the People’s Liberation Army (PLA) in particular, Xi calls for “an increased capacity for the army to win;” an “increased proportion of

new combat forces;” and for the promotion of “actual combat training for the military.”

Importantly, however, the Congress report’s language on Taiwan is relatively conciliatory. Xi emphasizes the party’s preference to resolve the Taiwan issue peacefully, while not renouncing the use of force. This is not a new formulation. What is new, however, is Xi’s warning that its harsher measures over Taiwan are targeted not at the bulk of the Taiwanese population, but instead at the small minority of Taiwan independence supporters and those foreign states that back them. Xi nonetheless reminds his Taiwanese audience that, on the broader question of their status, the “wheels of history” are still grinding forward towards the “inevitability of reunification.”

In summary, the Congress Report reflects continued hardening in Xi’s ideological approach towards a more-Leninist party and a more-Marxist approach to the Chinese economy. Add to these the further consolidation of Xi’s power as reflected in the senior personnel changes that were also made at the Congress to the Politburo and its Standing Committee, the wider Central Committee, and in the enhanced status of the new ideology that bears his name—together augmenting his individual political authority.

Externally, the language of the 20th Party Congress Report indicates that, on China’s perception of the international strategic environment, the overall state of PLA preparedness, albeit less starkly in explicit language used directly on Taiwan, Xi is signaling to the Chinese system that national security preparedness is the new imperative of the day. Collectively, these represent significant changes in the country’s ideological, political, economic and foreign and security policy

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direction when compared with the pre-Xi Jinping period.

CHANGES SINCE THE 20TH CONGRESS: ENDING ZERO COVID, DECLINING ECONOMIC GROWTH, AND NEW EFFORTS TO STABILIZE THE CHINA-U.S. RELATIONSHIP

It has now been four months since the 20th Party Congress convened in Beijing on October 15. While the Congress set Xi Jinping's ideological, strategic, and economic direction for the following five years, much has happened since then that the Chinese leadership did not anticipate.

Principal among these surprises was the spontaneous eruption in late November of public protests across multiple Chinese cities against the economic and social impact of the Chinese Communist Party's "dynamic zero-COVID" policy. These protests also saw an unprecedented U-turn on December 8 from China's relentless pursuit of its three-year-long national pandemic containment strategy. Instead, the party now seeks to restore economic growth and social calm, although this shift has also generated major public pressures on the Chinese health system as hospitals struggle to cope with surging caseloads and as yet an unknown number of deaths.

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While there has been much internal criticism for how the abrupt change to Chinese COVID policy was made, we should not conclude as a result that Xi Jinping is in real and immediate political danger. Certainly, resonances of this criticism will continue through until the 21st Party Congress. But we should never forget that Xi's control of the hard levers of power across the party's security, intelligence and organizational apparatus still appears to be near-complete.

Course Correction on the Chinese Economy?

The sheer magnitude of China's economic slowdown during 2022 underscored the political and policy dilemma that Xi's administration faced in December. China had grown by 8% in 2021 as it recovered rapidly from 2.3% growth during the first full year of COVID in 2020. China's full-year growth in 2022, however, came in at only 3%—and that's according to official data. This is disputed by both market and public economists, who contend the real number is likely to have been lower than the 2.3% registered back in 2020. It also stands in stark contrast to China's official growth target for 2022 of 5.5%.

By any Chinese domestic benchmark, 2022 has been China's economic *annus horribilis* producing China's second-worst (and possibly the worst) growth performance since the beginning of the period of reform and opening in 1978. This underscored the emerging sense of political urgency to throw everything at restoring economic growth.

Capital Economics has calculated that, using China's official growth numbers, the economy is now 7% smaller at the beginning of 2023 than it would have been if the growth rate for the last three years had been the same as rates in the three years immediately preced-

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ing the pandemic. And using their alternative GDP calculation model (the China Activity Proxy) they estimate that in fact the economy is already 9% smaller than that pre-pandemic level.

Turning to 2023, institutional and market economists differ widely on the likely timing and scale of economic recovery. Rhodium's higher-growth scenario, premised on absolutely everything going right for China in the year ahead, is 4.5% and assumes much stronger world trade which is, of course, beyond Beijing's power to deliver unilaterally.

Rhodium's low-growth scenario of 0.5% paints a picture of the risks:

- low consumption as households continue saving at record levels amid uncertainty about employment, health costs, and property values;
- troubled public investment because government deficits are already too high and accumulated local government debt already too risky;
- a delayed late-year recovery in the property sector given the lag effect from regulatory changes;
- slowing global trade as predicted by the IMF amid general fears of an international recession that may undercut exports;
- and deep-seated concerns with business confidence after five years of regulatory, legal, and ideological changes by the party since the 19th Party Congress in 2017.

Through the wider lens of economic history, China, from the beginning of the period of reform and opening in 1978 until the emergence of COVID-19 in 2020 registered average

annual growth of 9.5%. This enabled China to roughly double the size of its economy every eight years and, in 2011, leapfrog Japan to become the world's second-largest economy (measured by GDP at current market exchange rates).

On December 6 last year, Goldman Sachs projected that China would still surpass the United States in economic size, but not until 2035. Their previous estimate, from 2011, projected the cross-over with the U.S. economy would come a decade earlier in 2025. Goldman's latest projection also assumes Chinese growth remaining around 4% from 2024 to 2029—a figure that is now above the forecasts of some, though by no means all, economists. For all these reasons, the political imperative to restore economic growth is now very high.

Xi and the wider foreign and national security policy establishment will be acutely aware of what will happen if Chinese economic growth begins structurally to stall. The chances of overtaking the U.S. economy during Xi's political term in office may now be less certain, while his China dream of a national rejuvenation by mid-century (which is often interpreted as China becoming once again the pre-eminent regional and global power) now appears to be at least open to challenge. All these factors have underpinned the party's new sense of urgency to return to economic growth at all costs.

Changing the Economic Narrative

On December 6, the Politburo convened a critical meeting that confirmed the change in the party's policy narrative on the centrality of restoring economic growth. It was explicitly dedicated to economic planning and its operational purpose was to establish the political parameters for the annual Central Economic Work Conference (CEWC) to be

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held later in December. In it, Xi outlined the five key policy goals for 2023. The top three of them are:

- Boosting market confidence;
- Expanding domestic demand;
- Focusing on the stabilization of growth, employment, and prices.

These three statements are key elements of the party's new growth narrative. The reference to risk management provides political cover for those in the economic system to prevent yet another public spending splurge to prop up growth while disregarding the dangers of continuing systemic financial risk. Importantly, this was also the Politburo meeting that ratified the dramatic change in COVID strategy that was announced the following day.

These new thematic within the party's changing economic policy narrative were amplified in the report of the CEWC convened by Xi Jinping on 15 December. These annual reports set the party's economic priorities for the year ahead. They are also the best year-to-year barometers of what has changed and what has remained the same in the party's overall approach to economic management.

Reports of the CEWC have long been drafted by writing groups drawn from the party's central policy commissions and leading groups. They represent the most current compromise between the party's reformist and conservative wings on the best policy balance between the market and the state, the private and public sectors, and the tolerance levels around the ideologically sensitive issue of income inequality.

As noted above, in the five years following the 19th Congress in 2017, the center of policy

gravity on these and related questions has moved increasingly toward the Marxist left. By contrast, the 2022 CEWC signaled that the party, reacting in particular to the poor growth performance during the year, is now seeking to move back toward the policy center on some, but by no means all, core points of economic guidance. Of course, it remains to be seen what impact these stated changes will have on the real economy as 2023 unfolds.

Evidence of a New Pro-Market Sentiment

A careful comparison of the 2021 and 2022 CEWC reports indicates there are ten main areas where the language has sufficiently changed between the two texts to demonstrate a deliberate shift in policy emphasis:

- The 2022 report is less ideological, more pragmatic and task-oriented on policy;
- The 2022 text is much more expansive in its embrace of the language of reform, opening, and the need for market confidence, calling for “unwaveringly deepening reform” and “unswervingly expanding openness;”
- Third, the latest CEWC Report focuses “on expanding domestic demand” and “restoring and expanding consumption” by “increasing the income of urban and rural residents through multiple channels” and by enhancing consumer sentiment by “improving psychological expectations in society and boosting confidence in development;”
- Fourth, on the explicit question of “common prosperity,” there are five separate references in the 2021 report while, by contrast, all references have now been dropped;
- Fifth, the most recent CEWC report also

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seeks to assure the private sector that Xi Jinping is not ideologically hostile to its growing role in the Chinese economy and that the party does not politically prefer state-owned enterprises;

- Sixth, similar changes are evident in the treatment of the so-called “platform economy” (i.e. the major private technology companies controlling China’s digital economy and big data). While the 2021 CEWC report warned of the dangers of monopolistic behavior and the “disorderly expansion of capital” in China’s fin-tech sector, this is no longer the case with the 2022 report;
- Seventh, the property sector is also treated differently in the 2022 report, pointing to a potential return to some level of normality in 2023 as an essential component of the party’s overall growth strategy;
- Eighth, there is a major new emphasis on the imperative of expanding Chinese trade and inbound foreign direct investment, compared with the previous year’s report – to be accomplished by removing “impediments,” increasing “convenience” for foreign investors, and guaranteeing equal access for foreign investors in Chinese government procurement projects and across the private services sector;
- Ninth, there appears to have been some weakening in the party’s official language on its climate change agenda on the relative urgency of realizing China’s carbon peaking target by 2030 and achieving carbon neutrality by 2060; and
- Tenth, as indicated earlier, the 2022 CEWC language on future pandemic management has obviously changed

180-degrees, with the vigorous assertion of political stability and economic growth imperatives instead of the previous orthodoxy of all-consuming public health priorities.

Continuing Evidence of Party Control of the Economy

It would be wrong, however, to conclude that the 2022 CEWC report represents an unalloyed victory for pro-market sentiment after five long years of policy retreat.

The report, like its predecessors, is a compromise document. There remain significant continuities with the statist and partyist language of previous reports going back to the 19th Party Congress in 2017. There has not, therefore, been a clean break from the past. Rather it has been a partial correction in the party’s post-2017 economic policy course, made to respond urgently to China’s current growth crisis.

Despite the fact that the 2022 CEWC is less ideological than the previous year’s, it nonetheless retains the framework of the core Marxist orthodoxies that have been reified during Xi Jinping’s rule:

- First, the report states that “to do a good job in economic work next year, it is necessary to take Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as the guideline, to fully implement the guiding principles of the party’s 20th National Congress, [and] push forward the Chinese path to modernization;”
- Second, it reaffirms Xi’s New Development Concept, which he announced for “the New Era” after the 19th Congress as a statist corrective to the market excesses of Deng’s unrestrained period of reform and

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opening. It also continues to emphasize Xi's "New Development Paradigm" which still incorporates the economic self-sufficiency principles of Xi's other conservative innovation, "the dual circulation economy;" and

- Third, this same self-reliance principle remains alive in Xi's industrial policy, which has not changed at all in the current CEWC report. It calls for the "optimization of the implementation of industrial policies, focusing on the transformation and upgrading of traditional industries, and the cultivation and growth of strategic emerging industries, [and] the strengthening of weak links in the industrial chain."

For these reasons, one cannot assume that the ideologically driven, statist intervention approach to economic management of the last five years has been repealed in a single stroke with the 2022 CEWC report.

Previous ideological adjustments to the left, in favor of the state and away from Deng's previous market model, remain in place. Indeed, these still provide the deep, embedded framework within which the party's rolling economic policy debates are conducted, including those of the most recent Central Economic Work Conference. It is within these continuing ideological parameters that the party has significantly changed its tactical course on the critical question of restoring economic growth—as reflected in the ten policy shifts identified above.

The open question remains, however, whether these growth-driven changes in the Party's current policy course will be sustained for the longer term, given Xi's underlying Marxist-Leninist ideological bedrock

remains fundamentally intact. A further question is whether there will also be some form of ideological "snap-back" to the left if and when growth is fully or partially restored. And then there is the question of how positively Chinese consumers and private businesses (China's major growth engine for the last two decades) respond to these changes in the short-to-medium term.

On balance, it is reasonable to assume that there will be some level of economic recovery during 2023, although many will continue to hedge their bets because of continuing perceptions of both national and international political risk.

Next month's National People's Congress and the Premier's Economic Work Report will provide the next opportunity to reaffirm the core elements of the party's changing economic narrative. We should be ready for further statements of renewed commitment to the old principles of "reform and opening" and a new range of policy directions based on a more private sector-friendly approach. Nonetheless, both the party and the country, including its entrepreneurial class, are likely to remain cautious over the possibility of further reassertions of ideological orthodoxy which could temper once again the re-emergence of market enthusiasm. Indeed, that may well be the case when we examine closely the content and the impact of Xi's February 7 speech to the Central Party School where he seeks for the first time to provide an ideological definition of his earlier concept of "Chinese-style modernization" as opposed to "Western-style" of modernization.

Parallel Adjustments to China's Foreign and Security Policy Settings for 2023

The connection between China's domestic

Beyond its core security agenda, our analysis is that Beijing is likely to pivot its overall foreign and international economic policy agenda to maximize Chinese economic growth. At the same time, Beijing will seek to underscore China's importance to Europe, Asia, and the developing world in support of global economic recovery in an otherwise recession-challenged 2023.

and foreign policy challenges underscores why it is important to understand the significance of how both China's changing COVID strategy and the new urgency of its economic growth imperative are influencing Chinese external policy. These impacts can be seen in:

- Xi's multiple renewed engagements with heads of government around the world (particularly but not exclusively the Europeans given the latter's concern with China's policies on Russia and Ukraine), selling the continued attraction of China's export markets and investment opportunities to the rest of the world, and China's deep interest in leveraging its economic significance to Europe to try to decouple Europe from the United States over Taiwan;
- Second, Xi's summit with President Biden in November 2022 and his interest in stabilizing China's competitive relationship with Washington to reduce the risk of crisis, conflict, or war by accident in order to focus for the period ahead on the central task of economic recovery;
- Third, Xi's amelioration of the polarizing practice of "wolf warrior" diplomacy seen over the last five years toward U.S. partners and allies around the world, as Beijing embarks on a new approach in the short-to-medium term to accommodate its immediate economic growth agenda.

It is noteworthy, nonetheless, that Xi has decided to continue China's previous patterns of military behavior near Taiwan, in the East China Sea towards Japan, and in the South China Sea towards the United States and various South China Sea claimant states, where China's military posture shows no sign of being moderated so far.

But, beyond its core security agenda, our analysis is that Beijing is likely to pivot its overall foreign and international economic policy agenda to maximize Chinese economic growth. At the same time, Beijing will seek to underscore China's importance to Europe, Asia, and the developing world in support of global economic recovery in an otherwise recession-challenged 2023.

None of these shifts are therefore likely to presage China changing its current military posture in relation to the United States, Japan, and Taiwan—although, as noted above, prior to recent developments over the interception of the Chinese balloon over the United States, Beijing had begun to moderate the political temperature of its relationship with Washington.

This was evident in Xi's changed language in Bali. Xi spoke of the need to put "protections" around the relationship and build a "security safety net" beneath it. China's motives here appeared to be to build some mechanisms to reduce the risk of accidental crisis, conflict, or war with the United States at a time when China is not ready for kinetic conflict. This new language also appeared to be designed to provide a temporary breathing space for China to stabilize economic growth.

Nonetheless, new language of itself does not represent a change in China's enduring strategic objective of continuing to improve the China-U.S. balance of power in Beijing's favor to make it possible to secure Taiwan by force at a time of Beijing's choosing. Indeed, the structural tensions in the U.S.-China relationship over Taiwan will continue. This will likely manifest in continued and increasing Chinese air force crossings of the median line in the Taiwan Strait. So too with Chinese intercepts of U.S. and allied reconnaissance flights over the South China Sea.

As of today, it remains unclear if and when the diplomatic clouds may clear to the extent they would enable the return of Secretary Blinken to Beijing – and the extent to which bilateral political resolve remains to find new mechanisms to stabilize the relationship as envisaged last November.

U.S. House Speaker Kevin McCarthy, meanwhile, intends to take a congressional delegation to Taiwan in 2023 and has already established a new Congressional Select Committee on China to help the U.S. win its new “Cold War” with Beijing.

Notwithstanding all the above, Xi had, however, agreed in Bali to Biden dispatching Secretary of State Blinken to Beijing early this year to enhance “strategic communication” between the two sides. While Beijing’s objectives may have been limited in scope, both sides appeared to have agreed not to allow their relationship to continue to free-fall for the near term. At least that was the case until the extraordinary events of February. As of today, it remains unclear if and when the diplomatic clouds may clear to the extent they would enable the return of Secretary Blinken to Beijing – and the extent to which bilateral political resolve remains to find new mechanisms to stabilize the relationship as envisaged last November. Let us see what emerges from Blinken’s meetings this weekend at the Munich Security Conference.

XI JINPING’S FEBRUARY 7 ADDRESS TO THE CENTRAL PARTY SCHOOL

To summarize so far: what we have seen over the last four months is the party seeking to reconcile two major realities: on the one hand, Xi Jinping’s clear-cut ideological strategic direction for a more Leninist, Marxist and nationalist China as outlined in both the 19th and 20th Congress Reports; and, on the other hand, Xi Jinping dealing with the immediate realities of a politically unacceptable slowdown in growth and the need to adjust both China’s economic policy course and parts of its foreign policy direction in order to accommodate this new growth imperative.

The reality is that these two directions remain

in continuing tension with each other. It is analytically flawed to conclude that the second approach has now supplanted the former—i.e. that economic pragmatism has once again trumped the ideological demands of Xi’s nationalism. It hasn’t. It nonetheless remains to be seen which of them will prevail. In the meantime, there will be a significant degree of “muddling through” as Chinese officials and entrepreneurs and foreign corporations and government are required to interpret and respond to a complex set of political and policy signals from the center.

One stark reminder of this continuing tension is Xi’s address to the Central Party School on 7 February, delivered in front of the party’s entire new leadership appointed by last October’s 20th Congress. The speech seeks to put flesh on the bones of one of Xi’s major new ideological themes outlined at the 20th Congress: the concept of “Chinese-style modernization” as an explicit challenge to the “myth” of the Western definitions of modernization, globalization, development and democracy. Xi’s language, once again, is throwing down the ideological gauntlet.

Xi begins by stating that “the leadership of the party determines the fundamental nature of Chinese-style modernization;” that “only by unswervingly adhering to the leadership of the party can Chinese-style modernization have a bright future and prosper;” that “otherwise, one will deviate from the course, surrender the soul, or make subversive mistakes;” and that only “the leadership of the party ensures that the goal of Chinese-style modernization will be pursued steadily going forward.”

Xi then points to China having learned from the Western world in its earlier period of economic development but, through the superi-

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ority of China's political system, was able to achieve industrialization in a fraction of the time. He states that:

"since the founding of New China, especially since the reform and opening-up, it has taken us merely a number of decades to complete the industrialization process that Western developed countries went through over hundreds of years, thereby creating a miracle of rapid economic development and long-term social stability, and opening up broad prospects for the great rejuvenation of the Chinese nation."

Then, in the sharpest and newest section of the speech, Xi takes aim not only at the arrogance of the West's perceived assumption that modernization would somehow inevitably result in Westernization. Xi states that:

"Chinese-style modernization is deeply rooted in China's excellent traditional culture, embodies the advanced nature of scientific socialism, draws on and absorbs all outstanding achievements of human civilization, represents the development direction of human civilization's progress, presents a new form of modernization that is different from the Western model of modernization, and is a brand-new model of human civilization."

He continues:

"Chinese-style modernization has broken the myth that 'modernization equals Westernization;' it has presented another form of modernization, expanded the options for developing countries to achieve modernization, and provided a Chinese solution for mankind to explore a better social system. Its unique global outlook, values, perspectives on history, civilization, democracy, and ecology, and the great practice embodied

in Chinese-style modernization represent great innovations in the theory and practice of world modernization. Chinese-style modernization has set a good example and provided a new choice for developing countries to pursue modernization independently."

There are two significant innovations in this language. First, in the past, Xi has normally referred to China's political and economic system as "different" to the West because of China's unique circumstances. Here he asserts that it is now "better" than the West's. Second, while Xi offered at the 19th Party Congress in 2017 only a single sentence about the "China development model" as an option for the developing world, what we see in this speech is a much more full-throated appeal to the developing world to embrace the Chinese option given the different values it provides. Neither of these are statements of a party or a leader in ideological retreat.

However, Xi's critique of the Western model of development is not merely based on an appeal to the party's underlying values. It also goes to the ultimate efficiency and effectiveness of the capitalist model.

As the *People's Daily* report of Xi's speech states explicitly: "Xi said innovation must be placed in a prominent position in overall national development, and efforts must be made to achieve higher efficiency than capitalism while maintaining fairness in the society more effectively."

Furthermore, beyond the critique of the liberal democratic values of the West, and his view of the economic inefficiency and ineffectiveness of the Western capitalist model, Xi reminds his audience of four other critical principles that are inherent to his overriding thematic of a "Chinese-style modernization:"

What we have seen since December is not an Xi Jinping equivalent of Deng's "southern expedition" in 1992, when the latter reasserted the centrality of reform and opening after the tumult of Tiananmen. There is no sign of a Damascene conversion here.

- first, "adherence to the overall national security concept;"
- second, "persistence in independence and "self-reliance" so that the development of the country and the nation should be carried out on the basis of our own strength, firmly grasping that the fate of China's development and progress in our own hands;"
- third, while also "persisting in efforts to expand high-standard opening up, deeply involving the country in the global industrial division of labor and cooperation;"
- and fourth, "common prosperity".

In other words, for those who may have thought that the centrality of national security and national economic self-reliance to China's development strategy as outlined in the October Party Congress had weakened since December, Xi is now reminding them that ideologically they are wrong. Even his reference to economic "opening" retains the new qualifier "high-level," reminding his audience that his post-2017 caveats to the previous era of untrammled reform and opening continue to apply.

CONCLUSION

The February 7 speech is Xi's sobering reminder of the ideological constraints within which China's economic reopening announced in early December can safely be conducted. The speech certainly countenances future policy innovation, experimentation and even trial and error. But the ideological and political guardrails remain firmly in place for what might now be done in the name of restoring economic growth.

In other words, what we have seen since December is not a Xi Jinping equivalent of Deng's "southern expedition" in 1992, when the latter reasserted the centrality of reform and opening after the tumult of Tiananmen. There is no sign of a Damascene conversion here. At least not yet.

Furthermore, for those who expect a softening in China's ideological cleavage with the West as Beijing seeks to bring its wolf warriors under control and reduce political frictions with its economic partners in Europe, democratic Asia and the rest as part of the re-prioritization of China's global economic engagement, the full-throated ideological assault on democratic capitalism outlined in Xi's address should give us all further pause for careful reflection.