

# Global Xi *Wakeup* Call

*TIE interviewed  
Derek Scissors of the  
American Enterprise  
Institute, asking about  
some of China's recent  
provocative moves.*

**TIE:** How do you explain Chinese leader Xi Jinping's latest moves to turn China more inward, to curb its capitalist impulses, and to further its restrictions on individual freedom? Why now? Was there a trigger? Is this a one-man show with even Xi's closest advisors cut out of decision-making? Is it even possible to predict China's moves from now on?

**Scissors:** Recent actions are primarily about Xi's political future, with the once-in-five-years Communist Party Congress looming in October 2022. All important decisions concerning economic and political repression are cleared through him.

A crackdown before the Party Congress was almost inevitable but it came somewhat early, probably triggered by Alibaba founder Jack Ma openly criticizing Chinese regulators. That kind of public criticism is intolerable to Xi—see Hong Kong.

For the next year, economics will be dominated by politics. In my view, Xi is attacking opposition in the Party, opposition he sees as linked to cadres themselves being extremely wealthy or being too close to the extremely wealthy.

**TIE:** It seems that America and its allies need to answer a fundamental question: Are Xi's moves driven by feelings that China's economy is still fundamentally strong and its capitalist impulses need to be curbed like putting a bridle on a wild stallion? Or is Xi acting out of fear of economic weakness stemming from China's huge demographic problem, massive debt, and potential widespread real estate crisis? An example: For





Joe Trump?



Donald Biden?

## Trumpism Without Trump?

**TIE:** To what extent is the Biden administration policy on China essentially Trumpism without the bombast?

**Scissors:** To this point it's nearly the same thing as

Trump's policy on the economic side, for the basic reason that the Biden administration has not yet been able to make any difficult China decisions. (Even the much-touted provision of nuclear submarines to Australia will occur in the late 2030s.)

Adjusting tariffs is politically controversial. There has been mention of a Section 301 investigation into Chinese subsidies, but any implementation is many months away, if it even occurs. Industry has lobbied intensely against tightening export controls, and will lobby intensely against the tightening of outbound investment now being considered. The supply chain review was purely a research exercise, with not even the most obvious corresponding policy recommendations. What's left is the status quo.

start, he considered intrusive state direction of the economy to be superior to pro-market decentralization. Through 2020, Chinese debt accumulation continued, its response to pending demographic contraction remained weak, and property dependence was largely ignored. The demographic challenge is only one year worse and debt accumulation has been wisely slowed. Such changes are unlikely to cause Xi to become fearful.

More specifically, there has been tighter control on credit and the property sector this year, but it may be political rather than developmental, or only temporary, or both. Chinese families have stored wealth in property since urban housing reforms in the mid-1990s. They have since faced property busts multiple times, without any large-scale social protest even under Hu Jintao, who was less popular than Xi.

Current weakness is not yet worse than previous downturns nor is it likely to become critically worse.

**TIE:** Do you expect Xi to further stoke nationalist sentiment with provocative militarist outbursts as political cover for economic weakness at home?

**Scissors:** I am fearful of what Xi will do to retain power. Mao triggered the Cultural Revolution; Xi could easily trigger a wave of dangerous nationalism concerning Taiwan. But I think this is more a fear for 2026–2027 and the next Party Congress, unless we are considerably understating the current threat to Xi from within the Party.

**TIE:** In China, companies and individuals often do a soft default on their debt. They don't officially default, they just stop payment or send cheerful letters saying payment though late is still forthcoming but at a later, unspecified date. To what extent is the world economy vulnerable to a Chinese debt crisis they will never see coming? If that debt crisis comes, will Beijing authorities initiate a triage operation, saving the state-run companies and banks while letting the smaller firms and banks fend for themselves? What is the vulnerability to the global supply chain if China's domestic economic difficulties worsen?

**years, upper-middle-class families purchased one, sometimes two condo units as an investment hedge against inflation. These units remained unoccupied to protect their value. But now values are collapsing. The potential for widespread anger among the upper-middle class if a full-blown real estate crisis unfolds is very real. How do you come down on this question?**

**Scissors:** I don't think recent actions are primarily motivated by a shift in Xi's economic views. From the

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**Scissors:** Foreign financial exposure to China is understated by poor international accounting that treats offshore centers as if they are more than conduits. U.S. investment in China, for example, is roughly a factor of three higher than reported because we pretend our money stays in the Cayman Islands.

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Moreover, part of the recent Chinese crackdown has been to discourage financial analysis, including with regard to the yuan. This will harm evaluation of Chinese debt trends and relevant policies.

China has unsurprisingly favored state interests in debt defaults, followed by the interests of ordinary citizens. Whether the Chinese private sector or foreign capital is treated worse has varied over time and can be debated. Foreign entities with heavy exposure to individual Chinese sectors and, especially, individual firms are taking substantial risk. Their governments should be clear that the risk will not be socialized in the case of active or, much more likely, passive Chinese debt renunciation.

However, I don't believe in an acute Chinese debt crisis—near immunity to them is the advantage of wasteful non-commercial financial systems. Chronic financial problems allow adjustment of most supply chains and can make sustaining chains more valuable to Chinese policymakers. The bigger threat to supply chains is discretionary central government action, as in the standoff with Australia. The chemicals used in active

pharmaceutical ingredients are a dramatic possibility, but not the only one.

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**TIE:** Related to the previous question, many analysts suggest that Biden's tough stand on China and active participation with the Quad will drive a permanent wedge between the United States and Europe, particularly Germany. Five years from now, will the Atlantic Alliance be significantly weaker than it is today? Or has Germany's flirtation with China been largely Merkel-driven? With Merkel no longer in office, will China

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*China's President  
Xi Jinping*

## Attack the Rich!

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—D. Scissors

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**suddenly have a Germany problem no matter how many BMWs and Mercedes they import?**

**Scissors:** The European Union has an unavoidably and importantly different security view of China than the United States does. Europeans are extremely unlikely to confront China in the South China Sea or die in a war

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over Taiwan. The United States should recognize this split and accordingly limit demands on the European Union for costly economic choices.

American policymakers can hope that EU rhetoric with regard to worsening repression in China spurs action. Moreover, even Germany may have belatedly recognized that Chinese subsidization and coercion of intellectual property is relevant as China gets closer to Germany on the technology frontier.

**TIE: Is the job of Washington China watcher tougher or easier than it was a decade ago? And are Beijing authorities less transparent since Xi's recent crackdown?**

**Scissors:** Watching China has become harder, and more depressing. The recent crackdown has yet to play out but two earlier steps were damaging. First, China's NGO law effectively created a category of unfriendly foreign organizations, restricting access. Critics have been discouraged from participating in any engagement not tightly controlled by the government, while China constantly attacks critics for their lack of understanding. Second, of course, the zero Covid approach has made travel more difficult since early 2020.

Economic data quality is also worse, in my view. For example, the National Bureau of Statistics invalidated the

back series for fixed asset investment while announcing ongoing revisions worth trillions of yuan. Chinese analysts are more fearful of explaining such changes than a decade ago.

**TIE: Finally, a decade or so ago, China was in an advantageous position in the global community relative to today. The Belt and Road Initiative was designed to be the spearhead of a new Chinese global economic diplomacy. China in the industrialized world family was like the muscular eighteen-year-old son who occasionally got into trouble, but still was a relatively trusted and valued member of the family. Now, after Covid and China's provocative actions in their own backyard, the Chinese seem widely distrusted. Is this your assessment? If so, will the global distrust fade as the world moves beyond Covid? Or has the global perception of China fundamentally changed?**

**Scissors:** China has built power plants, roads, housing, and more in much of the developing world, starting well prior to the Belt and Road Initiative. While imposing costs on the industrial world, it has also offered unique opportunities. Given these positives, its global perception could have survived Xi Jinping's ugly policies in regard to Xinjiang, Tibet, the Indian border, and so on. Or it could have survived being the source of Covid, then continuously lying about it. But I don't think it can survive both without a durable shift in global sentiment.

Many countries and companies will still get RMB signs in their eyes, make splashy commercial and diplo-

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matic deals with China, and therefore advocate for China internationally. But I see broad erosion of trust. Even when deals are desired by international actors, domestic opposition and future vulnerability to Chinese coercion weigh more heavily than before. Covid will be globally harmful for at least the next two years and perhaps far longer. For perception of China to improve again after that, its leadership will have to change. ◆