

China in his hands?

Xi Jinping may remain popular but with a worsening economy, dangerous pollution levels and a newly unpredictable relationship with the US, how strong is the president's grip on his country?

By Justin Bergman
Illustration Giacomo Gambineri

In a pivotal year for his leadership, the aim of Chinese president Xi Jinping is to minimise distractions. Stability is the key concern, not change. Harmonious relations with China's neighbours – and the erratic new leader of the US – are paramount, not tiffs over trade or the South China Sea.

With all eyes on this October's National Party Congress, where Xi will officially begin his second five-year term, the image he wants to portray is that of a leader in full command of his post. He has focused considerable attention on consolidating his power and the state-run media has bur-nished his credentials at every given opportunity. "Xi Jinping: Leader of China's Great Revival", trumpeted one headline from the Xinhua news service this year.

Trouble is, a peek behind the curtain reveals a host of problems: China's inefficient and debt-ridden state-owned enterprises have long been a drag on growth but efforts to reform the economy have had limited success. Overcapacity in the industrial sector also remains a problem and private-sector investment is only now picking up after tapering to a trickle last year.

Though the government may have officially hit its growth target of more than 6.5 per cent in 2016 – thanks in part to billions in government stimulus – some economists believe that the actual rate was much lower.

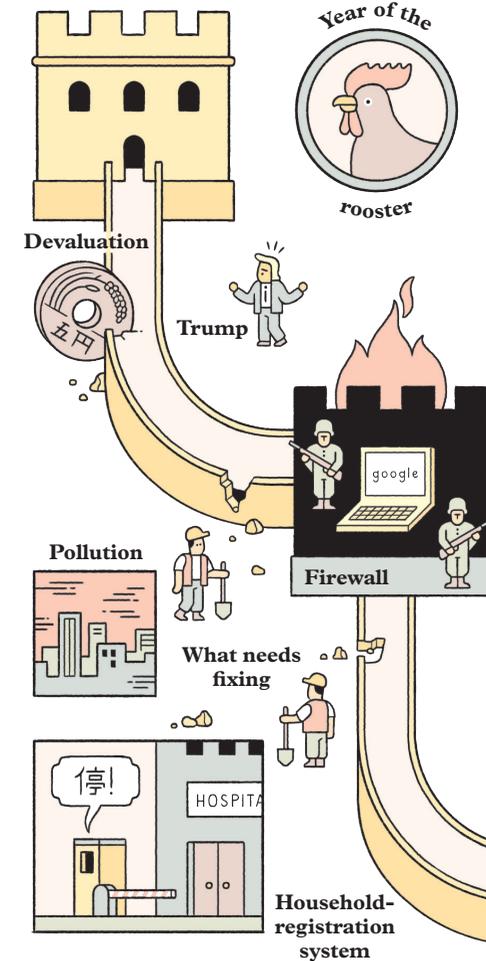
"The biggest issue is the economy," says Steve Tsang, director of the Soas China Institute at the University of London. "If the economy is doing well then Xi Jinping will deliver a lot of the things that he wants to deliver. That's why Trump can potentially tip the balance. If he does something designed to hurt China – and if the markets respond to it – it will really hurt." — (M)

State of the economy

While larger reforms will take time, China's short-term goal is maintaining the stability of its economy. Among the more immediate concerns is the continued weakening of the yuan and the exodus of cash from the country. As the yuan slid to its lowest level in eight years at the end of 2016, capital outflows accelerated and China's foreign reserves dipped below the \$3trn (£2.8trn) mark – a decline of \$1trn (€930bn) from its peak in 2014. Controls on capital outflows have helped but the stability of the yuan is hard to predict. "People are worried about the value of their assets," says Gan Jie, finance professor at the Cheung Kong Graduate School of Business in Beijing. "There's a lack of investment opportunities in China."

Leader's performance

Even in the famously opaque world of Chinese politics, Xi Jinping's dominance is without question right now. His leadership style, glamorous wife and ruthless anti-corruption campaign have set him apart from his dour predecessors and proved remarkably popular with the public. Now the biggest question is what will happen at the 19th party congress in October – a pivotal twice-a-decade assembly. A political shake-up could allow Xi to promote a loyalist as his successor as president in 2022, ensuring he'll retain considerable influence and power. To solidify his position further he has also made clear that his corruption campaign is far from over.



Foreign policy

With US foreign policy ill-defined under Trump, China is keen to step up and be seen as a global leader on everything from the environment to free trade. At the forefront of this effort is Beijing's \$1trn (€930bn) "One Belt, One Road" (OBOR) initiative, a modern-day Silk Road connecting Europe, Africa and Asia through trade and investment, which finally started gaining steam this year with the opening of a China-UK rail link.

Challenges remain, however. China believes that OBOR will bolster its soft power but this won't be enough to persuade nations wary of its rise. "China's confidence has reached a point whereby it thinks that we have to lead," says Zhang Baohui, a political science professor at Lingnan University in Hong Kong. "But I don't think that China would do so in an oppressive manner; the Chinese are aware that if you want to create something that is China-led, other countries will have concerns."

Two sectors to watch

Film industry: China's largest corporations are staking billions on the country's film industry. Dalian Wanda is building a state-of-the-art studio in Qingdao province, and Alibaba and Tencent have launched their own production companies. However, poor box-office results in 2016 and lukewarm reviews for the priest film ever shot on the mainland, *The Great Wall*, have dashed expectations that China will overtake the US as the top movie market anytime soon.

Electric cars: China is not just the world's largest car market: in 2015 it became the leader in electric vehicles too, thanks to government subsidies. Such incentives have led to a boom in electric-car start-ups but there's been a downside, with companies inflating their production numbers to pocket more cash. A revised subsidy scheme launched at the start of 2017 should help the industry grow more sustainably.

What needs fixing

Environment: China has banned the ivory trade and re-pivoted on climate change. But its cities are still cloaked in smog and its residents fed up. To be an environmental leader the country must wean itself off coal faster and put force behind anti-pollution efforts.

The Great Firewall: Even *Pokémon Go* has reportedly run afoul of China's censors, showing just how pervasive internet controls have become. A push for greater innovation will be difficult when scientists, entrepreneurs, educators and creative types can't access information from beyond the wall.

The hukou system: China's boom created opportunities for hundreds of millions of migrant workers across the country but the outdated *hukou* (household registration) system restricted access to education and health care. A reform plan, currently under way, is long overdue.

Experts

"China has seen a great boost in economic and military power in recent decades but the current leadership has scored poorly in regards to boosting soft power."

Cary Huang
Senior writer, *South China Morning Post*

"Given that the economy has been slowing down for a few years, I think it has probably hit the bottom. Once you've hit the bottom the only way to go is up."

Zhu Tian
Economist at *China Europe International Business School in Shanghai*

"The Chinese economy has needed to be rebalanced for more than a decade. But it's done well in that period. It's a bit like a Ponzi scheme: even if you know it's a Ponzi scheme there's still profit to be made before it becomes a problem."

Steve Tsang
Director of the *Soas China Institute*

Soft-power credentials

Traditional Chinese medicine: China's ancient practices in herbal medicine and acupuncture are increasingly popular overseas as an alternative form of healing, with TCM centres popping up in Europe and North America and foreigners flocking to China for TCM training.

Zhang Yimou: China has few directors with the overseas reach of Zhang, director of *Raise the Red Lantern* and *Red Sorghum*. He's also the mastermind behind the 2008 Olympic opening gala and now a frontrunner to return to the spotlight for the 2022 Winter Games.

Pandas: Cuddly, docile and enduringly symbolic of China. There could be no better soft-power tool for the country, particularly at a time when mistrust of Chinese might runs deep.

Monocle view

Given his power at the moment, Xi Jinping has an opportunity to show bold leadership with major economic and social reforms – but a cautious approach is more likely in a politically decisive year. The bright spot in China is the robust and fast-moving technology industry, which should be a source of inspiration for the country's stagnant state-owned enterprises.

Grade: C+. China's global influence continues to grow but given the lack of democracy and its militaristic stance in the region, this could cause problems.

