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BREAKING THE BUREAUCRATIC BLOCKS TO CHINA'S DEVELOPMENT: COMMENTS ON THE THIRD PLENUM OF THE 18TH CENTRAL COMMITTEE

by David Zweig



About The Author

David Zweig is Chair Professor of Social Science, Associate Dean of the School for Humanities and Social Science (SHSS), and Director of the Center on Environment, Energy, and Resource Policy at The Hong Kong University of Science and Technology. Dr. Zweig is also Associate Director of the South China Global Talent Institute with the Centre for China and Globalization since 2012 and a Senior Fellow at the Asia Pacific Foundation of Canada. He obtained his Ph.D. in political science from the University of Michigan in 1983.

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When the Chinese Communist Party (CCP) concluded the Third Plenum of the 18th Central Committee on November 12, 2013, the initial responses were quite critical. At first, the CCP's public statement about the Plenum, which is supposed to provide a blueprint for official policy for the coming decade, seemed to fall short of expectations. However, the "Explanatory Notes" subsequently released by President Xi Jinping in fact reveal a comprehensive plan for restructuring and breaking with the past. For example, according to the document, the market will now be the decisive force in the allocation of capital, land, labour and natural resources in China's national economy. And even more historic is the proposed land reform, specifically, breaking local governments' control over land and slowing the large-scale land confiscation that has been underway since the late 1990s. Whether political reform emerges from the Plenum, however, is less certain. The resulting document says little in terms of elections, freedom of the press, and civil society expansion. But other measures curb the predatory behavior of the local state, and changes in the anti-corruption campaign should enhance the Party's ability to prosecute local officials.

Introduction

On November 12, 2013, the Chinese Communist Party concluded the Third Plenum of the 18th Central Committee, a high-level convening of top officials and a chance to present a blueprint for the country for the coming decade. The initial responses to the blueprint, in the form of a 5,000-word communiqué were quite critical, as the first public statement after the Third Plenum was anything but historic; it certainly was not "unprecedented," as predicted by Yu Zhengsheng, the fourth-ranking member of the Politburo Standing Committee, just a few days before the meeting.¹ After the announcement, stock markets in China and Hong Kong sent their message, helping savvy political leaders in Beijing understand the public opinion disaster that was looming. So President Xi Jinping posted "Explanatory Notes" to the declaration three days after the closing of the session, making it very clear that most problems Hu Jintao and Wen Jiabao had swept under the carpet for 10 years were not just on the agenda, but would be dealt with directly, breaking the roadblocks to future economic development on a massive scale.² The original 5,000-word document was just "the preface to a cookbook," while the Explanatory Notes contained the ingredients for making all the dishes that were to be served.

People should not have been surprised. After all, the wording of the historic document put out after the Third Plenum of the 11th Central Committee in December 1978 was vague. It had only mentioned that China would "open to the outside world," yet the 1980s was the beginning of China's export-led development that has driven economic growth until today.

The scope of the plan is remarkable. When has a country put forward such a comprehensive plan for restructuring and breaking with the past, and publicly recognized that a strategy that has led to unprecedented growth for 35 years is no longer sustainable? Politicians vying for public office in Western democracies rarely present such sweeping proposals; perhaps the last time was Franklin Roosevelt's New Deal, which transformed the US for decades. No doubt, for many critics, the scale of the changes, which could only be carried out by a Leninist party with long-term planning

capabilities, reflects aspects of the Chinese system that may not be laudatory. Nevertheless, dramatic change in the world's second-largest economy has global implications, regardless of how they are implemented.

Conceptualizing the Chinese Economy

The Chinese system has a series of protected sectors, defended by administrators who determine what goods, resources and types of enterprises can and cannot enter particular sectors of the economy. This lack of competition means that those who can access those sectors can extract higher profits or personal benefits unavailable to those left out. In essence, there are many bird cages in China into which potential competitors cannot fly. For example, many State-owned enterprises (SOEs) are protected from the private sector through monopolies that grant them access to inflated prices in highly profitable sectors of the economy. Rural people have been cut off from the modern world of China's cities for decades, missing out on its privileges, such as better schools for their children (and the upward mobility that comes with better education), more comprehensive and higher-quality health care, food subsidies and opportunities for higher incomes. Important sectors of the domestic economy remain protected from external competition, particularly in the lucrative worlds of insurance, finance, banking, and other aspects of the service sector, where Western firms have comparative advantage and which are grossly undeveloped in the Chinese economy. Even within the academic and scientific community, most funding for research moves through administrative channels that still favour those connected to bureaucrats, and there is still considerable resistance to allowing most research money from being allocated on a truly competitive, peer-reviewed basis, as is the case in the West. It comes as no surprise, then, that the most talented Mainland academics remain overseas where their talent guarantees competitive access to large research grants.

So it is with almost all sectors of the economy. One could even argue that the political monopoly of the Chinese Communist Party (CCP) allows officials favoured access to the business deals that earn millions of renminbi (RMB)³; you must be part of an inner circle of party politicians,

politically powerful families, or strategically positioned bureaucrats to be able to extract significant profits from the national economy. Yet, all these boundaries are protected by bureaucrats who defend the current system, who often impose local ad hoc regulations, and who, themselves, reap benefits—what political economists call “rents”—for letting some people or resources cross these administrative boundaries and gain access to these higher prices and wealth-earning activities.

Enhancing the Role of the Market

Xi Jinping recognized that the key transition must be to deepen the role of the market. In his Notes, he recognized that since the 14th Party Congress, when China declared the establishment of a “socialist market economy,” the market has been the “basis” (*jichu*) of the Chinese economy, while the public sector and the state have been the “decisive force” (*jueding xing*). Every Party Congress since then, including the 18th Party Congress in fall 2013, reconfirmed that view. Where this document broke historic ground was its decision that henceforth, the market would be the “decisive” force in the allocation of all factors (capital, land, labour, and natural resources) in the national economy, while the state would be responsible for maintaining macro-economy stability, much as in Western market economies.



Xi Jinping

Source: U.S. Department of Defense

Hence, the main goal of the Third Plenum is to break the bonds that have constrained the flow of people, goods and services - what Xi calls the “distribution of resources” (*ziyuan*

fenpei) - across institutional boundaries by establishing the dominance of the market economy and taking the government out of the business of the nation. In this way, the market’s major contribution, increasing the efficient allocation of resources, will emerge, contributing not only to renewed growth, but also to a fairer distribution of wealth and social benefits.

Urban-rural Relations

Perhaps the most historic change will occur in urban-rural relations. The proposed Land Reform is a radical transformation of urban-rural relations set in stone in 1953, 60 years ago, which imposed a semi-apartheid status⁴ on rural Chinese and kept them out of the urban, modernized, and wealthier sector of the economy. Even the land over which they were given contract rights after decollectivization in the late 1970s and early 1980s was controlled by local officials who basically bought it from peasants at rock-bottom prices and then resold it to developers at much higher real market prices. For much of the last 20 years, after Zhu Rongji’s tax reform of 1994 recentralized much of the national tax into the hands of Beijing, the local state has relied extensively on the sale of rural land—the privatization of one of the last public goods available in China—to fund both positive projects, such as building roads and schools, and wasteful extravagance on new government offices, a bloated local civil service, new cars, and “big eating and drinking” (*da chi da he*).

These two separate worlds and this dual urban-rural economy will be replaced by a single market which will dismantle much of the administration system that underpins the hated “*hukou*” system.⁵ And while rural migration into large cities will remain limited, most rural-urban migration of the past 30 years has been into small- and medium-sized cities not far from villagers’ homes.

The problem of rural land confiscation is immense, so if the CCP breaks these bonds, the changes will be historic. Allowing peasants to have stronger land rights under the contract system (though still not full private ownership), will allow villagers to use land as collateral for opening businesses in the countryside or in the smaller cities. It will endow them with funds for the difficult transition into the urban economy. For years, Landesa, an NGO that speaks for the rights of rural residents, has argued that full marketization of rural land in China will make two trillion RMB of wealth available to farmers which they can pour into the national economy. Clearly the CCP leadership was listening and now their theory will be tested.

Breaking the local governments’ control over land, and slowing the massive land confiscation that has been underway since the late 1990s, will improve stability, a major concern of CCP leaders, and resolve the major source of social unrest in China. Current estimates are that 50% of the 200,000 mass demonstrations that take place annually in China are triggered by land disputes.

Establishing Socialism in China

For decades, the Chinese government has sought an effective formula to fund social welfare programs, particularly pensions, health and unemployment insurance for urban residents. Deng's China was, in essence, a "communist" country (i.e., led by a Communist Party) without "socialism." The biggest source of insecurity for most Chinese is that if a family member gets very sick, the family will sink into bankruptcy. According to Steven Roach, the Chinese government has less than US\$600 per person to fund the retirement of the current work force.⁶ But now the state plans to extract 30% of SOE profits to fund a large-scale welfare system. Also mentioned in the 5,000-word document but not in Xi's comments, is that the pharmaceutical sector will be a target of reform, as hospitals still supply 60% of all prescription medicine in China from which they earn enormous profits. Most Chinese despise hospitals and their administrators whom they see as getting rich on the ills of China's citizenry.

The introduction of a comprehensive social welfare system has immense policy implications for the transition from an export-dependent economy to a consumption-led one. Only if Chinese people no longer deem it imperative to save for the unfortunate days when they fall ill or retire will they be willing to spend their wealth on consumer products.

Controlling the Housing Sector

The long-awaited property tax could end the property bubble and cut housing prices. Because developers pay no tax for holding apartments, they price them high in anticipation that potential buyers will eventually meet their terms. Most citizens, however, cannot afford these apartments, so the properties remain unoccupied. A property tax, which would force developers and speculators to pay taxes annually for apartments they own, will pressure them to sell them quickly at reasonable market rates.

But there is enormous resistance to this policy within the CCP, as urban property has become a major source of wealth for people in preferred political positions. Property developers pay off local government officials for access to the land by giving them new flats. According to one English banker who in 2010 spent 30 days travelling around China to assess if the property market was a bubble, every official he interviewed admitted to owning at least two apartments, while some confessed to having as many as 15.

No Political reform? It all depends on how you define it

Whether one sees this plenum heralding political reform depends on how one defines the term. If we see it as the establishment of democratic institutions, such as elections, the expansion of civil society or freedom of the press, there is no "democratic reform" here.⁷ The best Xi offered was expanding "consultative democracy" (*xieshang minzhu*),

based on Mao's concept of the "mass line," though he claims that this idea of "deepening reforms" (*shenhua gaige*) reflects the voice of society. Even in his effort to limit the power of rural officials he did not refer to "village elections" which have been underway in China for 25 years.

Nevertheless, the Plenum calls for an enormous amount of political change. Local governments are to be weakened through various measures, including separating them from the local courts. So long as judicial officials were hired and paid by local party committees at the county level and above, they owed political allegiance to their paymasters. But this document actually uses the term "judicial independence."⁸ Going forward, judges will be appointed and paid from above, delinking them from the local state whose predatory behaviour was often protected by the courts.

Giving peasants stronger property rights over the land improves their political rights in no uncertain terms. And weakening the power of the government to control legal outcomes at the local level will enhance that right. Significantly, ending "administrative detention" will prevent local officials from locking up people who protest against their egregious behaviour.

Finally, changes in the anti-corruption campaign will greatly enhance the CCP's ability to prosecute local officials. Local Discipline Inspection Committees (DICs) will now report first to their direct superiors in the Discipline Inspection system before sharing their findings with the local governments they are investigating. Also, the upper-level DIC will participate in hiring the lower level DIC party secretary and vice secretary, enhancing information exchanges. Upper-level DICs are far more likely to prosecute local government misdeeds, while lower-level DIC party secretaries are likely to speak frankly to the person who hired them. All of this reflects the shift of authority over prosecuting corruption from the Organization Department of the CCP to the Discipline Inspection system, which is currently underway in Beijing.



The Great Hall of the People in Beijing, China
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How did Xi Jinping do it?

Xi Jinping, in power in China for only one year, and endowed with what clearly seemed to be a rather conservative Politburo Standing Committee, should not have been able to introduce such a radical reform program. Jiang Zemin, who was became General Secretary of the CCP in June 1989, waited until 1997-98 to introduce the reform package he designed with his prime minister, Zhu Rongji. At that point, his predecessor Deng Xiaoping was dead and Jiang had packed the Politburo Standing Committee with his Shanghai allies. He had also forced several powerful leaders, including Qiao Shi, Li Peng and Li Ruihuan, to retire. Hu Jintao and his Young Communist League faction never actually dominated the Politburo Standing Committee. Even at the 17th Party Congress, after Hu had held the top party and state positions for five years, Jiang's Shanghai buddies still formed the core of the PB-SC. Right after the 18th Party Congress, it seemed likely to take at least three, if not five, years for Xi to consolidate his power sufficiently to introduce a major reform program.⁹

So something changed. Was there simply a greater recognition among the older members of the PB-SC—Zhang Dejiang, Liu Yunshan, Zhang Gaoli and Yu Zhengsheng—that China faced a crisis of major proportions that could end CCP rule? As mentioned above, on October 26, two weeks before the meeting, Yu himself had announced that China was on the verge of “unprecedented” reforms. In 2007, Wen Jiabao had described China's current development model as unsustainable; maybe they realized that he was right.



Wen Jiabao

Source: kremlin.ru

Xi has also proved to be a very adept leader on numerous fronts. A new leader can pressure his political challengers if they believe that if they don't cooperate, he will “take them out.” Jiang Zemin's arrest of Beijing Party Secretary Chen Xitong in 1995 greatly enhanced his authority, while Hu Jintao's arrest of Chen Lianyu, Party Secretary of Shanghai, also briefly enhanced his power, though he still failed to dominate the political scene.

And while Xi has not caught any really big fish yet, he has cut off the legs of the most powerful leader of the previous PB-SC, Zhou Yongkang, who might have tried to influence future policy. First, Xi was gifted aspiring leader Bo Xilai's head on a plate, preventing Bo from challenging Xi's leadership in its early days. More importantly, the arrest of Jiang Jiemin, director of the State Assets Supervision and Administration Commission (SASAC), which owns the SOEs and defends their interests, proved that Xi could purge his potential opponents from his program, much as presidents Jiang and Hu had done. Moreover, the anti-corruption campaign, run by his ally Wang Qishan, has strengthened Xi's hand, since almost every leader in China has skeletons in their closet.

The attack on Zhou Yongkang is reminiscent of an earlier confrontation between Deng Xiaoping and Yu Qiuli in 1979-80. Yu Qiuli, then Chair of the all-powerful State Planning Commission and a Vice-Premier of the State Council, had risen to power from the Daqing oil field, along with 10-20 engineers from that historic site. From the 1950s on, they had risen first within the oil industry and then branched out, taking on important positions in the provinces, in ministries, state enterprises and in national level CCP organization controlling the state economy. Other factional members included Vice Premier Kang Shi'en and the Minister of Petroleum Song Zhengming. They were part of a conservative faction, led by Chen Yun, which opposed the SEZ policy and other emerging reforms of the early 1980s.

In this case, the oil faction had tried to cover up their responsibility—what became labeled as “bureaucratism” (*guanliao zhuyi*)—for a major calamity in the Bohai Gulf on 25 November 1979, when an imported oil rig flipped, killing 72 of the 74 employees working on the platform. The ministry had declared the accident a new example of the heroic contributions of oil workers to national development. But, in May-June 1980, Bo Yibo (Bo Xilai's father) and Wan Li, two supporters of Deng, called for investigations into the accident that eventually led to the oil faction's collapse.¹⁰

The group around Zhou Yongkang fits the same pattern. Beginning in Shengli Oil Field, they moved up through the energy sector to take over significant positions in state security, the bureaucracy governing public sector industries, and in the city of Chongqing. According to reliable reports, since the 18th Party Congress, 13 officials at the rank of provincial officials and above (not including Bo Xilai) have lost their jobs for corruption, many of whom have strong ties to Zhou Yongkang. At the time of writing, rumours are circulating that he is already under house arrest.¹¹

In the buildup to the Third Plenum, Xi showed himself to be a very smart politician, who understands the history of the reform era and knows the dilemma of balancing the two key strategies raised by Deng in the early reform era, “*openness and reform*” and the “*four cardinal principles*.” While “*openness and reform*” calls for “emancipating minds,” “seeking truth from facts,” linking to the outside world, and taking risks in the policy realm, the “*four cardinal principles*” - dictatorship of the proletariat, the socialist road, Marxism-Leninism-Mao Thought, and the Leadership of the Communist Party - impose severe constraints on policy innovation, popular participation, support for the private sector, and political change. The two, therefore, are inherently contradictory. In the 1980s, two liberal CCP leaders, Hu Yaobang and Zhao Ziyang, both lost power as they leaned too far to “opening and reform” and tried to institute political change, while Hu Jintao failed due to an overemphasized the “dictatorship of the proletariat,” generally ignoring “reform and opening.” The only leader since Deng who balanced this conundrum was Jiang Zemin who, before his reform wave of 1997-98, was careful to “signal left” in 1995-96 before turning sharply to

the right in 1997-98. So, even if Xi believes in the need for institutionalizing democratic procedures—something which we simply do not know—he could not have demonstrated any tendency towards democratic reform and still maintain support for his leadership and the current round of reform among the elders and leftists.

Apparently, the buildup to the Third Plenum began in April 2013, right after the National People’s Congress endowed the job of Premier on Li Keqiang, allowing him to build a solid base for reform within the State Council. Many members of his new cabinet had studied abroad, or clearly understood how things worked overseas.¹² Similarly, the Leadership Small Group on Economics and Finance was given an office director with a foreign PhD in Economics. Soon after, on April 20, 2013, the CCP put out a document on “consulting opinions on the problem of totally deepening reform,” which no doubt showed the central leadership the strong support even within the political system for significant reform. At that time, too, in good Dengist fashion, they sent teams into local areas all around China to carry out field research to get a sense of how society would respond to the reforms.



18th National Congress of the Communist Party of China

Source: Voice of America

Yet, even while he allowed the State Council under Li Keqiang to take the lead in promoting reforms, Xi wisely placed Zhang Gaoli and Liu Yunshan, two potential opponents of deeper reform, on the drafting committee with him, insuring their support for the policies once they emerged from policy debates. Liu Yunshan had to agree to changes in the pattern of reporting on corruption investigation which strengthens the role of the Central Discipline Inspection Committee versus the Organization Department of the CCP which had previously dominated the punishment of offenders. Zhang Gaoli, perhaps appointed to the PB-SC at the 18th Party Congress to protect SOEs, may have effectively protected them from a frontal assault, but the decision to let the market dominate the planned or state-led economy and take 30% of SOE profits to fund a real social welfare system, is more likely to succeed with him on board.

Xi also protected Li Keqiang from becoming a target of attack, avoiding the kind of mudslinging Zhu Rongji faced in 1998 after it became public what he was willing to give up to the United States in order the gain entry to the World Trade Organization. After the Chinese embassy in Belgrade was bombed in 1999 by a US missile,¹³ Zhu faced a major challenge for his policies, which were controversial and opposed by conservatives, nationalists, and leftists.



Li Keqiang

Photo Credit: Friends of Europe

The Road Forward?

While much skepticism emerged in response to the Third Plenum, especially because many people were influenced

by the rather general 5,000-character statement that came immediately after the Plenum, this package of reforms is actually the sixth wave of reform since 1978, and in truth, all of those “waves” significantly moved China down the road to deeper marketization and globalization.¹⁴ Policy waves in 1978-79, 1984-85, 1987-88, 1992-93, and 1997-98, opened up coastal China to the international market, liberalized domestic prices, weakened central planning, dismantled collective agriculture, began the commercialization of scientific research, allowed universities to establish overseas exchange programs, encouraged foreign direct investment, privatized all public SMEs, and began the private housing market. These waves often included cuts in the size of the state bureaucracy.

In each case, a previous or new leader consolidated their power, often strengthened ties with the United States, and brought forward policies that were warmly accepted by a significant share of the population. Waves of reform were often preceded by a previous period of stagnation or a “leftist” turn that failed to take hold, as in the failed “spiritual Pollution Campaign” of late 1983 which allowed for the major reform movement of 1984. From this perspective, Xi should succeed in many of his policies, and perhaps in a more rapid time frame, that is, before 2020.

One of Xi’s first acts as General Secretary was to travel to Shenzhen and south China, reminding Chinese of Deng’s trip in 1992, 20 years earlier. Yet, while Deng’s famous saying at the time was that people needed to act more boldly (*danzi yao da yidian*) and “move more quickly” (*buzi yao kuai yidian*), Xi’s invocation of Deng’s words changed things slightly. While in his report on the Third Plenum, Xi also called on people to “be more daring” (*danzi yao da yidian*), he also admonished them to “step more stably” (*buzi yao wen yidian*).¹⁵ So Xi might be somewhat cautious, though some sources in China suggest that, as with most CCP organized projects, this program, too, will be completed before the due date.

If the reforms succeed, they are likely to strengthen Xi Jinping’s status as leader, making him much more powerful than anyone since Deng. The establishment of the two committees, one leading the reform program and one on national security, centralizes power in his hands. Moreover, a successful reform program should strengthen the power and prestige of the CCP. It seems clear that the anti-corruption drive will deepen along with the reforms.¹⁶

The program should also benefit Hong Kong’s democratic development, as greater judicial autonomy in China will be helpful. But, if the CCP actually weakens local governments without introducing participatory institutions, and if local protests intensify, Xi may be quite cautious about allowing Hong Kong to increase its level of democracy too quickly.

As one looks at the program, however, some questions and contradictions become apparent. First, will the SOEs function effectively in a greater marketized economy,

specifically one in which the private sector receives equal treatment? This past year, SASAC has forced its SOEs to carry out internal reforms, which should make them more competitive. But if their profit margins slide precipitously under a more marketized economy, the CCP will be hard pressed to extract their 30% contribution for its national social welfare program.

Second, there is a contradiction between promoting a consumer economy and the desire to cut waste, contain energy demand, and protect the environment from industrial pollution and auto emissions. Moreover, China's purchases of resources around the globe are already taxing global supplies; how much more can China import to manufacture more goods for internal consumption?

Third, every reform wave involving a major cut in the bureaucracy has also allowed retiring bureaucrats to enter business. The trimming of the bureaucracy by Zhao Ziyang in 1982 led to the formation of tens of thousands of "briefcase companies," where furloughed bureaucrats used their relations with their former state sector colleagues to earn income by managing the transfer of resources around the economy. In spring 1990, former Prime Minister Li Peng closed over 200,000 such companies whose fees had triggered inflation in 1986-89, which helped precipitate the Tiananmen crisis in 1989. In the 1980s and 1990s, the state dismantled some of the bureaucracy that controlled the flow of goods and services into and out of China by allowing "retired" officials to establish their own trading companies. Similarly, after Zhu Rongji halved the bureaucracy in 1998, many officials became entrepreneurs. In a recent paper, Beida economist Zhou Qiren, suggested that for the reforms to succeed, vested interests who can benefit from the reforms must emerge, much as they did in the 1980s. But can bureaucrats find new sectors in which they can earn a stable income? Perhaps at this point in China's economic development the service sector, rather than trading, will be that area.

Another problem is that Xi appears willing to weaken the local levers of power, by separating the courts and the local party and state officials, but without establishing new modes through which dissatisfied citizens can express grievances and seek justice. China is an unfair society, where the state and industrialists readily impose "externalities," such as pollution, poisonous food and drugs, and poor health (from promoting smoking) onto a society that has little power to protect its interests. Without democratic procedures, Chinese people will continue to turn to civil disobedience and protests to express their frustration and demand compensation, even as the local government's power declines. Unfortunately, Xi only calls for improving the people's congress system or the petitioning system—the latter succeeds in only one in 1000 cases—a shortsighted strategy that could trigger greater social instability. No doubt, ending land confiscations will go a long way toward alleviating societal unrest, but it will not be easy to end land grabs in the very near future. Therefore,

while the reforms could enhance social stability, in the long run, the benefits may not be felt immediately.

Significance for Hong Kong, East Asia and the World

Successful reforms should strengthen China. These reforms should enlarge its GDP, and greater reliance on domestic consumption, rather than foreign trade, will make it less vulnerable to shifts in the global economy (though perhaps in some ways it will become more vulnerable due to the creation of an exchangeable currency). China's neighbours hope that a more prosperous China will be more stable, feel less insecure and therefore less likely to adopt assertive policies.¹⁷ Surprisingly, Xi's comments included the notion that China faced even greater external threats to its sovereignty than before—suggesting that as China becomes more capable of affecting the countries around it, it becomes more anxious about its national security. Seeing new challenges to its sovereignty makes it more, not less, likely to resort to forceful external behaviour. There is no doubt that China's sovereignty is under fire in Tibet or Xinjiang; but much of the struggle for sovereignty lies in the seas, over small islands that have mostly emotional significance (or maybe strategic), but are not so important for China's development.



Disputed Islands

Source: Wikimedia Commons

Thus a core question is whether a stronger China, led by Xi, will manage regional ties better. Chinese officials justify assertiveness on popular nationalism, arguing that if they do not respond to challenges to their external sovereignty, the

CCP will not be able to maintain control. While such an argument may be somewhat understandable for a weak China, it becomes problematic when a strong China chooses to resolve territorial disagreements through force. Still, with his hand on the throttle of the new National Security Committee, Xi Jinping will hopefully keep China's foreign policy within safe bounds.

Previous policy waves all included a moderate foreign policy, as China's economic development and reforms depended on a successful "opening"—i.e., an external environment conducive to economic development. Today, however, while China expresses the importance of a benign external environment as a *sine qua non* of its development strategy and peaceful rise, its actions belie its words, due to an obsession with sovereignty that lay dormant when China was weaker. So, for the first time since 1978 a major reform effort is occurring concomitantly with strengthened nationalist rhetoric and more foreign policy assertiveness.

Should China cut its pollution and improve its environment, the whole world will benefit, as less pollution from China (and from the US), will help the ozone. The air in neighbouring states, such as Korea and Japan, and even in cities as far as Los Angeles, will improve, while countries dependent on rivers flowing out of China may find solace in more sustainable approaches to growth in China.

On the other hand, China's successful reforms will put enormous pressure on the US to respond in kind, as China is clearly gearing up for the road ahead, while the US appears stuck in a development model far too dependent on financial instruments that failed to deliver.¹⁸ Potential danger lies in the US seeing China's reforms as a *strategic* challenge - not just as an *economic* challenge - empowering supporters in the US Congress and military to call for containment of China, which in turn will enhance Chinese xenophobia and expansionist elements in China's military and the CCP. "Securitizing" China's reform program would be a remarkably negative response to a quite remarkable initiative.

¹ "Party no. 4 vows dramatic reforms," *South China Morning Post*, 26 October 2013.

² 习近平：关于《中共中央关于全面深化改革若干重大问题的决定》的说明 (Xi Jinping: An explanation of "The decision of the Chinese Communist Party Central Committee on several major questions about totally deepening reform"), Xinhuanet, 15 November 2013.

³ Currency of People's Republic of China.

⁴ Potter, Sulamith Heins, "The Position of Peasants in Modern China's Social Order," *Modern China* vol. 9, no. 4, 1983, pp. 465-99.

⁵ *Hukou* is a household registration system, implemented in the 1950s, that in effect places strict legal limitations on an individual's ability to switch from rural to urban residence.

⁶ Roach, Stephen, "Asymmetrical Codependence: China on the Move, America at a Standstill," Lecture to the Asia Society, Hong Kong, 22 November 2013.

⁷ Yao Yang, "Without political reform, how far can China's economic liberalization go?" *South China Morning Post*, 25 November 2013, p. A 13. Yao Yang is dean of the National School of Development and director of the China Centre for Economic Research at Peking University.

⁸ 明镜月刊 (Mirror Monthly), Hong Kong, 8 August 2013, no. 43.

⁹ Zweig, David, "New Leaders Make a Difference, but When? Reflections on China's Current Succession," *Connect* (Journal of the Employment Federation of Hong Kong), Winter 2012, pp. 27-31.

¹⁰ 工人日报四十年, 1989 (40 Years of Workers' Daily; 工人日报新闻研究所 Workers' Daily News Research Center, 1989), p. 111.

¹¹ The Chinese service of the BBC reported that Wang Qishan had made a report to the SC-PB on Zhou Yongkang and that Zhou had been put under "double detention." See http://www.bbc.co.uk/zhongwen/simp/china/2013/12/131204_iv_hepin_zhouyongkang.shtml (in Chinese).

¹² Barry Naughton, "Programs of Economic Reform Begin to Emerge," *China Leadership Monitor*, no. 41 (June 6, 2013).

¹³ The missile was part of Operation Allied Force the NATO bombing campaign against Yugoslavia. The CIA, which was responsible for the missile, claimed that the strike was a tragic mistake due to faulty intelligence.

¹⁴ David Zweig, "The Stalled 'Fifth Wave': Zhu Rongji's Reform Package of 1998-2000," *Asian Survey*, Vol. XLI, No. 2 (March-April 2001): 231-47.

¹⁵ Xi reinforced the idea of moving cautiously in a post-Plenum trip to Shandong. See Zhao Lei, *China Daily*, "Move on reforms, but not rashly, Xi says," *China Daily*, November 29, 2013.

¹⁶ 中央纪委解读三中全会《决定》“反腐新规” (The Central Discipline Committee explains the decision on the new rules in fighting corruption), 新华网加强反腐败体制机制创新 (Xinhuanet, strengthen the creation of a new systemic mechanism for anti-corruption), 1 December 2013.

¹⁷ Interview with Japanese consular officials in Hong Kong, November 2013.

¹⁸ Roach, Stephen, "Asymmetrical Codependence: China on the Move, America at a Standstill," Lecture to the Asia Society, Hong Kong, 22 November 2013, and Stephen Roach, "Chinese reform, U.S. stasis," *International New York Times*, 26 November 2013, p. 8.

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