Critical Issues Confronting China:  
Xi’s Policy Challenges: Some Questions for Discussion  
Tony Saich, Harvard Kennedy School  

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Instead of focusing on any specific challenges confronting China, such as energy or the environment, Tony Saich, Director of the Ash Center for Democratic Governance and Innovation and Daewoo Professor of International Affairs at the Harvard Kennedy School, talked about one long-term issue besetting China: the quality of governance. He asked: Are China’s institutions suitable for the next stage of economic growth in the 21st century?

China’s institutions were exceptionally good for the country’s first phase of growth immediately after its opening and reform in 1978, particularly in terms of attracting foreign investments and expanding its manufacture capacity. But the next phase of growth in the future will be characterized by intensified competition and a more urgent need for innovation, rather than simple capital accumulation. Can China upgrade its governance structure and ways of management so that they are compatible with a modern economy highly integrated with the rest of the world? Saich’s sense is that China has a long way to go in this regard, especially when compared with Taiwan, Singapore and South Korea in their similar stages of development.

Saich delineated some recent trends in China under President Xi Jinping. Xi’s explicit policy objectives are an extension of those in the Hu Jintao and Wen Jiabao eras (2002-2012). Since the widespread calamity from the 2008 financial crisis undermined U.S. credibility, China became more determined to blaze its own trail as a manufacturing powerhouse and to “seek its rightful place in the world.” Against this backdrop, Xi first enunciated the Belt and Road Initiative (BRI) in 2013 and then, in 2015, promulgated a national blueprint of “Made in China 2025.”

Saich considers the BRI, the central piece of Chinese foreign policy, a potential game changer in the Asia Pacific, as it will heighten the bifurcation of the region—having economic integration with China while maintaining security ties with the U.S. If successful, the BRI will not only set industrial standards for the region and beyond, but also have significant geopolitical ramifications. The “Made in China 2025” plan, aiming to promote ten advanced high-tech industries in strategic fields of the future, is regarded by the U.S., the European Union (EU) and Japan as a typical example of industrial policy, designed to further tilt the playing field in favor of Chinese national champions, mostly large state-owned enterprises (SOEs). Both of these
Chinese initiatives have caused counter reactions from many countries for a variety of reasons. Saich mentioned a recent trilateral ministerial meeting between the U.S., the EU and Japan, where the ministers jointly criticized non-market economies, implicitly referring to China, for distorting markets and exporting domestic overcapacity to global markets.

China’s foreign policy under Xi’s leadership also included establishing the Asia Infrastructure Investment Bank (AIIB) and the Regional Comprehensive Economic Partnership (RCEP). These initiatives are seen by the Chinese as their reactions to the persistent U.S.-led world order. The Chinese attribute the stalled reforms of the World Bank and the IMF to these institutions’ inability or unwillingness to adapt to the new economic reality in which China is a rising power. They also deplore China’s exclusion from the Trans-Pacific Partnership (TPP). These China-initiated arrangements are running in parallel to the established post-war international institutions, signaling that China will no longer acquiesce to the status quo.

Saich perceives that China’s development has reached a tipping point where it could be a threat to the U.S. This is reflected in Washington’s official designation of China as “a strategic competitor” in 2017, which represents a substantive change of the American posture in its strategic engagement with China. American businesses’ enthusiasm about China, which had been a strong pillar for American engagement policies, has become subdued, while their complaints about China’s business environment have become more pronounced. Saich also noted the complexity of the trade war. Despite their complaints about China, American businesses do not necessarily support Trump’s trade war since imposing tariffs will generally raise production costs and decrease demand. Furthermore, the stock of American direct investments in China is far greater than that of Chinese direct investment in the U.S., so there are more American assets at stake.

Saich then turned to China’s domestic situation. Based on public surveys in 2012–2013, Chinese citizens’ top concerns have changed from rampant corruption to dubious land management and environmental degradation. From Saich’s point of view, the most enduring challenge confronting China is its governance. Having evolved into a ruling party from a revolutionary party, the Chinese Communist Party (CCP) has to put the interests of the people first and foremost. How has China done in this regard?

Saich’s assessment is not sanguine. China’s transition to democracy has been halted under Xi’s regime. Xi has reined in corruption not by fostering an independent press or an independent judiciary system, but by relying on the Party apparatus to forge a vigorous top-down campaign against self-enrichment and lavish life styles, which has brought down some “big tigers” such as Bo Xilai and Zhou Yongkang. The transfer of land ownership or use rights still lacks transparency and legal protections. The zenith of the trend of increasing power concentration
around Xi himself was the abolition of the president’s term limit in the constitution, which was ratified by the People’s Congress in the spring of 2018.

All of these trends point to a change in the nature of the Chinese party state from the so-called soft authoritarianism, or an adaptive party state, under the leadership of Deng Xiaoping and Jiang Zemin in the 1980s and 1990s respectively, toward stronger authoritarianism. China in the 1980s and 1990s exhibited sufficient flexibility in allowing local experimentations and fostering private entrepreneurship, which eventually became a mighty engine for economic growth. But now there is a resurgence of the state sector, buttressed by state-supported banks. This is moving in the opposite direction to the requirement of a genuine market economy in which individuals’ freedom of choice and private entrepreneurship prevail over collective state objectives.

Saich postulated that how far China’s economic development can go depends on the health of the global economy and foreigners’ perceptions of China’s enunciated objectives and its actions. In conclusion, he raised some thought-provoking questions. Can China sustain its economic growth and complete its transition from an export- and investment-led growth to a consumption-driven growth? What will Xi’s centralization of power do to China’s economic development and global business at large? Can China push through domestic reform agendas without creating oppositions strong enough to stymie further liberalization? Can China build institutions commensurate with running a modern market economy and enable China to steer away from the middle-income trap? Can China develop institutions that can and will incorporate its citizens’ feedback into government actions and policies? Can China be a responsible stakeholder of the international system and a key player in providing global public good?