

China's Political-Economy, Foreign and Security Policy: 2023

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It has now been three 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 next 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 resulted in an unprecedented U-turn on December 8 from China's relentless pursuit of its three-year-long national pandemic containment strategy to the Party now seeking desperately to restore economic growth and social calm. This shift has in turn generated major public pressures on the Chinese health system as hospitals struggle to cope with surging caseloads and mortalities.

All of these developments stand in stark contrast to the political, ideological, and nationalist self-confidence on display at the 20th Party Congress. In October, Xi Jinping swept the board by removing any would-be opponents from the Politburo and replacing them with long-standing personal loyalists. Xi also proclaimed China's total victory over COVID-19, contrasting the Party's success with the disarray its propaganda apparatus had depicted across the United States and the collective West. Despite faltering economic growth, Xi had doubled down in his embrace of a new, more Marxist approach to economic policy which prioritized planning over the market, national self-sufficiency over global economic integration, the centrality

of the public sector over private enterprise, and a new approach to wealth distribution under the rubric of the Common Prosperity doctrine. At the same time, Xi's 2022 Work Report, delivered at the Congress, abandoned Deng Xiaoping's long-standing foreign policy framework that "peace and development are the principal themes of the time" and instead warned of growing strategic threats and the need for the military to be prepared for war.

As part of a continuing series on China's evolving political economy and foreign policy, this paper's purpose is threefold: to examine the political and economic implications of this dramatic change in China's COVID-19 strategy; to analyze what, if any, impact it may have on China's current international posture; and to assess whether this represents a significant departure from the Party's strategic direction set at the 20th Party Congress last October. The paper concludes that the Party changed course on COVID-19 for two reasons: (1) it feared that not doing so would threaten its unofficial social contract with the Chinese people based on long-term improvements in jobs and living standards; and (2) that a structural slowdown in growth could also undermine China's long-term strategic competition against the United States. This paper also concludes that the stark nature of the December 8 policy backflip, together with the Chinese health system's lack of preparedness for it, has dented Xi Jinping's political armor for the medium term. This setback comes on top of internal criticism of Xi's broader ideological assault on the Deng-Jiang-Hu historical economic growth formula that Xi has prosecuted since 2017, as well as Xi's departure from Deng's less confronta-

tional foreign policy posture that characterized previous decades. Nonetheless, these policy errors remain manageable within Chinese elite politics, where Xi still controls the hard levers of power. Furthermore, many of these changes on both the economy and external policy are more likely to be short-to-medium term and therefore tactical in nature, rather than representing a strategic departure from the deep ideological direction laid out for the long-term in Xi's October 2022 Work Report. While these changes to current economic and foreign policy settings are significant in their own right, there is no evidence to date that Xi Jinping's ideological fundamentals have changed.

COVID POLICY AS THE NEW CENTRAL FACTOR IN CHINESE POLITICS

Following the 20th Party Congress, many surmised that the Party planned to gradually exit its “dynamic zero-COVID” policy over the following six to nine months. Because the policy had become inextricably linked to Xi Jinping personally, it was not politically possible to change course until the Congress had formally confirmed Xi's third term. As Xi made clear in the opening section of his 25,000-word work report:

In responding to the sudden outbreak of COVID-19, we put the people and their lives above all else, worked to prevent both imported cases and domestic resurgences, and tenaciously pursued a dynamic zero-COVID policy. In launching an all-out people's war to stop the spread of the virus, we have protected the people's health and safety to the greatest extent possible and made tremendously encouraging achievements in both epidemic response and economic and social development.

Indeed, China had dismissed as impertinent suggestions by the World Health Organization (WHO) Director-General as early as May 2022 that the country's zero-COVID policy was unsustainable, stating publicly that he should “get more knowledge about the facts and refrain from making irresponsible remarks.”ⁱ

Until the December 8 backflip, it was understood that the Party's COVID exit strategy was to be based on what had already been successfully trialed in Hong Kong: a “zero plus three” approach of airport PCR tests, three days of restricted

travel quarantine, avoiding restaurants while eating within hotels, and mobile tracking. This policy had been implemented in Hong Kong during the third quarter of 2022, replacing Hong Kong's replica of the Mainland's zero-COVID strategy within the SAR. This new COVID management regime had also been made possible by Hong Kong's higher effective vaccination rate, where the bulk of doses were provided using an mRNA vaccine from BioNTech. It had been assumed that Beijing would use the transition period from late 2022 to mid-2023 to lift the Mainland's vaccination rate, especially among older people and those suffering from co-morbidities, therefore protecting the most vulnerable.

These transitional arrangements were upended by the “blank paper” protest movement of late November. Protests in China's major cities were triggered by an apartment fire in Urumqi on November 25 where firefighters were prevented from accessing the building by barriers that had been erected to keep residents indoors under strict zero-COVID lockdown arrangements. There were officially ten deaths, although an unofficial count put the true number at greater than forty. While the regime's draconian measures had been tolerated for years by local communities resigned to their circumstances, the Urumqi fire became the straw that broke the camel's back. The Party appears to have been caught by surprise, both by the spontaneous nature of the protests, and by their novel form—i.e. the holding up of blank sheets of paper without any written demands on them that might have more obviously violated China's opaque political and legal norms, the public singing of Party and patriotic songs, and the absence of any obvious evidence of centralized leadership. There followed a fortnight of political indecision during which there appeared to be a lack of clarity in central instructions to the security agencies about the degree of suppression that would be tolerated to bring protestors back under control.

This situation reached its climax on or around December 8, when the National Health Commission announced major policy reversals, inducing the ending of automatic lockdowns, the cessation of mandatory testing, the repeal of negative test result requirements to access any public venue, as well as permission for people to recover from COVID at home rather than in official quarantine locations. No official explanation was provided by the Party for this complete policy

about-face, other than a cryptic remark by Vice Premier Sun Chunlan (the Politburo member responsible for public health) that China was “facing a new situation and new tasks in epidemic prevention and control as the pathogenicity of the Omicron virus diminishes, more people are vaccinated and experience in containing the virus is accumulated.”ⁱⁱ

Economic factors also weighed heavily on the Party’s mind in reaching this remarkable decision. The intensification of the slowdown in domestic economic activity during the fourth quarter of 2022 was a major consideration. The physical impact of repeated lockdowns on both private consumption and the consistency of manufacturing supply (driven by rolling quarantine requirements for infected workers) had become acute. So too was the effect of zero-COVID on China’s reliability as a critical component of global supply chains. There was also correspondence from the CEO of Foxconn (the world’s largest assembler of Apple iPhones) to the Chinese leadership warning that “dynamic zero-COVID” was threatening China’s dominant position in global supply chains, compounding fears that international corporations were seeking to diversify away from China to defuse both COVID and other forms of geopolitical risk.ⁱⁱⁱ

The immediate domestic consequences of the December 8 decision, and the lack of preparations for it across the public health system, remain unclear. So far:

- The Omicron infection rate has soared.
- So too has the death rate among older Chinese.
- Accurate data on both has been impossible to secure due to the Party’s decision from December 8 to discontinue the regular production of COVID statistics—although the *Financial Times* and *Bloomberg* report secret estimates by the Chinese Center for Disease Control and Prevention (CDC) of around 250 million infections in the first 20 days of December last year, or about 18% of the entire population.^{iv, v}
- Observable protest activity over the above has so far been muted.
- Meanwhile, end-December manufacturing data continues to reflect declining activity levels in factories.

At an international level, Beijing’s decision to relax both its restrictions on foreign travel to China and international travel by its own citizens has created a wave of uncertainty among foreign governments. On January 5, the WHO accused China of “under-representing” the severity of its COVID outbreak because of its “narrow” definition of what constitutes a COVID death (only recorded respiratory failures were counted).^{vi} The Director-General of the WHO said that “we continue to ask China for more rapid, regular, reliable data on hospitalizations and deaths, as well as more comprehensive, real-time viral sequencing.” He added that the “WHO is concerned about the risk to life in China and has reiterated the importance of vaccination, including booster doses, to protect against hospitalization, severe disease, and death.” In the two weeks prior to January 5, the CDC website announced fewer than 20 deaths from COVID cases nationwide, according to CNN.

China’s lack of transparency on infection and mortality rates has been compounded by delays in providing detailed genomic data to the WHO on the types of COVID-19 variants currently circulating in China. This has heightened concerns about the potential emergence of new variants unknown to the rest of the world. These concerns have, in turn, resulted in multiple foreign governments, with the public deference of the WHO, imposing pre-departure testing protocols on travelers from China. In early January, the Chinese foreign ministry attacked such measures as “unscientific” and threatened to take “corresponding countermeasures for different situations in accordance with the principle of reciprocity.”^{vii} On January 3, China began sharing preliminary genomic information with the WHO’s Technical Advisory Group on Virus Evolution, which stated that the 773 samples closely resembled known variants already spreading globally. It added, however, the importance of “rapid and regular depositing” of genomic data even when local authorities thought it unnecessary.^{viii}

So, what of the medium-to-long-term consequences of China’s about-face on zero-COVID? There are five broad sets of potential political and economic impacts on which the analytical community will now focus:

- Increasing popular anger at the disproportionate number of deaths among older people (still much

venerated in Chinese society and culture) despite years of high-level political assurances that this was only a problem for the West, where seniors were allegedly not respected. This anger is combined with resentment at the Party's failure to prepare for such a major change by improving the vaccination regime and accelerating hospital preparedness. For example, the Chinese social media platform Weibo stated in early 2023 it had already identified almost 13,000 violations of protocols prohibiting "abuse of public officials," including attacks on public health experts, scholars, and medical workers, resulting in bans being imposed on some 1,120 accounts.^{ix}

- A further intensification of this sentiment if national infection and mortality rates escalate following the mass internal migration expected during Chinese New Year, starting on January 22. This outcome is of particular concern given that this year will be the first time in three years in which internal travel will be unrestricted. The Chinese Ministry of Transport stated on January 7 that it expected more than two billion passengers to travel over the next 40 days—an increase of 99.5% year-on-year.^x Rising infection rates are of particular concern in rural areas, where 45% of the Chinese population still lives and where health services are much less developed with major shortages of needed medicines.
- Nonetheless, a likely dissipation of this anger and resentment against the Party's COVID management debacle if economic activity begins to return to normal by the second quarter of 2023 as a result of a long-awaited recovery in domestic consumption, the services sector, and housing.
- A doubling down by the Party on a broader set of new policy measures (see below) to stimulate a rapid return to economic growth while also ameliorating, where possible, the negative impact on business confidence of Xi's leftwards shift in broader economic policy settings over recent years.
- The emergence nonetheless of a new narrative within Chinese politics of major, real-world problems now arising from excessive concentration of deci-

sion-making powers in the hands of the leader. This is unlikely to bring about any measurable change in the short term. But it will make it more difficult for further policy mistakes (of the same order of magnitude as this most recent COVID about-face) to occur without Xi sustaining real political damage. Compounding errors could become a real political problem for Xi by the 21st Party Congress in 2027—although it should be noted that Mao was never removed from office despite multiple policy failures during even his last 20 years in power. Xi, however, is not yet Mao.

Indeed, the level of political anxiety on the part of the post-20th Party Congress leadership about restoring economic growth, and the desire to put a more reformist gloss on future economic policy settings, has been underscored by the manner in which Xi Jinping approached the public funeral arrangements of his predecessor-bar-one Jiang Zemin in late December. Much of Xi's decade in office had been spent dismantling key elements of the reformist political and economic project initiated in Jiang's era—to the point of openly castigating his predecessor's failure to address major "imbalances" arising during the era of reform and opening. Xi's hubris had also been on display in the manner in which Jiang's designated successor Hu Jintao was unceremoniously removed from the final day's session of the 20th Party Congress after Hu apparently objected to the removal of his three remaining protégés from the Politburo. By contrast, Xi was at pains during Jiang Zemin's various funeral ceremonies to laud Jiang's reformist legacy—ceremonies which Hu Jintao was also conspicuously allowed to attend, apparently now in robust good health despite "health issues" being the Party's official excuse for Hu's sudden exit from the congress back in October.

In other words, given the dramatic nature of the growth challenge the Party now confronts, Xi is deploying both political symbolism and various levels of policy change to convey a message to the Chinese body politic and corporate elites that China will now embrace a more positive approach to the market. The question for China's biggest corporates is whether they will now feel once bitten, twice shy. And, if the answer is yes, will any such reluctance be offset by a new army of smaller-to-medium-sized corporates, less concerned

about domestic political risk and with their economic futures still ahead of them, now working willingly with Xi's modified agenda, thereby restoring national economic growth during his third term?

For these reasons, COVID policy is likely to remain the central determinant of China's political economy through mid-2023—although the earliest anecdotal signs are that cities and towns are entering *and* exiting COVID rapidly. If the economy recovers sufficiently (even if not fully), the “COVID crisis” of 2022-23 will become a matter of carefully curated political memory. But if poor implementation of the new COVID regime—or the impact of other economic policy factors—means strong economic growth is not reignited soon, COVID will then hang over the internal Chinese political discourse well into the future. The difference between these two scenarios is whether growth recovers to around 5-6%, which is where the regime is now politically determined to land, or growth stagnates at around 3% for 2023-2024. On balance, the sheer volume of political and policy firepower now being thrown at China's growth imperative favors the former scenario rather than the latter.

PROSPECTS FOR CHINA'S ECONOMY IN 2023

The sheer magnitude of China's economic slowdown during 2022 underscored the political and policy dilemma that Xi's administration faced by 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%, according to official data.^{xi} This stands in stark contrast to China's official growth target for 2022 of 5.5%. Anything below the 2.3% growth achieved in 2020 would then become China's lowest annual growth since 1976—the last year of Mao's Cultural Revolution. It would also be lower than the 3.8% growth recorded in 1990, during the immediate aftermath of Tiananmen and the imposition of comprehensive international economic sanctions. In other words, by any Chinese domestic benchmark, 2022 has been China's economic *annus horribilis*, underscoring the current sense of political urgency to throw everything at restoring growth.

Capital Economics calculates 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 preceding 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 it would have been. In China's aggregate economic performance over this period, the second half of 2022 has been the second deepest of three growth troughs registered since the first outbreak of COVID—even deeper than the so-called “Shanghai Lockdown” period of the first part of 2022. On a sectoral basis, this most recent trough has been driven by collapses in consumer confidence, private demand, private fixed capital investment, the service industry, and property sectors where private firms have been dominant. This stands in contrast to the manufacturing and infrastructure sectors, where state-owned enterprises remain the major players and where growth, supported by significant capital injections from state financial institutions to fund public investment, has held up. Until the final quarter of 2022, net exports had also remained a strong performer, but factory lockdowns conspired with weak demand to collapse exports by nearly 9% in November alone. In summary, the growth burden during 2022 shifted to public demand and away from private consumption, investment, and services—which had long constituted the combined engine room of growth. This, in turn, explained the rapid decline in China's overall growth numbers.

Turning to 2023, institutional and market economists differ widely on the likely timing and scale of economic recovery. Morgan Stanley is projecting a bullish 5.4%; PwC, 5.2%; Bloomberg Business Survey, 4.9%; JP Morgan, 4.3%; the IMF, an equally cautious 4.5%. 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 (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 too high and debt ceilings are too risky; a delayed late-year recov-

ery in the property sector given the lag effect in regulatory changes; slowing global trade as predicted by the IMF amid general fears of recession that undercuts exports; and deep-seated concerns with business confidence after five years of regulatory, legal, and ideological assault by the Party since the 19th Party Congress in 2017. China has not yet announced its official growth target for this year, which usually happens in the Economic Work Report for the National People's Congress in March.

Through the wider lens of international economic history, China, from the beginning of the period of reform and opening in 1978 until 2019 (i.e. the emergence of COVID-19), 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 (measured by 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.^{xiii} Their previous estimate, from 2011, projected the cross-over with the U.S. economy would come a decade earlier in 2025. This latest projection by Goldman assumes Chinese growth remaining around 4% from 2024 to 2029, although this is now above the forecasts of many, though by no means all, economists.

For all these reasons, the political imperative to restore economic growth is now very high. The Party has been stung by the collapse in fourth-quarter numbers. It is mindful that its social contract with the Chinese people is contingent on rising employment and living standards, and that these, in turn, are the direct corollaries of continued robust economic growth. The Party is also mindful that Chinese political elites are well versed on how bad the 2022 growth numbers were relative to the previous 35 years of economic data. Xi Jinping in particular will be aware that these bad numbers have emerged over the last several years, at the same time he pronounced the end of Deng's market economic model and its replacement with his more statist variant, entitled the "New Development Concept"—a point emphasized throughout Xi's July 2021 "historical resolution" on Party history delivered on the centenary of the Party's founding. 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 US economy during Xi's political term in office would now appear to be less certain, while his dream of a return to Chinese regional and global economic primacy by mid-century now appear to be at least open to challenge. All these factors have underpinned the Party's new sense of urgency to return to 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.^{xiii} 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 held later in December. In it, Xi outlined the five key policy goals for 2023 as:

- Boosting market confidence;
- Expanding domestic demand;
- Focusing on the stabilization of growth, employment, and prices;
- Preventing and defusing major risks; followed by a more nebulous formulation on
- Promoting the overall improvement of economic operations.

The top three of these are key elements of the Party's new growth narrative. The reference to risk management provides political cover for those in the economic system seeking to prevent yet another public spending splurge to prop up growth while disregarding the dangers of continuing systemic financial risk. This was also the Politburo meeting that ratified the dramatic change in COVID strategy that was announced by Sun Chunlan the following day—although there was no specific reference to COVID in the formal readout from the December 6 meeting.

These new thematic within the Party's changing economic policy narrative were made clearer in the report of the CEWC convened by Xi Jinping on December 15. 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. CEWC reports 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 economic conservative camps 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. For 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, now smarting from its poor growth performance over the last three years, is now seeking to move back toward the policy center on some, but by no means all, critical decision points on the economy. 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 (although in the case of climate and carbon reduction, it appears to be a regressive move).

1. The 2022 report is less ideological. For example, in 2021 the Party placed emphasis on the historical-materialist framework of its economic decision-making process. It stated that: "As we enter a new development stage, profound changes have occurred in China's internal and external environment for development, and we face many new and significant theoretical and practical issues that must be understood and grasped correctly"; that "leadership on economic work ... must have systematic thinking and scientific planning"; and that "economic and social development is a systematic project and as such overall consideration must be given to political and economic, current and historical, and material and cultural aspects... based on a people-centered development philosophy."^{xiv} This language has largely disappeared from the 2022 text.

On balance, the current text is more pragmatic and task-oriented.

- 2. The 2022 text is also much more expansive in its embrace of the language of reform, opening, and the need for market confidence.** It calls for "unwaveringly deepening reform" and "unswervingly expanding openness."^{xv} It also calls for "greater stimulation of market vitality and creativity in society, respect for the laws of the market, the streamlining of government, the delegation of power ... the deep development of mass entrepreneurship and innovation, maximizing the release of the innovative and creative potential of society as a whole, fully tapping the potential of the domestic market in enhancing the role of domestic demand in driving economic growth."^{xvi} There is no comparable language in the 2021 report or the 2022 Party Congress work report, which instead sought to lay out a theoretical framework based on Xi's "New Development Concept." This in turn was designed to meet the needs of China's "new development stage" to address the imbalances left over from Deng Xiaoping's era of unbridled reform and opening and seek a new balance between the market dictates and Party direction by re-emphasizing the agency of the state. Indeed, the October Congress report referred to this as "Chinese-style modernization"—another term which appears to have disappeared from the December 2022 CEWC report.
- 3. The latest CEWC report also focuses "on expanding domestic demand" and "restoring and expanding consumption" by "increasing the income of urban and rural residents through multiple channels."**^{xvii} This is to be achieved by enhancing consumer sentiment by "improving psychological expectations in society and boosting confidence in development."^{xviii} While enhancing consumer demand has long been the subject of CEWC reports, it is significant that the 2022 report now speaks of the fundamental need for an incomes policy to lift both confidence and consumption. The 2021 report only refers to lifting incomes in the context of Xi's controversial doctrine of Common Prosperity (see below) that is aimed at more radical forms of income redistribution. The 2022 report does

not connect the two.

- 4. On the explicit question of Common Prosperity, there are five separate references in the 2021 report, while by contrast all references have been dropped from the 2022 report. The 2021 report was remarkably explicit about the nature of the prospective redistributionist agenda being planned:**

“We must correctly understand and grasp the strategic goals and practical routes for achieving common prosperity. In the context of China’s socialist system, we must constantly liberate and develop society’s productive forces, constantly creating and accumulating social wealth, and must also prevent polarization. To achieve the goal of common prosperity, we must first make the ‘pie’ bigger and better through the joint struggle of the people nationwide, and then divide the ‘pie’ well through rational institutional arrangements...We must give full play to the role and function of distribution, and while adhering to distribution according to work as the mainstay, we must refine policies for distribution according to other factors, and augment adjustments such as taxation, social security, and transfer payments.”^{xix}

The decision in the 2022 report to delete any reference to what had (as recently as the 20th Congress Report two months earlier) been seen as a signature market intervention on the part of Xi Jinping represents a significant change.

- 5. The most recent CEWC report also 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.** This is despite a long-standing concern among private entrepreneurs that, since 2017, Xi had increasingly embraced a strategy of “advancing the state while restricting the private sector” or “*guojin mintui*.” This in turn had replaced a twenty-year program of SOE reform, restructuring, and retrenchment that resulted in the private sector growing to 60% of GDP by the time Xi came to office. The 2022 CEWC report is adamant that there has never been any political or policy prejudice against

the private sector. It states that the Party had always been committed to “the effective implementation of the ‘Two Unswerving Principles’ of consolidating and developing the public sector and encouraging, supporting and guiding the development of the non-public sector.”^{xx} It adds:

“in response to incorrect comments on whether we adhere to ‘Two Unswerving Principles’ in society, we must make our attitude clear and unambiguous that we must deepen the reform of state-owned enterprises, improve their core competitiveness ... improve the modern corporate governance of SOEs with Chinese characteristics and truly operate them according to market-oriented mechanisms.”^{xxi}

It also emphasizes:

“[the] requirement for equal treatment of state-owned and private enterprises should be put into practice in terms of systems and laws, and the development and growth of the private economy and private enterprises should be encouraged and supported in terms of policies and public opinion, the protection of the property rights of private enterprises, and the rights and interests of entrepreneurs in accordance with the law.”^{xxii}

And lest there now be any doubt, the Party concludes that “leading officials at all levels must solve problems and do practical things for private enterprises and build a close but uncorrupted government-business relationship.”^{xxiii} This is arguably Xi’s most affirmative and authoritative statement on the political and ideological legitimacy of the private sector since he came to power. There is nothing comparable to this series of statements in the 2021 CEWC report or the 20th Party Congress Work Report on supporting the role of the private sector. Instead the 2021 CEWC report speaks simply of “stimulating the vitality of market entities, boosting their confidence, implementing fair competition policies, strengthening anti-monopoly and anti-unfair competition efforts, using impartial regulation to assure fair competition... creating a good environment for the competitive development of enterprises with all types of ownership.”^{xxiv} The policy

intention behind this change in the political narrative on the private sector is to unleash the animal spirits of the Chinese entrepreneurial class. It remains to be seen whether this strategy will work, given the erosion of private sector confidence over the last five years. In large part, this erosion has occurred because of Xi Jinping's ruthless deployment of the anti-corruption campaign against a number of corporate leaders, as well as Xi's extensive written record since the 19th Congress on the re-legitimization of the central role of the party-state over the market in the overall economic decision-making process.

6. Similar changes are evident in the treatment of the so-called “platform economy” (i.e. the major private technology companies controlling Chinese digital commerce). Whereas the 2021 CEWC report warns of the dangers of monopolistic behavior and the “disorderly expansion of capital” with reference to China’s fin-tech sector, this is no longer the case with the 2022 report. The 2021 report stated that China must “deeply implement fair competition policies, strengthen anti-monopoly and anti-unfair competition efforts, and use impartial regulation to assure fair competition.”^{xxv} It adds that while China “must make full use of the positive role capital plays as a factor of production, it must also effectively control its negative influences through ‘traffic lights’ for capital, strengthen the effective regulation of capital according to law, and prevent the disorderly expansion of capital.”^{xxvi} This had been interpreted as providing a mandate for regulators to continue their crackdown on major tech firms such as Alibaba, Tencent, JD.Com, Didi, and ByteDance—as well as major digital finance companies such as the Alibaba affiliate ANT Group. These companies have all experienced the heavy hand of the Party and state over several years, including accusations of monopolization, data security violations, and the accumulation of excessive wealth. In the current report, this language is replaced by a much more supportive phraseology: “We should vigorously develop the digital economy, improve regulatory oversight, and support platform enterprises in leading development, job creation, and

international competition.”^{xxvii} Furthermore, there is no longer any reference to the “disorderly expansion of capital” which until recently had been interpreted as a redline inhibiting further growth of the digital finance sector (because it lay beyond the effective reach of the regulators). These are potentially major changes impacting what had been one of the biggest growth sectors in the economy. Consistent with these changes, there are now reports in January 2023 of ANT Financial being approved by regulators to once again undertake capital raisings, albeit on the condition that Jack Ma radically reduce his level of personal equity, ceding effective control to other private and possibly state investors.^{xxviii}

7. The property sector is also treated differently in the 2022 report, pointing to a potential return to a level of normality in 2023 as an essential component of the Party’s overall growth strategy. The section of the 2021 report dealing with the property sector opens with the Xi Jinping orthodoxy of several years standing that “we must insist that houses are for living in, not for speculation” and that the real estate industry had an overriding responsibility to provide affordable housing.^{xxix} By the 2022 CEWC report, Xi’s phrase on speculation had been relegated within the text although not removed entirely. In a further shift, the rest of the section of the report dealing with the property sector is balanced between the housing needs of the people on the one hand and the needs of the industry on the other. Responsibility toward the industry now means “ensuring the stable development of the real estate market... meeting the reasonable financing needs of the industry, promoting restructuring, mergers and acquisitions, resolving the risks of high-quality, leading housing enterprises and improving their asset and liability positions, while still resolutely combating illegal and criminal acts in accordance with the law.”^{xxx} These changes indicate that, as with the platform economy, the Party is now beginning to chart a course back for the property sector (until recently representing 28% of GDP), resuming its previous role as a major growth driver.

8. There is also 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” and increasing “convenience” for foreign investors, and guaranteeing equal access for foreign investors in Chinese government procurement projects and across the services sector. The 2021 CEWC report, coming soon after the U.S.-China trade war of 2018-20, and the trade disruptions of the pandemic in 2020-22, had spoken sparingly of the “need to stabilize foreign trade using multiple measures, to assure the stability of production chains and supply chains, and to increase efforts to attract foreign investment.”^{xxxix} By contrast, the December 2022 CEWC report now speaks extensively and effusively of the need for

“greater efforts to be made to attract and utilize foreign investment, the promotion of a high level of openness to the outside world, improving the quality and level of trade and investment cooperation, to expand market access, increase the opening up of the modern service sector, implement national treatment for foreign-funded enterprises, guarantee equal participation of foreign-funded enterprises in government procurement, bidding, and standard setting in accordance with the law, increase the protection of intellectual property rights and the legitimate rights and interests of foreign investors.”^{xxxix}

The report adds that China “should actively promote accession to high-standard economic and trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Digital Economy Partnership Agreement (DEPA).”^{xxxix} It goes on to state that China “should provide maximum convenience for foreign investors in engaging in trade and investment negotiations in China, landing the construction of landmark projects for foreign investment... and making greater efforts to promote foreign investment to stabilize existing foreign investment and expand its growth, while also cultivating new growth points in international economic and trade cooperation.”^{xxxix} This is a partic-

ularly important change in language given five years of Xi Jinping invoking a return to national economic self-sufficiency, the so-called “dual circulation economy” and its primary emphasis on domestic rather than external demand, and the extension of the national security agenda as a principal consideration in developing China's own supply chain management. By contrast, the new report underscores the centrality of net-exports and foreign investment to Xi's new agenda of restoring economic growth as rapidly as possible.

9. **There appears to have been some further weakening in the Party's official language on its climate change agenda regarding the centrality of carbon peaking by 2030 and carbon neutrality by 2060. The priority and urgency of the measures that must be adopted to achieve these targets has declined. This is presumably based on the Party's conservative conclusions on how to restore rapid economic growth wherein energy security from traditional energy sectors is now at a premium.** In its 2021 report, the Party stated unequivocally that China “must correctly understand and grasp peak carbon and carbon neutrality” and that the “achievement of peak carbon and carbon neutrality was an inherent requirement for promoting high-quality development.”^{xxxv} The 2021 report nonetheless qualified this commitment by making clear that “the job could not be finished all at once, that China should adhere to the principles of nationwide overall coordination with conservation as the priority, but being driven by two wheels (both proper government and effective markets), smooth internal and external flows, and risk prevention.”^{xxxvi} This was reinforced by the report's statement that the “gradual withdrawal of traditional energy sources should be established on a foundation of safe and reliable replacement with new energy sources, firmly grounded in the basic national condition of coal being dominant, grasping the clean and efficient use of coal, increasing new energy consumption capacity, and promoting the optimal combination of coal and new energy.”^{xxxvii} And lest there be any doubt on the touted gradualism, the report went on to conclude that China “must ensure the

security of energy supply.”^{xxxviii} The 2022 CEWC report’s language on carbon policy is both more limited in length and even more qualified than the previous year. It speaks of climate change within the framework of China’s new industry policy imperatives. It refers to “forging new industrial competitive advantages in the process of implementing the carbon peaking and carbon neutrality targets.”^{xxxix} It also promotes “the green transformation of the economy and society in development by synergistically promoting carbon reduction, pollution reduction, green expansion, and economic growth.”^{xl} On balance, while both CEWC reports have weakened China’s pre-pandemic formulations on the decarbonization of its economy, the 2022 report appears to be the weaker of the two, as carbon reduction increasingly takes a backseat to energy security and rapid economic growth.

10. Finally, as indicated in the first section of this paper, the 2022 CEWC language on future pandemic management has obviously changed 180 degrees with the now vigorous assertion of political stability and economic growth imperatives instead of previous, all-consuming public health priorities.

In 2021, the Party “stressed the need to do a good job of scientific and precise epidemic prevention and control, adhering to “prevention of importation externally, and the prevention of a rebound internally.”^{xli} In total contrast, the CEWC report for 2022 states that “in COVID-19 response policy, China must strengthen the coordination, organization, and implementation of the *adjustment* in an orderly fashion in order to get smoothly through the period in which Covid-19 spreads and to ensure a smooth transition and stability in social order.”^{xlii}

Continuing Evidence of Party and State Control of the Economy’s Commanding Heights

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 retreat, or what some analysts have described as the “return of the state” to the commanding heights of the Chinese economy. The report, like its predecessors, is a compromise document. There remain signifi-

cant continuities with the statist and partyist language of previous reports going back to the 19th Party Congress in 2017. That was when Xi definitively changed policy direction on the economy to meet what he described then as the new ideological imperatives of the new, post-Deng era—or what he later described as the “New Development Concept” for the next stage in China’s economic development, correcting the market excesses of the past. Once again, comparing the 2021 and 2022 CEWC reports, there are still major areas of ideological and policy continuity from the last five years of Chinese statism. There has not, therefore, been a clean break from the past. Rather there 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. For example, the report states that “to do a good job in economic work next year, it’s 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.”^{xliii} Second, the report also 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 reform and opening period. It 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.” 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.” Similar is Xi’s formulation on the development of a so-called “modern industrial system,” referring to state leadership in science, innovation, and manufacturing.”^{xliv} Once again, we can see the objective of maximizing national self-reliance.

For these reasons, one cannot assume that the ideologi-

cally-driven statist intervention in the economy of the last five years has been repealed in a single stroke with the 2022 CEWC report. The major ideological adjustments to the left, in favor of the state and away from Deng's previous market model, remain firmly in place. 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. That they have not simply gone away is evident in the continued references to the anchoring role of Xi Jinping Thought, the New Development Concept, an ever-expansive industrial policy, and Xi's visceral commitment to national self-reliance.

Therefore, it is within these continuing strategic parameters that the Party has significantly changed its tactical course on the critical question of restoring economic growth—as reflected in the ten sets of 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 the underlying Marxist-Leninist ideological deadweight that still remains fundamentally intact. A further question remains as to 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 national and international political risk.

CONTINUITY AND CHANGE IN CHINA'S EXTERNAL POLICY IN 2023: THE CALM BEFORE THE STORM?

The same leadership group responsible for core decisions on Chinese politics and the economy (principally the Standing Committee of the Politburo) is also responsible for coordinating China's overall domestic and foreign policy settings. Too often these are considered by the foreign analytical community as if they are free-standing policy universes. The truth is they are not. Nor are they self-contained policy exercises run by specialist military or economic technocrats driven exclusively by their own individual logic and in political iso-

lation from each other. Technical advice is important. But major decisions, both national and international, are taken up by roughly the same group of people, with Xi Jinping at the absolute center. This group is generally mindful of the interrelationship between the foreign and the domestic, and whose decisions are framed within an overarching political and ideological lens. And in all of this, the regime's principal interest remains the consolidation of political power, including the dominant, personal role of Xi himself; China's national military, economic and technological power; and in entrenching and enhancing national unity, including over Taiwan. That is why it is critical to understand the range of domestic imperatives weighing on China's foreign and national security policy processes. These will not necessarily determine China's external policy. But they will certainly shape it.

This connection between the domestic and foreign problem sets shows 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 since the G20 Summit in November. These external policy choices include:

- Xi's multiple renewed engagements with heads of government around the world (particularly the Europeans on Ukraine), the continued attraction of China's export markets and investment opportunities, and China's deep interest in leveraging its economic significance to Europe to try to decouple Europe from the United States over time;
- Xi's virtual and physical meetings with President Putin, including over Ukraine, designed to entrench Russia's growing strategic dependency on China for the medium-to-long term while reducing where possible the collateral damage to China-Europe relations;
- Xi's summit with President Biden and his interest in managing China's competitive relationship with Washington to reduce the risk of crisis, conflict, or war by accident in the near-term, in order to focus for the period ahead on economic recovery;
- Xi's decision nonetheless to continue China's assertive military activities near Taiwan, in the East China Sea

against Japan, and in the South China Sea against the United States and the territorial claimants, where China's military posture shows no sign so far of being tempered.

- Xi's reduction, however, 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 global charm offensive in the short-to-medium term in an effort to accommodate its immediate economic growth agenda.

In all of these areas, Beijing is therefore likely to pivot its overall foreign and international economic policy agenda to maximize Chinese domestic 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. But neither of these tactical shifts are likely to result in China lessening its strategic military posture in relation to the United States, Japan, and Taiwan.

Mindful of its economic growth imperative, China is now seeking a major diplomatic reset with Europe. The EU remains China's largest trading partner. China now recognizes that its campaign of wolf-warrior diplomacy against individual European states, together with its continued support for Russia despite the invasion of Ukraine, has radically undermined Beijing's standing across Europe. The Party is now concerned that Europe is following America's lead in reducing its economic dependency on China. Beijing's European charm offensive has therefore now begun in earnest. It started with German Chancellor Olaf Scholz's visit to Beijing in November, followed by European Council President Charles Michel's visit in December, with the French president and Italian prime minister both following early in the first part of 2023. Even the Sunak Government of the UK is beginning to signal a subtle change in its posture toward Beijing. China is signaling that the price of its economic rewards for European governments will be a commitment *not* to comply with what Beijing perceives to be the unfolding decoupling strategy of the United States across trade, investment, finance, and technology. China fears not only the impact of this strategy on the rebuilding of its own economy

but it is also seeking to deter the Europeans from joining any U.S. economic sanctions regime implemented against China over a future military invasion of Taiwan.

To do so, China is now also seeking to message much more intensely to the Europeans that it is not fully supportive of the Russian invasion of Ukraine. It points to its various statements distancing itself from Moscow, including on Putin's threat to use tactical nuclear weapons. Nonetheless, this emphasis has not been persuasive so far. Xi continues to meet regularly with Putin, as does State Councilor Wang Yi with Russian Foreign Minister Sergey Lavrov, as both sides continue pledging to consolidate their strategic relationship and expand bilateral ties, including through joint military exercises—the most recent of which was held in the East China Sea and directed toward Japan. Xi so far shows no preparedness to abandon Putin or China's wider interests in the Russia relationship in pursuit of his European economic and strategic objectives. Xi at this stage believes that he can realize these objectives merely by throwing open China's markets to German, French, and possibly British business—and by putting his wolf warriors temporarily out to pasture. In other words, with Europe, he believes he can have his cake and eat it, too. If Ukraine fades among European priorities during 2023, he may be proven right.

China has also begun to moderate its strategic relationship with the United States. This was evident in Xi's changed language following his bilateral summit with Biden in Bali in November 2022. Xi spoke of the need to put "protections" around the relationship and build a "security safety net" beneath it. China's motives here again appear to be tactical rather than strategic. They are to build mechanisms to reduce the risk of accidental crisis, conflict, or war with the United States at a time not of China's choosing. They also appear to be designed to provide a temporary breathing space for China to stabilize economic growth. But this new language from Xi 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 violations of the median line in the Taiwan

Strait. So too with provocative Chinese intercepts of U.S. and allied reconnaissance flights over the South China Sea. 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.”^{xiv} The Biden Administration is also dispatching senior trade officials to negotiate new digital trade initiatives with Taiwan. Notwithstanding all of the above, Xi has agreed 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 be limited in scope, both sides appear to have agreed not to allow their relationship to continue to freefall—at least for the near term.

Strategic tensions with Japan, Korea, and India also show little sign of moderation. Border incidents with India have continued. So too has Chinese military pressure against Japan in the East China Sea. Japan also continues to significantly increase its military budget (effectively doubling it by 2027) and to intensify its security relationship with the United States and Australia. Indeed, Tokyo now explicitly names China in its bilateral security communiques with Washington as the central rationale for Japan’s rapidly changing military posture. In the past this was done more by implication. Now it is direct. China has also initiated retaliatory measures against both Japan and Korea over the imposition of mandatory COVID testing requirements for Chinese citizens seeking to travel to those countries. The one exception to this continued hardening of China’s strategic posture toward U.S. allies and partners in Asia so far is Australia, where previous punitive economic measures have begun to be removed and prime ministerial and ministerial-level political contact between Canberra and Beijing has resumed after more than three years, but so far with no concessions from the new Australian government. Therefore, apart from Australia, China’s military and foreign policy posture toward close strategic partners of the United States in Asia appears to have changed very little.

Finally, as indicated above, there has now been a concerted effort on Beijing’s part to ease China’s extensive period of “wolf warrior” diplomacy. China’s leading wolf warrior, the Foreign Ministry’s abrasive public spokesman Zhao

Lijian, has been removed from his position and relegated to a relatively minor role elsewhere in the foreign ministry. Beijing appears to have concluded that its extended period of aggressive language and policy retaliation toward foreign governments had become counter-productive. China had made more enemies than friends as a result of this posture, leading China to become even more isolated. Hence the renewed charm offensive across the board as Beijing now seeks to repair the reputational damage it has suffered and to help restore international confidence in China as a reliable anchor in global supply chains. It remains to be seen whether and how successful China will be in its change of tactical approach will be.

CONCLUSION

The three months since the 20th Party Congress have seen big shifts in Chinese politics, economics, and foreign and security policy—arguably the biggest shifts since 2017. These shifts, however, remain largely tactical in nature and driven by the immediate need to do what it takes to restore economic growth. They do not yet represent a change in the ideological and strategic direction laid out in great detail by Xi Jinping at the 19th and 20th Party Congresses in 2017 and 2022.

First, on politics, Xi retains absolute control of the Leninist party-state—a state which he judges to be essential to deliver on his nationalist objective of making China the preeminent regional and global power by mid-century. Political dissent may be noted, even responded to, but never tolerated (see, for example, the continued round-up of those responsible for the blank paper protests late last year). Xi also retains iron-clad control of the Party’s disciplinary, security, and intelligence apparatuses, which means that any internal dissent will be met with the same force in the future as it has in the past. Nonetheless, Xi has suffered real reputational damage with the public and the Party. This could re-emerge in the future—say at the 21st Congress in 2027, when the Party will be able to formally reflect once again on the wisdom of Xi’s reappointment for a fourth term. Right now, Xi is responsible for four sets of unforced errors:

- A too-radical ideological departure from Deng’s successful growth model of the past, thereby undermining business confidence and economic growth.

- A failure to prepare earlier for the COVID policy U-turn for fear that it might disrupt the domestic political messaging of the 20th Party Congress on China's COVID "success story" and somehow disturb Xi's reappointment for a record third term, despite the economic cost of not adjusting the strategy earlier. There is also the human cost of failing to vaccinate older Chinese in time for the later policy shift.
- Being politically captured by Putin in February 2022 with the Ukraine invasion, despite the potential damage to China's long-term strategic interests in Europe and to its wider international standing.
- Unleashing six years of "wolf warrior" diplomacy in a conscious departure from Beijing's traditional, more patient approach. Previous diplomacy had painstakingly carved out a more benign global image for China over many decades. Xi's critics see this as part of a much deeper strategic error on his part in openly confronting the United States and its allies far too early and without sufficient preparation.

These errors could coalesce in the future if alternative leadership prospects emerge and if China's national circumstances deteriorate further. Xi, however, is alert to both these possibilities and is likely, where possible, to preempt them.

Second, on the economy, the ideological shift to the Marxist left from 2017 remains in place. Nothing has been said to fundamentally repudiate this direction. The formal redefinition of the Party's "central contradiction" to deal with perceived market excess, the early incorporation of Xi Jinping Thought in the Chinese Marxist canon to serve the Party's needs of "the new era," and Xi's amorphous New Development Concept as the statist successor to Deng's earlier era of "reform and opening" all remain the Party's approved, orthodox ideological framework for the Xi Jinping period. The December 2022 Central Economic Work Conference represents policy shifts within the parameters of this continuing ideological framework; and these policy shifts can easily be snapped back toward the left once circumstances change and growth is restored to a more palatable equilibrium. Moreover, the Chinese official class will remain cautious about giving effect to tactical policy changes, in case the political

winds blow in a different direction in a few years. Finally, the entrepreneurial class itself may also remain cautious for the same reasons. Nonetheless, it would be analytically flawed to underestimate the full "announcement effect" and at least partial implementation of the ten sets of policy shifts outlined above. There is, for example, much pent-up consumer demand in the economy, as reflected in record savings levels, which have increased by some 41% over the three years since COVID-19 emerged. While some will be retained in savings, it is reasonable to expect a significant surge in Chinese growth in 2023, and possibly into 2024, driven by private consumption, property, and technology. This could push China's growth numbers for 2023 beyond current maximalist market expectations of 5.5%. Nonetheless, a combination of demography, ideology, and geopolitically driven decoupling will continue to militate against a sustained return to high growth beyond the COVID recovery period unless Xi Jinping authorizes a more fundamental return to the market reform path than has been evident to date. In the interim, there may be much popping of champagne corks in financial markets based on a catch cry that "China is back." This, however, is a premature assessment for anything beyond the near-term.

Third, by any objective measure, China has had a bad foreign policy year in 2022, due largely to a combination of the optics of the Russian invasion of Ukraine, its economic coercion of smaller states, human rights reports on Xinjiang, and the cumulative damage wrought by its wolf warrior class abroad and nationalism at home. Once again, these trends have brought about some tactical reappraisal of China's future foreign policy course, while not departing from China's strategic objective of surpassing the United States as the world's preeminent power and retaking Taiwan. China's likely economic recovery in 2023-24 will once again become a significant factor in global geopolitics. It may be wrongly interpreted as the definitive response to the question of whether the world has seen "peak China"—the international debate that has emerged both in business and geopolitics over the last 12-18 months. Such an analytical error will be compounded if U.S. growth flounders, even if America now avoids deep or prolonged recession. Long-term geopolitical projections on the relative economic power of the U.S. and China should not be made based on the two countries' growth performance over the next 18 months, with other factors at

play over the longer term. Nonetheless, for the immediate period ahead, it is likely that a recovering China will help drive global growth in 2023 and into 2024 for both developed and emerging markets.

Based on this, Beijing is likely to double down on its European strategy, with the clear objective of peeling Brussels, Berlin, and Paris away from Washington over long-term economic decoupling from China—and on the broader question of Taiwan. Beijing’s clear-cut strategic objective is to do whatever it takes to prevent Europe from joining any future U.S.-led trade, economic, and financial sanctions against China if the latter takes military action to regain Taiwan later in the 2020s or in the early 2030s. If Beijing were to conclude that Europe would not sanction China over Taiwan as it did Russia over Ukraine, and instead remain neutral, then aggregate allied deterrence of China on future Taiwan scenarios would be weakened. If China concluded that Europe was likely to join such sanctions, reflecting on its experience with Russia and China’s general international posture, then deterrence would instead be enhanced. That is why Europe is seen in Beijing as the key to China’s Taiwan future. This may be the period when Europe chooses whether to remain with America on Taiwan or not. And this outcome may be determined in turn by whether Beijing wins the argument for securing Europe’s long-term economic interests against Washington.

Beyond Europe, however, China’s general international tactical objective for the 2023-24 period is to reduce geopolitical tensions as much as possible with U.S. allies, friends, and partners in Asia, Europe, and elsewhere. This shift is intended to raise the prospects for China’s economic recovery. But with the United States itself, and perhaps core Taiwan-relevant allies such as Japan, Korea, and Australia, there

will still be limits on how much de-escalation or “normalization” is possible for Chinese policymakers. Beijing will want to manage its competitive relationship with Washington and its core allies to maximize its economic recovery interests while also minimizing the risks of accidental conflict for the immediate period ahead.

However, China’s massive military modernization, expansion, and reform campaign will not be slowed or nor will the assertive posture being adopted by the Chinese military be significantly modified. Indeed, some evidence suggests that there may well be an even clearer division of labor between China’s foreign policy and military establishments in the prosecution of China’s aggregate national interests for the period ahead. This would mean a less belligerent approach from Beijing in its foreign policy posture with the United States and its allies and others. At the same time, China’s military would not change its previous posture at all, continuing with a “business as usual” approach of comprehensive planning, preparation, and exercising for all future military scenarios. Therefore, the only change possible with the Chinese military will be for Washington and Beijing to work out, and then implement, a more sophisticated set of crisis prevention and management protocols than have existed in the past, in order to reduce the risk of accidental war.

For all these reasons, hard and fast conclusions about the extraordinary range of policy shifts that we have seen in the last three months should be approached with caution. While the immediate impact on economic growth is likely to be significant, and China is also likely to once again welcome greater global economic engagement, Beijing’s hard-wired ideological objectives at home and strategic objectives abroad have not changed. Indeed, the immediate years ahead may one day be seen as the calm before the storm.

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