

China Briefing

What's ideology got to do with it?



Executive summary

- *The US is changing its relationship with China to being one of ideological competition rather than one of conflicts of interests. While this is an attractive election tactic, it is based on a flawed understanding of how power in China works.*
- *China's leaders focus on domestic and local issues; ideology is a part of their governance system, but only one tool of many, and itself usually subordinate to tasks such as running and funding public services.*
- *Treating China as an ideological enemy is likely to lead to wrong analytic conclusions. However, it indicates the most probable direction of US policy, which is that the US will focus on the sectors listed in China's Made in China 2025 policy (2015), both for industrial policy and imposing sanctions.*

Ideology trumps interest

In the US-China relationship, ideology now trumps interests. In July, US Secretary of State Mike Pompeo's speech on China at the Nixon Library repeatedly referred to Chinese leader Xi Jinping as General Secretary of the Chinese Communist Party (the "**Party**") rather than the President of China. Referring only to Xi's power over the Party in this way is part of a US government drive to appear anti-party rather than anti-China. Pompeo emphasised the role of one man, Xi Jinping, 'the most powerful leader since Mao' and 'a true believer in a bankrupt totalitarian ideology'.

This line of attack was continued on 7 August by the introduction of the "Name the Enemy" Act. This tabled bill, introduced into Congress

by Scott Perry, prohibits "the use of federal funds to refer to the head of state of the People's Republic of China as 'president' on United States Government documents and communications, and for other purposes".

If one were an American politician preparing for an election, this new strategy makes some sense — Xi's most important title is as head of the party, and he clearly believes in an ideology focused on maintaining party rule.

However, it is folly to think that this strategy at all helps any sort of business relations. It overemphasises a part of Chinese governance, and excludes cooperation and broader interests, such as business.

Wrong title

For investors, it is a fundamental mistake to treat relations with China as an ideological mission rather than seeing China as another great power with a range of views and objectives. Doing so conflates foreign policy with domestic policy in a way that taints all issues red and blocks discussion of national interest. For investors, it creates uncertainty that prevents working with China, in what appears to be a deliberate strategy.

There are three main issues with viewing China as an ideological threat rather than just a big power competitor: it focuses too much on Xi Jinping and overestimates his powers; it interprets Chinese ideology inaccurately; and it is based on a misunderstanding of how power works in China.

Power in China comes from the Party. So Party structure matters. Calling Xi General Secretary does not accurately capture his power at all. The role of general secretary is, by definition, that of a consensus leader in charge of a group making decisions. The general secretary's chief powers are that he can call meetings of the Party's executive body. He is the first person to speak during these meetings and makes concluding remarks. He cannot hire or fire staff, and decisions go through the Politburo Standing Committee (PSC, with seven members) or the Politburo (with its 25 members), where the general secretary has one vote. The presidency is also largely symbolic, with the power to appoint ambassadors and give public declarations committing China's army to war, should that come to pass.



The general secretary's power comes solely from being able to persuade other leaders that they should do what he says. Xi is rather good at that. Though formally he cannot fire anyone, in practice, by appointing a handpicked lieutenant with strict orders, he can get rid of anyone he wants. The same can be said for his power over appointments and the ability to shape China's ideology. While other people may formally hold those positions, Xi's power of persuasion still grants him the ability to rule. This makes Xi's job easier: putting people he trusts in charge of key sectors gives him control. That is because power comes from being able to make others in the Party do what one wants behind closed doors, rather than from one's job title. Former leader Deng Xiaoping's highest government title was as the head of China's bridge association (the card game, not the infrastructure); he made people do what he wanted through controlling the military and through stacking internal Party decision making bodies whenever he needed a decision to go his way.

All of China's senior leaders are, firstly, CCP members, placed by the party in their allotted sectors. As head of that sector, they are accountable for whatever happens under their watch. They become representatives for their sector's interests, arguing under the rules of the party — where you sit determines where you stand. So different leaders both have to own their policy areas and also get the powers that come with the role.

Politics and business is local, not national

Analytically, this principle of where you sit is where you stand allows outsiders to capture evidence of power by looking who sits where. To wit, let us look at how ideologically-driven China might be. One of the top 25 leaders, Huang Kunming, concentrates solely on propaganda. It is possible that of the top seven PSC leaders, Wang Huning, given his history as a speechwriter and theoretician for the past two CCP leaders, also works in part on ideology and propaganda on top of his main role of running the party's nervous system, the Secretariat.

Far more people in the top seven and the top 25 work for China's government than work on ideology. Leaders fulfilling government functions almost identical to those of the West occupy two of the seven PSC seats and six of the 25 Politburo slots. The two most senior government leaders, the premier and the executive vice-premier, have similar roles to the Australian prime minister and treasurer respectively. The seniority of representation indicates that government and ministerial responsibilities outweigh ideological responsibilities.

Legislative and checks and balances type responsibilities also outweigh ideological roles. There are two bodies, somewhat analogous to those in Western governments, whose heads are among the seven most powerful leaders. The first of these is China's legislature, the National People's Congress. Technically, this is the highest organisation of the government, but in practice its head ranks below the premier, or the government leader. For many years it has been referred to as a 'rubber stamp', particularly during the previous Hu Jintao administration, which preferred to draft policies internally. However, an underexplored part of the changes under the Xi Jinping administration has been the focus on creating laws in order to prosecute his policy goals across civil society. Even the recent crackdown in Hong Kong came from Beijing using legislative measures rather than party, military or ideological ones to introduce change of the security law.

Finally, there is the role on the PSC of the head of China's consultative body. Its role is to provide more widely representative opinions to China's leaders, given the top-down system of government. While the consultative body has no formal power, its head gets a vote on the seven-man committee. This also appears a greater weight, in representation, than ideology.

Relying on role descriptions to analyse power can only get us so far. Within the formal political structures, what type of leader you are depends on your personal style as well as your ability to mobilise political power and get what you want. Xi has a few specific traits of note. He is a centraliser and a formaliser, disliking ambiguous or contested lines of reporting or authority. He prefers to change internal party rules that govern moral and individual behaviour rather than changing policy guidelines. And he likes to use laws and legislation rather than policy edicts and government regulation.

Xi himself can only do so much. He spends most of his time worrying about domestic politics. Given there are over 90 million party members across more than 30 provinces, nearly 900 municipalities and nearly 3,000 counties, there exists a vast bureaucracy that is fundamental to the prosecution of the leader's interests. This radiates out in concentric circles, with provincial government, then municipal and county government having the same structure.

The biggest interest groups represented in the Politburo are those of China's five sub-national megalopolises. Subnational leaders are also the largest interest group represented in the full members of the Central Committee (though the military has the largest representation counting stand-in members). Xi deals with subnational leaders through cracking down. There are two specific examples of this in two of the five most important cities in China. When Xi started his first term in

office, he presided over the trial of fallen high-profile high-flyer Bo Xilai, former leader of Chongqing, one of the five most important cities. And Xi's anti-corruption drive removed three different leaders of Tianjin, another of the five biggest cities, within one year.

Tying their own hands

Still, Xi's ideological focus is domestic rather than international competition or foreign policy. Ideology may have limited power, although Xi himself is a highly ideological leader. Xi's own tendencies in this way can, on occasion, override how China's political system is structured. This debate between structure and agency is constant, the byproduct of how China's governance was designed: public servants must consider their Party report and their professional responsibilities. Local leaders are judged on thousands of indicators. They need to pick their battles, to choose which thing to prioritise at any given time.

This leaves Xi with three different levers that can be pulled to make anything happen. Firstly, he can change the structure in a way that then cascades down and alters the hierarchy within the subnational jurisdictions. Else, he can attempt to change government policy, shifting responsibilities of parts of government; can change policies; can alter the tax system; or can introduce legislation. The final option is that he can try and change each individual's behaviour through Party methods. The Party controls many of the incentives at the local level: Party discipline bodies can increase the intensity of their inspections; Party ideology and propaganda can change the mix, frequency and types of political culture activities (these are usually weekly) or Party media can alter its daily stories; and most of all, the Party can change the treatment of individuals and their ability to get promoted. This final lever means that Xi is able to make ideological fealty a criteria for promotion. Hence, why Xi is seen as China's most 'ideological' leader.



How does this cornucopia of different methods work together? Which lever does Xi pull the most? Analysis of Xi's speeches shows a number of common themes: strengthening party ideology, environmental management, financial deleveraging, alleviating poverty, and foreign policy. Xi's writings and speeches are strong on party ideology — he is a true believer that 'only socialism can save China, and only Chinese socialism can lead our country to development'.

So what happens is that every type of policy gets given a red label, an ideological hook, no matter its aim. Take poverty reduction for example. All central state-owned enterprises have 'established arms specifically devoted to poverty reduction'. These state firms made a 'poverty relief fund', which received 15.4 billion yuan in capital. Private businesses such as Alibaba also invested. Why would businesses give such money to create a government policy? Because it allows them to tell inspectors that they have acted "in the spirit of Xi" — helping them stay in the Party's good (red) books.

Confusion over what type of socialist Xi might be is understandable. Xi is Marxist, but not a particularly doctrinaire one — there's no mention of class struggle in his ideology. He's no Stalin, and the Party has no interest in emulating Stalin. Rather, given that the CCP is now the leading communist party in the world, maintaining its power in China is key to progressing communism. Xi is not a hardline Marxist who spent

his life committed to the cause and leads the communist party devoted to his vision of spreading the word worldwide. Rather, he's someone who wanted to lead the Party and therefore became a Marxist.

Xi believes two things will help the Party maintain its power. The first is a traditional Chinese focus on inculcating moral values under the guidance of the Party, rather than seeking checks and balances on individual power. The second is ensuring that the Party has a voice in all private enterprises and continues to encourage large state-owned enterprises.

Why this is so bad for business

Chinese leaders are placed across a range of positions that are balanced between government, party and different interest groups. They have many considerations to take into account in the creation of policy. Ideology is undoubtedly one of them. But it appears that ideological considerations absorb around one-seventh of decision-making meeting time, and overwhelmingly they pertain to governing China rather than being directed at Chinese activities abroad.

Treating China as an ideological threat is likely to lead those outside China to the wrong conclusions.

When ideology is pushed overseas, it is a bug, not a feature. China's foreign policy today suffers from being too domestically driven to be effective. Take the recent emergence of 'wolf warriors', aggrieved and abrasive Chinese diplomats who launch into Twitter tirades against those they feel are hurting Chinese interests. They win no overseas hearts and mind and have little to no success in spreading Chinese values. But they may look tough back home, regardless their diplomatic self-harm. Reuters quotes one Chinese tech entrepreneur as saying 'What we are experiencing now is unprecedented . . . My entrepreneurial spirit has been dampened due to all this, let alone my global ambitions'.

And this is the primary worry of where US strategy is going: Silverhorn interviews with former Trump administration officials and recent books both indicate a goal to make investment and business so difficult that no one wants to do it.

Painting China as an ideological rival ignores the many economic activities that are also hurting the US-China relationship. More specifically, while markets and investment decisions focus heavily on the US-China Phase One trade agreements, there is a much broader push towards "decoupling". Industry policy is also a part of this decoupling, as well as ideology. Specifically, we see a focus on attacking all Chinese industries listed in its previous "Made in China 2025" policy, and a simultaneous development of industry subsidies for the US that focus on the same areas.

Made in China 2025 Key Industries

- Information Technology
- Robotics
- Green energy and green vehicles
- Aerospace equipment
- Ocean engineering and high-tech ships
- Railway equipment
- Power equipment
- New materials
- Medicine and medical devices
- Agriculture machinery

The fear of this is simple: rhetorical posturing over ideology extends into all areas of the relationship, and becomes blanket bans on investment, trade, and engagement. No one will benefit from that.

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