



By Patrick Fearon-Hernandez, CFA

February 23, 2026

The Great Chinese Purge

One defining feature of the world today is the large share of the global population living under political systems that are authoritarian or moving in that direction. With 1.405 billion people, or about 18% of the global population total, China is the best example of that. Still, we suspect that many people in the West don't appreciate how authoritarian the country is or how this structure can affect investment prospects both within China and around the world. After all, the end of the Cold War in 1991 allowed many in the West to adopt the pleasant notion that Communist dictatorship was a thing of the past. The great Chinese economic opening and reform program of the last four decades also helped obscure what was happening on the ground from Tibet to Hong Kong.

Now, under General Secretary Xi, a long program of purges in the Chinese military and defense industry has come to a head, driving home just how authoritarian the country has become again. In this report, we examine the purges and their potentially large implications for whether China launches a military seizure of Taiwan and discuss the likelihood that China can remain stable in the event that Xi dies or is incapacitated. As always, we wrap up with a discussion of the ramifications for investors.

Xi's Long Decapitation Strike

Many in the West are familiar with the tale of how General Secretary Xi launched a

broad series of corruption probes shortly after he took power in 2012, eventually firing hundreds of party and government officials. Until a couple of years ago, it appeared that this initial purge had run its course, that Xi was now focused on the business of governing, and that such mass personnel upheavals were finished. However, in mid-2023, Xi launched a new round of firings centered on the People's Liberation Army (China's military). It has also touched the defense industry and related foreign affairs organizations.

First reported in July 2023, [the initial wave of investigations and arrests focused on the PLA Rocket Force \(PLARF\)](#). Reports at the time said dozens of PLARF officers and other officials [were detained for what was apparently graft in the procurement of major weapons systems and related equipment](#). At least nine generals were removed from their positions in the national legislature, and [more than 200 military contractors were banned from doing further work for the PLA](#). One major issue was that PLARF officials were apparently paid off to accept substandard or malfunctioning weapons and equipment. As a result, one report said some of the doors on China's new silos for intercontinental ballistic missiles would not open or close properly. In 2024, similar issues [apparently tripped up a vice admiral whose duties had included equipment evaluations for the PLA Navy \(PLAN\)](#). The PLAN's chief of staff and several defense industry officials were also deposed or arrested at the time. In total, reports suggest that hundreds of military personnel, officers,

and other officials were fired and punished in this wave of the purge.

In the same period, reports said leaders in the foreign and defense ministries were also arrested, prosecuted, and punished. For example, Foreign Minister Qin Gang, once one of Xi's most trusted aides, [was ousted from his role and from the National People's Congress, allegedly for having an extramarital affair during an earlier stint as China's ambassador to the United States](#). In late 2025, senior diplomat Liu Jianchao [was ousted for corruption and "party discipline" reasons](#), despite being seen previously as a potential future foreign minister.

As bad as those cases were, they pale against the spate of scandals and ousters in the Central Military Commission (CMC), the key body chaired by Xi himself that is the ultimate authority over the armed forces. The key purges in the CMC have been as follows:

- In late 2024, political chief Gen. Miao Hua [was put under investigation, suspended, and eventually fired from his CMC post and the national legislature for "legal" issues](#). As part of his duties, Miao had been responsible for enforcing party ideology and managing personnel changes within the military.
- In late 2025, Gen. He Weidong, a Politburo member and the CMC's 2nd vice chairman, [was fired from the military and the Communist Party of China \(CPC\) over a corruption investigation](#). Gen. He's toppling was especially notable because he had been the second-ranking officer in the entire PLA. The announcement of He's firing also mentioned nine other high-ranking officers under investigation, eight of whom were on the CPC's powerful Central Committee.

- Finally, in late January 2026, state media reported that Politburo member and CMC 1st Vice Chairman Gen. Zhang Youxia [had been put under investigation and removed, along with Chief of the Joint Staff Gen. Liu Zhenli, for "serious violations of discipline and law."](#) As 1st vice chairman of the CMC, Gen. Zhang was China's highest-ranking military officer. Importantly, he was also one of the few top officers left in the PLA with combat experience, which was gained in the 1979 war with Vietnam. Reports at the time said party officials had [informed other high-ranking military officers that Gen. Zhang was suspected of selling secrets about China's nuclear weapons arsenal to the US](#), but if it really happened, we suspect it was a trumped up charge to totally discredit him.

Figure 1



Xi's purges against the Central Military Commission. (Source: ChinaPower.com)

What Does This Say About the PLA?

Ever since these investigations, allegations, and firings began, Western analysts have struggled to understand what is really going on. Since the Chinese government and the

CPC are infamously opaque, we can't assume that the government's official explanations are accurate. Any accusations or official findings from these probes could well be aimed at the domestic or foreign audience to send a warning, to enforce a political message, or to confuse foreign intelligence analysts. Western observers therefore have offered multiple explanations of what is happening.

For example, some observers have claimed the purges are strictly political and stem from General Secretary Xi's fear of opponents gaining too much power and becoming disloyal. One version of this narrative is that Xi sees the armed forces as too conservative and risk-averse, so he is systematically replacing officers with personnel that he sees as more aggressive. However, if this were the case, it seems like Xi would have started his purges at the very top, in the CMC, rather than in lower-level units such as the PLARF procurement organization.

An alternative explanation focuses on the widespread corruption in the PLA. Multiple reports indicate China's armed forces are rife with graft. Not only do procurement officials often demand bribes from defense contractors, but officers demand bribes to promote their subordinates. The latter type of bribery reportedly extends from the lowest ranks to the highest, forcing every officer to demand bribes from those below him so he can afford to bribe his superiors to promote him. This pervasive system could explain why the purges began in the PLARF procurement area: If the bribes there really did lead to the malfunctioning of major weapons systems, the negative impact on readiness couldn't be ignored. The initial focus on relatively lower-level personnel might have simply reflected the fact that higher-level officers had more skill and

ability to hide their activities, at least until the lower-level detainees "spilled the beans" on them.

As successive purges revealed more and more corruption at higher and higher levels, it may well have been that the potential risk to military readiness and effectiveness became more apparent. At the same time, as the scale of the corruption became clearer, Xi likely would have sensed that many high-level officers were building powerful loyalty networks that might undermine Xi's authority. In such a case, Xi would have been expected to address the problem aggressively, as he has done.

What Does This Mean for the Future?

The virtual decapitation of China's military leadership will obviously have an impact on the country's future development. In this section, we focus on two particular issues: the likelihood of a Chinese attempt to take control of Taiwan and the outlook for broader political stability in China.

Taiwan Contingency. General Secretary Xi and other top Chinese officials consistently insist that Taiwan is rightfully a part of China and that they will take control of the island at some point, by force if necessary. The US formally recognizes China's right to Taiwan, but since a Chinese takeover of the island would threaten Western access to Taiwan's advanced semiconductor plants and the shipping lanes of the Indo-Pacific region, any Chinese effort to seize the island by force would risk a devastating war between China and a US-led alliance that would likely include Japan, South Korea, the Philippines, and perhaps other countries.

- On one level, the loss of top Chinese military officers might deter Xi from attacking Taiwan in the near term. After all, the loss of such senior, capable top officers may make Xi less confident that the remaining officer corps is up to the

task of a major assault. In other words, the purges may preclude an effort to seize Taiwan in the near term. We think this is the most likely scenario. If so, it would suggest that Xi must now take time to nominate new top-level officers, get them up to speed with their duties, and wait for them to demonstrate sufficient skill and loyalty before launching an effort to take Taiwan. This scenario would likely allow for a continuation of today's geopolitical, economic, and financial market trends in the region.

- On the other hand, if it's true that many of the purged military leaders were overly cautious and risk-averse, purging them may have left Xi with a freer hand to launch an operation against the island. The result could be a devastating war that damages sentiment and real economic activity throughout the region and perhaps globally. Such a scenario could lead to devastating losses for stock, bond, and commodity investors.

Chinese Political Stability. More broadly, we think another key issue is that Xi's civilian and military purges have left Chinese political power precariously concentrated in him personally. From our perspective, there is no obvious, generally recognized successor to Xi. This is dangerous because Xi's age is relatively advanced (he is currently 72 years old). A sudden health issue could lead to his death or resignation, so the lack of a clear successor would raise the risk of various rivals duking it out to gain power, perhaps even leading to a civil war that could severely damage China's economy and financial markets.

Investment Implications

In sum, we think Xi's recent military purges have implications for investors mostly related to the probability of a Chinese effort to seize Taiwan by force and the risk of civil conflict in the event of Xi's death or incapacity. Xi has undoubtedly shown an aggressive, or even reckless, side in initiatives such as building artificial islets in the South China Sea and turning them into military bases, thereby signaling his long-term designs to Western leaders. However, he has also shown some level of restraint thus far. Now that Xi sits at the very top of China's military command with almost no high-ranking military official to deter him, Xi could well order a blockade or other strategy to take Taiwan by force. That would risk war with the United States, Japan, and other allies and probably lead to significant economic damage to all involved. Naturally, such a scenario would be ***negative for global risk assets but positive for gold, silver, and other safe-haven assets.***

Over the longer term, the risk is that Xi's sudden departure from power for health or other reasons could spark sharp conflict between various Chinese political factions or even between specific regions and provinces. Such a scenario would likely be contained strictly within China, but like the Taiwan situation, it could lead to actual civil war and the physical destruction of Chinese factories or other important economic facilities and infrastructure. This outcome would likely be ***especially bad for Chinese stocks, but it could also have ripple effects for foreign companies selling or producing in China.*** The impact could be particularly negative for commodity producers selling into China.

Patrick Fearon-Hernandez, CFA
February 23, 2026

This report was prepared by Patrick Fearon-Hernandez of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics, and geopolitical analysis with a value-driven, company-specific approach. The firm's portfolio management philosophy begins by assessing risk and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.