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US-China Trade and the Challenge to China's Senior Leadership

Party-state propaganda exposes the CCP leadership's economic anxieties in the wake of challenges from the Trump administration.

In the first three months of 2018, Chinese Communist Party (CCP) General Secretary Xi Jinping oversaw the institutionalization of his personal authority through amendments to the People's Republic of China (PRC) Constitution and the appointment of his allies to positions of power. As expounded on in the Party Watch Initiative Quarterly Report 2,ⁱ these events make it highly unlikely that Xi's personal authority will be challenged in the foreseeable future short of serious policy failures.

Nonetheless, evidence has emerged that Xi's leadership has experienced an unexpected backlash in the wake of US President Donald Trump's efforts to counter Xi's more aggressive economic policies. Deteriorating trade relations with the US appears not only to have exposed Xi to backlash over his handling of trade and foreign policy, but has also created an opening for critics to voice concern over his rapid concentration of power and cultivation of a cult of personality to cement his authority.ⁱⁱ Rumors of pushback against Xi's power by Chinese elites in recent months abound,ⁱⁱⁱ with some sources claiming that the repercussions have hit ideology tsar Wang Huning (王沪宁) for his part in mishandling propaganda and crafting

an overly nationalistic image of the country.^{iv}

These rumors lend credence to the more visible trends in party-state propaganda during this period. By assessing party-state coverage of the US-China trade relationship, observers can glean the challenge posed by the Trump administration from the Chinese leadership's perspective. In its handling of both the ZTE ban and the US-China trade war, the CCP propaganda apparatus has unwittingly exposed the economic anxieties of China's senior leadership, hinting at challenges that could affect Xi Jinping's seemingly inviolable grip on power.

ZTE: A Microcosm of the Broader Dysfunctional US-China Economic Relationship

The challenge to Xi from the current US presidential administration moved from rhetoric to reality on 16 April, when Secretary of Commerce Wilbur L. Ross announced a denial of export privileges against Zhongxing Telecommunications Equipment Corporation, of Shenzhen, China ("ZTE Corporation") and ZTE Kangxun Telecommunications Ltd. of Hi-New Shenzhen, China ("ZTE

Kangxun”), collectively referred to hereafter as “ZTE.” The export ban, which prevents US companies from selling technology to the company for seven years, was enacted after the US Commerce Department discovered ZTE’s repeated dishonesty toward the US government following its March 2017 agreement to pay \$1.19 billion in fines and punish employees for exporting telecommunications equipment subject to US trade restrictions to Iran and North Korea.^v

ZTE remains heavily reliant on US components for its products, and the ban was so devastating to the company that it was forced to cease operations in May 2018. Of note, ZTE enjoys a strong relationship with China’s top leadership as a national technology champion, evident by the Chinese government’s decision to raise the ZTE case during already tense trade negotiations,^{vi} and even more so by Xi’s direct appeal to Trump to lessen the company’s punishment.^{vii}

At first glance, the troubles of one Chinese company seem less important than the attention the case garnered in Chinese media. However, because companies like ZTE participate in the Xi administration’s economic policies meant to turn China into a preeminent economic and technological power, such as the Made in China 2025 framework—the plan to make China an international leader in critical future industries such as robotics, artificial intelligence,

semiconductors, and electric vehicles—any foreign punishment of these companies can be taken as a rejection of the CCP frameworks under which they operate. This in turn becomes an affront to China’s image-sensitive paramount leader.

Made in China 2025 in particular has been the subject of increasing foreign criticism in 2018, second only to that received by Xi’s other top economic initiative, the “Belt and Road.” Not only did Xi preside over the creation of these policies, but his administration has also encouraged their propagation through official media as part of the larger push to signal China’s rising prominence on the world stage.

After the ban was announced, the Chinese leadership’s economic anxieties were put on display through party-state propaganda, especially regarding China’s continued reliance on high-technology goods and components from the US and other advanced countries. In a 19 April “Commentator Observation,” *People’s Daily* commentator Li Zheng (李拯) called on readers to respond to China’s technological gaps by mastering core technologies through self-reliance. Citing the *New York Times*, Li asserted that the seven year ban is aimed directly at the Made In China 2025 strategy, and admitted that domestically produced computer chips still lag behind their advanced competitors, noting that in 2016 China imported \$230 billion worth of chips—twice the value of crude oil

imported that same year.^{viii} *People's Daily* reiterated ZTE's unrepentant position in a subsequent 24 April commentary stating that the ban was unfair and unreasonable, with the company vowing to fight for ZTE customer interests.^{ix}

That same day, Xi pointed to the successful construction of the Three Gorges Dam as an example of Chinese ingenuity. He stated, "this is a superior model of what our country's socialist system is capable of producing, it is a model of the Chinese people's wisdom and creativity, it is a model of the Chinese people's progress toward prosperity...The core technologies, the key technologies, *cannot be panhandled* [emphasis added]; we must rely on our own efforts. 1.3 billion Chinese people must work as one, hone their struggle, and achieve the Chinese dream!"^x

Soon after, Xi again addressed this perceived deficiency of technological reliance on foreign countries. On the morning of 26 April, Xi visited FiberHome Technologies Group, an information technology and telecommunications company in Wuhan. He pointed to China's long-touted success in developing atomic weapons and satellites (两弹一星) as examples of the superiority of the socialist system, which concentrates resources to accomplish major undertakings. The next step in tackling key scientific and technological problems, Xi said, "is

abandoning delusions and relying on oneself."^{xi}

Xi's emphasis on self-reliance continued into the following month, evidenced during his visit to Peking University on 2 May. Xi inspected the university's science departments, where he stated that innovation is the driver of development and the key factor in the country's comprehensive strength and core competitiveness. He reiterated that China must hold scientific innovation in its own hands. The visit was covered in a full front-page article in *People's Daily*.^{xii}

The reaction of state media to ZTE's troubles and Xi's well-propagated admonitions that the country should "abandon delusions" and that key technologies "cannot be panhandled" suggest the incident seriously disconcerted China's paramount leader, and perhaps indicated his frustrations that China's socialist system is yet reliant on China's number one capitalist competitor for technological progress. In fact, the challenge to ZTE is likely viewed by the CCP leadership as a microcosm for the troubles of the Chinese economy at large, outwardly strong yet suffering from serious dependencies that risk its overall health.

In the end, Xi's direct appeal to Trump, combined with ZTE's intense lobbying of lawmakers in Washington, appear to have succeeded in reducing the company's punishment to the payment

of \$1.4 billion in fines, the appointment of a new management board, and the opening of a ZTE internal compliance office supervised by US-approved staff.^{xiii} Such political solutions have to date, however, been less effective in settling the broader trade dispute between the two countries, which risks blunting Xi's hitherto aggressive foreign policy drive bring China into the economic center of the world and foster a self-serving international trading system conducive to China's rise.

The US-China Trade War

Official PRC media coverage of the ongoing trade dispute between the US and China suggests a careful balancing act between exuding confidence and not exposing China's top leader to blame and criticism should things not fair well for Beijing.

US Treasury Secretary Steven Mnuchin's early May delegation to Beijing to try to reach a consensus was at first deemed a success story of China's strident position by nationalist outlets. Citing a "source close to the negotiations," a 4 May *Global Times* editorial stated that the US's willingness to negotiate was due to China's strong response to US threats and the country's "moral high ground of safeguarded free trade."^{xiv} Likewise, coverage of the Trump-Xi phone call on 8 May focused on Xi's emphasis on economic cooperation, compromise, and the potential for win-win results. Trump was

predictably portrayed as agreeing with Xi that trade issues should be handled "properly."^{xv}

Since that time, however, reports surfaced that the propaganda authorities issued orders to avoid mention of Made In China 2025, which has been viewed by China's trading partners, including the US and the European Union, as evidence of Chinese governmental efforts to dominate high technology industries through unfair assistance, including through state subsidies, forced technology transfer and joint-venture requirements, and other such practices. According to a 26 June report by the *South China Morning Post*, this edict coincided with Mnuchin's May delegation to China for trade negotiations, and other mainland media sources confirmed the edict was in effect.^{xvi}

Likewise, state media appears to have been instructed not to attack Trump directly with vitriol in order to avoid the war of state policies becoming personal attacks. Foreign observers have duly noted the contrast between Trump's rhetoric attacking North Korean leader Kim Jong-un—calling him a "dotard" and "little rocket man"—to Trump's treatment of Xi, which has been comparatively respectful and positive.^{xvii} No doubt Party propagandists worry about how they might respond to similar insults from Trump (what if Trump compared Xi to Winnie the Pooh?)^{xviii} without inadvertently escalating the

trade war itself, or letting Xi appear weak.

The result is that following Liu's second visit of the year to the US in May, which ultimately failed to convince Trump to forsake the imposition of 25% tariffs on \$50 billion in Chinese products,^{xix} official outlets avoided excessive inflammatory rhetoric aimed at Trump himself and yet issued strident warnings of Beijing's willingness to counterattack. *People's Daily* coverage of the 2-3 June Beijing visit of an American delegation headed by Wilbur Ross emphasized that progress had been made in talks, but that if US tariffs were enacted the accomplishments of the talks would be lost.^{xx}

The tone changed to one of moral justification and regret following the White House's decision to enact tariffs, with the Ministry of Commerce (MOFCOM) declaring that China "will resolutely defend national interests, the interests of the Chinese people, and defend economic globalization and the multilateral trading system."^{xxi} On 19 June, MOFCOM responded to new statements from the White House, claiming that the US had further intensified the situation by threatening to draw up a list of \$200 billion in goods subject to tariffs, and that if the "US acts irrationally" (美方失去理性) and issues a list, China will adapt comprehensive qualitative and quantitative countermeasures.^{xxii} *People's Daily* and Xinhua predictably responded in kind,

with Xinhua declaring in an 18 June commentary that "a tough counterattack and preventing war through war are the best choices to stop conflict against warlike people" (强硬反击、以战止战是对付好战者的最好选择).^{xxiii}

As credible reports emerged in August that the annual secretive Beidaihe conclave was underway, where senior leaders were said to be discussing their approach to the trade war among other sensitive economic issues, *People's Daily* issued a commentary authored by the rarely-used Ren Ping (任平) byline. This byline is likely a homophonous pen name standing for "People's Daily Commentary" (人民日报评论) used sparingly in the past to address similarly sensitive issues. In 2016, for example, Ren Ping was used to discuss the Cultural Revolution on the movement's 50th anniversary, a time when Xi's own blossoming cult of personality faced increasing criticism.^{xxiv} The recent August article specifically detracted the "specious viewpoints" of those that would blame China for being excessively confident and brazen and those that believe China should make concessions to the US to prevent further damages.

The use of the Ren Ping pen name likely confirms that the central leadership feels the need to respond to the growing rumbling of its critics, which point to Beijing's staunch position on nearly every aspect of its foreign policy, particularly trade. The commentary's

placement on page five (albeit with a front page note of the article), along with the effort to somewhat obfuscate the true author, suggests that although the Party center feels the need to authoritatively address these critics, the paper dares not do so with a full front page commentary that would garner excessive attention.

Conclusion

The Central Propaganda Department appears to be directing a balancing act between sending proper deterrence signaling through government statements and official commentary and preventing further inflammation of the trade war by personalizing counterattacks against Trump. That is almost certainly because the Party leadership understands that to antagonize the Trump administration into enacting even stronger economic sanctions risks weakening a Chinese economy that is already experiencing signs of difficulties in 2018.^{xxv} Further economic weakening might easily be interpreted as a policy failure of the Xi administration, thereby exposing the leadership to even more direct criticism at home.

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ⁱⁱ Xu Zhangrun, "Imminent Feats, Immediate Hopes" [我們當下的恐懼與期待]. China Heritage, accessed July 14, 2018. <http://chinaheritage.net/journal/imminent-feats-immediate-hopes-a-beijing-jeremiad/>

ⁱⁱⁱ Richard McGregor, "Has China's Leader Xi Jinping Passed his Peak." Lowy Institute, July

27, 2018.

<https://www.lowyinstitute.org/publications/has-china-leader-xi-jinping-now-passed-his-peak>

^{iv} Ben Blanchard and Kevin Yao, "Handling of U.S. Trade Dispute Causes Rift in Chinese Leadership: Sources." Reuters, August 9, 2018. <https://www.reuters.com/article/us-usa-trade-china-politics-analysis/handling-of-u-s-trade-dispute-causes-rift-in-chinese-leadership-sources-idUSKBN1KU0TU>

^v "Secretary Ross Announces Activation of ZTE Denial Order in Response to Repeated False Statements to the U.S. Government," Department of Commerce, April 16, 2018.

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^{vi} Peter Wells, Yuan Yang, and Xinning Liu, "China's ZTE Halts Operations as US Ban Bites," *Financial Times*, May 10, 2018. <https://www.ft.com/content/4cabb00a-53fb-11e8-b3ee-41e0209208ec>

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<https://www.nytimes.com/2018/08/01/us/politics/zte-sanctions-lobbying.html>

^{viii} Li Zheng, "People's Daily Commentator Observation: Getting Stronger Cannot be Separated from the 'Core' of Innovation" [人民日报评论员观察：强起来离不开自主创“芯”], *People's Daily*, April 19, 2018. <http://opinion.people.com.cn/n1/2018/0419/c1003-29935400.html>

^{ix} Yu Jianbin, "Make a Great Effort to Protect Consumers' Interests" [尽最大努力保护全球用户利益] *People's Daily*, April 24, 2018.

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^x "Xi Jinping Convenes Conference on Deeply Advancing the Promotion of the Yangtze River Economic Belt and Gives an Important Speech" [习近平主持召开深入推动长江经济带发展座谈会并发表重要讲话], Xinhua, April 26, 2018. http://www.xinhuanet.com/politics/2018-04/26/c_1122749143_3.htm

^{xi} "Xi Jinping Inspects Wuhan, Emphasizes the Need to Fully Display Talen Advantage" [习近平考察武汉，强调要充分发挥人才优势] April 26, 2018.

<http://cpc.people.com.cn/n1/2018/0426/c64094-29953060.html>

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