CRITICAL ISSUES
CONFRONTING CHINA
Seminar Series

SUMMARIES OF TALKS

Fall 2014-Spring 2015

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Critical Issues Confronting China is a weekly seminar series organized by Professor Ezra F. Vogel, Professor William Hsiao, and Dr. William Overholt, inaugurated 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 broader cultural and historical context. In addition, invited speakers look at the range of choices Chinese leaders might have when responding to the challenges and opportunities they confront. The series is organized so that there are opportunities for informal exchange among senior specialists and a dialogue with the larger community.

The summaries presented here are from the second year of the seminar series, beginning in September 2014 and ending in April 2015. They were written by Jin Chen, a graduate of Harvard’s Regional Studies—East Asia program and an associate at the Fairbank Center. Michelle Blouin and Amy Hsieh, of the Harvard Asia Center, provided editorial support. Holly Angell, Associate Director of the Harvard Asia Center, was the overall administrator for the series.
Critical Issues Confronting China
Fall 2014-Spring 2015 Speakers

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IS AMERICA’S VIEW OF CHINA FOGGED BY LIBERAL IDEAS?

Professor Jerome Cohen

New York University School of Law; Co-Director, U.S.-Asia Law Institute; Senior Fellow for Asia, Council on Foreign Relations; and Founding Director, East Asian Legal Studies, Harvard Law School

Wednesday, September 17, 2014

Professor Jerome Cohen of New York University School of Law kicked off Harvard Asia Center’s seminar series “Critical Issues Confronting China” for the 2014-2015 academic year. As in many of his previous talks at Harvard University, he continued to focus on the relationship of law to power in China. Traditionally, law in China is viewed and used by the state as a means to punish “evil doers” instead of being thought of as a script to protect the accused from arbitrary government. To what extent has this tradition changed, if any? What is really going on in the legal realm in China after more than three decades of economic reform and opening up?

The title of Cohen’s talk, “Is America’s View of China Fogged by Liberal Ideas?” came from a recent article by Christopher Layne in Bloomberg, which Cohen cited at the outset of his talk. Layne argued that unless the U.S. changes its views of China, shaped by the American liberal ideology, and makes reasonable accommodation to a rising China, then these two countries are heading toward war. Layne called for the U.S. to abandon the belief in American exceptionalism, make real concessions to China on issues of Taiwan and the South and East China Sea disputes, and stop interfering in China’s affairs.

Cohen countered, “Those of us who try to observe China objectively over the years are not mere reflections of liberal ideology.” He distinguished the current U.S.-China relations from those of 1950s, when, for example, the Central Intelligence Agency (CIA) actually recruited people to uproot the newly established communist China. In Cohen’s view, that was really “interfering in China’s affairs,” whereas today’s situation is fundamentally different.

Cohen highlighted several things to look for at their upcoming 4th Plenum of the Communist Party of China (CCP) in October. Rule of law is expected to be on the agenda, but will the Chinese really change their traditional way of using it for hierarchical control and maintenance of social stability? Is the party merely preaching Rule of Law while practicing “Rule by Law”? Will the Chinese government and the party now submit to Rule of Law themselves, and let the judiciary system become truly independent of the party? What does the Chinese supreme leader, Xi Jinping, really have in mind? No one knows for sure.

What we do know, according to Cohen, is that President Xi has systematically attempted to centralize power by establishing a number of committees headed by himself; very high-level officials, such as Bo Xilai and Zhou Yongkang, have fallen under serious corruption charges. Cohen admitted that he is not a fan of Zhou Yongkang because of his experience with Chen Guangcheng’s case, when Zhou was Minister of Public Security. But Cohen

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believed that anyone, including Zhou, is entitled to fair legal procedures and justice; however the Chinese legal system has yet to get its hands around this case because the Communist Party at the highest level has not made up its mind. Whether China’s anti-corruption campaign is a mere vehicle for top leaders to eliminate their enemies remains to be seen.

While China’s judicial professionalism has improved in recent years and many enlightened laws have been promulgated, there is still an element of Chinese exceptionalism in all of these improved appearances. At present, the local party and government authorities control appointment of local judges and approve court budgets. Such an institutional arrangement makes it inevitable that local courts be influenced by local governments and party branches, and that system is currently undergoing non-transparent change.

The Chinese party still routinely detains suspects in undisclosed places, and denies their right to access a lawyer and family members. This is why many officials under the party’s corruption investigation commit suicide. Hundreds of lawyers have been detained for their human rights protection, for example, regarding freedom of association, as in the case of the New Citizen’s Movement, which demands top officials to disclose their financial assets. Such practices run contrary to China’s wish to garner respect around the world.

Cohen attributed the outlook and the functioning of today’s Chinese government—its institutions and ideology—to several sources. One is the Soviet influence during the 1950s. The Chinese do not like to be identified with the Soviet Union for nationalist reasons and because it collapsed in 1991; nonetheless the Soviet model has an enduring influence over China’s institutional framework and its underlying rationale. China’s legal system is still fundamentally a product of the Soviet system, but it has another indigenous strand of heritage. Before 1949, in the “liberated areas” under communist control, the Party’s supremacy permeated through all aspects of government’s decision making, not least the legal aspect, in which certain mass lines must be followed. From that tradition, the Chinese tend to emphasize the role of mediation in settling disputes, and prefer the informality of mediation to any formal legal adjudication.

Near the end of his talk, Cohen asked if there is any relationship between China’s attitude toward domestic law and international law. On the dispute over the South China Sea, in January 2013, the Philippines took China to the international tribunal for dispute settlement under the UN Convention on the Law of the Sea. China emphasized some exceptions, which it made explicit at the time of signing this law, and argues that the law is not applicable in this case. But Cohen noted that China refused to make its legal arguments to the competent tribunal that will decide the case. However, recently China has softened its foreign policy regarding the South China Sea, at least on the surface. On cross-strait relations, Cohen gave much credit to President Ma Ying-jeou of Taiwan for significantly improving Taiwan’s relationship with the mainland through a series of agreements over the past six years without sacrificing its security relations. But President Ma will step down in two years, and more challenges remain ahead after his presidency.
In the aftermath of the Asian Financial Crisis, China under Premier Zhu Rongji adopted a new policy in 1999 to significantly expand university enrollment as a way of unleashing private spending and boosting GDP, while improving the education level of the younger generation. As a result of this policy and subsequent mergers of smaller schools, mega universities have emerged with multiple campuses, glittering new buildings, and cutting-edge technology. Today about 30 percent of China’s college-age cohort is enrolled in universities, whereas the equivalent number in 1979 was only one percent. This ratio is projected to grow to 40 percent by 2020. Is this boom another Chinese “Great Leap Forward”?

Professor Elizabeth Perry of Harvard University’s Government Department analyzed the similarities and differences between this contemporary expansion and Mao’s Great Leap Forward of the late 1950s. Perry also delineated methods of Party control over the system of higher education amidst China’s quest to build world-class universities. Finally, she called for a very different kind of Great Leap Forward in which Chinese universities could and should lead the world in overcoming social inequalities.

Both now and in the 1950s, the Chinese state is driven by a keen sense of international competition. Whereas China under Chairman Mao tried to expand industrial production to catch up with the Soviet Union, the PRC now aspires to build world-class universities to contribute to a knowledge economy through major investment in initiatives like Project 985 and Project 221. In both periods, higher education reform is driven by an economic motivation; state investment in universities is intended to stimulate economic growth. There is also a mentality of “the bigger the better,” pursuing ambitious quantitative targets as quickly as possible. The resulting statistics are sometimes fictitious and often misleading. But unlike Mao’s Great Leap Forward, characterized by autarky, today there is a massive exchange of talent between China and the outside world: hundreds of thousands of foreign students and scholars are studying in Chinese universities, and many more Chinese are studying abroad, partly through generous state funding from the China Scholarship Council.

This past spring President Xi Jinping called for building world-class universities with Chinese characteristics. The Chinese leadership hopes to foster economically beneficial intellectual innovation without endangering the Communist Party’s survival. Perry noted that the campuses of Chinese universities have been uncharacteristically quiet since 1989, whereas students in Hong Kong and Taiwan have recently been very vocal about political issues. Why? The Party’s control over universities in the mainland has tightened in a number of ways. One is
through expansion of the system of “guidance counselors” (fudaoyuan). Chinese administrators sometimes liken the guidance counselors to Harvard’s resident tutors, but Perry pointed to a key difference: unlike Harvard’s resident tutors, guidance counselors are expected to promote politically correct thought and behavior.

Another way of intensifying the Party’s control is through use of modern technology, such as asking all Communist Youth League (CYL) members to download a special cell phone app to receive and disseminate CYL approved messages. In addition, local Party propaganda departments have set up journalism schools jointly with renowned universities to encourage a more compliant media. Faculty research funding in the humanities and social sciences is also controlled by the propaganda departments, which establish thematic priorities in line with central ideology.

Perry criticized all universities around the world, including Harvard, for paying undue attention to world rankings. In this global competition, China may enjoy a comparative advantage due to its powerful party-state, while the U.S. federal government and American universities have an “unraveling partnership,” as Harvard President Drew Faust has lamented. In the common pursuit of higher rankings determined by universal metrics, universities around the globe try to do similar things, resulting in standardization and homogenization among previously diverse institutions of higher education.

According to Perry, institutional diversity—encompassing private research universities, large state universities, small liberal arts colleges, as well as a variety of vocational schools and community colleges—has traditionally been a key strength of American higher education. But global competition and convergence threatens the American model too. Perry noted that in a situation where we do not know what is actually the best model to promote higher learning, institutional and curricular diversity is critically important.

In Perry’s view, the greatest challenge facing higher education is not whether to attain or retain top billing in the absurd system of global rankings, nor whether they remain wellsprings of political stability, or even whether they will be engines of economic competitiveness, but rather whether our universities will serve to alleviate or exacerbate social inequality. Despite the massification of Chinese higher education, regional and class disparities in the quality, access, and cost of higher education have increased.

The inclusion of higher education under GATS (General Agreement on Trade in Services) of the WTO, which China joined in 2001, indicates that education is considered a global market commodity rather than a right of citizenship. Instead of a public good provided by governments for the betterment of society, higher education is increasingly a private good, disproportionately available to the wealthy and the well-connected. It is in this respect of overcoming social disparities and bucking the global trend of commercialization of higher education that Perry argued China could and should lead the world in a new Great Leap Forward.
Xi Jinping has been President of China for almost two years. In what way is his leadership similar to or different from his predecessors? What is his impact on China’s political landscape? Harvard Professor Roderick MacFarquhar, of history and political science, placed Xi’s family lineage and policy initiatives in China’s contemporary social and political context, and postulated Xi’s motivations.

MacFarquhar recalled China’s vicissitudes in the contemporary era. In some ways China is always in transition, from Chairman Mao’s class struggle to Deng Xiaoping’s economic opening up and development, then to Jiang Zemin’s “three represents” and Hu Jintao’s “harmonious society,” and now to Xi Jinping’s “China dream.” While the “China dream” to ordinary Chinese may mean an apartment in Beijing or a job after college, to the Chinese leadership, it means to restore China’s stature it once had prior to the century of humiliation inflicted by western powers, and to once again command respect on the world stage after over three decades of economic reform. China’s foreign policy has also been in transition, from Jiang Zemin’s friendly posture to the U.S., to Hu Jintao’s more turbulent course with the U.S., to Xi Jinping’s assertive stand on the South and East China Sea disputes and on the Indian border.

While Xi asserts China’s rights abroad, he attempts to build nationalistic support domestically. Why? MacFarquhar postulated two reasons. First, Xi is about to embark on more economic reforms, which will inevitably hurt some people’s interests. Xi needs to consolidate support to the Party and to himself before he pushes out unpopular policies. Second, Xi is obsessed with the downfall of Mikhail Gorbachev and ponders what went wrong in the Soviet Union. He attributed the Soviet’s failure to the fact that Gorbachev let intellectuals speak out to build momentum for reform, when he faced too much resistance to reform from the bureaucracies. Xi learned from this diagnosis that to forge the necessary “perestroika” (reform), one cannot allow “glasnost” (openness), since this intellectual openness can lead to unintended consequences. One must instead squash dissidents and consolidate public opinion, in order to allow further economic reforms necessary to rejuvenate the Chinese nation and ultimately realize the China dream he has in mind.

Xi’s way of taking on the bureaucracy is through the anti-corruption campaign. Economic opening up of the last three decades has resulted in rampant corruption throughout the country. Xi wishes to reinvigorate the Party and re-legitimize its leadership by tackling this very thorny problem. He appointed Wang Qishan, who is known for his abundant energy and unyielding determination, to head the Party’s Discipline and Inspection Committee. Wang is charged to catch all “tigers and flies,” terrifying all bureaucrats from top down. Not knowing what could happen to them, all officials are anxious. MacFarquhar anticipated that this general anxiety could exacerbate

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capital outflow from China and emigration overseas by Chinese officials and their family members, thus negatively impacting China’s economic reform programs.

In this campaign, Zhou Yongkang, former chief of national security and police, was a big tiger that fell. By prosecuting Zhou, Xi broke the convention of not going after retired Politburo Standing Committee members. Five of the current seven Politburo Standing Committee members will retire in 2017. These people must be all worried about what would happen to them after they retire, since some must be vulnerable to corruption charges. Could they be united against Xi’s unprecedented move? Was Zhou selected as a target because he was close to Bo Xilai, once a potential competitor to the supreme leadership position? Is Zhou the last big tiger to fall in this campaign? No one knows for sure. What we do know is that Xi endangers the Party’s solidarity by attacking corruption of the bureaucracy through Wang Qishan. MacFarquhar quoted a popular saying to illustrate the severity of corruption and the dilemma of attacking it: if corruption is not attacked, the country is finished; if corruption is attacked, the Party is finished.

Xi also differs from his predecessors in that he really has no boss behind the scene to report to. Even Deng Xiaoping had to consider the thoughts and feelings of Chen Yun, Li Xiannian, and a few others who were revolutionaries more senior than Deng himself. Since Xi’s immediate predecessor, Hu Jintao, always played a low-key role in a collective leadership, Xi emerged to be a powerful figure with essentially no built-in checks and balances. He has set up several important committees headed by himself, including the Committee of National Security and the Committee of Economic Reform.

MacFarquhar further postulated how Xi was chosen to be the Chinese supreme leader in the first place. Xi is the first leader not chosen by either Chairman Mao or Deng Xiaoping, but he must have had the backing of the previous top leadership: Hu Jintao and Jiang Zemin and their respective factions. These people wanted to choose a Party princeling in order to ensure the commitment of the younger generation of leaders to the Party and to uphold the Party’s legacy steadfast for posterity. Bo Xilai was an obvious candidate, but his problem was his flamboyant personality, and his campaign of “singing red songs and attacking corruption” in Sichuan Province became excessive to the older leaders. In comparison, Xi not only has the right kind of family lineage, but also has a somber and modest demeanor.

Undoubtedly, Xi faces many challenges. In addition to rampant corruption, the current democracy movement in Hong Kong poses another dilemma for Xi. If Beijing sent in the People’s Liberation Army to clamp down on the demonstrations as Xi’s instinct would tell him, Hong Kong as an international economic and financial center of the world as we know it would be finished. Alternatively, Xi could invite Hong Kong democracy movement leaders to Beijing and give these young leaders a tour of inner China. This tour would show them how poor and dynamic the mainland is and explain to them that the mainland aspires to become like Hong Kong some day with economic prosperity, in which political stability is a pre-requisite for
realizing this dream. In this tour, Xi could call for civic responsibilities of these young leaders. There could be a chance for mutual understanding and tacit agreement between the two sides, but this is not a sure thing. MacFarquhar admitted that there are no well-rounded good solutions. Xi has to balance the need of preserving Hong Kong as a viable economic center and the need of thwarting the transmission of Hong Kong’s dissent and instability into the mainland.

MARKETS OVER MAO: THE RISE OF PRIVATE BUSINESS IN CHINA

Dr. Nicholas R. Lardy

Anthony M. Solomon Senior Fellow, Peterson Institute for International Economics

Wednesday, October 8, 2014

China’s economic growth in the recent decade continues its previous impressive record—albeit at a slightly slower rate than double digit—surpassing Japan in 2010 and becoming the second largest economy in the world. Is this a result of China’s extensive use of industrial policies and state-led capitalism, as portrayed by American popular media and characterized by some Chinese scholars as “advance of the state and retreat of private enterprises” (国进民退) during the “Hu Jintao-Wen Jiabao era”? The answer of Senior Fellow at Peterson Institute for International Economics, Nicholas Lardy, is a resounding ‘no.’ Instead the opposite is true. It is another piece of evidence of market triumph over state control and central planning.

Lardy illustrated this thesis from several angles with copious data and charts. First, the Chinese market has become highly liberalized and generally competitive over the past three decades. The share of transactions at prices fixed by state has come down so dramatically that by the end of the 1990s, most of transaction prices had become market determined. Market concentration rates in some selected industrial sectors have become comparable to those of the U.S. Retained earnings of non-financial corporations as a percentage of corporation investment have been very high in the recent decade. Even after China’s enormous 2009 stimulus package of four trillion RMB, this ratio is still over 50 percent, indicating company self-generated cash is the main source of funding for future growth.

Second, China’s private sector has operated much more efficiently than the state sector with average return on assets twice as much as that of the state sector (13.2 percent vs. 4.9 percent in 2012). This important fact points to a very vibrant future for the private economy, thereby the Chinese economy at large, if unabated by policies to curtail the natural growth trajectory of the private sector.

Third, the relative importance of the state sector in China’s economy has significantly shrunk. The state’s share of industrial output is down to a quarter, while the private sector (including private foreign firms) takes up three quarters. The state’s share of fixed asset investment in the entire economy is down to 34 percent in 2012, while the private sector’s share (domestic firms only) is 48 percent. In particular, the state’s share of fixed investment in

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manufacturing is 11 percent, less than one-sixth of the size of private (domestic firms only) investment (73 percent). Lardy attributed the state’s shrinkage to private sector’s displacement rather than privatization of the state sector since private enterprises operate much more efficiently as explained above.

Fourth, in China’s exports composition, the state no longer plays a dominant role. The state’s share of China’s total exports has dropped from about 66 percent in 1995 to only 11 percent in 2013, while exports from Chinese private enterprises took off from the ground level to a substantial 39 percent.

Lardy dispelled a few popular misconceptions about the Chinese economy. First, the Chinese government is generally perceived as being too big. In fact, given the size of China’s population, the Chinese government is not big. China’s state and the public sector employ only 11 percent of the total labor force, whereas the French government employs 24 percent of the labor force.

China’s state and the public sector employ only 11 percent of the total labor force, whereas the French government employs 24 percent of the labor force.

Second, state-owned enterprises (SOEs) are perceived to extract profits at the expense of the private sector through industrial policies. Lardy examined the policies of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) over the last decade and found that whenever the state attempted to give favorite policies to SOEs and to create national champions, it invariably failed. Return on assets for central SASAC non-financial firms has dropped from 6.7 percent in 2007 to 3.7 percent in 2013, less than the average interest rate of bank loans. This means that SASAC has created black holes that drain resources that could have been used more productively somewhere else. Furthermore, profits of SOEs are not disproportionately high. Data show that the average profit margin of SOEs is essentially identical to that of private companies.

Third, SOEs are generally perceived to be able to obtain bank loans much more readily than private companies. Data show that the proportion of total bank loans outstanding to enterprises that has gone to SOEs has decreased from 56 percent in 2009 to 48 percent in 2012, while the proportion to private companies has substantially increased from 26 percent to 36 percent during the same period. Lardy pointed out that this trend has been under appreciated by the general public. An increasing proportion of bank loans to private companies makes sense as private companies have proved to be on average twice as profitable as SOEs, with interest coverage ratio (the ratio of operating income over interest expense) 9.6 vs. 4.3 for SOEs. This implies that SOEs on the whole burn cash and that state-owned banks should further reduce loans to them.
To be sure, the Chinese state still plays a dominant role in some sectors such as oil and gas and utilities, and what Lardy called “modern business services” such as telecommunications and financial intermediation. Most SOEs in these sectors have much lower returns on assets than their international peers. To improve their operating efficiencies and to reduce misallocation of resources at a macro level, Lardy saw no alternative but to lower entry barriers and allow private entry into these fields down the road.

CHINA: DIFFERENT INSTITUTIONS, DIFFERENT CORPORATE MANAGEMENT
Professor Thomas M. Hout
Tufts University and Monterey Institute of International Studies

Wednesday, October 15, 2014

Whereas Nicholas Lardy of Peterson Institute for International Economics analyzed the unabated growth momentum of the Chinese private sector with massive aggregated data at the macro level, Thomas Hout, Professor at the Monterey Institute of International Studies, Senior Lecturer at the Fletcher School of Tufts University, and former Partner at the Boston Consulting Group, brought to the talk series a micro perspective on how private Chinese enterprises grew from an unfavorable business environment dominated by state-owned enterprises (SOEs) in the 1980s to today’s prosperity. He predicted that future great Chinese companies will not be any of the state champions or any SOEs, but will come from this group of very dynamic and resilient private companies that are used to maneuvering under shackles, overcoming all kinds of difficulties and making the system work for them.

The leaders of this group of private companies are usually not well-educated. They often come with a very marginal social background. Not only did they not have any state protection, they also suffered state bias favoring SOEs. Wanxiang Group (万向集团) is such an example. It was started more than 30 years ago by Lu Guanqiu (born in 1945), then a blacksmith, as a township and village enterprise (TVE) to repair automobiles. For many years, it could not hire university graduates or get into the steel business because those resources were all allocated for SOEs. Now it has become one of the largest auto parts suppliers in the world, expanding into Chicago and Detroit through acquisitions in the U.S. One can only imagine how many obstacles the founder had to overcome along the way. The characters of such successful private Chinese companies—energetic, flexible, and efficient—to a large extent, reflect the passion, the vision, and the drive of their founders, many of whom are still alive.

As a former business consultant, Hout asked if the success of some Asian companies teaches us something about management. He compares these vibrant private Chinese enterprises with those of the Japanese, which became renowned in the 1970s. Successful Japanese companies taught us continuous improvement in their relentless pursuit of quality and just-in-time inventory management to be lean in any production. Chinese companies are different,
Hout concluded. Their experiences don’t give us any such definitive or substantive lessons to draw.

According to Hout, private Chinese companies have what Harvard’s Paul Lawrence and Jay Lorsch call “organic management.” This is because they grew up in a very messy environment in the 1980s when there were no clear rules. They had to be very entrepreneurial, resourceful, and adaptable. They are the polar opposite of the highly structured management of large U.S. companies, epitomized by IBM, which operate in a mature market system with well-established rules and regulations. Private Chinese enterprises improvise solutions as they encounter problems. NeuSoft（东软集团）, a Chinese IT service company like EDS of the U.S., is a case in point. In order to preempt potential competitors, it expanded rapidly across China throughout the last two decades, without developing much middle management and becoming a very flat organization. To fuel its expansion, it needed a large number of computer engineers and IT-trained people. When it could not find enough qualified people to hire, its solution was to build a school itself, called NeuSoft Institute University. It deliberately did not want to replicate those elite universities in Beijing, but focused on technical training while encouraging entrepreneurial spirit. Now it enrolls 25,000 students, and every student has to come up with a business plan in order to fulfill the graduation requirements.

Hout admitted that China’s single-party political system will not go away any time soon, but was optimistic that Chinese entrepreneurs have learned how to go around the system or make the system work for them. NeuSoft established itself from nothing partly because one day a local Party branch office called the founder and asked for some computer services. The founder immediately realized that this was an excellent opportunity to make his company indispensable to the local government. This is how local government and private companies lean on each other to achieve their own objectives respectively. In the late 1990s, under the leadership of President Jiang Zemin, entrepreneurs were not only allowed but also encouraged to join the Communist Party. Joining the Party thereby became a stepping stone for many entrepreneurs to better navigate official channels for business purposes.

The relationship between the Party and Chinese business entrepreneurs is different from the arms-length relationship between government and business in the U.S. In China, officials often have considerable discretion. They can decide whether a private business survives or not, and often use this discretion to enrich themselves. Chinese entrepreneurs have found ways to protect themselves from government extortion. One private Chinese company in negotiation with a foreign company proposed that the foreign company buy more than a 50 percent stake of their joint venture so that the intellectual property owned by the Chinese firm would not get into the hands of the local government. The Chinese are ingenious when trying to make the system work for themselves.
Local Chinese officials also want some private companies to rely on them so that they can get certain things done and reach certain policy objectives when needed. For example, in the aftermath of the 2008 financial crisis, some Chinese officials worked to prevent foreign companies from laying off workers. A local Party official would talk with a CEO of a foreign company. The CEO would use this opportunity to complain about some hassles with the Chinese tax authorities or the difficulty of obtaining some operating permit. The official would solve these problems for the CEO, and the CEO would in return keep his workforce intact during the economic downturn. Is this corruption or simple deal-making that would occur anywhere? The line is blurred. Hout called it “coping” rather than corruption. He would not label the Chinese economy as state-led capitalism, but rather “municipal capitalism,” since it is local governments that fed flourishing private enterprises.

Hout saw strong futures for private Chinese companies such as Huawei and Lenovo, as well as many smaller companies. He argued that the entrepreneurs of these companies are no different from the U.S.’s Henry Ford and Bill Gates, spending most of their time and energy competing in the markets and pre-empting their rivals. Speaking like a seasoned investor, Hout said that the future of private businesses is just like a numbers game—the more startups there are, the more are likely to survive and succeed, and the more are likely to become world-class companies. By now there have been so many inspiring role models in front of a younger generation of Chinese that the entrepreneurial base in China will only expand—more and more Chinese entrepreneurs will spring up, thriving not only in Chinese markets but also in world markets.

HONG KONG: ORIGINS OF THE CRISIS
Dalena Wright
Senior Fellow, Ash Center, Harvard Kennedy School

Burton Levin
Visiting Professor, Carleton College; former U.S. Consul General, Hong Kong (1981-1987); former U.S. Ambassador to Burma

Stephen M. Young
Former U.S. Consul General, Hong Kong (2010-2013); former Director, American Institute in Taiwan; former Ambassador to the Kyrgyz Republic

Wednesday, October 22, 2014

Since September 26, pro-democracy demonstrations have taken a central stage in Hong Kong’s public discourse—blocking roads, interrupting traffic and normal business—arousing attention around the world to the relationship between mainland China and its southern coastal city, a former British colony for more than a century. The Hong Kong government is under tremendous pressure to dampen the impact of these demonstrations and dissipate residents’ discontent, so that the national leaders in Beijing restrain themselves from intervening in Hong Kong’s affairs.

What are the origins of this crisis? How does the “one country, two systems” legacy of the paramount Chinese leader, Deng Xiaoping, work by intent and in practice? An expert panel, consisting of Dalena Wright, Senior Fellow of the Ash Center at the Harvard Kennedy School; Burton Levin, Visiting Professor at Carleton College and former U.S. Consul General to Hong Kong from 1981 to
1987; and Stephen M. Young, former U.S. Consul General to Hong Kong from 2010 to 2013 and former Director of the American Institute in Taiwan, explained the bigger picture of this crisis.

Dalena Wright traced the history of Hong Kong back to the end of World War II, and rebutted the impression generated by the Chinese that they are the ones who are about to bring democracy to Hong Kong, without giving any credit to the British. After the Japanese retreated from Hong Kong and the Communists established the “new China” in 1949, Chairman Mao could have asked the British to return Hong Kong, but he did not. In the 1950s, the British thought building democracy in Hong Kong would alarm China, so they decided not to build democratic institutions for the time being. Although this perspective has been widely debated, it is beyond doubt that there was a real exuberance in Britain’s Parliament in the early 1980s–after China was determined around 1980 to take back Hong Kong—that real democracy would finally come to Hong Kong. Then the question was what kind of governance would Hong Kong have after the turnover and what would be the comfort level of the Chinese vis-à-vis democracy building.

The Joint Declaration of 1984 between the British and the Chinese was made possible by Deng Xiaoping’s concept of “one country, two systems,” by which Hong Kong was allowed to maintain its capitalist system, its basic way of life and civil liberties for 50 years after the handover. Wright quoted from this Joint Declaration, “The Government of the Hong Kong Special Administrative Region (HKSAR) will be composed of local inhabitants. The chief executive will be appointed by the Central People’s Government on the basis of the results of elections or consultations to be held locally.” Wright pointed out that the ambiguity of this language on the selection of the chief executive–details left out on how elections and consultations would be held–laid the foundation for the repeated disputes and social turmoil later on. Technically, the current restricted selection process approved by Beijing is not a violation of this ambiguous language.

However, Hong Kong’s progress toward democracy was set back by Beijing’s harsh treatment of the student movement in June 1989. Then the question for Hong Kong was what would happen if the Chinese break their promises. By April 1990, the Hong Kong Basic Law had been drafted and was accepted as the mini-constitution after the handover in 1997. Article 45 of the Basic Law, which gives the requirements for choosing the Chief Executive, has become controversial: “The method for selecting the Chief Executive shall be specified in the light of the actual situation in the HKSAR and in accordance with the principle of gradual and orderly progress. The ultimate aim is the selection of the Chief Executive by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures.” The question for Hong Kong then became how “broadly representative” the nominating committee is, since this committee would vet the candidates on the voting ballot. This is the direct trigger of today’s crisis.

The relationship between the British and the Chinese was further strained after Chris Patten, a British
politician, became Governor of Hong Kong in 1992. Eager to open up the political system, Patten introduced democratic reforms that increased the number of elected members in the Legislative Council. This disturbed Beijing deeply. Wright concluded that it is not fair to say that it is the Chinese who are bringing democracy to Hong Kong. The British, after signing the Joint Declaration in 1984, finally saw the value in democratic institutions in Hong Kong, but it was too late and Chinese resistance was too great. Political liberalization, even in Hong Kong, was unacceptable, made worse by China’s fears that whatever limited democratic institutions might be created would be used by Britain to retain influence after the handover.

Burton Levin was a witness to Hong Kong’s dramatic transformation from sheer poverty in 1955 and essentially no political life for about 30 years after World War II to today’s economic prosperity and approach to universal suffrage. Levin explained that the British resorted to benign authoritarianism after World War II because they were concerned that democracy would make Hong Kong fractious, polarizing the pro-KMT segment from the pro-communist segment of the society. So the British always dispatched a strong governor from London to Hong Kong. For decades, Hong Kong had been a very free society, but not a democratic society.

Levin recalled that the negotiations between the British and the Chinese in the 1980s were quite tough. The Iron Lady, Margaret Thatcher, tried to hold on to the administrative power over Hong Kong, intending to return only sovereignty to China. But, Beijing was equally tough. This impasse and uncertainty rattled Hong Kong’s economy, and a Black Saturday ensued on September 24, 1983. The stock market plummeted, and the HK dollar depreciated significantly. Neither the British nor the Chinese wanted to see an economically ruined Hong Kong. Both sides then backed off and reached agreement on the Joint Declaration in 1984. The British agreed that the newly-created Hong Kong Special Administrative Region would be directly under the authority of the Chinese national government in Beijing. The Chinese guaranteed Hong Kong a high degree of autonomy in civil affairs after 1997. The existing basic governance structure in Hong Kong—a strong executive supporting and supported by big businesses—was considered by both sides as the best way to preserve stability and prosperity. An American role was not welcomed by either side during the negotiations, but Levin was informed of developments along the way.

The harsh way in which Beijing handled the 1989 student movement in Tiananman Square caused fear in Hong Kong—what if Beijing appoints a powerful chief executive to Hong Kong after 1997? The last British Governor, Chris Patten, began to devise institutional mechanisms in the 1990s with the aim of counterbalancing the power of a chief executive. By introducing these democratic reforms, he antagonized Beijing.

Levin acknowledged that Hong Kong enjoys more democracy now than any time in its history. But he pointed out that the antipathy, even antagonism, that many Hong Kong people feel toward mainland people contributes to the current impasse. From the perspective of many ordinary Hong Kong people, rich migrants and

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visitors from the mainland have exacerbated Hong Kong’s chronic shortage of real estate, pushing housing prices out of the reach of ordinary people. They also disdain those less public-minded mainlanders who buy up milk powder in Hong Kong markets or are disrespectful to Hong Kong’s public sanitation standards. Many Hong Kong people may not have caught up with the technicalities of the chief executive selection procedures, but they certainly observe on a daily basis the sky-high housing prices and the public image of mainland visitors. These sentiments also fuel the pro-democracy demonstrations.

Levin did not expect Beijing to back down in this crisis after yielding to Hong Kong’s demands twice before. He anticipated only some small adjustments to the composition of the 1,200-member nominating committee as a compromise between both sides. He warned that if and when President Barak Obama or Secretary of State John Kerry visit China, on the issue of Hong Kong’s demonstrations, they should not commit anything more than merely asserting our values in order to avoid feeding into those conspiracy theories already rife in China about foreign interference.

Stephen Young spoke about some of the challenges facing the pro-democracy movement. The pan-democrats in Hong Kong are not a homogeneous group of people and have a hard time speaking with one voice. One important group within this movement is young students, but their grievances may be largely economic. Increasing economic and social divides in Hong Kong make them feel that their future is not as bright as their parents. They attribute this partly to the Chinese takeover. Pan-democrats also face headwinds in their demands as Hong Kong’s economic importance to China has diminished. China’s economy has become increasingly open to the outside world, becoming ever more prosperous and sophisticated over the past three decades. Hong Kong is no longer a unique window on China to the outside world as it was in the 1980s.

On the criteria for becoming the chief executive of Hong Kong, Young quoted a Chinese official of the Hong Kong and Macao Affairs Office under the State Council: the person has to be patriotic, competent and popular. No chief executive can really be anti-China, although there is a difference between being loyal to China and being loyal to the Communist Party. Almost all candidates for the highest political office in Hong Kong are very competent. The key then is the candidate’s popularity with the people. This is where and why the composition of the 1,200-member nominating committee becomes critical.

Young said that the current pro-democracy movement in Hong Kong tests the validity of “one country, two systems,” which generally works but evolves over time. Beijing hopes that this system becomes a formula for its eventual unification with Taiwan, but the current situation, according to Young, is far away from Beijing’s aspiration. Young suspected that Xi Jinping is not committed to real popular sovereignty because he does not want Hong Kong to set an example of democracy for the rest of China. Yet this intention, from Taiwan’s perspective, works against the Chinese wish to unite with Taiwan. Young expected an ongoing struggle between Hong Kong and mainland China indefinitely.
To what extent is U.S. foreign policy toward China determined by the executive branch? To what extent is it shaped by the U.S. Congress? How much discretion does the Administration have on issues related to China? Susan Lawrence, Specialist in Asian Affairs at the Congressional Research Service (CRS) in Washington and a former China-based journalist for the Far Eastern Economic Review and U.S. News & World Report, explained the role of Congress in U.S. foreign policy in general and in China policy in particular.

Lawrence first introduced CRS where she works. It is a non-partisan think tank, solely serving the U.S. Congress rather than the general public. It is one of three agencies that serve Congress, along with the Congressional Budget Office, which produces analyses of budgetary and economic issues to support the Congressional budget process, and the Government Accountability Office (GAO), which investigates Executive Branch spending and implementation of programs and policies. CRS provides confidential and objective analysis and policy options to all 535 members of Congress and all committees and their staff. By statute, CRS is not permitted to release its written products to the public. Members and committees may choose to make individual CRS products public, however. CRS does not take a stand on any of the issues it researches. Its task is to help Congress make informed policy decisions.

On the question of whether the President or the Congress has the final word on U.S. foreign policy, Lawrence said that the U.S. Constitution does not provide a clear answer. In practice, the President is usually in the driver’s seat, but Congress has multiple ways to influence the outcome. It can pass legislation to set objectives and guidelines for policy. It can adopt resolutions and policy statements that are not legally binding but put pressure on the executive to follow certain policies. Congress can pass legislative restrictions, including making ear-marked appropriations to encourage certain activities and denying funding for other activities. Fulfilling its obligation to exercise oversight over the executive branch, Congress can hold hearings, conduct investigations, and issue reports related to executive actions, and it can instruct the GAO to investigate the executive branch when it suspects that the executive has not faithfully implemented the law. The Senate must ratify all treaties and must confirm the appointment of officials for senior foreign policy posts, including the Secretary of State. Congress can also apply pressure and offer advice to the executive through public statements, private communications, and other channels.

In terms of Congress’s influence on China policy, Lawrence highlighted three laws that have had a direct and longstanding impact on policy. One is the 1979 Taiwan Relations Act (TRA), which states, among other things, that it is U.S. policy “to maintain the capacity of the United States to resist any resort to force or other forms of coercion” against Taiwan. The TRA also states that the U.S. “will make available to Taiwan such defense articles and defense services in such quantity as may be necessary.
to enable Taiwan to maintain a sufficient self-defense capability” against Beijing. Beijing sees Washington’s weapons sales to Taiwan as a breach of the third U.S.-China joint communique, concluded in 1982, but unlike the TRA, the three joint communiques are not law. January 1, 2014 was the 35th anniversary of the normalization of U.S.-China diplomatic relations. Beijing hoped for some kind of celebration. But 2014 was also the 35th anniversary of the TRA. Congress marked the TRA anniversary with hearings in the House and Senate. By holding public hearings, Congress can pressure administration officials to clarify policy in ways that they might otherwise not want to do publicly, including on such subjects as arms sales to Taiwan.

The U.S.-Hong Kong Policy Act of 1992 has returned to the spotlight with the recent demonstrations in Hong Kong against Beijing’s proposals for electoral reform in the city. The act declares that, “Support for democratization is a fundamental principle of United States foreign policy. As such, it naturally applies to United States policy toward Hong Kong.” The act also states that, “The human rights of the people of Hong Kong are of great importance to the United States and are directly relevant to United States interests in Hong Kong.”

The third law is the Tibetan Policy Act of 2002 (TPA), whose stated purpose is “to support the aspirations of the Tibetan people to safeguard their distinct identity.” The TPA established in statute the State Department position of Special Coordinator for Tibetan Issues and mandated that the position’s central objective be to promote substantive dialogue between the government of China and the Dalai Lama or his representatives. Senior U.S. officials often raise Tibet when they meet with their Chinese counterparts. The TPA specifically requires the U.S. President and Secretary of State to encourage dialogue between the Chinese government and representatives of the Dalai Lama, and to raise the issue of political and religious prisoners in Tibet when they meet with Chinese government representatives.

Presidents often issue signing statements when they sign legislation into law. They may use those statements to state that certain provisions of the legislation interfere with the President’s constitutional authorities to conduct foreign policy, and should therefore be construed as advisory rather than mandatory. But such statements carry no legal effect. The President has only two choices when a bill is presented to him—either sign it or veto it. Signing with reservations counts as accepting it legally.

In the grand scheme of the President’s relationship with Congress, he may have to accept legislative provisions with which he is less comfortable as part of a broader piece of legislation that he feels he needs to support, such as legislation funding the federal government. The Consolidated and Further Continuing Appropriations Act of 2013 contained thousands of provisions. Two caused frictions with China. One was a provision barring several U.S. government agencies from purchasing information technology produced, manufactured, or assembled by

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entities owned, directed, or subsidized by China. Another provision barred the National Aeronautics and Space Administration (NASA) and the White House Office of Science and Technology Policy from using appropriated funds for any collaboration or coordination with China or any Chinese-owned company.

On a number of current contentious issues, Congress shapes the orientation of U.S. foreign policy toward China. Congress has long pushed the executive branch to support Taiwan’s meaningful participation in international organizations, for example, leading to tensions with Beijing. Congress has also at times taken the lead on policy related to the East China Sea territorial dispute over the Diaoyu/Diaoyutai/Senkaku Islands, which are claimed by Beijing, Taipei, and Tokyo. In December 2012, Congress included non-binding “sense of the Congress” language in a major defense bill, stating that “the unilateral action of a third party”—a reference to China—“will not affect the United States’ acknowledgement” of Japanese administration over the islands. The bill also reaffirmed the United States’ commitment to Japan under Article V of the U.S.-Japan security treaty. Then-Secretary of State Hillary Clinton adopted the same position in remarks a month later, in January 2013.

Lawrence noted that with China’s growing importance on the world stage, ever more Congressional hearings and legislation touch on China. In the 113th Congress, China has been discussed at hearings on such disparate subjects as human rights, cybersecurity, Taiwan, the posture of the U.S. Pacific Command, the U.S. policy of strategic rebalancing to Asia, food safety, North Korea, Central Asia and Russia, Iran, and Syria.

**CHINA’S MARITIME DISPUTES: POWER, LAW, AND POLITICS**

Professor Peter Dutton
U.S. Naval War College; Director, China Maritime Studies Institute

**Wednesday, November 5, 2014**

Accentuated by China’s strong objection to the Japanese government’s purchase of the Senkaku Islands in 2012 amid its continuing dispute with Japan over the East China Sea, Sino-Japanese relations have deteriorated precipitously. China’s dispute with four Southeast Asian countries over the South China Sea further alarms the world about the impact of a rising China. In these messy disputes, whose claims are more valid? Peter Dutton, Professor and Director of the China Maritime Studies Institute at the U.S. Naval War College, disentangled power, law, and politics for the general public.

Dutton first distinguished three kinds of disputes from one another. One is dispute over sovereignty, which is governed by one set of laws. Another is dispute over the jurisdiction over the boundary of a body of water, motivated by the utility of the resources underneath the water. This kind of dispute is governed by a different set of laws, often referred to as the United Nations Convention on the Law of the Sea (UNCLOS of 1982). The third type of dispute is between coastal states and user states due to different interests. For example, the U.S. is not a coastal state next to any of the disputed water listed above, but the U.S. is a user state and wants to ensure freedom of navigation, which is different from the interests of coastal states.
Dutton then postulated China’s four objectives in these disputes. First, China wants to expand its security perimeter, creating a buffer area between itself and its neighbors while enhancing its authority over a larger area. Second, China wants to increase its boundaries for existing and potential natural resources. Third, China wants to alter the regional relations by exercising its power in international politics. Fourth, the Communist Party aspires to perpetuate its power within China by creating a need for its leadership both domestically and abroad.

On the dispute over the East China Sea, China chooses to use the concept of continental shelf, defined by the UNCLOS, to maximize its jurisdiction. Japan uses the concept of exclusive economic zone (EEZ) to define its jurisdiction, which means 200 miles from its coastal line. Japan recognizes that if China uses the same concept to demarcate its jurisdiction, there is an overlap of water area claimed by both sides. Japan therefore wants to use the middle line of this overlap area as the demarcation line, as any international adjudication would do in similar cases.

China refuses to discuss the mid-line idea. In November 2013, China promulgated an Air Defence Identification Zone (ADIZ), which largely overlaps with its claims in the East China Sea. The question then is: is this legal? Dutton explained the main difference between international laws governing air space and those governing maritime. The demarcation in air space is more clear-cut than that in maritime. Air space is either national air space or international air space, whereas a state’s relationship with the ocean is more complicated. Territorial sea over which the state has full sovereignty is within 12 miles of a state’s coastal line; a state’s EEZ is 200 miles from its coastal line and is the area where the country has the right to claim all the resources. But it must allow by law freedom of navigation and surveillance outside its territorial sea but within its EEZ. Part of China’s ADIZ claim is international air space, therefore, a global common. China can claim certain rights in the global common, provided that these rights do not take away rights from any other country. It is this point that makes China’s ADIZ problematic.

China’s strong position over Senkaku’s sovereignty is a result of rising nationalism and feeds into more nationalism. China wants to feel proud that it is finally able to stand up to foreign countries after a century of humiliation. Japan also has a strand of rising nationalism. While nationalism is politically poisonous, Dutton argued that Sino-Japanese relations are basically stable because both countries’ power is in the same league, on par with each other.

On the South China Sea, five countries (Vietnam, Malaysia, the Philippines, Brunei and China) have overlapping territorial claims. Only Dongsha Islands (东沙群岛) are clearly China’s (although it is disputed between the mainland and Taiwan). Ownerships of Spratly Islands,
Paracel Islands and Scarborough Shoal are all in disputes. China’s claims are mostly historical. But historical claims are not recognized by the UNCLOS. China has effectively controlled the rich fishing area near the Philippines. With very limited capabilities beyond its coastal line, the Philippines have taken its claim to international arbitration. China’s oil and gas exploration in the Paracel Islands has also upset Vietnam.

Because of the large disparity in real power between China and the four South Asian countries, China prefers to negotiate with them bilaterally. But the four smaller countries prefer a multilateral approach, such as through an international tribunal, to resolve the disputes. China then resorts to non-military coercion to assert its claims, including frequently dispatching coast guard vessels to the disputed waters. The U.S. uses its military presence in the Asia Pacific to deter any military coercion in order to maintain a regional balance.

Given this situation in the South China Sea, Dutton thought that there should be some facilitated dialogue between China and the Philippines to de-escalate tension. He concurred with the U.S. government’s position that the U.S. has no preference in the outcome of these territorial disputes, but encourages institutional and peaceful resolutions while supporting U.S. allies in the region. Dutton believed that a win-win outcome for all sides, such as some kind of resource-sharing arrangement, is possible to achieve.

BRINGING ORDER OUT OF CHAOS: ANTI-CORRUPTION AND THE FOURTH PLENUM
Professor Joseph Fewsmith
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Professor Margaret Woo
School of Law, Northeastern University

Professor Robert Ross
Department of Political Science, Boston College

Wednesday, November 19, 2014

The President of China, Xi Jinping, classifies contemporary Chinese history into two 30-year periods—before and after Deng Xiaoping’s unleashing market reforms at the end of the 1970s. Does this mean that he sees his reign as a demarcation for a new 30-year period? Where is China heading after President Xi consolidates power domestically through establishing and heading a number of committees by himself? Professor Joseph Fewsmith of international relations and political science at Boston University, Professor Margaret Y. K. Woo of the School of Law at Northeastern University, and Professor Robert Ross of political science at Boston College together deciphered the recent 4th Plenum of the Communist Party for the public from the perspective of China’s domestic politics, legal development, and foreign policy respectively.

Fewsmith viewed many of the party’s policy initiatives in the context of a chaotic situation. China’s
rampant corruption, murky rules and regulations, divorce of power and responsibility—all prevalent after rapid economic development for over three decades—compel the party to do something. Fewsmith noticed changes from only a decade ago. Village and township elections, which showed some prospect of political opening up, have been abandoned. Political centralization has become the theme of the day. Working groups from the party’s Discipline and Inspection Commission (纪检委) and Political and Legal Commission (政法委) have been dispatched directly from Beijing to investigate and combat corruption.

The Development and Reform Commission (发改委) has been hit hard in this campaign, especially the oil sector formerly headed by Zhou Yongkang and the coal sector, centered around Shanxi Province. It is not clear how Wang Qishan, head of the Discipline and Inspection Commission, would carry out the anti-corruption campaign—whom he will go after next, which level or which sector of officials would catch his attention, or who would be left untouched in this sweeping campaign. What is known is his interest in the French Revolution and Alexis de Tocqueville’s works, indicating his full awareness of the danger of reforms, a double-edged sword in any case. Fewsmith was skeptical about the ability of a system to clean itself with so much and so many vested interests and obstacles.

Woo concurred with Fewsmith that the reason that the CCP now addresses explicitly the rule of law is to bring order out of chaos. She highlighted some characteristics of rule of law in China, different from the western understanding of this concept. In the West, laws are derived either from natural principles or from democratic consensus, thereby are above politics and government. In China, the Communist Party assesses and guides any change or development of law. While the 4th plenum signified that law will be taken seriously and party disciplines will be clearer and stricter, it does not fundamentally change the party’s superior position above the law. Furthermore, Chinese leaders have a very unapologetic attitude toward their approach to law and their legal reforms. They criticize some university scholars for their excessive emphasis on western approaches and perspectives.

There were some encouraging signs in the 4th Plenum. It called for greater transparency in law making and execution, including more open trials, publishing experts’ opinions and greater participation in the judicial decision process. Top Chinese leaders intend to clean up their internal rules and regulations, eliminating redundancies and inconsistencies with increasing regularization and formality. They plan to create a circuit court system, like the U.S., and centralize judges appointments to higher level courts from provincial people’s congress in an effort to prevent local influences in the judicial system. They will also establish a new case registration system to take into account those cases which are not accepted by local courts. They intend to expand the role of government prosecutors to take on cases of public interest, such as environmental pollution. The 4th Plenum promoted legal education both for leaders as well as the general public. Woo wondered whether these legal reforms of increasing professionalism, transparency, and centralization would have substantial consequences in the long run, unintended by the current party leaders, which she called “take-over effects.”
Ross’s focus was on Chinese foreign policy and on the question of how to bring about stability from an increasingly unstable Asia. He did not attribute Asia’s instability solely to China’s wrongdoing, but viewed China’s behavior as a response to a political dynamic of a changing world. After World War II, China essentially won almost all wars with its neighboring countries. This macro environment enabled Deng Xiaoping to embark on opening up reforms at the end of the 1970s and a relentless pursuit of economic development ever since. Most of the vacuum, politically speaking, created by the downfall of the Soviet Union in the early 1990s has been filled by Chinese influence. China has grown significantly both economically and politically in a largely peaceful world.

But recent developments in the South China Sea, contested between China, Vietnam, and the Philippines among others, as well as the East China Sea, contested between China and Japan, are worrisome. No matter how benign Chinese objectives are, the outside world is anxious about China’s real intentions with its enhanced military capabilities. China has built an air force and a sizable navy, as well as a heavy coast guard. China can use this power to achieve objectives other than maintaining regional stability, which had been its only objective prior to its new capabilities. Facing an increasingly powerful China, smaller Asian countries are looking to the U.S. for help. Top Obama administration officials have tried to strengthen relationships with American allies in Asia, which inevitably heightens tensions with China.

Ross did not think that the APEC summit in Beijing earlier this month made any substantive progress in any of the dimensions above. Those agreements achieved at the APEC regarding climate change and information technology are largely symbolic. Looking forward, Ross thought that the challenge for the U.S. is to reassure its Asian allies on the one hand, and try not to leave China an impression of U.S. containing China on the other hand; the challenge for China is to be patient, restraining itself from wanting too much too soon.

### CHINESE FOREIGN POLICY UNDER XI JINPING: CONTINUITY AND CHANGE

**Bonnie S. Glaser**

Senior Adviser for Asia, Freeman Chair in China Studies and Senior Associate, Pacific Forum, Center for Strategic and International Studies

**Wednesday, December 3, 2014**

Since President Xi Jinping took over from his predecessor, Hu Jintao, two years ago, how much of Chinese foreign policy is based on continuity and what’s new? How does the Chinese top leadership assess the international environment and China’s place in it? Bonnie Glaser, Senior Adviser for Asia at the Center for Strategic and International Studies, addressed these questions by examining Chinese leaders’ diplomatic rhetoric and their behavior as they implement foreign policies.

According to Glaser, there is both continuity and change in Chinese foreign policy. The Five Principles of Peaceful Co-existence from the Mao era still remain in
Since the 18th Party Congress, Chinese top leaders have reiterated that China will continue to pursue an independent foreign policy and will use peaceful means to resolve international conflicts. China tries to make friends around the world and forge partnerships while maintaining its long-standing position of no alliances. Even Pakistan and North Korea are not formally Chinese allies.

However, there are changes from the Hu Jintao era that are worth paying attention to. The concept of “harmonious world,” put forward by Hu, is no longer mentioned. Xi has touted the concept of the “China dream” as an embodiment of the Chinese aspiration for national rejuvenation from a century of foreign humiliation. He has applied the China dream to Beijing’s foreign relations, specifically in the Asia-Pacific region.

How Chinese top leaders assess the political trend of the world and their place in it is critical in shaping their outlook to the world. Foreign policy is formulated based on China’s assessment of the international situation and the global balance of power. Peace and development importantly remains the main theme of the times, but there have been changes in China’s description of “the new situation.” In recent years, the Chinese have become more aware of their enhanced capabilities in both economic and military realms. They see the relative power of the U.S. declining and China re-gaining upward momentum in an increasingly multi-polar world; therefore, China is in “an increasingly favorable international environment.” This view first appeared with the onset of the 2008 financial crisis and has become more pronounced.

Xi appears more confident on the world stage than his predecessors, wishing to have a voice and a foreign policy befitting a major power. Under Xi’s leadership, China is adopting a much more activist foreign policy to defend and advance Chinese interests. The Chinese want a greater say, proportional to their nation’s growing stature, in shaping the international discourse. Xi has called for China and its immediate neighbors–Asian countries–to solve security challenges, and he has proposed creating a new regional security architecture that would exclude the United States. China favors regional security forums in which the U.S. is not a member, such as the Shanghai Cooperation Organization, ASEAN Plus One, ASEAN Plus Three, and the Conference on Interaction and Confidence Building Measures in Asia (CICA). In the international economic arena, China is in the process of setting up an Asian Infrastructure Investment Bank and a BRICS Development Bank, while pushing for reforms of the existing international monetary system and internationalization of the RMB. It remains to be seen the extent to which China hopes to adjust the post-World War II international system.

China has never publicly repudiated Deng Xiaoping’s guiding principle of Chinese foreign policy enunciated in the late 1980s, “observe things serenely, respond and manage things calmly, hold our ground firmly, hide our capabilities and bide our time, accomplish our objectives” (冷静观察, 沉着应对, 稳住阵脚, 韬光养晦, 有所作为). But Chinese foreign policy has noticeably changed from having a “low profile” to a more active or proactive disposition and Xi Jinping is explicitly promoting an activist foreign policy. However, no formulation has been adopted as a new guideline for Chinese foreign policy to replace Deng’s dictum.
China increasingly uses its economic clout to wield its influence over other countries, intensifying its neighbors’ dependence on China. By binding its neighbors to China, Xi hopes that these nations will “respect” Chinese interests. At the late November Foreign Policy Work Conference, Xi re-ordered the priorities of Chinese foreign policy, placing the periphery at the top, followed by relations with major powers, developing countries, and multilateral forums. On territorial disputes, Chinese foreign policy under Jiang Zemin and Hu Jintao emphasized Deng’s proposal to “shelve disputes and pursue joint development” (搁置争议,共同开发). Xi has reiterated this policy, but has stressed the four characters before this phrase used by Deng Xiaoping, “sovereignty belongs to us” (主权属我). He has called for developing closer relations with China’s neighbors while not making any concessions on sovereignty over disputed territory.

Since 2012, Xi Jinping has called for building a new type of major power relations (新型大国关系) with the United States. China persuaded the Obama administration to commit to “mutual respect of each other’s core interests” in November 2009, which to China means respect of national sovereignty, territorial integrity, as well as China’s political system. The Obama administration has become uneasy with China’s definition and now views the establishment of a new type of major power relations as an aspiration, not a reality.

Glaser noted some changes in Chinese foreign policy behavior that are important to watch closely in the future. China has attached more importance in the past to achieving denuclearization of the Korean Peninsula, although it is still unwilling to impose pressure on Pyongyang that could cause instability in North Korea.

Xi is disdainful of Kim Jong-un and has halted high-level exchanges with North Korea. Whereas Hu Jintao used economic coercion against Japan and the Philippines, Xi has been less willing to use China’s economic leverage for punitive purposes. Xi has attached higher importance to avoiding military accidents. The U.S. and China have engaged in dialogues on crisis management, establishing code of conduct in the event of accidents.

In conclusion, Glaser said that China has a new rhetoric aimed at shaping its international environment and regional security architecture; that change of behavior in Chinese foreign policy is limited and new developments are primarily extensions of previous policy behavior; and that most assertive Chinese policy and behavior are related to territorial integrity and sovereignty issues in the East and South China Sea.
China’s rise be disruptive to the existing international norms and institutions? What is China’s performance record on international regimes so far? What is China’s strategy behind its record and its future trajectory? Andrew J. Nathan, Professor of Political Science at Columbia University, examined China’s past behavior, postulated its rationale and projected into the future.

International regimes are systems of norms, which can be formal in the form of treaties and institutions, or informal and emerging. Today’s international regimes are much more complicated than the 17th century Westphalian system. After World War II, a swath of international institutions emerged. The United Nations (UN), the Bretton Woods system governing global financial and economic order, arms control and disarmament, organizations governing international aviation and global health issues, and many others are important institutions affecting our daily lives.

To access China’s performance record vis-à-vis these institutions, Nathan first defined what he meant by a country’s compliance with an international regime. It is really a spectrum from complete rejection at one extreme to complete compliance and embrace at the other extreme, with various degrees of compliance and violation in between. In the Mao era, China rejected the international system in principle and stayed outside of it. This is an example of one of the two extremes. Countries can formally join a regime by signing a treaty but violate the agreed norms most of the time; or comply only with formality, but violate selectively in spirit in some areas. These would be scenarios between the two extremes.

After China took a seat at the UN in 1972, it began to belong to the international system and to participate in more and more international organizations. Would this trend result in an overthrow of the existing regime, or not yet but only a matter of time as China becomes even more powerful? Having examined China’s record after its accession into the WTO in 2001, Nathan thought that China is generally moving in the direction of compliance, even though China may have complied with the WTO resolutions grudgingly after losing cases–brought by the U.S. and other countries for violating the norms–to the WTO dispute resolution mechanism. Similarly, in many other areas, China has largely complied with or steadily converged to the international standards, such as the international aviation regime, the international public health regime (sharing more information after the SARS breakout in 2003), financial- and economic-related regimes, wildlife protection, arms control, and disarmament.

Nathan pointed out two areas where China’s compliance is problematic–one is the currency issue, the other is in the human rights area. China has been charged for manipulating currency–deliberately keeping the RMB undervalued–by some American politicians, although this charge has become muted in recent months. One of the IMF bylaws prohibits currency manipulation, but this norm and the definition of currency manipulation are widely contested. In the human rights area, China formally acknowledges and accepts the international standards, complies largely in form, but has significant omissions in practice according to the spirit of the international standards.
According to Nathan, it is only natural for any major country that belongs to an international regime to have a negotiating position and to attempt to influence and shape the regime, which keeps changing anyway. The question is, what’s behind the negotiating positions of this major country? The answer to this question sheds light on its future behavior.

In the Doha Round of trade negotiations, China does not see much benefit for itself if this round succeeds because China’s interest lies in smoother trade relations mainly for manufactured products, while the Doha Round mainly pushes for trade liberalization in service areas and agriculture. Thus China chooses to support the negotiating positions of other developing countries on the one hand, and pushes for regional free trade areas on the other hand, to advance its own interests. On the Trans-Pacific Partnership (TPP), as China’s labor costs continue to move up, China will eventually move closer to the U.S. positions in terms of protecting labor rights, human rights standards and environmental standards. Thus China’s trade positions are self-interested and instrumental, in Nathan’s view. With the same rationality, China signed the treaty to ban space weapons, knowing that it will mainly constrain technologically advanced countries like the U.S.

On issues of humanitarian intervention and U.N. peacekeeping operations, China has made its own contributions. In the U.N. Security Council, China often sides with the U.S. but with one subtle caveat: China would only intervene in another country with the consent of the government in question. China sometimes abstains and rarely opposes a resolution by the U.N. Security Council. When it does oppose, it’s always with Russia, never by itself.

Based on China’s past behavior, Nathan concluded that China is basically respectful of international regimes overall, but leaves room to run its own authoritarian regime at home, and that China’s behavior is driven by rational calculations based on its national interests. Whether this pattern of China’s behavior will continue into the future will depend on what its national interests will be. Nathan predicted that in most areas China will join the existing international norms and institutions with no revolutionary change; in international regimes related to human rights, China will continue to prefer more authoritarian governance, run by efficient technocrats, to more democratically-elected bodies.

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THE OTHER CHINA DREAMS: ASPIRATION AND AUTHORITARIANISM

Evan Osnos

Staff Writer, The New Yorker; author, Age of Ambition: Chasing Fortune, Truth, and Faith in the New China

Wednesday, February 11, 2015

When Xi Jinping took the helm of China’s top leadership in December 2012, he declared that he would dedicate his life to the great renewal of the Chinese nation. In his mind, a national ambition for rejuvenation—a return to China’s powerful world status it once had—
is the China Dream that all Chinese, or at least the 80 million communist party members, should espouse. Since then, China Dream has been one of the most frequently discussed and referenced term in the Chinese media, and an over-arching theme shaping China’s master narrative at a collective level.

But at an individual level, each of the 1.4 billion Chinese in China has his or her own personal dream. How do these varied individual dreams relate to the collective national China Dream? How do personal aspirations square with national authoritarianism in an internet-linked globalization age? What are the underlying forces that can explain China’s dramatic transformation over the last three decades that amazes outside observers? These are the questions that Evan Osnos, staff writer at The New Yorker, tried to address in his talk and his book Age of Ambition: Chasing Fortune, Truth, and Faith in the New China, published in May 2014. By humanizing China’s transformation, he made these questions no longer seem abstract or far afield to Americans.

At the outset of his talk, Osnos described a young Chinese man by the name of Zhang Zhimin, who grew up at a remote coal mine where his parents’ goal was merely to pass the day normally. Zhang was determined to leave the mine and control his own fate. Through his tenacious effort, he learned to speak English and gave himself an English name, Michael. Now he lives in Beijing, in a dark bedroom shared with seven other men. He aspires to change his life again.

To Osnos, Michael epitomizes a young generation of Chinese who don’t accept their life situations into which they were born, and go out to strive for a better life. This aspiration and energy propel them to change things for the better. Such individual efforts, unleashed by the relaxation of the political and economic system, are the underlying forces that transformed China from a lackluster backwater place to a glittering and dynamic place highly integrated into the world economy.

Pursuing the China Dream of great renewal has serious implications both domestically and abroad. It implies continued physical and technological upgrading and economic transformation, including explorations as far away as the moon, Mars, and deep oceans, which the Chinese see as status symbols of a leading power. It implies potential tensions with those established world powers. In the past, China believed and used “韬光养晦 (taoguang yanghui)” as a guiding principle in its foreign policy, which meant “building up yourself while keeping a low profile and biding your time.” In recent years, China has become more assertive on contentious issues such as its territorial claims in the East and South China Seas. Sanguine Chinese leaders recognize that they cannot upgrade their physical capabilities overnight, nor do they expect to fundamentally change the global power balance. They only see themselves as one of the major powers in a multi-polar world, with the U.S. as one of the poles.

Do the Chinese people share the national China Dream, as defined by President Xi? Osnos explained how the Chinese term 野心, literally translated as “wild heart,” meaning wolfish ambition, has shed its conventional negative connotation and taken on a positive hue as a motivating force. Traditionally the Chinese always

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tried to appear bland and inconspicuous because of the insignificance of the individual in their view of cosmology. After China embarked on market reforms and opening up in 1978, people were unshackled from collective farms and factories (松绑 in Chinese) and were encouraged to strike out on their own. Being allowed to make their own decisions on issues such as where to work and whom to marry, people realized that they could become masters of their own destinies. Parents began to learn how to stimulate children’s “wild heart” and to encourage them to do well in life. The individual self has become the new center of the Chinese cosmology. To overcome adversities and achieve personal triumph is considered glorious. The Chinese ethos has thus changed.

After the Chinese accumulated certain material wealth such as houses and cars, they began to think about their relations with the government and the society. What kind of laws will protect their private properties? What needs to be done to ensure clean air and water? What kind of policies and political structure will foster unfettered media coverage and independent universities, which in turn will encourage innovation and invention at large? Amid the ongoing relentless anti-corruption campaign under President Xi and the downfall of many senior party leaders, the Chinese began to contemplate the meaning of life—what to believe in, what should be their moral foundations and guidance, and to what causes they should dedicate their lives. Hence, Osnos entitled his book *Age of Ambition: Chasing Fortune, Truth, and Faith in the New China*.

In the end, Osnos described the experience of a young graduate of Fudan University in Shanghai by the name of Tang Jie. He set up a website with a central theme of criticizing the conspiracy and collusion of the Western media and the West’s encirclement of China. As his site gained a following, he expanded its operations to other themes. For instance, his writers criticized local officials for corruption, and praised political figures whom they admired, including Bo Xilai; both of these were politically sensitive territories. Eventually, his website was shut down as his individual dream had collided with the official China Dream. This example illustrates an implicit limit as to what kind of personal dream a Chinese can have in China.

**WHERE IS ASSERTIVE CHINA HEADED?**

**Douglas H. Paal**
Vice President for Studies, Carnegie Endowment for International Peace, Washington, D.C.; former Vice Chairman of JPMorgan Chase International; former Director of the American Institute in Taiwan

*Wednesday, February 18, 2015*

Over the last couple of years, the *New York Times* has portrayed an assertive China as its mainstream narrative about China. Is this a comprehensive and objective picture? Is China a looming threat for Washington as well as for the American public to worry about? How has the U.S. government responded to this “assertive China”? Has China scored ahead of the U.S. in this duel for global power and influence? Douglas Paal, Vice President for
Studies at the Carnegie Endowment for International Peace, Washington, D.C., placed China’s recent behavior in a larger and more nuanced context, analyzed the dynamic interactions between China and the U.S. and their respective perspectives, and reached a relatively optimistic conclusion, calming the anxiety in many American minds.

Since Xi Jinping took over China’s top leadership position at the end of 2012, he has put a strong personal stamp on a wide range of issues, not least on China’s foreign policy. His leadership is often compared with that of Mao Zedong and Deng Xiaoping, two of the most powerful political figures in the history of contemporary China. His positions and policies have far-reaching ramifications beyond China’s borders. But Paal warned against overpersonalizing Xi’s impact, because there is a deeper and structural set of factors underlying China’s rise.

China has been the second largest economy in the world for the last five years or so, has done scientific explorations on the moon and in the oceans, and has taken on an increasing share of global governance responsibility such as sending troops to join the UN peacekeeping forces worldwide and providing aid personnel and materials for the management of Ebola in Africa. Such improved economic and physical capacities would empower Chinese leaders regardless of who is at the helm of the leadership. Inside the U.S., the leading Democratic presidential candidate, Hillary Clinton, has already chosen a hard line on China. It is conceivable that no Republican presidential candidates, regardless of who they are, would choose to be less aggressive than Clinton’s position. But the good news, Paal pointed out, is that in the 2016 presidential election, China won’t be the primary issue of American concern. The main foreign policy issues will be taken up by the ISIS and the Middle East, as well as Russia and Ukraine. Paal recognized that even so, it would be difficult for China to strike a positive tone with the U.S. when China’s actions are conditioned by the American tough election rhetoric. In addition, President Xi’s positions are constrained by many domestic challenges, including a passive resistance to his initiatives from at least four members of the seven member Standing Committee of the Politburo.

The American public, having been influenced by the New York Times’ mainline narrative of an assertive China, especially about China’s territorial disputes over the South and East China Sea with its neighbors, expects their officials to respond to this narrative. Paal pointed out some facts that the American public is not generally aware of. In fact, China is a latecomer in the energy explorations in the South China Sea. Vietnam and a few other countries had already established their facilities before China came onto the stage. The reason that China is under closer scrutiny in this area is because China is much larger in size and capability than other claimants of the same area. In the East China Sea, China only reacted strongly after the Senkaku Islands (Diaoyu Islands) changed hands from private Japanese ownership to the Japanese government, which to China signaled a change of the status quo. Although China has encouraged Chinese fishing boats to fish in these disputed areas and has increased dispatches of its Coast Guard vessels to assert its rights, it has restrained from using real military forces—navy or air force—limiting confrontations to local scrimmages and avoiding any full-fledged conflict.
What are the lessons for the U.S. to draw from China’s behavior? U.S. officials, concerned about the American public perception of their effectiveness, are compelled to react to the mainstream portrait of China. They have reached out to Chinese officials and reached a memorandum of understanding regarding close encounters with the Chinese at sea, and are still working on an equivalent memorandum for air-to-air encounters. Paal acknowledged that China’s behavior has been relatively mild since last fall. In the run-up to the APEC conference last November in Beijing, where President Xi was to meet with President Obama, China softened its stance and tried to improve relations with its neighbors. President Xi and President Obama signed several agreements during their meeting.

Near the end of his talk, Paal commented on two of China’s important initiatives: to build an Asian Infrastructure Investment Bank (AIIB) and a Silk Road Project. Paal thought that the U.S. should not be against the AIIB when many Asian countries welcome it, especially after China dispatched its vice finance minister to reassure the U.S. and other international institutions—the World Bank and the Asia Development Bank—that this AIIB will guard against corruption and ensure transparency through open bidding processes.

Paal saw China’s initiative to build a modern Silk Road on land and at sea as a way to occupy its excess industrial capacity—exporting services and building infrastructure in foreign countries while pursuing neighborly relations with them—rather than seeing China attempting to expand its geopolitical influence at the expense of other big powers such as Russia. Paal foresaw that the Silk Road Fund will be easier to set up and operate than the AIIB because China is the sole financier of this Fund, with no need to coordinate or attract money from other countries.

Whereas the official U.S. attitude about these initiatives is skeptical, Paal thought that Chinese money and projects will bring stability to Central Asia and other parts of the world, and that is fundamentally in line with U.S. national interests. Furthermore, since Central Asia is an area where the U.S. is unable or unwilling to do much anyway, the U.S. might as well let the Chinese carry out some economic development there. China will do what it intends to do in those areas regardless of what positions the U.S. takes, and China will encounter all the foreseeable problems along the way. Looking forward, Paal anticipated that China will try to defuse bilateral tensions with the U.S. in the next two years during the American presidential election season; after that, the U.S. will see a stronger and healthier China in the medium term.

**FOLLOWING THE LEADER**

**Dr. David “Mike” Lampton**

Hyman Professor and Director of SAIS-China and China Studies, the Johns Hopkins Paul H. Nitze School of Advanced International Studies (SAIS)

**Wednesday, February 25, 2015**

Xi Jinping has been at the helm of the Chinese top leadership for over two years. How should we think about him, his policies, and strategies? What might be
his prospects? What kind of leader will he prove to be?

David “Mike” Lampton, Hyman Professor and Director of SAIS-China and China Studies at the Johns Hopkins Paul H. Nitze School of Advanced International Studies (SAIS), explained the situation that Xi inherited in 2012, outlined the policy package he has pursued since then, and foretold an increasingly uncertain future for China.

Contrary to a seeming media-driven consensus that portrays Xi as a very strong leader (distinct from Deng Xiaoping’s other successors), Lampton perceived him differently—vulnerable and insecure underneath a powerful cover. Although Xi appears to have consolidated power by establishing at least nine cross-system integrating committees, all headed by himself, on a wide range of issues, he doesn’t like the basic character of the system he inherited from Hu Jintao—a consensus system at the top, a fragmented society and bureaucracy, and relatively empowered citizens. He views himself as a change agent to rebalance toward a strong-man system. He has to restore the legitimacy of the Communist Party after a series of progressively weaker top leaders before him. He has to deal with a large complex bureaucracy in an increasingly fragmented society with disparate interests. He has to confront empowered subordinates in a hierarchical society with an astonishingly uneven distribution of resources from top to bottom. One can only imagine how much social tension is suppressed under the surface.

To Lampton, how Xi has defined his circumstances, and the instruments he is employing to move toward a strong-man system, raise the issue of what we can expect in terms of China’s stability and international behavior: 1) in Lampton’s view, it is in China’s interest to pursue gradual evolutionary change, rather than sudden revolutionary change in an increasingly interdependent world; 2) China’s deep integration with the rest of the world places constraints on what China can do.

Lampton then outlined Xi’s strategy to deal with his challenges. In Xi’s mind, to project an image of a strong-man leader is popular and much needed. He uses nationalism, in particular anti-Japanese sentiment, as a cohesive force to consolidate his personal and regime legitimacy. He has emphasized propaganda and the role of ideology. He gave a speech at the Beijing Forum on Art and Literature in late 2014, with remarks that had chilling similarities with Chairman Mao’s remarks at the Yenan Forum on Art and Literature of 1942. Xi called on artists and writers not to cater to base popular trends or be distracted by financial rewards, but to promote positive energy, social effects, and values—to “forge” the human soul. In tandem with this ideological guidance and control, non-governmental organizations (NGOs) in China—especially those with foreign funding—are under closer scrutiny and more pressure. Parallel to this tighter control of the public sphere is a protracted anti-corruption campaign, which has proved to be the longest and deepest in the last 30 years, a campaign paying particular attention to individuals and networks that are central to governance in China. Not knowing who will be the next person in line to be investigated and detained, many Chinese feel threatened by the scale and the depth of the crackdown.

On matters of national security and foreign relations, Xi relies more on the party-side organizations than on the State Council and its various ministries. Under...
his leadership, China appears more assertive and demands more say in international affairs. The role of the General Office of the CCP has become particularly notable, not least in the foreign policy area. The combination of internal tightening and external assertiveness has raised external anxieties. All this highlights the question: is Xi’s capacity internally and externally sufficient to deal with such an extensive agenda and the opposition it generates? Deng Xiaoping had always been careful not to bite off more than he could politically chew and to pacify the external environment when pursuing dramatic internal change.

Will Xi’s policy package work? Lampton observed that he and many of his China Studies colleagues are uncertain, some might even say confused, about China’s direction and prospects. On the one hand, China has made such enormous progress over the last four decades that one way to interpret what is going on is that “China has now, in fact, stood up.” Mao’s declaration to this effect in 1949 was in some sense premature.

Turning finally to Xi’s operational code, or rules of thumb, Lampton argued that they depart from the rules of thumb that guided Deng Xiaoping. In the late 1970s, in order to be able to focus on domestic development, Deng pacified the outside, even acquiesced to U.S. weapon sales to Taiwan. Deng chose to proceed with reforms at home that were politically easier and popular first, such as allowing farmers to retain their excess produce. He tried to align the goals of the reforms with people’s economic incentives, de-emphasizing the role of political ideology, cult of personality, and coercion, whereas Mao was much more predisposed toward ideological and coercive instruments.

Xi’s works on national governance were published within the first two years of his leadership, whereas Deng’s works didn’t appear until later into his reign.

Lampton concluded with a common observation and an insightful question. As more and more Chinese become anxious about their future, they often send some of their family members and financial assets overseas. Capital outflow from China is expected to outstrip foreign capital inflow into China this year, for many reasons, only one of which is anxiety. We have seen so many children of wealthy Chinese parents in so many major cities worldwide from London to Manhattan. Lampton asks: “What do these Chinese know about China and its future that outsiders don’t know?”

IRON FIST, VELVET GLOVE:
CHINA’S HUMAN RIGHTS AT HOME AND ABROAD

John Kamm
Founder and Executive Director,
Dui Hua Foundation

Wednesday, March 4, 2015

If a political prisoner in China is well known, then he or she is more likely to be better treated. Chinese authorities must treat dissidents in prison like Liu Xiaobo, a Nobel Peace Prize winner with extensive international media attention, very carefully. But most political prisoners are not that fortunate. They are not well known or have

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any voice in the media. Is there any organization advocating better treatment on behalf of these “obscure prisoners?” Fortunately there is.

John Kamm, a former businessman, founded Dui Hua Foundation in 1999 precisely to make a difference in this area. For the following 16 years, Dui Hua has been working for clemency for political and religious prisoners; better treatment of women in prison and juvenile offenders; as well as systemic improvements in criminal justice in China, such as reducing the number of executions. Dui Hua uncovered thousands of names of previously unknown prisoners through open source research, built a database on their cases and advocated on their behalf. It is these ordinary people’s political rights that Kamm cares about and tries to protect through hard-sought dialogues with Chinese officials in Beijing and active outreach to international organizations in New York and Geneva.

Kamm, now Executive Director of the Dui Hua Foundation, traced his first intervention on China’s human rights issues back to May 1990, when he testified before the U.S. Congress during the run-up phase of renewing China’s Most Favored Nation (MFN) trade status (MFN treatment for non-market economies was a legacy of the U.S. Trade Act of 1974). In the early 1990s, the two-way trade between the U.S. and China was so insignificant that it was less than that between the U.S. and Belgium. But this trade relationship was very important to China, especially when China’s foreign relations were at one of its lowest points in modern history in the aftermath of the June 4th, 1989 crackdown on dissidents in Tiananmen Square. Kamm was able to use his position as President of the American Chamber of Commerce in Hong Kong to persuade China to lighten up on human rights if they wanted to keep their trade intact or improve their trade relations. This experience foreshadowed his dedication of 25 years for the betterment of China’s human rights.

In addition to the political prisoner database, Dui Hua also has a mass incidents database. Any unauthorized gathering of 10 or more people is considered a mass incident and is by definition an illegal assembly. Organizers can be charged with disturbing social order (DSO). China is not a common law country, so cases don’t establish precedent. But Dui Hua continues collecting such cases in order to influence interpretation of Chinese law. DSO is a lighter charge than endangering state security (ESS), in part because ESS implies deprivation of political rights (DPR). (Note: Inciting subversion is an ESS crime.) According to the China Law Yearbook, indictments for ESS surged markedly in 2013.

The on-going anti-corruption campaign under President Xi Jinping has dramatically reduced extravagant consumption and gambling. Xi promotes ideological purity by countering “poisonous” western values and interests, especially in universities and media channels. There has been more control over social media with the aim of suppressing criticism of the party and the central government. The authorities now require bloggers to use their real name and pledge, before blogging, to not criticize the Communist Party. Detention and investigation for corruption through shuang gui (双规 meeting and investigating the suspect at a fixed time and place) is a form of detention without trial for party members.

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Although China has explicitly prohibited local government officials from interfering in the judicial system, it has not outlawed party interference through sentencing committees that determine verdicts in politically sensitive cases. Soon the U.S. State Department will publish its annual report on China’s human rights record. Kamm predicted that China will reject and criticize it as usual. This pattern has become a ritual. Since 2012, the Chinese Ministry of Foreign Affairs has refused to accept the prisoner lists handed over by foreign countries. There has been a sharp reduction of clemency since Xi took power.

If China’s human rights record deteriorates every year as the State Department says, why hasn’t China become like North Korea? Why haven’t there been massive protests and uprisings in China against use of the iron fist? Kamm explained that the Chinese people’s economic rights have significantly improved with rapid economic development, and their civil rights have expanded in many ways (e.g. due process rights). But little progress has been made in the area of political rights (e.g. speech and association).

A good change within the purview of Dui Hua is that the percentage of juvenile offenders actually going to prison has declined in recent years. Women prisoners’ conditions have also shown signs of improvement. Kamm believes that when you work with the Chinese government on issues of juvenile offenders, women prisoners, and disabled people, you open doors for working with these officials on more politically sensitive issues. Now his organization is trying to help resume the bilateral human rights dialogue (HRD) between the U.S. and China, which was put on hold when President Obama met the Dalai Lama in February 2014.

Kamm concluded with a specific case, giving hope for an enlightened Chinese court system. This case is set against the background that the number of executions in China has declined significantly—over 90 percent reduction of death sentences over the last three decades. Li Yan is a middle-aged woman from Sichuan Province. She was sentenced to death by both an intermediate court and the provincial high court for killing her husband, who had a track record of abusing women. Domestic violence is quite common in China. About a quarter of married Chinese women are abused by their husbands. In June 2014, the People’s Supreme Court finally overturned the verdict and sent the case back to a lower court for review. This is a landmark case in fighting domestic violence and is an example of the reduced use of the death penalty.
CritiCal issues Confronting China

in the narrow sense is a payment for doing something that undermines national policy or the national interest.

Quite separate from these two is what the Japanese call structural corruption. While most Japanese officials and business executives are individually honest, control of the legislature by five powerful interest groups enables those interest groups to achieve their private interests at the expense of the nation. For instance, the construction lobby has successfully pressured the government to fund vast unnecessary infrastructure, often spending more than the entire United States. Japan has bullet trains to small villages, world-class bridges used mainly by animals, and concrete lining of almost all its rivers and streams.

China’s problem is mainly graft—currently very serious, but nonetheless the roads get built and the children get educated. Indian corruption, in contrast, means that the roads do not get built, vast numbers of children do not get educated. Indian corruption is much more destructive than Chinese graft. Japanese structural corruption in turn wastes far more resources than Indian corruption or Chinese graft.

According to Overholt, Jiang Zemin and Zhu Rongji limited corruption by reducing structural opportunities for graft. Top government positions were cut by half while salaries were quadrupled. Bureaus were required to cut regulations. Industrial policy promoted competition. Officials were evaluated by objective performance criteria. The military was required to give up a majority of its businesses.

Under President Hu Jintao and Premier Wen Jiabao, these reforms were reversed. The size of government bureaucracies almost doubled. Market reforms stalled. State owned enterprises (SOEs), local governments, and the military became hugely powerful interest groups. Military officers again became wealthy businessmen. Hence, graft mushroomed. The risk of Japanese-style structural corruption loomed.

The social and economic consequences were severe. A triangular coalition among the communist party, government officials, and business tycoons congealed. Social mobility declined and a sense of unfairness became pervasive. Graft reached a scale so scandalous that it threatened the Party’s legitimacy. The economy began to suffer. Just when smaller enterprises became crucial to growth, officials became reluctant to approve small projects because they generated insufficient squeeze. An emergent entrepreneurial class became extremely resentful of arbitrary Party extractions.

Western social scientists often blame the one-party authoritarian regime as the root cause of extreme corruption. Overholt retorted that corruption in democracies like India, the Philippines and Thailand is more destructive than China’s and has its roots in the structure of democracy in very poor countries. In these countries, political contributions are almost exclusively bribes. “Democratic” court systems are too complex and expensive to provide justice to peasants or to convict a sufficient number of criminals. Democracy is an antidote to corruption only in middle class societies.
The Hu-Wen era set the background for Xi Jinping’s anti-corruption campaign. The campaign is essential to protect the Party’s legitimacy, and it is a vital economic reform tool. China’s economic transition requires financial reforms that will hurt all the newly powerful interest groups—SOEs, banks, Party and government bureaucracies, local governments, and the military. The anti-corruption campaign is essential to neutralize their opposition. But this leads to a paradox. The anti-corruption campaign, necessary to reform, frightens and immobilizes the officials whose leadership is equally necessary to reforms. To succeed, Xi must resolve this paradox.

Hong Kong resolved the paradox by having a fierce anti-corruption campaign, then declaring an amnesty while creating a powerful agency (ICAC) to punish any future misdeeds. South Korea had waves of scandals that first cleansed politics and later business but did not immobilize decisions for extended periods. How China can both minimize corruption and nurture confident reformist decisions remains unclear.

The Chinese anti-corruption campaign and the planned economic reforms threaten the most powerful interest groups simultaneously—in contrast with, for instance, Ataturk’s reforms in Turkey, where he attacked targets sequentially to preclude a broad anti-reform coalition. Xi Jinping’s advantages are the shock of initial success together with overwhelming public support so far.

Elsewhere, police anti-corruption campaigns have often achieved only temporary effects. Structural reforms like Zhu Rongji’s have more permanent effects. China’s leadership has begun some structural reforms, such as centralizing judiciary appointments to reduce local officials’ manipulation of the courts. Market reforms, including enforced competition rules and promised leveling of the playing field for SOEs, could help. The leadership has expressed determination to make regulation more transparent and predictable. Such efforts can in principle achieve enduring success, but they are limited and have barely begun. The outcome is uncertain.

CHALLENGING MYTHS ABOUT CHINA’S ONE-CHILD POLICY
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Wednesday, March 25, 2015

China’s total fertility rate (TFR) has been well under the replacement rate of 2.1 births per mother since the 1990s. Currently it is about 1.4-1.5, in stark contrast to about six in 1970. Often people attribute most of this reduction to China’s mandatory one-child policy launched in 1980. Many believe that China’s population kept growing fast prior to 1980 because Chairman Mao viewed population as a strength, thus making it impossible to impose strict limits on fertility until after his death in 1976. Advocates of the one-child policy claim that it prevented at least 400 million births, and that China and the world benefited as a result. Professor Martin K. Whyte, professor
of international studies and sociology at Harvard, called these generalizations misleading or even dead wrong, and he set out to correct them.

Mao’s attitude toward birth control changed back and forth over time. A statement he made in 1949 declared that an even larger population than China had then would be capable of feeding itself through increased production. But by 1957, Mao began to believe that mankind was completely incapable of managing its population, therefore planning was needed not only for factory production but also for human reproduction. Then in 1958 during the Great Leap Forward, when sheer willpower was believed to be able to defy natural laws, Mao reverted to the proposition that a growing population was not a problem. But after 1960, in light of wide-spread famine, Mao changed his mind again and supported birth control. A government Birth Planning Commission was set up in 1964, and China developed its own birth control pill and distributed free contraceptives through national networks.

After 1970, the State Council mandated a sharp reduction of population growth rates and implemented a policy of “later, longer and fewer,” which promoted marriage at a later age, longer spacing between births, and limits of two children for urban and three for rural families. Abusive coercion was used to enforce these limits during the 1970s, when Mao was still in charge. As a consequence, birth control procedures—IUD insertions, sterilizations, and abortions—dramatically increased. China’s TFR went from six in 1970 to 2.7-2.8 by the end of the decade, constituting 70 percent of the total drop in fertility from 1970 to the present.

After the one-child policy was launched, sharp increases in coercive enforcement occurred, with the rate of abortions, IUD insertions, and sterilizations peaking in 1983. Nevertheless, for most of the 1980s, China’s fertility fluctuated but remained above replacement level. A revised marriage law in 1980 precipitated a drop of marriage ages by two full years, resulting in a temporary upswing in births. China’s birth rate only resumed its decline at the end of the 1980s, but by then rapid economic development had become the main driver, not birth limits.

If the one-child policy was not responsible for most of the reduction of fertility in China and caused so much suffering, why was this policy launched in 1980? Deng Xiaoping and the people around him were eager to find ways to accelerate economic growth on a per capita basis, leading to a demand for even stricter birth limits—the one-child policy. Song Jian, a Chinese rocket scientist influenced by Western doomsday predictions of the mid-1970s, provided a scientific-sounding rationale for tighter limits. In his computer projections, a one-child policy was needed to enable China to reach its supposedly “optimal” population of 700 million in 2080 (even though China in 1980 already had close to 1 billion people).

The one-child policy also did not prevent 400 million births. This claim is based on a straight-line projection of the birth rates from 1950 to 1970 and beyond. This projection ignores the fact that most of China’s fertility reduction occurred before the one-child policy was launched, and that China’s dramatic post-1978 economic development would have rapidly reduced birth rates without the policy.
All of China’s East Asian neighbors attained their present, sub-replacement fertility levels through voluntary family planning programs and rapid economic growth, without the coercive abuses inflicted on the Chinese people.

Low fertility is now increasingly problematic for China. The “demographic dividend” that China enjoyed in the past–a reduced birth rate but an increasing labor force–has run out. China’s population is forecast to start shrinking before 2030. China is already confronting a rapidly aging population. With no state healthcare and retirement system yet established, the primary burden of supporting the elderly still resides with families, many of which have only one child. Furthermore, due to prenatal abortion of female fetuses, China has a distorted sex ratio, with male births almost 20 percent greater than female births in recent years. This distortion worsens many social problems, such as males who cannot marry and abductions of women. In addition, with a declining number of youths entering the labor market producing wage increases, China is losing its comparative advantage as a low-cost manufacturer. Given “demographic momentum,” even a complete abandonment of the one-child policy would not turn these situations around anytime soon.

In sum, China’s sharp reduction in fertility, conventionally seen as yielding multiple benefits, is now recognized as creating serious problems for the future. According to Whyte, China’s misguided and coercive one-child policy was both unnecessary and immensely harmful to the Chinese people.

ONE WORLD, ONE DREAM? CHINA AND INTERNATIONAL ORDER
Professor Wang Jisi
Global Scholar, Princeton University; former Dean of the School of International Studies, Peking University; former Director, Institute of American Studies, Chinese Academy of Social Sciences
Wednesday, April 1, 2015

With China’s salient rise onto the world stage in recent years, many people are concerned whether China will overturn or integrate into the existing international order. According to Professor Wang Jisi of the School of International Studies at Peking University and a Global Scholar at Princeton University, overturning this order is neither desirable nor practical for China since China has been a great beneficiary of this world order for the past three decades. Wang does not anticipate any dramatic change in the global power structure and balance in the next decade or so. He called on China and the U.S. to accommodate and cooperate with each other to improve the world system.

Wang first delineated the international order today, analyzed how China and the U.S. view the world differently, then articulated China’s desires for how to improve this order. Wang argued that despite the immense political challenges inside both countries, a tacit understanding between them is achievable, by which the U.S. respects China’s internal order maintained by the communist party, while China respects the existing international order maintained and advocated by the U.S.
Wang would not characterize today’s world as unipolar, bipolar or multi-polar, but preferred a more descriptive account of a few categories of countries. The U.S. is in its own category. In spite of its declining share of the world GDP, the U.S. still has a decisive edge over all other countries through its military, economic and cultural influences. But the 2008 financial crisis and two protracted wars in Iraq and Afghanistan have turned the U.S. inward-looking. China and the European Union (EU) are in the second category. China’s foreign policy has become more proactive, and China is a regional power in Asia, growing faster than any other major country. The EU has the largest single market in the world and the largest GDP if all 28 member states are counted together. Japan, Russia and India are in the third category. Several more countries are in the fourth category. Wang labels this division by the number of countries in each category “one, two, three and multiple.” To Wang, the world has become more fragmented. The slogan of the 2008 Olympic Games in Beijing—“One World, One Dream”—is more of an aspiration than reality.

How does China view this world? China divides it into developing countries and developed countries, and identifies itself as a developing country. Whereas China views India as the second largest developing country, next only to China, the U.S. views India as the largest democracy in the world. In cases of discord with India, China typically blames the U.S. for driving a wedge between these two developing countries. China tends to think along this line when it has tension with other countries.

China feels that its history of benevolent and harmonious relations with the rest of the world, as epitomized by the ancient Silk Road, is seriously underappreciated by the West, whose own history with foreign countries is tainted with confrontation, violence and colonization. Now China wants to build upon the legacy of the Silk Road, under the label of “One Belt and One Road” (Silk Road Economic Belt and the Maritime Silk Road), to reach out to Europe, South Asia and Africa, linking dozens of countries along the way economically and technologically. This initiative will have a far-reaching strategic significance for China and the world.

China feels that it does not have enough say in the existing international organizations, particularly in the World Bank and the IMF, commensurate with its status. China considers the U.S. as the principal barrier to more structural reforms of these institutions. With its vast foreign reserves, China is creating its own international institutions, like the Asia Infrastructure Investment Bank (AIIB) and the BRICS bank (consisting of Brazil, Russia, India, China and South Africa). China expects these institutions to amplify China’s voice on international economic issues and facilitate the internationalization of the RMB, shaking the dollar’s domination of the world.

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In the political arena, China resists any foreign interference in its domestic affairs and any democracy promotion. The Chinese point out that most failed states are those that introduced Western-style democracies and heeded Western admonitions. China accuses the foreign policies of Western countries for being “ideologically biased.” China sees the U.S. security alliances with Japan and other countries in Asia as part of a grand strategy to prevent China from becoming more powerful.

Despite these complaints, China’s official attitude on the international order has changed since 2011. Instead of seeking “a new international order,” China tries to make the existing order more “just and rational.” China promotes democracy and rule of law in global governance, since these principles are important in safeguarding the rights and interests of developing countries, of which China identifies itself as a member. In this context, China frames the role of the AIID as an improvement of the existing international order.

There are legitimate reasons to doubt this benign picture. Nationalism can assert itself inside China, manifest in its foreign relations and embolden Chinese military. Similarly, an economic stagnation coupled with environmental degradation can turn Chinese grievances against the West. Wang admitted that the tension between China’s desire of maintaining authoritarianism domestically and seeking a liberal democratic order abroad can become acute in the future.

Wang anticipated some competition between the Chinese and U.S. versions of international order in a wide range of areas. But the most urgent problem for the world, according to Wang, is not to choose which or whose international order to follow but to avoid disorder, currently prevailing in many parts of the world. To this end, a stronger China, a stronger U.S., a stronger Russia and many other countries are much better than weaker countries.

Looking to the future, Wang called for mutual accommodation of both countries and strengthening cooperation on global governance issues. China should act as a bridge between the developing and the developed world, whereas the U.S. should view the world beyond a simple dichotomy of democracies versus non-democracies, since the world is so complex. Both countries should focus on the larger picture of the world’s challenges rather than their own narrow interests, and work together to enhance the international order.

WHERE DOES THE MARKETIZATION OF CHINA’S HEALTHCARE LEAD TO?

Professor William C. Hsiao

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Wednesday, April 8, 2015

In 2013, China changed its health policy and turned to the unfettered market forces to drive its health sector. Where would this lead to? William C. Hsiao, Research Professor of Economics at the Harvard T.H. Chan School of Public Health, analyzed this change with a historical perspective of China’s healthcare reforms that

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swung from central planning to free market during the last three decades. He foretold the problems down the road of marketization.

Hsiao began with the economic theory that markets are the most efficient mechanisms to allocate resources and distribute goods and services. But is this theory applicable to the health sector? First, healthcare has intrinsic value, being essential to maintain life and relieve suffering; societies aim to assure every citizen has access to the essential services, regardless of his or her ability to pay. Second, the assumptions underlying the economic theory are largely violated in healthcare. Most patients only know the symptoms of their illnesses, but not the specific disease or appropriate treatment. Patients seek physician services for their expert knowledge and skills. This asymmetry of information between physicians and patients leaves physicians in powerful positions to exploit patients in a free market. Third, medicine is a highly uncertain science; quality of healthcare is difficult to judge. The same drug can have very different effects on different patients with the same disease because they have different genomics and metabolism. Thus, patients can hardly assess the trade-off between price and quality. These serious market failures forced countries to rely on government actions and public health services.

China’s healthcare system went through various degrees of reliance on the market. Before 1978, in a planned economy, the Chinese government and local communes had financed and provided the primary care to most people. This actually produced quite good results, including a dramatic reduction in infant mortality, which was the envy of all the developing nations as China was poor at that time. After 1978, China embarked on massive economic reforms, under which the communes were dissolved and tax revenues drastically reduced. Governments reduced their financial support for public hospitals and clinics and shifted public health services to rely on the market to survive and thrive.

From the early 1980s to 2009, public hospitals increasingly relied on charges to patients for drugs, imaging tests, and surgery to generate profits and distributed them to their staff as bonuses. Often unnecessary tests, drugs and surgeries were ordered. Today, physicians of tertiary hospitals triple their compensation with bonuses. These large profits from bonuses were derived partly from illegitimate kickbacks from pharmaceutical and medical supply companies.

Patients gradually realized that doctors did not necessarily do their best for them. They began to bribe doctors with red envelopes to create informal obligations for the doctors to do the right thing. However, when patients did not get well after giving bribes, the doctors were often physically attacked by either the patients’ family members or their hired thugs. Meanwhile, almost 90 percent of Chinese were without health insurance. Every year, healthcare expenses drove about three to four percent of people below the poverty line. Moreover, with healthcare largely driven by profit motives, primary care and prevention were neglected.

The Chinese government recognized these problems by the late 1990s. From 2005 to 2008, the government internally debated about how to deal
with them. After much consultation with experts from universities and think tanks, the government began a major healthcare reform in 2009. It decided to finance a universal health insurance with tax revenues, funded training for primary care doctors, nurses and village doctors down to the village level, and regulated the prices and the distribution of 330 basic essential drugs through competitive bidding at the provincial level. As a result, now about 95 percent of Chinese have basic health insurance coverage, and primary and preventive care has improved.

The new 2013 policy changed the direction of China’s healthcare again. Having prioritized economic growth as the number one objective, the government has identified the health sector as growth areas for promoting domestic consumption and creating jobs. The market strategy is to encourage private domestic and foreign investors to invest in the health sector with favorable tax treatment and land uses. Promotion of consumption of health goods and services are widespread. From those abundant and dazzling advertisements in China on all kinds of omnipotent healthcare products and services, including claims of “cures for cancer,” one gathers that the Chinese healthcare industry must have found the magic cure or prevention for most diseases. The government aims to increase Chinese health expenditure by 15 percent per year from 2013 to 2020, about twice the annual GDP growth rate; the share of the healthcare sector in Chinese GDP would increase from 5.3 percent in 2013 to eight percent in 2020.

Looking forward, Hsiao thought that the Chinese government will get what it wishes for its marketization strategy: more domestic consumption, more jobs in the health sector, and more profits for private investors. But he is concerned about creating a two-tier healthcare system in China, with overwhelming resources devoted to the top 15-20 percent of affluent people who are able to pay, and insufficient resources for the other 80 percent. By allowing industrial policy to drive healthcare policy, China will soon face challenges of social unfairness and greater inequity. Finally, Hsiao believed China will eventually have to craft policies to curb the profit-taking of the private businesses in the health sector when the government acknowledges the serious market failures in this sector.

REASSESSING TIBET THROUGH THE GOVERNANCE PARADIGM: FROM A RISK MANAGEMENT STRATEGY TO A STRUCTURING PROCESS FOR DIALOGUE

Dr. Tashi Rabgey
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Since the breakdown of talks between representatives of the Dalai Lama and Beijing, the strategy of dialogue on the question of Tibet has widely been regarded as a failure. But should the abrupt halt to formal Sino-Tibetan political contacts be taken as a signal of the end of the strategy of dialogue as such? In
her presentation at the *Critical Issues* seminar introducing the Tibet governance initiative, Dr. Tashi Rabgey, Research Professor of International Affairs at George Washington University’s Elliott School, observed that this assessment of the past decades of dialogue is based on a misrecognition of the nature and dynamics of the Sino-Tibetan political engagement.

Drawing on her analysis in an early policy monograph she coauthored, *Sino-Tibetan Dialogue in the Post-Mao Era: Lessons and Prospects*, Rabgey contended that both sides miscalculated and brought expectations to the table that did not correspond to actual political conditions. As such, the direct political engagement of recent decades should be seen not so much as a dialogue process toward a negotiated settlement – as it is commonly regarded – but rather as a *de facto* process of examining risks and reducing uncertainties through institutional learning of mutual political stakes. This process, which Rabgey noted international relations theory would call the “prenegotiation” phase, is one that tends to be most effective outside the formal stage of political theater.

Building on this insight, Rabgey has led the development of an academic dialogue process on Tibet with policy researchers affiliated with the Chinese State Council in Beijing. Now in its seventh year, the Tibet Governance and Practice (TGAP) initiative has become an annual set of meetings on the challenges of governance in Tibet convened by a partnership of international organizations and officially hosted in the People’s Republic of China (PRC) by a research unit of the State Council’s Development Research Center (DRC). The TGAP process has included not only global scholars from leading research institutions from the U.S., Canada and Europe, but also respected Tibetan civic leaders from Tibet whose voices are marginalized inside the PRC.

Central to the TGAP process has been Rabgey’s argument that sustainable engagement and dialogue on China’s Tibet policy requires a reframing of the dispute itself. During the initial exploratory meeting in Oslo in 2008, Rabgey pointed out a fundamental tension in the two dominant modes of conceptualizing the nature of the Tibet issue – the global discourse of “human rights” and the Chinese state discourse of “economic development.” Drawing on the example of language policy in Tibetan rural education, she argued that both the rights-based and developmental discourses missed key dimensions of the lived experience of the majority of Tibetans in Tibet.

As an alternative, Rabgey proposed the paradigm of “governance” as an analytical framework that would make these dimensions of Tibetan collective experience more visible while placing the core problem of *decision-making* at the center of deliberations. Through the governance framework, attention would shift away from both the problem of individual entitlements of the rights-based discourse, as well as the predetermined notions of modernity of the developmental discourse, and focus instead on structures of governance in specific problematic policy areas—such as language use, environmental protection or nomadic resettlement—as a means by which to trace circuits of power relations that shape decision-making and policy outcomes.

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Accordingly, the early years of the Tibet governance meetings explored the feasibility of this governance framework and examined substantive policy topics. These discussions addressed education policy (University of Virginia, 2009), development policy (Oslo, 2010) and social business (Ganzi Tibetan Autonomous Prefecture, 2010). A milestone was reached at the 2011 meeting in Beijing when a new consensus was established for the launch of a forum on Tibetan governance. The inaugural TGAP Forum was convened in 2012 in Québec on *Tibetan Language Policy and Practice* in cooperation with Université du Québec à Montréal and McGill University. The second TGAP Forum was convened in Shanghai in 2013 on *Conservation, Resource Management and Local Governance in Tibet* at the Harvard Shanghai Center and co-hosted by the Harvard Fairbank Center for Chinese Studies. In 2014, the TGAP process began exploratory discussions on multilevel governance as an emerging policy concept in comparative contexts.

Over these past seven years of engagement, the TGAP initiative has expanded the network of Chinese research and policy institutions willing to take a new look at the question of Tibet. These institutions have included the State Ethnic Affairs Commission, the Central Party School, Chinese Academy of Social Sciences, as well as major universities and thinktanks. With the acknowledgement that there are important areas of disagreement between stakeholders and that some topics are not yet reconcilable, the TGAP process has created an inclusive academic space in which contending points of view can be constructively raised and productively deliberated.

At a time when the entire region has been rocked by waves of self-immolations, the Tibet governance initiative has managed to quietly forge a new platform for Tibetan voices to be heard inside the PRC. The process has in fact sought to normalize not only critical Tibetan perspectives from inside the region, but also the possibility of Tibetan civic and scholarly engagement in policy dialogue on governance challenges with national-level institutions in Beijing.

At the same time, the focused and incremental approach of the TGAP process has also enabled the quiet discussion of some of the most contentious underlying issues in the Sino-Tibetan dispute – issues such as the scope of what should be defined as “Tibet;” the political implications of the distinct and growing sense of Tibetan collective consciousness; and the fundamental question of power sharing and regional autonomy in decision-making processes in Tibet.

In essence, then, the TGAP process has become more than a risk management strategy for the stakeholders involved. By sharpening mutual understandings of the political and institutional stakes involved in specific policy areas, the initiative has also begun the task of building the foundations of an institutional mechanism for identifying collective Tibetan needs and interests in the sustainable governance of the region. As such, Rabgey concluded, the Tibet governance process has essentially begun the task of shaping a policy agenda that can help structure prospective Sino-Tibetan dialogue on Tibet’s autonomous future.
Soon after Xi Jinping in November 2012 was elected Party Secretary of China’s Communist Party (CCP), he took the other six members of the Standing Committee of the Politburo to the Department on China’s Renaissance at the National History Museum, located in the heart of Beijing. Unsurprisingly this exhibition is a selective history serving a present purpose—legitimizing the CCP’s leadership and authority. It details a century of humiliations, epitomized by foreign invasions and unequal treaties imposed on China by colonial powers, and the country’s huge achievements after the establishment of the People’s Republic of China (PRC) in 1949. It omits tragic realities such as the Great Leap Forward and the Cultural Revolution.

In a speech delivered at the museum, Xi’s message to the country was that the time had come to realize the Chinese Dream of the great revival of the Chinese nation. Two milestones—a “double anniversary”—marked the way forward. Xi was confident that China would become a moderately prosperous society in all respects by 2021, the 100th anniversary of CCP, and an affluent, strong, civilized and harmonious modern socialist country by 2049, the 100th anniversary of the PRC—all under the wise leadership of the party.

What is the political and economic foundation of this dream? What does it mean for China and the world? The Honorable Börje Ljunggren, former Swedish Ambassador to the People’s Republic of China and Vietnam, and a former Asia Center Fellow, explained China’s economic emergence and challenges, and the political fragilities underlying the powerful appearance of Xi Jinping and the party-state. Internationally, China’s rise will inevitably heighten the uncertainties of the global power balance.

Ljunggren pointed out that unlike the American dream, this Chinese Dream is not about individual freedom, but is a vision of prosperity and national might and strength. It is not least “a dream of a strong national defense,” in which China could compete and surpass other systems.

The dream of China’s renaissance is not new. The DNA of all Chinese leaders since the First Opium War (1839-42) has had the imprint of the same ambition to wash away the humiliations inflicted by foreign powers. The difference is that China’s dramatic economic development since Deng Xiaoping’s launch in the late 1970s of “reform and opening” has created a new foundation for the dream. China is the second-largest economy in the world if valued at the market exchange rate; the largest economy if valued in Purchasing Power Parity (PPP) terms. It is the largest trading nation of goods, with close to a third of global foreign exchange reserves. The Chinese footprint around the world is becoming increasingly large. In 2014, China’s foreign direct investment (FDI) abroad was as large as FDI going into China and, for the first time, China invested more in the U.S. than the U.S. in China.

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It is ironic that while China is the biggest beneficiary of the world’s liberal economic system in recent decades, nationalism is becoming an increasingly salient feature of contemporary China. After the 2008 global financial crisis, China is determined to go its own way, not following in anyone’s footsteps or prescriptions. Younger generations of Chinese are still taught “never to forget national humiliation.” A complex Chinese “persona” emerges.

Ljunggren argued that China’s economic development model is unsustainable. The Chinese economy has been largely driven by investment, and since the global financial crisis was aggravated by serious credit expansion, the results are huge debts and overcapacity. Economic growth in 2014 was the lowest in 25 years. China also has to confront exceptional environmental challenges, especially air, water and soil pollution. China’s ambition now is to maintain a “new normal” of a growth rate around seven percent. Ljunggren anticipated that the CCP will not let the economy stagnate since economic growth is instrumental for the CCP to remain in power. Further economic reforms and necessary pragmatism can ultimately be expected.

Ljunggren did not expect corresponding pragmatism in the political sphere. Despite many millions of internet users, entrepreneurs and graduates of higher education entering the labor market every year, China is still a party-state with 87 million party members and four million basic party units. Xi intends to consolidate the party-state and further develop the prevailing system. The common assumption that economic and political reforms must go hand in hand is rejected. Legal reforms are stressed, but they must be within the boundaries of the party-state system, making the rule of law impossible. Although China’s human rights record shows some signs of progress, on the whole China under Xi has become less open with tighter censorship of the Internet and more control over civil organizations. The party is determined to set the agenda.

In terms of the ongoing global power shift from established powers to emerging economies, Ljunggren described the current situation as very fluid with no balance in sight. Many Asian countries are trying to hedge their positions. They welcome the presence of the U.S. in the Pacific region on the one hand, but try to benefit economically from China’s growth on the other hand.

Many Asian countries are trying to hedge their positions. They welcome the presence of the U.S. in the Pacific region on the one hand, but try to benefit economically from China’s growth on the other hand. China’s call for a new major power relationship with the U.S. is an attempt to maintain peaceful relations, while putting aside disagreements. However, Ljunggren believed that strategic distrust is bound to characterize this bilateral relationship.

While domestic modernization remains an overarching goal, China is becoming more offensive in its foreign relations. Striking examples are the establishment of the Asia Infrastructure Investment Bank (AIIB), the BRICS
bank, and the Silk Road Fund, all backed by its massive foreign reserves, creating alternative sources of funds for countries in the region and beyond. Ljunggren thinks that the West ought to have done more to accommodate China within established institutions like the IMF and the World Bank, but given China’s rise, it should come as no surprise that it wanted to pursue institutional ownership.

Noting the juxtaposition of a strong overseas projection and latent domestic fragility and insecurity, Ljunggren saw China—an authoritarian state immersed in nationalism but with increasing capabilities and ambitions—as “the drama of our time” and anticipated greater uncertainties lying ahead. He concluded that Xi’s Chinese Dream is suffering from a lack of oxygen. True renewal in the 21st century cannot happen within the cage of the party-state. Today’s China is a place of many dreams, and the Chinese civil society, while fragile, will survive the party-state.
Swaine argued that many Americans incorrectly believe that, as a rising power and with a history of supposed regional dominance, China inevitably desires to eject and replace the U.S. as the preeminent regional power. Swaine refuted this faulty reading of Chinese history and current evidence. In his view, China’s goal of a secure periphery and greater respect as a major power is much less ambitious than many Washington pundits presume, and is palatable for Washington to swallow since it does not necessarily threaten the vital interests of the U.S. and its allies. Chinese leaders today want to reduce their vulnerability and increase their economic and political leverage in their own backyard.

Swaine argued that the U.S. should meet this reasonable desire of China with more understanding than resorting to a defensive aggressive posture, which will only lead to disaster. He anticipated that China will not accept U.S. dominance as long as China continues to grow rapidly and increase its military capabilities, a likely prospect (Swaine believes that the PRC regime is unlikely to collapse, as some predict). Thus Swaine proposed to move away from a growing contest over U.S. predominance and to achieve a genuine balance of power in the Pacific. He asserted that this new approach must rest on mutual military and political restraint and accommodation—i.e., the U.S. should limit its aims in the Pacific region while China should not attempt to replace the U.S. or to seek global dominance.

According to the latest Carnegie Endowment study (of which Swaine is a co-author), the U.S. will remain the strongest military power on a global level for many years to come. And U.S. military power in Asia is so strong that even increased Chinese regional military capabilities will not offer Beijing unambiguous superiority. Chinese leaders understand this and are not likely to seek predominance if they feel that they can achieve a decent amount of security in less confrontational ways. Swaine argued for leaving China room to feel more secure, which will in turn alleviate pressure on Washington as it confronts severe limitations on its defense spending.

To establish a genuine balance of power implies that the vital interests of both the U.S. and China are protected, that neither side has clear military domination over at least the first island chain, and that both sides play more equal leadership roles in many hot issues of the west Pacific region. Operationally, it means that the U.S. would leave a stable, neutralized buffer zone for China and not dominate the 500 nautical miles of the Chinese maritime periphery. To achieve this, the U.S. must first consult and reassure its allies, particularly Japan and South Korea, and then reach out to high-level Chinese officials for tacit understanding and military restraint. This framework will enable the U.S. to envision very different prospects for the four hot spots in Asia: the Korean Peninsula, the cross strait relations between Taiwan and mainland China, the...
and the South and East China Sea disputes. More amicable prospects for these places will reduce the probability of the U.S. being dragged into wars for reasons not essential to U.S. national interests.

Swaine acknowledged the obstacles to this new approach. Many U.S. policymakers wouldn’t contemplate any alternative to U.S. predominance in the Pacific because the results of any alternative would be too uncertain. They would rather remain on the current path than take on new risks. Swaine recognized that it will need courageous and far-sighted leadership to change the current course. He did not expect this to happen in a short or intermediate term, but believed that this change of course has to happen in order to avoid serious clashes down the road.