



CHINA 1.0

CHINA 2.0

CHINA 3.0

edited by  
Mark Leonard

Afterword by François Godement  
and Jonas Parello-Plesner



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# **CHINA 3.0**

**Edited by Mark Leonard**

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# Acknowledgements

The purpose of this book is to get beyond the speculation about quarterly growth figures and who is up and down in the party hierarchy – and instead to shine some light on some of the big debates that are taking place within the Chinese intellectual, political, and economic elites about the future of China’s growth model, its political system, and its foreign policy. Rather than drawing conclusions about where China should go, we try to introduce readers to some of the most articulate voices in different camps – spanning left and right, neoconservatives and liberals, hawks and internationalists – whose ideas could shape the future of China.

This book forms part of a wider project called “What does the new China think and what does it mean for Europe?”. The programme is the result of a fruitful collaboration between ECFR’s China programme and four partners: the Robert Bosch Foundation, the Friedrich Ebert Stiftung, the Calouste Gulbenkian Foundation, and the Stiftung Mercator, who have not only supported the production of this volume but also given core support to ECFR’s China programme over a number of years. Each organisation has made a critical contribution to the success of this project that goes beyond their financial support.

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The Calouste Gulbenkian Foundation not only supported the project but allowed Teresa Patricio Gouveia to take part in the trip. Last but certainly not least, we owe a huge debt to the Stiftung Mercator. Andre Wilkens and Marc Bermann were quick to recognise the potential of this project, and we were very happy that they, together with Sebastian Heilemann and Michael Kahn-Ackermann, were able to join the study trip to Beijing and Shanghai. Even more important has been the programme support we have received from Mercator which has – among other things – allowed ECFR to work with Asia Centre on bringing Chinese language debates to life for European policymakers in our quarterly China Analysis. A commitment to China has been one of the big features driven by the foundation’s talented president Bernhard Lorentz and its founder Michael Schmidt.

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*Mark Leonard*

# What does the new China think?

It was a bloodbath. A methanol tanker crashed into a bus, killing 36 people and injuring more near the Chinese city of Xian, on 26 August this year. But, as so often in China, farce came hot on the heels of tragedy. Soon after the accident, a photograph appeared online of Yang Dacai, the local official in charge of road safety, smirking at the scene of the crash, prompting a dam-burst of internet anger. The focus of netizens' comments soon moved from his composure to the value of his watch, and bloggers managed to unearth pictures of him wearing 11 different luxury watches worth many times his official salary. A few weeks later the Chinese media reported that he had been sacked after an investigation into corruption.

This is just one of countless scandals that flare up every year in China. But it illustrates why many Chinese intellectuals think that China is on the cusp of a new phase in its development. The focus on Yang Dacai's expensive watch shows that it is the ill-gotten wealth of the Chinese superclass rather than the poverty of the masses that is causing the most tension in today's China. The fact that there was a crackdown on the official rather than the bloggers who exposed him shows that China's traditional approach to stability is being revisited in the age of social media. And finally, the fact that the misdeeds of a relatively junior local official are being reported in the international media shows that China has hit global primetime and is struggling to keep a low profile.

The world has got used to a Chinese juggernaut defined by export-based state capitalism and political repression. But China's intellectuals suggest it may be time to prepare for a very different China. 2012 began with a series of powerful signals of change: in January, a village in Guangdong was allowed to hold an election to oust corrupt officials suspected of selling off communal land at artificially low prices; in February, the World Bank and the National Development and Reform Commission released a report on China in 2030

calling for a new wave of market reforms; and in March the “princeling” Bo Xilai was ousted from his Chongqing power base with a warning against returning to the Cultural Revolution.<sup>1</sup> While there have also been signals of a return to the past – tensions with Japan; the show trial of Bo and Gu Kailai; the temporary disappearance of Xi Jinping; and the sidelining of charismatic leaders – there is a widespread sense in Beijing that China has reached the end of an era. People are not just expecting new leaders but the end of a model of development that started with Deng Xiaoping’s “opening and reform” in 1979.

The Chinese like to think of history progressing in 30-year cycles.<sup>2</sup> They think of China 1.0 as the years of Mao Zedong, which lasted from 1949 to 1978, when China had a planned economy, a Leninist political system, and a foreign policy of spreading global revolution. China 2.0 was the China that began with Deng Xiaoping in 1978 and spanned a generation until the financial crisis of 2008. Deng’s economic policy – launched under the label of “socialism with Chinese characteristics” – was defined by export-led growth backed up by “financial repression”. Deng’s political agenda was characterised by the quest for stability and elite consensus in the wake of the Tiananmen massacre. And his foreign-policy outlook was about creating a peaceful environment for China’s development by quietly amassing power and keeping a low profile.

Since the global financial meltdown of 2008, China has been facing a crisis of success as each of the three goals of Deng’s era – affluence, stability, and power – is seen as the source of new problems. François Godement has characterised it as a success trap: the incredible achievements of the past have built up a powerful constituency for each of the policies of the Deng era but sticking to them now runs the risk of being self-defeating.<sup>3</sup> Incredible as it might seem, some intellectuals have started to talk of the Hu–Wen era, which delivered an average of 10 percent annual growth, as a “lost decade” because much-needed reforms were not made.<sup>4</sup> China 3.0 will be defined by a quest for solutions to these three crises. Many predict changes as radical as the onset of

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<sup>1</sup> This collection of essays and the introduction show many of the arguments between the intellectuals of the establishment. To understand how it relates to the arguments within the hierarchy itself, it should be read alongside François Godement’s brilliant essay “China at the Crossroads”, European Council on Foreign Relations, April 2012, available at [http://www.ecfr.eu/page/-/ECFR53\\_CHINA\\_ESSAY\\_AW.pdf](http://www.ecfr.eu/page/-/ECFR53_CHINA_ESSAY_AW.pdf) (hereafter, Godement, “China at the Crossroads”).

<sup>2</sup> Pan Wei has talked of “the end of the opening and reform era” and Wang Shaoguang of “Socialism 3.0”. The following is an attempt to look beyond the economic and social policy ideas they describe and to think about how China’s entire policy mix could be on the verge of change.

<sup>3</sup> Godement, “China at the Crossroads”.

<sup>4</sup> See in particular Deng Yuwen, “The Political Legacy of the Hu–Wen Decade”, *Caijing*, 29 August 2012.

communism in 1949 or the embrace of the market in 1979. But unlike during those earlier periods, today's reformers do not have international models to guide them. It is not just the Beijing consensus that is broken; the models of the West are also discredited. The intellectuals of China 3.0 find themselves in uncharted territory.

Last year, this debate about China's future briefly burst out of the academy into the usually staid realm of Communist Party politics. The battle of ideas was embodied by the two regions of Chongqing and Guangdong, which became competing archetypes for China 3.0. Guangdong, a prosperous coastal region, stood for a quest to move up the value chain economically while using a free media, civil society, and political openness to quell social tensions. Chongqing, by contrast, was about turning a backward inland province into a laboratory for egalitarian social policies and domestic consumption. Bo dramatically fell from political grace earlier this year and Guangdong party leader Wang Yang has adopted a low profile since then. But the debate beyond the party continues.

This collection aims to give Western readers a sense of this debate among China's elite. In particular, we have tried to capture the new intellectual fault lines in China. In the economic realm, the main divide is between a social Darwinist New Right that wants to unlock entrepreneurial energy by privatising all the state-owned companies and an egalitarian New Left that believes the next wave of growth will be stimulated by clever state planning. In the political realm, the main divide is between political liberals who want to place limits on the power of the state, either through elections, the rule of law, or public participation, and neo-authoritarians who fear these measures will lead to a bureaucratized collective government that is unable to take tough decisions or challenge the vested interests of the corrupt, crony capitalist class. In the foreign-policy realm, the main divide is between defensive internationalists who want to play a role in the existing institutions of global governance or emphasise prudence and nationalists who want China to assert itself on the global stage. The table below illustrates the different groups and where the authors in this book fit into the battle of ideas about China's three crises: affluence, stability, and power.

## SCHOOLS OF THOUGHT IN THE CHINESE ELITE

|   |  |   |
|---|--|---|
| <p><b>ECONOMICS</b><br/>Escaping from the affluence trap</p>  | <p><b>New Left</b><br/>Cui Zhiyuan<br/>Wang Shaoguang<br/>Wang Hui</p> <p><b>Free market egalitarians</b><br/>Yu Yongding</p>                    | <p><b>New Right</b><br/>Zhang Weiyong<br/>Hu Shuli<br/>Justin Yifu Lin</p>                                      |
| <p><b>POLITICS</b><br/>Escaping from the stability trap</p>   | <p><b>POLITICAL SOURCE OF LEGITIMACY</b></p> <p><b>Neoconservatives</b><br/>Pan Wei</p> <p><b>Neo-Maoist</b><br/>Wang Shaoguang<br/>Wang Hui</p> | <p><b>LIMITED GOVERNMENT</b></p> <p><b>Liberals</b><br/>Sun Liping<br/>Ma Jun<br/>Xiao Bin<br/>Michael Anti</p> |
| <p><b>FOREIGN POLICY</b><br/>Escaping from the power trap</p> | <p><b>INTERNATIONALISTS</b></p> <p><b>Globalists</b><br/>Wang Yizhou</p> <p><b>Defensive realists</b><br/>Wang Jisi</p>                          | <p><b>NATIONALISTS</b></p> <p><b>Neo-Comms</b><br/>Yan Xuetong</p>  |

### China's affluence crisis

For most of the last 30 years, China's leaders have been kept awake at night worrying about their country's poverty and the problems of a socialist economy. But today it is China's affluence and the problems of the market that are causing sleepless nights. The background to today's situation is that Deng's 1979 declaration that the goal of China's modernisation was the creation of a "xiaokang (moderately well-off) society", in which citizens would be comfortable enough to lift their eyes above the daily struggles of subsistence. For more than a decade, Chinese people have been living a version of this once-utopian concept. And, since the financial crisis, the government has been terrified of the consequences for its legitimacy of this newly enriched bourgeoisie losing its wealth.

In 2008, prosperous areas such as Guangdong were immediately plunged into chaos as the West's demand for imports from China fell off a cliff. This came on top of a growing sense that the traditional foundations of growth were eroding as labour costs, the price of land, and exchange rates all went up. China's massive stimulus package helped in the short term but exacerbated the longer-term imbalances. Some, such as the economist Justin Yifu Lin, who dramatically defected from Taiwan to China in 1979 by swimming ashore during a military training exercise, think that China is backward enough to continue growing in the traditional way for another two decades. Others think he is hopelessly over-optimistic, although they would probably have said the same thing if he had told them in 1979 that the country would grow in double digits for the next three decades. Yu Yongding, meanwhile, argues that while the short-term situation is much more benign than many analysts claim, China's longer-term outlook is much more challenging. Unlike Lin, Yu is old enough to remember China declining as well as growing. His defining experience was seeing his world turned upside down by the Cultural Revolution: one minute he was in a prestigious school, the next he was working in a heavy-metals factory.

Chinese thinkers such as Wang Shaoguang and Sun Liping are looking in interesting places to understand the crisis. Rather than studying the experience of other post-communist states, they have rediscovered J.K. Galbraith's classic work on the "affluent society" and are adapting his critique of mid twentieth-century America's spiralling inequality and ravaging consumption to China. Wang claims that Galbraith would have no difficulty recognising the symptoms of his affluent society in today's China. He argues that China's leadership has spent a generation obsessively focusing on economic growth at the expense of all else. Inequality has run rampant as socialist China has destroyed the "iron rice bowl" of social protection. China has gone from being one of the most equal countries in the world to a nation with a bigger gap between rich and poor than the United States. Moreover, a surge of conspicuous private consumption and vanity projects has come at the expense of investment in public goods such as pensions or affordable healthcare or public education.

China's supply of cheap exports was made possible by a deep well of migrant labour guaranteed by the hukou system, which ties the social rights of peasants to their birthplace, and puts them at a disadvantage in the cities to which they migrate for work. The result is that a city such as Guangzhou (formerly known as Canton), the largest in Guangdong, has become like Saudi Arabia: it has a GDP per capita on a par with a middle-income country, but

academics estimate that only three million of the 15 million people who work in Guangzhou every day are officially registered inhabitants. The rest have had no rights to housing, education, or healthcare and live on subsistence wages. In Saudi Arabia the cheap migrant labourers are attracted by the oil wealth; but in Guangdong the labourers are the sources as well as the by-product of the wealth. Reform of these conditions is painfully slow.

An absence of protection for most workers helps solidify the other leg on which China's growth stands: cheap capital for investment in domestic infrastructure. Without state-backed pensions, healthcare, or education, citizens save almost half their incomes as a hedge against personal misfortune. But the state-owned banks give them an artificially low interest rate. This makes vast amounts of capital available to crony capitalists at cheap rates for speculative investments, which have swelled the GDP and strewn the Chinese landscape with white elephants like palatial municipal buildings, factories that stand still, and empty hotels.

On one side of the debate about how to escape from the affluence trap are economists such as Zhang Weiying who form the core of the pro-market New Right. They pioneered the gradualist economic reforms of the 1980s and 1990s and now want the state to finish the job and privatise the rest of the economy. Zhang, a neoliberal economist who trained in Thatcher's Britain, argues that the solution to the crisis is to restart the interrupted privatisation of the state sector; to liberalise the financial system, particularly give the private sector equal rights to do finance; and to privatise the land and end collective ownership. In an interesting inversion of Proudhon's famous saying about property, he presents public rather than private ownership as theft. Similarly, the crusading journalist Hu Shuli implores China's leaders to ignore the vested interests that could stop these reforms being adopted. Their concerns have their champions within the Chinese system: last year, Vice-Premier Li Keqiang wrote the foreword to a 468-page report on China in 2030, published by the World Bank and the National Development and Reform Commission, which called for a "fundamental shift" towards marketisation in China's development model.

On the other side of the debate are New Left thinkers such as Wang Hui, Cui Zhiyuan, and Wang Shaoguang, who have been calling for a different model of development since the 1990s. They think that China's thirst for growth and affluence has created a bubble economy and trapped millions in poverty, and that the solution lies in planning rather than privatising. Since the early

1990s, they have been setting out ideas that have challenged the orthodoxy of neoliberal economics and called for a return of the state. This grouping is “new” because, unlike Maoist refuseniks, it embraces the market as part of a mixed economy; it is leftwing because it worries about inequality. At the top of their list for reforming China’s economic development model is boosting wages, ending the artificial subsidies for exports, providing access to social services, reforming the hukou system, and ending the “financial repression” of artificially low interest rates. They talk about low-price healthcare; about socialised capital and reforming property rights to give workers a say over the companies for which they work; and about green development.

The global financial crisis was initially a shot in arm for the New Left, whose star seemed to be on the rise steadily until it fell again with Bo Xilai’s implosion. Back in the 1990s, when the neoliberal economists ruled the roost, the New Left struggled to find any major political figures who supported their ideas; the best they could do was to find village leaders who still embraced collectivisation. Thus, in 1996, Cui Zhiyuan edited a breathless book about a backward village called Nanjie, which had embraced collectivisation and was outperforming its rivals, as a model for a non-neoliberal Chinese future. But, by 2011, the political mood had shifted to the left. Rather than scouring the countryside for neo-Maoist villages, the New Left could point to Chongqing – a city the size of a country, responsible directly to the State Council and led by the most high-profile and charismatic politician in China.

In his essay in this collection, which was revised after the arrest of Bo, Cui still argues that if Shenzhen was the model for the 1990s and Pudong for the 2000s, it is Chongqing that is setting the pace for China’s future development. He claims that others should copy Chongqing’s innovative measures to reduce the gulf between urban and rural development through its reform of the iniquitous hukou system and its land exchange scheme that gives peasants access to capital. Most important for Cui’s vision of a mixed economy that depends on domestic consumption is his description of the public–private mix in the economy.

The problem for the approaches of both the left and the right – stimulating demand on the one hand and supply-side reforms on the other – is that they run into the massive vested interests that have grown during the dizzying two decades in which crony capitalism has taken off. The sociologist Sun Liping – who was Xi Jinping’s PhD supervisor and led a study at Tsinghua University last year which explained how the state’s role in the economy has

created new interest groups that are hostile to reform – shows how groups have come to dominate land, mining, financial resources, basic infrastructure nationwide, urban development, public-works projects, and the development of rural water projects as well as energy, electrical power, telecommunications, manufacturing, and other important industries.<sup>5</sup> These groups have benefitted from the rise of a massive grey economy and ubiquitous corruption. Thus the greatest opponents of the New Left and the New Right are not each other but the beneficiaries of the system that has evolved. How to break that is increasingly a question that impinges on politics.

## China's stability crisis

Before 1989, the majority of Chinese intellectuals believed that the country would have to move towards Western political models and embrace multi-party elections, the separation of the party from the state, and the division of powers. But, after the Tiananmen Square massacre and the collapse of the Soviet Union, China eschewed these sorts of political reforms for fear that they could lead to the dissolution of the country. But Sun Liping's Tsinghua report argued that China's obsession with stability is becoming self-defeating: "The ultimate outcome of the rigid thinking of stability preservation and the massive stability preservation project is in fact the intensification of social tensions."

For the first time in two decades, there is an urgent discussion about political reform and legitimacy in the light of this stability trap. A surprising number of intellectuals talk privately about the threat of revolution or, at the very least, much more dramatic scenarios of democratic transition. Pei Minxin, an American-based Chinese academic, has written what a lot of his fellow thinkers believe but cannot write: that the conditions for "another Tiananmen" are there.<sup>6</sup> Other intellectuals wonder how the new leaders will gain enough legitimacy to take on vested interests – and, more challengingly, how they will maintain this legitimacy at a time when growth is slowing. The biggest gulf is

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<sup>5</sup> Social Development Task Group of the Sociology Department at Tsinghua University, "Research Report Series on Social Progress", January 2011. A lengthy summary of the report was published in the 9 January edition of China Youth Daily but subsequently removed from the newspaper's website. However, the summary has been translated and published by the China Media Project at the University of Hong Kong and is available at <http://cmp.hku.hk/2012/01/12/17967/>. For a longer discussion of the Tsinghua report, see Godement, "China at the Crossroads", p. 7.

<sup>6</sup> Pei Minxin, "Signs of a New Tiananmen in China", the *Diplomat*, 4 April 2012, available at <http://thediplomat.com/2012/04/04/signs-of-a-new-tiananmen-in-china/>.

between thinkers who believe in institutional sources of legitimacy and those who believe in political ones.

One group of Chinese intellectuals thinks that the way out of the stability trap is to find ways of institutionalising Chinese politics. The New Right, which does not believe in removing the roots of inequality, wants to use politics to make it more legitimate. It is conscious that the country is becoming more complex and more restive as an epidemic of riots is spreading across the country. Back in 1995, people were shocked when the Public Security Bureaus (China's domestic intelligence service) revealed that there were almost nine thousand "mass incidents" a year (defined as a violent demonstration). But since then the number of riots has grown even faster than the Chinese economy: state-backed studies estimated that the number had risen to 180,000 by 2011. That means that there is now more than one major riot every two minutes. How can the system channel this anger so that it does not threaten to overturn the system?

The place where these issues have come the most to the fore is Guangdong, which has become a model of flexible authoritarianism that gives greater voice to the concerns of citizens on the internet and allows civil society and NGOs to voice concerns. In the village of Wukan in Guangdong in January 2012, a battle between peasants whose land had been confiscated and the corrupt local authorities was resolved with an election. The dispute captured national attention – and became the most radical example of the potential of a "Guangdong model". Before Wukan, elections had more or less disappeared from the menu of systemic reforms. They were introduced at a village level in the 1990s, but although some scholars such as Yu Keping – who wrote an influential book called *Democracy is a Good Thing* – have argued for incremental democracy within the party, few people saw them as a real solution. But then Wukan happened, and Guangdong's boss Wang Yang saw it as an experiment for dealing with social unrest – a very radical departure from past practice, as Sun Liping explains in his essay.

However, even Sun – a bold and articulate voice for political liberalisation – fears that the Wukan model cannot be universalised as a solution to social tensions. The problem is, he says, that too many people have already been dispossessed of their land and property across China, and free elections could see the whole system unravel. That is the reason why some of the economic liberals who have written for this collection, such as Zhang Weiyang, would prefer strong political leadership to elections. Like many of the intellectuals in this collection, he came of age intellectually during the Cultural Revolution, and fears that mass democracy can rapidly become "mob rule".

Some Chinese thinkers have also been influenced by the collapse of faith in elections in developed democracies that are beset by falling turnouts, the rise of populism, and a crisis in the very idea of representation. Thus, although they want a more institutionalised Chinese system – with term limits, public consultation, and the rule of law – they do not see elections as a panacea. They argue that although the West still has multi-party elections as a central part of the political process, it has supplemented them with new types of deliberation such as referendums, public hearings, opinion surveys, or “citizens juries”.

China, according to these new political thinkers, will do things the other way around: using elections in the margins (maybe up to village level) but making public consultations, expert meetings, and surveys a central part of decision-making. For example, although Ma Jun himself believes that elections will ultimately be essential in China, his essay in this collection on “accountability without elections” provides a good sketch of some of the measures that the Chinese government has used to turn its regime into a more “deliberative dictatorship”.

Another group of Chinese intellectuals think that such institutional innovations are counter-productive. They argue that they are in danger of causing a crisis of Chinese legitimacy by creating an overly bureaucratized and cautious political leadership that is incapable of taking the radical choices that will be needed to legitimate China. These intellectuals think the solution is to look for more political sources of legitimacy. The stereotype outside China is that Chinese politics has remained trapped in aspic even as the economy has been through radical changes. In fact, the country has gone from having a system animated by larger-than-life charismatic figures such as Deng or Mao towards the collective bureaucratic leadership of technocrats who exercise power according to strict term limits and are subject to regular reviews by their peers and constituents. The neo-authoritarians and fans of mass participation think this is a bad thing. They argue that the flaws in China’s political system, including nepotism, corruption, the growing power of new interest groups such as state-owned enterprises, and the widespread contempt for the law mean that it will be impossible to find an institutional fix to China’s problems. Only the charismatic power of a leader – combined with the political organisation of the party – could cut through.

This fear of bureaucratisation is best captured by the neoconservative thinker Pan Wei. In his essay in this collection, Pan argues that although the bureaucratic state is able to make the big decisions, it is the trivial things

that lead to social unrest and the fall of political systems. Pan argues that the natural communities that had existed for thousands of years in China have gradually been destroyed, first by Maoism and then by the market – and he lays out a Chinese variant of communitarianism to recreate them. Pan reads the unrest in Wukan as driven by a lack of respect for the local original clan-communities, which the election of a new leader only amplifies. He sees the development of civil-society organisations in a township called Wuxi, in Sichuan, as an example of a new version of Mao’s “mass line” that puts emphasis on “participation” instead of “coverage”. In that regard, Pan shares with some New Left thinkers a view that the institutions of the state are so corrupt and complicit in the existing order that they will be incapable of delivering social justice or correcting the “original sin” that has led to the emergence of a super-rich class alongside the pauperised masses. They are less interested in restricting the power of the executive than they are in empowering the masses, and see a populist democracy as the solution.

Many critics of China’s system argue that China’s repressive political system is incoherent – how, they ask, can you have an information-age economy and a one-party state? In fact, New Left thinkers such as Wang Hui argue that it is the very openness of the economy that made the New Right so reliant on political repression in the 1990s. The only way that the leadership could drive market reforms that made one of the most equal societies in the world into one more unequal than the United States without provoking massive political unrest was to have strong political controls. Wang now wants to have a much more political and democratic type of government to take on the vested interests of capital and develop a more social programme for the masses. But, as his essay in this collection shows, he fears that instead of a new period of mass democracy, the removal of Bo Xilai could see another era in which political repression goes hand in hand with economic liberalisation.

It is within this context of the debate between political and institutional sources of legitimacy that we should also view the effect of the internet in China. It has been an article of faith among many Western observers that the inevitable consequence of the internet is to open up societies and defeat autocratic regimes, bringing liberal democracy in its wake. However, the Chinese state has changed the internet as much it has been changed by the internet. In his essay in this collection, Michael Anti shows that the government’s strategy of “blocking and cloning” social-media sites could actually reinforce the one-party state rather than weaken it. He argues that the selective opening and blocking of information has actually become an integral part of the party’s

governing strategy in a malign form similar to Western spin practices. In particular, central government uses the absence of censorship as a political tool to rein in local government officials.

After a tragic train crash in Wenzhou in 2011, the government allowed 10 million critical messages about the Chinese railway minister – who was the object of ire of even top officials at that point – to be aired on social media over five days. Later there was an even more dramatic and relatively free internet debate about Chongqing party head Bo Xilai from February to April of this year. There is speculation that lurid rumours about Bo and his wife, Gu Kailai, were deliberately encouraged by the party to sap the legitimacy of a very popular leader to the point where he could be purged. Anti's most dramatic claim is that the electronic crowds being mobilised are playing the same role as the Red Guards in China's Cultural Revolution.

This arresting image shows how China 3.0 could still be defined by the political tactics of China 1.0. In that sense, social media could actually lengthen the life of the one-party state by giving citizens an outlet for discontent, while allowing the leadership to understand public opinion (and, if necessary, prevent political mobilisation). This could be a practical solution to the stability trap, so long as it does not prevent the reforms that will be necessary for China to continue growing as an economic and political power.

## China's power crisis

For a generation, China's foreign policy was guided by Deng Xiaoping's injunction to "tao guang yang hui", which literally means "hide its brightness and nourish obscurity". Deng meant that China, as a poor and weak country, should keep a low profile, avoid conflicts, and concentrate on economic development. This led to a defensive foreign policy that took little initiative but reacted to Western pressure and subordinated other objectives to the imperative of creating a stable environment for China's economic development. In the place of the foreign policy of China 1.0 – focused on ensuring the security of the revolutionary state and promoting revolution elsewhere – China accepted a US-dominated international order and tried to extract as much benefit from it as possible by free-riding on American protection of its investments as well as the free markets that the West guaranteed.

Since the global financial crisis, the Deng approach has been under increasing attack. China's foreign-policy community knows that it is harder to sustain a low profile when your country has the second-biggest economy in the world, your military spending is growing in double-digits, and you have a physical presence in every continent. But there is a big debate about how best to respond. On one side of the debate are those who want to accommodate Western power. They include committed globalists and the defensive realists who argue that it is the very fact that China is now more powerful that makes "modesty" and "prudence" even more important. On the other side are those who argue that China must now pursue a more assertive foreign policy in which it helps to define the rules of foreign policy rather than simply following diktats crafted in Washington and elsewhere. This applies to the question of global governance but even more to China's neighbourhood, where issues around the South China Sea, the East China Sea, and Japan loom increasingly large.

One of the most dramatic changes to Chinese foreign policy, as Wang Yizhou argues in his essay in this collection, is that China now has to protect the interests and safety of its citizens around the world. If you add the 50 million Chinese citizens living abroad to the 80 million overseas Chinese, you get 130 million citizens. If they were a single country, they would be the tenth-biggest country in the world, with a larger population than Japan's. Moreover, China's state-owned companies and citizens tend to be based in some of the world's most febrile trouble spots. The world sat up and took notice when China airlifted 38,000 citizens out of Libya, but there are millions more Chinese working in places as unstable as Sudan, Afghanistan, Iran, and Angola. Where military planners used to talk about Taiwan to make the case for extra resources, they now talk about the need to acquire a blue-water navy to protect Chinese investments.

It is as a result of these factors that internationalists such as Wang Yizhou now call on the government to replace the low profile with a doctrine of "creative involvement". Wang is one of a small group of globalists in the Chinese academy who are firmly in favour of integrating China into the existing international order. In fact, on the surface, his doctrine has echoes of former World Bank President Robert Zoellick's 2008 call for China to become a "responsible stakeholder". However, reading between the lines, the objective of "creative involvement" is to find tactical ways of co-operating with international institutions in order to minimise criticism of China.

Most of China's internationalist foreign-policy community is more cautious than Wang Yizhou about getting entangled in these sorts of global commitments. The essay in this collection by Wang Jisi, a realist who is an expert on the US and a former roommate of President Hu Jintao, shares Wang Yizhou's concern about maintaining good relations with the West but thinks the solution is to be more modest and prudent. This anguished piece reflects the horror of Chinese foreign-policy professionals at the hubris of China's recent diplomacy. Wang Jisi points to the paradox that, in spite of a major change in the balance of power in China's favour, China's foreign-policy outlook is grimmer than ever. He worries that Chinese assertiveness on the South China Sea, the Yellow Sea, the Senkaku Islands, and the Indian border have helped to create the conditions for a resurgence of American power in Asia. Wang's cautious but tough-minded pragmatism was reflected in the general tenor of China's skilful but cautious diplomacy in the 1990s and early years of this century. But, since 2008, it has been increasingly difficult to deliver on a Deng Xiaoping strategy.

The paradox is that, as China becomes ever stronger, the governing power of its state seems to be getting weaker. The foreign ministry – traditionally the most cautious of the bureaucracies – is out-ranked by many companies and domestic departments; provincial governments and big state-owned enterprises are more interested in advancing their profits than in reassuring the world; and the People's Liberation Army is increasingly restive. Furthermore, there is now so much contact with the rest of the world that the senior leadership tends only to engage with many issues once they become a crisis – with the exception of the relationship with the US.

The popular mood seems to be shifting towards assertive nationalists like Yan Xuetong as a younger generation that has known only China's rise takes to the internet chat-rooms and the streets. When I first met Yan a decade ago – at a time when everyone was talking about strategic partnership between Europe and China – I asked him what China wanted from Europe. “When we go to war with America,” he said, “I would like Europe to remain neutral.” In recent years, Yan has made a name for himself by refusing to take Western terms as a given and by rediscovering old Chinese concepts and applying them to international relations.

In Yan's thoughtful essay in this collection, he argues that China needs a comprehensive rethinking of its approach to foreign policy. Instead of talking about creating a multipolar world, as Chinese officials have done in recent

years, he proclaims an era of “bipolarity” with China rising in the next ten years to become the only counterpart to the US. In the course of two-thousand words, Yan then challenges some of the most fundamental doctrines of the Deng era: the primacy of economics (he thinks that the economy should be put at the service of Beijing’s political goals), the quest for a multipolar world (he embraces an era of bipolar competition), the principle of non-alignment (he hints that Beijing should develop an alliance with Russia), and the norm of non-intervention (he has argued elsewhere that China will have the same approach to intervention as the US when it is as strong as the US). Yan’s version of “responsibility” is that China should provide its allies not just with economic aid and investment but also with security guarantees. If China 3.0 embarks on a series of interventions to protect Chinese interests, as Yan proposes, the West may come to rue the day when it criticised the passivity of Chinese foreign policy.

However, even Yan Xuetong’s assertiveness seems ultra-cautious compared to the mood outside the traditional foreign-policy community. The demonstrations against Japan and the outpourings of anger on the internet about the South China Sea and the East China Sea suggest that many Chinese people expect their leaders to translate their growing economic clout into tougher policies towards their neighbourhood. One illustration of China’s transitional state are the books that are selling well. For example, the bestselling book in China after the 2008 crisis was *China is Unhappy*, an angry ultra-nationalist rant that called on the government to stop kowtowing to the West and translate its economic might into political and military power. One of its authors, Wang Xiaodong, explained to me ominously that China had a bigger GDP than Britain at the time of the Opium Wars, so China could not rely on economic power alone. Although the Chinese government has tried to suppress it, it has sold over a million official copies and many times that number in pirate versions, and spawned a cottage industry of similar tomes.

These books show that on foreign policy, as in other areas, there is a growing tension between the strength of the country and the weakness of the system. The big question underlying the debate among foreign-policy professionals is whether the new leaders will be able to follow policies that transcend nationalist pressures on the one hand, and the demands of China’s new vested interests on the other. As China enters the global super-league, its strategy promises to be shaped as much by domestic pressure as by grand strategy.

## Why China 3.0 matters

These debates about China 3.0 are of huge importance for the whole world. It is not just that a fifth of humanity lives within China's borders. It is also clear that the other four-fifths of the world's population will increasingly be influenced by China's actions. In the next 20 years, Chinese economists predict that Beijing will have an economy over twice the size of America's. They think it will be the world's biggest domestic market and the biggest global source of foreign investment, buying up Western companies, brands, and assets with its savings. But although China's footprint will become ever more important for the world, the drivers of its internal debates will be increasingly domestic.

In the past, Europeans assumed that as China became wealthier and more developed it would inevitably become more like us. This led to a lack of curiosity about China's internal debates and an attempt to primitively divide its thinkers and officials into "reformers" who embrace Western ideas and "conservatives" who want to return to China's Maoist past. As François Godement and Jonas Parello-Plesner show in their afterword, Europeans now need to change their mental maps to deal with a China whose internal structure and structural relationship with the rest of the world has been turned on its head. The starting point must be to abandon the preconceptions of the past and to start engaging with China 3.0.

# MODELS

Cui Zhiyuan

1

# The Chongqing experiment: the way forward for China?

*Cui Zhiyuan shot into the limelight as a young post-graduate student in 1993 with an article calling for a “second liberation of thought”. He argued that China had to free itself from blind adherence to neoliberal ideas in the same way that Deng Xiaoping had allowed it to escape Marxist-Leninist dogma. This, together with his book on the socialist market economy of Nanjie village, sealed his reputation as a founding member of the New Left, a loose grouping of intellectuals working on alternatives to neoliberal capitalism. Cui is a longtime admirer of James Meade’s “liberal socialism”. More recently, he has become known for his studies on the “Chongqing model” and emerged as the chief intellectual champion for the municipal government of Chongqing. He became close to the Chongqing mayor Huang Qifan and Party Secretary Bo Xilai and was even seconded to the government as an official.*

*Most of the western debate on Chongqing has been about “singing Red Songs”, the crackdown on the mafia, and the extraordinary drama of Bo’s removal, the conviction of his wife for killing a British businessman, and the defection of his Robocop-style police chief Wang Lijun to the US embassy. But Cui’s essay lays out the reasons why so many Chinese intellectuals embraced the idea of a “Chongqing model” before Bo’s dramatic downfall. It is based on a longer academic paper, “Partial Intimations of the Coming Whole: The Chongqing Experiment in Light of the Theories of Henry George, James Meade, and Antonio Gramsci” (Modern China, November 2011 37: 646-660), which was widely discussed in academia and the party. Cui describes Chongqing as a model for development that could end China’s dependence on exports and savings; heal the growing gulf between rural and urban development; and use public ownership and state planning to stimulate private business.*

If the city of Shenzhen symbolised China in the 1980s and Pudong (the new part of Shanghai) symbolised it in the 1990s, many people now see Chongqing – a city of 33 million people located in the inland, western part of China – as the embodiment of China in the first decade of the twenty-first century. For example, Niall Ferguson, the Harvard economic historian who coined the term “Chimerica”, said the following in 2008:

Shortly before the anniversary of the great Western credit crunch, I paid a visit to its antithesis: the great Eastern savings splurge. Nowhere better embodies the breakneck economic expansion of China than the city of Chongqing. Far up the River Yangtze, it is the fastest-growing city in the world today. I had seen some spectacular feats of construction in previous visits to China, but this put even Shanghai and Shenzhen into the shade.<sup>7</sup>

Ferguson’s visit to Chongqing changed his mind about the idea of “Chimerica”. He had originally envisioned a division of labour in which China “saved” and the US “consumed”, since he thought China did not have a big-enough domestic market and therefore had to rely on export-led growth. However, the “spectacular feats of construction” he observed in Chongqing showed him the coming reality of the huge Chinese domestic market – and therefore the end of “Chimerica”.

It is appropriate that Ferguson should find Chongqing as the antithesis of his idea of “Chimerica”, since Chongqing was specifically chosen by the Chinese State Council in 2007 as “the national experimental zone for integrating rural and urban developments”. This integration is the key to stimulating China’s domestic demand, if only because urban residents consume six times as much as rural residents and can therefore change China’s pattern of growth from an export-driven to a domestic consumption-driven one. In March 2011, the Chinese People’s Congress officially announced the 12th Five Year Plan and made “changing the pattern of economic growth to improve the livelihood of the people” the new pillar of China’s economic and social policy.

Most Western media coverage of Chongqing tends to focus on Bo Xilai and the “Red Songs” he encouraged people to sing. However, this initiative should be

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<sup>7</sup> Niall Ferguson speech on “Chimerica” at the Carnegie Council, 20 November 2009, available at <http://www.youtube.com/watch?v=-DeQYWro8YU>.

seen in the context of the innovations in economic and social policy that have been undertaken in Chongqing. In particular, there are three interesting features of the Chongqing experiment that could in the future be adopted elsewhere in China: its land certificates market, its reform of household registration for immigrant rural workers in the city, and its public-land leasing system.

## The land certificates market

Even before Chongqing was designated as “the national experimental zone for integrating rural and urban developments”, President Hu Jintao defined its role in China’s overall development strategy when he gave a keynote speech to the Chongqing delegation at the annual meeting of the People’s Congress in March 2007. According to President Hu, Chongqing’s mission is threefold: firstly to become the economic centre of the upper River Yangtze; secondly to become the “growth pole” for the whole western region of China; and thirdly to be the first region in western China to create the “modestly prosperous society” (*xiao kang*).

In the spirit of this mission, Chongqing established the first and only “land exchange market” in China, in December 2008. What is exchanged in this market is not land itself, but rather “land certificates” (*di piao*) that signify the amount of rural construction land that has been converted back to arable land. For example, if some villagers have restructured their living pattern to convert some residential land back to arable land, they are entitled to sell the certificates through the land exchange market to the developers who are required to buy them at auction.

The land certificates market is, in a sense, similar to carbon emissions trading schemes in Europe and elsewhere. But the significance of it in the Chinese context is that it implicitly recognises that peasants have land development rights – something that does not exist in the current Chinese “land management law”. Thus Chongqing’s land certificates market can be compared to the experiment in transfer of development rights (TDR) in some American cities in the 1970s.<sup>8</sup>

## Household registration reform

A second element of the Chongqing experiment is household registration reform for the two million farmers and their families who have moved from the countryside to Chongqing since 2010. The reform, known as *hukou*, has allowed anyone who has worked in the city for more than five years to change their household registration from rural residence to urban residence. This was a huge step in reducing the discrimination against rural workers in the city and a precondition for the “integration of rural and urban development” – the mission of Chongqing as the “national experimental zone”.

Without the land certificates market, it would have been difficult for Chongqing to deal with this influx, because rural residents are not forced to give up their land in the countryside when they get urban household registration, which makes rational land planning in rural areas harder. The land certificates market gives immigrant rural workers an incentive to voluntarily give up their residential land in exchange for land certificates, which allows residential land to be converted back to arable land. Currently, the average price for one mu “land certificate” is between 150,000 and 200,000 yuan, which makes life in the city significantly more comfortable for families from the countryside who have moved to the city and are now registered as urban households.<sup>9</sup>

In many parts of China, the increase in land value due to rapid industrialisation has benefitted mainly urban residents and peasants who live close to the suburbs of big cities. In Chongqing, however, the land certificates market and household registration reform allow even peasants who live far away from the city to benefit from the increase in land value by selling their land development rights.

## The public-land leasing system

The third element of the Chongqing experiment is its public-land leasing system. When Huang Qifan came from Shanghai to Chongqing as deputy mayor in 2001, Chongqing government’s revenue from leasing public land was only 0.2 billion yuan. Huang was puzzled by the fact that Chongqing’s “base price” for public-land leasing was lower than that of Chengdu, which

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<sup>9</sup> The mu is a Chinese measurement that is equivalent to 666.66 m<sup>2</sup>.

sits in a plain and is therefore much easier to sell. Huang immediately decided that Chongqing's base price should be 10 yuan higher for each class of land than that of Chengdu.

Chongqing implemented the new base price for leasing public land in 2002. Chongqing's revenue from leasing public land went from 0.6 billion yuan to 2.2 billion yuan in 2003 to 98 billion yuan in 2010. This capture of a large portion of the increase in land value by the Chongqing government is one of the key reasons why it was able to impose a 15 percent tax on private business compared to the national rate of 33 percent.

The public-land leasing system can be seen as a special case of the larger argument about the co-development of public ownership and private business. According to conventional wisdom, publicly or state-owned businesses and privately owned businesses can only replace one another: when one advances, the other retreats.

However, in Chongqing both the public and private sectors have rapidly advanced in the last decade. Public ownership of assets in Chongqing has grown more than threefold, from 170 billion yuan in 2002 to 1,386 billion yuan at the end of June 2011. However, the private sector in Chongqing has also grown very fast: in 2001, the private sector accounted for 38.8 percent of Chongqing's GDP and 61.2 percent at the end of 2010.

The Chongqing experiment demonstrates that there is no zero-sum game between public ownership of assets and private business. Rather, as the Nobel Prize-winning economist James Meade argued, they can be complementary and mutually reinforcing to each other. In fact, the Chongqing experiment can be thought of as an attempt to find a Meade-like "optimal mix" of public and private ownership. Huang's notion of a "third finance" can be understood from Meade's theory: when the government can get market revenues from public assets, it can reduce the tax burden on private businesses and individuals so that public and private ownership of business reinforce each other.

## Conclusion

The attempts in Chongqing to revitalise the party's relationship with the masses do not make sense except in the context of the innovations in economic and social policy that have taken place in the city since it became a "national experimental zone for integrating rural and urban developments" in 2007. The latest policy experiment in Chongqing is the "ten projects for improving people's livelihood", which includes household registration reform.<sup>10</sup> On their own, Bo's "Red Songs" might seem like a form of indoctrination. But singing them in the context of the "ten projects for improving people's livelihood" can be seen rather as a way of revitalising the Chinese Communist Party's relationship with the masses.

The Chongqing experiment could have national implications. The innovations undertaken in the city in the decade since Huang took over as deputy mayor in 2001 – the land certificates market, household registration reform, and the public-land leasing system – have been watched closely and debated throughout China and could indicate the way forward for the country. In a sense, therefore, Chongqing's various experiments of integrating rural and urban development can be seen as "partial intimations of the coming whole".

Postscript: On 6 February 2012, Wang Lijun, the police chief of Chongqing, sought asylum at the US consulate in Chengdu and thereby brought an abrupt end to Bo's political career. However, the social-economic experiment in Chongqing described in this article predates him and is still going on. The Bo affair indicates that there is no proper mechanism for the resolution of political conflicts at the highest level of Chinese politics. The Chongqing experiment deserves to be closely watched for its significance for the future political-economic development of China.

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<sup>10</sup> Cui Zhiyuan, "The Political Economy of Chongqing's Ten Projects of Improving People's Livelihood", *Journal of the Central Party School*, September 2010.

*Xiao Bin*

## The Guangdong model in transition

2

*In 2011, Xiao Bin emerged as the most prominent supporter of the “Guangdong model”. The opposition between Chongqing and Guangdong has been hotly debated in a series of seminars and roundtables since August 2011. The most influential symposium, held last summer in the famous Fragrant Hills on the outskirts of Beijing, was the first of its kind to openly discuss the political implications of the Guangdong–Chongqing rivalry and the possibility of pluralist governance in a future China. Although Cui Zhiyuan, the leading supporter of the “Chongqing model”, was unable to attend and the anticipated confrontation with him therefore did not take place, Xiao’s presentation was apparently the tour de force of the event.*

*The essay below is extracted from a lengthy paper entitled “The Evolving Guangdong Model: An Analytical Framework”, published in the Journal of Public Administration in June 2011. It has been reproduced in many Chinese journals and is seen as the classic exposition of the “Guangdong model”.*

What has become known as the Guangdong model is the product of a specific geography and history. Besides Guangdong's unique location and the external opportunities it provides, it was made possible by a unique combination of historical changes in the province. In particular, three elements have made the Guangdong model possible: first, a political system that combines rigidity and flexibility; second, a government-led market economy; and third, an unbalanced social system. However, it now faces challenges in each of the three elements. As a result, the Guangdong model is in transition.

## Rigidity and flexibility

The first element of the Guangdong model is a political system that combines rigidity and flexibility. It is rigid in the sense that the party tightly controls political power but flexible in the sense that it has adjusted in response to the historical changes resulting from three decades of reform and opening up. Until 1978, China had a highly centralised planned economy and a political system in which power was concentrated in the hands of central government and provincial authorities at the expense of city, county, or grassroots autonomy. However, during the last three decades of reform and opening up, Guangdong has made three key reforms in terms of power relations.

First, there has been a vertical decentralisation: power has been devolved from the centre to the province of Guangdong and from the province to cities, counties, towns, and villages. In essence, decentralisation means more autonomy for sub-provincial governments. Second, there has been a horizontal decentralisation: in order to invigorate the economy, power has been "returned" to businesses along the lines of the "Qingyuan experience" and "Jiangmen model" in the early and late 1980s. Third, the local government's own authority has been limited. Starting with Shenzhen as early as 1997, Guangdong was among the first in the country to reduce the number of items that require administrative approval and modify the procedure of administrative examination. In other words, there was a transition to a limited government under the rule of law.

The role of government in Guangdong has also changed. Its role used to be to plan and control economic activity; it now sets rules, and regulates and supervises a market economy. Instead of putting economic growth above everything else, it is now also shifting towards improving public services, strengthening public financial systems, and improving government services.

Guangdong has also experimented with new forms of consultative democracy. The Standing Committee of the Guangdong Provincial People's Congress solicits opinions from society on legislative proposals via its official website, newspapers, and other media platforms. The Provincial People's Congress also holds legislative hearings and forums to listen to citizens' views. The Guangzhou Municipal Government in 2006 was also the first in China to standardise citizen participation in formulating administrative regulations.

Guangdong has also been a pioneer in institutionalising oversight of government revenue and expenditure. Since 1997, the Shenzhen Municipal People's Congress Standing Committee had had the right to review and approve national economic and social development plans. In 2001, Guangdong province passed regulations that gave people's congresses and their standing committees at all levels the right to monitor the government budget. In 2005, further regulations made government even more transparent by requiring that budgets and financial statements be made public.

This combination of rigidity and flexibility in the political system has had unique consequences. In political terms, it has strengthened the authority of the government and created a stable political and social environment for economic development. In economic terms, it has provided freedom for market development. Thus a political system that once inhibited economic development now supports it.

However, due to the inadequacy of political reform, the basic structure of power centralisation and monopolisation remains the same. Furthermore, the rule of law and democracy has yet to be institutionalised in China. Thus there is no way to supervise or restrain political power or for the public to exercise their civil rights. As a result, corruption among government officials is prevalent and difficult to stop. The challenge for the future is to deepen political reform in order to establish an effective institutional framework to prevent corruption.

## A government-led market economy and export-oriented economy

The second element of the Guangdong model is its economic model: a government-led market economy and export-oriented economy. From the 1980s onwards, Guangdong embarked on a series of path-breaking market-oriented reforms: self-regulation of the market gradually superseded planning

in the field of production; the state monopoly over purchase and distribution of goods was smashed; and reforms on prices, ownership, and property rights were pushed forward. However, Guangdong is not yet a totally free market economy; rather, it remains a government-led market economy.

In other words, the local government is the main actor in local economic development. In fact, the local governments have replaced enterprises and assumed the role of market resource allocators: markets (capital, labour, land, etc.) are still very imperfect; there is still an administrative monopoly and unfair competition, and the government overrides the market; there is not yet a social credit system or law and order that support a modern market economy. Guangdong has still a long way to go to improve and perfect its market economy system.

Since the beginning of China's "opening up", Guangdong's economic development has focused on attracting foreign investment from Hong Kong, Macau, and other developed districts and countries. Combining local land advantages and cheap human resources, Guangdong's economic development has gradually become highly dependent on external resources and external markets. Its economy has been driven primarily by low-end manufacturing that lacks proprietary technology. Guangdong has developed rapidly but paid a high price. In particular, the environment has been damaged, the rights of workers (especially migrant workers) have been neglected, and the three gaps (that is, between different districts, between the cities and the villages, and between the rich and the poor) have become wider and wider. The challenge now is to make a transition from an economic growth model that is oriented towards external resources to one that is oriented towards internal resources, and from a market economy that is government-led to one that is based on the rule of law.

## An unbalanced social system

The third element of the Guangdong model is its unbalanced social system. The three factors in the social system – that is, social order, social security, and civil society – remain in different phases of development.

In terms of social order, Guangdong is still exploring how to make a transition from a traditional, simple-and-rigid system of social control to a system directed by law and social management innovation to achieve the goal of a stable society. However, since 2009, Guangdong has established centres of comprehensive

management, petitions, and stability maintenance (or preservation) in more than 1,600 towns and streets as a way to respond to social tensions. These management centres combine both traditional, rigid means of social control and innovative, new methods of social management through enhanced community management, convenient services, and justice-based, persuasion-oriented conflict resolution mechanisms.

Social insurance and social security (including endowment insurance, health insurance, unemployment insurance, work-related injury insurance, and maternity insurance) have also been developing rapidly. Guangdong ranks first across the country in measures of private social insurance, such as the numbers of persons insured by pension insurance, basic medical insurance for urban residents, unemployment insurance, and work-related injury insurance. On the other hand, government-funded social security (including social relief, social welfare, special care and placement systems, etc.) is quite weak.

The advantage of this relative emphasis on privately funded social insurance relieves the fiscal burden on government. For example, the “Zhanjiang Medicare Reform” increased the efficiency of the provision of Medicare by providing a maximum level of medical security coverage with a minimum input from the government and individuals. The disadvantage, however, is that it has led to an underdeveloped social security system in Guangdong.

According to the August 2011 national statistics on the guarantee of minimum standard of living for urban residents, Guangdong’s per capita contributions to social security was merely 181 yuan for the month of August – below the national average of 206 yuan and above only six other provinces (Fujian, Guangxi, Sichuan, Yunnan, Gansu, and Ningxia). In terms of cumulative total expenditures for the first eight months, Guangdong’s expenditure exceeded that of only eight provinces and was lower even than the municipalities of Shanghai and Chongqing. Thus Guangdong still lags behind the national level in terms of government-funded social security. It not only bears little relation to Guangdong’s position as a provincial economic power but also contrasts sharply with Guangdong’s leading role in the development of social insurance.

Civil society, on the other hand, is well-developed in Guangdong. There is a strong awareness of civil rights (particular the right to know the truth, to participate in politics, to express personal opinions, to supervise government activities, etc.); there are an increasing number of social organisations; and there is comparative freedom of expression and media. In short, citizens in

Guangdong have a clearer awareness of their rights in comparison with their counterparts in other regions of the country.

The strength of civil society in Guangdong has made the government more attentive to the public's views and concerns; on the other hand, citizens have also learned to cultivate civil awareness and enhance citizen engagement and empowerment. They have employed a dual strategy combining lawful and rational protests and positive and constructive participation.

The protests against the construction of a waste incinerator in Guangzhou's Panyu district, which began in 2009 and are still ongoing, are a typical example of action by Guangdong citizens. On the one hand, local residents organised marches and collected signatures to protest against the government's proposal and eventually stopped the plan from being implemented. On the other hand, they established online forums, collected extensive information and expert views, launched policy debates on the subject of waste processing, and proposed waste classification as an alternative solution to the waste incineration plan. The constructive mode of action and tactics deployed by Panyu residents led them to be seen as "fellows on the other side of the debate" – that is, an indispensable force that cannot be underestimated by government.

In conclusion, the Guangdong model is undergoing a transition from a rigid system in which the government controlled both the market and society to a three-dimensional system in which the market and civil society interact with each other. On the surface, the challenge is to make a transition from an externally oriented economy to a domestically oriented one while maintaining a balance between "making the cake bigger" (i.e. efficiency) and "sharing the cake better" (i.e. fairness); to make a shift from a rigid and extensive system of social control to service-oriented social management with effective control of corruption. At a deeper level, there are fundamental structural challenges arising from the inherent problems of the system – the tension between the monopoly logic of an integrated system and the competition logic of a market economy system. The future of the Guangdong model depends on further reform and opening up.



# ECONOMY

Yu Yongding

## Restructuring over growth

3

*Yu Yongding is one of Chinese leading macroeconomists. His work is characterised by a combination – unusual in China – of liberal economics with a strong emphasis on social justice. Yu, who was a classmate of Bo Xilai at the prestigious No. 4 High School in Beijing, has also been a critic of the way in which China has invested its large trade surpluses with the US in dollar-denominated US debt. In a striking simile, he jokes that investing in US treasuries whose value has been destroyed by quantitative easing is the monetary equivalent of Japan sailing all its ships into Pearl Harbor and inviting the Americans to bomb them. Although he argues that the renminbi should be allowed to float freely as a way of hastening the shift from a reliance on cheap exports, he is very cautious about rushing the process of renminbi convertibility, warning that the government should not be seduced by the self-interested calls by the Hong Kong financial lobby to liberalise the capital account.*

*The essay below reflects his long-held view that China needs to move beyond its export-oriented, investment-driven, low-value-added economy to one based on domestic consumption and high-value-added production. It is inline with the messages he pushed for many years when he was a member of the Monetary Policy Committee of the People's Bank of China and in his inputs to the party's various Five-Year Plans.*

As China's economy slows, many argue that it needs a further stimulus to guarantee 8 percent growth. For example, there is much discussion about the collapse of China's steel industry, which has seen profits fall by nearly 50 percent in the last year. Growth has also slowed in raw-materials industries and in cement production. However, calls for a further economic stimulus overestimate the short-term problems China faces and underestimate the long-term consequences of a failure to restructure and shift China's growth pattern in a timely fashion. China's leaders should hold their nerve and resist the temptation to change course in order to boost growth. Instead, they should accelerate China's economic adjustment, even at the expense of growth, as long as the slowdown does not seriously increase unemployment. If China does not restructure now, it will have to pay an even higher adjustment cost later.

## The causes of the slowdown

There are several important causes for the slowdown in the Chinese economy this year. It is, to a certain extent, a reflection of the success of the government's effort to deflate the real-estate bubble. Two years ago, China's 12th Five Year Plan set an indicative target of 7 percent annual average GDP growth for the period of 2010–2015. The setting of a lower growth target was aimed at providing enough room for restructuring and a shift in China's growth pattern. In other words, the slowdown is in part policy-induced.

Investment and export are the two main engines of China's growth. This growth pattern has been successful for transforming China from an extremely poor country to a lower middle-income one. But China's investment rate now is approaching 50 percent of GDP, of which some 10 percent is attributable to real-estate investment. As a result, China's capital efficiency has fallen significantly in recent years. Furthermore, whether or not there is a bubble, sustainable growth cannot be built on concrete and cement.

China's export-to-GDP ratio surpassed 35 percent of GDP in 2007. It has been argued by some that the Chinese economy is not export-dependent because net exports as a proportion of GDP are not high. But this argument is conceptually wrong. Net exports cannot be used to measure the dependence of an economy on external demand. If the Chinese economy is not highly dependent on exports, why has growth been hit so badly by the global slowdown since 2008? To make its growth sustainable, China must shift to a new growth pattern that relies more on domestic rather than external demand, and consumption

instead of investment, especially real-estate investment. The Chinese government understands this. Earlier this year, Premier Wen Jiabao said: “In setting a slightly lower GDP growth rate, we hope ... to guide people in all sectors to focus their work on accelerating the transformation of the pattern of economic development and making economic development more sustainable and efficient.”<sup>11</sup>

Action has been taken to rein in investment in general, and real-estate investment in particular. The slowdown in infrastructure investment and real-estate development investment, which dropped by 16.3 percent in the first half of 2012 and had an impact on related industries such as construction materials, furniture, and appliances, inevitably led to a significant slowdown in growth.

China’s export growth has also slowed dramatically because of the global financial crisis. Faced with the slowdown, there were two options: to stimulate exports through tax rebates or by re-pegging the yuan to the US dollar and so on, or to use this worsening of the external environment to accelerate the restructuring of China’s export industries by encouraging competition, mergers and acquisitions, industrial upgrading, the relocation of production sites, and so on. Fortunately, the government has refrained from taking measures to promote exports, which would have risked rolling back the progress China has made in reducing its dependence on exports since 2005.

In short, the slowdown, and the failure to recover from it quickly, are mainly the consequences of the government’s determination to push through the readjustment that had started before the global financial crisis and was interrupted by it. The Chinese government should be applauded for its courage in staying the course without ushering in another stimulus package.

## China’s options

China still has room to pursue an expansionary fiscal and monetary policy. Despite all of China’s problems, its fiscal position is strong. Its budget deficit-to-GDP ratio is less than 2 percent; its public debt-to-GDP ratio is less than 20

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<sup>11</sup> Tania Branigan, “China cuts growth target to 7.5%”, *Guardian*, 5 March 2012, available at <http://www.guardian.co.uk/world/2012/mar/05/china-cuts-growth-target-7-5>.

percent. According to the available statistics, local government debt and policy loans account for 27 percent and 6 percent of GDP respectively. Even if all local government debt and policy loans were bad and central government had to foot the bills, China's total public debt-to-GDP ratio would still be only 53 percent – lower than Germany's. Thus, if the Chinese government wanted to, it would not be difficult for it to increase growth through a new stimulus package.

The Chinese banking system is also in relatively good shape. Its non-performing loan ratio is low and is likely to remain so even if it increases as the growth rate drops. While it is difficult for the European Central Bank to persuade commercial banks to lend instead of hoarding money, the People's Bank of China (PBOC) encounters no such problem from the "big four" – that is, the four dominant state-owned commercial banks in China. China's money-market interest rate (something like the US federal funds rate or the eurozone's main financing rate) is around 3 percent and could be reduced further. More importantly, China's reserve requirements, which used to be around 10 percent and are now 20 percent, could easily be reduced if the PBOC so wished. The PBOC could also cut the deposit and loan rates, which are benchmark interests in China. The PBOC sets the interest rates that commercial banks can charge for loans extended or pay for deposits received, though they have some limited leeway to set the rates higher or lower. A cut in these rates would also boost economic growth.

So far, by and large, the government has resisted the temptation to stimulate the economy through expansionary fiscal and monetary policy. But it is entirely possible that, when the economy shows signs of further weakening or of stress in the labour market, the government will change its mind. Last May, the National Development and Reform Commission (NDRC) approved in one go a series of large projects worth some 800 billion yuan. It was widely seen as a sign that the government was yielding to pressure for a new stimulus package, though on a smaller scale than in 2008–2009. Fortunately, the NDRC dismissed the claims. In fact, there has been no follow-up in regard to the funding of those projects. If local government and enterprises cannot find adequate funding from other sources, then there will be no new investment in these projects. If the lacklustre performance of the economy continues, the government could also dismantle administrative measures aimed at reining in housing prices. Its change of heart on reining in real-estate investment certainly will result in a rebound in house prices and progress in controlling investment fever in real-estate development will be rolled back easily.

In short, what course the Chinese government will take at this juncture could be influenced by the performance of the economy. If the government is confident that growth will not fall below 7.5–7 percent in 2012 and beyond, it may stick to the approach it has taken since 2010. However, if it is not confident, it may change course, with all the negative long-term consequences that this would entail. At present, my bet is that the government will stay the course. In my view, even if there is no further action taken by the authorities, the Chinese economy will be OK for this year and the near future.

## Conclusion

China has an unsustainable growth pattern. It will have to pay a cost in the form of slower growth. This cost will have to be paid and sacrifices will have to be made. Fortunately, at the moment, China is still in a good fiscal position, which gives it breathing space to carry out structural adjustment without causing too much pain.

I hope the Chinese government holds its nerve and continues with its current approach despite the slowdown. Certainly, in responding to changes in the economic situation, it can and should make some policy adjustment to ensure a necessary pace of growth. But if it launches another stimulus package at the expense of readjustment, we will be in big trouble in three to five years' time.

China may now have entered a longer-term adjustment period of five years, during which the economy may struggle with relatively slow growth at an average rate of 7 percent, just as we planned in the 12th Five Year Plan. The biggest challenge in this period will be about who should bear what costs, which essentially is a political rather than an economic issue. Undoubtedly, the readjustment will be painful. However, I have no doubt that, if the government succeeds in this adjustment, China will have another decade or two of growth beyond 8 percent.

In per capita terms, measured in almost all indicators, China is still a very poor country. More importantly, in terms of institutional reforms, there are still many things to be done. All this shows that China still has a long way to go to lift itself up from a lower middle-income country to an advanced one. The existence of so many unsolved problems means that China still has tremendous potential for further progress. I am, and have to be, optimistic about China's future.



*Justin Yifu Lin*

# China's potential for sustained dynamic growth

4

*In June 2008, Justin Yifu Lin was appointed as chief economist of the World Bank – the first Chinese citizen to occupy such a high-ranking position in a multilateral organisation. His appointment, on the eve of the global financial crisis, was seen in the Chinese and international media as a reflection of the power shift towards China.*

*Lin has been consistently optimistic about China's potential for sustained growth. Even today, as many economists are increasingly less confident about China's growth prospects, Lin still remains indefatigably bullish, forecasting that China could still maintain annual growth of 9 percent for another two decades or even longer. Lin was involved in the World Bank/National Development and Reform Commission's report on China in 2030. But the essay below, which draws on his recent book *Demystifying the Chinese Economy*, contains none of the radical calls for reform in that report. Instead, it delivers a provocative account of how China could still make use of its backwardness to catch up with the West. Thus it is a counterpoint to the radical calls for a change of strategy in Yu Yongding's essay in this collection.*

When China began its transition from a planned to a market-oriented economy in 1979, it was a poor, inward-looking country with a per capita income of \$182 and a trade dependence (trade-to-GDP) ratio of 11.2 percent.<sup>12</sup> China's economic performance since then has been miraculous. During this 30-year period, annual GDP growth has averaged 9.9 percent and annual growth in international trade has been 16.3 percent. China is now a middle-income country, with a per capita GDP of \$5,400 in 2011, and more than 600 million people have escaped poverty. Its trade dependence ratio has exceeded 50 percent, the highest among the world's large economies. In 2009, China overtook Japan as the world's second-largest economy and replaced Germany as the world's largest exporter of merchandise. China's car market is now the world's largest and Shanghai has been the world's busiest seaport by cargo tonnage since 2005. The spectacular growth over the past three decades far exceeded the expectations of anyone at the outset of the transition, including Deng Xiaoping, the architect of China's reform and opening-up strategy.<sup>13</sup>

Despite China's success, opinions about its future growth vary greatly. One view holds that China will outpace the United States by 2030 or even earlier. The other view is that China's economy could collapse at any time.<sup>14</sup> Which view is more sensible? Answering this question requires an understanding of the key determinants of economic growth.

## The determinants of economic growth

From the perspective of production functions, economic growth is determined by the following:

- *Factors of production.* In economics, the factors of production include natural resources, labour, and capital. If the factors of production increase in proportion, so will output. But in modern society, since natural resources are restricted by the area of the country, they can be regarded as fixed. The increase in labour is limited by population

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<sup>12</sup> Unless indicated otherwise, the statistics on the Chinese economy used in this paper are from various editions of the National Bureau of Statistics' *China Statistical Yearbook*, published by China Statistical Press.

<sup>13</sup> Deng's goal at that time was to quadruple the size of China's economy in 20 years, which would have meant average annual growth of 7.2 percent. Most people in the 1980s and even in the early 1990s thought that achieving that goal was mission impossible.

<sup>14</sup> One representation of such views was Gordon H. Chang, *The Coming Collapse of China* (New York: Random House, 2001).

growth. So capital is the most variable of the three. Since China's reform and opening up, savings and investments have exceeded 40 percent of GDP annually. For some countries, the figure ranges from 10 percent to 15 percent; for some African countries, it is close to zero. Of the factors of production, capital is the most critical for economic growth.

- *Industrial structure.* If the factors of production are allocated to industries with higher added value, output will also increase. So the industrial structure also determines economic growth; moving factors of production to sectors with higher value added, the economy will grow even without increasing those factors.
- *Technology.* Technology is another big determinant. Technological progress means higher productivity. So, even when the industrial structure and factors of production remain unchanged, with better technology an economy's output and growth will improve as well.
- *Institutions.* With the foregoing productive inputs, industrial structure, and technology, one can construct a production-possibility frontier, an economy's maximum obtainable output in an ideal state. How close it approaches that maximum hinges on institutions, which can help in upgrading labour, using resources effectively, and adopting appropriate technology.

## The need for new technology

Among these four determinants, technology is the most important in practice. The other three are subject, to some degree, to the speed of technological change. Land and natural resources are basically fixed and the growth of labour is rather limited. Even if capital accumulates at great speed, the law of diminishing returns means that unless there is technological progress, returns will decline. As a result, enthusiasm for accumulating capital will decline as well. Only when technology progresses at a certain speed can the effects of diminishing returns be avoided to sustain the enthusiasm for capital accumulation.

Without new technology, there would be no new industry with a higher value added, and industrial upgrading would be out of the question. Almost all of today's high-value-added industries, like electronics and bio-engineering, are the results of invention, innovation, and new technology. Only with constant

technological innovation will there be a flow of new industries with high value added. Driven by high returns, businesses will invest in these emerging sectors, eventually leading to industrial upgrading.

Institutional improvement is also crucial. Unlike capital accumulation, industrial upgrading, or even technological advance, which are all driven by profit, institutional improvement is a passive process. Institutions cannot be judged in isolation. As Marx put it, the base determines the superstructure and, as part of the superstructure, institutions must correspond to actual economic conditions. As mentioned above, technological changes will change various aspects of the base, demanding institutional improvement. So technological progress is a prerequisite for institutional improvement.

In sum, the potential for economic growth depends mostly on technological progress. For more than a millennium before the eighteenth century, the fastest average annual growth in per capita GDP was only 0.05 percent, even for the most developed European countries.<sup>15</sup> Thus it took 1,400 years to double per capita incomes. After the Industrial Revolution, the rate of technological innovation picked up across Europe. As a result, the average annual growth of per capita income in the eighteenth and nineteenth centuries increased to 1 percent. Thus in this period it took 70 years to double per capita incomes. In the twentieth century per capita income growth rose to 2 percent – 40 times what it was before the Industrial Revolution. Thus in this period it took only 35 years, or a little over a generation, to double per capita incomes. Such seismic changes illustrate the critical role of technology in economic growth. To understand the potential for China's future development thus requires exploring the possibility for technological change in China.

## Innovation in developing countries

There are two types of technological innovation: product and process. With product innovation, new products such as computers replace old products such as abacuses. With process innovation, the product remains the same but is produced more cost-effectively and efficiently. For example, in its early days, the Ford Motor Company adopted the high-efficiency assembly line to replace traditional handcrafting methods in order to produce affordable cars for the mass market.

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<sup>15</sup> See Angus Maddison, *The World Economy* (Paris: Organisation for Economic Co-operation and Development, 2006).

Both product innovation and process innovation can come from research and development (R&D) at home or from borrowing from abroad. Innovation does not necessarily involve the latest technology, and different countries tend to choose different innovation mechanisms. For the most advanced countries such as Germany, Japan, and the US – which enjoy not only the highest per capita income but also state-of-the-art technologies – indigenous R&D is the only option for innovation. But developing countries that are lagging behind the developed world have other options for innovation in most industries, including importing technology, copying, and purchasing patent licences.

For developing countries such as China, introducing technology from developed countries is generally preferred, if it is available. Most patent protection for a new technology is for 20 years or less. In practice, because of rapid technological progress, it costs almost nothing to introduce most technologies invented 10 years ago. And for more recent technologies, some data show that the cost of licensing is no more than 30 percent of their original R&D costs. So, taking into account the cost of all the failed experiments, it would be less than 1 percent of the R&D cost for licensing a new technology.

## The advantages of technological borrowing

By introducing advanced technologies and experiences from the developed countries, the developing countries can innovate faster, at lower cost, and with less risk. Technological innovation will lead to improved efficiency, higher returns on capital, faster capital accumulation, and industrial upgrading and economic growth. Consider how long it took countries around the world to double their per capita GDP in the rapid growth phase after the Industrial Revolution: the UK took 58 years (1780–1838), the US 47 years (1839–86), Japan 34 years (1885–1919), Turkey 20 years (1957–77), Brazil 18 years (1961–79), South Korea 11 years (1966–77), and China 10 years (1977–87).<sup>16</sup>

In other words, the later the economy entered its rapid growth phase, the shorter the time it needed to double its output. As discussed above, the industrial countries were able to increase per capita GDP by around 1 percent a year in the century after the Industrial Revolution and around 2 percent a year in the

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<sup>16</sup> World Bank, *World Development Report 1991: The Challenge of Development* (Washington, DC: World Bank, 1991).

twentieth century. By contrast, the successful developing economies, including Japan, the four Asian Tigers, and post-reform China, were able to increase per capita GDP by 8 percent a year in the second half of the twentieth century.

After World War II, the Asian Tigers and China were basically at the same starting line. But by the 1980s the Tigers had become newly industrialised economies with per capita incomes of about one-third that of the US. The major reason was that they were good at technological borrowing and industrial upgrading. In the 1950s, most people in the four Asian Tigers were farmers. With the continuing introduction of new technology and new industries, labour moved to high-value-added industries, including services. As the returns on capital in those industries improved, capital accumulated rapidly and economic growth snowballed.

The completely different economic performances before and after reform in China also demonstrate how critical borrowing technology is to the economy. Before 1978, a popular slogan in China was “Overtake the United Kingdom in 10 years and catch up with the United States in 15 years”. But although China tested an atomic bomb in the 1960s and launched a man-made satellite in the 1970s – both cutting-edge technologies – its economic performance was poor. Fortunately, China embarked along the same road as the other East Asian economies after 1978. The main reason for China’s rapid growth after its reform and opening up is borrowing technology at low costs to achieve rapid technological change.

## The key is to maintain rapid growth

No country other than China has maintained annual growth of 9 percent for more than three decades. Can China keep growing that fast for another two decades, or even longer? The answer, based not on some optimistic estimate but on the potential advantages of backwardness, is yes. In 2008, China’s per capita income was 21 percent of that of the US, measured in purchasing power parity by Maddison’s estimates.<sup>17</sup> The income gap between China and the US indicates that there is still a large technological gap between China and the industrialised countries. China can thus continue to enjoy the advantages of backwardness before closing the gap.

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<sup>17</sup> The national statistics used in this and the next paragraph are taken from Angus Maddison’s *Historical Statistics of the World Economy: 1–2008 AD*, available at [http://www.ggdc.net/maddison/Historical\\_Statistics/horizontal-file\\_02-2010.xls](http://www.ggdc.net/maddison/Historical_Statistics/horizontal-file_02-2010.xls).

Maddison's estimates show that China's current status relative to the US is similar to that of Japan in 1951, Singapore in 1967, Taiwan in 1975, and South Korea in 1977. GDP grew by 9.2 percent in Japan between 1951 and 1971, by 8.6 percent in Singapore between 1967 and 1987, by 8.3 percent in Taiwan between 1975 and 1995, and by 7.6 percent in South Korea between 1977 and 1997. Mainland China's development strategy after the reform in 1979 is similar to that of Japan, Singapore, South Korea, and Taiwan. So it has the potential to achieve another 20 years of 8 percent growth. Japan's income per capita measured in purchasing power parity was 65.6 percent of that of the US in 1971, Singapore's was 53.8 percent in 1987, Taiwan's was 54.2 percent in 1995, and South Korea's was 50.2 percent in 1997. Twenty years from now, China's per capita income measured in purchasing power parity may reach about 50 percent of the US's per capita income. Measured by purchasing power parity, China's economy may in 2030 be twice as large as that of the US; measured by market exchange rates, depending on how fast China re-values its currency, it may be at least about the same size as that of the US.



# Zhang Weiying

## From privilege to rights

# 5

*Zhang Weiying is one of China's most visible economists and a leading figure in the neoliberal New Right. He is widely known for his advocacy for free markets, privatisation, and entrepreneurship. He has been at the heart of economic debates and policymaking since his advocacy of "dual-track pricing" in the early 1980s. Like many of China's most influential economists, he has an uncompromising attachment to monetarist ideas, which he developed during his time in Thatcher's Britain in the 1980s. A few years ago, he attracted controversy when he defended China's new capitalist class in an argument with another famous Chinese economist, Lang Xianping, who had worked on a series of exposés of the money lost and embezzled during the reform of China's state-owned enterprises.*

*The essay below is adapted from Zhang's keynote speech at the twelfth Yabuli Conference of China Entrepreneurs, which was held in February. The essay is typical of Zhang's style: he puts forward his defence of markets and his frustration with the state in a forthright and radical way. It is widely believed that Zhang's speech played an important role in the decision in April by the Supreme People's Court to reduce Wu Ying's sentence from death to life imprisonment.*

Recently, Wu Ying, a young female entrepreneur from Zhejiang province, was sentenced to death by the Supreme Court of Zhejiang for “fundraising fraud” after she raised more than 700 million yuan (\$111 million) from 11 relatives and friends for commercial activities. Something like this could have happened in France during the reign of Louis XIV, when the French government executed more than 16,000 entrepreneurs at a time for importing and manufacturing cotton textiles in violation of the industry and trade policies made by Finance Minister Jean-Baptiste Colbert, but it could not happen in the West today. In other words, China is 200–300 years away from a market economy. Our economy is still built on privilege rather than on rights and lacks the three elements of a market economy: freedom, property rights, and entrepreneurship.

## Freedom as a right

Freedom is a basic human right. The only restriction to freedom is not to infringe upon others’ rights, because all humans are equal with each other. In positive terms, freedom means that every citizen can use his own wisdom, knowledge, skills, and labour, make his own decisions, improve his own livelihood, and realise his own dreams; in negative terms, it means that no one should be enslaved by others. In a society in which everyone enjoys his freedom completely, only free co-operation between people can bring them mutual benefits through mutual help. In other words, every person should receive an income only when he creates value for others. Only when one brings happiness to others can he achieve his own happiness. This is the logic of the market.

Only when freedom is guaranteed can there be fair competition and real creativity and innovation. In this sense, freedom and the market are two sides of the same coin. It is incoherent to support the market while opposing freedom, or to support freedom while opposing the market. In a society without freedom, some people can dominate, exploit others, and build their own happiness on the suffering of others. This is the typical logic of robbery. In a planned economy, there is only harmful struggle among people instead of real competition. This struggle destroys wealth. Only market competition creates wealth. Thus freedom is also the foundation for the prosperity of society.

Rights apply to everyone equally, regardless of family background or social and political status, and they cannot be taken away arbitrarily. Privilege, on

the other hand, is granted specifically to people, depending on their family background and social status, and it can be given and taken away. No real market economy can exist in a society dominated by privilege. In a market economy, opportunities are open to everyone: every citizen has the right to decide which industry he enters, what kind of products he produces, and what organisations he establishes.

However, in China, the ability to make such choices is still a privilege rather than a right. In order to start a business, you have to go through a procedure of administrative approval controlled by a few people who have the power to veto all your efforts. Our industrial policy creates obstacles to doing business and discriminates against grassroots entrepreneurs. Industrial policy is adding to privilege and encouraging rent-seeking, resulting in serious corruption. Similarly, if you want to set up a charitable foundation, you have to first find a sponsor, which must be a government department or one of its affiliated agencies. It is totally up to the administration to decide if it will back you.

It is sometimes necessary to restrict entry to some industries. But restrictions must be kept to a minimum and, more importantly, must be the same for everyone. That is to say, no applicant should be discriminated against, whatever their family background and social status. In China, the restrictions are all personal, discriminatory, and privilege-based rather than rights-based. For example, if you want to set up a financial institution, you are more likely to gain approval from the administration if you know the person in charge of the administration or if you find a way to get connected with him. Otherwise, you have no chance.

A real market economy also requires a marketplace of ideas. This means that thought and expression should be free from any ideological restriction; people should be accountable only to their own conscience. Free thinking produces innovation in technology and organisational systems and promotes social progress. Thus part of why the United States is the most innovative country in world is that its Constitution protects freedom of speech. In China, on the other hand, freedom of speech is still a privilege. You need prior approval from the authorities to set up a publishing house, magazine, or newspaper. In fact, the General Administration of Press and Publication has not approved any new periodicals in ten years. As a result, there is no platform to debate new academic subjects.

## Property rights as the foundation of social order

The second essential element of a market economy is property rights. If a society cannot even protect private property rights, citizens cannot enjoy real freedom. Thus property rights are also the foundation of the maintenance of social order. In a society in which private property rights are not effectively protected, people are nervous and uneasy. Property rights are also the foundation of social morality. Only when we respect individual rights and everyone earns income by creating value for others can we become people with morality. There can be no morality in a society that does not respect private property rights. The arbitrary violation of property rights will necessarily give birth to a belief in gaining without giving. When government officials can fearlessly encroach on common citizens' legal interests, it is impossible for common citizens to be always ready to help others in danger. The morality decline and crisis in China are partly caused by the absence of respect for individual rights, and the authorities' failure to protect private property rights.

Property rights are also the foundation of innovation. Only when people are confident that a good life can be created by wisdom and hard work are they willing to invest and wait for years or even decades pursuing new and uncertain things. Thus the protection of intangible assets is extremely important. In China, the protection of intangible assets is often optional and discriminatory and is even worse than the protection given to tangible property. For example, if your reputation is infringed upon and you report it to the Security Authority, the police will ask you first if you are a member of the Political Consultative Congress or a Delegate of the People's Congress, or another celebrity. If you are a nobody, they will not register your case at all. Thus law enforcement is based on privilege rather than rights.

Without restraining the government's taxation rights, property rights cannot really be protected. When Cen Ke, a researcher in the Institute of China Entrepreneurs' Forum, called unrestrained taxation robbery he was absolutely right. Thus the construction of the British constitutional system began with the Magna Carta, whose main purpose was to limit the king's taxation rights. However, China still lacks the kind of restraint of the government's taxation rights that was established in England in 1215. This problem has not even received any domestic attention. The privileges of state-owned enterprises are also a serious violation of property rights. In the fields of coal, iron and steel, and oil, the mandatory takeover of private enterprises by state-owned enterprises is actually an act of robbery.

## Entrepreneurship as the soul of the market economy

The third essential element of a market economy is entrepreneurship. The entrepreneur is the soul of the market economy and the driver of economic growth. The market itself is actually a process of continuous creation and innovation by entrepreneurs. Without entrepreneurs, there may be simple product exchange but there can be no real market economy or real innovation. Entrepreneurs are hardworking risk-takers who are very sensitive to profitable opportunities, eager to progress, and good at innovation. Whether they can exercise their entrepreneurship and realise innovative ideas determines how fast a society innovates and how fast its social wealth grows.

The great achievement of human beings over the past 200 years is a testimony to the power of entrepreneurship. The dazzling economic progress of China of the past 30 years is also the result of entrepreneurship. In a market economy of free competition, entrepreneurs' businesses serve the people. How much they can achieve is decided by how much happiness they can create for us and how content we are with their service. Any policy preventing entrepreneurs from innovation is anti-market and anti-consumer.

The basic characteristic of a planned economy is that entrepreneurship has nowhere to function. As a result, we had been living in a shortage economy for 30 years before 1978. Who is the biggest victim from disabling entrepreneurship? It is the common citizen and all consumers. When Google is kept out of the Chinese market, it affects not only Google itself, but also – more importantly – hundreds of millions of Chinese “netizens”, who are unable to obtain the more accurate and valuable information that they want.

However, not everyone who is called an entrepreneur actually creates wealth for society. When freedom and property rights cannot be guaranteed, privilege becomes dominant. When the government controls too many resources, as in China today, many entrepreneurs are easily directed to rent-seeking rather than creating value for consumers. More seriously, in a society spoiled by privilege, robber-style entrepreneurs steal wealth. We should prevent Chinese entrepreneurs, including private entrepreneurs, from becoming vested interests. There are always successful people in all systems. Some successful people are probably motivated to defend their hard-won privileges. They will never think of turning their privileges into equal rights for all.

## A setback for reform

In the last 30 years, China has made a transition from the logic of robbery to the logic of the market. The basic spirit of Deng Xiaoping's famous speech during his visit to coastal cities in South China 20 years ago is that Chinese citizens should have more freedom to start their own business and make money; the legality of private property rights should be recognised; and entrepreneurs should take a leading role in economic development. These are the reasons why the Chinese economy has developed so fast since 1992. But although we have made great progress in developing a market economy, there is still a long way to go because China's economy is still based on privileges rather than rights.

The case of Wu Ying shows that financing is still a privilege rather than a basic right. The law against illegal fundraising makes it illegal for private enterprises to raise funds in the way that state-owned enterprises can. Wu was convicted of fraud even though all of the 11 lenders in her case denied that she cheated them. Before she was even sentenced, the court sold her property without her permission. The law against illegal fundraising is a way to protect privilege and should be repealed, just as the law against speculation was years ago. There is no need for such a vicious law to deal with real fraud in the market.

In the 1980s, Deng Xiaoping protected Nian Guangjiu, a representative of the early street vendor in the 1980s. But now that Deng has passed away, there is nobody left to protect Wu Ying. Her death sentence marks a setback for reform. I appeal to entrepreneurs, government officials, and the media to pay more attention to rescue Wu Ying. To do so would actually be to rescue the future of China as well as the freedom and life of every one of us. If Wu Ying deserves a death sentence for raising funds, how many other people should also be sentenced to death in China today?

## Wang Shaoguang Chinese socialism 3.0

*Along with Cui Zhiyuan and Wang Hui, Wang Shaoguang is one of the most visible figures on the Chinese New Left. In particular, his support for state planning and his revisionist views of the Cultural Revolution have upset liberals. The 1993 report he co-authored with the economist Hu Angang, China's State Capacity Report, stimulated a massive debate within China that eventually led to a major reform of the tax system. Since then, Hu and Wang have written several other reports on Chinese political economy that have had a significant impact on government policy. Wang has also collaborated with Pan Wei on a research project on the China Model. In a recent lecture on "Four Wheel Drive Democracy", Wang argues that, to solve the legitimacy crisis in China, elections need to take place alongside public consultations, the selection of delegates by lottery, and a return to some of the practices of the Cultural Revolution such as sending officials to spend time in the countryside.*

*The essay below comes from the introduction to one of Wang's major works on the "Chongqing model", which was first published in the February 2011 issue of Studies on Marxism and has been widely reproduced since then. It was endorsed and published in internal CCP journals in Chongqing and other provinces.*

There is no fixed, one-size-fits-all model of socialism. Rather, the socialist ideal must be applied in different ways in different countries and at different stages of development. Since the liberation of China in 1949, the Chinese Communist Party, all levels of the Chinese government, and the Chinese people have been exploring a socialist path that is suitable for their own national conditions and stage of development. During the past six decades, China has gone through two stages of historical development and has been relatively successful in exploring the socialist path at each stage.<sup>18</sup> Having entered the third stage of its history, it is now exploring a new path – Chinese socialism 3.0.

## Chinese socialism 1.0

The first stage runs from the foundation of the People’s Republic of China to 1978. During this period, China’s per capita GDP rose steadily from around \$500 to almost \$1,000.<sup>19</sup> During this “subsistence stage”, China’s level of economic development was very low and output was barely enough for people’s subsistence even if it had been equally distributed. China adopted a public-ownership-cum-planned-economy socialist model in order to concentrate its limited surplus and prioritise the development of key industries and vital social undertakings. Meanwhile, with a low average income, the only way to maximise social welfare was to try to ensure basic living conditions for everyone. China therefore tried to ensure that resources were evenly distributed and paid a lot of attention to equity – for example, by using coupons to ration the supply of daily necessities.

Chinese socialism in the Mao era was certainly not flawless – for example, progress in improving the material standard of living was slow – but its achievements cannot be denied. Only three years after liberation, China’s economy was at its highest pre-war level. From 1953 to 1978, the average annual GDP growth rate stood at 6.5 percent – quite an impressive record, even if it was not as spectacular as Japan and the Four Little Dragons over the same period. The state provided basic human security – food and clothes via rationing – and basic healthcare and education. It created an egalitarian society, with a Gini co-efficient of below 0.3. It also created hard and soft infrastructure for future development.

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<sup>18</sup> Wang Shaoguang, “Steadfastly Maintain Our Direction and Explore New Roads: Sixty Years of Socialist Practice in China”, *Social Sciences in China*, Vol. V, 2009, pp. 4–19.

<sup>19</sup> Angus Maddison, “Historical Statistics of the World Economy, 1–2008 AD”, available at [http://www.ggdc.net/maddison/Historical\\_Statistics/vertical-file\\_02-2010.xls](http://www.ggdc.net/maddison/Historical_Statistics/vertical-file_02-2010.xls).

Thus Chinese socialism 1.0 laid both hard and soft foundations for its subsequent development. Some often criticise China's Great Leap Forward by quoting Nobel Prize-winning economist Amartya Sen, but, either intentionally or unintentionally, they leave out his overall evaluation of Mao's era. In 1949, China and India were both among the world's poorest countries with high death rates and levels of malnutrition and illiteracy. But Sen argues that by 1978 China had made huge improvements that contributed to its subsequent economic development. "China's achievements of the pre-reform period in areas of education, health, land reform, and social change made an enormous positive contribution to the reform itself," he writes. "This not only enabled China to maintain a high level of life expectancy and other related achievements, but also provided firm support for the economic expansion of market-based reform."<sup>20</sup>

## Chinese socialism 2.0

In 1979, when China's per capita GDP exceeded \$1,000, it entered the "adequately fed and clad" stage. Thus, in this new phase of Chinese socialism, the goal shifted to reducing remaining poverty on the one hand while increasing private income and consumption for most people on the other hand. Thus China started reform and opening up. The dominance of public ownership was gradually replaced by the co-existence of diverse forms of ownership and the planned economy progressively evolved into a market economy (although planning still played a rather important role) and non-mandatory or indicative planning.

Distribution policy also changed in order to increase growth: the "iron bowl" was smashed, the "big rice pot" was taken away, and a new approach of "let parts of the people (and regions) get rich first" encouraged people in all regions to shake off poverty and create wealth by all means possible. Since the level of per capita income was sufficient to maintain survival, social welfare could be maximised by boosting economic development and raising income and consumption levels of the vast majority on the one hand and assisting the poor and alleviating poverty on the other. In fact, this was the essence of Chinese socialism 2.0.

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<sup>20</sup> Jean Drèze and Amartya Sen, *India: Economic Development and Social Opportunity* (Beijing: Social Sciences Academic Press, 2006), Chapter IV "India and China".

It produced spectacular results. China's annual average rate of GDP growth in the period from 1978 to 2001 was 9.6 percent – higher than during the previous 30 years. The rapid growth of China, a gigantic and super-complex economy with a population of more than one billion, over the last 20 years is unprecedented in the history of mankind – a genuine miracle. As per capita income rose steadily from \$1,000 to \$4,000, the vast majority of Chinese people were increasingly well fed and decently clad. Measured in terms of the World Bank poverty standard, the number of poor people in China fell from 652 million to 135 million between 1981 and 2004 – in other words, more than half a billion people were lifted out of poverty. The number of poor people in the developing world as a whole declined by only 400 million over the same period. In other words, but for China, there would have been an increase in the number of poor people in the developing world. No wonder a World Bank report said that “a fall in the number of poor of this magnitude over such a short period is without historical precedent”.<sup>21</sup>

Of course, Chinese socialism 2.0 also had its drawbacks. In order to pursue the highest possible rate of economic growth at this stage of its development, China to a large extent ignored social justice, workers' rights, public health, medical care, the environment, national defence, and so on. This caused serious consequences as well as a widespread sentiment of insecurity, inequality, and discomfort among the population.

## In search of Chinese socialism 3.0

With per capita GDP exceeding \$4,000 in 2002, China has now entered the stage of moderate prosperity. This new stage of economic development will give birth to a new version of socialism – Chinese socialism 3.0. If at the “adequately clad and fed” stage an increase in the levels of private income and consumption was conducive to the improvement of social welfare, it is no longer the main driving force for the improvement of social welfare at the stage of moderate prosperity. Indeed, their positive correlation becomes diminishing and even slips into the reverse.<sup>22</sup>

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<sup>21</sup> World Bank, *From poor areas to poor people: China's evolving poverty reduction agenda. An assessment of poverty and inequality in China*, March 2009, p. iii, available at [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/04/14/000333038\\_20090414011802/Rendered/PDF/480580v10Revised0Box338876Bo1Public10.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/04/14/000333038_20090414011802/Rendered/PDF/480580v10Revised0Box338876Bo1Public10.pdf).

<sup>22</sup> Yew-Kwang Ng, *Efficiency, Equality and Public Policy* (Beijing: Social Sciences Academic Press, 2003).

John Kenneth Galbraith's argument in *The Affluent Society* (1958) was based on this understanding. He acutely observed that American society was affluent in terms of the abundance of privately provided goods and services but very poor in publicly provided ones. Many households already possessed private residences, automobiles, refrigerators, washing machines, televisions, and air conditioners. But Galbraith wrote that, even in New York City, the nation's pride, "the schools are old and overcrowded. The police force is inadequate. The parks and playgrounds are insufficient. Streets and empty lots are filthy, and the sanitation staff is underequipped and in need of men. Access to the city by those who work there is uncertain and painful and becoming more so. Internal transportation is overcrowded, unhealthful, and dirty. So is the air. Parking on the streets should be prohibited, but there is no space elsewhere."<sup>23</sup>

Galbraith argued for a balance between the supply of private and public goods and services. Otherwise, simply increasing privately produced goods and services would be pointless. For instance, "an increase in the consumption of automobiles requires a facilitating supply of streets, highways, traffic control, and parking space. The protective services of the police and the highway patrols must also be available, as must those of the hospitals."<sup>24</sup> Galbraith emphasised that in order to achieve such a balance and further improve the level of social welfare, the community must significantly increase investment in public goods and services when reaching the stage of affluence.

However, the United States did not take Galbraith's advice. In 1998, in an introduction to the fortieth anniversary edition of *The Affluent Society*, he wrote: "My case is still strong. The government does spend money readily on weaponry of questionable need and on what has come to be called corporate welfare. Otherwise there is still persistent and powerful pressure for restraint on public outlay. In consequence, we are now more than ever affluent in our private consumption; the inadequacy of our schools, libraries, public recreation facilities, health care, even law enforcement, is a matter of daily comment ... in civilized performance it (the public sector) has lagged even further behind the private sector, as it is now called."<sup>25</sup>

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<sup>23</sup> John Kenneth Galbraith, *The Affluent Society* (Beijing: Shanghai People's Publishing House, 1965), p. 213 (hereafter, Galbraith, *The Affluent Society*).

<sup>24</sup> Galbraith, *The Affluent Society*, p. 215.

<sup>25</sup> John Kenneth Galbraith, *The Affluent Society* (Boston: Houghton Mifflin, 1998), pp. x-xi.

Socialist China ought to do better than the US. Now that it has basically solved the problems of feeding and clothing the masses, China should explore ways to increase input in areas that could really improve the welfare of most people – for example, in public housing, public security, ecological protection, public health, public education, infrastructure, culture and art, and science and technology. When people’s needs for food and clothing have been met, housing and transportation should also be improved. Then, when these four basic needs have been met, issues of public consumption (safety, ecology, and health), human security, and social equality should also be addressed.

China has already made progress in improving welfare and reducing human insecurity. A minimum income scheme was created in 2001, which now covers more than 80 million people. The state has also re-engaged in healthcare. Urban healthcare insurance now covers nearly 500 million Chinese people. Meanwhile, nearly 830 million Chinese people are enrolled in the New Rural Cooperative Medical System. Overall, more than 1.3 billion Chinese people are now covered by some form of medical insurance. There has also been progress in the development of a system of old-age pensions: more than 700 million people are now covered. The provision of social housing has also dramatically increased. In short, a Chinese welfare state is now taking shape.

## An alternative to free-market capitalism

It is now clear that free market capitalism is not the “end point of mankind’s ideological evolution” as Francis Fukuyama famously claimed in “The End of History?” in 1989.<sup>26</sup> In fact, two polls commissioned by the BBC 20 years after the article was written revealed a widespread dissatisfaction around the world with “free market capitalism”.<sup>27</sup> An average of only 11 percent of people across 27 countries said they thought that capitalism worked well in its current form and needed no governmental intervention. 23 percent said that capitalism was fatally flawed and needed to be replaced by a new economic system. The most common view was that free market capitalism had problems that could be addressed by reform and regulation, and reform should be directed towards allowing government to be more active in owning or directly controlling their

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<sup>26</sup> Francis Fukuyama, “The End of History?” the *National Interest*, No. 16 (Summer 1989).

<sup>27</sup> BBC, “Wide Dissatisfaction with Capitalism: Twenty Years after Fall of Berlin Wall”, 9 November 2009, available at [http://www.globescan.com/news\\_archives/bbc2009\\_berlin\\_wall/bbc09\\_berlin\\_wall\\_release.pdf](http://www.globescan.com/news_archives/bbc2009_berlin_wall/bbc09_berlin_wall_release.pdf).

country's major industries, wealth redistribution, and business regulation. In other words, "free market capitalism" goes against the will of the people.

It is only in this global context that we can truly appreciate the significance of Chinese socialism 3.0. The Chinese people do not believe in the "end of history" and remain tireless in exploring the socialist path. At the same time, they will not rest on their laurels or stick to the beaten path. Having reached a new stage of development, they will "upgrade" socialism with Chinese characteristics while experimenting with a wide range of new policies.<sup>28</sup> Since food and clothing are no longer the major concern of the vast majority of Chinese people, Chinese socialism 3.0 must substantially increase investment in public goods and services, and further improve the welfare level of the whole of society.



*Hu Shuli*

## China: Staying on track

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*Hu Shuli has been one of the most outspoken advocates for media freedom and liberal market reforms in China. In 1998, she founded the magazine Caijing, which shook up China's media landscape with its in-depth investigations into corruption and fraud. In 2009, she left the magazine along with most of the editorial staff following disagreements with the owners and created Caixin, a new magazine that has since also earned a reputation for its liberal views and in-depth reporting.*

*The essay below is based on a Caixin editorial that called on the leadership to continue the reform process. Published in August, in a period of fierce ideological struggle ahead of the October power transition, the editorial was seen as a bold call to take advantage of the left's disarray following the removal of Bo Xilai. Its argument echoes the World Bank's recommendations on completing China's transition to a market economy and accelerating innovation.*

In the foreword to a new book on Chinese history, former president Jiang Zemin said that all members of the Communist Party, particularly its leaders, should regard the study of history as a priority and learn from it. His remarks were published in July by Xinhua.

China has a rich tradition of studying and learning from history – particularly how such lessons from history can be applied to governance. Generations of party leaders have themselves stressed the need to use historical experience to guide decisions. As party general-secretaries in their time, both Jiang and President Hu Jintao repeatedly encouraged the study of history.

Jiang's most recent call to heed history – coming soon after Hu delivered a key speech at the Central Party School in July – is especially timely as China prepares for the historically important 18th National Congress this autumn.

How exactly should we study history? Jiang said: “We must not only draw the lessons of how to carry forward the successes of our reform and opening up and our socialist modernisation, but we must also pay close attention to scientific and historical patterns to understand the rise and fall of dynasties and learn from their mistakes.”

He went on: “In this new era, it is important to study not only Chinese history, but also the world's history, to learn from others' successes and failures. Only then can we understand the laws and cycles of social progress and always have our finger on the pulse of our times.” In other words, Jiang was advocating the study of Chinese history so we can learn from it, and the study of world history to understand and successfully navigate global development trends.

The clearest reflections so far on the low points of recent Chinese history are set out in the Resolution on Certain Questions in the History of Our Party, adopted by the sixth plenary session of the 11th Central Committee in 1981. This resolution was mentioned by Hu in a speech last year and by Premier Wen Jiabao at his press conference in March at the end of the National People's Congress meetings. In his remarks to the media, Wen warned about “detours” and said that China had “learned hard lessons”.

The resolution reviewed the 28 years of history before the People's Republic was founded, but focused mainly on the 32 years since its establishment. It admitted that between 1957 and 1966 the “party made serious mistakes in guidance, leading to detours in development”. Then came the ten-year Cultural

Revolution, which brought “catastrophe to the party, the country and the people”. It concluded that it was a period of internal turmoil “wrongfully started by the top leader and exploited by anti-revolutionary groups”.

It has now been more than 30 years since the end of the Cultural Revolution. An evaluation of this most chaotic period of modern Chinese history is important. Of course, there have been some spectacular successes, too, in the history of Chinese development. We should learn from the wise governance of past rulers. More importantly, we must reflect on how China found progress through its 30-plus years of experiments with reform and opening up.

The government abandoned its mistaken focus on class struggle and made economic development its priority at the third plenary session of the 11th Central Committee in 1978. Since then, there have been two main themes in its reform agenda: the transition from a centrally planned economy to a market economy, and the gradual opening-up of its society. There is no doubt that these reforms have led to China’s rise as an economic and political heavyweight. In order for China to continue to succeed, we must press on with reforms, no matter how difficult they become. That is the positive lesson we should learn from history.

The interpretation of history is important in forging an ideological consensus within the party; a fact-based evaluation serves the needs of our times. Since reforms were launched, generations of leaders have interpreted history to try to heal divisions and forge agreement, and all have reaffirmed the significance of reforms.

In fact, during an address to provincial and senior officials at the party school in July, Hu said that the central government would continue to unwaveringly reform and open up its economic system, with a particular emphasis on the “pace” and “strength” of those reforms.

It was particularly important because China is at a crossroads. For more than 30 years, we have seen non-stop attempts to discredit and attack reforms, particularly from the far left. Some of these supporters of the old system point to the inevitable economic, political, and social problems of an economy in transition as evidence that reforms have failed. Others try to mislead people by highlighting today’s problems, which are, to a great degree, remnants of the old system. These ultra-leftists romanticise the past and even threaten to launch another Cultural Revolution.

This recalls Deng Xiaoping's warning in the 1980s of revolutionary fanatics who pledged to "see you in 20 years". Deng had said that if these elements were not properly handled, China would be sitting on a "time bomb". Indeed, in the face of such attacks, cadres from all levels must remember the painful historical lesson of the Cultural Revolution and appreciate how hard China had to struggle to find its own way. With economic growth slowing, social conflicts, corruption, and the inequitable distribution of resources are now getting worse and the environment is deteriorating.

No consensus has been reached on how to solve these problems. While the government is tackling the challenges, there are those who question the effort to build a socialist society "with Chinese characteristics", as Deng Xiaoping famously put it. There are even those who openly oppose economic reforms and advocate "backwards" development. Such people are not in great numbers, but their views have won the support of a handful of government officials and citizens.

The theory of socialism with Chinese characteristics has been adopted in the title of reports of the five party congresses since 1987 and may be adopted again for the 18th party congress. Why is this important? It has long been a practice to build theoretical breakthroughs on the basis of former congresses' achievements. Numerous theories adopted at party congresses over the years have proved influential, including "primary stage socialism" (13th Congress), the "socialist market economic system" (14th), and the "development of an economic system with dominant public ownership and diverse ownership" (15th). The rapid development over the last decades has benefitted deeply from this "reform dividend".

What is needed now is a reform dividend, but this is hard to deliver. During his July speech, Hu pledged that elections, policymaking, administration, and oversight would be carried out in a democratic manner and in accordance with the law – all of this repeats what was said in the 17th National Congress in 2007, reflecting the difficulties involved in implementing such reforms.

A group of younger party leaders will take the helm this year. They must deepen their study of China's history, particularly its recent history, so they can continue the good work that was started at the third plenary session of the 11th Central Committee. They must not forget the reasons why China chose the path of reform, and why it must now stick to it. It is critical that those in power understand this.



# POLITICS

*Sun Liping*

## The Wukan model and China's democratic potential

*Sun Liping, one of China's leading sociologists, was Xi Jinping's PhD supervisor at Tsinghua University. He has long warned policymakers that the biggest threat to Chinese society is social decay rather than social turmoil. Earlier this year, he authored an alarming and critical report for Tsinghua University in which he openly condemned "powerful vested interests" for having "held reforms hostage". He is convinced that social stability can be created by allowing people to express their own views and defend their own rights.*

*The essay below, translated by Zhu Na, originally appeared in the Economic Observer in April. It focuses on the "Wukan incident", an anti-corruption and anti-land grab protest that began in September 2011 and escalated in December into a standoff between villagers and the local police force. Eventually the conflict was resolved after negotiations between village representatives and provincial officials who agreed to a self-organised village election in February that was seemingly free of CCP meddling. The "Wukan approach" was hailed by Chinese intellectuals as a model for how to improve village autonomy and resolve social conflicts through talks and negotiations rather than repressive violence.*

The Wukan incident may be of historic significance for China. Following protests by villagers, village representatives were elected through a democratic process that the villagers considered fair. This was not the first such election in China. But in the context of the chain of events surrounding the incident, it takes on a different kind of significance. Following a severe breakdown in the relationship between officials and the people, both parties ultimately chose to use a rational method – elections and the democratic process – that allowed for a compromise settlement of the dispute that met the needs of both the public and the government. The successful resolution of the Wukan dispute offers proof that democratic means can be used to solve problems in China. It is also a sign that Chinese society has the potential to be both more democratic and capable of long-term stability.

## The China problem

The “Wukan problem” is really a microcosm of the broader “China problem”. The key question raised by the Wukan experiment is whether China will be able simultaneously to ensure that the people have the right to stand and struggle for their own interests and to maintain a basic level of stability while resolving these conflicts. These competing goals are at the very heart of the problems currently facing Chinese society and attempts to resolve the contradiction will test the wisdom of the Chinese.

The significance of the Wukan incident is not so much the independence and transparency of the voting process but that, after things had settled down, the authorities were willing to allow one of the protest leaders, Lin Zuluang (林祖銓), to serve as the new head of the Communist Party in the village. Similarly, Hong Ruichao (洪睿超), who participated in the protests and was one of five people arrested by the police last December, was elected as a member of the election committee. The daughter of Xue Jinbo (薛锦波), who led Wukan village residents in the protests and later died in police custody, was also elected as a village representative.

This is very unusual. In the past, the authorities would always punish the leaders of protests even when they recognised their demands as reasonable and made concessions to them. This is often referred to as “settling accounts after autumn” (秋后算账) – that is, waiting until the situation has calmed down before showing the protest leaders who is the boss as a way of deterring those who might consider attempting similar actions in the future. People were worried that the same thing could happen again this time.

The Wukan experience is also a very real acknowledgement of the principle that it is reasonable for the public to demand that their interests are looked after and a sign of respect for the principle that the public should strive to stand up for their rights. Wukan marks a break with “settling accounts after autumn” and represents a new model for resolving conflict between officials and the people. Of course, this development is a product of both the increasing strength of the public to resist and a greater openness on the part of the government.

## The significance of Guangdong

We can appreciate the significance of this breakthrough if we put it in the context of two trends in Guangdong in the past couple of years. Firstly, there have been a number of mass incidents (群体性事) in Guangdong over the past few years. There are two major reasons for this: Guangdong is the pioneer of China’s “reform and opening-up” policy and is also one of the most economically developed regions in China. Thus problems are likely to emerge first and also in greater numbers in Guangdong. For example, 30–40 million of the 110 million people living in the province are from other parts of China. Thus the problems and conflicts associated with this influx of migrants is more of an issue in Guangdong than in other regions.

Guangdong also has a much stronger tradition, if not quite of “civil society”, then at least of a society that is not so dominated by the government, than any other region in China. The Cantonese are a pragmatic people and are not easily fooled, and family networks are deeply rooted. In addition, especially in the east of the province, people’s awareness of their rights has always been relatively strong. Given these conditions – a strong sense of their rights coupled with tightly knit social groups – it is not difficult to understand why people in Guangdong protest more than elsewhere. In the future, the rest of Chinese society will also need to deal with the phenomenon of more and more ordinary people becoming aware of their rights.

The provincial government has also been trying out new ways to defuse these growing social tensions. The authorities’ handling of the Wukan protests can be seen as an extension of these efforts. Last year, Guangdong Party Secretary Wang Yang made it clear that the government had to find the right balance when it came to maintaining stability (维稳) and protecting rights (维权). In recent months, Guangdong officials have tolerated some demonstrations (including the early stages of the Wukan protests) and they have also promoted “social

construction” (社会建设) by relaxing requirements for setting up social groups and organisations. In short, Guangdong is trying to achieve the twin goals of allowing citizens to express their interests and of maintaining social stability through the establishment of certain social mechanisms (社会性的机制).

## The correction predicament

Thus what took place in Wukan touches upon important issues related to the broader dilemma regarding how China should attempt to solve increasing social tensions. The most important is what I refer to as the “correction predicament” (纠错困境). We worry that, if we go too far in responding to social problems, we won’t be able to find our way back. The government faces this dilemma particularly when the public makes reasonable demands: if you solve one problem, then ten others will emerge; if you solve ten, then you’ll face 100. In theory, the difficult issues that exist in Chinese society today, including social tensions and conflicts, should be resolved in accordance with the law. But this sets off a kind of chain reaction, and a series of prior problems re-emerge, many of which can’t actually be solved, or at least can’t be worked out according to the rule of law.

The Wukan incident illustrates this dilemma. At the centre of the incident was the issue of land ownership: the villagers’ basic demand was that they be given back the land that their leaders had leased out to others. From a legal perspective, their case will obviously depend on the validity of the original land-transfer agreement or contract. According to China’s contract law, all contracts are invalid if fraudulent or coercive means were used when entering into the contract. Contracts are also invalid if they are considered detrimental to the state, collectives, or the interests of a third party. There are two ways of dealing with invalid contracts: to return to the original situation or to offer compensation.

Last December, Zheng Yanxiong (郑雁雄), the party head of Shanwei, announced at a press conference that development of a plot of land that had been leased to the Lufeng Fengtian Livestock Products Company Ltd (丰田畜产有限公司) had already been called to a halt and that the government would co-ordinate compensation hearings for those who lost land and would also reclaim the 404 acres of land. The talks would be conducted in consultation with related government departments, involve input from the villages, and fully protect the interests of the villages. Although there might be doubts

about the legality of a party committee unilaterally deciding to take back the land, the announcement acceded to the central demand of the villagers by declaring the original land-transfer contract null and void.

Since the 404 acres of land had not yet been developed, the land could be handed back to the people of Wukan to whom it once belonged. If, however, the land had already been developed, compensation by the government from public funds would have been the only appropriate solution. But even if the government had the ability to pay compensation (though we should remember that Shanwei is a relatively underdeveloped region), would it make sense to compensate those involved in an invalid commercial contract from taxpayers' money? In fact, the situation in Wukan is even more complicated: the government had leased out more than 3,000 acres of land in recent years but for now is only reclaiming 404 acres. So what happens to the rest of the land?

The second question is related to the possibility of unleashing a flood of similar claims. Over the past few years, there has been an increase in problems related to the acquisition of land and resettlement across the country. If we took a close look at any of these irregular cases, I'm sure that quite a few would likely also be based on invalid contracts. So, if Wukan can deal with their problems by relying on the rule of law, why can't other places? Is it possible that other places could also use this invalid contract method to solve their problems? The answer, undoubtedly, is no.

This illustrates the difficulties China now faces. It is easy to solve one individual case, but if you want to raise it to the level of a pattern, then you must dismantle (拆解) this dilemma effectively. In fact, we will soon face this "correction predicament" in all the issues associated with such contentious issues as petitioning, unemployment, and laid-off workers, as well as family planning. If we attempt to return things to how they were before, we find it cannot be done; if, on the other hand, we say compensation should be paid, we find we cannot afford it. How we deal with these issues is a real test for Chinese reformers and requires both courage and wisdom.

## Escaping the correction predicament

China's reform and opening-up has lasted 30 years. These reforms have helped China enter a new era, but they have also created a lot of problems. The correction predicament is a specific example of the logic of what in the past I have called the "transition trap" (转型陷阱). The difficulty in solving China's problems is not simply that vested interests protect the corrupt system, nor is it related to how complex these problems are and how weak the system is. Rather, the difficulty has more to do with the correction predicament. If we don't resolve problems, they accumulate over time and become ever harder to overcome. But if we try too hard to solve them, it could cause a chain reaction and even go so far as to test the system's ability to bear the strain. There are two possible responses to this dilemma: approach the problem either with courage and determination or without.

China needs to talk with honesty and sincerity about the problems we face, to face these problems head on, and not to avoid the mistakes and limitations of the past 30 years of reform. We need to be honest about the current predicament and the constraints and difficulties associated with it and to try to find a common purpose. Those in power should show their determination to move forward and the people should display their tolerance and understanding of the difficulties involved in solving the problems. We need to rebuild a social consensus about the best way to get out of our predicament, worked out on the basis of fairness and justice in an atmosphere of reconciliation. China has a fleeting historical opportunity to face this challenge.

## Ma Jun

# Accountability without elections

*Ma Jun is a colleague of Xiao Bin in the School of Government at Sun Yat-sen University in Guangzhou. A political scientist by training, he has done influential work on accountability, civil society, and the social bases of taxation. His liberal-leaning views are representative of the scholars at Sun Yat-sen University in this prosperous and outward-looking coastal province.*

*The essay below draws on Ma's research into political accountability and budget reform, in which he discusses the possibility of building accountability without competitive elections. Although he sees no alternative to Western-style electoral democracy in the long run, he thinks that China can benefit from new forms of social accountability which can foster the development of civil society, which will eventually call for a sounder institutional environment that enables an enlarged political participation.*

*Accountability lies at the core of state governance. For many years, theoretical discussions of accountability have focused on electoral democracies in which free and competitive elections are regularly carried out. To many scholars, electoral accountability is the necessary condition for political accountability. But reality is more complicated than theory. The Chinese experience during the past decade suggests that there is the possibility of "accountability without elections". In China's non-electoral environment, the sequence in which accountability and democracy developed in the West has been reversed.*

Accountability lies at the core of state governance. For many years, theoretical discussions of accountability have focused on electoral democracies in which free and competitive elections are regularly carried out. To many scholars, electoral accountability is the necessary condition for political accountability. But reality is more complicated than theory. The Chinese experience during the past decade suggests that there is the possibility of “accountability without elections”. In China’s non-electoral environment, the sequence in which accountability and democracy developed in the West has been reversed.

## Forms of political accountability

In order to ensure political accountability, the state must deal with two fundamental issues. First, there is a question of who can (or cannot) exercise power – in other words, how to create a government. Second, and further, there is a question of how that power is exercised – in other words, how to control the use of power. You need two sets of institutions to address the two distinct questions.

Mankind has tried many methods or solutions to the first issue during the past 2,000-odd years of political history, including violence, hereditary succession, (arbitrary) appointment and even venality, selection by lot, examinations, and competitive elections. It was only in the nineteenth century that a consensus emerged that elections were the best way to choose people to exercise public power. Democracy is now identified with elections. Elections are undoubtedly a vital element of accountability building; they serve the function of fundamentally changing the chain of accountability: government was once accountable to the ruler; now it is accountable to the people. But elections cannot on their own ensure accountability.

The main function of elections is the transfer of power (succession), followed by the representation of interests. But elections cannot effectively ensure that politicians will exercise power in an accountable way – as examples from history such as the United States during the progressive era from 1890 to 1928 and the new democracies emerging in the second wave of democratisation illustrate. In these cases, electoral democracies, which were deficient in developing institutions capable of effectively regulating the exercise of power, tended to succumb to various forms of corruption and abuse of power. To ensure popular control of the government, it is vital to add to electoral democracy a new layer of institutions effective in controlling the use of power by public officials.

In China's non-electoral context, there is now an increasing emphasis on so-called budgeting democracy, including (i) the evolution of budget oversight by People's Congresses (China's legislature) at the local level, and (ii) the practice of citizen participatory budgeting. Meanwhile, since the economic reform, enrolment in higher education has gone from 304 per 100,000 in 1991 to 2,128 per 100,000 in 2008; NGOs have also begun to proliferate and the media has become more powerful and autonomous.<sup>29</sup> As a result, society itself has become a powerful force in controlling the exercise of power by the government and its officials. The emergence of these new forms of accountability demonstrates the evolution of "accountability without elections" in China.

## Western and Chinese paths towards accountability

There are various possible routes towards political accountability based on the different ways of sequencing of electoral accountability and budgetary accountability. In many European countries, the state developed a modern electoral system and a modern budgetary system over roughly the same period of time and then constantly improved them, roughly from the early nineteenth century to the early twentieth century. In the United States, the state developed a modern electoral system first, then after a number of years and in particular during the progressive era started to develop a modern budgetary system. Because existing theories of political accountability are based mainly on Western experiences, they tend to emphasise electoral accountability-building efforts.

In China, however, the state is attempting to create a modern budgetary system before a modern electoral system. During the last 30 years, China has reformed its electoral system: in the 1980s, the election of delegates of the county-level People's Congress became semi-competitive; at the end of the 1980s, free and competitive elections were introduced for the selection of heads of village committees in rural areas; recently, this practice has also been extended to the election of urban community committees. However, despite these reforms, neither village committees nor urban community committees are a part of the regime. At present, China's leadership remains hesitant about introducing competitive elections at the upper level of government.

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<sup>29</sup> Figures on enrolment in higher education from the Chinese Ministry of Education, Education Statistical Data Comprehensive Section, available at <http://www.moe.gov.cn/publicfiles/business/htmlfiles/moe/s4959/201012/113467.html>.

At the same time, accountability has increasingly become an urgent issue in China. Conventional accountability mechanisms such as top-down hierarchic controls and periodic disciplinary investigations by the Chinese Community Party (CCP) have proven to be insufficient to ensure the government and its officials properly exercise power. There have been frequent reports of the misuse and even abuse of power. Chinese society has become increasingly pluralistic in terms of its interests and values, and there has been a tremendous increase in a sense of citizenship. As a result, Chinese people have begun to demand greater accountability – almost to the point of challenging the state. In this context, both the state and civil society have experimented with new ways of ensuring accountability without electoral democracy.

In short, what we increasingly have seen in China since the late 1990s is accountability without elections. In a non-electoral environment such as China's, changes to procedural rules can regulate the exercise of power to some extent to meet the requirements of accountability. To use the metaphor of actors playing on a platform, elections can be viewed as a way to choose or change the actors who will play in the arena: if we cannot change actors through an election, we can nevertheless change the procedural rules with which they must comply in playing the game. The evolution of budgeting democracy plays an important role in this. Furthermore, the people as the audience have begun to keep a critical eye on the performance of those actors on the platform, although they cannot change any actors they dislike. In other words, social accountability has begun to emerge in China. In these ways, it is expected that old actors will play new games under new rules.

## Budgeting democracy

The first way in which accountability is being improved in China is the establishment of effective budgetary controls. Before the reform that took place in 1999, budgetary power was fragmented: almost all government bureaux could allocate public money, off-budgetary finance was rife, and there were no departmental budgets to plan and then account for activities. Worse, financial management was highly decentralised: no single treasury account existed, money was dispersed in a variety of departmental accounts, purchase as well as disbursement was decentralised in the hands of departments, and the accounting system was fragmented and hence unable to monitor financial transactions. Ineffective budgetary controls within the government undermined the role of the People's Congress in the budgetary process. Thus

there was no mechanism to ensure that the government was accountable to the people for the way it raised and spent public money.

This has begun to change since 1999. All departments are now required to produce a budget that includes all revenue and expenditure into their budgets and to itemise their budgetary requests. A centralised financial management system has also been developed on the basis of a newly created single treasury account system. These efforts have created a form of hierarchic accountability within the government and ensured departments are accountable to the chief executive. In this context, People's Congresses have begun to question the government's use of public money for activities that are not in the public interest, to impose their controls on the overall budget, and to tighten their controls over executive discretion in budget execution. The National Audit Bureau has become a watchdog that exposes misuse of power, which even leads to the prosecution of wrongdoers.

Meanwhile, some cities have begun to involve citizens in budgeting in various ways. One model is "citizen participatory budgeting". In Haerbin, in Heilongjiang province, and in Wuxi, in Jiangsu province, citizens living in villages and urban communities have authority to decide how to spend money given to them for infrastructure improvement. Another model is "budget democratic deliberation", which has been implemented in the towns of Wenling, in Zhejiang province. In one town, citizens are invited to select which infrastructure projects to pursue; in another, they can express their opinions when the town's People's Congress reviews the budget. The provincial CCP general secretariat has now begun to extend the Wenling model of community democracy to other municipalities.

## Social accountability

The second way in which accountability is being improved in China is the emergence of "social accountability" in China. Since the end of the 1990s, the state and the market have allied to encroach on society's autonomy. In other words, society is at the mercy of an alliance of the powerful and the rich. In this context, public power has often been misused in the interest of government and business without regard to the public interest or the cost to citizens. In this context, two forms of social accountability have emerged since the 1990s: state-led and society-led. The former is driven by the state's efforts to rebuild legitimacy, and the latter is associated with self-protection

of society. Karl Polanyi saw the self-protection of society as a response to excesses of the market, but in China it is also a response to the abuse of power by the government.

Local governments have experimented with several forms of state-led social accountability. Some hold public hearings to involve citizens in policy or legislation that will have a great impact on their quality of life. Similarly, since 2000, the government of Hangzhou, in Zhejiang province, has conducted an annual citizen survey to evaluate its performance and identify issues that concern citizens. The government of Guangdong province invites local citizens to express their views and concerns on its online governance platform.

At the same time, there has been a rapid growth in society-led social accountability initiatives that challenge the excesses of the market and the misuse of power by the government. In particular, the growth of social media has eroded the state's capacity to control information and provided citizens with an effective public space for interest aggregation and even for collective action. For example, in 2008 an official in the government of Nanjing, in Jiangsu province, was convicted of corruption after netizens exposed his expensive taste in cigars and watches and prompted an official investigation. Websites such as the China Civilian Report Website and China Public Opinion Supervision Website have reported thousands of other cases of wrongdoing by officials. There is even a Chinese version of WikiLeaks called 703804.com.

There are now also thousands of NGOs – many of which are not registered with the state or are registered as firms in order to bypass state controls – that try to expose misuse of power by governmental officials, to protect citizen rights from being harmed by governments and their officials, and even to influence or change policymaking. For example, in 2003 a coalition of environmental NGOs, local citizens, and netizens forced the government to suspend plans to construct a series of hydropower stations along the Nu river, in Yunnan province. These examples of successful interventions by citizens, netizens, and NGOs illustrate that civil society can be a powerful force in overseeing the government and its officials' use of power.

## Conclusion

Thus, even without elections, the Chinese government is becoming and has to become more accountable to the people in ways that will transform China's political system. The development of oversight over budgeting by the People's Congress is creating a form of "horizontal accountability" and embedding checks and balances into China's political process, which will strengthen constitutionalism in China's non-electoral environment and, in turn, pave a foundation for China to move to electoral democracy in the future. Similarly, the emergence of "social accountability" will strengthen social consciousness, increase a sense of citizenship, and foster the development of a fully functioning Chinese civil society in the future – and thus also help pave the way for China to move to electoral democracy in the future.

However, there are inherent limitations in China's attempts to improve accountability connected with the lack of competitive elections. Because delegates in the People's Congress are not elected, they have less of an incentive to oversee the government budget. Because governors or mayors are not elected, they have less interest in co-operating with attempts by the People's Congress and to open the governmental budget up to public scrutiny or to take up social accountability initiatives. Thus, although accountability without election is possible, elections are also important. It remains unclear when the Chinese state will consider electoral democracy as an option of political reform in the near future.



# *Pan Wei and Shang Ying*

## A new approach to stability preservation

# 10

*Pan Wei is a “neoconservative” who has long been a champion of traditional Chinese values such as meritocracy and Confucianism, and a fervent opponent of Western-style democracy. His influential paper on “Consultative Rule of Law” juxtaposes the meritocracy of Chinese culture with the majoritarianism of electoral politics and calls on China to model its political system on Singapore. Since 2007, Pan Wei has led a major project on defining “a China model” that seeks to reject Western ways of framing dichotomies between the state and civil society, democracy and autocracy, and states and markets. Shang Ying is an assistant professor at Beijing University who works with Pan Wei.*

*The essay below is an extract from Pan Wei and Shang Ying’s latest report on the pressures of China’s stability preservation (weiwen), which is said to have attracted the attention of the party’s Politburo Standing Committee. With his talk of a crisis of Chinese values and nostalgia for “natural communities”, he echoes American neoconservatives such as Allan Bloom and communitarian thinkers such as Charles Taylor.*

The majority of Chinese people have always had deep affection towards, and trust in, the party and the government. But today, as rumours involving the party and the government spread very quickly, public confidence in the government has become a big issue. It would be hard to find another government elsewhere in the world whose officials are so well-qualified and work so hard. Under the party's leadership, China has been transformed from the largest agricultural country in the world into the largest industrial country in the world; people's living conditions have rapidly improved; a modern infrastructure has been created; and the gap with developed countries has been miraculously narrowed. So why is the public's sympathy with, and trust in, the party eroding?

The paradox of China is that the government has solved many of the country's big problems but is being overwhelmed by the "trivial" problems that affect ordinary people's lives, in particular from various cases of "injustice" in local communities. A bureaucratic government can deal with the major issues of economic development but is powerless to solve these "small" problems on behalf of its people. If it were to devote itself wholeheartedly to solving such "small" problems while leaving aside big issues of development – such as infrastructure – it would quickly lose public support. At the same time, the natural communities that are best placed to solve ordinary people's "trivial" problems have been destroyed along with the morality that was based on them. As a result, there is now a crisis of values in China.

## Western approaches to stability preservation

Scholars influenced by Western concepts of democracy, freedom, and the rule of law explain the decline in social stability in China in four ways. The first, the "deepwater zone theory", asserts that a society becomes unstable when the economy (measured in per capita GDP) develops beyond a certain point and enters the "danger zone" or "deepwater zone". At this stage, interests diverge sharply and social conflicts erupt. One solution is to establish a direct-majoritarian electoral system through political reform. The other solution is to keep making "a big cake", in other words focusing on maintaining growth, so that the per capita income of even the poorest increases.

However, the "deepwater zone theory" is flawed because it is pure fiction to claim that there is an inevitable relationship between the level of per capita GDP and a divergence of interests. Around the world, there are both stable and

unstable countries with various levels of per capita GDP. It is also nonsense to argue that universal elections are necessary in order to preserve stability; in fact, they often create instability. Polarisation leads to a contraction of the middle class and can even create social unrest in developed countries that have “mature” regimes. For example, in 2011, the “Arab Spring” turned into a “European Summer” and an “American Autumn”; both the British and American governments used violence to clean up riots and preserve stability.

A second way to explain the decline in social stability is the “corruption theory”, which argues that social instability in China results from conflicts between the people and corrupt officials. The argument is that power and wealth create arrogance, breed corruption, and stir up popular anger. The solution is “small government” and a “big society”. But nowhere in the world are people still following this British eighteenth-century solution. Even the UK and the US have built up “big governments” (how can a government whose expenditure takes up more than half of the national GDP be considered a “small government”?) and rejected the dogma that government is bad and capitalism is good. In fact, British and American politicians have squandered tax revenues levied from the people in order to buy votes, leaving mountains of debt to future generations.

A third way to explain the decline in social stability is the “wealth gap theory” or “inequality theory”. It approaches the issue from another angle and argues that the instability in China is caused by inequality rather than want. Widening social inequalities in the five major aspects of living – housing, health care, education, childcare, and pensions – are hotbeds of social instability and corruption. The solution is progressively to rebuild a comprehensive social security system on the basis of a relatively affluent society. In the last 30 years, Chinese policymakers have, with the support of the majority of the Chinese people, attempted to do exactly this. However, the primary cause of the “mass protest incidents” that frequently occur is not resentment against the rich. Most social conflicts stem from “trivial” issues to do with the government’s unfair distribution of compensation and subsidies.

The fourth way to explain the decline of social stability is the “style of work theory”, which sees the source of social instability in “bureaucratism”. It argues that bureaucracy may be unavoidable, but bureaucratism is not: it can lead to buck passing, indolence, and hidden rules – in other words, corruption. As a result, government officials ignore all those trivial matters of “fairness” in people’s everyday lives, which pile up and turn tensions between

the people and the government into large-scale protest incidents. The solution is for cadres to change their way of thinking and their style of work: they need to strengthen their ideological belief in “serving the people”; be painstaking, conscientious, and down-to-earth in work in general, and in settling small matters in particular; and establish various institutions and systems, as well as a sustainable mechanism to consolidate this transformation of their “style of work”.

However, even a good “style of work” will sooner or later be eroded by “bureaucratisation”. To the bureaucratic system, the specific aspects of ordinary people’s daily lives must remain “trivial”, whereas planning and implementation of economic development are “big issues” that are critical to national rejuvenation. Grassroots officials who have to take care of these “big issues” and fulfil top-down assignments given to them by their superiors cannot at the same time deal with specific problems in people’s lives. Even if a strong, charismatic leader forces subordinate departments to work closely with each other and to deal with “trivial” things night and day, this good “style of work” will not outlast him or her. It is also difficult to find local community residents who are willing and able to participate.

Finally, it is not easy to improve the “style of work” at the bottom of bureaucracy. Under the present bureaucratic system, they are overworked and have no time to spare to go door-to-door dealing with specific problems or to read documents related to individual cases. Often, they therefore try to solve conflicts with money. Under constant pressure from the media, which incessantly call for further “institutionalisation, standardisation and proceduralisation”, grassroots cadres have become increasingly supervised and assessed. But they are losing their enthusiasm and taking less initiative as they are being driven farther and farther away from the people.

## Social stability through natural communities

If the bureaucratic system that deals with “big issues” is the yin, natural community organisations that deal with “trivial” issues are the yang. However, natural communities that had existed for thousands of years in China have gradually been destroyed, first by Maoism and then by the market. If you don’t have communities, you don’t have a sense of community identity on which morality is based. Thus, as the sense of community has collapsed, so has the morality that went with it. Thus the destruction of natural communities

has created a crisis of values in China. Together with the bureaucratisation of the party and the government, it has resulted in a dissociation and even antagonism between the yin and the yang. This – rather than any of the four explanations given by Western-influenced scholars – is the root cause of social instability.

People who have been broken down into self-centred “individuals” can no longer organise themselves in order to solve problems. Since the knots of conflict cannot be untied within the natural community itself, individuals have to appeal to the government. Thus hundreds of millions of people turn to the bureaucracy to appeal for “justice”. But when disorganised and helpless individuals come up against a highly organised and unhelpful bureaucracy, it inevitably produces grievances and popular complaints. When village leaders cannot resolve their own problems, conflicts are handed over to local or even central governments. Individual problems therefore grow into social problems and community conflicts become social conflicts.

Furthermore, there is a vicious circle between the government’s attempts to streamline government and to keep expenditure for stability preservation under control. As de facto government agencies, grassroots governments – that is, the street-level and township-level agencies of social management – are many in number, cost a great deal, and are not easily administered. However, as they are increasingly simplified, it becomes more and more difficult for them to handle people’s trivial affairs. When conflicts mount up, the government comes under intensified pressure and therefore increases manpower and spending on stability preservation. Moreover, as grassroots governments receive more orders from above and become more and more bureaucratised, the gap between them and the people widens and popular frustration increases.

## The Wuxi experience

The experience of Wuxi is a good example of how natural communities can be recreated in order to involve the public in solving “trivial” problems and thus reconnect the party with the people and increase social stability. A county situated on the north-easternmost edge of the municipality of Chongqing, Wuxi had long been haunted by troubles of petitions and mass incidents. But in recent years it has successfully rebuilt natural communities and connected them to bureaucratic organs through neighbourhood and village committees,

which are legally regarded as the “autonomous organisation of the people”. Thus these committees act as an intermediary between natural communities and street-level and township-level agencies of social management – in other words, the lowest level of the bureaucracy.

The nature of these natural community organisations is to help people deal with their “trivial” issues and to uphold “justice” in community life. They are different from the colossal “administrative community” organisations, because people who are well acquainted with each other will be able to help themselves as long as they get to organise themselves. Residents in the natural community know what their real needs are, understand the essence of “justice”, and can figure out how best to assist each other. Mutual aid and reciprocity do not originate from the cold-blooded assumption of “maximisation of individual interests” but from the moralities of mutual care, respect, and support within an individual neighbourhood.

Within natural communities, leaders build up their prestige by voluntarily serving the interests of the community and by maintaining “justice” in the community life, rather than by working for bureaucratic institutions – that is, being paid by the government. In this way, powerless individuals can organise as the “people” and resolve “trivial” matters, as well as stand up for their rights. Supporting natural communities is a way to encourage people to take control of their destiny and respect their dignity of “autonomy”. Problems of *weiren*, or stability preservation, will never be solved unless we encourage and help people to organise themselves.

The Wuxi experience is an example of a new version of Mao’s “mass line” that puts emphasis on “participation” instead of “coverage”. It has already yielded four results: it has been much easier for the people to deal with “trivial” issues; the “style of work” at the grassroots level has been improved; social morality has revived; and the party and the government have regained public trust. All this makes “big” issues easier to settle as well. In short, the Wuxi experience has not only produced an effective recipe to problems of stability preservation, but has also provided inspiration for improving the sustainability of the country’s fundamental systems, as well as long-term peace and stability.

Wang Hui

11

## Political repression and the resurgence of neoliberalism in China

*Originally a literary and intellectual historian, Wang Hui was politicised in the 1980s. After participating in the Tiananmen Square demonstrations, he took refuge in the countryside before going into exile. He is now one of the leading members of China's New Left, a loose grouping of scholars who have been calling for the Chinese government to pay more attention to inequality and environmental pollution. In 1997, he published a revisionist account of the Tiananmen demonstrations in which he argued that the reform movement brought together two separate camps in the square – one led by students who wanted to embrace the political and economic freedoms of the West, and another led by workers who opposed the economic inequality that Western-led market reforms had brought. Wang argued that, after the tanks had done their work, the reform movement split and the neoliberal reformers made a deal with the Communist Party to support political repression in exchange for economic liberalisation.*

*The essay below is an edited version of an article that was written in April. In it, Wang sees a historical analogy between the end of the “Chongqing experiment” and the 1989 Tiananmen repression. He argues that, if the bloody suppression of protest in 1989 paved the way for an acceleration of “price reforms” (the hallmark of China’s marketisation), then the incident of Chongqing could be a ploy by the right to put China back on a track of neoliberal reforms.*

March 14 is now shorthand for the “Chongqing incident” – possibly the biggest political event in China since 1989. On that day in 2012 the “Chongqing model” met its political end. It is rare that a local government’s experiment, or the removal of a leader of this sort of local experiment, could have such an impact across China and around the world. But because both China and the US kept the details of the incident secret, rumours circulated on the internet about corruption among Bo Xilai’s family members; a power struggle between Bo and Wang Lijun, the deputy mayor of Chongqing; coup attempts by Bo and Politburo Standing Committee member Zhou Yongkang; and a connection between the mysterious death of British businessman Neil Heywood in Chongqing and the Bo–Wang relationship.

As the rumours circulated, two interpretations emerged about what happened in Chongqing. The first – supported by a good deal of leaked information – saw Bo as a local leader who had broken the law and violated party discipline. The second – based above all on Premier Wen Jiabao’s attempt to implicitly associate the Chongqing experiment with the Cultural Revolution in his press conference on 14 March – linked the incident to political differences about the “Chongqing model” in which large-scale industrial and infrastructural development went hand in hand with an ideology of greater equality and an aggressive campaign against organised crime. But both interpretations – one denying, the other privileging the political character of the Chongqing events – are partial.

Many in the West saw the Chongqing incident as an illustration that the curtain that covers the highest-level secrets of China’s rulers is no longer so tight. But this misconstrues what is taking place in China. The real issue is not about reform or democracy, but about the way that backroom politics – characterised by its control and manipulation of “truth” – has suppressed open politics and turned political issues into questions of power struggle. The creation of an oppressive political environment was needed to further neoliberal reforms that the Chinese detest. In this sense, the Chongqing incident is just another scene in a drama that began in 1989.

## A new round of neoliberalism

In 1989, political repression was also used to promote neoliberal goals. Two attempts the year before to push through “price reforms” – which would have ended government control over the prices of many basic commodities – had

failed. Intermediate measures imposed from the top down had increased corruption and inequality, which led in turn to the wide-scale social unrest that culminated in the protests in Tiananmen Square. But after the violent repression of the protests, the price reforms were able to be completed. In the current celebration of the twentieth anniversary of Deng Xiaoping's call to speed up the reforms during his famous "southern tour" of the coastal export zones, nobody mentions the historical reality that 1989 was the precondition for the acceleration of marketisation in 1992.

The privatisation of state-owned enterprises led to both large-scale layoffs of workers and systemic corruption. Agricultural reforms caused a crisis in rural areas, while the marketisation of social security systems, including medical insurance, increased the gap between rich and poor and between country and city. This led to renewed unrest: the State Council announced that there were 128,000 "collective protest incidents" in 2008; the number has increased since then to 180,000 a year. In response, a directive to "pay more attention to social equality" replaced the Chinese Communist Party (CCP) Central Committee's 1990s policy of "giving priority to efficiency, with due consideration of equality". Yet now that President Hu Jintao and Wen – representatives of a new generation of national leaders – have consolidated their power, political reform has been put on hold and the bureaucratisation of state structures has continued apace.

Various different local models around China emerged in clear opposition to this trend. In the past few years, observers from all over the world have come to study the experiments in Chongqing, Guangdong, Chengdu, Sunan, and elsewhere, with Chongqing attracting more interest than most. The models in these cities were all constantly adjusted, partly as a result of keen competition between them but also because of the involvement in the policy debate of local people dissatisfied with the position of labour and the gap between rich and poor, and between rural and urban dwellers.

The Chongqing experiment, launched in 2007, coincided with the global financial crisis, which made a new generation feel less confident of the benefits of free-market ideology. The policies followed in Chongqing demonstrated a move away from neoliberalism at a time when the national leadership was finding it harder to continue with its neoliberal reforms. Whether or not Bo himself was corrupt, he stressed the importance of equality and common prosperity. There was more emphasis than in some other places on redistribution, justice, and equality. Because the province was already highly

industrialised, state-owned enterprises were important to its model (“the state sector progresses, the private sector progresses”).

The Chongqing incident now offers the authorities an opportunity to resume its neoliberal programme. Just after Bo was sacked, the State Council’s Development Research Center held a forum in Beijing at which the most prominent neo-liberals in China, including the economists Wu Jinglian and Zhang Weiyang, announced their programme: privatisation of state enterprises, privatisation of land, and liberalisation of the financial sector. At almost the same time, on 18 March, the National Development and Reform Commission published a report containing plans for the privatisation of large sections of the railways, education, healthcare, communications, energy resources, and so on. With all left-wing websites shut down, it was harder to mobilise against neoliberalism than ever before. In other words, because of the Chongqing incident, the wave of neoliberalism is rising again.

## The rhetoric of the Cultural Revolution and the de-politicisation of politics

A striking feature of the Chongqing incident was the political rhetoric Wen used in his press conference on 14 March. After acknowledging the achievements made by “successive” Chongqing governments, he told the current party committee and government of Chongqing to “reflect” and “learn lessons” from the incident. He referred to a CCP Central Committee resolution in which the Cultural Revolution was officially declared to have been a “disaster for the country and the people” and said that “we have resolved that we should free our minds and seek truth from facts” and that reform was “crucial for China’s future and destiny”.

So why did Wen compare the Chongqing experiment to the Cultural Revolution, which ended nearly 40 years ago? The Cultural Revolution is a taboo topic in China, on the one hand to be condemned, on the other never to be openly discussed. In the public political sphere, it has been deployed again and again in the last three decades as a tool to attack enemies and stifle debate. It is impossible to defend against the kind of comparison with the Cultural Revolution that Wen made: to defend oneself one would have to discuss it. By invoking the Cultural Revolution, Wen singled out the Chongqing experiment and separated it from other reform experiments. It can now only be attacked and political and intellectual figures associated with it vilified.

Wen's deployment of the Cultural Revolution shows that the Chongqing incident was political. It is not simply a question of whether or not to reform but rather of the direction the reforms will take. Amid the vicissitudes of contemporary China, the road to successful reform requires an open debate on different political approaches or values as well as a comparison of and competition between different types of local reform experiments. However, Wen's emphasis on the political nature of the Chongqing experiment was in fact an effort to use the Cultural Revolution to negate the experiment's real political significance.

We are living through the de-politicisation of politics – an era in which commercial logic is replacing political reasoning, a developmentalist discourse is replacing political participation, and a restructuring of interest relations of capital is replacing a debate on political values. Backroom politics is replacing open politics and power struggles are replacing political competition. The countless young people across China for whom the goal of common prosperity – a hallmark of the Chongqing experiment – has become a source of inspiration and enthusiasm could slip into political nihilism. Political nihilism is the opposite of backroom politics, but serves as the ideal soil to cultivate de-politicised politics – political power can use the name of the people to push forward neoliberal restructuring against the people's will and generate little resistance.

China does need political reform. But it must be based on open politics and energised by public participation and public debate. It must be reform that aims at benefitting the overwhelming majority of the people and opposes the anti-people neoliberal programmes. There must be reforms in the social as well as the political domain: without reforms in the social realm it is not possible to achieve genuine politics for equality; neither will it be possible to overcome the disconnection between political institutions and the social domain. In order to dismantle China's backroom politics, there must be real freedom of speech and freedom of assembly. This means preventing large conglomerates from using their media monopoly to manipulate public opinion. Citizens should be allowed to form associations and establish their own media, hence the protection of freedom of speech as a basic right. They should also be given a role in monitoring public-policy formation.

The "reform of the leadership system" has to be well aligned with the aforementioned processes in order to form the basis for an open politics and to prevent such open politics from relapsing into the swamp of backroom

politics. Open politics with mass participation is the primary proposition for China's political reform. Only under the conditions of open politics can democracy be prevented from lapsing into a legitimising mechanism for new inequalities. Only in a democracy with equal participation of the public can democracy be defended against manipulation by monopoly interests and the few in power.

Since the Chongqing incident, some are now predicting the collapse of China. In fact, the indisputable truth ever since 1989 is that predictions of the collapse of China based on temporary changes have themselves collapsed. The reasons for the failure of these predictions lie in the fact that the commentators place excessive emphasis on the will of individual political figures in defiance of the will of the people; they focus on transient changes and disregard the profound transformations and massive energies accumulated in Chinese society and the state through the long process of struggles since the early 20th century. They have no understanding about the tradition and creativity in this society.

Even in this most recent decade before us, the endeavours and struggles for equality, justice, and democracy in Chinese society have not gone in vain; rather they have borne fruits in numerous specific social reforms. Any effort to uproot these achievements and to remove the history of the struggles for these achievements is as futile as attempting to turn back the wheel of history. Today, China's future will depend on efforts to overcome the political nihilism caused by the performance of politicians, the monopolisation of voices by the mass media, and the manipulation of capital, and on the efforts to re-energise people's political passions and their dedication to the steady work for social transformation. History belongs to those who, with their feet firmly grounded in reality, explore and strive for the survival of the Chinese people and towards a more just world.

*Michael Anti*

## The Chinanet and smart censorship

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*Michael Anti is the pen name of Zhao Jing, who first became famous when his blog was shut down by Microsoft at the end of 2005 after a request from the Chinese authorities. The incident was apparently triggered by an article Anti wrote about the government's removal of top editors at the Beijing News and an unusual strike by journalists at the paper in protest at the dismissals. Anti's case sparked a debate about the collusion of Western companies in the Chinese government's censorship system.*

*The essay below provides a frank and revealing insight into the role of social media in contemporary Chinese politics and the party's attempts to control the internet. It is striking that Anti sees the internet strengthening central government against local government, and his evocation of the methods of the Cultural Revolution in the internet attacks on party officials provides a fresh and surprising bridge between China 1.0 and 3.0.*

The internet has been divided by China into two internets: the global internet and the “Chinanet”. During the past 15 years, the Chinese government has played an unconventional cat-and-mouse game with the country’s 500 million internet users – the biggest population of netizens in the whole world. While the global internet is censored in China, the parallel Chinanet has boomed. The Chinese government has blocked every Web 2.0 site and at the same time allowed the creation of a series of simulacrum websites: instead of Google we have Baidu; instead of Twitter we have Sina Weibo; instead of Facebook we have Renren; instead of YouTube we have Youku. The Chinese approach to the internet is simple: “block and clone”.

This is what I call “smart censorship”. Some Arab dictators such as former Egyptian president Hosni Mubarak shut down the internet to prevent netizens from criticising them. But they failed to understand that when people can’t go online they go out into the street. Other Arab dictators such as former Tunisian president Zine El Abidine Ben Ali, on the other hand, allowed access to American sites such as Facebook and were therefore unable to stop people posting videos that were critical of their respective governments. The Chinese approach is smarter. On the one hand, the Chinese government satisfies people’s need for a social network. On the other hand, it keeps the servers in Beijing so it can access the data whenever it wants. This is the reason that Google pulled out of China: it could not accept the fact that the government wanted to gain and keep control of the servers in China.

However, smart censorship hasn’t stopped the Chinanet from developing into a genuine public sphere – a “battlefield” for public opinion and a nightmare for some Chinese officials. China’s 300 million microbloggers – equivalent to the entire population of the United States – constitute a powerful force. For example, the authorities’ attempt to cover up a train crash in Wenzhou in southern China in July 2011 caused huge anger among Chinese netizens. In the first five days after the train crash, 10 million people posted criticisms of the government on social media – something that had never happened before in China. This year, the former railways minister was sacked and sentenced to 10 years in prison.

Recently, there was a funny argument between the Chinese environment ministry and the American embassy in Beijing. The ministry blamed the embassy for intervening in Chinese internal politics by disclosing the real air quality in Beijing. For example, on a random day, according to the embassy’s data, the pollution level was 148 – that is, so high that it was dangerous to go outside. According to the ministry’s data, on the other hand, the level was

50 – that is, “good”. 99 percent of Chinese microbloggers stand firmly on the embassy’s side. I live in Beijing. Every day, I check the embassy’s data before I decide whether or not I should open my window.

So why is Chinese social networking booming despite the censorship? Part of the reason is the Chinese language. Posts on Twitter and Twitter clones such as Weibo are limited to 140 characters. In English that comes to about 20 words or a sentence with a short link – in effect, a headline. But in Chinese you can write a whole paragraph or tell a whole story in 140 characters. One Chinese tweet is equal to 3.5 English tweets. In some ways, Weibo (which means “microblog” in Chinese) is more like Facebook than Twitter. As far as the Chinese are concerned, if something is not on Weibo, it does not exist.

The Chinanet is changing the way people in China think and live. It has given the voiceless a channel to make their voices heard. In the past, China had a petition system – a remedy outside the judicial system that allowed ordinary people to bypass corrupt local officials and appeal directly to the central authorities. But if you have a lot of people going to Beijing, it increases the risk of a revolution. In recent years, many people going to Beijing have been sent back or even thrown into black jails. But now we have Weibo – an alternative way for people to petition the government from their mobile phones.

Some of these complaints are picked up by reporters, professors, or celebrities. The most popular microblogger in China, Yao Chen, has about 21 million followers – almost like a national television station. So, despite censorship, Weibo has given 300 million Chinese people a real chance to talk to each other every day. In fact, it’s the first time there has been a real public sphere in China. As a result, Chinese people are starting to practise freedom and learn how to negotiate with others.

However, the cat in this cat-and-mouse game is not asleep. Sensitive words are banned on Weibo. For example, you can’t post the name of the president, Hu Jintao, or search for the surnames of all top Chinese leaders. You can’t search for the city of Chongqing, which was recently involved in a political fight. As a result, the Chinese have become very good at coming up with puns, alternative words, and memes. For example, they talk about the battle between the grass-mud horse and the river crab. The grass-mud horse, *caonima*, is the phonogram for “motherfucker” – what the netizens call themselves. The river crab, *héxiè*, is the phonogram for “harmonisation” or “censorship”. So you have a battle between the *caonima* and the *héxiè*. When big political stories happen, you find

netizens discussing them using such weird phrases and words that you can't understand them even if you have a PhD in Chinese.

Everything that is posted on Weibo is saved and analysed by the authorities. For example, if you post that you want to “get together” or “meet up” or “walk”, you may find the police waiting for you when you arrive. However, local government does not have access to this data. When netizens criticise local government on Weibo, there is nothing it can do except bribe central government or apologise. As a result, microblogging has made local government much more transparent. The really interesting question about the train crash last year is why central government allowed the five days of freedom of speech online for the first time. The answer is simple: even the top leaders were fed up with the rail minister and public opinion gave them the perfect excuse to remove and punish him.

The same thing goes for the recent removal from office of Chongqing party leader Bo Xilai. From February to April, Weibo became a marketplace of rumours about Bo. Suddenly you could say anything about “princelings” such as Bo. It was almost like living in the US. But if you dared to tweet or retweet anything about a fake coup in Beijing, you would have been arrested. In other words, freedom was precisely circumscribed. Behind this freedom, something strange was happening. Because Bo was a very popular leftist leader, the central government wanted to purge him. Weibo – the public sphere of 300 million people – was a convenient tool for a political fight.

The technology may be new but the technique is actually very old. In fact, it was pioneered by Chairman Mao Zedong, who mobilised millions of Chinese people during the Cultural Revolution to destroy local government. Chinese central government doesn't need to even lead public opinion: it just selectively stops censorship. In other words, just as censorship is a political tool, so is the absence of censorship.

Social media have changed the way the Chinese think. More and more Chinese are embracing freedom of speech and human rights, not as a privilege imported from Western countries but as their birthright. For the first time, it has also given Chinese people a national public sphere that is training them for citizenship and preparing them for future democracy. But what it hasn't done is change the Chinese political system. Central government has utilised the centralised server structure to strengthen its power to counter local government and the different factions.



# FOREIGN POLICY

Wang Yizhou

## “Creative involvement”: a new direction in Chinese diplomacy

*Wang Yizhou has made a major contribution to the development of international relations as a field of study in China. He is at the liberal end of the spectrum of international relations thinkers in China, describing his outlook as “half liberal internationalist, half realist”. Thus he tends to be more of a believer in international institutions than assertive realists such as Yan Xuetong and defensive realists such as Wang Jisi.*

*The essay below is an excerpt from Wang’s influential book Creative Involvement: a New Direction in China’s Diplomacy, which was published in Chinese in 2011. The book offers a strikingly interesting departure from the three-decade-old Deng Xiaoping strategy. Using Joseph Schumpeter’s notion of “creative destruction”, Wang calls for transformation of China’s diplomacy to match its position as a great power.*

The rapid expansion of China's overseas interests means that the country's diplomacy needs to provide more practical guarantees and long-term plans. China has become the world's fourth-largest crude oil producer. But because of its ever-growing demands for energy, it must import 57 percent of the oil it consumes, making it the world's largest energy importer. About two-thirds of its iron ore requirements are imported, allowing China to produce almost half of the world's output of crude steel.

In the year before the reform and opening-up policies were instituted, about 9,000 Chinese nationals a year went abroad. Today, more than 70 million Chinese people leave the country every year, most of whom are not dignitaries but ordinary people, including students, migrant workers, tourists, and businessmen. And China's outbound investment is now an important engine in the global economy, affecting a growing number of enterprises in a wide range of fields. As China's overseas interests become more important, new thinking and strategy is needed from the ministries of foreign affairs, defence, and commerce.

China cannot continue to ignore the growing number of global challenges and expect to be left alone by the rest of the world. If China is to maintain its role and image as a major world power, it must live up to its international responsibilities. Its policies of opening-up and international co-operation in the past three decades have been the basis for China's unprecedented progress. It is in China's interests to maintain national stability, peace, and co-ordination with other countries. In the changing world order, the international community badly needs China to play a more active role, to increase its input in all fields of global governance, and to make a contribution commensurate with its current strength and influence.

China should particularly make its opinions felt in the areas of climate change, nuclear proliferation, anti-trade protectionism, investment in underdeveloped regions, and strengthening the capacity of international organisations. More and more, both the elites and ordinary citizens in China agree that rights and obligations must be reciprocal. So, China's low-key position and policy of non-involvement must be adjusted and the country must take a more proactive and creative direction.

## What should be China's objectives in undertaking active diplomacy?

Most importantly, China should strive for full membership status and respect for its interests within international clubs, as well as a bigger say and power to set rules in international affairs. In spite of being the largest emerging economy, China has not been granted full market economy status. As a result, it is often subjected to unfair trade and anti-dumping practices by developed countries in Europe and America. China has one of the world's largest fleet and transport capacities, but it takes little part in the drawing up or amendment of the International Law of the Sea. China sits on the world's largest foreign exchange reserves, but it is not treated with proper respect in the arena of international finance, especially with regard to setting rules and the management of the International Monetary Fund. Ideally, China's rights in these areas and others like them would be enhanced and guaranteed. Actions that deliberately prevent China from exercising its proper rights would be punished.

China should take steps to protect its overseas interests, especially the smooth operation of energy supply lines and international trade routes. In order to meet its new development goals in the coming years, China should prioritise the expansion of its naval forces and the security of sea lanes. It should work to co-ordinate on these areas with other nations and in particular with traditional maritime powers. In a sense, China will be transforming itself gradually from a land power to a maritime power.

This is not a traditional expansion comparable with the scramble for territory and supremacy of Germany and Japan during World War II. Instead, it is about progressing towards objectives in a reasonable and orderly manner, consistent with China's interests as well as with international norms under the framework of international co-ordination. In the future, China could also have interests in the polar regions, outer space, and other distant frontiers. Chinese leaders and academics are much concerned with how to prevent the recurrence of the tragic logic of history, which says that a rising power must seek hegemony and throw the world into chaos. There has been a lot of debate on how best to make China's sustained emergence both peaceful and win-win. As President Hu Jintao has said, China should try to establish a new type of foreign relations that can "satisfy the Chinese public and at the same time reassure people of all nations".

China should seek its due respect in world politics. It should call on the international community, especially the major players, to recognise the right of free choice in different development paths and ideologies. The world today is still holding on to an outdated Cold War mentality. Many Chinese people think that on the global stage, democracy, human rights, economic models, and political development paths are all measured according to a Euro-American yardstick. Only models that are in line with the West are deemed to be “good” choices, and all other options are “bad” or “not good enough”. The aftermath of the Cold War has thoroughly demonstrated that the Western model is itself fatally flawed and needs serious reforms.

China’s development has maintained its strong momentum, and has the support of the majority of the Chinese people. China understands that mutual respect requires more than mere words; it takes a long time before it becomes firmly set in people’s minds and in international relations. China is willing to respect and learn from other nations, and it expects other countries to do the same. Fei Xiaotong, one of the most famous Chinese sociologists and philosophers, has summarised the country’s future path in foreign relations: “Appreciate the culture and values of others as you do your own, and the world will become a harmonious whole.”

## How can China bring about the new diplomacy of “creative involvement”?

“Creative involvement” is a new kind of thinking in China’s foreign policy. It is neither a systematic ideological doctrine nor a logical assumption nor a traditional theory of international relations or diplomacy. Instead, it is a guiding thread somewhere between a metaphysical theory and an exemplified interpretation of policy. It is inspired by a number of success stories in China’s diplomacy in recent years. It takes its tone from Chinese traditional culture and the continuity of China’s diplomatic style. It respects international practices and development trends, and it synthesises efforts to implant “Chinese characteristics” in the field of foreign affairs.

“Creative involvement” recognises that the general trend towards world peace and development remains unchanged and, likewise, that the trend of China’s continuous rise and increasing external dependence will continue. It emphasises leadership, initiative, and constructiveness in China’s diplomacy. It is aimed at “getting something done”, by shaping international rules and

causing nations to accept China's right to speak up for its interests. And it seeks the peaceful, co-operative, and win-win settlement of disputes. "Creative involvement" means refusing to be the prisoner of conventional thoughts and practices. Instead, it advocates more imaginative methods of mediation and ingenious thinking in the face of dilemmas and challenges, so as to avoid being trapped in hard-line and oversimplified confrontational methods of dispute settlement.

To take a more active part in global governance, China should expand business relations by promoting contracts with countries around the world. It can do this because of its participation in the market economy, which has been the main reason in the past few years both for the rise of China's global influence and for its criticism from outsiders. China should significantly augment the foreign aid and public goods it provides, so it can use these as a bargaining chip in its efforts to get more say in global decision-making.

According to UN standards, industrialised economies and emerging powers should dedicate an equivalent of 0.7 percent of their GDP to international aid and development. Although China's foreign aid has grown consistently in recent years, it has far to go to reach international standards. Investing in foreign aid would also help achieve China's strategic objectives, since aid could become a powerful tool in the expansion of China's influence. Adjustments should be made to the current foreign-aid system, which has been in place about 30 years and is directed by business-related departments on the principle of market exchange. A new high-level authority, like the General Administration of Foreign Aid in some other countries, should be established to make decisions based on the requirements of economics, politics, diplomacy, and security. This authority could co-ordinate different departments across the fields of commerce, foreign affairs, and the military.

In enhancing foreign aid, China needs to consider both strategic foreign assistance and public goods, two areas distinct from traditional foreign aid. Strategic foreign assistance refers to aid used to forward China's major security interests and strategic objectives. In recent years, this has taken the form of civilian and military assistance to neighbouring countries; investment in energy and natural resources in Africa and the Middle East; and investment in and construction of infrastructure, communication facilities, and links of industrial chains in strategically important regions.

Public goods are the products, projects, or conventions earmarked for collective action by the international community, often given to international organisations and institutions with international credibility, such as the UN. These public goods include contributions to peacekeeping forces and to the construction of training bases; the Chinese Communist Youth League's China Young Volunteers Serving Overseas Plan; UN membership dues; and various initiatives to protect the high seas and the polar regions.

No hard and fast line can be drawn between strategic foreign assistance and public goods – the two categories are different but mutually reinforcing. Their relationship and their new role in China's foreign relations need to be addressed and debated. Business contracts have had far too large a share of foreign aid in the past two to three decades, albeit with reason and cause. Meanwhile, the share allotted to strategic foreign assistance and particularly to public goods has been comparatively small. This situation should be gradually changed in the future. Business contracts, strategic foreign assistance, and public goods could serve as important ways for China to implement its “creative involvement” on a global scale. So, their importance should be reflected in China's budget and in its major national policies. With careful design and implementation of these aid modalities, China's “creative involvement” could have a remarkable effect in the new era of international affairs.

Without the participation of one fifth of the global population, without the endorsement of the world's second-largest economy, without the political will and security guarantee of this emerging power, international institutions and norms will be irrelevant and the legitimacy and credibility of their resolutions and arrangements will fall short of promise. Over the medium and long term, in the absence of full-scale confrontation between major powers, no external force or emergency can derail China's greater international involvement, as long as China's domestic reform, development, and stability continue to be sustainable. By leading change and increasing its role in world politics and economy, society and culture, and environmental protection and military security, China will become one of the driving forces of major international organisations.

*Yan Xuetong*

## The weakening of the unipolar configuration

*Yan Xuetong, a professor at Tsinghua University, has emerged as one of the most important Chinese foreign-policy thinkers. The publication of his book, Ancient Chinese Thought, Modern Chinese Power, is regarded as a milestone in developing a Chinese model of international relations, and has led some scholars to talk of a “Tsinghua School of International Relations”. An assertive nationalist, Yan has called for a more forthright approach to Taiwan, Japan, and the United States. Although he is a self-proclaimed realist, he has done influential work on Chinese soft power and in the mid-1990s he was one of the first to call for China to support regional integration in Asia. In my book, What Does China Think?, I called him China’s answer to the American neocons, suggesting that his intelligent brand of assertive realism could best be described as a “neo-Comm”. He did not dissent from this description.*

*The essay below, which was originally published in Chinese in the Communist Party’s mouthpiece Global Times at the end of last year, calls for a radical rethink of the core principles of Chinese foreign policy over the last generation: the primacy of economic growth over politics; China’s attachment to non-alignment; and its opposition to intervention. It puts forward an alternative idea of “responsibility” in the context of an emerging bipolarity in international relations and increasing demands for fairness and social justice that are challenging the governing norms of interference.*

The United States has been the only superpower since the end of the Cold War, but its global domination has been weakened since the financial crisis of 2008. The current international configuration is likely to transition from unipolarity with the US as an absolute leading actor to bipolarity with China rising in the next ten years to become a less powerful counterpart to the US.

The power disparity between China and the US is narrowing. In 2011, China's GDP was around half of the US's GDP. If China's GDP continues to grow at 8.5 percent and US GDP grows at less than 3.8 percent, the current disparity between the two powers will level out within the coming decade. Meanwhile, in the next ten years, the economic disparity between these two nations and the other major powers will continue to widen. In the next five years, only the US and China will be able to spend more than \$100 billion on defence annually, increasing the power gap between them and the others. Thus the international configuration will not be characterised by either unipolarity or multipolarity. In terms of economic power, the trend towards multipolarity is fading as the world moves towards a bipolar structure.

However, from the perspective of strategic relations, the US is still the world's only superpower. President Barack Obama replaced the unilateralism adopted by former President George W. Bush with multilateralism, and thus effectively improved US ties with traditional allies and acquired their support. In particular, the US has improved its strategic relations with France, Germany, India, and Japan in the last four years. Since 2010, US "smart diplomacy" has outmanoeuvred China's policy of non-alignment. It is obvious that China and Russia do not have enough strategic partners to challenge the unipolar configuration at this moment. Although China may be able to change the major power structure in the next ten years, it will be unable to shift the world from unipolarity to bipolarity unless it forms a formal alliance with Russia.

## The normalisation of intervention diplomacy

Many developing countries are now adopting the norm of intervention. For example, in December 2011, leaders from 33 countries in Latin America and the Caribbean formally established the Community of Latin American and Caribbean States as the new leading regional bloc. They agreed the Caracas Declaration, which commits all signatories to intervene in other member states in case of regime change through a military coup. In March 2011, the 22-member Arab League called on Western powers to establish a "no-fly" zone in Libya.

In response to the Syrian domestic military conflicts, the Arab League also suspended Syria's membership in the body and imposed economic sanctions on it in December 2011. China voted yes to the United Nations Security Council resolution imposing sanctions and establishing the "no-fly" zone in Libya. The world may see a competition between principles of intervention and non-intervention in the near future. The principle of intervention will have a chance to emerge as the new international norm while the non-intervention principle persists as the dominant norm.

More than 2,600 years ago, in China, the norm of intervention was established by the Kui-Qiu Alliance. Members of this alliance were forbidden to conduct a number of illegitimate activities: changing the line of succession, demoting a wife to a concubine, and allowing women to participate in politics. Such interference was the international norm for thousands of years. In 1647, the Treaty of Westphalia developed the concept of sovereignty, which subsequently became the norm. The modern international norm of non-interference was formally legitimised by the UN Charter in 1945 and consolidated by the practice of the UN members.

During the process of moving towards a bipolar structure, it is possible to see the weakening of the principle of non-interference. As the role of global power declines, regional powers will seek regional domination and will thus exert their influence on the domestic politics of other regional states. In the foreseeable future, the principles of interference and non-interference will co-exist. Since the establishment of the UN, the norms of national unity and national self-determination have co-existed and both of them have guided the foreign policy of nation states.

## Empty talk from international organisations

The ability of international organisations to steer world affairs is waning. The rules of international organisations were designed according to their members' capabilities after World War II. As time passed, the capabilities of members became very different from the time when they were established. Although some members' capabilities diminished, they remain the primary decision-makers and determined the foundational principles of these organisations. For example, the permanent members of the UN Security Council have not changed. Similarly, the president of the World Bank is traditionally an American and the managing director of the International Monetary Fund is traditionally a European.

As the global power structure shifts towards a bipolar configuration, these international organisations will become less effective in dealing with international conflicts. It is more difficult for two superpowers to agree with each other on a solution to international conflicts than for a single superpower to dominate the policymaking in international organisations. During the Cold War, permanent members of the UN Security Council exercised their vetoes more frequently than after the end of the Cold War. The power transition from unipolarity to bipolarity could generate more frequent vetoes in the UN Security Council than in the last two decades.

When faced with a crisis, international organisations will more often talk about problems than solve them. There is a growing demand for the establishment of new international institutions that can produce practical solutions to resolve global crises. For example, when the G8 failed to resolve global economic issues, the G20 was founded. Faced with difficulties in establishing an East Asian Economic Caucus, the Asia-Pacific Economic Cooperation (APEC) was established. Faced with impedance from APEC, members of the Association of Southeast Asian Nations and other Asia-Pacific countries established the 10+1, then the 10+3, and then the 10+8.

Along with the increase in the number of international institutions, the number of international summits has increased. The declarations agreed at these summit conferences are becoming ever longer and more convoluted. However, after a consensus is reached, no further action is taken to implement the consensus or to promote co-operation. International organisations are thus progressing towards issuing opinions rather than solving practical problems.

## A growing demand for social justice and fairness

The principles of fairness and freedom are in direct competition. After the Cold War, liberalism became the mainstream school of political thought internationally. Recently, however, liberalism's dominant position has been challenged by the principle of fairness. After the EU and the US lost their trade advantage, they began to promote fair trade, while ignoring the superiority of the free trade that they had advocated for several decades. In the environmental realm, confronted with the challenge of reducing carbon emissions, newly emerging economies proposed common but differentiated responsibilities for emission reductions. This approach embraces the principle of fair reduction such that developed countries should bear a larger share of the responsibility.

The principle of fair reduction is based on the concept of historic responsibility. Developed countries finished industrialising first. Thus, over the last 60 years, the developed countries, which represent 17 percent of the world's population, have been responsible for 70 percent of carbon emissions. The developed countries should adjust for this disparity accordingly. In contrast, developing countries, which represent 83 percent of the world's population, have contributed only 30 percent of total carbon emissions over the past 60 years. It is therefore fair to give developing countries more leeway to produce carbon emissions. Citing the principle of freedom, fairness in trade and carbon emissions is promoted. However, true fairness would be reflected in a differentiated responsibility system.

The demand for fairness in the international arena has started to challenge the paradigm that economic growth is the top priority. The world's production capacity has far exceeded demand, resulting in a global surplus. However, due to inequality in distribution, problems of poverty and hunger still persist. Globalisation has spurred development but at the same time exacerbated the polarisation between the haves and the have-nots. This is why people in both developed and developing countries are now demanding social justice more than economic development.

As living standards rise, people have become increasingly intolerant of social injustice. The Arab Spring, the Occupy movements, the European protests against austerity plans, and the Russian protests against electoral fraud are all indications that social priorities are shifting from economic development to social justice. The international trend towards bipolarity is weakening the US's international dominance as well as the traditional US idea of free competition, which is challenged by calls for social justice and fairness.

## Continuous reform

The evolution of the international system sometimes proceeds slowly with sudden bursts of change. The international system is made up of actors, configuration, and norms. Changes of any of these elements may affect the entire system. The current trend of bipolarisation, the emerging norm of interference, and ineffective international agencies are indicators of changes in the international system. The increasing demand for fairness and social justice could be a major social force driving this shift.

In order to protect its national interests, China's diplomatic principles need also to keep pace with the changing times. The Book of Songs says that "although the Zhou Dynasty remains the same country, it has been changing continuously", meaning that the Zhou Dynasty can continue for hundreds of years because it keeps continuous reform. The Book of Rites says that "if you want to see something new every day, you must reform every day". China needs to embrace these principles and ensure that reform does not stop. If we believe that China's economic achievements over the past 30 years are the result of continuous policy reform, the same principles must also be applied to China's diplomacy.

Wang Jisi

## China's grim international environment

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*Wang Jisi is known as President Hu Jintao's "chief brains truster" for foreign policy and was a classmate of the president at university. Facing increasing pressure for a more assertive foreign policy, Wang has long advocated a cautious and moderate outlook and even attacked the idea of a "peaceful rise" on the grounds that it would provoke suspicion. Although Wang is a committed realist who is concerned about avoiding a direct Sino-American confrontation, he was among the first in China to put forth the idea that Deng Xiaoping's strategic principle of "keeping a low profile" needs to be rephrased. In line with this approach, he coined the idea of "modesty and prudence" as the new strategy of China's diplomacy in a much-cited paper published in the Chinese journal *International Studies* in February 2011.*

*The essay below is an edited version of the foreword of the 2012 edition of the annual China International Strategy Review, published by the World Affairs Press. This yearbook, which Wang has edited since its creation in 2008, collects contributions from senior officials, experts, and scholars from different parts of the world. His essay should be seen as an answer to recent debates about whether China should adopt a more aggressive line to reflect the structural shift of power from the United States to China since the beginning of the global financial crisis.*

The 2008 financial turmoil in the United States has triggered the most serious global financial crisis since the 1930s and burst economic bubbles in many countries. Europe is still mired in a sovereign debt crisis. The 2011 Fukushima earthquake and nuclear accident landed a heavy blow on the already gloomy Japanese economy. Many people are now keen on talking of a “post-American” multipolar world. It is as if the haze of a “unipolar world” has already vanished into thin air.

In 2011, Osama bin Laden was killed in Pakistan and Muammar Gaddafi was killed in Libya. Yet there were few celebrations in the West about the uprisings in the Arab world that began in early 2011. At the same time, the media has also focused on the rise of the BRICS, which are increasingly co-operating and co-ordinating in global affairs. China’s economic strength and military power continue to grow; the BRICS are expected to become even stronger over the next decade. In addition, Indonesia, Turkey, Vietnam, and many other emerging-market countries are experiencing a period of economic boom. The integration of Latin America has also entered a new phase. The enhanced strength of these developing countries will bring about greater conflicts with the existing international political and economic order, and create a powerful challenge to the leadership of the West.

In discussing these trends in the global distribution of power, some talk about the “rise of the East” and “the decline of the West”. One would therefore expect China – which comes under pressure from the West and draws support from the developing world – to find itself in a greatly improved international strategic environment. In fact, however, there is a widespread feeling among Chinese people that China faces a grim international environment. Why is there such a contrast between a “favourable global balance of power” on the one hand and a “deteriorating international environment” on the other? Why has the continuous rise of China’s power not delivered an improved external environment?

## China’s foreign policy and public expectations

First and foremost, the global financial crisis has not only hit Western economies but also damaged emerging powers. In an age of globalisation, countries around the world are bound together for good or ill. Shrinking Western markets and the declining credibility of financial institutions have added to China’s difficulties in export and investment and impacted heavily on China’s domestic economy. In that sense, there is no causal relationship

between the economic “decline of the West” and the “rise of the East”. All in all, the prospects of China’s international economic environment do not look rosy for the next few years.

Second, strategists tend to focus on states (and great powers, above all) as the starting point for studying power relations between major countries. But this analytical framework tends to overlook global trends that exist within or beyond national boundaries. For example, global population growth is seriously unbalanced: the problem of ageing societies is at its most acute in developed countries and China; in South Asia, the Middle East, and Africa, on the other hand, the population keeps on growing. As a result, it will be hard to reverse the trend of global migration and conflicts between new immigrants and indigenous people will be intensified, even to the point of triggering political disputes. Mass urbanisation is causing bottlenecks in public health, security, education, transportation, environmental protection, and water and electricity supply. The gap between rich and poor continues to widen as a result of globalisation. The global ecological environment keeps deteriorating. With the help of new technologies and in particular online media, individuals and small groups are challenging states and international society. Although China adheres to its own path of development and other countries have followed other models of growth, the concepts of personal freedom, equality, human rights, and democracy are spreading all over the world. These challenges cannot be ignored in China’s international strategic environment.

Third, although it is true that the rising power of the BRICS has to some extent eased the pressures the West exerts on China, there are still huge differences between China and the vast majority of emerging countries on national interests and ideology. There are disputes between China and neighbouring countries over territorial sovereignty and over thorny issues such as US arms sales to Taiwan, concerns about Tibet and Xinjiang, or human rights, religion, and renminbi exchange rates. China often struggles to obtain the explicit support of these countries – and some of them even oppose it. Thus the “collective rise” of the developing world has a limited effect in enhancing China’s international position and in improving its external image and political environment.

Fourth, as China rises, it increasingly faces a “security dilemma”. In the course of building up its military capabilities for the sake of its own security, the US and neighbouring countries that doubt China’s intention of peaceful development are also taking preventive measures directed against China and

even co-ordinating a common strategy towards China. As a result, part of the Chinese public now feels more insecure and has more worries and misgivings and a deeper “victim complex” than in the past when China was weaker. Chinese people wonder how China can be more powerful and yet less secure. The two most common answers – given not only in the mass media but also by experts and scholars – are that its defence spending is still not sufficient and that its policies towards neighbouring countries and the US have been too weak. This “security dilemma” will be difficult to solve in the immediate future. The real strength, policy instruments, and strategic planning in China’s foreign relations will continue to lag behind expectations of the domestic public.

## Internal negative factors

Objectively speaking, China’s foreign policy in recent years has been more proactive than ever before and puts more emphasis on the principle of safeguarding core national interests – so much so that international public opinion sees it as increasingly assertive. China’s overseas investment and foreign trade have also expanded considerably, both in terms of quantity and quality – Chinese citizens and business activities now leave a footprint in almost every corner of the world. The Chinese government has also increased its financial and intellectual investment in building up the nation’s cultural soft power. China’s top-level and public diplomacy is taking more and more initiatives, and the number of actions protecting China’s overseas interests has also increased significantly.

Nevertheless, the overall image of China in the outside world is unsatisfactory. The reason mainly lies in a variety of negative events and unstable factors within China – to name just a few, the series of serious violent incidents in Tibet and Xinjiang since 2008, mass incidents triggered by internal social conflicts, concerns related to product quality, food security, public morals and ecological environment, pervasive corruption and the recurrent breach of discipline by senior officials, and the effect of certain Chinese nationals seeking “asylum” in foreign embassies or consulates.

It will take considerable resources to address all these issues. In the view of some government agencies, all the aforementioned internal problems have involved meddling and interference by hostile foreign influences. Regardless of their causes, however, these problems have damaged China’s reputation and interests. In order to develop a more skilful foreign policy, China must develop

better inter-agency co-ordination, improve efficiency and transparency in government, establish a better accountability system, punish corruption, and enhance citizens' cultural quality, but these things do not produce instant results in the way that a boost to economic growth does.

If the above analysis is basically right, China will face even more serious global challenges in the years ahead. Although it is important to strengthen diplomacy, national defence, overseas propaganda, and foreign economic activities, the key to China's success in addressing global challenges also depends on whether it can accelerate the pace of domestic reforms and properly handle internal political, economic, and social issues. Crucially, the Chinese public must develop a more comprehensive and objective understanding of the internal and external situations and the connections between them.

# AFTERWORD



*François Godement and Jonas Parello-Plesner*

# What will China 3.0 mean for Europe?

China has a deeper understanding of what is going on in Europe than vice versa – not just because the European Union has a more transparent political system but also because Europe is currently so inward-looking. With this in mind, this collection was intended to expose Europeans to debates that are taking place in China and that affect Europe. In the past, Europeans thought China needed to learn from us; now that China is the world's second-largest power, we need to understand it and the implications for us of the debates taking place there – just as we do with the United States.

Unlike the US, with which China has a two-way debate, Europe does not figure prominently as a political partner in Chinese debates – as the absence of Europe in the three essays in this collection on foreign policy illustrates. Rather, the EU is seen as an experiment based on soft power, norms, and economic interests, which has some capacity for negotiation on trade issues but little else. Some Chinese officials may in some cases regret that the EU does not have more cohesion and clear decision-making in some cases, but mostly they are happy with having 27 bilateral relationships in which China nearly always has the upper hand. The only real threat from Europe is the spectre of its own failure – which would diminish the size of China's largest export market.

For Europe, however, the stakes in the relationship with China are high. On many issues – trade and investment, financial regulation, public debt, energy security, climate and environmental issues, the Middle East, and Africa – it now encounters a powerful China. The fact that Europe's diminishing hard power is of little relevance to the East Asian strategic theatre does not obviate the need for Europe to understand what is going on there and to use diplomacy to pursue its interests and promote its values. With that in mind, here are the five conclusions we think Europeans should draw from this collection of essays.

## China 3.0 debates

Even though the demise of Bo Xilai has stifled the debate about the Chongqing and the Guangdong models, other debates continue. Deng Xiaoping famously said that “Do not debate! is one of my inventions” and the outgoing leadership talked of a “harmonious society”. But China 3.0 is much more contentious than China 2.0. For Europe, this means that there are real views with which to engage that go beyond the glossy surface of Communist Party resolutions and the prescriptions of the last Five-Year Plan. These views range from Zhang Weiying’s claim that China is “200 or 300 years from a market economy” to Justin Yifu Lin’s brash prediction of another 30 years of economic growth as China catches up with and even overtakes the West.

Outgoing leaders such as Wen Jiabao realise that continued economic success depends on continued legal and political reform: raising domestic consumption requires that Chinese citizens trust local administration and that welfare services are delivered efficiently; innovative research and design requires greater freedom and protection of intellectual property; rule of law and accountability requires checks and balances both inside and against the party; tackling vested interests in the state economy requires the party to challenge money and privilege. Thus the new leadership is taking over at a time when there is both a sense of achievement and a gnawing feeling of insecurity in China. Europeans should therefore:

### *Incentivise reformers*

Europeans should follow debates inside China more closely and create a system of incentives for co-operating with reformers just as China incentivises EU member states. In other words, Europe needs to make friends with reformers. For example, like European companies, Chinese private companies often complain about the dominance of the state sector and the lack of a level playing field. But supporting reformers too vocally might actually undermine them, so European assistance must also be subtle.

### *Be provincial*

Today, the very success of China’s economy means that all of society is involved in modernisation and globalisation and their consequences; this was not the case in the 1950s and 1960s when rural society was a separate world. Since the provinces – many of which are the size of European countries – are in the front line of delivering change, they will make or break China 3.0. Europeans should use their impressive

joint size and networked governance to jointly reach out to and cover the Chinese provinces and use the various networks that European countries already have.

## The Weibo generation is rising

One of the legacies of the Hu–Wen decade is Weibo. Microblogs were almost non-existent in 2002 but are now used by more than 300 million Chinese – the largest linguistically homogeneous public sphere involving peer-to-peer communication and larger than anything that Voltaire or Habermas could dream of. As a result, the party-state can no longer prevent people from expressing themselves: hundreds of millions of internet and social-media users throughout China creating a huge “echo chamber”. This translates into an incredibly effervescent marketplace of ideas that emerge under the surface of hollow, pre-cooked speeches.

As Michael Anti points out in his essay in this collection, the emergence of this public sphere doesn’t automatically mean political liberalisation. Internet public opinion is a constant battlefield that the party knows how to occupy with new means beyond the state-controlled media. In fact, Wei-governance is a new buzzword in China. Cai Qi, a local communist grandee in Zhejiang, boasts more than a million followers and laid out the government’s strategy as “controlling Weibo while using it and facilitating control by using it”. But it does mean that public debate and civil society is an increasingly independent variable in dealing with China. Europe should therefore:

### *Do “Weiplomacy”*

Weibo has opened up a new space for foreigners to interact more directly with Chinese and is thus a new tool of diplomacy as well. Already, European Council President Herman Van Rompuy has more followers on Weibo than on Twitter. The EU should use digital diplomacy to go beyond the gatekeepers in Beijing and stale state-driven dialogues such as the EU–China human-rights dialogue. It should try to directly inform Chinese citizens about the human-rights dialogues that European governments and the EU hold with the Chinese government so they can have their say on the issue as well. This may create an opportunity to engage with China on the issue of values, even though China’s censors will likely respond with their electronic scissors.

### *Engage with civil society*

NGOs are mushrooming in China, particularly in the grey areas of non-legal but tolerated civil-society activities. Even the Chinese central government needs these social entrepreneurs in order to change the situation on the environment and social issues and to expose the abuse of power by local government. In this respect, Guangdong leads the way, as Xiao Bin describes in his essay in this collection. This priority also links with the need to incentivise reform forces.

## China's economy reaches into the EU

China has inadvertently built up \$4.5 trillion of foreign-currency reserves (including private capital) and is at risk of losing at least some of it. Yu Yongding aptly calls this an “asset crisis”. Trade interdependence and cross-capital ties are China's best insurance policy. It involves fundamental changes such as an acceptance of at least “fuzzy” reciprocity, for example increasing the foreign and European stakes in the China market beyond factories and commercial sales and internationalising Chinese firms. We are already in a new world in which a Chinese foreign ministry spokesperson calls for a “level playing field” for Huawei.<sup>30</sup>

China is no longer a faraway country that produces cheap goods. The next phase of China's “going out” is targeting developed markets such as Europe, which is important to China as a way of moving up the value chain, investing in high and green technology, and buying established brand names and business know-how and supply chains. The euro crisis has already created opportunities for Chinese companies to directly invest in the EU and acquire European companies. One report predicts that Chinese outbound investment is likely to rise to \$1 trillion by 2020, with the greater part directed towards the EU and the US.<sup>31</sup> That would mean at least \$250 billion in investment in the EU in the coming decade.

This investment is a natural development for the world's second-largest economy and one that could contribute positively to growth and employment in the European economies. The increase in Chinese investments in Europe comes at a time when many European countries and companies need capital inflows. Thus

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<sup>30</sup> Li Xiaokun and Qin Zhongwei, “Report: No evidence of spying by Huawei”, China Daily, 19 September 2012, available at [http://europe.chinadaily.com.cn/world/2012-10/19/content\\_15829401.htm](http://europe.chinadaily.com.cn/world/2012-10/19/content_15829401.htm).

<sup>31</sup> Daniel H. Rosen and Thilo Hanemann, “An American Open Door?”, Asia Society, May 2011, available at <http://asiasociety.org/policy/center-us-china-relations/american-open-door>.

there is a new financial umbilical cord between China and Europe. But Europeans also have concerns about national security and the lack of opacity in China's state-owned companies, which are hybrid animals that are politically guided but pursue commercial objectives. If these concerns are not properly addressed, they will fuel protectionism on the European side. Europe should therefore:

*Be open to Chinese investment*

The EU should make a special effort to welcome Chinese private enterprises, which will also strengthen the position of Chinese private capital at home. Meanwhile, Europeans should be consistent in their demands for more transparency by state-owned enterprises (SOEs). Many ordinary Chinese citizens are demanding more information about how state funds are channelled into SOEs. Thus Europe must set high standards for transparent corporate governance based on OECD and other guidelines in order to prevent importing opacity into the EU. Competition policy could also play a role in this.

*Push for equal treatment and a "second opening" of the Chinese economy*

Europe should encourage a "second opening" of the Chinese economy, which would coincide with China's own objective of relying more on its domestic purchasing power and growth and on a global agenda to reduce economic imbalances. Company ownership and IPOs, intellectual property rights, the financial and service sectors, and public procurement are all areas of pressing interest for Europe in this context. The EU should work for better market access for European companies in China as a quid pro quo for better protection of Chinese investments in Europe, both of which could be enshrined in an investment treaty.

## China now has a post-Deng foreign policy

Deng's foreign-policy strategy was to postpone difficult choices. When he said of the maritime issues with Japan that it was fine to "shelve such an issue", he was also hoping that the "next generation will have more wisdom". Thirty years of economic growth and 20 years of double-digit military budget growth have both increased the stakes in terms of fishing, shipping lanes, energy resources, and forward defence and made it more difficult to avoid the territorial issues. Add to that the outburst of nationalism bolstered by patriotic education and the next generation of leaders will have even more difficulty than their predecessors in

dealing with China's rise in its neighbourhood and beyond. As Wang Jisi points out in his essay in this collection, China's power has not improved its "external environment".

In July 2010, the Chinese foreign minister told his ASEAN counterparts that "China is a big country" (大国). Since then, it has proceeded to prove it in both the South China Sea and the East China Sea. But this new assertiveness will continue to coexist with China's traditional low-profile policy. There are still liberal internationalists in China such as Wang Yizhou, who says in his essay in this collection that "if China is to maintain its role and image as a major world power, it must live up to its international responsibilities". China's honeymoon in international relations is over and it now faces the burdens that come with being a great power. For example, as China increases its presence in resource-rich countries and the number of Chinese workers abroad expands, it will increasingly have to deal with kidnappings and evacuations. Its foreign policy will be determined by events as well as grand strategy. Europe should therefore:

*Develop a global China policy*

The EU needs a global China policy based on the notion of reciprocal engagement that aims to get China constructively engaged in international affairs – or, to put it more defensively, keeps the international order "China proof". As a signatory to the Law of the Sea, the EU should bring a legal and multilateral perspective to the territorial disputes in which China is involved. The EU has clear interest in open sea lanes as well as the peaceful, legally grounded resolution of these disputes.

*Co-operate with China on risk management*

With Chinese citizens increasingly at risk when civil conflicts spin out of control, China could be won over to lend stronger support for multilateral interventions – if, that is, its own interests are at stake (there are not a lot of Chinese workers in Syria). This might not exactly make China a "responsible stakeholder", but the massive rescue operation in Libya revealed how China has unwittingly launched its own version of the "responsibility to protect" doctrine, at least with respect to its own citizens and workers abroad. The EU should co-operate with China not on the basis of grand and abstract principles of good governance but on concrete cases in which there is convergence between Chinese and Western interests. This in turn could also gradually change China's long-term calculations.

## Conclusion

For Europe, the Chinese question is a multifaceted one, ranging from Africa to proliferation to international governance. In order to improve its negotiation capacity, Europe must not just develop a greater understanding but also sign up to and act upon a more cohesive approach. Europeans should support the EU's competences where they already exist – for example, in trade, investment, and the environment. And they should reinforce them, with a clarification as to their goals, in areas where they have recently appeared – for example, in common foreign policy and security. National shortcuts are very tempting, but they will weaken Europe's hand as a whole, and will never enjoy from China the sort of recognition that a continent of 500 million people could bring. Europe has more power than it allows itself to think, but only if it chooses to use it in an effective way. "More Europe" is the key to developing a more cohesive approach, just as it is the solution to the euro crisis. Getting China 3.0 right remains the largest strategic policy litmus test for the EU.

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China is not only changing leaders; it is also moving into the next phase of its development. This unique collection of essays – written by China’s most prominent thinkers – provides an unrivalled insight into the big debates that are taking place about the future of China’s growth model, its political system and its foreign policy. They suggest that China could be on the verge of a change as significant as Mao Zedong’s Communist revolution (China 1.0) and Deng Xiaoping’s market revolution (China 2.0). We call this “China 3.0”.

“Having entered the third stage of its history, China is now exploring a new path: Chinese socialism 3.0.”

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“If China does not restructure now, it will have to pay an even higher adjustment cost later.”

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“China has a long way to go from the logic of robbery to the logic of the market. Its economy is still based on privileges rather than rights.”

**Zhang Weiyang**

“In order for China to continue to succeed, we must press on with reforms, no matter how difficult they become.”

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“Even without elections, the Chinese government is becoming and has to become more accountable to the people in ways that will transform China’s political system.”

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“Natural communities that had existed for thousands of years in China have gradually been destroyed, first by Maoism and then by the market.”

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“China will be unable to shift the world from unipolarity to bipolarity unless it forms a formal alliance with Russia.”

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“Europe should encourage a ‘second opening’ of the Chinese economy, which would coincide with China’s own objective of relying more on its domestic purchasing power and growth.”

**François Godement and  
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