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ISSUE BRIEF

What is "Common Prosperity" and how will it change China and its relationship with the world?

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A new question is being asked in China and around the world: what is "Common Prosperity" and how will it change China? "Common Prosperity" (共同富裕, *Gongtong fuyu*),[1] a phrase first used by Mao Zedong decades earlier but rarely heard until Xi Jinping mentioned it in a speech early this year, has quickly become the official Chinese slogan of choice, defining the new era of politically led economic development emerging in China. While it has been described in relatively simple terms by Xi as a policy that ensures China will have a more equal income distribution going forward, it has manifested itself in a tumultuous series of actions including regulatory crackdowns on technology platform companies, the banning of the once-thriving private tutoring business, pressure campaigns against China's rich entrepreneurs that have led to a number of them stepping down from their companies, and a sweeping effort to force the huge and indebted real estate industry to deleverage, which could shake the economy.[2]

The scale of what is happening is unprecedented. By one count nineteen different crackdowns have been launched in recent months—and the apparent dramatic shift in course, in this case toward a development path defined by far more control by the party and government, has arguably not been seen since paramount leader Deng Xiaoping turned China away

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1 Willy Wo-Lap Lam, "Early Warning Brief: Implications of Xi's Revival of the Maoist Slogan 'Common Prosperity,' " The Jamestown Foundation, August 23, 2021, https://jamestown.org/program/implications-of-xis-revival-of-the-maoist-slogan-common-prosperity/.

2 "习近平主持召开中央财经委员会第十次会议强调 在高质量发展中促进共同富裕 统筹做好重大金融风险防范化解工作 李克强汪洋王沪宁韩正出席,"[Xi Jinping Presided over the Tenth Meeting of the Central Finance and Economics Committee], *Xinhuanet*, August 17, 2021. http://www.xinhuanet.com/politics/leaders/2021-08/17/c_1127770343.htm.

from decades of autarky under Mao and set it on "Reform and Opening" (改革开放, *Gaige kaifang*) several decades ago.[3] University of California, San Diego economist Barry Naughton has coined the phrase "Summer of 2021" to describe the unprecedented economic shift now happening, and predicted that years later scholars will study this time to understand the moment when China changed course.[4] "We are witnessing an inflection point in Chinese economic life," Larry Brainard, chief emerging markets economist at TS Lombard, is quoted as writing by the South China Morning Post.[5] "While Deng sought to give China a socialist market economy with Chinese characteristics, Xi appears to be aiming to give China a real socialist economy, not just its characteristics."

With one of the most unequal societies on earth, there is little debate about the need to try to stem surging wealth inequality. China's policymakers also realize that they must narrow the income gap if they want to succeed in their longtime goal of moving away from an investment-reliant growth model to one much more driven by the spending power of their own people. At the same time, "common prosperity" and its official focus of creating a fairer society aims to win Xi and the party support from the people as China's economy downshifts to much slower growth and as the demographic challenges of a quickly aging population put new economic pressures on families in the coming years.

More immediately, Xi needs to be broadly popular across China in order to pull off his deeply ambitious and unprecedented goal of seeking a third term and remaining in charge beyond next fall's quinquennial Party Congress. The questions are: How determined is Beijing to pursue this momentous shift? How successful might it be? Or alternately, how damaging might it prove to be to the vibrant private economy, China's growth path, and the many companies and countries around the world that rely on China's continued economic vitality?

Interpreting the path of socialism

"Common prosperity" has a long history in China and its interpretation has changed radically over time.[6] It was originally used in the Mao era, first appearing in a headline in the party paper, the *People's Daily*, in 1953. The article, titled "The Path of Socialism Is the Path to Common Prosperity," stated that a prerequisite for common prosperity was "collective ownership, meaning that the resources of production—including land, large farm equipment, major livestock, and so on—were held in common." Later, its meaning was adapted to fit the reform era of the 1980s, when Deng announced that no longer would egalitarianism be the overriding focus, and instead China would let "some get rich first."

That new version, which was in effect an about-face from its Mao-era meaning, was laid out clearly in 1979, just months after Deng had announced an end to the closed economic practices of the Mao era, including the dismantling of collective farming. "What was originally intended to guide commune members down a road to 'common prosperity,' in the end made a rich team poor, and then poorer and poorer," said an article in the *People's Daily* in early 1979. "Our Party's leading of the peasants along the path of socialism is about 'making all rural people achieve common prosperity,' " the *People's Daily* said in a separate piece later that year. "Allowing some peasants to get rich first is a practical policy to achieve common prosperity."

The phrase seemingly lost popularity in the years that followed before it once again surged back into China's political discourse; over the last year, headlines mentioning common prosperity in the party paper went from zero a little over a year ago, to already dozens so far in 2021. By the time Xi used the term in a high-profile speech to many of China's top leaders on August 17, it was clear that it had become the descriptor of the new form of economic policymaking now emerging.[7] "'Common prosperity' is the essential requirement of socialism and an important feature

3 The Editors, "China's Red New Deal: Tracking All the Different Crackdowns on Companies Going on Right Now," *SupChina*, September 9, 2021, https://supchina.com/2021/09/09/chinas-red-new-deal-a-guide-to-all-the-different-crackdowns-on-companies-going-on-right-now/.

4 Barry Naughton, "2021 Dr. Sam-Chung Hsieh Memorial Lecture Featuring Professor Barry Naughton," Stanford Libraries and the Stanford Center on China's Economy and Institutions, September 29, 2021, https://www.youtube.com/watch?v=LEabsBUUrZY.

5 Amanda Lee, "China's Economy at an 'Inflection Point' as Xi Jinping Embarks on Sweeping Regulatory Crack Down," *South China Morning Post*, August 22, 2021. https://www.scmp.com/economy/china-economy/article/3145764/chinas-economy-inflection-point-xi-jinping-embarks-sweeping.

6 David Bandurski, "A History of Common Prosperity," *China Media Project*, August 7, 2021. https://chinamediaproject.org/2021/08/27/a-history-of-common-prosperity/.

7 "习近平主持召开中央财经委员会第十次会议强调 在高质量发展中促进共同富裕 统筹做好重大金融风险防范化解工作 李克强汪洋王沪宁韩正出席" [Xi Jinping Presided over the Tenth Meeting of the Central Finance and Economics Committee].

of Chinese-style modernization,” Xi said at a meeting of the Central Committee of Finance and Economics in Beijing. “It is necessary to adhere to the people-centered development philosophy and promote common prosperity in high-quality development.”

No more letting some people get rich first?

So what constitutes “common prosperity” today? As Xi himself has said, common prosperity’s most broad and important goal is to ensure a fairer, more equal society, and its success is of paramount political importance. That belief can be seen as one key aspect of a new “principal contradiction” facing China and the party “between unbalanced and inadequate development and the people’s ever-growing needs for a better life,” as Xi put it in his speech to the Nineteenth Party Congress in October 2017.[8] Today it is also seen as essential to ensure the continued longevity of the Chinese Communist Party. “Achieving common prosperity is not just an economic issue; it’s a major political matter bearing on the party’s foundation for rule,” Xi said to officials in January.[9] “We cannot let an unbridgeable gulf appear between the rich and the poor.”

In that respect, some see it as a step away from Deng’s earlier call to “let some get rich first,” in which inequality between both people and regions was seen as a necessary step in creating an overall richer country, what some have called a Chinese version of “trickle-down” economics.[10] As China’s official news agency, Xinhua, summarized it in the August meeting presided over by Xi: reform and opening brought “both positive and negative historical experiences” to China, while allowing “some people and some regions to get rich first.” Now, however, the party’s Central Committee “has placed the gradual realization of common prosperity for all people in a more important position, [adopting] effective measures to protect and improve people’s livelihood.”[11]

Xi has long been openly critical of what he calls “historical nihilism,” or what he views as a trend among Chinese intellectuals and officials to excessively criticize the party, China’s revolutionary history, and the Mao era and its collective economy while idolizing the Deng reform era. “One cannot use the historical period following reform and opening to negate the historical period prior to reform and opening,” and vice versa, Xi told new members of the party’s central committee back in 2013.[12] In order to suppress what Xi apparently considers an unhealthy and even malevolent trend, a hotline to report those engaging in historical nihilism was set up in April of this year.[13]

While Xi’s government touts a campaign held earlier this year to end extreme poverty, wealth inequality has continued to grow at a rapid pace. Today the richest 20 percent of Chinese earn 10.2 times that of the poorest one-fifth of the population, according to China’s own statistics. In the United States, the gap is about 8.4 times, while Western Europe’s is just five, according to the Organisation for Economic Co-operation and Development.[14] Among the world’s 500 richest people, eighty-five of them are billionaires from China, second in number only to the United States, according to a Bloomberg ranking.[15] Moreover, China has thousands more billionaires and multimillionaires who are not in the top 500. Meanwhile, about half of all Chinese earn only 1,000 yuan (US$157) a month, Xi’s premier, Li Keqiang, said last year, noting that “it’s not even enough to rent a room in a medium Chinese city.”[16]

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8 “Xi: Principal Contradiction Facing Chinese Society Has Evolved in New Era,” *Xinhuanet*, October 18, 2017. http://english.www.gov.cn/news/top_news/2017/10/18/content_281475912458156.htm.

9 “学习强国”学习平台[“Learning Power” learning platform], “习近平论新发展理念”[Xi Jinping on the New Development Concept] , November 8, 2021, https://www.xuexi.cn/lgpage/detail/index.html?id=14731957454149630564&item_id=14731957454149630564.

10 Dexter Roberts, “The Myth of Chinese Capitalism,” (New York: St. Martin’s Press, Macmillian Publishers, 2020), https://us.macmillan.com/books/9781250089373; see also Eliot Chen, “The Trickle-down Economics of China’s Poverty Alleviation Drive, *The Wire China*, November 14, 2021, https://www.thewirechina.com/2021/11/14/the-trickle-down-economics-in-chinas-poverty-alleviation-drive/.

11 “习近平主持召开中央财经委员会第十次会议强调 在高质量发展中促进共同富裕 统筹做好重大金融风险防范化解工作 李克强汪洋王沪宁韩正出席” [Xi Jinping Presided over the Tenth Meeting of the Central Finance and Economics Committee].

12 Joseph Fewsmith, “Mao’s Shadow,” *China Leadership Monitor*, No. 43 (2014). https://www.hoover.org/sites/default/files/uploads/documents/CLMJF.pdf.

13 David Cowhig, “PRC: Are Your Neighbors Distorting History or Spreading Politically Incorrect Ideas Online? Report Them!,” April 10, 2021, https://gaodawei.wordpress.com/2021/04/10/prc-are-your-neighbors-distorting-history-or-spreading-politically-incorrect-ideas-online-report-them/.

14 “China’s Wide Income Gap Undercut Spending as Growth Recovers,” *Bloomberg*, January 18, 2021, https://www.bloomberg.com/news/articles/2021-01-18/china-s-strong-growth-masks-unbalanced-recovery-as-incomes-lag.

15 Janet Paskin, “What ‘Common Prosperity’ Means and Why Xi Wants It,” *Bloomberg*, September 3, 2021, https://www.bloomberg.com/news/articles/2021-09-03/what-common-prosperity-means-and-why-xi-wants-it-quicktake.

16 “Premier Li Keqiang Meets the Press: Full Transcript of Questions and Answers,” *China Daily* (Party-owned English-language newspaper), May 29, 2020. http://english.www.gov.cn/premier/news/202005/29/content_WS5ed058d2c6d0b3f0e9498f21.html.

China's Gini coefficient, a measure of inequality, has ranged from 0.462 to 0.491 from 2003 to 2017 and now is near 0.47, making it one of the most unequal societies on earth. Its leaders are concerned that a too-extreme gap will make for an unhappy populace and could even lead to social instability.[17] They often cite a World Bank prediction that when a Gini coefficient rises above 0.4 it often leads to social unrest, points out Martin Whyte, a Harvard University professor emeritus of sociology and expert on inequality in China, in an October interview with the author.[18]

Beijing knows that if a significant proportion of the population remains poor, it puts their goal of becoming a much more domestic-consumption-driven economy, one that relies on the spending power of the Chinese people, in serious jeopardy. As per Premier Li's comment: if half the population can't even afford rent, they will not be spending money on other household goods and doing their part to boost consumer spending. In part because of this reality, the proportion of China's economy made up by household spending has remained stuck around one-third for years, below a global average of about 60 percent and far lower than the 75 percent in the United States. It also means China runs the risk of getting stuck in the middle-income trap: when a country no longer can compete on low wages but fails to make the leap into a more technologically advanced rich country.

The three red lines

While the common prosperity drive aims to lift incomes so China's lower middle class can more fully participate in economic life, it also has the goal of allowing the country to break its addiction to the debt that now powers most growth. The ongoing efforts to force the real estate sector, China's most indebted industry, to begin to deleverage—a process that leapt into the world's attention when Evergrande, one of China's very largest and most indebted property companies, began to implode—is the most obvious example. That campaign clearly continues, with Beijing maintaining its "three red lines" (restrictions on how much companies can borrow and requirements to reduce debt), a policy that was adopted before the common prosperity campaign was launched in August 2020 and has set in motion the defaults China is seeing today.[19] "Taking integrated steps to punish financial corruption and prevent and control financial risks," Xinhua reported, was raised (along with "common prosperity") in the August meeting presided over by Xi as key to creating a more sustainable economy.[20]

Other than the three red lines, there is arguably a far more important trinity defining "common prosperity" and that is trying to tame the so-called three big mountains of high housing costs, pricey healthcare, and the large sums most families have paid to educate their children, all of which are seen as contributing to the wealth gap.[21] Housing in particular is seen as far too expensive in China, with apartments in Beijing, Shanghai, Guangzhou, and Shenzhen costing between 31 and 43 times the average person's yearly income; that compares to eight and nine times in San Francisco and New York City, respectively.[22] So along with the effort to reduce destabilizing debt in real estate, China's leaders are trying to stop speculation in property that has driven prices so high. Over the last five years, Xi himself has repeatedly said that housing is to be lived in, not for speculation.[23]

China's decision to ban the for-profit private tutoring business earlier this year certainly was another part of Beijing's efforts to reduce burdens on families. Many observers anticipate a crackdown on private healthcare will come too. Beyond moves against the three big mountains, Beijing also has announced new limits on the hours children can play video games. The regulation is supposed to help create a healthier life for youth, as part of an emphasis on both

17 "Figure 2.7 National Gini Index, 2003–2017," UNICEF (website), https://www.unicef.cn/en/figure-27-national-gini-index-20032017; and Clara Ferreira Marques, "Can China's Prosperity Promise Fix Real Problems?," *Bloomberg*, October 12, 2021. https://www.bloomberg.com/opinion/articles/2021-10-12/can-xi-jinping-s-common-prosperity-promise-fix-china-s-real-problems.

18 Martin Whyte, in discussion with the author, October 6, 2021.

19 "China's Three Red Lines," UBS (website), January 1, 2021. https://www.ubs.com/global/en/asset-management/insights/china/2021/china-three-red-lines.html.

20 "Xi Stresses Promoting Common Prosperity amid High-quality Development, Forestalling Major Financial Risks," *Xinhua*, August 18, 2021, http://www.xinhuanet.com/english/2021-08/18/c_1310133051.htm.

21 Dexter Roberts, "Lacking a Better Game Plan, Beijing Will Pick Off More Industries," *Nikkei Asia*, September 10, 2021, https://asia.nikkei.com/Opinion/Lacking-a-better-game-plan-Beijing-will-pick-off-more-industries.

22 Peter Santilli, "China's Evergrande Debt Crisis: Sizing Up a Big Mess," *Wall Street Journal*, October 3, 2021, https://www.wsj.com/articles/chinas-evergrande-debt-crisis-sizing-up-a-big-mess-11633253402?mod=article_inline.

23 Christian Shepherd and Stella Qiu, "China's Xi Says to Maintain Principle Property Is Not for Speculation," *Reuters*, October 17, 2017, https://www.reuters.com/article/us-china-economy-property/chinas-xi-says-to-maintain-principle-property-is-not-for-speculation-idUSKBN1CN0B5.

"material and cultural terms" in common prosperity.[24] In a move seen by many Chinese as excessively heavy-handed and of questionable value, Beijing has warned media companies not to feature celebrities that dress androgynously, bend gender norms, or as the national radio and television administration described it using a Chinese slur, are "sissy men." Rana Mitter, a professor of Chinese politics at Oxford University, told *Bloomberg News* that "the party regards the increasing inequality as potentially a real source of social disturbance. Part of the same mindset is the idea that any conspicuous difference in terms of society also needs to be removed, smoothed out, or covered over as much as possible."[25]

"Common prosperity" without question has a performative aspect. The humbling of China's fabulously wealthy famous tech entrepreneurs—seen most clearly in Beijing's treatment of Alibaba's Jack Ma—is popular among a large swathe of the Chinese population including particularly those who struggle to get by everyday. Indeed, the same meeting that brought common prosperity to the fore earlier this summer put it bluntly: China's leaders aimed to "increase the income of low-income groups, rationally regulate high incomes, [and] ban illegal incomes," suggesting to China's masses that some of the wealth held by the richest had been obtained through illicit means.

Enlarging the middle class

Ultimately, China is aiming for what Xi and others have called "an olive-shaped distribution structure with [a] large middle and small ends,"[26] (so not just fewer poor, but also fewer rich people, with the majority in the middle class). "Xi has enough political capital to make these moves against rich Chinese and I think it is politically popular," says Hong Kong University of Science and Technology's Albert Park, an economics professor, in an October interview with the author. "The government has been selling this narrative that they are getting too big for their britches."[27]

At the same time, the reining in of China's richest people and companies very publicly demonstrates the remarkable consolidation of political power by China's top leader while potentially removing any remnant opposition to Xi. That is likely to be very helpful during next fall's Twentieth Party Congress, when Xi almost certainly intends to stay on as the head of China for an unprecedented third term. "The cacophony of actions is a feature, not a bug, of Xi's Twentieth Party Congress strategy," wrote Naughton and Jude Blanchette, Freeman Chair in China Studies at the Center for International and Strategic Studies, in a recent essay. "By grabbing the policy and regulatory reins so tightly and decisively, Xi is signaling who's in charge."[28]

While it is easy to point to government actions that can be seen as falling under the broader rubric of "common prosperity," many of which are deeply disruptive, it is still difficult to identify specific policies that will help narrow inequality. Strikingly, as of yet there has been no movement to reform China's still-regressive tax system or to use other means to increase transfers to China's disadvantaged. One measure that could quickly start to narrow the wealth gap would be to impose a property tax, something China's leaders have long talked about and Xi mentioned in August in his longest speech yet on "common prosperity," recently published in party journal *Qiushi*.[29] Yet despite regular calls to tax real estate throughout the country, China has not moved beyond two tiny pilot programs that were set up in Shanghai and Chongqing a decade ago. Most observers believe a stumbling block is the resistance put up by powerful officials who own multiple apartments and do not want this reality exposed. Similarly, China does not have a capital gains tax, very likely for similar reasons: officials who do not want to admit publicly to their wealth or see it taxed.

Ironically, for a country run by a party whose best known motto is "to serve the people," Beijing also seems reluctant to use transfers or payments to struggling individuals, even in a time of crisis like the pandemic. While the United States

24 "Xi Stresses Promoting Common Prosperity amid High-quality Development, Forestalling Major Financial Risks," *Xinhua*, August 18, 2021, http://www.xinhuanet.com/english/2021-08/18/c_1310133051.htm.

25 "China Targets 'Effeminate' Men in Xi's Mounting Push for Conformity," *Bloomberg*, September 20, 2021, https://www.bloomberg.com/news/articles/2021-09-20/china-slams-effeminate-men-in-xi-s-mounting-push-for-conformity.

26 习近平[Xi Jinping], "扎实推动共同富裕," [Solidly Promoting Common Prosperity], *Qiushi*, October 15, 2021, http://www.qstheory.cn/dukan/qs/2021-10/15/c_1127959365.htm.

27 Albert Park, economics professor at Hong Kong University of Science and Technology, in discussion with the author, October 9, 2021. Park will join the Asian Development Bank as chief economist on December 15, 2021.

28 Barry Naughton and Jude Blanchette, "The Party Politics Driving Xi Jinping," *The Wire China*, October 3, 2021, https://www.thewirechina.com/2021/10/03/the-party-politics-driving-xi-jinping/.

29 习近平[Xi Jinping], "扎实推动共同富裕," [Solidly Promoting Common Prosperity].

has made huge transfers during the spread of COVID-19, including pandemic relief payments and now monthly child-care transfers, Beijing has done virtually no transfers to the needy, instead opting for tax breaks for small companies and other business-friendly policies. “Fundamentally they believe that revitalization of China requires big spending on big projects. They firmly believe that. So they don’t want to go down to the level of transfers to the poor,” says Gan Li, director of the Survey and Research Center for China Household Finance, Southwestern University of Finance and Economics, in a July 2021 interview with the author. “They are very supply side, and they also think that big projects are key to national power.”[30]

Lazy people and “welfarism”

While Xi’s August speech on “common prosperity” did mention a goal of trying to equalize the very unequal levels of social services—with much more currently spent on education, healthcare, and pensions for urbanites than rural residents—China’s leader also expressed the commonly held belief among officials that they should not provide too much. “Even if our level of development is higher in the future and finances are more abundant, we cannot set too high a goal and have excessive guarantees. We must resolutely guard against falling into the trap of supporting lazy people through ‘welfarism,’ ” Xi said.[31]

Meanwhile, the common prosperity theme appears to focus on reducing the wealth of China’s richest, even if it means cracking down on their businesses or convincing them to step down from the helm of the companies they founded, rather than find sustainable ways to lift the wealth of China’s less well-off. Along with the announcement that officials will crack down on “illegal profits,” China has also announced a campaign against tax-evading celebrities. While the punitive moves now being taken against many of China’s rich may be satisfying to regulators and many of the people of China who watch the takedowns, it isn’t clear how they can substitute for tax reforms and transfers that actually lift many people’s living standards. “Xi’s common prosperity—it seems it is more hearkening back to the Mao era—you promote equality by knocking down the rich. But leveling down is not a productive way to produce social equality,” Harvard’s Whyte says in the interview.

The spooked private sector

The crackdowns are starting to hurt the confidence of the private sector, long the most vibrant part of the economy as well as the employer of 80 percent of Chinese in the cities. The prominent founders of some of China’s best-known firms, including Ant Group, ByteDance, and Pinduoduo have stepped down from the chairmanships and CEO positions in the companies they created. As part of common prosperity’s so-called tertiary distribution, companies are supposed to contribute far more to bettering society and in particular helping reduce wealth inequality through donating money. Already Tencent, Alibaba, Meituan, Xiaomi, and others have pledged to donate close to $30 billion to social causes.[32] At the yearly Internet Forum held in the city of Wuzhen, the CEO of Weibo, China’s Twitter-like app, pledged that henceforth his company would increase spending benefiting the public good from one percent of revenues up to three percent.[33] Needless to say, this a big change from before, when tech companies always pledged to increase their long-term investments to grow their businesses, like research and development. The shift could take a toll on their productivity in the longer term and isn’t likely to be good for employment, worker wages, or the country’s overall growth.

The place of foreign investors (including US companies) in this emerging new economic order is still unclear. Separate from the common prosperity drive, overseas companies operating in China today are facing pressure to tread very carefully when it comes to issues that deal with broadly defined national pride. Companies now must be careful to avoid making statements or selling products that are perceived as unfriendly to China or risk facing blowback, including boycotts organized on social media by the often fervently patriotic public and encouraged through the state media.[34]

30 Gan Li, Director, Survey and Research Center for China Household Finance, Southwestern University of Finance and Economics, in conversation with the author, July 30, 2021.

31 Li, conversation with the author.

32 Dexter Roberts, “Lacking a better game plan, Beijing will pick off more industries,” *Nikkei Asia*, September 10, 2021. https://asia.nikkei.com/Opinion/Lacking-a-better-game-plan-Beijing-will-pick-off-more-industries

33 Shen Lu, “Decoding China’s latest World Internet Conference,” *Protocol*, September 19, 2021. https://www.protocol.com/china/wuzhen-world-internet-conference-policy-signals

34 Dexter Tiff Roberts, “How much support does the Chinese Communist Party really have?,” *New Atlanticist*, April 14, 2021. https://www.atlanticcouncil.org/blogs/new-atlanticist/how-much-support-does-the-chinese-communist-party-really-have/.

That's what happened when Daryl Morey, then-manager of the Houston Rockets, two years ago tweeted in support of protesters in Hong Kong, and much more recently when Boston Celtics player Enes Kanter called the Chinese government "genocidal" and argued Xi should not be able to host the Winter Olympics.[35] In both cases Chinese television stations and streaming services stopped broadcasting games by the two teams. Similarly, international airlines that inadvertently treated Taiwan as separate from China on their ticketing platforms, and the Swedish fashion brand H&M, which expressed concern about allegations of forced labor in Xinjiang and stopped using cotton produced in the largely Muslim region, both faced boycotts.[36]

What is clear is that in China the role of foreign companies is not perceived as important as it once was, and to be fair, in reality the country does not need capital and foreign managerial know-how to the degree it once did. China's leaders have said they are willing to accept slower economic growth in exchange for what they call "quality growth," or one not fueled by industries that are seen as putting too much of a burden on Chinese people, that lead to excessive debt, or that might weaken Beijing's control over what it sees as sensitive personal data. That means that when foreign firms are hurt in common prosperity-related crackdowns, as were many invested in private tutoring companies, Beijing isn't going to worry much; in fact, in some cases, sticking it to foreign investors can be popular in China, and its leaders know that.[37]

Where Beijing does want the help of foreign firms, as with the financial industry, it has taken pains to reassure them that they are still valued. So after Beijing's tech company crackdowns led to a stock market rout with $1.5 trillion in value wiped out, the China Security Regulatory Commission's vice chairman, reformist official Fang Xinghai, met with top executives from Goldman Sachs, Citadel, BlackRock, and other financial firms. He told them the ban on private tutoring and restrictions on the hours children can play video games were both necessary to lessen social anxiety, while other moves were aimed to combat monopolies and better control data security, not crush private companies.[38]

A similar tack was taken after concerns flared that China was trending toward something akin to the closed economic system of its Maoist past, following a commentary widely picked up in the state media, including in party paper *People's Daily*, which described Xi's crackdown as a "profound revolution"; and observed that "the capital market will no longer become a paradise for capitalists to get rich overnight" and "all those who block this people-centered change will be discarded."[39] Shortly after it was published, China struck a reassuring note with a front-page editorial, also in the *People's Daily*, which stated that China has no intention of turning its back on its successful reform and opening of its economy.[40] China also sent out Liu He, the reformist aide to Xi, to make the same point. "The principles and policies for supporting the development of the private economy have not changed," he said in September in a video speech for an expo in Hebei province.[41] "They don't change now, and will not change in the future."[42]

Still, there is little reason to believe China's top officials have decided to abandon the goals or policies associated with "common prosperity," or to step away from the profound economic shift they now are pushing, one defined by a much more powerful party managing both economy and society. China's leaders led by Xi have decided their coun-

35 *Reuters*, "China Asked NBA to Fire Houston's Morey, Commissioner Says: We Said 'No Chance,' " *NBC News*, October 18, 2019, https://www.nbcnews.com/news/sports/china-asked-nba-fire-houston-s-morey-adam-silver-says-n1068521; and Minyvonne Burke, "Celtics' Enes Kanter Calls Chinese President Xi Jinping an 'Insecure Tyrant,' Wants Beijing Olympics Moved," *NBC News*, October 30, 2021, https://www.nbcnews.com/pop-culture/pop-culture-news/celtics-enes-kanter-calls-chinese-president-xi-jinping-insecure-tyrant-n1282787.

36 Daniel Shane, US Airlines Give In to China's Demands over Taiwan," *CNN*, July 25, 2018, https://money.cnn.com/2018/07/25/news/companies/taiwan-china-airlines/index.html; and Robin Brant, "Nike, H&M Face China Fury over Xinjiang Cotton 'Concerns,' " Analysis, *BBC News*, March 25, 2021. https://www.bbc.com/news/world-asia-china-56519411.

37 Dexter Roberts, "Lacking a Better Game Plan, Beijing Will Pick Off More Industries," *Nikkei Asia*, September 10, 2021, https://asia.nikkei.com/Opinion/Lacking-a-better-game-plan-Beijing-will-pick-off-more-industries.

38 Sridhar Natarajan and Coco Liu, "China Defends Tech Crackdown in Meeting With Wall Street Chiefs," *Bloomberg*, September 18, 2021, https://www.bloomberg.com/news/articles/2021-09-18/china-defends-tech-crackdown-in-meeting-with-wall-street-chiefs.

39 李光满[Li Guang Man], "每个人都能感受到，一场深刻的变革正在进行！", [Everyone Feels the Great Profound Changes Underway], *China Youth Daily*, August 29, 2021, http://m.cyol.com/gb/articles/2021-08/29/content_J7n6YUZyw.html.

40 本报评论员 [Commentary], "坚持监管规范和促进发展两手并重、两手都要硬," [Adhere to Regulatory Norms and Promote Development with Equal Emphasis on Bboth], 人民网 [*People's Daily Online*], September 8, 2021, http://cpc.people.com.cn/n1/2021/0908/c64387-32220920.html.

41 Bloomberg News, "China's Vice Premier Liu Reassures Businesses amid Crackdowns," *Bloomberg*, September 5, 2021, https://www.bloomberg.com/news/articles/2021-09-06/china-s-vice-premier-liu-reassures-businesses-amid-crackdowns.

42 Bloomberg News, "China's Vice Premier Liu Reassures."

try has reached a stage in its development where the turbo-charged years of growth of the last decades should be replaced with one that, at least in official policy statements, is much more focused on equity. "Common prosperity" also is inextricably tied up in the party's goal to "build a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious" by 2049, the centennial of the People's Republic of China.[43] In addition, it is supposed to help China in building soft power and presenting a China model that might be appealing to other countries around the world. China will "provide a completely new choice for other developing countries to promote common prosperity and achieve modernization," wrote Xie Fuzhan, president and party secretary of the Chinese Academy of Social Sciences in a recent article in the *People's Daily*.[44]

Well beyond Xi's likely third term in office, China's leader seems intent on driving forward a new economic policy, now defined as "common prosperity," which will define a new "Xi era" and help launch him into the leadership pantheon. "The scale of Xi's ambition has long been clear: he wants to be the peer of Mao and Deng," writes Andrew Batson, China research director at Gavekal Dragonomics. "And that means setting the fundamental direction for the Party and the nation in the same way they did."[45]

Policy implications and recommendations for the US government

China's new era of politically led economic development has policy implications beyond its borders. For Washington, the challenges and opportunities include:

- **Retaining Chinese listings:** As required by the 2020 Holding Foreign Companies Accountable Act, Chinese companies will be required to open their financial accounts to the Public Company Accounting Oversight Board (PCAOB) within three years or be delisted from US exchanges.[46] Under pressure from Chinese regulators, ride-hailing giant Didi Global announced on December 2 that it will delist from New York and list in Hong Kong, just five months after going public.[47] It is not in the interests of the United States for these listings to end because it would mean severing one remaining avenue for contacts between US regulators, exchanges, and Chinese private companies, particularly when the firms are facing growing pressures from the Chinese Communist Party at home. Delisting would also boost China's soft power as it pushes to present its own exchanges as alternatives to those in the United States. The US Securities and Exchange Commission should try to use the leverage of the three-year deadline, plus the continuing appeal of US stock exchanges globally, to convince the China Securities Regulatory Commission to allow auditing of Chinese company books.

- **Monitoring to US financial organizations in China:** The US government should more closely monitor American investment banks and funds that are expanding their businesses in China. This will allow US regulators to better understand the pressures they face when dealing with regulators in Beijing who increasingly see them as tools and potential allies in building up China's financial system at the expense of the United States, and to better ensure their China operations do not hurt US key economic and financial interests.

- **Encouraging contacts with Chinese companies and entrepreneurs:** Even with a consensus in Washington for far stricter oversight of Chinese companies and in some quarters advocacy for outright economic decoupling, the United States should try to encourage continuing contacts with prominent Chinese business leaders and entrepreneurs who do not present a threat to US national security. One simple way to do this is to lift existing visa barriers and facilitate travel for those who wish to travel to the United States, including for business.

- **Supporting US civil society groups in China:** Washington should be aware of the increasingly difficult and unfriendly environment facing American civil society or nongovernmental organizations operating in China and

43 "CPC Q&A: What Are China's Two Centennial Goals and Why Do They Matter?," *Xinhuane*t, October 17, 2021, http://www.xinhuanet.com/english/2017-10/17/c_136686770.htm.

44 Neil Thomas and Michael Hirson, "CCP Suggests Common Prosperity Agenda Will Be Central and Could Affect Foreign Policy," *AsiaFinancial*, October 13, 2021, https://www.asiafinancial.com/ccp-suggests-common-prosperity-agenda-will-be-central-and-could-affect-foreign-policy.

45 Andrew Baston, "Mobilization and Modules: What's Changing in China," *Eponymous Blog*, October 13, 2021. https://andrewbatson.com/2021/10/13/mobilization-and-modules-whats-changing-in-china/.

46 Michael Scanlon et al., "PCAOB Adopts Final Rule on the Holding Foreign Companies Accountable Act," *Securities Regulation and Corporation Governance Monitor*, Gibson, Dunn, and Crutcher LLP, September 29, 2021, https://www.securitiesregulationmonitor.com/Lists/Posts/Post.aspx?ID=448.

47 Coco Liu, Dong Cao, Claire Che, Cathy Chan, Jeanny Yu, Mengchen Lu, and John Cheng, "Didi Sends Warning to China Investors Who Bet Worst Was Over," *Bloomberg News*, December 5, 2021. https://www.bloomberg.com/news/articles/2021-12-05/didi-sends-warning-to-china-investors-who-thought-worst-was-over.

see if there are ways to support them. Through their work with grassroots Chinese associations, such organizations have an important window into society in China as it faces more tensions with growing inequality and a slowing economy.

- **Funding China-related scholarship:** The US government should fund more programs and scholarships for American students of all ages to study Chinese languages in the United States, China, and Taiwan. Given the pressures facing such programs in China—Harvard, for example, recently announced it is moving its summer Chinese program from Beijing to Taipei, given what it called an unfriendly environment at its partner university—the United States may need to focus more on Taiwan-based programs going forward. The United States should also support university-level studies in Chinese politics and the Chinese economy at US institutions.

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