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Investing in the Xi Leadership in China: Seven Ways in which the New Leadership of China Might Reform, and How the Rest of the World Can Help

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The assumption about the policy impact of the leadership change in China, which culminated in the announcement of a new Standing Committee of the Politburo on 15 November 2012 and a new government leadership at the National People's Congress in March 2013, was that in the short term there would be no substantial changes. This is partly because, throughout the year leading up to the transition, as speculation intensified over who might be in or out of the final line-up, discussion of policy was largely absent. Cheng Li of the Brookings Institute in the US, amongst others, argued that the best way to understand the process of identifying, and then elevating, elite leaders was according to their factional background, not their policy position¹. The final seven-member Standing Committee was seen as a victory for former leader Jiang Zemin's men over those of the incumbent Hu Jintao. Patronage and family links (four of the line-up have been described as 'princelings', the factional terminology used to identify relatives of former high-level leaders), were the real reasons that people were promoted – not their ideas about the future direction of the country. This was most visibly represented by the appearance on stage, on the very last day of the 18th Party Congress on 14 November, of the reformist 87-year-old Jiang amongst the outgoing members of the standing committee.²

In fact, had the prospective leaders tried to articulate ideas on policy, there would almost certainly have been problems. Bo Xilai was one of the few elite leaders who tried this. His reward, precipitated by the arrest of his wife for the murder of a British businessman, was to be unceremoniously removed from office, expelled from the Party, and to be indicted for corruption just before the Congress convened. His trial has now been held. Despite the tragic distraction of his wife's involvement in the murder of Neil Heywood, Bo's real crime was his aggressive lobbying for high position through support for populist policies during his time in Chongqing, since 2007. The 2012-13 leadership transition was about continuity, maintaining the status quo, keeping to key policy positions which were well established during the Hu Jintao and Wen Jiabao era of collective leadership – particularly the focus on producing raw GDP growth at the cost of everything else. The canonical documents for this are the 12th Five Year Plan, which runs until 2015, and the statements made by Hu Jintao in his work report on 8 November 2012. There, the standard issues of focusing on

¹ Cheng Li, 'The Battle for China's Top Nine Leadership Posts', *Washington Quarterly*, Winter 2012, p. 131 ff.

² Willy Lam, '18th Party Congress Showcases Stunning Setback on Reform', *Jamestown Review*, Volume 12, Issue 22, available at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=40122

economic growth, dealing with social management to maintain stability, creating a more service sector orientated economy, and continuing with intra Party reform were all spelt out. The new leadership simply inherited this set of core targets.

That the leadership line-up, when it did finally become public, was widely interpreted as conservative adds extra weight to the idea that the CCP's prime commitment is to the status quo. Beyond Xi Jinping and Li Keqiang at the heart of this new, fifth generation of CCP leaders, there stands Zhang Dejiang, Zhang Gaoli, Liu Yunshan and Yu Zhengsheng, all of whom are regarded as broadly conservative. Much of the commentary immediately after the announcement focused on how disappointing this was for those who wanted to see signs of a more reform-orientated leadership, with figures like Li Yuanchao and Wang Yang at its heart, both of whom, in their provincial careers, were seen as flexible, undogmatic and able to use innovative means to deal with governance challenges. The sole other liberal voice was Wang Qishan, but he has been given a hugely complex anti-corruption portfolio, something that will keep him busily away from discussions of political or social reform. Then again, no matter who finally took the stage, perhaps policy continuity was always the most likely option. In the current context of China's political system, policy innovation and change on a national level is not what it is all about. Gradual, incremental change and caution are deep in the DNA of this system, and no one figure, nor any group of figures, can change that easily.

Despite all this, to expect no change at all is also wrong. For all the emphasis on a collective leadership running from one generation to the other, and the total lack of policy discussion during the leadership transition process, at the end of the day new leaders will, at some point, mean policy changes. The trick now is to consider where these changes might come, and what role outsiders can play in all of this, if any, now that China is a global player and its internal issues are, by definition, issues for the rest of the world. Those outside China would all be deceived if they fell for the idea that the 18th Party Congress personnel changes and the government changes a few months later meant little, and that everything would be the same as it was before. After all, Hu Jintao's style of leadership and the policies he supported were eventually different from those of his predecessor Jiang Zemin. Jiang supported deep reform of the State Owned Enterprises, embraced the entrepreneurial class through allowing them to become members of the Communist Party through his Three Represents Theory, and took a hawkish stance on Taiwan. For Hu, more emphasis was put on support for the countryside, a more conciliatory attitude towards Taiwan, which culminated in the signing of the Economic Cooperation Framework Agreement in 2009, and more support for the state over the non-state sector as it became much more profitable after 2008. China would have been a very different place if not Hu but someone like Zeng Qinghong had been appointed Party Secretary in 2002.

This might not be a system based on personality politics, but neither is it a system where individuals and their interests and motivations do not matter. It is just the way these interests and priorities are expressed that is different. Outside governments and other interests, particularly in Australia where the links with China are so important for its economy, have to now find ways in which they can speak to what might be the emerging reform priorities of the new leaders, rather than consigning them to the straitjacket created by their predecessors. In this way, outside governments and entities

can start to work with the policy aspirations of these new leaders far more collaboratively than might be expected in what looks like such an opaque system.

Looking to the Provinces

With China's new leaders, the only evidence available for what policy positions they might take up is to be found in their provincial records. All of them, with the exception of Liu Yunshan, have served as senior leaders in at least one, and in one case three, of China's provinces before coming to national leadership in Beijing. What can be seen there are people who have consistently lined up behind the 'economic growth at the cost of everything else' mantra supported from the Centre. They have all been supporters of a pro-stability policy because they accept the consensus position that the time for risky political reforms has never been considered quite right. Maybe less deeply than Jiang Zemin and the leaders round him, or Hu and his generation, they are haunted by the example of the fall of the USSR in 1991 and the disastrous consequences for the Russian economy in the decade afterwards. This makes them very cautious.

For these leaders, the provincial training grounds have given them a range of abilities and experiences in managing complex, often diverse and sometimes highly contentious areas. Li Keqiang had to deal with the fallout from the AIDs blood contamination in Henan in the 1990s and early 2000s when the Party boss there, Xi Jinping, had to step in to manage Shanghai after the felling of Chen Liangyu, the previous head of the Party in the city. Zhang Dejiang had to go to Chongqing at short notice when Bo Xilai fell earlier in 2012. Zhang Gaoli and Yu Zhengsheng have both been Party Secretaries of the major cities of Tianjin and Shanghai respectively. All these men have had to deal with fast-changing, complex domestic economies at a time when, across the country, visible contention has been rising year on year. At the National People's Congress in early 2012 a precise figure was put on the costs for managing the conflict between groups seeking justice and rights in society and maintaining a form of social stability – USD111 billion for internal security, five billion more than was spent on national defence.³ Social management is expensive in China, but it is also, in such a money-focused system, big business. Even this has now become a zone for vested interest.

International Affairs

While there are some clues to how these new leaders think about internal agendas, their views on matters outside of China, with the exception of Wang Qishan who has had heavy dealings with the US and other countries through his previous economics portfolio, is even more of a mystery. Xi Jinping, in his brief remarks after appearing on 15 November 2012 as the new Party Secretary, produced a list of issues, most of which were about the country's internal situation. 'Our people' he stated. 'love life and expect better education, more stable jobs, better income, more reliable social security, medical care of a higher standard, more comfortable living conditions, and a more beautiful environment.' He went on: 'In the new situation, our party faces many severe challenges, and there are many pressing problems within the party that need to be resolved, especially problems such as corruption and bribe-taking by some party members and cadres, being out of touch with the people,

³ See Reuters, March 5, 2012. 'China Domestic Spending Rises to USD 111 Billion,' available at <http://www.reuters.com/article/2012/03/05/us-china-parliament-security-idUSTRE82403J20120305>

placing undue emphasis on formality and bureaucracy must be addressed with great effort.⁴ The rest of the world, we assume, fits into this China-centric pattern and about that he said only the most blandly formulaic things.

The clear lack of international experience amongst these new leaders only makes it harder to guess how they see the wider world and its relationship to the broad internal objectives outlined above. None of the seven now on the Standing Committee have studied abroad, nor lived there for any length of time, with the exception of Zhang Dejiang who spent two years as a student in North Korea in the late 1970s. In this sense, China emulates the rest of the world, in having leaders who are highly domestic politicians before they get elevated or elected to high office and have to start dealing in depth with foreigners. For these leaders, beyond the friendly rhetoric they produce occasionally in their speeches, little is known of whether they will be hawks or doves, or whether they will be for or against deepening links with the outside world, until a crisis of some sort forces them to declare their hand. In particular, there are no real clues to whether they will be tempted to use nationalistic sentiment in China if their domestic agenda gets bogged down or knocked off course by poor growth or an internal or external crisis. The brutal fact is that, since the end of 2012, the world's second largest economy and one of the key players of our era has been led by men who are, in many ways, largely unknown, unproved on the international stage, and inexperienced.

Business as Usual?

Despite all the constraints around them, like it or not these leaders are in fact going to have to introduce changes, and probably sooner rather than later. Xi Jinping was reported to have said to a visiting scholar in the summer of 2012 that he felt the need for further reforms was pressing. And while the institutional and patronage networks the new leaders have relied on to get where they are have created strong obligations for them to perform to certain vested interests and key constituencies of the Party elite, they will have to reach out and show relevance to society more widely, as Xi himself alluded on the 15 November 2012. Little by little, since the National People's Congress in the spring of 2013, and just as happened after Hu Jintao became Party Secretary in 2002, small parts of the previous policy commitments have started to change. The development of the 13th Five Year Plan, which will be unveiled in 2015, will be one major point at which to do some policy renovation. The other key moment will be in 2017, when the next Congress happens. At this point, Xi and Li can put people more closely associated with them in the positions freed up by their five colleagues, all of whom will be over the mandatory retirement age of 68 when that year comes. Then there are also unexpected events –things which will happen that are unplanned and may well force the hand of this new leadership to act in ways that are outside the expectations the world has for them.

Since 2012, Xi has talked a lot about the China Dream, the vision the country has of itself and its future. But achieving that vision is also something in which the rest of the world, and particularly countries in Europe and North America, are stakeholders. It involves the rest of the world having a dynamic relationship with China because of the fact that, in almost every area, from trade flows to supply chains, to the environment to energy and resources and geopolitics, China is a global power

⁴ The full English version of Xi's speech is available at <http://www.bbc.co.uk/news/world-asia-china-20338586>

now. Like it or not, the rest of the world has to engage with these leaders and find ways of getting under their skin. Here are seven areas where everyone involved in this process needs to think radically differently about how they might do that as the country enters a critical phase of its development. Building capital and goodwill with these new leaders, whatever constraints they might be working within, is crucial, and their arrival, for all the low expectations, is an opportunity.

1. **Rebuilding trust:** These leaders come into power with the highly paradoxical situation that, while they have never before had more interests in common with major partners like North America, Europe, and their neighbours, despite all these links at government and grassroots level, trust at the elite level is still in short supply. Perhaps this derives from the deficit of trust in the Chinese political system itself. Opacity has its costs, as the leadership transition itself showed, with the guesswork around just how the new leaders were elected infecting their legitimacy. Even so, elite Chinese antagonism about the interference of agents of foreign states, and in particular the US, has risen. The stationing of US marines for the first time on Australian soil in 2012, and the talk of a rebalancing to Asia under the Obama administration, has been interpreted by some influential figures in China as a strategy of containment. This lack of trust has contaminated what is a crucial and constructive relationship. One of the key questions with the new leadership, therefore, is to find ways to do something about this trust issue. Global leaders have to confront the brutal fact that, at the heart of this, is the conviction of Chinese political elites that the US (in particular) wishes to see the CCP fall from power, and to establish a new mode of governance in China. Trying to think of ways of getting over this trust deficit will be critical. The visit by Xi Jinping to the US in May 2013 to spend time with Obama was a good move. This sort of person to person diplomacy will matter more in the future both in China and other countries and, ironically, while it is the last thing that might appear in an election, a candidate's ability to find rapport with the Chinese leaders he or she will need to deal with is going to become an increasingly important part of their political skill set.
2. **Giving China space to be a true stakeholder:** One way to overcome the trust issue is to shift focus to common policy challenges, and to the need to create a common language with which to address and discuss these cross-nationally. Xi Jinping, from all that he has said in the run-up to being made Party Secretary last year and since, and the new leadership around him inherits the same contradictory mindset as their predecessors to the outside world. On the one hand, their immediate mission is to deliver economic growth and make their country rich and strong. For that, they will need to focus ruthlessly on internal issues. They are as likely to get as spooked as Wen Jiabao was in 2009 when language started surfacing about China belonging to a Superpower G2 with the US. They will regard this as a trap to coax them into taking leadership positions on external issues that they would usually wish to leave well alone, whether it is about becoming embroiled in issues in the Middle East, or being sucked into the endless issues of internal governance in Africa or elsewhere. China has consistently tried to reassert its traditional foreign policy issue as 'non interference in the affairs of other countries' and maintained a foreign policy that is focused on preserving national interests above all else. But as its economic impact spreads throughout the world, and it makes its way to the highly symbolic moment, expected some time in the next decade, of overtaking the US as the world's biggest economy, this language of being an

internally focused country with limited interests in the rest of the world will become harder to stand by. Much has been written about China being a global stakeholder, but more international space must be created for China in global governance bodies for it to feel that it is a global stakeholder, rather than just being told so. It needs to be pushed more into participating in decisions, rather than just being a passive bystander. Global leaders need to prepare for the moment when China will indeed become the major international actor, and start treating it this way. In that sense, it's not just about the Chinese mindset, but also about the world's. There are two kinds of fears to be faced here – China's fears of overexposure and other powers' fears of China's final intentions. Global leaders need to start managing these fears and thinking through them.

3. **Finding the link between the internal and the external:** As a country, China is almost inevitably entering a period of extremely complicated internal change, as people become richer, and expect more from their governments. Shanghai, as a case study, has 12 000 new people a week arrive in the city, which pushes its population up by half a million people a year. The strains this creates in terms of social cohesion, and on the welfare infrastructure, are many. Among them are the problems of welfare reform, the creation of a better health system that doesn't end up bankrupting the state, of pension supply, and of dealing with an ageing population, and in all these China has common cause with developed countries that arises from the steep costs of addressing these, no matter what the political model. We in the West need to create deeper engagement in these areas, and be well informed about what is happening in China about them. We need to demonstrate that our experience in these policy areas has relevance to fellow leaders who will need new ideas, rather than just berate them about the shortcomings of these systems as they currently exist in China. Our knowledge communities, in particular in Australia, have a huge responsibility to engage more in this process with policy makers in China. We need to continue to forge a common policy language with which we can speak about the issues we are facing together in ways that strip away issues of political difference and disagreement over our respective systems. The greatest challenge is, however, the huge problem of gaining access to the very small elite within the Chinese system. We need to collaborate more in how we speak to this elite, and how to convey a more joined up language to them which is constructive rather than antagonistic. But that doesn't, of course, mean we give up speaking about values.
4. **Abandoning moral postures to gain moral credibility:** Western powers are not helped in this values debate by the fact that they are regarded by their equivalents in China as at best ambiguous and at worst hypocritical in their attitudes about the increasingly important role China plays in global affairs. On the one hand, European and North American leaders made sonorous speeches inviting China to be a global stakeholder, and to be an integral part of the global system, but on the other they berate China for its failure in human rights, for its political model and for its failure to have full rule of law. The various human rights dialogues which exist, from those in North America and the EU to bilateral ones, have become causes célèbres in which China takes up defensive positions against the rest of the world. The hectoring tone of British Prime Minister David Cameron during the visit of Wen Jiabao to the UK in May 2011 was only symptomatic of this need for Western leaders to berate their

Chinese counterparts in front of their publics over human rights issues. This has become a hard position to take as the West has lost much of its moral shine since the Iraq War in 2003 and its aftermath, and the collapse of their economic growth rates since 2007 as a result of the global crisis. While the Chinese elite might once have looked more broadly at the developed world, and in particular Europe and North America, as having models of development and governance it might wish to aspire to, it is now far more sceptical. Western leaders need to use a much more nuanced and better informed vocabulary of moral and political persuasion with Chinese leaders now. They need to understand far better the constraints within which they work. In particular, the highly contradictory messages which governments in the US, Canada, and across Europe give on Chinese inward investment needs to be addressed. On the one hand, leaders say they want Chinese to invest, and the economic need for this is greater than ever before. And yet, with recent decisions, such as on Huawei, the Chinese telecoms company, it seems the moment significant investors come they are blocked out. We in the West can't maintain the double standard of, on the one hand, rhetorically inviting the Chinese in and then, on the other, placing barriers before them, without being accused of practicing protectionism under another name. And not can we pass up the huge chance of using Chinese outward investment to forge better access to the Chinese domestic market. That is self defeating and utterly contradictory. We need to be more coherent here.

5. **Spending a fortune and still ending up unpopular:** Perhaps when the trust issues have been openly addressed and something has been done about creating a common vocabulary for moral and policy challenges, there can be more fruitful and frank talk with the new Chinese leaders about their diplomatic failures over the last few years. It can be pointed out that the net result of two years of aggressive behaviour in the region, culminating in the latest spats over the Diaoyu/Senkaku islands with Japan, has been to make China an increasingly lonely power. It can openly be said that China seems to have been lulled into a mode of behaviour more akin to that of a petulant adolescent than that befitting one of the key powers of the world. There can be an open debate with Chinese leaders about the benefits of jettisoning some of their historic hang-ups when their sell by date is long past; grievances over the Century of Humiliation, for instance. And all this can be done by flattering them with language about how the current Chinese mindset on the marine border issues is more like that of a mid-ranking power which is unsure of itself, willing to expend huge amounts of diplomatic capital hard-earned over the years on issues in which the return is at best symbolic and at worst nugatory, rather than that of one of the world's great emerging powers. The world's leaders can argue that China, the supremely pragmatic power under Deng and Jiang, has become mired in sentimental struggles over its maritime borders when easy compromises could have been reached that would have allowed it to both occupy the moral high ground and maintain its key interests until a time when they might be dealt with more fruitfully. And it can finally be pointed out that the most striking result recently has been how China has failed to convert its economic power into political and diplomatic leverage, and how its foreign policy in the late Hu and Wen period has been a disappointment. New leaders surely must be invited to act in more dignified ways, and ways which are more collaborative with the rest of the world. In the sub narratives, China has

been a huge supporter of collaboration, and won itself many friends through heavy support for UN Peace Keeping Missions, and for collaboration with partners on development work in Africa. In the larger narrative, it is seen as aggressive and bereft of real allies. The victim mindset of the current generation of leaders, too used to deploying the language of wounded hurt, is no longer fit for purpose. China is a great power. It should be urged to behave like one, and live up to the expectations of the international community.

6. **It's the non-state, stupid:** The most exciting development in China since the 1980s is the rise of non-state companies. Jiang Zemin's enfranchisement of them by allowing entrepreneurs to enter the Party in 2002 was an historic move. But it was also deeply pragmatic and necessary. According to the OECD, as early as 2005 the non-state sector accounted for as much as 50 per cent of GDP growth. In 2010 alone, it created 78 per cent of new jobs. The non-state as an employer, a source of innovation, a means by which China will more deeply integrate into the global economy, and a driver of efficiency in an era when this will almost certainly be the key to further growth, is critical. And the engagement between developed countries and this sector is utterly necessary, politically uncontentious and supportive of the strategies of seeing greater balance, less inequality and deeper reform within China. Western nations need to reach out to the Chinese non-state sector proactively, help it invest in their markets, see it as a partner for domestic industries, look to embark on research and development with it.⁵
7. **Hedging history:** Finally, the global community needs to have the boldness and the vision to see a China that, very soon, will be a source of innovation. It is about to face unprecedented environmental and energy challenges. Its ability to solve these impacts directly on the rest of the world. At the moment, the West is in technology surplus with China. But that is almost certain to change as the huge impetus for innovation grows greater in China. Necessity is the mother of invention, and nowhere is necessity greater than in China. Policy makers in the EU, Australia and North America in particular need to have the courage to liberalise technology transfer and Intellectual Property Rights regimes, but to do so in a framework in which China is locked into sharing its future inventions on the same terms. The incumbent global innovators need to hedge for the day when China's inventions will be more important than the West's.

Sinking or Swimming Together

For Chinese and Western leaders, one of the shared challenges they have is the dearth of political idealism throughout the world at the moment. Elites in almost all domains are confronted by opposition, disappointment and scorn as never before. Wang Xiaodong and his co-authors in their 2009 book, *China is Not Happy* complain bitterly about internal elites who have made their country the sweatshop of the world, and failed even to supply food security, far more angrily than they do about external elites. The same feelings of disenfranchisement that were figured in the Tea Party

⁵ Victor shi

protests and the anti-capitalist movements in the US and elsewhere find plenty of authentic expression in China. And, as in China, elites in the developed world have had to deal with new forms of citizen activism with the explosion of social media. The invasion of personal privacy and intimacy in the internet age is as much a challenge in China as elsewhere. Flesh searches destroy the careers of local officials, and lead to what has been called the phenomenon of virtual lynching. Tension between arms of the government and specific classes and sub-classes is shared across the political terrain from China to beyond its borders. In this area, people speak a surprisingly common language. Like it or not, the Chinese rulers are highly sceptical that parliamentary models that they see in the rest of the world will help them in their aspiration to make China a rich strong country, and a country with per capita GDP by 2020. It must be remembered that in this they are, almost certainly sincerely, haunted by the terrible destruction their country suffered prior to 1949, and the trauma of the Maoist period afterwards. Those outside China should at least try to bear this in mind when they seek to understand its leaders' almost obsessive concentration on stability above all else.

We in the West have moved now from an era in which we spoke of light engagement, and preserving our differences, to one where in fact there is the need for a much deeper engagement, where we are likely to have our own values and convictions profoundly challenged as China develops. This will be a deeply unsettling moment. Economic energy has moved to Asia, and in particular to China, in ways far quicker than had been expected. This will move European, Australian and North American policy-making elites out of their comfort zone. In this era of deeper engagement, we have to be crystal clear about the common values to which we want to hold fast, and where we need to be pragmatic and cede ground – in fact, to state this more profoundly, where it might enrich and better us to cede ground. The West has no moral or intellectual right to simply assert the continuing imperium of its development models and systems. But it has to promote what it feels is right about predictability from rule of law and the need to deliver justice and equality in society in ways which are much more persuasive to a Chinese leadership that, very soon, will be confronting some of the most challenging demands ever made on a society, on a scale and at a speed never before seen. We in the West have to be allies in this process. We cannot see these leaders fail. We need to jettison some old holding patterns in our thinking and go for a much more meaningful dialogue with them. And we can start that by seeing that the seven men who stepped on to the stage together on 15 November 2012 might not be half as entrenched and conservative as they first look. We too, in this process, need to change. And perhaps the hardest thing to admit, but the place where we start, is that changing our ideas about them might be far harder than them changing their ideas about their own mission.