

# Xi Jinping's year of living dangerously

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This year may well go down as a defining one for President Xi Jinping's leadership – one that marks the beginning of the end for the "President for Life". Xi began the year in full command of the country, seemingly ascendant on the world stage with his signature Belt and Road Initiative and, in the face of President Donald Trump's unilateralism, a new champion of the multilateral trading system and defender of the WTO and other features of the fast-receding liberal multilateral order. The economy continued to grow strongly. He had prevailed at the Nineteenth Party Congress towards the end of 2017, having "Xi Jinping thought" inscribed in the party's constitution, unusually while still serving in office. At the National People's Congress in March, he had the two five-year fixed terms for president abolished so he could stay in the role as long as he wished.

Xi dealt China back into the centre of North Korean affairs, after the unpredictable and disruptive Trump stole a march on China by re-establishing direct contact and agreeing to a head-of-state meeting. Kim Jong-Un made two visits to Beijing in quick succession. China was again the key influencer of the pace and direction of change on the Korean Peninsula.

But by year's end, Xi is under pressure on at least four fronts.

Under the twin influence of the government's own, and necessary, efforts to deleverage domestic debt, and the US trade measures against China, growth appears to be weakening. In the year to November, retail sales and industrial production are both down slightly on the same period last year, and fixed-asset investment and property sales are flat. Commendably, the government seems to be resisting, at least for the time being, stimulating the economy.

## **Falls across the economy**

Tellingly, vehicle sales in November were down 14 per cent from a year earlier and have been falling by similar amounts for the past three months. According to China's automobile association, retail sales of vehicles are expected to fall 3

per cent this year, the weakest performance since 1990 (the year of China's last recession following the violent suppression of the 1989 protest movement).

Foreign direct investment in China has also fallen throughout this year. For the year to November, it was down 1.2 per cent compared with the same period last year. Although a single month's figure may be influenced by a number of random factors, in November alone foreign direct investment in China fell 27.6 per cent.

Wishing to avoid public disquiet over the trade war with the US, China's state-controlled media is avoiding reporting on its negative implications. Meanwhile, Guangdong, the most exposed province, has stopped publishing certain provincial-level economic data. Guangdong's Purchasing Managers' Index (PMI), a key indicator of industrial activity, was not published for October. It had been falling over the past few months. It is probably the most accurate indicator of the direct effect of the trade war with the US as Guangdong has a concentration of companies exporting to the US. According to Nikkei, the number of loss-making manufacturing firms in Guangdong rose by 19 per cent in the year to November, compared with the same period last year.

Early signs would suggest, as many predicted at the outset, that the US is getting the better of the trade war with China.

More generally, beyond the trade dispute, Xi is under increasing criticism from elite opinion within China for mis-handling the overall relationship with the US. Xi is seen to have overreached in dealing with the US, and the West more generally, with his assertive and muscular foreign policy stance, including in the South China Sea.

Ironically, as the party marks the 40th anniversary of Deng Xiaoping's reform and open-door policies, Xi has set about to revise Deng's legacy to play down its importance. A key element of this has been to set aside Deng's guiding principle for foreign policy – hide your light, bide your time. Recently, Deng's son, Deng Pufeng, made a rare public defence of his father's legacy. This was a direct criticism of Xi.

### **Growing pressure on president**

The surgically planned and co-ordinated "five-eyes", plus other allies, attack on Huawei, as reported by this paper, whether intended or not, will add substantial

pressure on Xi. The symbolism of a scion of China's elite being taken into custody, the unwelcome international attention to one of China's iconic entrants into international business at the very top of the league, and the solidarity shown by US allies will be chilling and seen as further evidence Xi has badly mishandled relations with the US.

It also underlines how much and how swiftly international conditions have turned against China under Xi. For many years, think tank and policy opinion in the US has increasingly questioned the conventional wisdom of engagement with China. This has been the cornerstone of the West's policies towards China, including Australia's.

The rejection of the long-standing approach was set out by Vice-President Mike Pence in a seminal speech in October. Effectively, Pence announced a new cold war but this time with China as the adversary. This view is widely held across the political spectrum in Washington from Republicans to Democrats, over everything from trade, cyber security, human rights, and intellectual property theft. Within China, this will be seen as another result of Xi's overreach.

So too will be the push back from many countries against Xi's Belt and Road Initiative (BRI). PNG, Malaysia, Sri Lanka, Pakistan and several African states are having sharp domestic political arguments about the benefits or otherwise of the BRI. Some BRI projects have been delayed or shelved permanently. Domestically, in private conversations, the Chinese are questioning why so many resources are going to countries that are either ungrateful or unworthy, or both, of China's largesse when so much investment is needed in social infrastructure in China. Recently, the official media and bureaucrats have been instructed to downplay BRI.

With a weakening economy and serious headwinds on several fronts internationally, Xi's internal enemies have plenty of material to work with to undermine his position. He has created enough enemies through the anti-corruption campaign to be in a dangerous position should he slip. He has, of course, substantially increased his control over the party and, as never before, the Chinese party and state have vast resources and technology at their command to ensure political control. The year has not ended for Xi as it began. Next year, China may find itself living in "interesting times".

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