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BRAZILIAN CENTER FOR INTERNATIONAL RELATIONS

ASIA PROGRAM

XXVII CHINA ANALYSIS GROUP MEETING

REPORT XXVII, YEAR IV

DECEMBER 2, 2021

Online discussion panel via Zoom

A NEW AGE IN CHINESE POLITICS: REFLECTIONS ON THE 6TH PLENUM



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Report by: Kamila Aben Athar

SUPPORT:



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Guiding Questions

To help us analyze these complex and dynamic issues, at its 27th Meeting, the China Analysis Group proposes three themes and questions to our speakers and audience:

1. What is the 6th Plenary Session of the Central Committee of the Chinese Communist Party? What are the similarities and differences between the current 6th plenum and previous plenums?

2. What do the sixth plenum and its resolution mean in terms of global positioning for China? How will be the new leadership in China? What does the sixth plenum mean for the role of GDP targets moving forward, especially regarding rationality and efficacy?

3. What are the trends for tech giants given the 6th plenum policy rearrangements and the common prosperity policy? How do China's environmental concerns impact industrial policy trends and the reorganization of production structures? Will there be any changes in the business environment for Chinese and foreign companies operating in China?

XXVII Meeting Report

1. What is the 6th Plenary Session of the Central Committee of the Chinese Communist Party? What are the similarities and differences between the current 6th plenum and previous plenums?

According to participants, the sixth plenum has been historically a tool to place new dispensations, policy orders, and possibly a new policy language. This meeting and the resolutions that emerge from it operate on two distinct domains, which are the rhetorical level and the policy level. Regarding the rhetorical level, which encompasses ideological and doctrinal aspects, participants argued that the sixth plenum of the 19th Central Committee of the Chinese Communist Party did not bring many changes in this domain. There have been previous sixth plenums that led to major historical resolutions of the party. The 1945 plenum and the 1981 plenum under Mao Zedong and Deng Xiaoping, respectively, were considered super plenums because they marked a turning point in history for the People's Republic of China. In meeting certain criteria of importance and significance, participants argued that this sixth plenum was not a super plenum; instead, it held back from the ambitions of those two meetings held in 1945 and 1981. Participants affirmed that when planning this plenum, Xi Jinping could have chosen to go further left than Mao Zedong, or further right than Deng Xiaoping. Nonetheless, unlike what happened with Mao Zedong and pro-soviet groups, and Deng Xiaoping and pro-Mao groups, Xi Jinping is not superseding any internal group. Instead, Xi is splitting the difference, finding the points to which the party must adhere.

In the case of this current meeting, participants stated that the break from the past relates to China's remarkable high growth, which is not on the same historical level as those previous plenums. In Mao's Era, Karl Marx was still a living presence and an important authority figure, with thousands of Chinese believers in Marxism. By 1981, there had been a profound change and the politics of China could no longer be explained in simple Marxist terms. The behaviors of the Gang of Four and Mao Zedong, and the requirement of the country as it struggled between the whateverist faction

and Deng Xiaoping's reformist faction did not have a clear Marxist meaning. Thus, even though Mao's Sino-modernity doctrine was mentioned in recent official documents, such as the sixth plenum communiqué and historical resolution, participants affirmed that the past four decades do not resemble that Sino-modernity of the 1940s which propelled China into its first phase of the People's Republic of China. In political and ideological terms, this is a strategy of Xi Jinping and his team to modernize China through the adoption of a signified Marxism, i.e., a socialist system that started foreign and ended up local. In moving to a local frame of reference, a great part of the original content is altered. In economic terms, participants indicated that the doctrine that has been operating is a signified neoliberalism. Although neoliberalism in the sense of Reaganism and Thatcherism, which was influenced by the economist Friedrich Hayek, may be over, its influence is still present in Chinese thinking. The idea that one must achieve wealth and power through underlying market institutions is still a very powerful force in China.

On one hand, participants affirmed that this sixth plenum met anticipated criteria. The meeting lionized Xi Jinping, paved the way for his third term, justified party rule via a scorecard, and re-scripted a narrative framing of Xi's new era. On other hand, some points defeated expectations. First, the meeting heralded no new constitutional era. In 1945 and 1981, within a couple of years after the historical resolution, there was the establishment of new constitutional orders. In the late 1940s, there was the beginning of the so-called "new democracy", in which Mao Zedong instituted the multi-party system, the satellite parties, and other apparatus in which state ownership worked over the next 30 years. In the 1982 Constitution of the People's Republic of China, there was a major shift because it introduced the idea of legitimate market actors, which was the basis of the reform era and the ensuing monumental growth of the Chinese economy. In the case of Xi Jinping, there is great attention given in the historical resolution to the achievements, accounting human frailty, moral turpitude, corruption, and the righteous actions of the political leadership in dealing with these problems, which is not comparable to anything in earlier plenums.

In addition, participants stressed that the previous plenums were different constituencies of receivers of those messages. In 1945, Mao Zedong was in control of China, but his messaging in that first historical resolution was not addressed to the whole country. Mao could confidently speak to the masses in rural areas, especially those located in far Northwest China. However, the urban areas and urban workers were not under his command; instead, they were within the area ruled by nationalists or Japanese authorities. In comparison, participants highlighted that the constituency of the present message delivered by Xi Jinping involves the entire country because the party has the means of communication, such as media, print, television, internet, WeChat, and other channels. The prime constituency identified in the current new documents is the urban

hukou, which is an internal residency-based system that grants access to high levels of welfare. According to participants, there is no strong attempt in this document to make promises for the hukou reform, and China will likely maintain the current hukou system in the near future.

Although there is no new ideological system in the documents, participants argued that there is some new subtext to the existing ideology. There has been a great playing through a reconsideration of China's scorecard. Xi is also able to point to a financial power in the world and talk about advanced industrial sectors, which was not possible previously. Nonetheless, participants stated that these are not radical claims, and do not constitute a new era. High growth happened before, especially under Deng Xiaoping's mandate and of his successors, Jiang Zemin and Hu Jintao.

Participants affirmed that the Xi Jinping era must manage lower expectations of the post-growth period. For this matter, the new dispensation strongly highlights a new policy language. There is great attention to the rationality and efficacy of the government. Participants stated that this is not revisionist or revolutionary. On the contrary, it matches with the fact that the great danger China faces is no longer the Japanese invasion, the nationalist regime, or the late cultural revolution; instead, it is the very interests and the negative consequences of high growth. Hence, there are two main themes expressed in the final documents. The first is rationality, which is a Chinese value referenced in ancient times. After Qing Shi Huang's totalitarian regime, dominated by former types of fascism and populism, the return to power of the Han dynasty was considered as the return of reasonable leaders. Participants affirmed that this theme has been taken up and accentuated over time. For a policy sense, statements which evaluate reason over sentiment are distinctively Chinese. In the United States, the notion of selflessness over interest is controversial, and the U.S government can face political dilemmas if Americans are asked to put their interests secondary to the community. Oppositely, in China, selflessness has enormous cultural momentum.

The second theme is ironing out inconsistencies. According to participants, in the past, the removal of differences was not part of the Chinese policy sphere. The tendency was that a new policy would not replace an old policy; rather, it was possible to pilot something new even while the old was still in place. Currently, running projects on different principles are being ironed out by the Chinese Communist Party. For instance, the documents also mentioned self-criticism and self-correction, which will be now computer-assisted with the use of deep learning and network learning, incorporated in the AI revolution and the social credit administration. Participants mentioned that efficacy is the other part sounded in the documents, especially tackling corruption and poverty, which are claimed to have been successful.

Lastly, participants mentioned the routinization of charisma, which acknowledges that revolutionary movements cannot stay revolutionary. Participants argued that sooner or later, the Chinese government must stipulate that all movements change over time. China has now a leader who is no longer charismatic in the old sense; instead, Xi Jinping makes claims to institutionalization and rules-based governance.

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2. What do the sixth plenum and its resolution mean in terms of global positioning for China? How will be the new leadership in China? What does the sixth plenum mean for the role of GDP targets moving forward, especially regarding rationality and efficacy?

Participants affirmed that the plenums do not fit into the bureaucratic rhythm as the appropriate point for foreign policy. It is the National Party Congress that starts this process for Chinese diplomacy. Thus, the realm of authority of this sixth plenum is largely domestic instead of external. However, participants affirmed that the new documents changed the tone of the Xi Jinping administration's foreign policy. At the beginning of Xi's mandate in early 2013, particularly after the 19th Communist Party Congress in 2017, and through the years of building up the Belt and Road Initiative, the rhetoric of Chinese diplomacy was dominated by concepts of win-win cooperation and community of a shared future, which not only reassured the international community but also promised great dividends to the world.

According to participants, this tone was not shut off but was wound back. For the last two years, the policy language has been devoted to risk. The previously established agencies to deal with risks were themselves sources of immense risk because they could not control their capture by interests. Now, at the end of high growth and demographic dividend eras, China uses the decoupling as the background of major policy shifts like dual circulation and common prosperity. Also, there has been immense attention in Beijing to a policy doctrine called baseline thinking. Although this notion was echoed throughout the system down to the village level, most of the outside world regarded this as a purely managerial topic of a non-charismatic kind. Nonetheless, in rhetorical terms, baseline thinking represents the idea of not crossing the lines that are not meant to be crossed. In terms of foreign policy, particularly in areas such as the Belt and Road Initiative and the application of risk management, participants argued that this new doctrine resulted in a movement from what these projects originally were, based on win-win thinking and common human destiny, towards a new format, based on worst-case scenarios and zero-sum game, in which there must be a winner.

In the new text, China states that the country will become a global leader in terms of composite national strength and international influence. Participants stressed that this type of speech is not very common for Chinese authorities; nonetheless, there is an important ambiguity involved. In the English language, the word "leader" is often plural, and they are all equivalents. Oppositely, Chinese political culture did not always have

such a concept. In the few times in history when China was one of several powers, the country behaved similarly to a modern state. Nevertheless, they were often superseded by strongly Sinocentric regimes, which supported an inward-looking power to never use the word “leader” in a plural sense. Thus, participants indicated that the future lies on which connotation “leader” means to China, singular or plural. Some foreign policy analysts believe that there can only be one powerful nation; others criticize this tendency. For instance, participants highlighted that the international system must accept that China has the best track record concerning justice due to its long history. According to participants, China stood up, became rich, and now is going through an exaggerated phase of nationalism; however, this will eventually end, and China will not necessarily become the sole power.

Regarding Xi’s leadership and a new mandate, participants argued that one of the risks is the eminent possibility of gerontocracy. In 2022, at the 20th National Party Congress, Xi Jinping is very likely to assume an unlimited term. This also was the case of the Mao era, and it happens when it is difficult to remove a political actor from the stage because of the accumulated debts that person used to rise to power. Participants affirmed that it becomes harder for this type of political leader to retire, and Xi Jinping and those around him gradually cannot imagine living out their days like Hu Jintao or Jiang Zemin. Nonetheless, participants stressed that gerontocracy speaks against the current ideological philosophy, which acknowledges that the end of human existence is known to the Chinese communist party. Thus, the unlimited term is inimical to any innovative society and entrepreneurship.

Additionally, participants discussed how the sixth plenum turns the page in the high-growth era. The key to this is reviewing the notion of centralizing GDP targets as a prime economic driver, and their role in the policy system and the economic policy system. For the sixth plenum, Chinese authorities took a strong stance against their GDP targets, which in some sense contributed to the current economic imbalances in this previous pursuit of high growth. For example, in 2020, with Covid-19, the Chinese government decided not to incorporate a GDP target; instead, they used employment targets and other factors due to the extreme nature of Covid-19’s impact on the economy. In 2021, in the 14th five-year plan, China chose not to set an overall five-year target; alternately, they set annual targets. Participants argued that, as the economy slows down, economic drivers shift away from traditional sectors, such as infrastructure, real estate, and housing, towards new ones, such as high-tech developments, artificial intelligence, consumer spending, and green development. China’s traditional sectors already show potential risks, as seen in Evergrande’s financial challenges, the unpopularity of high housing prices, the increase in local government debt, and the infrastructure sector’s diminishing returns.

Participants stated that this shift away from GDP targets represents more of a signal rather than a concrete policy. This indicates that officials should think less in short-

term outcomes, such as real estate or infrastructure drivers, and more in long-term commitments, such as education or other public services that will lead to further sustainable development. Participants stressed that this readjustment does not happen immediately. While the GDP targets had a role in creating this reliance on infrastructure or real estate, there are also a lot of developments at the local government level which still operates this system. For example, the Chinese local government relies on real estate financing due to the imbalance between central and local government taxes. More so, individuals use real estate as a long-term asset because they do not trust in financial markets to develop their savings. To some degree, this can be seen in the new announcement on the real estate tax pilots. Therefore, overall, these changes are going to be long-term trends, gradually rolled out.

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3. What are the trends for tech giants given the 6th plenum policy rearrangements and the common prosperity policy? How do China's environmental concerns impact industrial policy trends and the reorganization of production structures? Will there be any changes in the business environment for Chinese and foreign companies operating in China?

Participants highlighted that, over the last two years, there has been a changing environment for China's tech companies. China is catching up with other competition law jurisdictions adopted in Europe, the United States, and other countries. Although the popular narrative in advanced economies is that China supports companies through subsidies, participants stressed that this scenario changed drastically as Chinese enterprises grew increasingly anti-competitive. The level of business competition in China is very high in comparison to Western countries. Beyond competition, participants mentioned that tech companies became more exploitative of labor, gradually infiltrating and violating people's privacy, as well as data security.

In the current sixth plenum, the regulation of tech companies is emphasized as part of the structure and the long-term interest for China. For this matter, these businesses are required to protect better labor rights, be less anti-competitive, and protect cybersecurity. In 2021, these short-term administrative measures performed well by curbing all anti-competitive tendencies. To ensure these companies can invest in areas China seeks to develop, such as semiconductors and AI, participants stated that policies are expected. After a year of regulatory actions, it is expected the consolidation of a stable environment for these companies to organize their long-term strategies in terms of investing and researching. Participants affirmed that this is a key step where Beijing should decide whether it will focus its efforts in carrying out all the administrative campaigns, which might harm the investment atmosphere and entrepreneurial confidence, or create a long-term environment for tech companies.

Furthermore, participants indicated that there is a Chinese socialist strain of thought emphasized in the Deng Xiaoping era, particularly in the doctrine of common prosperity, which is present in the regulation of Big Tech and the cultural sphere. This doctrine aims to cultivate a strong middle-income group in the Chinese society, prevent the income gap between rural and urban areas, and reach and report to further increase in later decades when the economy of China is slowing down. For instance, in order to implement the common prosperity in pilot locations, Beijing considered two factors. The first one is

the ease of implementing reforms, which consists in finding a candidate that will be confronted with the least barriers possible. The second aspect is the effectiveness of the reform, the pilots, and the potential results they would have.

According to these two standards, participants pinpointed five reasons why Zhejiang became the only pilot province for common prosperity. First, it is one of the richest provinces in China. In 2020, the GDP per capita in Zhejiang was about US\$ 14.6 thousand, which makes it already an advanced economy.

Second, the province has the least regional income gaps between rural and urban areas. According to the World Bank standards, the urban-rural income gap was less than two, which is the third smallest in the country, only after Shanghai and Beijing. Zhejiang was not favored with institutions of the planned economy, which were allocated to the Northeast region and other big cities. Paradoxically, the planned system caused the greatest GINI coefficient and greatest income gap because of uncertainty. This affected the entire investment atmosphere in Zhejiang, which was left to private businesses to lead the way with market reforms.

Third, it is the province with the strongest private sector in the country, and the largest middle-income class compared to the other provinces. Zhejiang hosts a group of tech giants which help the province to come up with some technology-based solutions for income equality measures.

Fourth, it is also the province that had other successful experiences in terms of implementing governance reforms on transparency and efficiency. Top civil servants are hired in this province and are capable of doing the reforms both in the decision-making and grassroots levels.

Fifth, Zhejiang is a very diverse province. It not only has cosmopolitan urban centers, such as Hangzhou but also manufacturing hubs and traditional rural villages focusing on fishing industries, forestry, or agriculture. This diversity resembles China as a country in many dimensions. The representativeness it has means that the measures that are going to be tested in this province could be more practical to be rolled up nationwide and the lessons learned would apply to other provinces and places across the country in the future. Participants argued that, in the next five years, there may be a second batch or later batches of pilots next to Zhejiang before becoming a national standard.

Concerning industrial policies, participants highlighted that environmental concern is one of the major themes in industrial policies. Currently, many Chinese industries receive or draft their plans in carbon peaking and carbon neutrality. Coming up next, the steel industry and other very high emission industries, such as cement, metals, and non-various metals sectors, are already evaluating initiatives to reduce carbon emission.

Established in early 2021, participants mentioned that China's carbon market is already the biggest carbon market in the world, which will be a major tool in terms of reducing urban emissions.

Also, participants argued that there is a stronger emphasis on basic research and a more targeted approach in terms of business support in the current industrial policies. China sees basic research as a source of innovation; however, this area has been one of its weaknesses in terms of investment level. In terms of business support, participants stated that there has been an ironing out of inconsistencies. In the past, providing subsidies became a more restrained approach. Although local governments still try to subsidize firms they support, this narrative is overall changing. For this matter, participants affirmed that China is now targeting the competitive advantaged sectors, such as quantum, AI, and electric vehicles, as well as weak areas, such as semiconductors, and areas that are heavily reliant on imports.

Additionally, participants stated that the overarching narrative is that China wants to become more self-reliant. China is looking at a world after the U.S-China trade war, Covid-19, and de-globalization events, in which it will need to rely on itself. Initially, Made in China 2025 focused on boosting export competitiveness rather than concentrating inwards on terms of self-reliance. Nonetheless, this reality changed and is not just happening in industries, but also in agriculture and commodities. According to participants, all these areas are seeking to rely on themselves while also building connections to countries and regions they found more welcoming.

From the foreign company view, participants stated that the fundamental idea did not shift from the dialectical function of China needing a business and a business needing the Chinese market. Considering the emerging of strategic industries and the idea of self-reliance, participants stressed that there are key industries that China feels the need to either close the gap with other countries or to develop their self-reliance. To their credit, the government is transparent about this, and they encourage FDI; however, it happens in a restrained manner in comparison to previous decades. In that sense, participants argued that there has been a shift for both foreign companies and domestic companies. In opposite, participants also highlighted that the Chinese government can be indifferent to businesses that have domestic competitors to fulfill those roles.

Notwithstanding, participants stressed that the key factor is to understand that, with the economy shifting, what falls under the Chinese wish list will naturally change over time due to domestic changes in the economy, as well as global trends, such as digital changes and other high-tech changes. For these companies, the wish list is both shrinking and shifting to different sectors of the economy. Then, this may impact businesses for the better or the worse.

From the domestic company perspective, participants indicated that there has been a regulatory crackdown on the tech sector and the Chinese government can increase regulations, which could result in compliance costs for businesses, especially for those operating in grey areas. Some examples are online finance and fintech companies, such as Alipay. Since they were not regulated as a bank, they were able to provide cheaper services because they had lower costs of capital. Nonetheless, as regulations expand to cover them and treat them like financial entities, their compliance costs will grow. In this sense, participants evaluated that this would have a major negative impact on these companies. Oppositely, for companies that are already compliant, participants affirmed that this may mean that they are a step ahead of their non-compliant competitors.

Another aspect of the regulatory crackdown is the rule of law, which promotes a well-defined path for what is or is not allowed. Participants mentioned that this clarity allows entrepreneurs and businessmen to focus their energies on what is allowed. The negative side is the possibility of constant evolution and uncertainty. Participants argued that this can be represented by the slippery slope paradigm, in which a previous clear opportunity may not be as rewarding in the future.

According to participants, the other aspect falls under a public relations aspect, which relates to the idea of decoupling. Due to social media, companies now get caught between having to speak to the Chinese market and their home market. For example, companies in the United States face this communication challenge because the consumers and investors often have human rights and sustainable development worries. In this sense, participants stated that companies will have to increase costs for public relations and social media campaigns to understand how to navigate and operate in both markets.

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Participants



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