

Assessing China's Situation and Challenges

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I. Introduction

This paper intends to assess China's situation and challenges in the context of its deteriorating external and domestic environments, as well as the political crackdown and cultivation of a personality cult on the part of Xi Jinping. It focusses on the regime-maintenance initiatives of the Party regime and the prospects for political stability in China, especially in the absence of political reforms and the return to hard authoritarianism. Various types of scenarios are briefly examined on the basis of the assessment, and suggestions are offered for consideration by the overseas pro-democracy groups and activists.

II. China's Deteriorating External and Domestic Environments and Its Challenges

The Sino-American trade disputes in 2018-19 demonstrated China's deteriorating external and internal environment. In the first place, they showed that the U.S. is very concerned with the rise of China; actually most Western countries share this concern, though many of them are reluctant to impose sanctions against China. This concern will much exacerbate the significant challenges against China's peaceful rise, as well as Xi Jinping's attempts to establish a "new-type of major power relationship", especially that with the U.S. At the same time, the trade disputes would also impose serious difficulties for China to exploit foreign trade, foreign investment and the import of advanced technology to secure its economic development at this stage.

The trade disputes indicate that the international community is worried that China may use its growing economic power to seek regional or even global hegemony. This worry has naturally been based on China's aggressive foreign policy and eagerness to expand its influence instead of adopting a low profile, as advised by Deng Xiaoping in the aftermath of the Tiananmen Incident. But deeper reasons behind this worry are doubts whether China really embraces the principles of a market economy and the lack of political reforms and human rights setbacks in China.

Since China's economic reforms and opening to the external world beginning in 1979, the international community had been sympathetic. Following Japan's offer of economic aid starting in the same year, some Western countries adopted similar measures; and China soon emerged as the largest recipient of concessionary loans from the World Bank in the 1980s and 1990s. Though in the beginning of the twenty-first century, China basically graduated from a developing country receiving foreign aid, most developed countries had been tolerant of their substantial trade deficits with China and enthusiastic in technological exchanges with the country. Behind this tolerance and generosity, there was an expectation that China would be absorbed into the global market economy, and that its economic growth would lead to political reforms eventually.

They are definitely disappointed in recent years. There have been no serious political reforms since the Tiananmen Incident, though there have been considerable administrative reforms designed to improve the efficiency and responsiveness of various levels of government. During the Xi Jinping administration, human rights conditions have been deteriorating, with the human rights lawyers, independent labour groups and underground churches suffering increasing political pressures and crackdowns. In the past two years or so, the Uyghurs in Xinjiang were also persecuted in an unprecedented manner for their religious beliefs.

In response to the global financial crisis in 2008-9, the Chinese government initiated a fiscal stimuli package of four trillion *yuan*, which was subsequently supported by contributions to infrastructure projects on the part of local governments amounting to over ten trillion *yuan*. Though the package achieved its goal of enhancing economic growth rates, it resulted in the advance of the state sector at the expense of the private sector. Today while the state sector produces slightly more than 30% of the country's GDP, it consumes over 70% of the credits provided by the state banks. While the Chinese leadership often promises to ease the private sector's problems of raising loans, not much progress has been made, as evidenced by the presence of a substantial underground banking sector.

The Party regime considers it important to maintain a firm grasp of the economy through upholding the strategic role of about a hundred major state-owned enterprises (SOEs). Apparently the liberalization of the economy and market reforms have limits and the Chinese leadership may well have further ambitions. In September 2017, it was reported that Jack Ma Yun, founder and chairman of the e-commerce giant Alibaba Group Holding, recently claimed that a planned economy would be possible at this stage because of big data. Liu Qiandong, the founder of J.D.com, further indicated that he had experienced that "communism can be realized in our generation" because robots would be doing all the work of humans.¹

Though Chinese leaders have avoided talking about the return of the planned economy, in July 2016, Xi Jinping nonetheless declared his endorsement of the approach of "righteously making SOEs strong, outstanding and big".² After the collapse of the stock market in July 2015, in response to the subsequent depreciation of the *yuan*, the Chinese authorities reversed its reform of making the Chinese currency more market-driven and international.

The stock market collapse was an interesting and significant example of how the Chinese leadership handled a market economy. Top Chinese leader Xi Jinping encouraged people to invest in the stock market in the year or more before the bubble burst. The Chinese authorities hoped that rise in share prices would create a wealth effect and thus encourage consumption, in line with economic growth's increasing dependence on domestic consumption rather than exports and infrastructure investment. Chinese leaders chose the stock market instead of the real estate market because they were concerned with dissatisfaction generated by rapidly rising housing prices.

The stock market collapse therefore was a loss of face on the part of Chinese leaders, and it was perceived as a social issue as it hurt middle class interests. In addition to normal measures of

cutting interest rates and the reserve requirement ratio by the People's Bank of China, the central bank and the China Securities Regulatory Commission (CSRC) on July 5, 2015 provided funding amounting to 260 billion *yuan* (US\$42 billion) to a state agency, the China Securities Finance, to lend money to brokerage firms to buy shares to prop up the market. The government also exploited propaganda tools to appeal to patriotism to encourage stock purchases and threaten investigations into "malicious short selling". Listed SOEs were ordered not to sell shares and to buy their own stocks, with 292 committing to do so.³ In early July 2016, during the anniversary of the emergency meeting of the CSRC to initiate the campaign "to save the market by violence", a study estimated that from the high point of the A shares reached on June 12, 2015, the capitalization of China's two stock markets in Shanghai and Shenzhen had evaporated by 35% in one year's time, and every stock market investor had on the average lost 230,000 *yuan* each within the same period.⁴ Many financial experts in China's universities lamented not so much the losses, but the lack of marketization and institutionalization in China's stock markets, leading to loss of confidence domestically and internationally.

The Chinese authorities' retreat from market reforms damaged the confidence of China's tycoons. The fact that the bulk of China's political and business elites have their children, families and wealth moved to the Western world is no secret. In the second half of the 2010s, it is speculated that the overseas investment projects of major private conglomerates like the HNA Group, Anbang Insurance, Dalian Wanda, Fosun International, etc. were actually exit strategies. From mid-2015 to mid-2017, China's foreign exchange reserves dropped from US\$4 trillion to US\$3 trillion.⁵ In the context of the Sino-American trade war, the Chinese authorities have tightened the outflow of investment.

In Xi Jinping's anti-corruption campaign, it was demonstrated that even members of the Political Bureau Standing Committee and the Political Bureau could enjoy no immunity. The same applied to the rich business leaders too. In June 2017, the Chinese authorities detained Wu Xiaohui, chairman of Anbang Insurance, husband of a granddaughter of Deng Xiaoping. Guo Guangchang, chairman of Fosun International, was briefly arrested by the police at the end of 2015. Xiao Jianhua, a billionaire who had close business ties with many top leaders and their families, was reported to have been kidnapped by Chinese security agents in Hong Kong and brought back to China in January 2017.

Successful businessmen in China, almost without exception, have to depend on the support and protection of political leaders. When the latter fall from power, it is difficult for their business associates to avoid implications. Hence a sense of insecurity is common among China's business elites; and this has led to the exodus of their families and wealth. It certainly hurts the Chinese economy which in recent years has been adversely affected by a decline in investment, especially that from the private sector.

Business leaders like Jack Ma have already closely identified themselves with the Party regime's official line, but this may not be considered adequate. Jack Ma's announcement in 2018 of his

pending retirement was often interpreted as a step for his own political protection. While foreign passports may not be adequate protection from the long arm of China's security agents, as shown in the case of Xiao Jianhua,⁶ it has been suggested that perhaps the possession of secret documents threatening the reputation of the leadership may be a more reliable safety guarantee.

Influential businessmen with their political connections are able to secure the essential credit lines, but small and medium-sized firms are less fortunate. Their demand for liquidity has generated the growth of "underground banks"; and their lack of regulation and supervision can easily lead to local financial crises. As the wealthy people want to move their money overseas, illegal banking operations through "underground banks" are perceived as the means to overcome official restrictions. China's police authority indicated that in 2016, it busted more than 380 "underground banks" involving over 900 billion *yuan* (US\$131 billion).⁷

China's peer-to-peer lending platforms (P2P lending industry) is the world's largest and one of the riskiest and least-regulated segments of its shadow-banking system. In 2018, as China's credit markets tightened due to the economic downturn and when the official banking regulator issued serious warnings to such depositors, defaults, sudden closures and frozen funds occurred among P2P operators. In some cases, savers protested at the offices of P2P operators and launched petitions to local and central government officials. Many of the P2P operators used their connections with local cadres to enhance their credibility, and the protestors' anger was naturally directed against the corrupt cadres too. These protests may easily become local crises in times of economic difficulties and can easily lead to riots. These financial irregularities are potential sources of social and political instability.

A root cause of the Sino-American trade war is their competition for superpower hegemony in the economic as well as scientific and technological fields in the coming two to three decades. This rivalry is therefore long-term and structural, and will continue to cause a deterioration in China's external environment. This competition poses two questions. The first is the research and development policy of the regime which adopts basically a command economy approach. The experts in the official science and technology establishment identify the priority areas and projects which will then be approved by the leadership, which in turn allocates funding to the top universities, official research institutes and key SOEs. This approach allows very few opportunities for Bill Gates-type of innovations, and it is doubtful whether this approach will facilitate China securing global leadership in innovations in the long-term.

In May 2018, it was reported that the Ministry of Science and Technology and the State-owned Assets Supervision and Administration Commission of the State Council issued a joint statement outlining reform plans of centrally-administered SOEs' technology innovation drive. These SOEs were asked to increase spending on research and development; and the research and development spending share of their sales revenues should be included in their business performance evaluations.⁸ In the following September, SOEs in China were accorded the leading role in technological and economic progress in the escalating trade war with the U.S. They were urged to

"make breakthroughs in key aspects" of cutting-edge technologies and to "take a leading role at the front" of the nation's drive to make technological progress, in the context of the government's plan to assume a significant, if not dominate, global role in ten major hi-tech sectors by 2025.⁹

Even before its economic reforms and opening to the external world beginning in 1979, China was notorious for its "reverse engineering". In recent decades, advanced countries have been asking China to demonstrate its respect for intellectual property rights. During the recent Sino-American trade war, Beijing's "Thousand Talents" programme attracted considerable attention in the U.S. as it was perceived by the U.S. National Intelligence Council as a scheme to tap into its nationals educated or employed in the U.S. to transfer, replicate and eventually overtake U.S. military and commercial technology.¹⁰

Another channel to secure access to U.S. technology has been joint ventures, mergers and acquisitions. Chinese investment and acquisitions of American companies hit a record level in 2016 before dropping somewhat in 2017 and again in the first half of 2018. China's aggregate investment in U.S. technology from 2007 to 2017 amounted to US\$40 billion, and reached about US\$5.3 billion in 2017.¹¹ This access would probably be more handicapped in the foreseeable future as the Donald Trump administration would accord a higher priority to national security when granting approval for Chinese enterprises engaged in joint ventures, mergers and acquisitions in the U.S.

Meanwhile at least one participant of the "Thousand Talents" programme, Zheng Xiaoqing, a Chinese-American General Electric Co. engineer, was arrested in New York state in August 2018. Earlier in May, the Trump administration announced plans to restrict the visas of Chinese students studying in America.¹² This means normal exchanges at the people-to-people level between China and the Western world become more difficult in the foreseeable future; and this would also mean that China would continue to lag behind in soft power or smart power. The Confucius Institutes programme is a good example of the backlash created by a stubborn insistence on the correct ideological line and a refusal to accept international norms; as a result a scheme with vast potential and a good beginning has now been discredited. Similarly, China's vast resources spent on building international media have largely failed to achieve results simply because the Chinese authorities do not allow them the freedom to behave as independent mass media.

The Sino-American trade war reveals the weaknesses of the Chinese economy and the danger of financial crises leading to social and political instability. In the longer term, maintenance of a healthy economic growth rate and improving the living standards of the people remain the principal sources of legitimacy for the Party regime and the foundation for social and political stability. It appears that China should be able to maintain an economic growth rate of about 6% per annum for a few more years, even though the Chinese leadership may have to pump money into the economy including infrastructural projects. But the reduction of income inequality becomes increasingly difficult.

China's Gini coefficient rose 0.002 to 0.467 in 2017, according to the National Bureau of Statistics. This was 0.005 higher than in 2015 when the indicator hit a recent low, having gradually declined since reaching a record high of 0.491 in 2008. Other data confirm this trend. Disposable income of China's upper class grew 9.1% in 2017; that among the upper-middle, middle and lower-middle classes increased 7.7%, 7.2% and 7.1% respectively. Lower-class disposable income advanced 7.5%, reflecting the impact of anti-poverty programmes.¹³

Rising housing prices were a major factor contributing to widening income disparity. Real estate prices began their upward climb in 2015 after the government had relaxed requirements for home loans so as to reduce the glut in housing stock. Most of China's wealthy have benefitted from surging real estate prices, since they own multiple properties. In China's 2017 income survey, income from assets increased 11% on an annual basis, showing double-digit growth for the first time in three years.¹⁴

When farmers move to cities and take up jobs in the industrial and tertiary sectors, inequality generally declines. Restrictions on rural migrant workers in urban centres have handicapped earnings growth at the bottom of the income pyramid. Cities like Beijing and Shanghai have worked to expel migrant workers in recent years, including tearing down illegal structures where many of them reside. As a result, populations in these cities had dropped across the board by the end of 2017, the first such decline for Beijing in two decades.

In terms of per capita disposable income, the uppermost one fifth of the families enjoyed a ratio of 10.90:1 compared with the lowest one fifth of the families. In 2013, the ratio was 10.78:1; it dropped to 10.45:1 in 2015, then rebounded to 10.72:1 in 2016. The average wage of workers in the non-private sector was 1.76 times that of those in the private sector in 2010; the ratio dropped for four consecutive years to 1.55 times in 2014; then it gradually rose to 1.56 times in 2015, 1.58 times in 2016 and 1.62 times in 2017.¹⁵

Chinese leaders apparently understand the challenge posed by income disparity. Their response has been to increase social development spending, including that on education, social security and employment, medical and health, urban and rural community development and housing. In 2017, social development expenditure amounted to 47.4% of general budgetary expenditure in public finance, a very substantial increase compared with the early years in the era of economic reforms and opening to the external world.¹⁶ Experts in China's official think tanks consider that there is still considerable room for improvement, as the corresponding ratios among developed countries within the Organization for Economic Co-operation and Development range from 55% to 60%.

The Chinese authorities are proud of their poverty-alleviation programmes. In 2012-2017, it was claimed that people below the poverty line in China were reduced by almost 70 million; poverty occurrence rate was reduced from 10.2% to 3.1% in the period. In 2018-2020, a campaign was further launched with the focus on regions of deep poverty, with central government subsidies to

local programmes amounting to 106 billion *yuan*. It was expected that at the end of 2018, more than ten million people would be lifted above the poverty line.¹⁷

Since the Hu Jintao-Wen Jiabao administration, the Chinese authorities have been working hard to cover the entire population with a basic social security net. At the end of September 2018, the pension system covered over 930 million people, the basic medical insurance scheme covered more than 1.35 billion people, and the unemployment insurance scheme, the work injuries insurance scheme as well as the maternity insurance system claimed about 200 million participants each. But since the beginning of 2018, the minimum standard of the basic pension payment in the urban and rural residents basic pension scheme only offers 88 *yuan* a month, which is far from adequate.¹⁸

Employment has also been a priority for the Chinese leadership which understands that unemployment is a potential source of political instability. In 2018, China produced 8.2 million graduates from tertiary institutions. In the combat of problems generated by the economic downturn and the Sino-American trade war, stability in employment was a crucial concern of Chinese leaders. The government claimed that in 2018, the urban registered unemployment rate remained below 4%, and declined to 3.82% at the end of the third quarter, a record low since 2002. The national urban surveyed unemployment rate stayed at the level of 5% in the year, and dropped to 4.9% in September. The Chinese authorities boasted that in the first three quarters of 2018, 11.07 million jobs were created in the urban sector, fulfilling the annual target three months ahead.¹⁹

While unemployment has been contained relatively satisfactorily, young people in China, like their counterparts in East Asia and other parts of the world, are frustrated with the insecurity in employment and career prospects, the high cost of housing and the lack of upward social mobility opportunities. A China Family Panel Studies was conducted by a team of economists at the National University of Singapore and the Chinese University of Hong Kong producing data on children born between 1981-1988 and who had worked for at least three years. It was found that children born to parents in the top 20% of income were almost seven times more likely to remain in the top 20% as adults than those born into the bottom 20% were to rise to the top.²⁰

A recent study examining the economic mobility of children born in the U.S. in the mid-1980s revealed that those from the poorest 20% of households had about a 9% chance of reaching the top 20%, compared with around 7% in China. U.S. children from the top 20% were also far less likely to stay at the top in adulthood relative to their Chinese counterparts. The problem may not be unique in China, but the superiority of socialism with Chinese characteristics is not obvious. This helps to explain why fairness and justice have often been mentioned as social policy objectives by Chinese leaders in recent years.²¹

III. The Absence of Political Reforms and the Return to Hard Authoritarianism²²

In the Nineteenth Party Congress in October 2017 and the subsequent revision of the state Constitution, Xi Jinping managed to consolidate power, generating speculation that he may seek a third term in 2022 against the established political convention. After the Tiananmen Incident in June 1989, there have been no serious political reforms as the Party refuses to give up its monopoly of political power. In fact, since the Beijing Olympics in 2008, the entire political ecology had been tightened. In this increasing political intolerance, dissidents and the human rights movement, autonomous labour groups, and the underground churches especially felt the pressure.²³

The strengthening of political suppression was to some extent related to the difficulties in the domestic and international environment. In 2008, there were riots and disturbances in Tibet, followed by those in Xinjiang in the next year. Since then, mass incidents had been on the increase, people's rights consciousness strengthened and their political struggle skills also improved in sophistication. In 2010, migrant workers in a number of coastal cities went on strikes and protests to fight for better wages and working environment. Chinese leaders adopted soft tactics in handling the incidents then.

The 2008-9 global financial crisis and the Arab Spring in 2010 further alerted the Chinese leadership to the maintenance of social and political stability. Political control further tightened, especially regarding the Internet and social media. The authorities paid more attention to the employment issue too. The mainstream Chinese mass media avoided talking about "*shengshi* (a glorious era)" soon after the global financial crisis in 2008-9, probably in recognition of the domestic and international challenges.²⁴

Xi Jinping's impressive combat of corruption has been popular and, to some extent, contributed to the legitimacy of his administration. At the Nineteenth Party Congress, Xi promised to continue the campaign and considered "the fight against corruption remains grave and complex", and that his administration would "institute a system of disciplinary inspection for city and county level Party committees".²⁵ At the same time, this campaign against corruption was used as a tool to strike at the political enemies of Xi in the intra-Party political struggles at high levels. The problem of corruption certainly has not been resolved, the people's congress system and the mass media have not been given any role in the combat of corruption, and this combat has been relying on campaign activities which can hardly be sustainable.

In spring 2013, the Communist Party of China (CPC) Central Committee Office released a document criticizing that the spread of universal values was to deny Party leadership, hence censorship was imposed against the discussions of universal values, freedom of the media, civil society, civil rights, the historical mistakes of the CPC, the concept of the power elite capitalist class and the independence of the judiciary. The policy document also condemned "historical nihilism", i.e., denying the verdicts of the Party on historical issues, with the ultimate objective of weakening and even overthrowing the legitimacy of Party leadership.²⁶ These were very serious accusations under the Party regime.

Xi Jinping obviously considers that the spread of liberal Western ideas and criticisms against the Party positions on important historical issues dangerous to the maintenance of the Party regime and political stability. This harsh position quickly led to strict control of the Internet and the social media, as well as deliberations in university campuses. The author's academic friends in China told him that soon after this, university staff members of associate professorship and above would be required to deposit their passports with the university management, they had to ask for them before their overseas travels.

The Chinese authorities in recent years have the sources and skills to organize international events to spread China's position on human rights too; and these activities are relatively new, demonstrating the high-profile and self-confidence of the Xi Jinping administration. On March 8, 2017, for example, the Chinese Mission to the United Nations Office in Geneva and the China Society for Human Rights Studies (an NGO sponsored by the Chinese government) held a side event entitled "Building a Community of shared Future for Mankind: A New Approach to Global Human Rights Governance". In the following June session of the Human Rights Council, another similar side event was organized on "building a community of shared future". It released a joint statement on behalf of more than 140 countries entitled "Joining Hands to Reduce Poverty, Promote and Protect Human Rights".²⁷

In early December 2017, China organized a more ambitious "South-South Human Rights Forum" in Beijing for the first time. President Xi Jinping sent a congratulatory message, and it emphasized that: "The development of human rights worldwide cannot be achieved without the joint efforts of developing countries, which account for more than 80% of the world's population... Developing countries should uphold both the universality and particularity of human rights and steadily raise rights framework based on the principle of the universality, indivisibility and inter-dependence of all human rights."²⁸

China's diplomatic offensive involves introducing China's position into various resolutions of international organizations and fora. For example, China's concept of "building a community of shared future" was included in two resolutions adopted during the 34th session of the United Nations Human Rights Council in March 2017: a resolution on the "Question of the realization in all countries of economic, social and cultural rights" (A/HRC/34/L.4/Rev.1) and a resolution on "The Right To Food" (a/HRC/34/L.21).

The deteriorations in the human rights conditions in China²⁹ began to attract international attention in recent years though. In February 2016, the United Nation High Commissioner for Human Rights expressed concern regarding China's continued arbitrary detention and interrogation of human rights lawyers, harassment and intimidation of government critics and NGO workers, and the negative impact on basic rights of the new Foreign NGO Management Law.

In the same month, the European Parliament adopted a strong resolution condemning human rights abuses in China; and in the following March, a dozen governments led by the U.S. issued a

statement condemning China's "deteriorating human rights record" at the United Nations Human Rights Council. The United Nations Secretary-General, Ban Ki-moon, in his first China visit in July 2016, also expressed concern about its crackdown on civil society, and urged the Chinese authorities to give "citizens a full say and role in the political life of their country".³⁰

On the whole, these criticisms were rare, and they were not accompanied by any pressures on China to change. Chinese leaders correctly interpreted them to be gestures in response to domestic public opinion pressures, and that the governments and international organizations concerned had no intention to impose sanctions on China, instead they were prepared to maintain good relations with China. Hence Chinese leaders ignored these criticisms. The Xi Jinping administration has been especially relieved to note that the Donald Trump administration is not interested in human rights issues.

To ensure the Party's monopoly of power and in response to the deteriorating domestic and international environments, the Xi Jinping administration's response has been to emphasize Party leadership and strengthen Party organization, especially that at the grassroots level. After a Political Bureau meeting on September 21, 2018, a statement was released on how to build and strengthen Party organizations, and expand into areas where previously the Party has had only a token presence. Some China experts argued that the shoring up of local Party cells was an attempt by the top leadership to implement policy programmes amid growing doubts within the Party and society about China's direction. They would also help to enhance social control. The Party charter all the time requires any organization or unit with three or more Party members to set up a Party branch; but most of the time, these Party cells have existed in name only, seldom holding meetings or activities.³¹

New areas of expansion of Party organization include private and foreign joint ventures as well as the boards of listed companies. By the end of 2016, 70% of foreign-funded enterprises and 68% of all private businesses in China had set up Party branches. Foreign investors naturally feel uneasy. It was reported that in November 2017, the Delegations of German Industry and Commerce in China warned that members of the German business community were concerned and some German companies might retreat from the China market or reconsider investment strategies.³²

In November 2018, further regulations were promulgated on how Party branches should be run. Commercial buildings, business districts, dedicated market-places as well as NGOs are now required to set up Party branches. One innovation is for Party branches to be established where one line of goods or produce like clothing might be traded or in cross-region farmers co-operatives. Shanghai had set up 3,200 Party organs inside its commercial buildings by 2016, covering more than 50,000 Party members. When Xi Jinping visited Lujiazui, the financial district in Shanghai in early November 2018, he called on its Party branch in Shanghai Tower, China's tallest skyscraper, and "highly reaffirmed" its efforts to build the Party's presence.³³

Any project or work programme that lasts more than six months is subject to the latest requirements. Even Party members who regularly change workplaces or residences are not overlooked. The new regulations demand the establishment of "Party branches for floating Party members".³⁴ The strengthening of Party organizations coincides with an appeal for total Party loyalty. Xi Jinping in a speech on discipline and corruption broadcast across the country in January 2018 made the following demand: "When the Party centre makes a policy decision, all Party groups must put it in practice to the letter, ... At any time and in any situation, the Party's leading officials must stand firm and be trustworthy in their politics, be sincerely devoted to the Party, be in one mind with the Party centre."³⁵

For ordinary people, the Party regime has been promoting the concept of social credit, because "making trustworthiness visible" can be leveraged to create a docile population and contribute to political stability. The Alibaba-affiliated Ant Financial Services Group is one of several companies that have entered this new field of social credit with its Sesame Credit system. These enterprises examine individuals' educational background and employment history, assets such as cars, homes and other items, payment history, social relationships and consumption patterns, and transform this into a numerical representation of his or her "trustworthiness" scored between 350 and 950 points. Individuals are informed of their respective social credit scores.

Given the advantages conferred by a high social credit score, hundreds of millions of Chinese have supplied their personal information in order to increase their social credit rating. In many cases, there is even competition within neighbourhoods as high ratings on the part of parents facilitate their children going to elite schools, while low ratings may handicap one from buying domestic airline tickets. The social control mechanism is obvious. For example, 200 points are immediately deducted for making comments critical of the Chinese government on a blog related to the Tiananmen Incident in 1989.³⁶

Human rights groups and international media have articulated serious concerns about China's social credit system. *The Independent* in Britain called this a "cyberpunk dystopia", i.e., China wants to use social credit to create by 2020 an inescapable political system in which citizens are completely loyal to the state.

The Chinese authorities have been strengthening national control over data flows to ensure that leaks of data out of the country and digital communication with the rest of the world will not threaten regime stability. Social networking services (SNS) provide continuous feedback on people's words and actions, allowing the Party regime to fine-tune its policies and communication. They can also be easily used to manipulate public perceptions to the regime's benefit. Furthermore, the regime can exploit the social credit system to digitally exert control over its citizens from the inside.³⁷

Since Deng Xiaoping's return to power in late 1978, the Party leadership had actively sought to avoid the emergence of a dictator, as it was acutely aware of the danger of the over-concentration

of power in Mao Zedong. Since then, the Party regime had attempted to devolve power within the Party, encouraged division of labour between the Party and government, and allowed some decentralization of power to the provinces and localities. There was more emphasis on consultation and collective decision-making in the policy-making processes.

Xi Jinping's accumulation of power in his person with his aggressive anti-corruption campaign have deeply undermined the collective responsibility system that Deng Xiaoping and his successors tried to establish. To a considerable extent, the political patronage system has now been replaced by demands of loyalty to Xi as "core" of the Party. Political systems based on loyalty to a single ruler are politically unstable, and usually lack broad-based legitimacy and staying power.³⁸

The abolition of term limits on the state presidency in early 2018 was a clear signal that Xi intended to stay in power indefinitely. Xi overturned rules of succession in Chinese politics that evolved as the Party sought stability and institutionalization. This was interpreted as a significant step in the breakdown of political norms gradually established in the early years of China's reform era.³⁹

At the same time, the amendments to the Constitution in early 2018 also added his ideological contributions, Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, to the preamble, a status only enjoyed by Mao Zedong. It appears that like Mao, Xi has been building a personality cult. For example, in Yugan county in Jiangxi province, near Poyang lake, thousands of Christians swapped their pictures of Jesus for portraits of Xi Jinping as part of a local government poverty-relief programme that sought to "transform believers in religion into believers in the Party".⁴⁰

In the second half of his first term, the Chinese news media gradually began to cover Xi Jinping's public appearances with adulation befitting a demigod. During his visits to the headquarters of the three main Party and state news organizations in February 2016, Xi announced that "the Chinese news media exist to serve as a propaganda tool for the Communist Party, and they must pledge their fealty to Xi". A *China Daily* article explained Xi's new policy as follows: "It is necessary for the media to restore people's trust in the Party, especially as the economy has entered a new normal and suggestions that it is declining and dragging down the global economy have emerged."⁴¹

It was probably in the same context that the entire Political Bureau visited the *People's Daily* in January 2019. Xi Jinping stressed that the media had to raise their Internet technological competence so as to protect China's political security, cultural security and ideological security.⁴²

The growing confidence of the Chinese leadership and the emergence of Xi's personality cult are perhaps related to the decline of Singapore as a top overseas training ground for Chinese officials. The number of Chinese cadres sent to Singapore and other countries for training had fallen in recent years, reflecting that domestic training programmes had caught up and China exhibited greater pride in its own development model.

Professor Zhu Lijia from the Chinese Academy of Governance indicated that overseas training of Chinese officials in countries like Singapore and the U.S. had peaked between 2007 and 2012, and that numbers had declined in recent years. Zhu observed: "As China's social and economic development advances, top institutions in China have also improved their training quality and international vision to be on a par with their overseas counterparts, including those in Singapore." Zhu revealed that the number of officials receiving overseas training would continue to decline and that such programmes might even be "gradually cancelled".⁴³

IV. China's Deteriorating External and Domestic Environments and the Overseas Pro-democracy Movement's Responses

In 2018-19, the Sino-American trade disputes and the slowing down of the Chinese economy have given rise to some optimism regarding pressures on the Party regime. The international community has largely given up hope that China's economic reforms will inevitably lead to political reforms, and that economic growth will give rise to an expanding middle class eager to demand and support political reforms as in the case of Taiwan and South Korea at the end of the 1980s.

Despite some suggestions of the downfall of the Xi Jinping administration and even the demise of the Communist regime in 2020 or so, to a considerable extent, the Party regime has been able to maintain legitimacy through economic growth, a basic social security net covering the entire population and effective governance. The Xi Jinping administration has been spending a higher proportion of the budget on public and social services, and his combat of corruption as well as his efforts to enhance China's international status and influence have been popular among the people. It is not likely that an Arab Spring kind of situation would engage in China in the near future.

Meanwhile, civil society is still developing under increasingly difficult conditions. It is in no position to confront the Party regime yet, and probably will not be able to do so in Xi Jinping's second term. But the intelligentsia has become more and more exposed to the developments in the Western world. The latter's appeal has been well demonstrated by the middle class families' enthusiasm to send their children to the elite universities in the U.S. and Europe. The weakness of the Party regime is also exposed when it can no longer hide that a substantial segment of the political elites has moved their families and wealth to the Western world.

The latter has become increasingly impatient in recent years with the lack of convergence in values in China despite its partial embrace of capitalism and impressive economic development. More criticisms have emerged, though there is still an absence of political will to impose sanctions against China besides the Donald Trump administration. The Western world is largely willing to bear with the escalating arrogance of Xi Jinping in ignoring its protests and continuing to propagate his discourse on human rights in the international community. In his political report to the Nineteenth Party Congress, Xi, for the first time, declared that "by the mid-21st century, our people's armed forces will have been fully transformed into world-class forces".⁴⁴

Despite the heightening worry about China's rise, the Donald Trump administration's demands are basically economic and strategic in nature. China has to reduce its trade surpluses; it has to respect intellectual property rights; and it has to defer to U.S. strategic interests especially those in the Asia-Pacific region such as freedom of navigation, superiority in strategic and conventional military capabilities, etc. But it is reluctant to consider regime change nor pressure on China to improve its human rights conditions and introduce political reforms. The European Union is more interested in the latter, but it is not prepared to exert pressure on China. Traditionally, Japan adopts a "separation of politics and economics" approach in its China policy.

China, on the other hand, is still willing to make the necessary economic concessions, like reduction in bilateral trade surpluses in the recent Sino-American trade negotiations. It is not in a position to challenge U.S. strategic interests in the near future and finds it easier to avoid U.S. pressures at this stage while biding its time. There were unrealistic assessments like those from Hu Angang at Tsinghua University which considered that China had surpassed the U.S. in economic power, military power, as well as in science and technology. Yet on the whole Chinese leaders remain prudent in handling major power relationships.

The Xi Jinping administration's rejection of universal values and genuine embrace of a market economy, however, would create serious challenges to China's future economic development and reforms. The Huawei Technologies Co. offers an interesting example. It has been designated by the Chinese authorities to take the lead in the development of 5G technology, which is considered an important area in the competition for a leadership position in global scientific and technological developments both by China's leadership and its experts. But the enterprise needs a respectable market share to secure the necessary resources, and the influence to demand a say in the discourse defining the rules in the international technological community. At this stage, various governments from the U.S., the United Kingdom to Australia have refused to deal with Huawei;⁴⁵ and this boycott will pose substantial difficulties in fulfilling its mission.

China's decision to join the World Trade Organization in 1999 reflected its awareness that isolation and closing its door would not allow it to join the ranks of the most advanced countries, only opening its doors and accepting global competition would enable it to do so. But the policy orientations of the Xi Jinping administration demonstrate that China's integration with the international community has distinct limits, mainly due to the consideration of maintaining the Party regime's monopoly of political power. These limits would well mean that China's exchanges with the external world, especially those with the advanced countries, would become more restricted; and domestic innovations would be handicapped. In some ways, the Xi Jinping administration is aware of the impact of these limits, and its efforts to overcome it include the "One Belt, One Road Initiative", more state funding for research and development, etc.

The discussions in this paper intend to argue that both the scenario of the fall of the Xi Jinping administration and the demise of the Party regime in the near future, and that of the Party regime

being able to overcome its difficulties and set a successful model in the long term are not very probable.

The stability of the Party regime is not to be under-estimated. One may be reminded that many predictions were made in the wake of the Tiananmen Incident in 1989 that the Party regime would not last more than three months. It is obvious that no major power today wants to bring about regime change in China, nor would even welcome it. The Western world has largely given up hope that serious political reforms would be introduced in China in the near future, and their efforts of encouragement have not been effective. It is possible that criticisms of China's poor human rights conditions and moral support for its civil society organizations and human rights activists may be stepped up in the Western world despite the Donald Trump administration's disinterest in human rights issues, but they are insufficient to bring about a qualitative change in China's civil society movement.

In January 2019, Xi Jinping in a meeting with ministerial and provincial rank officials warned of the threat of "black swans" and "grey rhinoceros", and stressed the need to maintain political security.⁴⁶ Chinese leaders have been working hard to protect the Party regime, and they have been learning the lessons of the fall of the Berlin Wall, the demise of the Soviet Union, the "colour revolutions" and the Arab Spring. While they have rejected political reforms to deal with the fundamental problems of a Leninist regime, they have been largely successful in destroying political opposition.

Economic recessions and financial crises are entirely possible and even likely in the near future in China, but its civil society is not yet as strong as that in Poland and Czechoslovakia in the 1980s. The considerable improvement in living standards for the bulk of China's population in the past decades provides the Party regime legitimacy, and most people still expect continuous improvement in the near future, albeit at a much slower rate. Slow to moderate economic growth, a basic social security net, and relative efficiency in governance in response to issues like undergraduate employment are adequate for maintaining political stability and deterring revolution. The pragmatic cost-benefit analysis of ordinary people still opts for tolerance of the status quo.

It is obvious that the absence of serious reforms has gradually sapped the political appeal of the Party regime. Beneath the tolerance of the status quo, there is no active support for Xi Jinping's policy programmes among the intelligentsia, though there is an awareness that opposition is very costly. The exit strategy⁴⁷ is available not only to the power elites, but is actively pursued by a considerable segment of the middle class, very often for its younger generation only. The Leninist regime in China has offered an exceptional case with an unprecedentedly high proportion of its power elites moving their families and wealth abroad. This fact alone bankrupts its claim to realize the China Dream; and the offer of dignity and fundamental human rights to the people is beyond the very nature of a Leninist regime, now even with the ambition of cultivating a personality cult.

The pro-democracy movement therefore has to face the third type of scenarios, that of a gradual atrophy of the Party regime.⁴⁸ This, together with the inevitability that the principal struggles have to be carried out inside China, has caused much frustration in the movement overseas. Unavoidably there are sometimes expressions of disappointment and accusations that the movement overseas has been a failure. But the challenge lies in what it can do and should do at this stage.⁴⁹

Despite the international and domestic pressures on the Xi Jinping administration in recent years, Hong Kong's pro-democracy movement is in a low tide, and inter-generational distrust is apparent. Hence it is with a sense of deep humility that I offer my suggestions at this conference which aims to provide a platform for honest exchanges of views on the future of the pro-democracy movement.

There is a common understanding of the severe challenges that pro-democracy groups outside Mainland China face, including those in Taiwan and Hong Kong. They have to fight a sophisticated united front machinery and a state security apparatus with ample resources at their disposal. An indicator of their extent of influence is their almost complete control of the small-scale media in Chinatowns in various big cities. It is safely assumed that almost all pro-democracy groups outside China have been infiltrated. But at the same time, there are no signs that they would soon disappear, despite this challenging environment for survival.

There is no denial of the internal problems among these pro-democracy groups, including corruption, internal quarrels, lack of democratic mechanisms within them and divisions among the groups. What is called for at this stage is self-reflection and self-reform. All groups should aim to achieve the high standards of established international NGOs, with well-defined accounting, reporting and election systems. Activists should find their own means of living or become salaried executives of the groups, accountable to the respective boards of directors. The rejuvenation of the pro-democracy groups should begin with this reform process. The cultivation of a new generation of activists must be given priority.

Strengthening unity is a must to rebuild the overseas pro-democracy movement's appeal and influence, and the best response to criticisms that it is not ready for the major changes to come. My suggestion is to have an all-groups annual conference arrangement with participants responsible for their own expenses and the organizational responsibilities assumed by individual groups in turn. Defined agendas and serious preparations for discussions cannot be neglected.

A starting point perhaps is the establishment of a common Internet platform for publicity and exchanges of views and information based on a joint management board and mutual financial contributions; fund-raising naturally is an option and has to be pursued. The maintenance of such a platform serves to demonstrate the initial joint efforts made to get prepared for the major changes to come through unity and co-operation on the part of the overseas pro-democracy groups.

V. Final Words

Irrespective of what will happen in China in the near future, it is high time for self-reflection and reform on our part. It is sincerely hoped that this conference offers a starting point.

While the Leninist regime in Beijing denies the dignity of citizenship for Chinese people, the overseas pro-democracy movement continues to demonstrate that the struggle for human rights and democracy in China will never end. It remains our firm belief that a regime which denies the dignity and rights of its people will not last; and we are ready to work for what we believe in as this is what our conscience demands.

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