



# CRITICAL ISSUES CONFRONTING CHINA

## Seminar Series

SUMMARIES OF TALKS

Fall 2013-Spring 2014

SPONSORED BY:  
THE HARVARD UNIVERSITY ASIA CENTER AND  
THE FAIRBANK CENTER FOR CHINESE STUDIES  
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**Critical Issues Confronting China** is a new, weekly seminar series organized by Professor Ezra F. Vogel, Professor William Hsiao, and Dr. William Overholt, which began in September 2013. Made possible with generous support from the Lee and Juliet Folger Fund, the series is co-sponsored by the Harvard University Asia Center and the Fairbank Center for Chinese Studies.

The purpose of the series is to consider the complex issues China is presently facing and to view them in a comprehensive manner, including political, economic, and social perspectives. In addition, invited speakers examine the issues in broader cultural and historical setting and look at the range of choices Chinese leaders might make to respond to the challenges and opportunities they confront. The series is organized so that there are opportunities for informal exchange among senior specialists and also a presentation and dialogue with the larger community.

The summaries presented here are from the first year of the seminar series, beginning in September 2013 and ending in April 2014. They were written by Hannah Waight, who was a graduate student at the time in the Regional Studies-East Asia (RSEA) program at Harvard, and Jin Chen, an earlier graduate of the RSEA program. Holly Angell of the Harvard Asia Center was the overall administrator for the series.

# Critical Issues Confronting China

## Fall 2013-Spring 2014 Speakers

Co-sponsored by the Harvard University Asia Center  
and the Fairbank Center for Chinese Studies

### **Wednesday, September 25, 2013**

XI JINPING AND CHINA'S FUTURE: THE CRITICAL ISSUES

**Dr. William H. Overholt**, Senior Fellow, Harvard Asia Center and Fung Global Institute, Hong Kong

### **Wednesday, October 2, 2013**

CHINA'S RISE IN THE PRODUCTION OF CUTTING EDGE TECHNOLOGY

**Professor Edward Steinfeld**, Professor of Political Science and holder of the Dean's Chair  
in China Studies, Brown University

### **Wednesday, October 9, 2013**

FINANCING LOCAL GOVERNMENT IN CHINA:  
CHALLENGES IN THE ERA AFTER HU JINTAO AND WEN JIABAO

**Professor Christine Wong**, Centre for Contemporary Chinese Studies, University of Melbourne

### **Wednesday, October 16, 2013**

BUILDING A MODERN NAVY: CHINA AND MARITIME POWER

**Rear Admiral Michael McDevitt**, Senior Fellow at CNA (Center for Naval Analyses)

### **Wednesday, October 23, 2013**

U.S. ASIA POLICY AND ITS CHALLENGE TO CHINA

**Ambassador Karl W. Eikenberry**, William J. Perry Fellow in International Security, Center  
for International Security and Cooperation; Faculty Member, Shorenstein Asia-Pacific  
Research Center, Stanford University

**Professor M. Taylor Fravel**, Department of Political Science and member  
of the Security Studies Program,

MIT Professor Ezra F. Vogel, Henry Ford II Professor of the Social Sciences,  
Emeritus, Harvard University

**Wednesday, October 30, 2013**

CAN CHINA LEAD? EDUCATION AND LEADERSHIP IN THE 21ST CENTURY

**Professor William C. Kirby**, T.M. Chang Professor of China Studies, Harvard University; Spangler Family Professor of Business Administration, Harvard Business School; Chairman, Harvard China Fund

**Wednesday, November 6, 2013**

NATIONALISM AND DIPLOMACY

**Professor William A. Callahan**, Department of International Relations, London School of Economics;  
*Author of China Dreams: 20 Views of the Future*

**Wednesday, November 13, 2013**

CHINA'S HEALTH CARE AND THE COLLAPSE OF ETHICS

**Professor William C. Hsiao**, K.T. Li Professor of Economics, Harvard School of Public Health

**Wednesday, November 20, 2013**

CHALLENGES FOR CHINA'S FUTURE ENERGY AND ENVIRONMENTAL SECURITY

**Professor Michael B. McElroy**, Gilbert Butler Professor of Environmental Studies,  
Harvard School of Engineering and Applied Sciences

**Wednesday, December 4, 2013**

XI JINPING'S FOREIGN POLICY: REGIONAL CONFLICTS AND U.S.-CHINA RELATIONS

**Professor Robert S. Ross**, Professor of Political Science, Boston College; Associate,  
Fairbank Center for Chinese Studies

**Wednesday, December 11, 2013**

CRITICAL ISSUES FACING XI JINPING AFTER THE THIRD PLENUM

**Professor Joseph Fewsmith**, Professor of International Relations and Political Science, Boston University

**Wednesday, February 5, 2014**

CHINA AT THE GATE: A CHANGED RELATIONSHIP WITH EUROPE

**Professor François Godement**, Senior Policy Fellow and Director of the Asia & China  
Program of the European Council on Foreign Relations; Professor of Political Science at Sciences  
Po (Paris Institute of Political Studies)

**Wednesday, February 12, 2014**

BEIJING TRIP REPORT: DOMESTIC, U.S., JAPAN

**Professor Ezra F. Vogel**, Henry Ford II Professor of the Social Sciences, Emeritus, Harvard University

**Wednesday, February 26, 2014**

WILL THE THIRD PLENUM REFORMS SUSTAIN CHINA'S HIGH GROWTH RATE?

**Professor Dwight H. Perkins**, Harold Hitching Burbank Professor of Political Economy, Emeritus, Harvard University

**Wednesday, March 5, 2014**

CHINA AND CENTRAL ASIA

**Dr. Evan Feigenbaum**, Vice President, The Paulson Institute, University of Chicago

**Wednesday, March 12, 2014**

MERITOCRACY AND ECONOMIC GROWTH IN CHINA

**Professor Yang Yao**, Dean, National School of Development; Director, China Center for Economic Research, Peking University

**Wednesday, March 26, 2014**

AMERICA AND CHINA

**Dr. Zbigniew Brzezinski**, Counselor and Trustee, Center for Strategic & International Studies (CSIS); Senior Research Professor of International Relations, School of Advanced International Studies, Johns Hopkins University; former U.S. National Security Advisor under President Jimmy Carter

**Wednesday, April 2, 2014**

BRINGING CHINESE AND AMERICANS TOGETHER

**Jan Berris**, Vice President, National Committee on U.S.-China Relations

**Wednesday, April 16, 2014**

ISSUES AND CASES IN DUI HUA'S DIALOGUE WITH CHINA

**John Kamm**, Founder and Executive Director, the Dui Hua Foundation

**Wednesday, April 23, 2014**

CHINA AND THE WESTERN MEDIA

**Joseph Kahn**, Foreign Editor, *The New York Times*

**Wednesday, April 30, 2014**

CHINA AND NORTH KOREA: DOES BEIJING HAVE A STRATEGY?

**Dr. Jonathan D. Pollack**, Senior Fellow, John L. Thornton China Center and the Center for East Asia Policy Studies, The Brookings Institution

## XI JINPING AND CHINA'S FUTURE: THE CRITICAL ISSUES

**Dr. William H. Overholt**

Senior Fellow, Harvard University Asia Center  
and President of Fung Global Institute,  
Hong Kong

**Wednesday, September 25, 2013**

Dr. William Overholt opened the first session of *Critical Issues Confronting China* with his presentation "Xi Jinping and China's Future: The Critical Issues," overviewing the challenges that confront the People's Republic's new leadership and laying out an agenda for the weekly seminar series. China's new leadership is likely to depart from the previous Hu/Wen administration and implement more vigorous market reforms. While political problems of serious reforms to China's financial and economic institutions will be great, the risks of failing to reform will cause leaders to pursue reforms vigorously.

The imperatives of economic reform include transitioning from export led to domestic led growth; shifting the economy from investment to consumption; ensuring financial investment in small and medium-size enterprises, thereby diminishing the dominance of large state owned enterprises; curtailing the property bubble by increasing loan interest rates and providing alternative attractive investments, and positioning Shanghai as a global financial center, open to free market investment and competition. Without addressing these issues, Xi's China could fall into the middle-income trap with attendant political problems. Knowing they must act, the

new leadership team has organized itself for decisiveness by reducing the Politburo Standing Committee to seven members, excluding extreme factions from political power, trying to ensure compatibility in the way the PBSC is organized, and giving key government appointments to reformers.

In addition to these reform-minded decisions, the new leadership team has developed important plans for addressing the abovementioned economic problems. Shanghai has been designated as a free trade zone through which foreign and Chinese companies will invest in sectors traditionally closed off to non-state organizations. While the trading will take place through Shanghai institutions, the capital invested will spread across China. The central leadership has also constructed a five year plan to consolidate land use rights, mapping land, defining management, and leasing rights. The hukou system in medium-sized cities will be reformed, and increases in minimum wage rates will be tied to provincial median income levels. Banking system reforms will encourage more lending to small and medium-sized enterprises, and the development of more local banks.

There will be political consequences for these planned economic reforms. Leaders plan to dilute the power of the large state-owned enterprises, institutions endowed with great financial and political might. The challenges of the explosion of internet criticism to state censorship are likely to lead, over several years, to a decision to greatly increase the freedoms; otherwise, the regime will require much tighter controls. The growing

*Continued on page 6*

Continued from page 5

sense of unfairness among Chinese citizens will require Xi's leadership team to carefully consider the sequencing of reform and the process behind their new direction for China.

Logically, the leadership team has several reform sequencing options, including simultaneous political and economic reform, economic before political reform, or political before economic reform; current signals suggest that Xi is interested in pursuing economic reform without serious political liberalization. Instead, the new leadership team seems to be instigating a "new repression," cracking down on political opposition created in the wake of economic reform. This move can be observed in the new crackdown on bloggers, ideological campaigns within the party, financial and criminal consequences for citizens who speak out against the leadership, and a ban on open discussion of the "Seven No's," which include universal values and an independent judiciary.

Despite this "new repression," leaders are interested in pursuing some political reform steps. They intend to end the labor re-education program, introduce new controls on secret investigations, prosecute individuals involved in the proliferation of black petitioner jails, and, in some areas, allow greater freedom of speech in publishing. Whether Xi will eventually reverse the new repression or if these small steps will constitute the beginnings of true political liberalization remains to be seen.

Xi's leadership will differ from the Hu/Wen era—the new standing committee will overcome the previous era's stalled transition and implement serious market

reforms. While Hu Jintao and Wen Jiabao made similar statements about reform at the beginning of their tenure, Xi will be compelled to act on his promises by the economic and political reform imperatives of his time. This transition will be immensely difficult, but ultimately Xi's leadership team will engage with policy choices that are likely to take China forward.

## CHINA'S RISE IN THE PRODUCTION OF CUTTING EDGE TECHNOLOGY

**Professor Edward Steinfeld**

Professor of Political Science and holder of the Dean's Chair in China Studies, Brown University

**Wednesday, October 2, 2013**

What does innovation in China today look like? What are the challenges that confront Chinese innovators in global supply chains? Political scientist and China specialist Edward Steinfeld posed these questions in his *Critical Issues* presentation "China's Rise in the Production of Cutting Edge Technology." China is not currently a base for "upstream" research and development, but it is an innovator in "downstream" implementation of new designs and materials. Forging time-pressured manufacturing innovations in multi-firm networks, Chinese firms are emerging as the world leaders in technological "know how" and are crucial to the success of the supply chains in which they are embedded.

Continued on page 7

Continued from page 6

Professor Steinfeld's presentation mostly focused on Chinese manufacturing innovation in industrial products, particularly energy technologies. Previous research has focused on upstream research and design innovation, but these "new to the world" technologies are not the beginning and end of innovation. Upstream innovation must be coupled with innovative downstream manufacturing know-how. Chinese firms are particularly adept at this form of innovation and addressing the demands of tempo, scale, and cost-efficiency in the manufacturing process. For these new energy technologies, much of Chinese manufacturing has occurred within global multi-firm networks – unlike other East Asian economies, large vertically integrated enterprises have not been the norm.

Two examples articulate much of these unique dynamics and challenges associated with Chinese manufacturing innovation. With the explosion of Chinese demand for wind turbines, many foreign companies sought to export to China. Within a year of the foreign companies' market entrance, a Chinese company emerged with a cheaper alternative. How did the Chinese company achieve what had taken its foreign competitors 20 years? They engaged in reverse engineering of the foreign product. This was not a simple case of "copying" the product, however – the Chinese engineers figured out how to make the product cheaper while still maintaining quality standards. To complete this feat the Chinese company built an inter-firm network of suppliers, thereby getting what they needed and building their product much more efficiently. Through partnering and innovative reverse

engineering the Chinese firm reduced the time-to-product timeline from 20 to a couple years.

The Solar Photovoltaic (PV) industry in China includes another example of manufacturing innovation and the networked approach to inter-firm relations. A Silicon Valley startup developed a new nano-material that would dramatically increase the efficiency of solar cells. Unfortunately for the startup, their engineers did not know how to apply the new material in a commercial setting. On the verge of bankruptcy, the startup brought its material to Chinese manufacturers. Initial negotiations stalled with Chinese fears over sharing *their* technology translation know how, but eventually a Shanghai firm agreed to partner with the Silicon Valley startup. Engineers from both companies worked together on the production line and the product was ultimately a success. This example illustrates that Chinese manufacturing skills are not just employed to copy foreign products for the domestic market, but are also crucial components of global supply chains.

China's leading role in manufacturing innovation challenges traditional thinking in regards to the nature of innovation and the context in which innovation occurs. Innovation is not only upstream research and development, but also downstream know how. Furthermore, innovation does not only occur in the young, venture capital-funded entrepreneurial startup –it can increasingly be found in inter-firm networks. There are challenges associated with these forms of innovation, however. Firms' embeddedness in "global echo systems" exposes them to risk at all ends

Continued on page 8

Continued from page 7

of the supply chain. Secondly, future Chinese innovation will increasingly require cross-disciplinary work, something Chinese engineering firms have not traditionally excelled at. Finally, the Chinese version of innovation will require the rest of the world to change its traditional conceptions of technology transfer and intellectual property. These ideas currently only emphasize the upstream single-firm research and development idea of innovation and obstruct problem solving.

## FINANCING LOCAL GOVERNMENT IN CHINA: CHALLENGES IN THE ERA AFTER HU JINTAO AND WEN JIABO

**Professor Christine Wong**

Centre for Contemporary Chinese Studies,  
University of Melbourne

**Wednesday, October 9, 2013**

In her presentation “Financing Local Government in China: Challenges in the Era after Hu Jintao and Wen Jiabao,” Professor Christine Wong reviewed the sources of income and financial expenditures for local governments and suggested challenges posed by the current structure for government capacity and fiscal discipline. With the “people-centered” reforms of the Hu/Wen era, the role of local governments in the provision of public services and infrastructure has increased. Expenditure assignments have not been matched with central-allocated transfers and tax revenues, however. As a result, local governments increasingly rely on land revenues and other extra-

budgetary sources of income. This has created significant challenges for the central government’s ability to manage macro-economic coordination and impose aggregate fiscal discipline.

With the shift in their development paradigm from GDP growth to greater equity, the Hu/Wen administration created many new programs to improve rural education, reform rural fees, extend health care coverage, and expand social security. The lion’s share of responsibility for administering and financing these reforms has fallen to local governments. Local governments have also taken on urban infrastructure projects, building China’s rapidly expanding roadways, transportation systems, and high rises. While their share of these expenditures has greatly increased in the past decade, the share of total revenues assigned to local governments has remained constant. How have local governments paid for these infrastructure and public service projects?

Local tax revenues, land revenues, and central transfers now make up the main sources of revenue for local governments, in almost equal proportions. This heavy reliance on transfers is poorly matched with China’s highly decentralized administration, however. A very small central government manages a huge national bureaucracy and fiscal system. This imbalance has serious implications for efficiency and results in much waste, cost containment problems, and cross-provincial inequality.

The limitations of central-directed funding have led to local governments’ increasing reliance on sources of income they control directly: land revenues and other

Continued on page 9

Continued from page 8

extra-budgetary financing. Policies allowing local control over land have incentivized selling off suburban farmland. Extra-budgetary financing, especially borrowing through financial platforms under local investment companies (LICs), makes up the rest of local finances. LICs are corporate entities designed to bypass the Budget Law forbidding local government borrowing. The LICs are typically financed by land assets and guarantees by local government. They are not officially sanctioned and have largely operated under the radar.

The dangers associated with extra-budgetary financing of local governments are numerous. The LICs opened the door to soft budget constraints for local governments because the extra-budgetary financing raised by LICs is outside the authority and jurisdiction of central government ministries such as the Ministry of Finance. The banking sector too has scant capacity to appraise the credit-worthiness of LICs and local governments. Lending through the LICs is furthermore often based on “faith” rather than reliable information. Empty high rises and shopping malls dotting China’s urban landscape in cities like Guiyang are the products of runaway financing of this type.

In summary, rather than alleviating the problems of inadequate financing of the 1990s, the “people-centered” reforms of the Hu/Wen era have perpetuated the high and unsustainable expenditure assignments for local governments under the new programs. Support from central-government transfers has improved, but remains insufficient. Local governments have responded by drawing on extra-budgetary resources such as borrowing through LICs to finance their infrastructure

and social service projects. Growing regional disparities, low fiscal discipline, and weakened central capacity are a few of the adverse outcomes of these financial arrangements. Future reform would require realigning the local government responsibilities with their allocated revenues, allowing local governments to borrow directly, and strengthening financial management in the central ministries. China’s huge size and great regional diversity make a strong case for greater administrative capacity for the central government. To strengthen macroeconomic management, oversight of all fiscal resources must be placed under a single institution – most appropriately the Ministry of Finance.

## BUILDING A MODERN NAVY: CHINA AND MARITIME POWER

Rear Admiral Michael McDevitt

Senior Fellow at CNA  
(Center for Naval Analyses)

Wednesday, October 16, 2013

U.S. Navy Rear Admiral and Center for Naval Analyses Senior Fellow Michael McDevitt shifted the *Critical Issues* seminar series to questions of military power and transformation in China with his presentation “Building a Modern Navy: China and Maritime Power.” Throughout its long history, China’s military has mostly focused on land-based operations and strategy. Along with reform and opening, however, China’s leaders have

Continued on page 10

Continued from page 9

increasingly focused on building naval capacity to protect China's increasingly global economic interests, which have created security interests that go beyond a focus on just the defense of China. This shift is unlikely to reverse and will mean that China's political and, over time, security interests will no longer be limited to its immediate neighborhood.

China's military strategy throughout the imperial, nationalist, and pre-reform eras mostly focused on threats along its land frontiers, to the neglect of its maritime approaches. In other words, its strategic outlook was "continental" rather than "maritime." This does not mean that China did not use the oceans for trade, however. Maritime trade emerged during the Tang and Sung dynasties. A naval power projection capability emerged briefly during the Ming, with the legendary voyages of Zheng He, but these were discontinued because of their high costs and other strategic priorities. With large territorial expansions, China continued to neglect its maritime power during the Qing, a strategy that would ultimately prove costly in the 19th century. China's inability to cope with enemies that could come from the sea resulted in "humiliations" at the hands of the English, French, and Japanese. Nevertheless, the Nationalist and early PRC governments continued their land-based strategy throughout the first three quarters of the 20th century.

The beginning of reform in 1979 and shifts in China's strategic environment in the 1980s changed the balance between naval and land power strategy. On one side, economic development increasingly emphasized maritime trade. On the other, the decline of the Soviet

Union impelled leaders to reassess China's strategic environment. In 1985, Deng Xiaoping declared that there was no longer a major threat of invasion from the Soviet Union and that China should instead focus on preparing for small war(s) on its periphery. This declaration allowed security planners to focus on China's other borders and maritime interests, ultimately placing greater emphasis on Taiwan and China's disputed island claims in the East and South China Seas.

Events during the Taiwan Strait Crisis in 1996 further convinced strategic planners of the need to focus on naval power. The U.S. response to the events of the crisis demonstrated to the Chinese that military action against Taiwan would necessitate contending with the United States Navy if the U.S. government decided to intervene. This triggered a modernization focus on the navy, air force and Second Artillery.

A major component of this naval buildup is the counter-intervention concept that the United States has named Anti Access/ Area Denial (A2/AD). This approach seeks to defend China from attack from the sea by knitting together a large submarine force, land-based aircrafts carrying anti-ship cruise missiles, and, in the future, ballistic missiles that have the capabilities to hit moving ships. The objective is to defeat approaching forces before they get within range of striking China, creating a Chinese defense perimeter that stretches hundreds of miles to sea. This has created a security dilemma for the countries that live in the shadow of China. As Beijing's security situation improves, theirs get worse.

Continued on page 11

Continued from page 10

The second focus of China's strengthened Navy has involved peacetime and global missions. The main drivers for these missions are expanding global economic and political interests, including protecting Chinese workers abroad, securing the safe passage of oil imports, supporting UN sponsored missions, and responding to foreign natural disasters. In addition to submarines for A2/AD, China is building many surface ships whose main mission is "peacetime operations" such as ensuring safe passage of trade ships and supporting China's global interests. China's anti-piracy deployments, which started in 2008, are the best example of the PLA Navy's growing Indo-Pacific presence. They also have provided an opportunity for the PLA Navy to operate thousands of miles from home waters for extended periods of time. Since 1985, the PLA navy has transformed itself from a coastal defense force to one that can maintain warships in distant stations. This wide variety of peace time and global missions were institutionalized by President Hu in 2004, and a subsequent 2009 PLA Defense White Paper provided further elaboration, dubbing them MOOTW (Military Operations Other Than War).

From a coastal defense force to far seas navy, the PLA Navy has undergone significant reform and modernization since the beginning of China's reform era. Placed in a historical context, the PLA Navy's transformation from a coastal force unable to stop a major invasion to its current global force is remarkable. Ultimately, the Navy has reformed in conjunction with China's market reforms and increased role in global political and economic affairs. As China's interests have evolved, so too has its demands for its armed forces. China's navy will continue to maintain

a presence in the South and East China Seas as well as along the entire Indo-Pacific littoral. This is a new reality that the United States and other Asian powers must accept and learn to live with.

## **Roundtable Discussion: U.S. ASIA POLICY AND ITS CHALLENGE TO CHINA**

**Ambassador Karl W. Eikenberry**

William J. Perry Fellow in International Security,  
Center for International Security  
and Cooperation; Faculty Member,  
Shorenstein Asia-Pacific Research Center,  
Stanford University

**Professor M. Taylor Fravel**

Department of Political Science and member  
of the Security Studies Program, MIT

**Professor Ezra F. Vogel**

Henry Ford II Professor of the Social Sciences,  
Emeritus, Harvard University

**Wednesday, October 23, 2013**

The *Critical Issues* seminar series hosted a roundtable discussion on "U.S. Asia Policy and Its Challenges to China" this week. Presenters Ambassador Karl Eikenberry, Professor Taylor Fravel, and Professor Ezra Vogel discussed the policy background behind the U.S. rebalancing strategy in East Asia, as well as the strategic context in which it was received in China. U.S. involvement

Continued on page 12

in recent Chinese territorial disputes in the Pacific, as well as growing nationalism and military buildup in Japan, conditioned the primarily negative Chinese response to the doctrine. Ultimately, the presenters suggested that all sides will need to engage in careful diplomacy to avoid future polarization.

### *Ambassador Karl Eikenberry*

Ambassador Eikenberry suggested that in discussions of the rebalancing strategy, the defense part has received the most attention, but it was only one part of a broader set of comprehensive changes. The rebalancing strategy, furthermore, was part of the larger January 2012 U.S. Defense Strategic Guidance, which highlighted the U.S.'s global strategy, and in which the Asia-Pacific portion was important but not dominant. Unlike other regions, however, there will be no reduction in U.S. defensive capabilities in the Asia-Pacific. U.S. capabilities will be maintained, but not expanded upon.

With the force reductions in other regions, the rebalancing strategy will shift navy capabilities for the first time since the Second World War away from the Atlantic to the Pacific, with 60% delegated to the Pacific, and 40% to the Atlantic. There will be qualitative improvements to the U.S. Air Force in the region and, in anticipation of the reduction of U.S. forces in Japan, a buildup of infrastructure in Guam. The strategy also emphasizes solidifying U.S. alliances and partnerships in the region, as well as military-to-military dialog, especially between the PLA and U.S. military. Most of these elements of the rebalancing strategy were not novel and a long time in building.

Despite being a small part of the larger rebalancing strategy or "pivot," the military component of the strategy received the most attention in the United States and in China. U.S. leadership emphasized the defense component to signal the shift in U.S. strategic interests away from Afghanistan and Iraq and as a response to concerns over Chinese interference with U.S. ships in its Exclusive Economic Zone (EEZ), as well as a more aggressive PRC posture in asserting its maritime sovereignty claims. The Chinese, in turn, saw the policy as a containment strategy. The Chinese reaction can be contextualized within the U.S.'s long-standing presence in the Pacific – a policy that the Chinese view as having consequences for their security strategy. Despite this negative response to the strategy, however, there has been no direct impact on PLA modernization, which has continued apace but remained largely subordinate to economic modernization.

### *Professor Taylor Fravel*

Professor Fravel turned the conversation to the role of China's territorial disputes in the pivot controversy. The regional context for the pivot was the intensification of territorial and maritime disputes involving China, which started around 2008. Whether or not the pivot's intended target was China, recent U.S. attention to and focus on China's territorial disputes were viewed as threatening by China. The United States doesn't have territorial or maritime claims in the South China Sea and East China Sea, but some U.S. allies are engaged in such disputes with China. The U.S. has adopted a position of neutrality in these

*Continued on page 13*

Continued from page 12

disputes, but has been increasingly active by stating its interests in the peaceful settlement of these disputes and underscoring its commitment to its allies in these disputes. All of this contributed to the difficult political context in which the pivot was received.

A second important context of the pivot is the broader trend of China as a rising power and the United States as a dominant power in the region. Whenever such power balances are shifting, spirals of instability in the region become a concern. Power dynamics become supercharged in territorial disputes in particular because every state involved feels as though it is defending its rightful claim. When the U.S. enters such disputes, it is viewed as taking sides even while stating its neutrality. These changing power dynamics and the U.S.'s attention to territorial and maritime disputes created a subtext of anxiety and concern over the curbing of Chinese interests by future U.S. involvement in the region.

In addition to providing the context that ensured the negative reception of the pivot on China, these issues could also lead to future polarization in the region. Recent events such as the Senkaku Island controversy represent this trend. The territorial dimension of these disputes will require careful diplomacy from all sides.

### **Professor Ezra Vogel**

The context of the pivot's reception was also shaped by the Japanese military buildup. China is growing increasingly concerned over what they perceive as rising nationalism and militarism in Japan. The Japanese are

quietly building on their armed forces, adopting high technology from successful industries, building on an already strong navy, and playing a broader role in global issues. This growing military might has been coupled with recent shows of nationalism, including the Japanese government's purchase of the Senkaku Islands and the election of nationalistic Prime Minister Shinzo Abe. China has interpreted all of these events through a lens of militarism revival. The issues and fears raised by the pivot strengthened these concerns.

Japan's decision to strengthen its military may be a reaction to its fears over long-term U.S. retreat from the region and growing Chinese assertiveness. Japanese

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**"Japan's decision to strengthen its military may be a reaction to its fears over long-term U.S. retreat from the region and growing Chinese assertiveness."**

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officials, like their counterparts in other countries, wonder whether the United States in 10 years will have the economic resources to continue to fund the pivot. In addition, the Japanese observe that many Chinese patriots, concerned with the history of past humiliations, are buoyed by their economic success in surpassing Japan. Chinese assertiveness and criticisms of Japan's growing militarism only increase the trends in Japan that the Chinese say they would like to prevent.

## CAN CHINA LEAD? EDUCATION AND LEADERSHIP IN THE 21ST CENTURY

Professor William C. Kirby

T.M. Chang Professor of China Studies, Harvard University; Spangler Family Professor of Business Administration, Harvard Business School; Chairman, Harvard China Fund

Wednesday, October 30, 2013

William Kirby opened this week's *Critical Issues* series with a simple question: Can China lead? Examples of innovation during the recent decades of China's rapid economic development suggest that China has the potential to lead in infrastructure, entrepreneurship, and education. Nevertheless, the potential for leadership, particularly for China's universities, remains undecided and mired by serious political constraints. Ultimately, whether or not China can lead is a comparative question whose resolution bears significant weight for the 21st century.

Many observers have viewed China's economic transformation since 1978 as the proof of China's "rise." The "miracles" of the past 30 years are rooted in a much longer tradition of Chinese business and politics, however. In 1912, the president of China's new republic, Yuan Shikai, carried the promise of democracy with his new leadership. While this transition did not occur, by 1945, under the leadership of Chiang Kai-shek, China had become what it was not in 1911—a great power. The military remains at the heart of China's governance today, with the chairman of the Central Military Commission the most powerful

figure in the political system. This rise of China as a great political power has been a century in the making.

In business as in politics, China's recent emergence onto the world stage has not occurred overnight. While many outside observers point to Shanghai as a new center for global capitalism, Chinese entrepreneurs today see the current development as the "second golden age of Chinese capitalism," remembering Nanjing's prominent decade from 1927 to 1937 under Nationalist leadership. Chinese companies today are likewise rooted in a past stemming beyond 1978. Wanxiang, the world's largest automobile parts manufacturer, was founded in 1969 as a tractor-repair facility, but by 1979 had become part of the state plan for automotive parts. Its founder, born in the Republican era, had attempted to start a business during the Great Leap Forward and Cultural Revolution and found little success, but his persistence resulted in one of the greatest success stories of China's rise as an international business power.

China's educational system is also grounded in a long tradition of excellence, although tempered by three decades of Sovietization and Maoist upheaval. Qinghua University, founded in 1911, would become an extraordinary place during the Republican Era. The university fared less well after the Japanese invasion, civil war, communist takeover, and post-1949 transformation into a Soviet-style technical university. Many universities in China, while sharing a similar fate under Sovietization, enjoy a connection to this past history of academic excellence.

Continued on page 15

Continued from page 14

Can Chinese education build upon its traditions and build to a level on par with entrepreneurship? China's educational system over the past 20 years is certainly undergoing a dramatic transformation with heretofore unseen rates of expansion and institute construction. This rapid expansion has occurred at all levels of higher education, with graduate education, public universities, private universities, and Sino-foreign joint ventures all growing at remarkable rates. The growth in enrollments and rapid construction of new higher education institutes has occurred alongside the rise of Chinese universities in world rankings. Although rankings as measures of university quality cannot be taken at face value, they are nevertheless indicative of dramatic changes in China's institutes of higher education. In addition, Chinese leaders increasingly recognize the need to focus on quality, as well as quantity, in higher education. These leaders have turned to Western models of liberal education, seeing the potential for these models to train new leaders for China in the 21st century.

Despite these impressive leaps, Chinese higher education remains limited by the political system in which it is embedded. One cannot build a "world class" university when there are seven things you can't talk about (*qi bujiang*). Furthermore, the possibility of building a world class university within a politically illiberal society remains unknown. Nevertheless, the question of whether Chinese higher education can lead the world is a comparative one and must be placed within the context of global trends. The United States higher education system, the current world leader, increasingly faces serious problems. Whether

or not the U.S.'s leadership comes to a close and China emerges as the global leader is a trend to be decided in the 21st century.

## NATIONALISM AND DIPLOMACY

**Professor William A. Callahan**

Department of International Relations,  
London School of Economics;  
Author of *China Dreams:  
20 Views of the Future*

**Wednesday, November 6, 2013**

William A. Callahan, Professor of International Relations at the London School of Economics, presented on "Nationalism and Diplomacy," examining in particular the "China dream" and its place in Chinese foreign policy and international politics. The China dream, according to CCP leader Xi Jinping, is a national dream emphasizing collective goals and national strength. It nevertheless has implications for the "American dream" and China's "world dream." Ultimately, Professor Callahan suggests that we must take these discourses seriously, as they may presage future developments in domestic and foreign politics.

After Xi Jinping mentioned the China dream in his November 2012 speech, it became China's "hottest" new word for 2012. The propaganda department picked up the phrase and launched a campaign of "educational materials for deepening understanding of the China dream," which included funding for academic research

Continued on page 16

Continued from page 15

projects, traditional propaganda booklets, and popular cultural events. This official version of the China dream emphasizes two different themes: the China dream as socialism with Chinese characteristics and the glory and value of Chinese civilization. Many individual Chinese also adopted the China dream discourse, although they talked about the China dream as an individual, rather than national, dream for self-actualization. By March 2013, Xi felt the need to reassert the China dream as a collective dream that emphasizes Chinese nationalism and the rise of China after 170 years of humiliation.

As a national dream, the China dream exists in tension with the American dream. According to many Chinese texts, the two visions of the self and world order are not different, but opposite. The China dream stresses national wealth and power, while the American dream underlines personal freedom and happiness. The China dream thereby tells Chinese citizens not only what they can dream, but also what they can't dream – the American dream. The China dream thus includes a moral component, suggesting that American values are distinct from Chinese values, and, furthermore, that they are dangerous and selfish.

While the China dream is focused mainly on domestic issues, it also has global implications for China's "world dream." In referencing the rise of China, commentators within China often speak of the country's "rejuvenation" – a moral narrative that connects current events with China's "century of humiliation." The China dream and China's dream for a "harmonious world" are thus mutually supportive – what is good for China

is seen as good for the world. China's "world dream" is furthermore presented as an alternative to American hegemony; this different Chinese vision of the world order is directed not so much at Western audiences, but at the Global South. The idea of China at the center of the world is nothing new, of course – the "*tianxia*" (All-under-Heaven) discourse from pre-modern times likewise placed China at the center of its cosmology.

China's vision for Asia – the Asia dream – is an essential first step towards fulfilling China's world dream. In the recent past, ASEAN has been very effective at setting the terms of Asian regionalism. Lately, however, China has been quite successful at making political and economic inroads in Southeast Asia. This is indicative of a shift from an ASEAN-led Asia to a China-led Asia. Xi Jinping's two speeches which referenced the China dream (his China dream speech in November 2012 and regional foreign policy speech in October 2013) emphasize this regional spread of Chinese influence as a precursor to any global moves. In this vision of expanding Chinese political and economic influence in Asia, shared beliefs and norms of mutual cooperation, traditional Sino-centric ideals of governance, and parallel discourses of socialism and tradition are all emphasized.

Ultimately, how influential and successful the China dream concept has been remains in question. Beijing talks as if it is gaining discursive power, setting the terms for debate among regional and world leaders. It is unclear, however, how real this discursive power is – are people buying into China's vision for the world order or simply

Continued on page 17

Continued from page 16

telling China what it wants to hear? There is no doubt that socialization is occurring between China and the rest of the world, but the question is who is socializing whom. This question has important implications, as Beijing's national, Asian, and world dreams are presenting an alternative to the liberal world order.

## CHINA'S HEALTH CARE AND THE COLLAPSE OF ETHICS

**Professor William C. Hsiao**

K.T. Li Professor of Economics,  
Harvard School of Public Health

**Wednesday, November 13, 2013**

What are the problems facing China's health care system? What are the historical and cultural roots of these issues? With his presentation "China's Health Care and the Collapse of Ethics" William Hsiao drew attention to the structural and ethical dilemmas besetting health care in China. Since the beginning of reform, health care has become increasingly unaffordable and inaccessible for many Chinese. While problems such as the neglect of primary and preventive care, the lack of health insurance for rural residents, and the over-prescription of needless surgeries and medications have roots in market reforms which pushed public hospitals to become for-profit institutions, they are also related to a deeper problem in health care and Chinese society at large: the denigration of ethics. Solving China's health care problems will require

more than structural reforms – it will necessitate changing the collective psyche.

The market reforms in 1978 were accompanied with the benign neglect of the health care system in China through the 2000s. Focused almost exclusively on economic growth and initially with scant national government revenues, top leadership pursued a market solution for the health care system, dismantling the social welfare system that characterized the pre-reform era. Even with the tax revenue reforms in 1994, which greatly increased national government revenues, funding for health care did not increase. As a result, while Chinese public hospitals before the market transition received 50 to 60 percent of their budget from the government, direct government budget funding after the transition only made up 11 percent. This shift was compounded by a lack of health insurance for rural residents. With the switch to the household responsibility system in farming, communes were dismantled and the rural cooperative medical scheme collapsed. Peasants were left without insurance and forced to pursue self-care or, in the case of major illness, borrow money, sell off assets, or, in some cases, prostitute young daughters to pay for hospital visits.

In addition to a financial squeeze, public hospitals were also constrained in their fundraising efforts by government policy, making their survival difficult. Hospitals attempted to earn income to cover expenses by charging patients, but central planners became worried that many Chinese would not be able to afford lifesaving procedures.

Continued on page 18

Continued from page 17

As a result, public hospitals were required to keep prices below actual cost for staff's time for health services. Hospitals and clinics were allowed, however, to make a 15 percent profit on drugs and new technology testing to pay for staff compensation and bonuses. The government thereby encouraged and legitimized the commercialization and a for-profit transition for public hospitals and clinics.

The impacts of these policies have been numerous and detrimental. Prevention and primary care have been entirely neglected and substituted mostly with self-care. Distrusting local clinics, patients flood to third tier hospitals even with modest illness. Most disturbingly, public hospitals exploit patients for profit. Hospitals set revenue targets for each ward, tying doctor compensation to revenue generation. As a result, many doctors over-prescribe the medications and procedures the hospitals can profit from to meet these targets. This trend has resulted in a general decline of public trust in hospitals and doctors.

The SARS Epidemic in 2003, caused by the neglect of prevention and of food and drug safety, was in many ways a result of these disastrous trends. This medical emergency awakened top leadership to the problems infectious diseases pose for national security and resulted in some serious reforms during the Hu/Wen administration. In 2009, on the advice of international experts, China shifted public health and primary care back to public responsibility, rejecting the earlier market "solution." Public investment in primary care facilities in village, town, and urban neighborhoods greatly increased. Universal health care insurance plans for every citizen, public management, and

distribution of essential drugs were also instituted. As a result of these reforms, 97 percent of Chinese now have health insurance and more health services; essential drugs are affordable and more facilities are available. However, the behaviors of hospitals and doctors have not changed. Most of them still place profit-making as their priority. Now, the greatest challenge for Chinese health care is not funding or a lack of facilities but the profit seeking of providers through over-prescribing drugs and ordering unnecessary testing, hospitalization, and procedures.

In sum, the major challenges remaining for Chinese health care surround ethics in medicine. There remains a substantial dearth of quality care for most Chinese citizens. Many doctors and staff, in rural areas especially, still lack proper training. Meanwhile, per capita health care expenditures have increased dramatically over the past several years, leading many observers to question the sustainability of the current system. Finally, the question of patient-doctor trust remains a salient issue. At the root of this distrust is a lack of ethics in Chinese medicine: Doctors remain committed to profits over any allegiance to the Hippocratic Oath of "doing no harm." Solving this issue will require the commitment of the national government to institute incentives and policies to encourage ethical behavior and a reform of medical education and doctor selection. Restoring ethical medical behavior is particularly difficult when the prevalent ethics for Chinese society aim toward the idea that "to get wealthy is glorious."

## CHALLENGES FOR CHINA'S ENERGY AND ENVIRONMENTAL SECURITY

Professor Michael B. McElroy

Gilbert Butler Professor of Environmental Studies, Harvard School of Engineering and Applied Sciences

Wednesday, November 20, 2013

Michael McElroy, Professor of Environmental Studies at Harvard University, addressed the *Critical Issues* seminar group with his presentation "Challenges for China's Energy and Environmental Security." Professor McElroy detailed Chinese and world consumption and production of coal, oil, natural gas, and nuclear power. While China is currently heavily dependent on coal for energy, its coal supplies are limited and, contrary to expectations, may run out in the next couple of decades. China is increasingly turning to other energy sources to power its economic development but each of these sources carry attendant strategic and environmental concerns. To face these challenges, China will need to be increasingly creative in developing renewable energy sources and energy self-sufficiency.

Coal dominates China's energy consumption, holding 70 percent of the total in 2010, yet China's coal sources are not unlimited. As the greatest carbon dioxide emitter of any energy source, coal is a dirty material. The use of coal in China rapidly took off in the early 2000s, which was also the period when China became the world's primary emitter of carbon dioxide. From 2000 to 2011,

China's consumption surpassed its production and, in 2010, China was the world's largest consumer of coal, taking 46 percent of global consumption. In terms of coal reserves, however, China comes in third, with a little more than 13 percent of world reserves. Taking into consideration China's current reserve, consumption, and production patterns, China could run out of coal in 18 to 31 years. In response, China is taking measures to reduce its reliance on coal, looking to follow in the footsteps of the U.S. in making coal an energy source of the past. China has announced several targets and plans to reduce coal reliance, including in the 2011 12th Five Year Plan targets to reduce carbon intensity 17 percent by 2015 and a recent ban on coal-fired power plants in key industrial regions around Beijing, Shanghai, and Guangzhou.

China's oil production and consumption patterns have, as with coal, increasingly diverged. In 1991, oil production and consumption in China was largely in balance, but today China is incredibly dependent on foreign oil imports. In 2013, China surpassed the U.S. as the world's largest importer of crude oil. This gap between the U.S. and China is likely to increase, as with recent developments in hydraulic fracturing ("fracking") the U.S. may become a net exporter of crude oil in a little over a decade. China's heavy dependence on oil imports poses significant security problems, as most of these imports arrive via seaports, a serious vulnerability for China's energy needs. China has increasingly invested in West and East Africa to secure energy sources but the security situation there remains insecure.

Continued on page 20

Continued from page 19

Natural gas in China is primarily used in industrial contexts and is poised to become an increasingly important energy source. China's consumption first exceeded production in 2007. Natural gas, a much more carbon efficient energy source than coal, could be part of the solution to China's environmental concerns. To meet this increasing need, China could follow in the path of the U.S. and use fracking techniques to take advantage of shale deposits, but this path is uncertain. The potential for shale gas production in China is hampered by a lack of knowledge of the extent of China's shale deposits, concerns that the U.S. techniques and technologies would not work in China, and the complicated nature of the fracking process itself. Shale fracking requires incredible amounts of water and produces equally large amounts of contaminated water among other environmental concerns. Careful oversight is needed to ensure that the procedures do not result in environmental degradation.

Finally, nuclear power's importance is increasing in China. While Western countries in the wake of Chernobyl and other nuclear disasters have increasingly turned away from nuclear power in favor of cheaper, more publically lauded energy sources, China is becoming a major player. Chinese planners increasingly prioritize nuclear power in China's economic growth and have ambitions to transform China into a net exporter of the energy source. Nevertheless, nuclear power is vulnerable to the effects of climate change; it needs a substantial water-cooling system to operate safely, yet global warming poses a threat to the efficacy of these cooling systems.

China's current energy consumption and future plans pose serious environmental problems. Haze days have quadrupled in China in recent years, creating serious health risks for the Chinese population. Extreme weather events, already more common than before, are likely to increase in magnitude and frequency. Climate shocks are likely to have huge effects on the population and economy. These challenges, combined with the challenges for China's energy security outline above, will necessitate creative leadership in China. Utilizing China's abundant renewable energy sources, such as wind power, needs to become a mandate for future policy.

## **XI JINPING'S FOREIGN POLICY: REGIONAL CONFLICTS AND U.S.- CHINA RELATIONS**

**Professor Robert S. Ross**

Professor of Political Science, Boston College;  
Associate, Fairbank Center for Chinese Studies

**Wednesday, December 4, 2013**

The strategic and foreign policy environment Xi Jinping inherited when he took the helm of the Chinese Communist Party in 2012 was bleak. 2009 and 2010 were difficult years for Chinese foreign policy and were followed closely by the announcement of the American pivot and the diplomatic tensions it engendered from 2010 to 2012. By 2012, Chinese relations in East Asia

Continued on page 21

Continued from page 20

and with the United States were at their worst since the advent of reform. Nevertheless, under Xi's watch, by the end of 2013 there had been a complete reversal. Chinese-U.S. relations today are better than they were in 2008. How did Xi achieve such a quick turnaround? What tactics did he use to secure better relations with China's East Asian neighbors and the U.S.?

Xi has pushed Chinese foreign policy into more stable territory through a combination of compromise and aptly applied coercive diplomacy. China's recent dealings with North Korea best represent the important compromises Xi has made in the foreign policy arena. With growing tension on the Korean peninsula following North Korea's moves to develop nuclear weapons, the U.S. announced the pivot reversing U.S. policy in the area, increasing troop deployments on the peninsula, expanding ground force exercises with South Korea, and initiating trilateral naval exercises with South Korea and Japan. All of this served to increase tension and showed China that it could end up in a conflict with the U.S. over North Korea. Since 2010, China had not cooperated with the United States in containing it as an ally. With a growing realization of the risks the North Korean relationship posed to regional stability, however, China reversed this policy, making it clear that it was no longer going to tolerate rogue North Korean behavior. It carried out banking sanctions against North Korea, reduced border trade, and completely isolated North Korea diplomatically. These compromises signaled China's willingness to work with the U.S. and restored American faith in China.

Compromise has not been the only tool in Xi's arsenal, however. Coercive diplomacy has also been an important component in Xi's move to restore regional and international diplomatic stability. China's recent tough stance on territorial disputes in the South China Sea is emblematic of this trend. In the build up to recent conflicts, the U.S. had announced "strategic partnerships" and discussed arms sales with Vietnam. Regarding the Philippines, China responded to the Scarborough Shoal Incident in April 2012 to make clear that increased U.S. support for the Philippines' challenges to Chinese sovereignty claims was unacceptable. By risking war, China compelled the U.S., Vietnam, and the Philippines to go back to their 2008 stance on territorial disputes. The U.S. has since revised its policy in the region, making no mention of sovereignty in the disputes and demonstrating that it is not taking sides. By the end of 2012, Vietnam was trying to restore cooperative relations with China by deescalating the territorial disputes and reducing its support for the Philippines. The Philippines have likewise backed down. These incidents show that China's tough stance in the region is not the unpredictable action of a rogue state, but carefully considered action designed to reduce overall tension. It's also clear that in these instances, coercion worked.

China also used coercive diplomacy in the Sino-Japanese dispute over the Diaoyu/Senkaku Islands. The Japanese government's 2012 purchase of the islands ignited a quick and forceful response, including increased Chinese

Continued on page 22

Continued from page 21

patrols in the territorial waters and efforts to strengthen Chinese administrative control of the islands. Similar to the incidents in the South China Sea, the U.S. backed off in response to Chinese aggression, responding much less strongly to China than it did in 2010 during the incident with Japan over the arrest of Chinese fishermen. Following the Senkaku tensions, U.S. Secretary of State John Kerry praised Japan for its “restraint” and made no mention of the islands to China. As with previous incidents, China successfully used coercive diplomacy to take territorial disputes off the agendas of foreign governments. The only player who has not backed down in response, however, is Japan.

In sum, Xi has done a masterful job of getting Chinese foreign policy back on track. He inherited a tough agenda, yet through a combination of compromise and coercion has made major improvements in Chinese relations with foreign nations and proven his strong leadership capabilities. Chinese-U.S. relations are back on track, with joint efforts over Syria, Iran, and North Korea, as well as military-to-military cooperation. The only anomaly in this landscape is China’s recently declared Air Defense Identification Zone (ADIZ) in the East China Sea. The ADIZ, which includes the Senkaku Islands and was released unexpectedly and without clear specifications, was a setback for Chinese diplomacy and points towards China’s challenges associated with having an independent and strong Central Military Commission. Even the U.S., however, understands that this is a diplomatic problem and, with the release of specific regulations governing the ADIZ, is moving past the incident.

## CRITICAL ISSUES FACING XI JINPING AFTER THE THIRD PLENUM

Professor Joseph Fewsmith

Professor of International Relations and  
Political Science, Boston University

Wednesday, December 11, 2013

Joseph Fewsmith addressed the semester’s final session of the *Critical Issues* seminar series with a discussion of Xi Jinping’s first decisions in office and the challenges the Chinese leader faces in the coming months and years. With strikes at both the left and the right, Xi appears to be attempting to follow in Deng Xiaoping’s footsteps by following a middle path of economic and political reform. Nevertheless, Xi faces significant challenges as he tries to reconcile contradictions inherent in the Chinese political system.

Xi Jinping inherited a divided, fragile political system at the time of his ascension. The leftist critique of reforms, which holds that the party has given up on socialism and socialist values and thereby, has lost its connection with the people, remains just as powerful as the rightist critique, which promotes greater economic and political reform. These two sides are becoming more and more polarized, leaving many observers to feel as though the middle has eroded in elite Chinese politics. In addition to this polarization, the political system, with corruption and a loss of faith in the communist party, is increasingly

Continued on page 23

Continued from page 22

fragile. This fragility was on display during one of Xi's first appearances in public after the leadership transition. As part of his campaign to promote Chinese nationalism, he attended the "Road to Renaissance" exhibit at the Museum of Revolutionary History. This exhibit, which presented China's recent history as a bitter story of victimization at the hands of the West, shows the deep tensions in Chinese society: China's leaders should be celebrating their recent successes, not continuing to decry past victimization in order to redirect public anger to an outside source.

Xi has responded to this fragile, divided political system by attempting to restore the middle in Chinese politics and reform. His early trip to Shenzhen, reminiscent of Deng Xiaoping's Southern Tour, suggests that Xi intends to adopt Deng's middle road model of reform. This plan is also illustrated by his recent attacks on the left and the right. The purge of Bo Xilai was a clear strike against the left, while recent crackdowns on dissent and the release of the "*qige bujiang*" (seven things not to discuss) Document No. 9 were attacks on the right. Finally, Xi's recent talk at Beidaihe stating the need for reconciling the Maoist and Reform Eras represents another attempt to find the middle again in Chinese politics. This talk, which said that individuals who negate either the Reform Era or the Maoist Era are incorrect, noted that a common thread through these two periods is their commitment to democracy. This vision of democracy is, of course, different from Western democracy and is related to the ideas of democratic centralism and the mass line. Building off these ideas, Xi called for once again uniting the party with the people.

The recent Third Plenum of the Chinese Communist

Party represents another showing of Xi's commitment to the centrist path. Important decisions from the plenum include instituting economic reforms that would promote the role of the market in allocating resources; clarifying property rights, particularly important for China's peasants; lifting *hukou* restrictions in Chinese cities except for Beijing and Shanghai; creating a "strong rule of law" and judicial fiscal independence from local governments; implementing reforms of discipline inspection commissions that would make them independent from local party committees and establishing a state or national security council that would be responsible for domestic affairs. The plenum also called for the establishment of leadership small groups that would be responsible for implementing these reforms; it has recently been announced that Xi Jinping will head both these groups.

In sum, it is remarkable how fast Xi Jinping has moved to consolidate power and implement his vision of the middle road for China's reforms. Unlike his predecessors who, in the case of Jiang Zemin, took years to consolidate power or, in the case of Hu Jintao, never really did, Xi has managed to gain a firm hold within one year. Nevertheless, Xi faces significant challenges in his leadership: How to curtail corruption? How to restore the Chinese people's faith in their political system? How to give property rights and full citizenship to peasants, yet curtail migration to cities? How to make the judiciary system more independent, yet still subordinate to the needs of the communist party? These are difficult issues to manage and represent some of the irreconcilable contradictions of the Chinese political system.

## CHINA AT THE GATE: A CHANGED RELATIONSHIP WITH EUROPE

**Professor François Godement**

Senior Policy Fellow and Director of the Asia & China Program of the European Council on Foreign Relations; Professor of Political Science at Sciences Po (Paris Institute of Political Studies)

**Wednesday, February 5, 2014**

The seminar series *Critical Issues Confronting China* turned its attention to European Union (EU)-China relations at the beginning of the 2014 spring semester. François Godement, Senior Policy Fellow and Director of the Asia & China Program of the European Council on Foreign Relations, Professor of Political Science at Sciences Po (Paris Institute of Political Studies), gave an up-to-date depiction of the multifaceted economic and political relations between EU and China.

Professor Godement tried to fill the gap between the public perception of the overall picture and what he sees as reality by looking underneath aggregations and into individual bilateral relations between EU member countries and China. He also put these relations in a comparative perspective with U.S.-China relations. Some obstacles that are absent in U.S.-China relations are present in EU-China relations and vice versa.

Viewing them from the perspective of the EU, Professor Godement said that EU-China relations reveal as much about the EU as they do about China. The EU's bureaucracy is much more fragmented than that of the

U.S. China's decision makers often ask who in the EU is making decisions and how. While in some respects it is good to keep the Chinese wondering, since this fragmentation reduces pressure on the relevant decision making units inside the EU, it does allow the Chinese to use their advantage of size in bilateral negotiations with individual EU member countries.

Professor Godement traced the EU's dynamic and expanding economic relations with China back to the 1980s. In 1985, the then-president of the European Commission, Jacques Delors, signed a commercial treaty with China, which helped correct the trade imbalance between the two sides (the EU was running a large trade surplus with China). The EU aid program was designed to benefit China, not the EU. The Europeans set up teaching facilities in Beijing and Shanghai to train Chinese managers. Among the member states, the Czech even helped the Chinese to upgrade their shoe manufacturing processes. Needless to say, this mission is more than accomplished; China has become the world's capital for shoe manufacturing. In addition to ample financial and technical assistance, the EU gave China much freedom to pick projects and choose how to spend the money. Among many endeavors, EU's money was used to help alleviate pockets of poverty, build irrigation projects, and help dairy farms in China.

In terms of overall trade relations with China, the EU has been running a large trade deficit on the same scale as the U.S. in recent years, yet the EU has never called China a currency manipulator and never put as much pressure on China as the U.S. Treasury did. However, if we only look

*Continued on page 25*

Continued from page 24

at EU's aggregate trade with China, China's influence on Europe is underestimated. The trade picture at sub-EU level is very different. Although all EU member states have a trade deficit with China, northern European countries generally run overall trade surpluses, whereas southern European countries run trade deficits. In this respect, France is more like a southern country; Germany also fears losing its edge over China. New EU-level negotiations did not take off until very recently.

Investment flow between the EU as a whole and China is not a problem. The problem captured by the term "Lucas Paradox," in which a developed country, against the prediction of standard economic theory<sup>1</sup>, imports capital from a developing country, is an issue for the U.S. (China holds about two-thirds of its foreign reserves in the form of dollar denominated securities, largely in the form of U.S. treasuries), but not for the EU. China is not exporting capital to Europe at the EU level. The EU generally runs a large current account surplus, except for briefly in 2009 and 2010, when it ran a small overall deficit.

But for individual EU member countries, the direction of net investment flow is very different. China is not as open to foreign investments as Europe is. This is demonstrated by reports from the European Chamber of Commerce in China. The main message in these reports is similar to that of American Chamber of Commerce in China. EU member countries, wishing to get a foothold in China, almost always lose out when they negotiate individually with China, simply because of China's dominating economies of scale. Even German officials and business leaders do not feel secure when dealing with the Chinese.

On the other hand, Germany has qualms about forming a united front with other EU member countries.

The European sovereign debt crisis since 2009 has made it more difficult for EU member countries to unite. Eager to find foreign buyers for their sovereign debt, southern European countries have been courting the Chinese to alleviate their crisis. In this regard, France is also more like a southern European country. The European Central Bank cannot stop this trend, nor does it have the necessary knowledge about the member states' sovereign debt holders' identities. As Hilary Clinton once said when she was Secretary of State, if China is your biggest creditor, there is a limit to what you can say to China. Hungary, headed by a far-right prime minister, has changed its stand from criticizing China to being pro-China, viewing it as a successful authoritarian country. Poland and Romania have given in, to some extent, in an effort to attract Chinese investments. While there is a need for bilateral investment treaties to offset these countries' trade deficits with China, such bilateral attempts undermine the EU's capacity to negotiate with Beijing.

The extent of Chinese investments in the EU is often underestimated. Some small member countries like Cyprus are basically selling EU residence and citizenship in order to bring in Chinese investment. While the EU is moving toward more integration, some member countries, faced with domestic challenges, have new economic incentives to cause disarray within the EU, creating an impression for China that it can always hold out and wait for a better deal.

Continued on page 26

Continued from page 25

China has mixed views about having European-wide treaties. On the one hand, Chinese business people would love to have a uniform playing field and investment protections throughout Europe, much like the U.S. and Canada do. On the other hand, China knows well that if the EU is more integrated, its advantageous negotiating ability will be impaired. In fact, the EU is more open to foreign investments than the U.S. and Canada, with essentially no formal barriers, except for the UK; there are some informal barriers, which member countries try to use to get reciprocity from China.

On the political front, there are difficulties related to China's expectations. Receiving the Dalai Lama is not as big a deal in the U.S. as it is in the EU. Even though, in 2003, China and the EU agreed to build a strategic relationship between them, there has been a general failure on the part of the Europeans when member countries run individual diplomacy with China. Angela Merkel of Germany, Nicolas Sarkozy of France, and David Cameron of the UK invariably got cold feet when they met with the Dalai Lama or questioned Tibet's sovereignty, all of which angered Beijing and cooled down bilateral relations for at least several months each time. Since 2009, the EU has tried to run its China policy at the EU level. According to Professor Godement, enhancing integration within the EU is the only way to negotiate more effectively with China.

Unlike the U.S., the EU does not have a hard power relationship with China, since it does not have military assets in East Asia. With an arms embargo still in place, the EU does not sell weapons to China. France and the UK recently agreed with Japan to discuss dual use technology transfers, including transfer to China.

In Professor Godement's view, the EU's public cooperation agreements with foreign countries always try to shape values and norms around the world, as though every country were a candidate for EU expansion. But China's mission has always been to improve and upgrade its economy without regime change. In fact, China is happy with the 1985 trade agreement and sees no need to improve. China prefers to call high-level interaction with the EU a dialogue rather than a mechanism.

During the Q&A session, Professor Godement describes four waves in China's initiative of "going abroad" (走出去). The first wave was to export consumer products. The second wave was to import energy and raw materials from resource-rich countries, such as Australia. The third wave was to build transportation infrastructure, assembly lines, and distribution hubs in developing countries; now this wave has spread from Africa to the periphery of the EU. The fourth wave is overseas acquisitions by large Chinese state-owned enterprises, mostly financed by public money. Although there is a question of whether the Chinese overpaid for some of their acquisitions, and there may not be a master plan behind these waves, Professor Godement sees some logic in this pattern.

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<sup>1</sup>According to standard economic models, developed country has relative abundance of capital and scarcity of labor, whereas developing country has relative abundance of labor and scarcity of capital, so the marginal productivity of capital in the developing country is higher than that in the developed country. Therefore capital should and will flow from developed country into developing country. But this is the opposite of what is happening between the US and China. This apparent paradox is called Lucas Paradox.

## BEIJING TRIP REPORT: DOMESTIC, U.S., JAPAN

**Professor Ezra F. Vogel**

Henry Ford II Professor of the Social Sciences,  
Emeritus, Harvard University

**Wednesday, February 12, 2014**

Freshly returned from an extended stay in China, Professor Ezra Vogel reconvened the *Critical Issues* seminar series with his impressions of recent developments on the mainland regarding U.S.-China relations, domestic affairs, and Sino-Japanese relations. While Professor Vogel's sense was one of general optimism concerning U.S.-China relations and domestic issues, tensions in the Sino-Japanese arena are serious and dangerous. The relations between these two countries have steadily declined since the mid-1990s and are currently at their lowest point. Rectifying healthy relations will require wise and strong leadership on both sides of the East China Sea and efforts to raise awareness and reflection among the populaces of the two countries. The United States may be able to play a helpful role in this endeavor.

Xi Jinping's successful visit with President Barack Obama recently and Secretary of State John Kerry's role at the helm of the State Department have contributed to the sense of optimism in China with regards to U.S.-China relations. Xi and President Obama's visit included many informal discussions, which works towards building a trusting relationship between the two leaders. Secretary Kerry has also made efforts to cultivating more trust in the diplomatic community. Many Chinese view Secretary Kerry as being more positive toward China than his predecessor,

Hilary Clinton. The efforts on the part of these leaders have enabled a broader base of relations between the two countries. Despite a prior lack of trust between the Chinese and American militaries, there are signs of serious discussions between them. They will even engage in a joint military in Thailand. This general sense of optimism in bilateral relations continues despite recent tensions over the declaration of the PRC's Air Defense Information Zone (ADIZ) and over Chinese cyber attacks. Concerns raised during both of these issues have been tempered. In the case of the ADIZ, Chinese have provided more information regarding the limits of what they will do in the ADIZ. In regards to cyber security, U.S. pressure on China lessened after the Edward Snowden case revealed that the U.S. has engaged in much of the same tactics that China has; the two sides have begun serious discussions on cyber security.

Recent attacks on corruption have created some hope among Chinese people about the ability of officials to lead China in a promising direction. There is now trepidation among officials concerning being seen in public with ostentatious shows of wealth and, with the hints of a possible purge of the head of the Public Security Bureau, Zhou Yongkang, a sense that the corruption campaign is targeting even those at the very top. The notion that the new leadership team inherited a state of crisis has given Xi a basis for establishing a strong leadership. Xi has already become the strongest leader since Deng: he distanced himself from his peers, quickly became head of the Central Military Commission, and formed the National Security Council and another commission to coordinate long-term economic reforms. Many intellectuals, however,

*Continued on page 28*

Continued from page 27

are distraught that he clamped down tightly on open discussion and announced the “*qi bujiang* [Seven Things cannot be discussed, including constitution and increased freedoms];” they also fear that Xi will continue to clamp down on dissent.

The optimism about U.S.-China relations and progress on attacking corruption does not extend to Sino-Japanese relations, however. The relationship between the countries has reached a new low point, with very negative

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**“1978 through the 1980s, half of international aid to China came from Japan and both countries had fairly positive public opinions of the other.”**

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public opinions expressed by both countries regarding the other and a recent reduction in the number of official Chinese visits to Japan. Things have not always been as such between the two countries. Following the beginning of reform in 1978 through the 1980s, half of international aid to China came from Japan and both countries had fairly positive public opinions of the other. Relations remained stable through the 1990s, even following the Tiananmen Square Massacre, but began to decline in the mid-1990s.

Several factors underpinned the change: as Taiwanese pressure for independence grew under Lee Teng-hui, China was concerned about Japanese support for Taiwan and for Japanese administered territory near Taiwan. Their special relationship with Japan, which lasted from 1989 to 1992 and was used to break through

sanctions against China after Tiananmen, ended when other countries began relaxing their sanctions. The Cold War, in which China, Japan, and the United States cooperated against the Soviet Union, dissipated after the collapse of the Soviet Union in 1991, ending the strategic need for Sino-Japanese cooperation. After the Japan economic bubble burst in 1989 and China’s growth took off after Deng’s southern tour in 1992, some Chinese felt less in need of Japanese economic aid and became more optimistic that their economy might soon surpass Japan’s. Following Chinese nuclear tests in 1995, Japan reduced its aid to China, exacerbating tensions. While the tensions stem from increased Chinese assertiveness, China has been very successful in gaining international support by framing the conflict as coming from Japan’s failure to apologize for their atrocities during World War II.

Bridging the ever-increasing gap between the two countries will require careful diplomacy. Japan should avoid provocative behavior, like Prime Minister Abe’s recent visit to the controversial Yasukuni war shrine. China should show a greater willingness to organize meetings with Japan. Both sides need to reduce patrols in contested waters to avoid further incidents. Japan should have broader education, at home and abroad, that acknowledges its activities in World War II, and China should give more public recognition to Japan’s contribution to Chinese modernization in the 1980s. China needs to also acknowledge Japan’s turn to peace after 1945 by reducing the anti-Japanese publicity in media, especially the widespread portrayal of vicious Japanese in World War II movies.

## WILL THE THIRD PLENUM REFORMS SUSTAIN CHINA'S HIGH GROWTH RATE?

Professor Dwight H. Perkins

Harold Hitching Burbank Professor of Political Economy, Emeritus, Harvard University

Wednesday, February 26, 2014

With his recent *Critical Issues* presentation, Harvard University Harold Hitching Burbank Professor of Political Economy, Emeritus, Dwight Perkins turned the discussion to trends in the Chinese economy and the prospective role of the Third Plenum reforms in addressing economic inefficiencies and structural problems. While combating China's economic slowdown will require reforms targeting both the demand and supply sides of the equation, the "60 Points" of the Third Plenum mainly address production issues. If China follows through with its plans, the reforms will have an ameliorating impact on the economy and ensure that the country avoids the middle income trap, but the structural problems associated with low household consumption will remain and continue to exert a drag on the economy.

As predicted by Perkins and Thomas Rawski in 2006, the Chinese economy has been experiencing a slowdown, from nine to seven and a half percent per capita GDP growth. This slowdown is not unexpected, as very rapid per capita GDP growth is only "catch up" growth and typically cannot be sustained for longer than three to four decades. In general, rapidly industrializing countries, such as China, slow down before they catch up with the highest income

countries. China has already begun this process of slowing down for a multitude of reasons, including the exhaustion of surplus labor (the young labor from the countryside has almost entirely migrated to the cities) and an inability to sustain the high export growth rates it enjoyed previously.

Also at the crux of the slowdown is China's strange GDP structure, where household consumption makes up an unusually small share (35 percent as opposed to the more typical 60 percent). With such a low level of household consumption, total aggregate demand must be taken up by another sector – in China's case, investments in housing and infrastructure. From 1995 to 2011, 18.7 billion square meters of housing were constructed – enough to house 624 million people. This vast expansion was in many ways a response to the large housing need at the start of the reform era; China, from the late 1950s to the early 1980s, followed the Soviet strategy of not investing in consumer goods and no housing was built. The housing boom cannot continue forever, though, as there is a real limit to the number of houses consumers can purchase. In a similar vein, China's incredible investments in infrastructure projects include construction booms of airports, high-speed railways, and road systems, but there are only so many more infrastructure projects left to undertake. Many of these projects, furthermore, will enter costly maintenance phases which will raise recurrent costs and will maintain but not add much to economic growth. Taken together, these trends point to the need to raise household consumption as a replacement for the investment-heavy demand structure in the Chinese economy.

Raising household consumption is a tricky

Continued on page 29

Continued from page 29

problem and is only addressed somewhat in the Third Plenum's 60 Points. The easiest way to raise household consumption is to have wages rise at a faster pace than GDP. Labor shortages have spurred wage growth that will close the gap between GDP and wages, but this is unlikely to be a long-lasting solution. The 60 Points addresses increasing wages with commitments to ensure migrant pay parity with urban workers and improve the collective bargaining power between labor and capital. Neither of these reforms is likely to have much of an impact, however, as migrant wage standards are very difficult to enforce and Chinese unions, depending on the state, are unlikely to hold any real power over capital. Other possibilities to increase domestic consumption include lowering the household savings rate by guaranteeing greater state support of pensions, healthcare insurance, and education costs, and giving individuals more diversified investment opportunities through liberalizing banking interest rates.

China is actively trying to reform its social service systems but these reforms are unlikely to have any major effect on domestic consumption in the next five to 10 years. Liberalizing interest rates, by contrast, is included in the 60 Points and would have an impact on consumption: a rise from three to five percent in the rate of return would increase income and probably consumption by one and a half percent. Finally, also enshrined in the 60 Points are planned reforms of the *Hukou* system, which would have an impact on consumption by encouraging full migrant participation in urban life by moving their families from the countryside to the cities. Total reform of the household registration system is unlikely to happen quickly, however, as there is inadequate housing for migrants in urban areas

(a concern not addressed by the 60 Points). Alternatively, the state could increase its subsidies to the poor – subsidies equivalent to a 20 percent increase in income for the urban population's bottom 10 percent; the bottom 20 percent of the rural population would increase consumption by two and a half percent, but again, a change of this magnitude is not very likely.

Without increasing wages, it will be difficult to increase household consumption and its share of GDP. Given the difficulties posed by increasing wages, the 60 Points mostly addresses the supply side of GDP and increasing production efficiency. In order to continue a nine percent growth rate, total factor productivity (TFP) would need to uphold a growth rate of 3.6 percent over the next few years and an even higher rate later on. China was able to have a high TFP growth rate from 1979 to 2005 because it was then dismantling the inefficiencies of the socialist era. Maintaining such a rate now will be difficult but the goals listed in the 60 Points suggest China is going to try creating a “fully marketized system” through reforming state-owned enterprises, abolishing administrative monopolies, and liberalizing interest rates. Significantly, the plan also calls for withdrawing “from industries where the market can regulate.” China today has some of the highest regulation rates in the world, making it a difficult place to do business and vulnerable to abuses of power by local officials who have a large degree of discretion over regulatory decisions.

China's plans for increasing supply productivity are numerous and could ensure a continued high level of economic growth, but the question remains whether the government will fulfill its promises listed in the 60 Points. If

Continued on page 31

Continued from page 30

China is successful, it will be able to sustain a GDP per capita growth rate of five to six percent (maybe seven) for the next decade or two, assuring its ascension to the ranks of the high income countries and avoiding the pitfalls of the middle income trap. Nevertheless, the massive structural problems associated with low household consumption will not disappear anytime soon.

## CHINA AND CENTRAL ASIA

### Dr. Evan Feigenbaum

Vice President, The Paulson Institute,  
University of Chicago

**Wednesday, March 5, 2014**

What does a landlocked region of five Central Asian countries (Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan) mean to a rising China? What does a rapidly growing China in a post-Soviet era mean to this region of Central Asia? And what do those strategic and economic developments mean, in turn, to the United States, thousands of miles away?

These were the central questions that Dr. Evan A. Feigenbaum, Vice President of the Paulson Institute at University of Chicago and the former Deputy Assistant Secretary of State responsible for U.S. policy toward Central Asia, addressed in his March 5th talk in the seminar series *Critical Issues Confronting China*. Dr. Feigenbaum approached these issues from the perspective of a practitioner and warned at the outset not to over-generalize about this region since the five

countries are politically, economically, and socially different from one another.

Before 1991, Central Asian states were part of the Soviet Union. China's interest in this region was thus developed through the prism of its policies toward Moscow. Since 1991, new opportunities have emerged but China's principal objective has been to leverage cross-border relationships to help tamp down social and ethnic unrest in China's western Xinjiang region. Still, with the collapse of the Soviet Union, and as China has become more economically prosperous, China developed additional interests in this region, including an interest in trade relations designed to anchor Xinjiang in a web of beneficial cross-border economic interaction, as well as a national interest in access to commodities such as Central Asia's oil, natural gas, mineral mines, and agricultural land. But China's interests in this region have mostly been derivative of its domestic agenda, at the top of which is domestic stability.

Over the past decade, China has become a trader, a lender, a builder, and an investor in Central Asia. China's trading activities with this region began in ancient times through channels such as the Silk Road, but these were disrupted and have only recently been reestablished; external financing from China into this region is therefore a fairly recent phenomenon. China's financing arrangements are usually bilateral with individual countries, bypassing multilateral lending facilities, although some lending facilities have been established via the Shanghai Cooperation Organization. China's financing terms usually emphasize the use of Chinese contractors, Chinese

Continued on page 32

Continued from page 31

labor and Chinese inputs, and thus are different from those of international financial institutions and Western project finance, a fact which could undermine the reform messages embedded in the conditionality preferred by these international organizations.

Individual countries in Central Asia try to take advantage of the competition among big powers to maximize their own independence and increase their bargaining power. As maritime transportation costs dropped well below those of land transportation, these countries became marginal to the global economy. Today, however, there are some new opportunities to restore continental trade and transit, which would be useful in bolstering the countries' independence by reducing their reliance on a single point of transit (usually, via Russia); China consequently plays an important role in diversifying their transit and trade options.

Many Chinese infrastructure projects involve things that Western countries have only talked about for decades: diversifying pipeline infrastructure, for instance, to reduce dependence on single points of transit via Russia. China built a natural gas pipeline from Turkmenistan, an oil pipeline from Kazakhstan, and other infrastructure, as well. Gas, in particular, bears watching for further growth as China tries to change its fuel mix and promotes more energy efficiency, less energy intensity, and cleaner-burning fuels like gas. Turkmenistan's gas will not provide the bulk of China's projected 300 billion cubic meters of demand by 2020, but it is important to Ashgabat and represents China's efforts to diversify its energy sources.

While China's increasing economic activities in Central Asia in the post-Soviet era have changed the

strategic power balance in the region, Central Asian countries do mistrust China. They worry about being swamped by the continental size and scope of the Chinese economy and these fears have influenced the way pros and cons are weighed on various economic policies, including the merits of being in or out of Moscow's proposed Eurasian Customs Union. There is broad disquiet in various countries about Chinese workers who have come to work in Central Asia while those countries' own unemployment and underemployment rates are high, and while so many of their citizens must, as a result, work in Russia as migrant labor. Agricultural land sales to the Chinese in Kazakhstan are also a sensitive issue.

Considering the United States' roles in this, the U.S. should promote these Central Asian countries' sovereignty of choice and independent status—something that has become even more important, symbolically, in the wake of recent events in Ukraine and Crimea. The U.S. should also help them reduce dependence on any single point of transit. In that regard, U.S. interest and China's actions overlap, to some extent, since China is building infrastructure and undertaking other activities in the region that have had the net effect of increasing Central Asian bargaining power with Moscow and diversifying options. Still, interests are likely to diverge in the longer term as some Chinese activities undermine U.S. messages about the need for reform. There is uncertainty, too, about whether and how China will attempt to translate its economic influence into political influence.

The U.S. faces perception challenges in Central Asia; not wanting to be perceived as caring only about

Continued on page 33

Continued from page 32

one issue, it needs multidimensional policies that reflect its diverse interests in continental Asia. The U.S. does not want to be seen as lacking commitment to this region in general, especially in the context of its preparation to withdraw from Afghanistan. While the U.S. should have a comprehensive approach to the region, it does not have the same set of tools that China has, such as state-backed project financing.

Dr. Feigenbaum noted that China and the United States' interests overlap often, but at a high level of abstraction. Even when they share interests, Washington and Beijing frequently lack complementary policies because their assessments of the scope and urgency of threats and challenges diverge, and because countervailing interests and pressures get in the way.

## MERITOCRACY AND ECONOMIC GROWTH IN CHINA

Professor Yang Yao

Dean, National School of Development;  
Director, China Center for Economic  
Research, Peking University

Wednesday, March 12, 2014

What is the relationship between the Chinese government and interest groups in China? What is the connection between meritocracy and economic growth? Professor Yang Yao, Dean of the National School of Development at Peking University, addressed these questions during his *Critical Issues* seminar presentation.

Rooted in Chinese tradition, meritocracy has played an important role in China's political transition and explosive growth. A meritocratic system within the government is related to the Chinese government's "disinterested" state. This system, nevertheless, will pose significant political and economic challenges for China in the coming years.

The historical roots of meritocracy extend to the civil service examination. First implemented during the Sui Dynasty and perfected during the Tang, the civil service exam was the imperial system's symbol of meritocracy. Scholars today have questions about whether a young man from an ordinary family background could actually pass the exams, but such folk tales were nonetheless told and believed throughout the exam's history.

While having roots in this historical tradition, the current Chinese Communist Party's strands of meritocracy stem from the party's search for legitimacy. During the first 30 years of its history, the CCP based its legitimacy on revolutionary credentials. With the Anti-Rightist Campaign, Great Leap Famine, Cultural Revolution, and triumph of Western capitalism over communism in the rest of the world, however, these revolutionary credentials depleted. The party found a new grounding in its performance legitimacy, based on impressive economic growth and the gains such growth has given the Chinese people.

Through this transition, the party has learned the importance of delivering on economic growth and has pursued growth-orientated policies, such as promoting meritocracy within the party government through rationalization and de-politicization. Party rationalization

Continued on page 34

Continued from page 33

has included the establishment of a mandatory retirement age, which allows younger party members to secure promotions and limited intra-party democracy. Elite bureaucrats now have much more space to voice their opinions. Trends towards de-politicization of the CCP have included the loss of a unifying political ideology and greater emphasis on pragmatism – means are justified by outcomes and there no longer remains one permanent “truth.” The CCP today can, in many ways, be seen as a collective monarch – neither a despot nor a constitutional ruler, but a selectorate that chooses subordinate government officials.

The CCP’s moves towards greater meritocracy are further represented by the party’s apathetic stance towards the society that has developed over the past 30 years. A disinterested government adopts a neutral relationship towards social interest groups, are captured by none, and are able to allocate resources identity-blind and according to group productivity. This arrangement is only possible when there is a relative balance of power between political and economic elites. When neither political nor economic elites have the upper hand, the state remains un-captured and able to practice neutrality. Such an arrangement is conducive to economic growth and perhaps explains the divergent economic performances of non-democratic countries. The high growth rates of East Asian non-democratic states, including Singapore, early-reform China, and pre-democratic transition Korea and Taiwan, may be attributed to their interest group equality and disinterested governments.

Numerous challenges for the CCP and its meritocracy remain, however. Growing inequality between interest

groups has created difficulties for the party’s disinterested stance. The selection of competent subordinates also poses problems. In the optimal system, local leaders should be promoted by talent and central leaders should be promoted by loyalty. Existing empirical research remains divided on whether leaders’ economic performances or their political connections are the best predictors for their promotion. Yao’s own study (with Zhang) of city-level leaders suggests that a leader’s ability is an important factor in his or her promotion, but only for leaders of a certain age. For younger and older leaders, it is difficult to secure promotions no matter the level of leadership ability; for middle age cadres, the most capable leader is 22 percent more likely to be promoted.

Numerous contradictions in the Chinese state have been created due to tying promotion to leadership ability and economic growth track records. The government has become pervasive, crowding out private business and hurting innovation; this pervasiveness has made the government take on too much responsibility, which threatens its survival and stability. The state itself has been bureaucratized, giving bureaucrats disproportional power to run the country. Excessive economic growth, caused by competition among local officials for promotion, is beginning to perversely affect the environment and the people’s welfare. The economic structure remains distorted, overly focused on exports. Ultimately, these issues pose a challenge for the legitimacy of the CCP.

## AMERICA AND CHINA

### Dr. Zbigniew Brzezinski

Counselor and Trustee, Center for Strategic & International Studies (CSIS); Senior Research Professor of International Relations, School of Advanced International Studies, Johns Hopkins University; former U.S. National Security Advisor under President Jimmy Carter

**Wednesday, March 26, 2014**

Dr. Zbigniew Brzezinski, Senior Research Professor of International Relations at Johns Hopkins School of Advanced International Studies and former United States National Security Advisor under President Jimmy Carter, addressed the *Critical Issues* seminar series with reflections on his role during the normalization of U.S.-China relations in 1979 and the future of U.S.-China relations. While the likelihood of war between the U.S. and China is minimal, Russia's recent invasion of Ukraine, possible territorial moves in Eurasia, and challenges presented by China's relationship with Taiwan could alter the U.S.-China relationship and the international balance of power. Possible scenarios for these challenges underline the complexity of the U.S.-China relationship and its connections with global stability at large.

From normalization until recently, the U.S. and China enjoyed a positive and significant relationship. The two countries initially found a bond in their common enemy – the USSR – and established joint intelligence efforts, which continued after the end of the Soviet Union. The U.S. announcement of the “pivot,” however, carried

the unintended connotation of U.S. containment of China and thus challenged the relationship. This, combined with the “rise of China” and analytical frameworks suggesting the inevitability of conflict between rising and established powers, has led some observers to deem conflict between the U.S. and China as pre-determined.

Despite this seemingly fatalistic framework, differences and similarities between the economic, political, and ideological systems of the two countries do not predict such an outcome. Unless the U.S. experiences significant economic decline and views China as a threat or China precipitously slides politically and economically (both of which are remote possibilities), there are no economic factors which could create a military conflict. While ideological differences persist between the two countries, they are not as great as they were during the Maoist era. Finally, a number of similarities between the two political systems exist, including the prevalence of corruption. Neither side, furthermore, seriously envisions war with the other, recognizing the untold destruction such moves would create to the world at large.

Nevertheless, there are two possibilities that could challenge this existing peaceful relationship: Russia's activities in Eurasia and the Taiwan issue. At this moment, the U.S.-China relationship could be characterized as “G2.” In recent speeches, Xi has attempted to present a model for U.S.-China relations, breaking with traditional great power dynamics and emphasizing, instead, the relationship's place within the international system and the pursuit of common ground over zero-sum competition. Russia's

Continued on page 36

Continued from page 35

recent movement in Ukraine and plans to establish geopolitical dominance over the former Soviet Union territory could place this vision on shaky ground. Depending on the degree of Russian dominance in Ukraine and other Eurasian countries, as well as its consequent reflection on the diminished role of the United States in international peacekeeping, China could reconsider whether a close relationship with the U.S. is in its best interests.

The Taiwan question could present further challenges. That the current arrangement between China, Taiwan, and the U.S. is unlikely to persist is evident. At some

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**“That the current arrangement between China, Taiwan, and the U.S. is unlikely to persist is evident. At some point, the U.S. will have to desist from its commitments to supply Taiwan with arms sales – Taiwan will have to diversify its arms purchases.”**

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point, the U.S. will have to desist from its commitments to supply Taiwan with arms sales – Taiwan will have to diversify its arms purchases. The U.S. will also need to take into account that its practice of running its ships in close proximity to the Chinese mainland is inappropriate and a source of irritation for the Chinese. In summary, these challenges indicate the embeddedness of the U.S.-Chinese relationship in the global order, and the connections between global stability and the health of that relationship. As global stability declines, these issues between China and the U.S. will become more complicated.

## BRINGING CHINESE AND AMERICANS TOGETHER

Jan Berris

Vice President, National Committee  
on U.S.-China Relations

Wednesday, April 2, 2014

After Dr. Zbigniew Brzezinski, former U.S. National Security Advisor under President Jimmy Carter, spoke last week on U.S.-China relations, *Critical Issues Confronting China* turned its attention to a seasoned on-the-ground operator: Jan Carol Berris, Vice President of the National Committee on U.S.-China Relations (NCUSCR). Berris acknowledged at the outset of her talk that, while Dr. Brzezinski is passionate about policy making, she is passionate about people, linking them from different countries into meaningful dialogues and exchanges. Facilitating that kind of communication is the National Committee’s goal as a premier American organization dedicated to productive U.S.-China relations since its establishment in 1966 by a small group of academics, Quakers, and businessmen.

Having worked for the National Committee since 1971, Berris has witnessed many significant moments in U.S.-China relations. Her proudest memories from her more than 40 years with the institution include traveling with and hosting hundreds of Chinese delegations, the first being the Chinese ping pong team during their historic April 1972 visit. She has also traveled to China more than

Continued on page 37

Continued from page 36

150 times, with travel companions ranging from tennis players to a Supreme Court Justice.

Before there was today's myriad of channels to the PRC, the National Committee was one of only two American organizations that ran exchanges between both countries. It played an instrumental role in the rapprochement between the two countries after almost three decades of enmity. It has since been at the forefront of this dynamic relationship by encouraging constructive dialogue, fostering face-to-face interaction and a forthright exchange of ideas, and educating Americans and Chinese about the realities of the other country.

The National Committee organizes and hosts a variety of programs: Track II dialogues on cutting edge issues, exchanges in a variety of fields, and conferences and seminars on current issues facing the Sino-American relationship. In the last 15 years or so, it has focused many of its programs on the younger generation through its Public Intellectual Program (which nurtures the younger generation of American China specialists), Young Leaders Forum (which brings together Chinese and American stars in diverse fields), Student Leaders Exchange (which provides home-stay based visits to China for select members of the Presidential Scholars and the Intel Science Talent Search), and the U.S. Foreign Policy Colloquium (an intensive three-day seminar in Washington for U.S.-based PRC graduate students to learn about U.S. foreign policy).

In its first six years (1966-72), the National Committee focused solely on public education, which included conferences and seminars. The hosting of the Chinese ping pong team added an exchange component

to NCUSCR's work. As that expanded, the Committee, in 1974, decided to hive off almost all of its public education functions to a newly beefed-up China Council of the Asia Society; along with the programs went dedicated Committee funding and even a Committee staff member.

In the late 1980s, NCUSCR gradually moved back into public education: those endeavors have expanded greatly in the past 10 years, with several meetings a month in New York and "CHINA Town Hall: National Reflections, Local Connections," which is one of its signature programs. The program is an annual two-part series that begins with a webcast of a senior U.S. official speaking about current issues in the Sino-American relationship and answering questions from audiences at over 65 venues around the United States and greater China; the second part has experts speaking at each venue on a China-related topic chosen by the local community.

National Committee programs often touch on sensitive issues. It is in a unique position to bring together people with different points of view due to the respect it receives with its long history of working with the Mainland. The committee also hosts, along with the U.S.-China Business Council, an annual luncheon or dinner for hundreds of people when China's most senior officials visit the United States (Berris had the opportunity to meet many of China's leaders prior to the committee running such events).

The first and most impressive leader Berris met was Zhou Enlai. The meeting took place at the Great Hall of the People in 1974 and she confirms Zhou's well

Continued on page 38

Continued from page 37

known public image: sophisticated, charming, witty, and handsome. Zhou said to Berris, who was then the youngest delegation member, “The United States has foreign troops stationed around the world but China does not and never will send troops to occupy another country. If it does in the future, Jan should be the first person to stand up to criticize us.”

According to Berris, Premier Zhu Rongji was also very impressive, smart, sophisticated and, unlike most of his fellow senior leaders, comfortable with off-the-cuff public speaking, even in English. He came to the United States as head of a delegation of Chinese mayors in the summer of 1990, barely a year after Tiananmen, yet he spoke forthrightly about the situation in Shanghai, the city he ran, in terms Americans could understand. Wang Daohan was also on that trip and was another favorite of Berris’s. A former mayor of Shanghai and founding director of the Association for Relations across the Taiwan Straits, she observed him to be an old-fashioned mandarin intellectual and gentleman, like Koo Chen-fu, his Taiwan counterpart in the Koo-Wang Talks.

Berris travelled with Guangdong governor Xi Zhongxun, the current Chinese president’s father, for three weeks in 1991 shortly after he was rehabilitated and as he led a large delegation of provincial officials. While not immediately comfortable, he became more so as he travelled from east to west across the United States with no untoward incidents. In the end, he was so relaxed that he donned a grass skirt at the Polynesian Cultural Center outside Honolulu and even tried the hula.

Berris’s forty plus years of experience with hosting Chinese leaders in the U.S. are a testimony to the National Committee’s constructive and productive role in enhancing U.S.-China relations.

## ISSUES AND CASES IN DUI HUA’S DIALOGUE WITH CHINA

**John Kamm**

Founder and Executive Director,  
the Dui Hua Foundation

**Wednesday, April 16, 2014**

How can human rights protection in China be influenced from overseas? Does the Chinese government respond to foreign pressure at all? How do Chinese political prisoners get released? What about less well-known prisoners? How can a grassroots non-governmental organization (NGO) in the United States play a role in bringing clemency and better treatment to at-risk detainees in China? John Kamm, Founder and Executive Director of the Dui Hua Foundation, in his talk for the *Critical Issues Confronting China*, gave the audience a glimpse of how his human rights advocacy NGO works through research, dialogue and outreach.

Since the Dui Hua Foundation was established in April 1999, it has been working on the issues of clemency for political and religious prisoners, better treatment of female prisoners and juvenile offenders, and systemic

Continued on page 39

Continued from page 38

improvement of Chinese criminal justice. The foundation has consultative status with both the UN Economic and Social Council.

Kamm rebutted the conventional wisdom that China doesn't respond to international pressure. After the June 4th massacre in 1989, more than 1,600 people were detained for social disturbances. Under international pressure, China released more than half of them by 1993 and most of them by the mid-1990s. If a prisoner in China is well known, then he is more likely to receive better treatment than an unknown prisoner. This disparity is where the Dui Hua Foundation makes a difference, by uncovering the names of unknown prisoners through open source research and then advocating on their behalf.

Kamm described a few recent trends in his work; as China becomes richer, stronger, and more significant in the world, especially after its WTO entry in 2001, the number of active dialogues and consultations on human rights protection between China and foreign countries has declined. After 1991, China had bilateral human rights dialogues (HRD) with nine countries: the United States, Switzerland, Britain, the EU, Germany, Australia, Canada, Norway and Japan. China eventually became engaged in such dialogues with 20 countries and made gestures (or concessions) through the releases of high-profile detainees. Such gestures have become much rarer; even when they do occur, little media attention is drawn to them. The Dui Hua Foundation has collected more than 6,000 names of people under detention since these HRD began.

Bilateral HRDs have been invariably affected by whether the president or prime minister of any one of those 20 countries meets with the Dalai Lama. If the president

or prime minister does have a meeting, then, according to the Chinese government, the Chinese people's feelings get hurt and bilateral HRDs with that country get cancelled or delayed. This happened to President Barack Obama, Prime Minister David Cameron, and other world leaders. Norway "hurt the Chinese feelings" by awarding the Nobel Peace Prize to Chinese dissident Liu Xiaobo. Canada has not had an HRD with China for more than a year. Australia did not have an HRD in 2013 but had one this February, in which the Chinese were chastised during the related press conference for being negligent of migrant workers' rights. Since the summer of 2012, the Chinese Ministry of Foreign Affairs has declined to accept foreign countries' lists of prisoners; when Chinese officials do accept these lists after much persuasion, they put them aside and never do anything about them.

The number of death penalties in China has declined significantly but still runs at about 3,000 executions per year. One of the death penalty cases that Dui Hua is working on is that of Li Yan, a middle-aged woman from Sichuan Province who beat her husband to death after suffering heavy abuse from him. In 2011, the Chinese Supreme People's Court decided to maintain the original sentence and put her on death row which brought her into the purview of the Dui Hua Foundation. Domestic violence, said Kamm, is quite common in China. About a quarter of married Chinese women are abused by their husbands; about 10 percent of homicides have to do with domestic violence.

In the area of criminal justice, a draft of the disappearing clause in the Chinese criminal procedural

Continued on page 40

Continued from page 39

law was published in August 2011 and came into effect in January of 2013, in violation of international law. This clause allows police to hold suspects in an undisclosed location for up to half a year without notifying the suspects' families or allowing them to access lawyers. Zhu Chengzhi, a 64 year old dissident, was a case in point.

Another worrying issue has to do with illegal assembly—disturbing social order, that is, by gathering a crowd. Xu Zhiyong was put in prison under this charge. His appeal was rejected four months ago. If he is indicted with disturbing social order, his sentence would be five years or less in prison. If he is indicted with endangering state security (ESS), then his sentence will be 10 years or more in prison. He is actually better off without a trial. Deprivation of political rights (DPR) is common in China.

In addition to the work areas of the Dui Hua Foundation, Kamm gave an overview of China's domestic and international challenges. Domestic challenges include income inequality, slow economic growth, rampant corruption, environmental pollution and degradation, increasing concerns about food safety, and social unrest (mass incidents). The Third Plenum of the Communist Party's Eighteenth Congress in November 2013 announced a slew of economic reform measures but Kamm pointed out that no political reform was mentioned. Internationally, China's assertive behavior, which includes establishing the Air Defense Identification Zone in late 2013, aggravates its smaller Asian neighbors and pushes them closer to allying with the U.S. The U.S. pivot (later called "rebalance") to Asia is interpreted in China as containment due to China's lack of strategic trust with the U.S.

Finally, Kamm focused on the leadership of President Xi Jinping. Since Xi took over power, civil society in China has become more stifled. While Xi calls for the "Chinese Dream" by appealing to nationalism and traditional culture, he implements stricter control over the internet and public discourse in civil society. Document No. 9 of 2013 outlines seven perils to the party: Western constitutional democracy with independent judiciary, universal values of freedom and human rights, civil society, pro-market liberalism, freedom of speech and press, historical nihilism including questioning the party's past mistakes, doubt about China's opening and reform, and socialism with Chinese characteristics. A policy derived from these alleged perils forbids seven topics in public discourse: universal values, freedom of press, civil society, human rights, the Communist Party's past mistakes, elite cronyism, and judicial independence. Consequently, more social activists and intellectuals have been detained, multinational companies are no longer under impunity, and political disputes have colored trade relations.

Kamm raised the question of whether Xi has concentrated too much power on himself while pushing Chinese liberals aside. In addition to being President of the PRC, Chairman of the Central Military Commission, and Secretary General of the CPC, Xi is also chairman of four smaller leading groups: the National Security Committee, the Leading Group on Comprehensive Reform, the Leading Group on Internet Security, and the Leading Group on Military Reform. His wearing of so many hats leaves people wondering where this will lead China with a rubber-stamp congress and without an independent judiciary.

## CHINA AND THE WESTERN MEDIA

Joseph Kahn

Foreign Editor, *The New York Times*

Wednesday, April 23, 2014

In his *Critical Issues* seminar presentation, Joseph Kahn described recent trends in the relationship between China and Western media through his own experiences as a correspondent for *The Dallas Morning News*, *The Wall Street Journal*, and *The New York Times* over the past 20 years. While in the 2000s there were serious improvements in both the breadth of journalistic activity and the relationship between Western journalists and China, recent events have soured the relationship, especially for *The New York Times*. This has posed many challenges for Kahn and his fellow journalists but in the long term there is reason to hope that China will limit its censorship of Western journalism.

Kahn began his career as a China journalist for *The Dallas Morning News*, which sent him to China during the aftermath of the Tiananmen crackdown in the spring of 1989 and later on in the early 1990s to Hong Kong for his first full-time posting. This was a “dark period” for western journalism in China, with the repression of human rights being the only news story and a tense relationship between reporters and the Foreign Ministry. When Kahn moved to Shanghai in 1993, this dynamic began to improve. The Jiang Zemin era, in particular, bore witness to China’s rapid engagement with the outside world.

The late 1990s were also the beginning of digital publishing for Western news outlets. China at first blocked

foreign news websites, including *The New York Times*, for whom Kahn began working in 1998. In 2001, however, *The Times* was invited to an audience with Jiang at Zhongnanhai, during which the subject of their website’s blockage was discussed and ultimately resolved. The website URL was not blocked again until 2012, although individual articles continued to face censorship. The 2000s, as a whole, were a period of increasing openness in China to the West and foreign journalism. In the run-up to the Beijing Olympics, restrictions on foreign journalists’ internal travel were dropped. With a broader environment to work in, the breadth of journalistic activity also increased. Instead of solely focusing on human rights issues, foreign journalists addressed economic growth, social trends, consumer habits, Chinese culture, and netizen activism, turning China into the biggest non-war story in print.

Kahn left China after 2008 and returned to the U.S. as an editor for *The Times*, overseeing the emergence of the press’ Chinese-language website. Kahn felt that the newspaper’s future would be limited unless it started publishing in China with a Chinese-language paper. It was not the first Western media outlet to consider such a venture, with *The Wall Street Journal* and *The Financial Times*’ experiments preceding those of *The New York Times*. By 2011, Kahn and his colleagues received permission to pursue a Chinese-language website from *The Times* and opened the website in the summer of 2012. While they initially received pushback from the Foreign Ministry, after continuing to press their case, The Times team received signals that suggested the Foreign Ministry could potentially accept the new site. This acceptance was

Continued on page 42

Continued from page 41

possibly due to official speculation that Western journalism, rather than unfounded *Weibo* posts, could fill a vacuum of credibility left by official state media for Chinese readers.

The Chinese website was initially a success, with three million and growing users and 12 million page views per day by October 2012. At the same time, however, *Times* correspondent David Barbosa was undertaking an investigative reporting project centered on Wen Jiabao and his family's scrupulous financial success. When the story went to press in October 2012, Kahn expected that it would be a bombshell – a Chinese ambassador sent to *The Times* expressed that the story was a “red line” for the government and that its publication would upset the plans for the 18th Party Congress. Nevertheless, he did not expect the degree of repercussions for the newspaper and its correspondents. The English and Chinese-language websites were blocked, *Times* correspondents encountered difficulties accessing routine press events, and individuals associated with the paper in China were routinely snubbed and harassed.

By the fall of 2013, however, the ice covering the relationship between *The Times* and the Foreign Ministry began to thaw. The new head of the Information Office requested a dialog with the newspaper and suggested the possibility of unblocking the website. This period of optimism ended with the publication of two articles that aggravated the Chinese government: a story on J.P. Morgan's practice of hiring princelings, one of whom happened to be Wen Jiabao's daughter, and another article about *Bloomberg Business News'* decision to not

publish an expose of Xi Jinping's family and cease reporting that would damage their relationship with the Chinese government. In the wake of these renewed tensions, the Foreign Ministry declined to approve routine visa renewals for *Times* correspondents in Beijing (an action which was only stayed by the intervention of Vice President Joe Biden). The situation since this period has remained largely unchanged and *The Times* is likely to have problems going forward; while visa renewals are being processed, they have not had any success with new visa applications.

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**“There have been no signs that the government will relax its censorship of *The Times'* website in the near future, although the website's viewership has increased.”**

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There have been no signs that the government will relax its censorship of *The Times'* website in the near future, although the website's viewership has increased back to one-half of the numbers from its uncensored period. These viewers are presumably using VPNs and proxy servers to access the site. In the long term, advances in Internet technology are likely to reduce the Chinese government's capacity to sustain its censorship apparatus. Furthermore, *The New York Times* will not change its values nor steer clear of “red lines” as defined by the Chinese government. The Chinese government, on the other hand, may have prospects for change, as suggested by Xi's recent crackdown on high-level corruption.

## CHINA AND NORTH KOREA: DOES BEIJING HAVE A STRATEGY?

**Dr. Jonathan D. Pollack**

Senior Fellow, John L. Thornton China Center  
and the Center for East Asia Policy Studies,  
The Brookings Institution

**Wednesday, April 30, 2014**

Dr. Jonathan D. Pollack, Senior Fellow of the John L. Thornton China Center at the Brookings Institution in Washington, D.C. addressed the final session of 2014 spring semester's *Critical Issues* seminar series with his presentation on the North Korea-China relationship. Dr. Pollack discussed whether the new leadership under Xi Jinping might be changing its policy and stance towards its neighbor, as well as the long-term challenges North Korea presents for China and the world. Evidence suggests that Xi may be turning away from China's "status quo" relationship with the DPRK and taking a less tolerant stance towards the hermit country, attempting to limit its more disruptive actions.

North Korea is in many ways an "implausible state." With its long-term isolation and de-industrialization, North Korea has been the subject of dire predictions for its future, yet the state persists. It retains the capacity and means to follow its own path and defy outside expectations. Many outsiders have viewed China, as a former ally of the DPRK, as having more power to constrain the country than others. China also remains the only major power with any meaningful relationship with North Korea. In reality, however, China appears up until this juncture unwilling

to resolve underlying contradictions in its DPRK policy. The Chinese may insist that they "will not allow trouble on their doorstep," yet appear to do little to prevent the country from engaging in its more challenging actions. Can this status quo persist? Or, is China re-calibrating its relationship with North Korea?

The historical context of the China-DPRK relationship provides an important backdrop to current events in the field. With the end of the Soviet Union, many expected China to step up in support of the DPRK, but this did not happen. Deng Xiaoping did take Kim Il-sung on a tour of early economic reforms in China, but relations soured between the two countries following the Rangoon bombing, for which Deng held Kim Jong-il responsible. The 1990s were a period of long isolation for North Korea, but beginning in the 2000s Kim Jong-il began visiting China on a regular basis. Following the North Korean leader's stroke in 2008, China began preparing for a post-Kim Jong-il era, with Hu Jintao exploring the possibility of a new economic and advisory relationship with the DPRK. Chinese leaders calculated that while the DPRK remained a difficult state, with the passage of power there would be internal pressure for reform and change.

More recently, however, unlike with many other neighboring countries, China is not being especially assertive toward North Korea, even as it more openly criticizes North Korean behavior. China's reluctance to fully confront its difficult neighbor in part stems from its experience during the Korea War, as well as institutional constituencies in the party and military that may limit the leadership's ability to interfere. China also demonstrates wariness about the

*Continued on page 44*

Continued from page 43

prospect of a democratic, unified peninsula with a close relationship with the U.S. Nevertheless, the DPRK's behavior has in many ways become more troublesome under Kim Jong-un.

China's worries with North Korea include fears that internal conflict in the North could lead to international incidents. Kim Jong-un has shown a remarkable lack of responsiveness to external pressure and seems to be following his own agenda. China has also been forced to acknowledge that North Korea's nuclear weapon capabilities are not symbolic – the country fully intends to pursue the development of an operational nuclear capability.

Against the backdrop of this historical “status quo” orientation to relations with the DPRK and growing concerns over the leadership of Kim Jong-un, China's recent actions suggest a measure of change in orientation. While continuing to maintain trade and investment in North Korea, China has allowed its economic activities to reach a plateau, deferring any major acceleration of economic projects. China has also curtailed high-level exchanges of officials. Senior officials visiting the North are principally from the Foreign Ministry rather than party organizations, demonstrating that China seeks a government-to-government rather than “special” relationship with the

North. Kim Jong-un has never visited China, an omission which stands in stark contrast to the state visit of South Korea President Park Geun-hye to China and her warm personal relationship with Xi Jinping. Chinese publications have increased their criticisms of the DPRK, especially in the aftermath of the execution of Jang Song-thaek. These actions suggest a measured dissociation from North Korea behavior, especially with its continued pursuit of nuclear weapons and its threats directed against South Korea, and an attempt by China's leadership to forge a new path in its relations.

Long-term challenges remain for China in its relations with the DPRK. South Korea's growing relationship with China and the possibility of reunification between the two Koreas may create additional complexity in Sino-American relations. While supporting the “peaceful, independent reunification of Korea,” China may object to an immediate neighbor maintaining a close security relationship with the United States. In the absence of unification, North Korea's increasing military capabilities might further embolden the North, thereby undermining Chinese interests. As a consequence, Xi may ultimately be more prepared to act on these challenges than his predecessors.

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**“Kim Jong-un has shown a remarkable lack of responsiveness to external pressure and seems to be following his own agenda. China has also been forced to acknowledge that North Korea's nuclear weapon capabilities are not symbolic – the country fully intends to pursue the development of an operational nuclear capability.”**

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