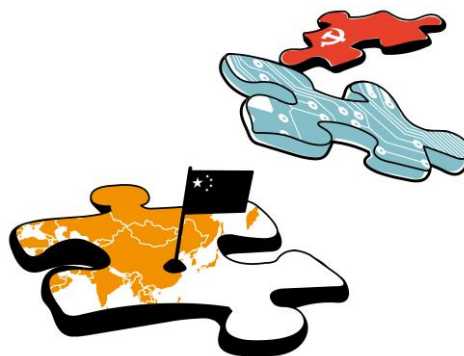


DECEMBER 9, 2021

MERICS

China Essentials



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SPECIAL ISSUE: CHINA IN 2022 - A LOOK AHEAD

DOMESTIC POLITICS

2022 - the year Xi takes over indefinitely and reshuffles his leadership

China is potentially facing a turbulent year: after the Beijing Olympic Games in February, the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CCP) will meet in March to begin preparations for the Chinese Communist Party's most important event in 2022 – its 20th Congress in November. Xi Jinping is expected to use the time to lobby for and log in a third five-year term as CCP leader – a breach with a near-30-year practice that general secretaries step down after two terms, like presidents – and to prepare a reshuffle that could replace Prime Minister Li Keqiang and other top leaders with reliable Xi loyalists.

That means 2022 will likely see Xi more openly exercise the power he has been building since having the term limit for the presidency removed in 2018 and declared himself “core” of the CCP akin to Mao Zedong and Deng Xiaoping in November. With Xi in power indefinitely, the CCP will double down on social and economic reforms flagged in 2021, the year it celebrated its centenary and declared “absolute poverty” eradicated.

The CCP used the occasion to announce the time had come for a “new era” of development, loosely aimed at creating “common prosperity” – and chiefly defined by the leadership of Xi. The party's confidence in its and Xi's ability to rule was bolstered, for one, by China's relatively successful zero-Covid strategy during the pandemic.

The step-change in the CCP's confidence in its ability to rule suggests that 2022 even more than 2021 will bring ideologically loaded party-led governance at home, and an assertive approach to controlling narratives and countering criticism of CCP rule abroad.

MERICS analysis: “China's elite will be laser-focused on the CCP Congress – which will mean intense stability measures in all parts of society after the NPC in March and an even more inward-focused China,” said **Nis Grünberg**, MERICS Senior Analyst. “If things go as expected, Xi will command the most potent CCP apparatus in history, in terms of economic and political power, with a team he has groomed over the past decade.”

Media coverage and sources:

- Reuters: [U.S. officials to boycott Beijing Olympics over rights 'atrocities'](#)
- SCMP: [China's Communist Party is looking for a new generation of leaders. They'll have to pass the 'loyalty test'](#)
- Chatham House: [Beijing Briefing: The year of the tiger](#)

INTERNATIONAL RELATIONS

Inward-focused Beijing will be increasingly intransigent next year

Tensions in the Indo-Pacific are at a high point as 2021 draws to a close. China is responding to the increased Western military presence in the region and the growing international support for Taiwan with increased belligerence, sending PLA aircraft into Taiwan's air defense identification zone almost daily and stepping up pressure in the South China Sea. At the same time, opportunities for meaningful engagement with Beijing are few and far between. With party and state leaders holed up in China and unwilling to travel overseas, diplomatic interaction is now limited to virtual exchanges – with all their shortcomings.

These twin trends are likely to set the tone for China's international behavior in 2022. The main goal for Beijing in the months to come will be to prevent major instability affecting the CCP's preparations for the 20th Party Congress in November. China will remain focused on domestic issues and – thanks also to its zero-Covid strategy – closed off for the foreseeable future. At the same time, Beijing will be increasingly intransigent about global issues that touch upon its interests. Anything else would be seen as a show of weakness on the party's and Xi Jinping's part, which would threaten the CCP's wish to project strength and stability in a politically sensitive year.





Geopolitical competition will pick up in 2022 as China pushes back against any signs of a coalition of Western countries intent on confronting China's rise. Tensions in the Indo-Pacific will remain high, and connectivity will be in the spotlight as Beijing repackages the Belt and Road Initiative (BRI) as a green and high-quality program. It is meant to compete with the USA's Build Back a Better World (B3W) and the EU's Global Gateway programs, which prize sustainability and high standards to set themselves apart from BRI.

This "battle of the narratives" is likely to be one of the dominating features of 2022, with the clash over the true meaning of democracy likely to continue into the new year and "wolf warrior" diplomats coming out in full force to defend China's interests.

MERICS analysis: "Open conflict with Western powers is only a remote possibility in 2022, as it would scupper the CCP's efforts to maintain a stable environment in the run up to the year-end party congress," said **Helena Legarda**, MERICS Senior Analyst. "But the party's internal focus means that engagement with China will remain difficult for foreign governments and businesses alike, reducing opportunities to manage tensions."



China and the world in 2022: Key upcoming events

Quarter	China 	Germany 	EU 	International 
Q1	Beijing Winter Olympics National People's Congress	G7 Presidency	EU-China Summit EU-Africa Summit Strategic Compass Sanctions Anniversary	US National Defense Strategy
Q2	BRICS Summit (hosted by China) 1.6+1 Summit	G7 Summit (Schloss Elmau, Germany)	France Presidential Elections	NATO Strategic Concept
Q3	Beidaihe Meeting	Sino-German Government Consultations	EU-India Summit	UN General Assembly
Q4	20th Party Congress of the CCP	50 Years Diplomatic Relations with the PRC		G20 Summit (Bali, Indonesia) COP27 (Sharm El-Sheikh, Egypt) US Midterm Elections

Source: MERICS

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ECONOMY

China's economic rebalancing will advance only gradually in 2022

China in 2021 started to talk about rebalancing the country's economy and income distribution with the help of "dual circulation" and "common prosperity". Despite ample messaging, Beijing has so far made only slight progress on both fronts.

The Dual Circulation Strategy (DCS) has since 2020 aimed – among other things – to switch the country's economic paradigm from being expert-driven to being powered by domestic consumption. But in 2021, China became even more reliant on exports: shipments abroad in October registered a 27.1 percent year-on-year jump, while retail sales only rose 4.9 percent, in line with modest pre-Covid domestic trends.

Meanwhile, Xi in 2021 again started to emphasize the concept of common prosperity in an attempt to redistribute of the fruits of China's growth more equitably. So far, only

marginal progress has been made, like “tertiary” redistribution through charities or Alibaba’s and Tencent’s respective 100 billion CNY Common Prosperity funds; reigned in property values and raised tax revenue through incoming property tax pilots; and new rules to improve working conditions, such as for tech workers and food delivery drivers.

Achieving more equitable distribution and seriously boosting domestic demand necessitates major structural changes to shift income and capital from the state and enterprises to consumers, from the upper-class to the working-class, and from wealthy regions to less developed ones. Such changes would be highly destabilizing, which makes it unlikely that Xi Jinping will push for them in the lead up to the 20th Party Congress. The December 2021 Central Economic Work Conference and the spring 2022 Two Sessions are instead likely to advance modest, sober policy instead.

MERICS analysis: MERICS Senior Analyst **Jacob Gunter**: “Implementing a great economic rebalancing in China would require major structural shifts that Xi cannot afford over the next twelve months. Instead, redistribution through dual circulation and common prosperity are likely to be advanced only at a surface level next year. The important question is what Xi plans to do with these concepts assuming he ascends to even greater authority at the 2022 party congress. If he is a true believer, he may finally feel confident enough to more radically complete Deng Xiaoping’s quote, ‘Let some get rich first... then gradually achieve common prosperity.’”

More on the topic: [Course correction: China’s shifting approach to economic globalization](#). MERICS China Monitor by Alexander Brown, Jacob Gunter and Max J. Zenglein

Media coverage and sources:

- Reuters: [What is China's 'common prosperity' drive and why does it matter?](#)
- Bloomberg: [China posts record trade surplus in October as exports surge](#)
- SCMP: [China’s consumption growth surprises analysts, and outlook for exports and property market remains uncertain](#)
- The State Council: [China to pilot property tax reforms](#)

TECHNOLOGY

Tech giants can expect more pressure in 2022 to align business with party-state goals

Beijing is piling the pressure on China’s big tech giants to align their business strategies with party-state goals: Alibaba this week announced the appointment of a new CFO and the establishment next year of two new business entities to focus on national and international digital commerce – the goal being to create “long-term value.” The new setup comes after missed growth targets and ever-increasing pressure to contribute to “common prosperity” rather than maximizing profits. Regulators have become more active in the last 12 months, fining Alibaba a record

amount for antitrust violations, taking renewed interest in past mergers, and forcing “rectification meetings” on company leadership.

Alibaba’s example illustrates what 2022 could hold for China’s tech giants – new regulations, from data protection to workers’ rights, and pressure to align their business strategies with party-state goals. So far, Alibaba has played strictly by the new rules. It is planning a “Common Prosperity Development Fund”, pledging EUR 13.7 billion (CNY 100 billion) for it by 2025. Also, a range of projects to revitalize the rural economy and of politically correct slogans – “sustainable development,” “inclusiveness,” and support for “vulnerable populations” – are meant to show commitment to Beijing’s new policy agenda.

Since Xi called for “the reasonable adjustment of excessive incomes” and “high quality growth for all”, Tencent, another tech giant, has made similar pledges. Pinduoduo, Meituan and Xiaomi have also promised to donate to social causes. Alongside to compliance with stricter cybersecurity, data protection and antitrust rules, considerable contributions to “common prosperity” are a key feature of the new role the CCP envisions for its tech sector.

MERICs analysis: “2021 showed that the Chinese Communist Party (CCP) has successfully started to renegotiate the relationship between China’s private sector and the state-led economy,” says **Kai von Carnap**. “Beijing’s expectations for big tech have risen, ranging from the development of new growth drivers, to achieving carbon neutrality and providing ‘common prosperity’ and ‘indigenous innovation’). Watch for tensions in this field to continue in the coming year.”

More on the topic: [Tech regulation in China brings in sweeping changes](#). Short analysis and graphic by Kai von Carnap and Valarie Tan.

Media coverage and sources:

- ThePaper (CN): [Alibaba Management Adjustment 阿里管理层调整：戴珊接替蒋凡分管淘宝天猫，CFO 也要换人](#)
- SCMP: [Alibaba elaborates on how it will use its 100 billion yuan ‘common prosperity’ fund](#)

METRIX

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The number of times the terms “democracy” or “democratic” appeared in a December 4 white paper published by the State Council Information Office titled “China: Democracy that works”. The report was released amidst a flurry of similar messaging from various

institutions in China that appear to be a response to the US-led, "Summit for Democracy" that started on December 8. (Source: [CGTN](#))

PROFILE

Wang Huning: Anything but another top job would be a surprise

2022 is set to see a major turnover in China's top political personnel and one member of the leadership to watch is Wang Huning. The Chinese Communist Party's (CCP) chief ideologue, held to be the brains behind Xi Jinping's autocratic and ideological policy turn, was in 2017 promoted to the Politburo Standing Committee, China's top decision-making body. Wang served two leaders before Xi: Jiang Zemin tapped Wang to the CCP's top policy research center and under Hu Jintao he became its leader. Described as a bookish philosopher, Wang stands out for being the only Standing Committee member with no practical experience of running a city or province as a mayor or party secretary.

The former Fudan University professor's influence on Xi and the CCP has nonetheless been remarkable. As head of two important party groups – the Leading Small Groups on Party-building and Ideology – and a regular entourage member on Xi's tours, Wang is credited with developing several key ideologies such as the "China Dream" and "Xi Jinping Thought on Socialism with Chinese Characteristics". As lieutenant to Xi in drafting the CCP's recent Resolution on History, which gave Xi the key role in rejuvenating the nation, Wang emphasized traditional values and culture as pivotal to China's political and social development.

From as early as the 1990s, Wang has argued in his writings that America's liberal capitalist system is flawed and that a neo-authoritarian model with strong party leadership is superior.

At the 20th Party Congress in November, the CCP's ideological tsar will be 67 years old. According to an unofficial rule called "Seven Up. Eight Down" (七上八下), those 68 and older should step down from the Standing Committee, while those 67 and younger can continue to serve for another five-year term.

Also given his trusted status with Xi, Wang is very likely to carry on pulling his weight. Theoretically, Wang could run the risk of being asked to retire, if his age were calculated the traditional Chinese, which would add one year. But so critical is Wang's role in shaping political thought in the CCP and throughout China that any such move would raise questions about Xi's motives.

Media coverage and sources:

- Palladium Magazine: [The triumph and terror of Wang Huning](#)
- Law Liberty: [The Chinese Communist who understands America](#)
- Quartz: [In Beijing, Trump should get acquainted with Xi Jinping's Steve Bannon](#)

MERICs CHINA DIGEST

[China warns Olympics diplomatic boycott nations will “pay a price” \(Yahoo\)](#)

Beijing warned Western nations they would “pay the price” for a diplomatic boycott of the 2022 Beijing Winter Olympics. The US, UK, Australia and Canada announced that they will not send officials to the Olympics, citing Beijing’s treatment of the Uyghur Muslim minority. [According to the French news agency AFP](#), France indicated that it will not join the boycott. (21/12/09)

[Hong Kong: Jimmy Lai convicted for taking part in Tiananmen vigil \(BBC\)](#)

Hong Kong media mogul Jimmy Lai has been found guilty for defying a ban and taking part in a vigil to mark the Tiananmen protests. Lai and two other prominent activists face a maximum of five years in prison for the charge of participating in an unlawful assembly. (21/12/09)

[US House passes measure clamping down on products from China’s Xinjiang region \(Reuters\)](#)

The US House of Representatives passed legislation on December 8 to ban imports from Xinjiang over concerns about Uyghur forced labor. The act was backed overwhelmingly by 428-1. (21/12/08)

[China starts round two of massive desert renewable energy build-outs \(Bloomberg\)](#)

China is starting the second round of projects in its massive desert renewable build-out. The first 100 gigawatts of projects are reportedly under construction. The second round will likely be even larger. (21/12/06)

[Lithuania braces for China-led corporate boycott \(Reuters\)](#)

According to a source quoted by Reuters, Beijing told multinationals to sever ties with Lithuania or face being shut out of the Chinese market. China downgraded its diplomatic ties with the Baltic state in November after the opening of a representative office by Taiwan in Vilnius. (21/12/09)

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