

Analysis: Xi, not Trump, started on path to decoupling

The leader's desire to be independent of U.S. influence has been consistent for 11 years

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When did supply-chain disruptions begin?

Some might feel it all started with the export restrictions the U.S. slapped on China, be it for anger over unfair practices or over fear of a rising military rival. Many in China believe the root cause of U.S.-China decoupling lies in former U.S. President Donald Trump's stances.

But Trump's policies were only one dimension of a much longer development. Since 11 years ago, a movement to decouple from America was happening in China.

"It was Xi Jinping who made the first crucial statement that led to the separation of the U.S. and Chinese economies," said a retired party veteran, noting this happened just before he ascended to the Chinese Communist Party's top leader.

The fact that Xi has stayed true to his original instincts shows that he is a strong-willed politician who follows through on his original intentions. Whether that is a good thing or not for the Chinese economy, is another debate.

It all started around the party's 18th national congress, held in November 2012. For context, the national congress was delayed significantly due to the political turmoil over former top Chongqing official Bo Xilai.

During the quinquennial event, Xi, the leader in waiting, raised concern that the Chinese economy was being "hijacked" by the U.S. As leader, he was determined to correct the situation.

Xi's statements were behind closed doors and not publicized. But with 3,000 delegates attending the national congress, it had many people talking about it.

At the time, however, people in China did not realize that Xi's intentions would have massive consequences for China's economy and society later on.

It was in the era of President Hu Jintao -- and unlike now -- unfettered discussions were still possible, as long as they were held only within the party. Thus Xi's remark about the Chinese economy being "hijacked" became widely known, sources said.

At the heart of Xi's frustration was former paramount leader Deng Xiaoping.

Deng, who was born in 1904 and died in 1997, introduced the policy of "reform and opening-up" in 1978 and laid the groundwork for China becoming the world's second-largest economy.

Despite the international praise of Deng, Xi believed that the Western-oriented economic structure Deng installed -- and his proteges worshipped -- led to corruption, worship of money and blind admiration of Western systems within the party and military.

Deng's policies were to blame for the Chinese economy being "hijacked," or dominated, by the U.S., the logic goes.



Former President Hu Jintao is escorted out of the closing ceremony of the party congress on Oct. 22, 2022, as Li Keqiang, left, and Xi react. In Hu's time, unfettered discussions were still possible within the party. (Photo by Yusuke Hinata)

From Xi's perspective, U.S. companies were operating freely in the Chinese market and making huge profits. China's group of private companies, too, were doing business at home and abroad, outside the party's control.

The conclusion was drawn that unless these issues were all corrected, the country's one-party rule was at risk.

The attempt to terminate the hijacking led to a drastic reversal of Deng's policies. It was no longer going to be about cooperation and closer economic relations with the U.S.

While the path to decoupling was not clear back in 2012, in retrospect, Xi's inner circle was beginning to consider reducing China's economic dependence on the U.S.

Five years later, when the party held its next national congress in 2017, the Xi administration began to push for "military-civilian fusion." Tapping China's private-sector for military-grade technologies was a way for the Chinese military to reduce dependence on the U.S.

Sensing the unfriendly move, the U.S. began to cut off cutting-edge technology from China. This has enormously impacted the private sector.

Trump, who came into power that year, continued this trend with tariffs on Chinese goods and a trade war.

Xi's prescriptions for tackling U.S. dependence has always been *zi li geng sheng*, self-reliance. He has also tried "dual circulation" -- an economic policy that seeks to reduce the role of foreign trade in driving the Chinese economy.

But whatever Xi's visions for an ideal Chinese economy were, the reality was that the Chinese economy, being so dependent on the outside world, was not going to function properly if self-reliance was the guiding philosophy.

In 2020, Ant Group, a financial affiliate company of Chinese e-commerce giant Alibaba Group, was abruptly forced to delay its planned listing, with no rational reason given. This symbolized the central leadership's uneasiness with tech giants operating outside the party's control.

The contradiction between being under party control and abiding by Western disclosure rules came to the fore in the fate of U.S.-listed Chinese companies. One by one, major Chinese state-owned companies that could not meet information disclosure requirements set by U.S. regulators were delisted from stock markets in the country.

Earlier this year, Alibaba founder Jack Ma was forced to give up control of Ant by relinquishing most of his treasured shares in the financial company. Alibaba also announced a decision to split itself into six business groups.

In the world of semiconductors, the U.S.-China battle for technological supremacy has made it difficult for multinationals to supply high-performance chips to China.

As a result, China's leading telecommunications equipment makers lost significant shares of the global smartphone market. Restrictions on semiconductor supplies to China by the "Chip 4" alliance of the U.S., Taiwan, South Korea and Japan remain a major topic.

To some extent, Xi has got what he wanted. The U.S. is probably not hijacking the Chinese economy today.

But it has also become difficult for Chinese companies -- both state-owned and private -- to expand operations around the world without restrictions. This has become a drag on Chinese economic growth.

In the 11 years under Xi, the fundamental principle that moves China has changed. The party's political logic takes precedence over any logic of economic freedom. The economy is but a tool to complement Communist-led politics.

One question to ask is: What if the policy is fundamentally wrong in terms of improving people's livelihoods?

Xi has already acquired ultimate power, and those around him are all his close aides. There is no one who can fundamentally correct the basic policy that the top leader has pushed ahead for political reasons.

Even Premier Li Qiang, who is ranked second after Xi in the party hierarchy and is in charge of the economy, is no exception. Li is a former personal secretary to Xi -- more of an executive officer than a full-fledged board member, in corporate terms.

Official figures released by China on Tuesday show that the country's economy grew 4.5% in real terms in the January-March quarter.

The growth rate was higher than initially expected, as service consumption, such as eating out and travel, picked up due to the end of the zero-COVID policy.

But property development remains mired in the doldrums, and private-sector investment is not growing.

Small and midsize manufacturing companies, which have supported the Chinese economy, are also in a serious slump. If they do not get back on their feet, it will become impossible to secure jobs for huge numbers of new university graduates and others.

Foreign companies, including Japanese ones, are gradually shifting some production from China to Southeast Asia and India.

It emerged in March that a veteran male employee of Astellas Pharma, a major Japanese drugmaker, was detained by Chinese authorities immediately before he was due to return to Japan from Beijing. He has worked in China for more than 20 years.

The Astellas detention is beginning to seriously impact Japanese companies operating in China.

The owner of a small-to-medium-sized Japanese company operating in China, told Nikkei on condition of anonymity, that they are moving production from China's Zhejiang province to Vietnam. "We were already shifting away and away from China. Everything is more expensive and there are political risks. The Astellas detention will only accelerate this trend."

Since his pledge to fight American hijacking 11 years ago, Xi has followed through. U.S.-China decoupling has progressed step by step. Non-American companies are also caught up in the storm.

Although the latest data show growth picking up, the outlook for the Chinese economy is far from bright. What will happen to it over the next four to five years? That depends on where Xi takes his politics.

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