

**THE MYSTERY OF XI'S
DISAPPEARING OFFICIALS**

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The disappearances of former state councilor and foreign minister Qin Gang 秦刚 in June 2023 and the former defense minister General Li Shangfu 李尚福 in August raise questions about the supreme leader Xi Jinping's personnel management. A score of senior officers from the Rocket Force and departments in charge of weapons procurement also got the sack, prompting widespread speculation that they were being investigated for graft. Cadres in both the Rocket Force and the logistics departments are considered more prone to corruption because large sums of money changed hands when they were procuring equipment.

Given his apparent lack of expertise in economic and financial affairs, it has long been assumed that Xi's forte rests in pulling together a personally loyal clique of capable cadres. A master of Machiavellian-style palace intrigue, within ten years of assuming power, he had ensured that his clique dominated all major offices in the party-state apparatus.¹

However, both former foreign minister Qin and General Li—as well as the disgraced commander and political commissar of the Rocket Force, Generals Li Yuchao 李玉超 and Xu Zhongbo 徐忠波—had been considered Xi protégés. The failure to disclose fully to the public the reasons behind their demise testifies to problems Xi is facing in running the party-military apparatus.² The lack of due process in senior-level appointments and sackings under Xi has opened him to criticism by other 'princelings' (the offspring of the PRC's founding fathers). In the run-up to the celebration of the 125th anniversary of former state president Liu Shaoqi's 刘少奇 birthday, Liu's son, General Liu Yuan 刘源, published an article entitled 'Affirm and insist upon the system of democratic centralism; strengthen the construction of organization and institutions' in the official journal *Research on Mao Zedong Thought*. General Liu—who reportedly does not see eye to eye with Xi—seems to be critiquing Xi's dictatorial ruling style.³ Given that his father was persecuted to death by Mao at the start of the Cultural Revolution, General Liu's statement might have been more pointed than it seemed.

In general, the party-state apparatus since the 20th Party Congress has been dominated by apparatchiks (political officials responsible for issues including ideology, national security, personnel and propaganda) and not

technocrats (often English-speaking cadres who might have been trained abroad in science or technological fields or economics, and who understand economic principles, modern financial tools and international trade). While quite a few of the current Xi-appointed Politburo have at least bachelor's degrees in technology-related subjects, they have built their careers in party affairs, especially ideology or organisation. The best example is the vice premier in charge of finance and economics, He Lifeng 何立峰, who worked with Xi for more than ten years when the latter was based in Fujian.⁴ He has Xi's full trust, but he is not a technocrat and is a newcomer to policy-making in the areas of finance and international economics. He is therefore a far cry from his predecessor, former vice premier Liu He 刘鹤 (in office 19 March 2018–12 March 2023), an economist with a masters degree in public administration from Harvard. Liu He was in charge of negotiations with the United States over tariffs and other financial issues during a particularly tense time in bilateral relations. Liu He was also a close adviser to Xi before retiring.⁵ Meanwhile, the older generation of technocrats employed by then premier Zhu Rongji and his successor Wen Jiabao in the late 1990s and early 2000s—including former People's Bank of China governor Zhou Xiaochuan 周小川 and minister of finance Lou Jiwei 楼继伟—have all stepped down due to age requirements.



Qin Gang, former minister for foreign affairs of China, addresses the Human Rights Council

Source: UN Geneva, Flickr

The rise of the ‘national security faction’

The only Politburo Standing Committee (PBSC) member accompanying Xi during his recent summit with US President Joe Biden on 15 November in San Francisco was Cai Qi 蔡奇. Although ranked fifth in the PBSC pecking order, he controls the police-state apparatus in his capacity as a vice-chairman of the Central National Security Commission 中央国家安全委员会 as well as being the head of its General Office. His formal title is head of the CPC Central Committee Secretariat 中共中央书记处; other members of the Secretariat include Minister of Public Security Wang Xiaohong 王小洪 and Minister of State Security Chen Yixin 陈一新. It is the first time in CPC history that heads of the ministries of public security and state security have had slots on the Secretariat, signifying the centrality of security to Xi's administration. Moreover, Cai is director of the CPC Central Committee General Office 中央委员会办公厅主任, which controls all party-related decision-making and implementation. The General Office is the nerve centre of the entire party apparatus. It is the first time that a PBSC member has held this critical position. Cai is also responsible for the well-being and safety of Xi in his capacity as head of the Party General Secretary's Office 国家主席办公厅.⁶

There is speculation that a subtle power struggle has erupted between Cai Qi's faction of national security apparatchiks and Premier Li Qiang's 李强 State Council bureaucrats. Li Qiang is ranked No. 2 in the PBSC pecking order, just behind Xi. Yet his performance as premier—in theory the person responsible for the whole economy—since assuming the post this year has been low-profile and lacklustre, especially compared to his predecessor Li Keqiang 李克强, who was deemed a committed market-oriented reformer. Li Qiang has said publicly that the role of the State Council is to implement decisions made by top party committees—for example, the Central Commission on Finance and Economics—headed by Xi. Under Xi's instruction that party organs should take the lead in policy formulation, the status and power of the State Council has been truncated.

Li Qiang (a former governor of Zhejiang province, where Xi worked from 2002 to 2007) represents the Zhejiang subfaction of Xi Jinping's faction. Cai Qi and He Lifeng represent the Fujian subfaction (where Xi worked from 1985 to 2002). Appointments since the 20th Party Congress have demonstrated that the senior cadres of the Fujian subfaction have outnumbered those of the Zhejiang subfaction.⁷

Policy-making mismanagement

Xi's failures in managing high-level personnel and his apparent lack of success in putting together a team that can reverse the economic slowdown has been responsible for a series of ill-conceived policies, discussed below.

Putting national security concerns above attracting foreign direct investment

The weeks after the Biden–Xi summit in San Francisco witnessed more multinational corporations pulling out of the PRC. The purported 'smile diplomacy' pursued by the Xi delegation in the United States produced very little in terms of reviving the domestic economy. Foreign investors and businesses are aware that the Ministry of State Security has stepped up its harassment of foreign firms, particularly those handling due diligence, accounting and consultancy. It has launched a propaganda campaign urging Chinese citizens to report foreign spies, liberally defined, and even issued an instruction warning businesspeople (domestic and foreign) 'not to short' the stock market.⁸ Several senior staff (including Americans) working for the China-based offices of multinationals have not been allowed to leave the country. Despite repeated requests from the CPC administration, Washington has yet to relax efforts to cut China off from US investment (including wealth funds) and from the global supply chain in high-tech areas such as IT, AI and pharmaceuticals. According to JPMorgan, in the second quarter of 2023, foreign direct investment fell to its lowest level in twenty-six years.⁹ It is likely that the pace of foreign direct investment leaving China will further accelerate.¹⁰ Yet even when Beijing talks about luring back multinationals, it

has announced no favourable policies such as allowing them a bigger share of the market or giving them more flexibility in moving foreign exchange in and out of China. The Free Trade Zones advertised by the Chinese government in the past few years have failed to attract significant investment from multinationals, meaning that they are not attractive to potential investors in China. Initial public offerings (IPOs) of Chinese firms in both China and Hong Kong have also shrunk in both numbers and size of capital.¹¹



President of China Xi Jinping and U.S. President Joe Biden

Source: 李季霖, Flickr

Too little, too late in saving the real estate sector

It was only in mid-November 2023 that the State Council announced one trillion yuan of low-cost financing to help a select list of struggling real estate firms to restructure their loans and ensure that they complete unfinished apartments already sold to customers. This is a case of too little, too late.¹² After Evergrande, the biggest developer in the PRC, announced its insolvency in late 2021, other property firms, including HK-based Country Garden and China Vanke, followed. Yet the party-state apparatus has done nothing to stop these overleveraged firms from continuing to draw huge loans from friendly state bankers and to raise bonds (for which they cannot even make

the minimum interest payments). It is understood that these firms pay hefty bribes to bankers and bond issuers for their services.¹³ Anti-graft operations have yet to start.

In September 2023, in response to massive complaints from home buyers—including millions who faced difficulty paying mortgages for unfinished apartments—Beijing dangled the possibility of the state rolling out ‘subsidised housing’ 保障房. Under the so-called Singapore model, by which the government provides good-quality subsidised flats to residents, state-backed housing would play a big role in China’s housing market. This would put to an end the monopolisation of the housing market by developers of expensive ‘commodity flats’ 商品房. At this stage, details are lacking. State Council Document 14 on the this subject simply states that there will be a return to ‘subsidised’ housing. At time of writing there have been no detailed announcements as to who will be entitled to subsidised housing.¹⁴

Widening social economic unrest

After the official statistics showed that youth unemployment had risen to 21 percent in the first quarter of 2023, the State Statistical Bureau stopped releasing new figures on this sensitive issue.¹⁵ Findings by a Peking University professor claim that as many as 46.5 percent of young people are jobless.¹⁶

A related point is the shrinking population. Government subsidies amounting to RMB 3,000 or more for urban couples to have a child are not working because raising a child in a city has become prohibitively expensive even for middle-class families—not to mention labourers who are struggling to make ends meet. As with the sudden ban on tutoring schools and restrictions on the hours students can spend on online gaming, it is a case of poor planning and untimely execution of policies.¹⁷ These decisions have not been popular and have hurt business confidence.

As a result of unhappiness with such policies and the economic downturn, protests have increased in dozens of cities and towns. Protestors include laid-off workers, labourers who fail to receive their pay cheque in time, distressed mortgage payers, and depositors who can not withdraw money from accounts with local government banks.¹⁸

Meanwhile, local administrations have piled up debt amounting to 92 trillion yuan (see 'China's Local Government Debt', page 35).¹⁹ Local-level government bankruptcies mean that not only civil servants and teachers but also police and people's armed police (PAP) members cannot get their salaries. A big chink in the armour of China's surveillance and police apparatus has appeared. In response, various levels of party cells have asked state-owned enterprises (SOEs) to revive their own security teams, which were active during the Mao years.²⁰ Called *renwubu* 人武部 (people's militia departments), these security teams are paid for by SOEs but also keep an eye on law and order in their areas.

The increasing police-state atmosphere has particularly alarmed some of the 400 million members of China's middle classes. The increasingly stringent control over the movement of foreign currency in and out of the country has made it difficult for Chinese who want to emigrate to Western countries.²¹ But this has not stopped frustrated Chinese from taking dangerous and often illegal paths to leave China. The number of 'refugees' or 'escapees' from China trying to reach the United States by traversing dangerous terrain in South and Central America testifies to the loss of faith among many Chinese in the communist system.²²

As of this writing, the Xi leadership has still not convened the much-anticipated Third Plenum of the 20th Central Committee. Usually, third plenums, which discuss economic and sociopolitical policies and reforms, are called in October or November. Xi's failure to assemble and keep a capable leadership team, or to introduce timely measures to address the nation's multifaceted problems, have cast on doubt Xi's ability to remain a 'leader for life'—and even, perhaps, the Party's own 'mandate of heaven'.

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