CRITICAL ISSUES CONFRONTING CHINA

PUBLIC LECTURE SERIES

2017-18

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Critical Issues Confronting China is a public weekly seminar series, organized by Professor Ezra F. Vogel, Professor William Hsiao, and Dr. William Overholt, which was inaugurated in September 2013. Made possible with support from the Lee and Juliet Folger Fund, the series is sponsored by the Fairbank Center for Chinese Studies.

The purpose of the series is to consider the complex issues China is presently facing and to look at the range of choices Chinese leaders might consider when responding to the challenges and opportunities they confront. The topics and perspectives have been diverse and wide-ranging, including domestic issues such as urbanization, economic slowdown, management of dissent, environmental damage, and relations with various parts of the world. The series is organized to promote informal exchanges among senior specialists and questions from and discussion with an engaged and committed audience.

The summaries presented here are from the fifth year of the seminar series, beginning in September 2017 and ending in April 2018. They were authored by Jin Chen, an Associate in Research at the Fairbank Center. Nick Drake of the Fairbank Center and Holly Angell of the Asia Center provided editorial support. The public events were supported by Holly Angell, Nick Drake, James Evans, Mark Grady, and Tenzin Ngodup. This booklet was designed by James Evans.
AIM: TO CONSIDER THE COMPLEX ISSUES CHINA IS PRESENTLY FACING AND TO LOOK AT THE RANGE OF CHOICES CHINESE LEADERS MIGHT CONSIDER WHEN RESPONDING TO THESE CHALLENGES AND OPPORTUNITIES.
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THE U.S. AND CHINA - HOW SHOULD WE ASSESS THE POLICY OF "ENGAGEMENT?"

Dr. Orville Schell
Arthur Ross Director of the Center on U.S.-China Relations, Asia Society
September 13, 2017

Ever since President Richard Nixon’s groundbreaking visit to China in 1972, the U.S. has adopted a policy of engagement toward China. Now, both China and the U.S. are at an inflection point where, according to Dr. Orville Schell, Arthur Ross Director of the Center on U.S.-China Relations at the Asia Society in New York City, we should re-examine the assumptions of a U.S. foreign policy that has perceived “engagement” as leading to convergence rather than divergence. Schell has approached this task from both his personal perspective and the point of view of the U.S. as a country. His concern comes from the growing difference he now sees in the perceptions of “engagement” in the two countries.

“Engagement” is a very Western concept. Schell traces the U.S.’s interactions with China back to the 19th century. At that time, American missionaries, under the influence of Enlightenment thinking, believed that science and reason would light up China like the kerosene lamp distributed by Standard Oil, and lift China – then deemed “a sick man in Asia” – from backwardness to civilization and material advancement. These missionaries’ writings about China, Schell says, became part and parcel of American perceptions of an evangelical challenge. Nixon and his top aide, Henry Kissinger, hardly idealists themselves, ushered in a new chapter in America’s effort to “change China” by re-opening U.S.-China relations.

But how is such American engagement perceived in China? asks Schell. The Chinese have no equivalent translation of this policy of engagement. Indeed, Schell notes that the Communist Party (CCP) often thinks of engagement negatively as a form of “peaceful evolution” (和平演变), which has a potentially subversive nature. And this understanding is not completely misplaced, he says. John Foster Dulles, Secretary of the State under President Eisenhower in the 1950s, did indeed advocate using American influence through peaceful means as a way to undermine communist regimes and hasten the day when countries like China would become more law-based, tolerant, and democratic.

After Deng Xiaoping took the helm of the CCP in 1978, Schell says, China did experience a period of intellectual and political openness, as well as a liberalization of its markets. However, this liberalization turned out to be relatively short-lived. American hopes that China was “heading in the right direction” were shattered by the Chinese government’s crackdown against democracy movement protesters on June 4, 1989. After the Berlin Wall fell, American political scientist Francis Fukuyama published his celebrated and controversial book, The End of History and the Last Man. Even President Clinton suggested that authoritarian regimes like China were “on the wrong side of history.”

In retrospect, Schell suggests that we ask, “Whose history is it?” In his view, what has been happening in China over the past three decades illustrates the somewhat naive Western presumption that its current model represents the ultimate destination of history and that this will lead ineluctably to an eventual convergence between even countries of such different values and political systems as the U.S. and China. In the near future, as China under Party General Secretary Xi Jinping acquires new economic and military prowess, Schell does not see much basis for optimism about the prospect of real political convergence between Washington and Beijing.

Schell also reflects on American engagement toward China on a personal level. His own engagement with China began when he was an undergraduate student at Harvard University in the late 1950s, when he fell into the group of Asia hands, including John Fairbank, Edwin Reischauer, Albert Craig and Benjamin Schwartz, many of whom advocated closer contact with China. Since the U.S. did not have diplomatic relations with mainland China in the 1960s, Schell studied Chinese in Taiwan, while remaining curious about what it was like in the mainland just across the Taiwan Strait. He finally visited the mainland in 1975. Having observed Chinese villages and factories in the 1970s, he could not be more astonished by China’s economic transformation in recent decades.

Schell is now grappling with some fundamental questions. If we acknowledge that China’s values and governmental system are not only diametrically opposed to our own, but also unlikely to change in the foreseeable future, does a policy of “engagement” still make sense? If not, what should our ultimate goal in dealing with China be and how should the U.S. government deport itself to China? He
suggests that the U.S. needs a far more flinty-eyed calculation of its national interest. Only then will it be able to know where it makes sense to resist and where to embrace China.

He also suggests that just as nation states must decide the right mix between pushback and embrace in their foreign policies, so must individuals. Whether we are scholars, businesspersons, journalists, or members of civil society, given the changing political landscape of China, each of us must form a new calculus of how and when to engage or remain aloof. Should we risk being misunderstood by telling China honestly what we really think, which often comes across as unfriendly criticism? Or should we set aside our values and engage China anyway? Schell calls for a fresh look at these questions, none of which has easy answers.

THIS IS SINO-TAP: MY LIFE AS A CHINESE ROCK STAR

Kaiser Kuo
Sinica Podcast/ChinaFile; former member of Tang Dynasty
September 20, 2017

Kaiser Kuo is a musician at heart who happens to have been enamored with China. Although he now works at Sinica Podcast/ChinaFile, he spent considerable periods of his life in forming and performing with the band Tang Dynasty (1989-1999), and then another band Spring and Autumn (2001-2016). He gives a riveting account of his youth and his music career, and reflects with the benefit of hindsight about the trajectory and significance of rock music in China.

Kuo is an American-born Chinese (ABC), and says he exhibits some features of the stereotypical ABC. As a young child, he was forced by his parents to take piano and violin lessons, plus Chinese lessons on weekends—so were his two brothers. According to Kuo, what sets him apart from his brothers is that both music and Chinese stuck with him and became important parts of his life. He later picked up cello and guitar and joined a band during high school. Even though his band was ridiculed by his peers, he kept up with it. Kuo went to the University of California at Berkeley for college and thanks to Berkeley’s roommate matching system, he roomed with another student who liked the exact three bands as he did. Together, they began to experiment with progressive rock music, a genre that employs odd time signatures and non-traditional structures in an effort to elevate rock to the level of high art.

According to Kuo, sibling rivalry motivated him to distinguish himself from his two brothers, who were conspicuous academic geniuses. He won his parents’ attention and avoided the “middle child syndrome” by embracing China during their first family visit to China in 1981, when he was 15. Both of his brothers complained about everything from food to hard mattresses, while he ate everything put in front of him and thrived in relatively poor conditions; he became a sinophile.

His infatuation with China was also facilitated by his father’s connections. His grandfather was a highly revered intellectual in the KMT party and close to Chiang Kai-shek. His father, being rebellious to his grandfather, rejected the KMT and left Taiwan for the U.S. in 1956. After President Nixon established rapprochement with Beijing in 1972, his father became one of the first Chinese-Americans—then deemed by Beijing as “patriotic compatriots”—to visit Beijing in 1975. His father brought home many Chinese paraphernalia from that trip, including a little red book of Chairman Mao’s sayings.

One of his father’s friends in China working to promote international youth exchanges invited Kuo’s band from Berkeley to perform in Shanghai and Beijing. Due to divisions among his band members, his hope to perform in China was shattered. But this did not stop him from going to China. He switched his focus of study at Berkeley from Russia to China. After graduating from college, he attended Beijing Language Academy (北京语言学院) in 1988. In a music store in Beijing, where he was trying out some guitars, he was introduced to a member of Black Panther (黑豹), then one of the best-known rock bands in China. Among more than a dozen members of this band, he recognized that one in particular, Ding Wu, was incredibly talented. Ding was bewitchingly charismatic and boundlessly creative. Kuo and Ding formed a close connection.

After a brief return to the U.S. in 1988, Kuo went back to China again in early 1989 and, with Ding Wu, established a rock band named Tang Dynasty (唐朝). With this band, the two set out to popularize a style of rock-n-roll that was completely alien to China, and make it palatable to a Chinese audience. He named this band after the dynasty (唐朝, 618 C.E. – 907 C.E.) that was the most cosmopolitan in Chinese history, open to all
foreign influences and ideas without losing its own identity. He chose heavy metal music as his genre for a couple of reasons. It had a cultural touch that would draw people’s attention to its symbolism of martial vigor taken from classical Chinese literature and in contemporary novels featuring martial arts (武侠小说). It would resonate with the Tang Dynasty’s imperial splendor. It would also distinguish his music from other popular music of a soft and feeble style, which, according to Kuo, avoids any use of force or effort.

On the perennial debate of whether music performance is about exhibiting the virtuoso’s exquisite techniques or about creating a new form of art, Kuo seems to be inclined to the latter, while acknowledging the importance of techniques in that they expand the musician’s expressive capabilities. On the question of whether rock-n-roll could foreshadow any political change in China in terms of loosening its authoritarian regime, Kuo expressed pessimism. “Rock music in China was saddled by political expectations and peaked in the mid-1990s... It came to China and passed, never really taking hold as it did in the U.S. or the UK.”

Kuo left the band Tang Dynasty in 1999 against a backdrop of America’s bombing of the Chinese Embassy in Belgrade. International politics, combined with disagreements among team members over business directions, hastened the band’s demise. While Kuo blames himself for some positions that he took as a young man in his late 20s and early 30s, he ultimately attributes rock music’s failure in China to the country’s taste: he says that the Chinese prefer music that entertains their senses rather than challenging their conventions or expectations.
large numbers. Their target was the state; their charges often threatened the whole system. Since the crackdown of the June 4th pro-democracy movement in 1989, the Chinese government, confronting the loss of legitimacy and international reputation, resorted to so-called “responsive authoritarianism,” by which the government acted proactively before any grievance could engulf the whole country. In employing this approach, the government often used psychological insights or collegial relations to settle smoldering disputes, while tolerating some other protests as “reasonable.” The targets of such protests or complaints were usually narrow, focusing on a specific lower-level government office, a specific firm, or a particular event with unambiguously bad actors. Their claims usually did not threaten the system as a whole.

Currently Gallagher, in collaboration with a Michigan Ph.D. student, Blake Miller, tries to find out how this model of “responsive authoritarianism” stands in the new world of social media. According to their study, China’s online censorship is delegated to social media companies, which then exercise considerable discretion in following government directives. These media companies try to balance the need to generate and maintain viewers’ interests for commercial reasons and their obligation to comply with the directives from state security authorities. Ultimately, Gallagher and Miller find, they often cooperate with state security organs by “reporting up” (上报) users and posted data.

Gallagher then asks, “Why are some social media posts ‘reported up’ while others are not?” Some leaks from Sina Weibo censorship logs spanning 2011-2014 provide important clues. These 588 logs include posted content and censorship instructions from government actors to frontline managers about how to handle trending discussions and whether to report the user to state security authorities. Examples of these logs include postings related to the citizenship of Yang Lan, a famous Chinese TV anchor woman, in March 2012, Bo Xilai’s case in April 2012, and Xu Zhiyong’s incitement of netizens in May 2012 and his subsequent trial in January 2014. In all these sensitive cases, the Chinese social media companies were required to report prominent or “big” users.

With these logs as data points, Gallagher and Miller employed regression analysis to figure out what the most important factors are for determining whether an online post is to be “reported up.” Their analysis shows that virality (large number of posts) and influence (big users with huge followings) are the greatest predictors of reporting up, regardless of the topics. Threats of collective action such as mobilizing around a certain issue are also targeted. The analysis also indicates that the government is strongly interested in using social media to monitor its local agents.

These findings are best understood through an interpretation inspired by Franz Schurmann’s 1966 work Ideology and Organization in Communist China. Schurmann argues that the CCP is most sensitive to competing ideologies and ethos, influential structures, and political competition. Since social media creates a space for a “counter-hegemonic public sphere,” the government’s repression seems to focus on containing virality and influence. These findings also lend some support to the paradigm of instrumental-rationalist framework in that the CCP cares about collective action potential, so it cracks down on mobilization and organizational threats, and that the Chinese government is interested in using social media to monitor local cadres, and to gather information about social grievances. The findings do not seem to support the theory that the CCP dominates society by using psychocultural factors since the Chinese government appears quite tolerant of discussions and debates about the government, and does not repress ridicule, humor, or even criticism of the government, unless they are viral or spread by influential “thought leaders.”

**CHINA POLICY UNDER TRUMP**

Dr. Jeffrey Bader  
Senior Fellow, John L. Thornton China Center, Brookings Institution  
October 4, 2017

Is Chinese investment in the American high-tech sector a potential boost to productivity or a threat to national security? Is China’s building artificial islands in the South China a manageable regional problem or a step toward regional hegemony? Will China’s massive investment in Africa and Latin America produce important economic benefits for the regions or become a challenge to the U.S. global interests? What basic posture should the U.S. adopt toward China’s ambitious One Belt One Road Initiative and the multilateral Asia Infrastructure Investment Bank (AIIB) initiated and
sponsored by China?

“Unless we have a theory about what our long-term objectives vis-a-vis China should be, it is difficult to have a guiding principle on how to decide such difficult cases,” says Dr. Jeffrey Bader, Senior Fellow of the John L. Thornton China Center at the Brookings Institution. Bader’s own recommended approach to this challenge is to seek an equilibrium in U.S.-China relations where we can reconcile the differences between the two countries from a strategic perspective, even though we will end up having to accept compromises.

Bader argues that it is very difficult to discern the underlying basis or direction of the Trump administration’s China policy. In preparation for Trump’s November 2017 trip to China, the administration is said to be carrying out a review of China policy, but Bader is not optimistic about the prospect of a coherent policy coming out of this exercise. This is due to the absence of a clear lead emerging from the National Security Advisor or the National Economic Council. To date, no major speech on China has been given by either Trump or his Secretary of State, “so we’re left with guesswork.”

Bader reviews the evolution of Trump’s views on China since his presidential campaign in 2016, then comments on the top two urgent issues absorbing the attention of the Trump administration: North Korea and trade and investment issues. During his presidential campaign, Trump showed contempt for China. He condemned China for “manipulating currency” and “stealing” American jobs. He threatened to slam tariffs on Chinese exports into the U.S. and to abandon America’s long-standing One-China policy. However, Bader says, due to China’s strong protest and accompanying advice from Trump’s staff, neither of these threats have been realized.

According to Bader, the most important trade measure thus far proposed by the administration was U.S. Trade Representative Robert Lighthizer’s announcement of the intention to use domestic U.S. trade law, Section 301, to sanction Chinese forced technology transfer outside the World Trade Organization (WTO). Bader believes there are serious imbalances in U.S.-China trade and investment relations that need addressing, preferably through a renegotiation of the WTO framework for its 2001 accession that would treat China as a “developed country” across the board befitting its economic strength. Unilateral U.S. trade sanctions, on the other hand, will invite China and other countries to ignore WTO strictures and resort to their own unilateral measures without compunction.

At the moment, Bader notes, the Trump administration hesitates to punish China economically because it needs China’s cooperation to impose a global embargo on North Korea; China alone accounts for about 90 percent of North Korea’s total external trade. Additionally, Bader thinks it unrealistic for the Trump administration push for a trade surplus with every country. Trump has withdrawn the U.S. from the TPP; the linkage of trade disputes with North Korea may induce marginally increased Chinese cooperation on North Korea, but it gives short shrift to pressing trade matters. The absence of an overall framework for issues on which we can cooperate, such as climate change, people-to-people exchanges, and other social issues, makes the relationship more transactional and less resilient, Bader says. In this environment, U.S.-China relations are likely to remain contentious, especially if China keeps its mercantilist mentality while the U.S. is engulfed by populism represented by Trump himself.

In the latest round of UN sanctions—the strongest to date—China has agreed for the first time to limit oil exports to North Korea and to refuse to open new bank accounts for North Korean nationals. Bader says that North Korea’s hydrogen bomb test on September 3, coinciding with the opening day of President Xi Jinping’s hosting of the BRICS (Brazil, Russia, India, China, and South Africa) conference in Xiamen, greatly annoyed China’s leadership and contributed to this positive diplomatic development for the U.S. He criticizes Trump for undermining the U.S. alliance with South Korea by threatening to withdraw from the U.S.-South Korea free trade agreement, just when the U.S. needs cooperation the most from its Pacific allies to deal with North Korea’s renewed belligerence. In his view, Trump’s blustering exchange with North Korean President Kim Jong-un makes the already tense situation incendiary.

Although Trump established a positive relationship with President Xi at Mar-a-Lago in April and tends to personalize policies, he has no overarching view or strategy about Asia. Obama’s “pivot to Asia” policy is over, according to the administration. The xenophobia and protectionism embodied in Trump’s “America First” slogan is ill-received by Asians who value internationalism, global trade, and investment flows. Trump’s key staff, such as Secretary of State Rex Tillerson, Secretary of Defense James Mattis, National Security Advisor H. R. McMaster, and Chairman of National Economic Council Gary Cohn, all have traditional views about the U.S. role in the world and responsibility for leadership. These advisors have tried to moderate Trump’s views, with a resulted start-and-stop quality to policy. Bader realizes that this is a low bar for our expectations, but says that this is perhaps better than we might have expected from Trump’s campaign.
Despite its slow pace, China is moving toward a modern governance system, according to Professor Christine Wong, Director of the Center for Contemporary Chinese Studies at Australia’s University of Melbourne. Critics point to the behind-schedule public finance reforms and the continued blurred boundary between the state and the market that resulted from the lack of progress in state-owned enterprise (SOE) reforms since 2014 as evidence for the failure of Chinese reforms in recent years. But Wong considers many measures coming out of the 3rd Plenum of the 18th Party Congress in 2013 as positive forces moving China in the right direction. It is because of these efforts that China’s once pronounced problems of excessive local government debt and over reliance on investment in infrastructure and heavy industries, largely through land finance by local governments, have been moderated, and that voices predicting the Chinese economy’s collapse have somewhat diminished.

Among the “60 Decisions” of the 3rd Plenum of the 18th Party Congress was a key sentiment: “Let the market play a decisive role and help improve government functions.” Recognizing public finance as “the foundation and important pillar of state governance,” Wong says, the Party began to push public finance system reforms. Assigning Lou Jiwei, then the head of China Investment Corporation and former Vice Minister of Finance, to the post of Minister of Finance underlined the importance the Party attached to this area. Lou and his team lost no time and came up with a comprehensive reform plan in early 2014.

This team aimed at fixing short-term problems while reforming the public finance system to prevent future crises. Their plan consisted of three phases: 1. Starting in 2014, they would rein in local governments’ borrowing capabilities and their extra budgetary resources, while improving their financial transparency and accountability; 2. Beginning in 2015, the tax system reform would include value added tax (VAT) reform and introduction of property taxes; 3. Starting in 2016, there would be a re-alignment of revenues and responsibilities for local governments.

According to Wong, several things quickly followed in mid-to-late 2014. The Politburo approved Lou’s overall fiscal reform program. The State Council passed an amended Budget Law and issued Document 43 to regulate local government debt issuance as well as Document 63 on building an accrual-based financial management system. At the same time, the Finance Ministry asked provinces to prepare reform proposals for expenditure re-alignment with appropriate responsibilities in preparation for inter-governmental reform.

The Budget Law and the associated documents authorized local governments to borrow under the supervision of the central government. They prohibited local government financial vehicles (LGFVs) from borrowing on government’s behalf, thereby de-linking them completely from the finances of local governments. A national registry of local government debt was created. The National People’s Congress monitors the total amount of debt and imposes a cap on how much provincial governments can borrow, based on their fiscal sustainability. Wong argues that this gives local governments incentives to sever their financial ties with their SOEs, opening the possibility for private money and civic organizations to enter non-strategic public services, thereby ending state monopoly in these sectors.

Another program was introduced in 2015 to swap central government bonds for local government bank debt, thereby improving the term structure of local government debt and reducing their service costs. All levels of government were required to compile and release to the public a comprehensive government financial report, including a balance sheet of assets and liabilities and a cash flow statement, all on an accrual basis, so that independent analysis of government performance and assessment of fiscal sustainability would be possible.

At the same time, Wong says, the Supervision Department of the Finance Ministry has intensified its audits on thousands of spending units down to the county level. The balance sheets of these entities must be comprehensive and include public finance budget, land revenues, state capital operations, and social insurance funds. They must include all entities that have an impact on government finance, whether these are public service units, SOEs, or LGFVs. This forces
all levels of government to scrutinize every one of these entities. The National Audit Office has expanded powers and resources to regularly audit key departments and projects, including earmarked funds controlled by top political leaders. The statistical system is getting more attention in order to strengthen its independence from political meddling.

Under the call of simplifying administrative procedures and de-regulation (简政放权), governments at all levels have been told to cut red tape and eliminate fines and fees, with mechanisms to curb abuse of power. Wong notes that legal reforms have also nudged the system toward a rule-based society and improved governance. In 2016, Document 49 was issued, which laid out the principles of the re-alignment of revenues and responsibilities for lower-level governments. Another hopeful sign of the 13th Five-Year Plan (2015–2020) is the equalization of basic public services to all Chinese citizens. The Plan identifies 12 vital services, including basic education and healthcare, with specific targets for local governments to achieve during 2015–2020.

The above are no small achievements, but, according to Wong, more needs to be done. She explains why progress has been slow. Building an accrual-based accounting system takes a long time as it involves re-classification of some public entities and strengthening accounting standards. Reining in local government debt is challenged by the fact that many local governments still need to borrow in order to service their existing debt. SOE reforms are hindered by many powerful constituents resistant to change.

China has “two centenary goals:” reaching a comfortable living standard (小康) by 2021, the 100th anniversary of the CCP, and joining the ranks of advanced countries by 2049, the centenary of the PRC. The first goal requires a doubling of income from 2010 to 2020, and an average annual growth rate of 6.5 percent during the 13th Five-Year Plan. This goal faces two potential pitfalls. One is the so-called “middle income trap,” which has stymied many developing countries at the per capita income level of about $12,000–$14,000. The other is the shadow of high leverage; a slower growth rate is likely to worsen China’s debt situation, posing financial risks to the overall banking system. This is why reforms in China’s public finance are so urgent and daunting.

Finally, Wong laments the lack of reform in the recruiting mechanism of the Finance Ministry, in contrast to that of the Chinese central bank, the People’s Bank of China, which has recruited qualified staff nationwide, including some with overseas experiences. The skeleton staff in the Finance Ministry is emblematic of a larger shortage of staff at the central government level. The number of employees in the core ministries and state agencies is only about 60,000, which is disproportionately small, compared with their responsibility of managing the second largest economy in the world with 1.4 billion people.

CHINA’S COMPLEX HEALTH CARE REFORM

Dr. Winnie Yip
Professor of Global Health Policy and Economics,
Harvard T.H. Chan School of Public Health
October 18, 2017

In the 13th Five-Year Plan (2015-2020), the Chinese government acknowledges, “The constraining effect due to the conflict deeply imbedded in the existing institutional structure has become increasingly salient; any adjustment to the prevailing distribution of (vested) interests has become more complex.” Winnie Yip, Professor of Global Health Policy and Economics at the Harvard T. H. Chan School of Public Health, explains how this general assessment applies to China’s health care reform.

For many years, Yip says, the Chinese have not only endured prohibitively expensive health care costs, which have impoverished many families especially in rural areas, but also faced inequitable access to quality care—a problem that is expressed through a popular Chinese phrase, “going to the hospital is difficult and expensive,” (看病难，看病贵). In April 2009, the government launched a health care reform to “assure affordable health care and equitable access to effective basic health care for all Chinese by 2020.” From 2009 to 2012, the government doubled its spending for health care from one percent to two percent of GDP.

A priority in this reform, according to Yip, was to expand insurance coverage to those who are not formally employed. A New Cooperative Medical Scheme was established and managed by the Ministry of Health to cover the rural population. An Urban Resident Basic Medical Insurance was
set up and managed by the Ministry of Health or the Ministry of Human Resource and Social Security to cover urban residents who are not formally employed. In these schemes, the central government specifies a “minimum” premium per-person per-year for an identical minimum package of medical services, leaving local governments the freedom to add to it, Yip says. The central government bears most of the costs and requires individuals to pay only a small proportion of the minimum premium. For the very poor, the government pays the whole premium.

Yip reports that insurance coverage in China reached over 90 percent of the population by the end of 2011, while the average hospital admission rate almost tripled to around 13 percent. About half of inpatient costs were reimbursed by insurance. However, the proportion of households with catastrophic events slightly decreased. This is because, Yip explained, the total health expenditure grew faster than the insurance reimbursement and the average GDP growth rate, even though the number of incidences of catastrophic health expenditure did not change significantly.

Then, according to Yip, the question is: Why did China’s health expenditure grow so fast? To answer this question, she examines how the Chinese health care system works in practice. China has traditionally been hospital-centric. Hospitals play a dominate role in delivering health care. The delivery system for primary care is weak. Public hospitals heavily relied on service revenue, i.e., fees from diagnostic tests and procedures, Yip says. Since diagnostic tests were charged at a profitable rate and medications had a 15 percent markup premium, public hospitals, like for-profit entities, over-ordered tests and over-prescribed medication. These, Yip notes, along with kickbacks from drug and diagnostic companies, generated bonuses for physicians.

This distorted fee structure is only part of the story, Yip says. In addition to market failures, the rapid increase in China’s health expenditure was also due to the dispersion of power among ministries and complex bureaucratic rules and boundaries. Hospital directors were appointed by the Organization Department and were not held accountable to patients. Hospitals had no power in hiring and firing physicians, or setting staff wages or compensation. They had no power in setting prices or investment decisions.

Since 2012, the government began to rein in health expenditure growth by improving governance and accountability of public hospitals, says Yip. Hospitals are given more autonomy in hiring and firing decisions. Compensations to hospital directors and physicians are linked to their performance. Fees for doctors’ labor are allowed to increase in exchange for removing drug price markups and lowering prices for diagnostic tests, thus moving away from the fee-for-service payment structure.

Yip notes that a typical Chinese approach to complex system reforms is to launch pilot programs to test the water. Seventeen pilot cities took part in health care reform experiments. Among these cities, the experience of Sanming, a rather poor city in Fujian Province in southern China, has been considered successful, according to Yip. Sanming created a Medical Security Commission to integrate financial power, such as payment, pricing and drug procurement, with the responsibilities of strategic planning and development, director appointments, performance evaluations, and regulating profits. Integrating these functions into one Commission effectively streamlined the fragmented responsibilities dispersed in various government ministries.

In order to counter balance the hospital-centric and weak primary care structure, Yip tells us that the government now promulgates a vertically integrated delivery system with shared services, responsibility and development along different levels of the health care delivery system: tertiary hospital, county-level hospital, township or community health care center, and village clinic and community health station. But, Yip points out that incentives are still yet to be completely aligned and new problems have surfaced. Each of the five levels of the delivery system is motivated to “grow” rather than coordinate with upper and lower levels. Tertiary hospitals are owned by municipal or provincial governments, whereas county hospitals are owned by county government. Health insurance coverage continues to favor hospital care. The list of essential drugs for each level of the system still needs to be agreed on by at least three ministries. On top of this convoluted bureaucratic picture, fragmented IT systems across different levels of hospitals prevent sharing of data and impedes efficiency. Yip laments that even with very rational reform plans and clear goals, there continue to be many institutional and practical obstacles with implementation.
The U.S.-led post-World War II (WWII) world order in the Asia Pacific seems intact with the Trump administration’s repeated affirmations of U.S.-Japan alliance and others. But under the surface, the longstanding status quo is breaking says Richard McGregor, author of *Asia’s Reckoning: China, Japan, and the Fate of U.S. Power in the Pacific Century* and *The Party: The Secret World of China’s Communist Rulers*, and former Washington and Beijing Bureau Chief of *The Financial Times*. Drawing from his extensive journalistic experiences in China, Japan, and the U.S., McGregor shares a riveting narrative of this triangular relationship.

At the outset of his talk, McGregor identifies Sino-Japanese relations as one of the most consequential relationships in the world. If China and Japan get along well, it would have substantial impact on the Korean Peninsula crisis, cross-Taiwan Strait relations, and Sino-India relations among other geo-political relationships. Furthermore, East Asia, along with Taiwan, Hong Kong and Singapore, is steering world trade. Any instability there would reverberate around the world and have an immediate impact on the world economy. Yet China and Japan almost reached the brink of a military confrontation as recently as 2012.

What went wrong? For centuries, both China and Japan wanted western countries to treat them as equals, but they seem to be unable to treat each other as equals, always in a struggle for dominance. In 2009, China overtook Japan as the second largest economy in the world. Historically China has a tradition of maintaining a tributary system with itself at the center to foster hierarchical, albeit amicable, relations with countries near and far. Japan asserts that it has never been part of China’s tributary system and never will be. Moreover, both China and Japan have starkly divergent views on the history of WWII and the apologies offered by Tokyo in its aftermath.

After WWII, the U.S. set a template for Asia. The successful economic explosion of Japan, South Korea, Hong Kong, Taiwan, and Singapore during the 1950s-1970s and then of China after 1980 is in no small part due to the stable and secure macro-environment created by the forward deployment of the U.S. military in the Pacific, which, according to McGregor, has not been adequately appreciated by a wider world. This secure environment enabled many Asian countries to pursue and achieve peace and prosperity, even though the Korean Peninsula conflict, the cross-Taiwan Strait conflict, and Sino-Japanese tensions were never fundamentally resolved.

Regarding the establishment of Sino-Japanese diplomatic relations in 1972, McGregor said that far from being a diplomatic triumph, the deal failed to address the real differences between them and the emotional history of the war. Rather, it was the result of the political elites of both countries seizing a narrow strategic opportunity largely for the purpose of economic advancement. There was no formal apology or financial reparation from Japan for Chinese victims of the war, or any effort to establish any memorials or research institutes to build a shared history between the two countries. McGregor argues that the elites left no room for the war wounds to heal.

Now historical issues have come back to haunt both countries. A deep sense of betrayal has resurfaced on both sides. McGregor calls for more study on the historiography of Sino-Japanese relations to shed light on these contentious issues. Japan feels that its role in China’s economic development in the 1980s through low-interest loans or grants is not acknowledged enough in and by China, and believes it has received nothing in return. Meanwhile, China pushed nationalistic education throughout 1990s. By the time President Jiang Zemin met Prime Minister Junichiro Koizumi in Japan in 1998, he raised the demand that Koizumi not visit the Yasakuni Shrine, where prominent Japanese war criminals were honored. Jiang’s tough stance backfired; Koizumi felt that he had no choice but to visit the Shrine every year in the face of Jiang’s demands.

Where does the U.S. fit in this long saga of tensions between China and Japan? For the U.S., staying in the Pacific is a choice, while China’s presence in the region is a geopolitical fact. McGregor argues that China seeks to increase the costs for continued U.S. presence, but that China understands the geo-political realities too well to want the U.S. to leave abruptly. It would rather the U.S. withdraw gradually.

To frame the current situation, McGregor does not think it appropriate to use the Thucydides trap, a concept recently promoted by Harvard Professor Graham Allison, to characterize the inherent conflict between a rising power and
an established power. The Pacific region cannot be reduced to only two countries: it is much more complex than the U.S. and China alone. Other countries, especially Japan, want a say in the region’s future.

For many years, the U.S. pushed for Japan to do more militarily for its own defense. Japan had always declined to do so, citing its pacifist constitution. But now the dynamics have shifted. According to McGregor, Japan now wants to and can do more for its military. Prime Minister Shinzo Abe just won a snap election with an overwhelming majority in the Diet. He is now in a better position to try to amend the constitution and strengthen the Japanese military, while the U.S. position seems uncertain. Before Trump became the U.S. President, he indicated an inclination for U.S. withdrawal from the Pacific. He said in an interview that Japan would defend itself very well if the U.S. steps back, since Japan has always beaten China in wars. After he became President, Trump’s senior advisors appear to have constrained him somewhat, and the U.S.-Japan alliance has been re-affirmed.

To be sure, the U.S.-Japan alliance has always been difficult. Japan maintains issue with some of the U.S. previous actions, not only for the American dropping of atomic bombs on Hiroshima and Nagasaki in 1945. Japan’s post-war constitution was essentially written by the Americans. The San Francisco Conference of 1951 was on the subject of Japan, not China. The U.S. had several bouts of trade war against Japan from the 1950s through to the 1990s. Furthermore, with regard to Japan’s territorial dispute with China over the Senkaku/Diaoyu Islands, the U.S. claims that it only transferred the administrative control, not sovereignty, of the Islands to Japan in the Okinawa Reversion Agreement of 1971. Meanwhile, the U.S. supported China’s opening and reforms in the 1980s and 1990s, and allowed China to join the WTO in 2001, which has turned out to be an extremely beneficial deal for China.

In McGregor’s view, the U.S.-led liberal international order is not the same as before. Washington used to be a hub for all the capital cities in Asia. Now every capital city in Asia is scrambling to form its own system with itself at the center and perceptions of U.S. intentions to maintain power in the Pacific will hasten this trend. A silver lining in all of these shifting dynamics is that both President Xi and Prime Minister Abe are in strong positions domestically. Neither needs to strengthen his hand by diverting domestic attention to a military confrontation with a foreign country. This, according to McGregor, is good news in an otherwise gloomy picture.

GLOBAL LEADERSHIP AND ITS DISCONTENTS IN THE UNITED STATES AND CHINA

David Rank
Former Deputy Chief of Mission, U.S. Embassy, Beijing
November 1, 2017

President Trump’s “Make America Great Again” slogan sounds, at times, like Chinese President Xi Jinping’s call for the “rejuvenation of the Chinese nation,” says David Rank, former Deputy Chief of Mission in the U.S. Embassy in Beijing. Rank resigned from the State Department in June 2017 and ended his 27-year career following Trump’s withdrawal from the Paris Agreement on Climate Change.

Rank recounts his personal experience to illustrate the changes in China over the past three decades. He recalls the decision he faced as a university student considering a career in foreign affairs in the mid-1980s. Then, Japan was seen as the dominant economic power of the future—epitomized by its purchase of Rockefeller Center and Ezra Vogel’s bestselling book, Japan as Number One. Politics were dominated by the U.S.-Soviet rivalry and with no background in either Japan or Soviet studies, Rank acted on his hunch that China was up and coming, hoping to find a specialty in which he could stand out. He obtained a scholarship to learn Chinese in Taiwan, and while there passed the Foreign Service exam in 1988. Over the course of his career, he served six assignments in greater China (including Beijing, Shanghai and Taipei). The lesson he offers from his personal experience is that, just because a country is dominant at one time—whether the Soviet Union and Japan in the 1980s or China and the United States today—there is no guarantee that it will remain that way.

Nevertheless, China’s ascent has been rapid and remarkable. Rank recounts the transformation of Shanghai from a shabby waterfront town in 1990 to the gleaming ultramodern city of today as an illustration of the Chinese system’s ability to transform seemingly farfetched plans into reality. He cautions that not all Chinese plans are as benign as urban development, citing the ongoing effort to construct a nationwide surveillance system based on facial recognition.

During his first assignment to the American embassy in Beijing in the late 1990s, China was struggling to come to grips with domestic issues, including the country’s indebted
state-owned sector, increasing environmental degradation, and the collapsing faith in the Communist Party (as well as the rising attractiveness of alternate beliefs, including Christianity and Falun Gong). These domestic difficulties were the backdrop for China’s steadily worsening relations with the United States, which were exacerbated by the accidental bombing of the Chinese embassy in Yugoslavia in May 1999, the downing of a U.S. EP-3 aircraft near China’s Hainan Island in 2001, and an acrimonious and very public debate about China’s WTO entry.

Rank returned to Beijing in the run-up to the 2008 Beijing Olympics. He noted that only weeks after the opening ceremony, Lehman Brothers collapsed. In the eyes of many Chinese, the former was a signal of their country’s return to the world stage while the latter was evidence of the failure of the western economic model.

When he returned to Beijing for his final assignment in 2016, predictions of American collapse had proven premature. The United States had weathered the financial crisis and was returning to growth. President Obama had been an active proponent of U.S. leadership—often in partnership with China—on global issues ranging from climate change to public health and the proliferation of weapons of mass destruction. Still, both countries faced serious challenges at home. Although China’s GDP had surpassed that of the United States in Purchasing Power Parity (PPP), its investment- and export-based model was showing its age. Demographically, China looked like a far richer country. Improved healthcare meant more seniors to care for, just as decades of a “one child” policy had resulted in a shrinking labor pool. Meanwhile, China’s ever-expanding middle class was looking beyond monetary concerns to demand things like clean air, good schools, and transparent governance.

Rank expresses deep concern about the state of U.S. leadership—a problem that goes beyond the current administration’s moves to withdraw from commitments reached by his predecessor, such as the Paris Agreement and the Trans-Pacific Partnership (TPP). He considers the TPP as a logical extension of previous multilateral trade agreements, critical to American leadership in Asia and, given the agreement’s provisions on issues like environmental, labor and intellectual property rights protections, an important tool to avoid a “race to the bottom” style of globalization. Unfortunately, not only did Donald Trump run against TPP, but so did the other two major candidates, Hillary Clinton and Bernie Sanders. Moreover, even President Obama, whose team negotiated the agreement, was unwilling to make a strong public case for Congressional ratification. Instead, it seemed the Obama administration’s strategy for passage was to hope for a Hillary victory and then pass it during the lame duck session.

The U.S. withdrawal from the Paris Agreement has implications beyond climate change, Rank stresses. By walking away from an agreement that united the entire globe, the United States has ceded global leadership to China without having extracted anything in return. Similarly on trade issues, China’s Xi Jinping is delighted to assume the mantle of global leadership without having made any changes to what is the most protected large economy on the planet. Indeed, he points out, China’s much-ballyhooed “Made in China 2025” plan, with its explicit calls for domestic quotas and preferences for indigenous development, is a patently mercantilist document.

As a result, Rank concludes, we face the prospect of a world without real leadership. The United States—at least for the moment—has lost its will to lead the post-WWII world order that has served the world well for seven decades. For its part, Rank believes that China does not have the instincts to accept the costs that leadership requires. The result is a world with great powers, but without leaders—a situation that has led to unhappy situations in the past.
THE RISE OF XI JINPING

Professor Roderick MacFarquhar
Leroy B. Williams Research Professor of History and Political Science, Harvard University, Emeritus, former Director of the Fairbank Center for Chinese Studies
November 14, 2017

In a special session, Roderick MacFarquhar, Research Professor of History and Political Science, Emeritus, at Harvard University and former Director of the Fairbank Center for Chinese Studies, comments on each of the seven members in the Politburo Standing Committee announced in the 19th Party Congress in October. He notes the rise of President Xi Jinping, in terms of his real power and control of the inner workings of the Chinese Communist Party (CCP) to an unprecedented level since Chairman Mao Zedong; he predicts that Xi will defy the Party’s succession norm of retiring after two terms in office and will stay on after his second five-year term.

For the first time, MacFarquhar says, Xi has assembled his own leadership team in the Politburo Standing Committee, whereas during his first term at the helm of the CCP, the members of the Committee were chosen by the same Party old guards who chose him. In his first term, Xi was already the chairman of many important working groups covering a wide range of fields from national security to the economy. Now only Prime Minister Li Keqiang remains in the Standing Committee from the 18th Party Congress. It has become evident that the Premier is the clear subordinate in the duo and does not have the final say even on matters of economic management. The selection of the other five members of the Committee was heavily shaped by Xi himself, in consultation with the Party’s General Office and the Organization Department.

Number three is Li Zhanshu. He was the Director of the Central General Office, the nerve center of the Party. Number four is Wang Yang. His selection is a bit surprising given his reputation as a reform-inclined liberal. A few years ago when he led a delegation to Washington for a Joint U.S.-China Economic Summit meeting, he compared Sino-U.S. relations to “a marriage.” Recently, he wrote about improving the environment for foreign investment in China, equal treatment of foreign and domestic firms, and protection of intellectual and private properties. In addition, he has demonstrated his capability as a problem solver by settling large-scale land disputes peacefully. MacFarquhar suspects that Wang Yang may be charged to reinvigorate State-Owned Enterprise (SOE)
reforms in an environment of slower growth in order to avoid “the middle income trap.”

Number five is Wang Huning, an academic in international relations and philosophy from Fudan University. He was trained in East China Normal University, then Fudan University, and became Professor of Law there at the age of 30. He was discovered and brought to Beijing by President Jiang Zemin in 1995. He became one of Jiang’s speech writers, while also working in the Policy Research Department of the Party. He not only survived in Beijing, but thrived through three successive administrations. According to MacFarquhar, he was probably the most significant architect behind Jiang’s “Theory of Three Represents,” President Hu Jintao’s “Scientific Development,” and now Xi’s “China Dream.” Moreover, he was instrumental in formulating and drafting these leaders’ key speeches. With his intellectual contributions, Xi’s “Thought on Socialism with Chinese Characteristics for the New Era” has been enshrined in the Party’s Constitution, following Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, Jiang Zemin’s “Three Represents” and Hu Jintao’s “Scientific Development.” In looking for an American equivalent, MacFarquhar points to Henry Kissinger, who has been consulted by all American presidents since the 1960s. During Wang’s academic career, he did spend six months visiting the U.S., but this experience apparently has not prevented him from upholding and reinventing Chinese perspectives on how China should adapt to today’s world. He has pointedly eschewed talking with foreigners since his elevation to Beijing, and MacFarquhar expects him to remain in charge of the policymaking and research area.

Number six is Zhao Leji, the former head of the Organization Department. He is taking over Wang Qishan’s role as the anti-corruption tsar in charge of the Central Discipline Inspection Commission. Given Wang Qishan’s vital role and remarkable competence in apprehending a large number of corrupt officials at very high levels, MacFarquhar finds it surprising that Wang did not continue his second term simply because his age, 69, exceeded the Party’s established succession norm that candidates of 68 or above should retire. MacFarquhar suspects that Xi might not want to take further risks by insisting that Wang stay on after Xi got what he wanted in other respects during the final internal bargaining about personnel selection at the highest level of the Party hierarchy.

Number seven is Han Zheng, former Mayor and Party Secretary of Shanghai. Some China analysts place Han in the Committee’s “Shanghai Faction.” MacFarquhar thinks that Xi has become too powerful to care about factional balance in selecting his own team. What is clear to MacFarquhar is that the Communist Youth League is no longer a stepping stone to the highest offices in China as it was in the Hu Jintao era.

Through this Party Congress, Xi has been elevated to “the core of the CCP” and Commander-in-Chief of the military. Additionally, enshrining Xi’s “thought” in the party constitution brings him up to the level of Mao Zedong Thought, and above Deng Xiaoping Theory. This is a massive breakthrough for Xi, says MacFarquhar, as it indicates that he has become the most powerful leader in China since the Mao era. He has surpassed Deng’s power in that Deng had rivals of equal standing and seniority in the Party, whereas Xi does not. MacFarquhar compares him to Stalin in that Stalin was the second greatest leader after Lenin’s Revolution.

Xi’s goal is to “rejuvenate” the Chinese nation, just like the Chinese leaders before him for more than a century; he seems to believe in the richness of traditional Chinese culture more than in Marxism. It is not clear whether Xi will adapt Marxism and Leninism to contemporary China or uphold them in the long run. MacFarquhar observes that he tolerates Daoism and Buddhism as long as they do not offend mainstream ideas dominated by his Thought. He intends to keep the people happy by modernizing the economy, continuing to improve living standards domestically, promoting China’s standing abroad, and defending its territorial rights, even though China is not looking for war.

To achieve these domestic and overseas objectives, Xi’s aims to ensure that the military is on his side. Through the forceful anti-corruption campaign during his first term in office, he has replaced 18 top military officials with others loyal to him. His only Achilles’ heel, as far as MacFarquhar can tell, is his lack of military background. Nonetheless, in spite of this weakness, Xi has become the most powerful leader in China since Chairman Mao.
HAPPINESS IN CHINA: DEFINING, SEEKING, AND BEING FRUSTRATED

Professor Richard Madsen
Director, Fudan-UC Center on Contemporary China and Professor of Sociology, University of California, San Diego
November 15, 2017

Richard Madsen, Director of the Fudan-UC Center on Contemporary China and Professor of Sociology at University of California, San Diego, gives an overview of the collective work that he did with a group of American China scholars on the “habits of heart” in China through extensive field work and qualitative studies of their interview results. In the past, studies on happiness have been done by sociologists, philosophers, political scientists, and economists, who have discovered that happiness does not increase much with money after a certain threshold of material wellbeing is met.

What then is a good and meaningful life? Madsen asks. How do we develop certain ways of life that people deem virtuous and fulfilling? What are the historical and cultural roots of these visions? More specifically in the Chinese context, how do people define and seek happiness? What are the obstacles in their quest for happiness? How do these reflect the social order in which the Chinese live?

In his recent book, consisting of papers by Madsen and his colleagues from other American universities, he attempts to provide a holistic response to these questions from several angles, including perspectives on migrant workers, social workers and other professionals, dissidents and rights lawyers, as well as marriage as a social construct. In Madsen’s epilogue, he synthesizes and highlights all the major themes and philosophical underpinnings of happiness.

In Chinese, Fu (福) or fortune, is something so good that everyone wants it, says Madsen. Signs and symbols of Fu are ubiquitous in China. Traditionally, Fu refers to a large family with many healthy and happy children and grandchildren, especially sons and grandsons. It is a collective concept, which focuses on the family, not the individual. About the turn of the 20th century, the concept of Xingfu (幸福) was introduced to China via Japan. Xing (幸) means “luck.” So in the phrase Xingfu, happiness (Fu) has a fortuitous nature, which, Madsen says, is not much appreciated by the traditional Chinese culture: how can someone have happiness due to luck rather than virtue? Furthermore, Xingfu has an individual aspect to it. When a single Chinese woman with no children says, “My mother wants me to be Xingfu,” does that mean that her mother wants her to get married and have children to fulfill the traditional notion of Fu, or to feel Xingfu by her own standard? Can she have Xingfu independent of her mother’s views? Or does she feel obliged to fulfill her mother’s notion of Fu in order to feel Xingfu herself?

Xingfu has many layers of meaning, Madsen says, such as claimed Xingfu vs. defacto Xingfu, and short-term vs. long-term satisfactions. There are other words for happiness in Chinese, such as Kuaile (快乐) and Kaixin (开心) that refer to a short-term feeling of satisfaction. Happiness in Xingfu refers to something more long-term and is a subjective judgment depending on people’s values and worldviews given their specific conditions.

There is also a politicized view of happiness, notes Madsen, deemed to be the “correct view” by the Chinese state. To President Xi Jinping, happiness is the pursuit of the Chinese Dream, the building of a prosperous and orderly society governed by the Chinese Communist Party. This Dream calls Party members to find a higher form of Xingfu by sacrificing themselves to provide the materialistic basis of Xingfu for ordinary citizens. Thus, argues Madsen, definitions and ways of seeking happiness are all embedded in, and subject to, a particular set of values championed by the CCP.

Madsen explains that the traditional Chinese notion of happiness centers around a large family, in which every member meets his or her obligations. Reciprocity is also expected in this hierarchical family structure. The rituals of Chinese weddings and funerals are constructed according to this notion of family. Everyone plays his or her expected role in such events. Weddings, usually involving sumptuous banquets, traditionally serve as occasions to accentuate the family’s happiness and demonstrate the family’s wealth and social status. However, modern married couples may have a somewhat different understanding of the meaning of the wedding. Madsen says that the average cost of a wedding in Shanghai is about US$ 50,000.

The Chinese say there are happy meals and unhappy meals. Unhappy meals refer to those sumptuous meals intended to impress people, build relations and seek advantages, whereas “pure and happy” meals refer to simple meals free of social and spiritual pollutions among friends and equals. Similarly, social workers, who help dysfunctional and struggling families, and rights lawyers, who speak for
the disadvantaged and marginalized people, have their own definitions of happiness.

What are some obstacles to obtain happiness? According to Madsen, one has to do with difficulties in fulfilling perceived obligations, whether it is for wedding arrangements or taking care of one’s parents. Once expected reciprocity is weakened or completely broken, people feel deeply unhappy. Migrant workers often are not able to visit their parents in the countryside more than once or twice a year due to logistical difficulties, financial pressure and a demanding work load, even though their parents help take care of their children. Some parents feel bitter when their grown-up children are too busy or distant to take care of them in old age, while their children feel frustrated about this physical and emotional disconnect.

Another obstacle to happiness has to do with the paternalistic state where things are done in a top-down bureaucratic fashion, often infringing individual freedom. Many Non-Governmental Organizations Madsen has studied employ social workers to heal social cleavages, such as helping migrant workers integrate into city life by helping them adapt to the city dialect, dress code, and other social norms, but depend on funding from the state. They have to put up with the frustrating bureaucratic procedures and constraints in order to keep the state satisfied rather than really making their clients happy.

Madsen notes that people have experienced a comfortable living thanks to Deng Xiaoping’s proclamation, “Let some people get rich first.” Accompanying material wealth is what people perceive as an amoral society, seriously lacking integrity, compassion and purity of heart. To seek meaning and happiness in life in this contemporary setting is becoming more earnest for many Chinese. All of their desires and constraints are happening simultaneously in a country, which has been going through profound social and economic transitions in a relatively short period of time.

This is what Madsen calls “compressed modernity.” Conditions of modernity—scars of this transformation—are still “raw and fresh,” as manifested in extreme inequality across the country. The government now promotes traditional Confucian values as well as the selfless role model of Leifeng (雷锋) as in the 1950s and 1960s. This attempt to homogenize people’s worldviews and to sinofy Chinese institutions, however, contradicts the very notion of modernity that the government also propagates, Madsen argues, since modernity celebrates rather than suppresses individualism and pluralism.
interceding in the region to preserve the existing international system, while seeking to establish itself as a leading power by 2049. President Xi says that China wants “a more equitable international order,” while in fact, Gillette points out, China has benefited tremendously from the current international order, having lifted more people out of poverty in a shorter period of time than any other country in history.

China believes that time has worked in its favor, as its current strength stands in stark contrast to its weakness in 1949, when it had little to no voice in international relations. Gillette criticizes China for rejecting the international tribunal ruling regarding the South China Sea and for land construction in the region faster and on a larger scale than any another country. He points out that China was at the table in 1973-82 when the UNCLOS (United Nations Convention on the Law of the Sea) was written, and is a signatory. However, international laws and China’s national laws differ, with China attempting to enforce national laws in international space, including the seas around China, the Internet in China, and the air space above China. This results in a wholesale disregard of the international rule-based order and creates conflicts with other nations, destabilizing the system. Gillette warns that China’s vision for the future is fundamentally incompatible with America’s; if the situation is not managed properly, the likelihood of conflict will increase.

China’s grand strategy requires a security strategy. Gillette suggests the Chinese leadership will continue placing its security and party rule above all else, and see China’s economic growth, territorial integrity, and enhanced international prestige as keys to fulfilling its aspirations. These aspirations are not necessarily to be feared, Gillette explains, since all countries have their own national interests to pursue and defend. The legitimacy of the Chinese Communist Party’s rule depends on how successful their leadership is at providing the Chinese dream to all the Chinese people and their actions on the global stage.

Gillette comments on China’s recent international initiatives in turn—AIIB (Asian Infrastructure Bank), RCEP (Regional Comprehensive Economic Partnership) and the BRI (Belt and Road Initiative) — and points out their potential as well as the dire consequences if they are implemented poorly, corruptly, or without good governance. He notes that there is significant documentation of China’s behavior in conflict with host countries’ needs as well as China’s violations of international rules and norms that encourage prosperity for all throughout the region.

Gillette also criticizes the Chinese United Front’s work for wielding a worldwide campaign to buy political influence and coercing deals around the world. Gillette distinguishes this work of the Chinese government from real soft power, which, he says, is about highlighting desirable culture and political values, and a foreign policy that contributes to the betterment of all people.

He argues that real soft power does not require a propaganda machine to promulgate messages or control the press. He highlights democracy’s own weapons: freedom of speech, association, and religion; rule of law and good governance; transparent rules executed through checks and balances; people with the freedom to choose their way of life as opposed to dictates of an authoritarian government. Gillette cautions China not to misinterpret other countries’ willingness to stand up for their values and actions out of China’s own national interests, as “containment of China.”

Gillette closes with a reminder that shared values remain compelling reasons for the region to act in a systemsustaining manner; and this will occur only if the U.S. maintains an active leadership role as a Pacific nation.

**STATE-BUSINESS RELATIONS UNDER XI JINPING - THE END OF AN ERA?**

Professor Meg Rithmire  
F. Warren McFarlan Associate Professor of Business of Administration, Harvard Business School  
December 6, 2017

While the World Bank ranks China in 2017 as only the 78th easiest country in the world to do business in, it is clear that business in China has been booming for the last two decades or so. How can both of these facts be true? If it is difficult to do business in China, why have Chinese businesses not demanded changes in Chinese institutions or the political system in order to improve their operating environment? Previous studies have attributed this paradox to the Chinese Communist Party’s co-optation of businesses.

Meg Rithmire, Associate Professor of Business
of Administration at Harvard Business School, not only disputes the use of the term “co-optation,” but also offers an alternative explanation for this paradox and its evolution over the past decades. “Co-optation” implies that the interests of government and business are not necessarily aligned, and that business is willing to sacrifice its own interests, if necessary, to help government. But in the case of China, the interest of local governments had been for decades largely aligned with the interest of businesses. So Rithmire prefers the term “mutual alignment” to “co-optation.”

But this paradigm of mutual alignment is dissolving due to President Xi Jinping’s forceful anti-corruption campaign that has brought down tens of thousands of CCP officials. As unpredictability and businesses’ anxiety intensify, the Chinese have become more myopic. Rithmire’s compelling narrative connects the Chinese economic miracle around the turn of the 21st century with today's massive departure of capital from the country, often in the form of Chinese overseas direct investments (ODIs). To Rithmire, Chinese private businesses’ eagerness to re-allocate their assets overseas, often by over-bidding and over-paying for foreign assets, is evidence of the downfall of mutual alignment.

Similar to Mubarak’s Egypt and Suharto’s Indonesia, in China the interests of the businesses and the government have traditionally been intertwined. Exactly how intertwined is the focus of Rithmire’s research. Unlike in the West, where the bourgeois class became a political actor demanding rule of law and a constitutional state to prevent the state from becoming powerful enough to expropriate money from private businesses, business people under authoritarian regimes think differently. Chinese businesses found that their best interests lay in aligning themselves with the state, instead of demanding protection of human rights or a change of institutions, let alone the regime itself. For decades, Chinese local governments and businesses pursued their respective objectives by helping each other: local officials get promoted by persuading businesses to invest in their area, thereby creating employment and growth; in the meantime, businesses make profit for themselves.

Rithmire also delves into the composition of Chinese capitalists and distinguishes five categories: 102 large SOEs under the direct management of the SASAC (State-owned Assets Supervision and Administration Commission of the State Council); SOEs under local government control; private companies like Alibaba and Tencent; companies with very high-level connections, but with murky business models, like An-bang, the insurance company; and small and medium-sized enterprises (SMEs) with anywhere between 20 and 200 employees. These SMEs are not well known, but are the real driving force behind the Chinese economic miracle and its integration into the global supply chain. They are highly efficient and competitive, and they create jobs for the economy.

Focusing on the last category, Rithmire argues that the Chinese SMEs were never really co-opted by the CCP because these companies would never sacrifice their own interests to help the government realize the state objectives. Up to the early 2000s, various departments of many local governments had been assigned targets for investments to be brought into the local area—whether it was a town or a city—in order to generate employment and economic growth. Once business investments were brought into the area, the businesses became these officials’ own “clients,” loosely speaking. These companies knew which local official to be friendly with—often through kickbacks—and who to call when they needed problems solved. In the meantime, these companies made profits and improved their own lot. As a result of this win-win situation, successful business leaders were invited to join the local People’s Congress or the Political Consultative Conference, where they could bolster their reputation and connect with more powerful political leaders.

But this mutual alignment of interests has become mutual endangerment over the last decade. The local officials’ fate and the businesses’ fate have become tied to each other through knowledge of each other’s secrets and by mutual personal enrichment. Lower-level officials can become so rich by collaborating in one business deal that they no longer need to build trust for repeated deals or care about any future promotion. This greed for instant wealth has resulted in pervasive short-sightedness among businesses and officials alike.

A second mechanism for this paradigm change is land sales, Rithmire says. Since the 1994 tax reform, local governments have lost control of tax revenues and had to rely on selling land to developers to make up the shortfall. Both local officials and businesses had financial incentives to collude and to push up real estate prices. A third mechanism is through credit expansion. In the past, SMEs mainly relied on their own retained earnings for re-investment, but over the last decade or so, they have been able to borrow more through “shadow banking.” Everyone—the buyer, the seller, the local government, and the broker—benefits from this debt-financed expansion, while no one cares about the long-term viability of the investment.

Furthermore, power has become more concentrated
in Beijing, as Chinese businesses grow larger, and Chinese markets become more integrated. The situation is now more like a zero-sum game, which Rithmire calls “a tighter clientelism” as opposed to “a loose clientelism” as before when the local people and economy benefited from a positive sum game. The key to this new game has become: how much higher up can you reach in Beijing and build connections?

With the unrelenting anti-corruption campaign, all Chinese businesses worry whether the official they put their trust in will be the next one implicated in a scandal. Once this relationship becomes unreliable, everyone retreats to the defense of his/her narrow personal interests, leaving the long-term health of the economy unattended. In this situation, it is the ordinary Chinese businesses and ordinary people without high-level connections that suffer the most. With no political patrons to solve their problems, Rithmire says that SMEs have resorted to reliance on the family rather than professional relations to manage their assets. They have also opted for a global allocation of their assets through aggressive acquisitions, sometimes overbidding by as much as 20 percent, a price they rationalize as necessary for changing their money from the RMB into more reliable foreign currencies.

With safety rather than high returns as its aim, this massive money outflow from China, according to Rithmire, does not reflect the strong leadership of Beijing; rather, it is a sign that Beijing is losing control over businesses. Xi Jinping’s pervasive anti-corruption campaign over the last five years, while staving off rampant corruption, has also broken the established model of mutual enrichment, leaving people in fear and enhanced uncertainty, to the point that Chinese businesses are actively moving their assets overseas and slowing down domestic investments. In Rithmire’s view, China’s current quagmire illustrates how difficult it is for a top-down command political system to sustain a dynamic economic growth over the long run without enabling institutions at the grass-root level.

CHINA’S DISAFFECTED INSIDERS

Professor Kevin O’Brien
Walter and Elise Haas Professor of Asian Studies; Director, Institute of East Asian Studies, University of California, Berkeley
December 13, 2017

A decade ago, some China experts in the U.S. were impressed with the Chinese Communist Party’s (CCP’s) ability to adapt to the challenges it faces. As Xi Jinping begins his second term as President, does China continue to show signs of authoritarian resilience or is its authoritarian rule in peril? To get a better grip on the regime’s vulnerabilities, Kevin O’Brien, Professor of Asian Studies and Political Science at the University of California, Berkeley, examines three groups of insiders: the frustrated police, neglected ex-military officers, and bullied protest demobilizers. These are people who might be expected to be regime stalwarts, but instead often view themselves as victims rather than beneficiaries of CCP rule.

China’s street-level cops are unhappy, O’Brien says. Most took up a career that they thought would offer them prestige and authority, but now many feel frustrated, misled, and disrespected. In urban and rural areas alike, young officers grumble about low pay, long hours, and life at the bottom rung of one of the smaller police forces (on a per capita basis) in the world. Middle-aged cops with greater supervisory duties complain about incompetent superiors and limited authority at work. Officers over the age of 50 often do not approve of recent reforms designed to professionalize policing. They struggle to keep up with modern technologies and innovations in policing and feel irritated by the assumption that they are too old to learn new methods. Confronted with time and staffing constraints, as well as ever-increasing reporting requirements, most cops find it hard to care about their work. O’Brien argues that their low morale illustrates how the state’s coercive power can dissipate long before it reaches the street, and reveals fault lines in state-society relations at precisely the point where legal authority meets illegal behavior.

Many former military officers are also bitter. O’Brien says that their discontent can be traced back to the massive
downsizing of the Chinese People’s Liberation Army (PLA) from 4.1 million soldiers in 1985 to 2.4 million in 2012. Excepting those who were reassigned to government offices or research institutions and have since enjoyed stable jobs and growing income, most ex-officers have fared poorly. In particular, those sent to work in State-Owned Enterprises (SOEs) suffered greatly after 30 million employees were let go as a result of the SOE reforms of the 1990s and early 2000s. Since they left the PLA, these “military-transfer cadres” have lost their cadre status, and with that the privileged access to benefits such as better medical care and higher pensions. Having essentially been demoted twice, O’Brien notes that these officers now feel that their valor and many sacrifices for the country count for nothing. Some military-transfer cadres have even found themselves beggars or street protesters, petitioning the government to restore their lost status and benefits.

To reduce the use of force when faced with protests, the Chinese government has turned to psychological coercion. O’Brien relates how local authorities expect civil servants, teachers, hospital workers and employees of SOEs to conduct “thought work” in order to demobilize family members who defy authorities and participate in disputes. These unfortunate individuals must persuade their relatives to stand down from protests or risk severe professional consequences, including official warnings, suspensions of salary, job loss, and even prosecution. For Party members, expulsion from the Party is a possibility. This “relational repression” bears some resemblance to practices in the Cultural Revolution (1966–76), O’Brien argues, and has fostered deep discontent, as protest demobilizers feel torn between their responsibilities to the state and their desire to avoid alienating loved ones. Relational repression and emotional blackmail have become common tools for social control and typically leave those who are forced into this work feeling enraged and helpless.

O’Brien notes, however, that the members of these three groups of insiders are not in a position to rock the regime or challenge Xi Jinping’s power. Still, he argues, all is not well when insiders, especially those who are or have been involved in security work, feel mistreated or victimized. These are people who should feel committed to state goals and who should act as a reservoir of CCP support. Their discontent suggests that rather than being a regime mainstay, they may be turning into one of its vulnerabilities. The disillusionment and frustration of insiders indicate that challenges for CCP’s rule may not only come from above or below, but also from within. Or, as O’Brien asks, is the regime alienating its natural constituency? And what happens when some of the Party’s most reliable cheerleaders stop cheering?

CHINA’S CHANGING FAMILIES

Professor Deborah Davis
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February 7, 2018

How do China’s demographic trends, rapid urbanization, and other social changes in recent years affect Chinese families and their kinship relations? Having conducted hundreds of interviews over the past decade, Deborah S. Davis of Yale University, an expert in contemporary Chinese society, reveals some important features of today’s Chinese families. She finds neither the “triumph of conjugality,” described by the anthropologist Yan Yunxiang, nor simple continuation of “the relay family,” as predicted by the sociologist Fei Xiaotong. Moreover, necessity as much as cultural preferences shape the dominant trends in contemporary family life.

Several structural and social changes define the context of family relations in contemporary China. First is the rapid aging of the society. In 2015, 10 percent of China’s population was over 65 years-old. This proportion is expected to increase to 17 percent by 2030 - higher than India’s projected eight percent and Vietnam’s 12 percent. Although this proportion is lower than that in the U.S. (19 percent), Germany (28 percent), and Japan (32 percent), China’s income per capita has yet to catch up with these developed countries. In other words, the population will “get old” before getting rich. In addition to an aging population, China has experienced an unprecedented massive migration from rural to urban areas. Since 1990, approximately 250 million people have left their villages to work in towns and cities, leaving millions of family members - mostly children and elderly - in the countryside. As a result, the pressures of divided households now create an enormous strain on more than a quarter of all families.
In addition to the strain of long distance migration, a distorted sex ratio, largely due to the prevalence of sex-selective abortion, has created a shortage of women in the marriage market. Among those between the ages 22 and 60 in 2010, there were 14 million more men than women. Although in absolute numbers, this gap is smaller than in 1990 or 2000, the competition for brides has put enormous stress on families of men who want to continue the family patriline. Parents of daughters, on the other hand, are generally perceived to have an easier time and worry less that their daughters will never marry. Overall, these demographic shifts create the macro-level context in which micro-level interactions are embedded. In both rural and urban China, marriage remains nearly universal. Yet, although the expectation is that all men and women should marry, there is variation in the criteria for brides and grooms, and in the necessity of parental intervention. Based on recent field work in Shanghai, Davis found that while parents with a college education are less directly concerned with a child’s choice of mate, most fathers and mothers still prefer that their child marry a person of equal or higher social status. Parental concerns with status matching and economic security have created lively “matchmaking corners,” even in China’s largest cities. One such corner (“相亲角” in Chinese) is located in People’s Park in the center of Shanghai where every weekend parents saunter through the pathways with placards itemizing their sons’ age, income, occupation, and housing situation, while parents with unmarried daughters circulate with placards that list their daughter’s age, height, facial characteristics, and education. Although very few parents find a match for their child, they return week after week, convinced that “fate” (缘份) will prove decisive.

In discussing the impact of cultural expectations, Davis emphasized how intergenerational obligations continue after the wedding. For example, recent surveys indicate a slight increase in the number of urban households consisting of married couples living with one or more of their parents. One driver for these multi-generational urban households is the astronomical price of housing; the other is the disappearance of public child daycare. Consequently, most young urban couples rely on grandparents to provide daily care of infants and toddlers. By contrast, among most migrant families, children are left with grandparents in the countryside, and parents are often absent from a child’s early years. Whether in the cities or villages, the fate of parents and adult children are intertwined, if not necessarily harmonious.

In 2016, more than 11 million couples married, a number that has remained steady for more than a decade. However, even as marriage has remained a popular institution,
marriages are increasingly fragile and divorce rates in urban China approach those in the United States. In addition, recent legal decisions that favor prenuptial agreements have individualized ownership claims and upheld the property rights of parents in proportion to prior investments in a child’s marital home. Chairman Mao famously proclaimed that “women hold up half of the sky.” In contemporary China, the courts may now allocate a larger share of marital assets to a man and his parents if they can prove they made the larger initial investment.

In summary, Davis highlights five features of contemporary family life: 1) increasing numbers of divided households among rural-born migrants, 2) increasing co-residence with older parents after marriage in cities, 3) increasing rates of divorce and re-marriage, 4) re-verticalization of kinship that may privilege loyalties between adult children and their parents over those between spouses, and 5) a trend toward bilateral kinship where ties between parents and daughters are as strong and enduring as those between parents and sons.

MEETING CHINA HALFWAY: THE FUTURE OF THE KOREAN PENINSULA AND BEYOND

Professor Lyle Goldstein
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February 21, 2018

Despite a brief respite in February during the Winter Olympics in Pyeongchang, South Korea, tension has been escalating on the Korean Peninsula. Dr. Lyle Goldstein, Professor in the Strategic Research Department of the Naval War College in Newport, RI, takes an unconventional approach to defuse today’s foremost crisis in international relations. For Goldstein, the current path of mutual suspicion and demonization between North and South Korea will only lead to a warfare of unprecedented scale due to North Korea’s possession of nuclear weapons. Therefore, he argues, strategic assurances must be provided to the Kim regime—no matter how distasteful that might be—to prevent a continued slide into instability.

Goldstein casts his de-escalation proposal in a broader framework of how to handle China in general, North Korea’s long-term ally, a framework that he terms “meeting China halfway.” To accomplish this, Goldstein dives into a trove of Chinese sources to get a sense of how the Chinese think about some highly contentious issues in international relations. Sino-U.S. relations were tense for a long time before President Trump took office in January 2017, and the military power balance has been shifting slowly in China’s favor. This trend, along with other changes brought by “China’s rise,” has elicited a widespread anxiety in America and a pressing call from many Americans that the U.S. should undermine or counter China at every level. Goldstein refutes this “foolish” approach and advocates instead a path of cooperation that is gradual, reciprocal, fair and enforceable. His approach overlaps with the so-called “grand bargain” approach, in which the U.S. and China would put all significant contentious issues together on the table to negotiate, instead of going through them one by one and trying to find separate solutions. Yet his approach differs in that it emphasizes small steps that are relatively
easy to take, but are also very helpful toward cultivating trust and building common ground.

Adopting this general approach, Goldstein would take a new direction on the triangular relations between China, Japan and the U.S., and those between China, India and the U.S. He rebuts any attempt to persuade India to oppose China, or to encircle China and make it feel contained. That approach will only intensify China's distrust of the U.S., and induce China to pressure countries in the U.S. neighborhood. Instead, he argues for providing strategic assurances to China, as well as to North Korea, through a series of confidence-building measures in order to propel cooperation.

Goldstein’s examination of Chinese publications reveals a wide range of opinions in China’s internal debates about North Korea. Before Xi Jinping became the President of China in 2013, he gave a speech on the 60th anniversary of the Korean War, in which he laid out China’s principle for North Korea: no war, no turmoil, and no (regime) collapse (不战，不乱，不垮). Currently, Goldstein says, Chinese scholars hold varied views concerning North Korea. These range from calling on Kim to show his resolve to use nuclear weapons in addition to owing them to re-balancing Sino-South Korean relations and softening China’s stand on North Korea. Some even accuse the U.S. of driving wedges between China and North Korea and China and South Korea. The fact that some Chinese are beginning to envision a nuclear war on the Korean Peninsula indicates to Goldstein how close the region is to open warfare.

What then are some possible small steps to take to de-escalate tensions on the Korean Peninsula? Goldstein suggests a joint study of the Korean War by both American and Chinese scholars. He believes this study of history would facilitate mutual understanding about a war neither side wanted but both ended up with. Goldstein also recommends a joint patrol of the Yellow Sea by China, North Korea, South Korea, and the U.S. Although this multilateral exercise would give North Korea “face,” or some international recognition, Goldstein stresses that the U.S. has to “give” in order to “get.”

Goldstein underlines that it is in America’s interest that China maintains close relations with and an effective influence over North Korea; the U.S. should not try to divide them. To his frustration, what is happening on the ground appears to be the opposite. According to an American diplomat in Shenyang, China is succeeding with implementing the strictest UN sanctions on North Korea. Tightening sanctions could backfire if Kim feels completely isolated and exasperated, Goldstein warns. Based on the same logic, he argues that aligning Russia and China’s positions on North Korea would be helpful for providing strategic assurances to North Korea, and hence should be encouraged.

From Goldstein’s point of view, the admittedly unpopular “double freeze” strategy—a North Korea freeze of nuclear development and an American freeze of joint military exercises with South Korea—is the only viable solution for moving forward in the region. The fact that it is not an American proposal may make it more palatable to the other related parties. For example, South Korea can play the role of verifying North Korea’s de-nuclearization process.

Goldstein concludes by highlighting the qualitative difference in stakes between conventional and nuclear warfare. He argues that the Kim regime will not collapse without using its nuclear option. If that happens, not only Northeast Asia, but the whole world will be endangered. Goldstein emphasizes that unconventional warfare requires unconventional thinking, and that the U.S. must be receptive to non-military solutions because the alternative is too grave to be tolerated.
CHALLENGES TO CHINA'S ECONOMY: AT HOME AND ABROAD

Dr. David Dollar
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February 28, 2018

China’s economy posted a 6.9 percent growth rate in 2017, still in line with the 6.5-7 percent range of the past few years. How should we evaluate this growth? Is it sustainable for the foreseeable future? David Dollar, Senior Fellow in the John L. Thornton China Center at the Brookings Institution, dissects this growth rate into its components and predicts a continued period of solid growth led by rising consumption and the burgeoning service sector. He analyzes China’s domestic financial risks and considers them largely manageable. On the international level, he deems President Trump’s pursuit of protectionist trade measures in the name of “fair trade” unwise, for which both countries will be worse off.

The good news from the Chinese economy, Dollar argues, is that its growth is largely driven by consumption, contributing five percentage points to the total 6.9 percent growth figure. Chinese can now afford and are consuming more services such as financial services, entertainment, and tourism. In comparison, Chinese manufacturing industries are in relative decline. Since the service sector is labor intensive, the labor market conditions have been quite tight. Furthermore, China’s aging population and low birth rate mean that its labor growth is essentially stagnant. The number of jobs created in China’s urban areas in 2017—10 million—more or less matches the number of migrant workers from the countryside. Dollar calls this point “the sweet spot” of the labor market, just right to lead to a healthy wage increase without causing economic overheating. Increased wages in turn make more consumption affordable and a higher standard of living possible. Dollar anticipates this virtuous growth cycle to continue for at least a decade.

Dollar also notes that this consumption-driven growth is not primarily financed by the traditional banking sector, but by a new and rapidly growing industry, “fintech,” a shorthand for financial technology. The growth of Chinese social media companies has led to offshoots like Alipay and “Weixin Pay,” and propelled the Chinese economy to become increasingly cashless. Mobile payment and online borrowing through P2P (people-to-people) have become ubiquitous.

Looking to the future, Dollar is keenly aware of the risks facing China’s economy, but believes that they are largely manageable. The first is the marked decline of China’s total factor productivity (TFP). The 2008 global financial crisis basically ended China’s export-led growth phase, in which foreign-invested firms and privately-owned Chinese firms, mostly in manufacturing industries with high efficiency, were the main engines of growth. Unfortunately, China’s enormous stimulus package in early 2009, in response to the global financial crisis, lasted too long and inadvertently strengthened state-owned enterprises (SOEs), many of which dominate in heavy industry and in services such as banking and telecommunications. This is problematic because the service sector generally has lower productivity than the manufacturing sector. To boost productivity growth, Dollar proposes to open up these service industries for foreign and private investments to allow more competition. He thinks that the issue of insufficient education of a large swath of migrant workers—another reason for lower productivity growth—will disappear in a decade or so as more of the population becomes urban.

The second risk confronting China’s economy is the sustainability of its high debt levels and excess capacity in industries related to infrastructure construction. As a consequence of the 2009 stimulus package, some of the large-scale infrastructure projects are in sparsely populated areas and offer little return. Moreover, the state-owned banks that financed these projects are saddled with debts. But Dollar argues that these debts alone do not imply any imminent financial crisis in China because they are almost all domestic debts in an economy with high savings and a capital market largely closed to foreign markets. In other words, only a small fraction of domestic savings can leak to foreign markets.

Dollar does foresee, however, a highly political and contentious process of resolution if China wants to stabilize its debt levels and reduce debt leverage in the next couple of years, as some Chinese officials have indicated. China will have to tighten up credit conditions, which will inevitably increase bankruptcies. Whether private investors, state-owned banks, local governments, or the central government will take the hit and how they share the financial losses remain to be seen.

China’s external challenges have much to do with the U.S. trade policies under President Trump. Dollar states that
the Chinese currency, RMB, is not currently undervalued, as China’s overall trade surplus has shrunk to only 1.4 percent of GDP. Although its trade surplus with the U.S. is still large, Dollar explains that this is not necessarily China’s fault. Most of China’s exports to the U.S. are still front-end products, meaning that they are assembled in China with only small value added there. As a resource-poor country, China runs trade deficits with many countries from which it imports raw materials. Furthermore, Dollar states that the United States’ increasing overall trade deficit has more to do with its own low savings than Chinese unfair practices. Dollar worries that the inadequate savings situation in the U.S. will only worsen as Trump’s tax cuts go into effect and the U.S. fiscal deficit grows.

Dollar argues that the U.S. runs the risk of using China as a scapegoat for its own structural problems. Imposing tariffs, as Trump has proposed, will not only fail to improve the U.S. trade deficit, but will initiate a trade war for which China and other trading partners will surely retaliate.

In conclusion, Dollar underlines that opening up China’s service sector for foreign direct and private investments will spur growth in the service sector and further solidify consumption growth. He suggests that China be content with five to six percent growth rate in the medium term since a diminishing marginal return on investment has already set in and the contribution from net exports to the GDP growth is negligibly small. Dollar is concerned about the consequences if President Trump initiates a trade war just at a time when China’s financial risks loom large.

**U.S.-CHINA COMPETITION FOR INFLUENCE IN SOUTHEAST ASIA**

Ambassador Bilahari Kausikan
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March 7, 2018

What is the role of Southeast Asia from the vantage point of two great powers, the U.S. and China? Can the region manage the strategic competition for influence between these two countries? Bilahari Kausikan, Ambassador-at-Large at the Ministry of Foreign Affairs of Singapore, refutes the binary framing in which either the U.S. or China prevails in Southeast Asia. He thinks that this framework is too simplistic and can be self-fulfilling. Believing that understanding the past is necessary for understanding the present and future, Kausikan reviews the history of the Association of Southeast Asian Nations (ASEAN) and distills four lessons with implications for today.

Founded in 1967 with only five member countries—Indonesia, Malaysia, Singapore, the Philippines and Thailand—ASEAN has come a long way. The relationships among these five countries at that time were fraught with tensions and distrust. Given Southeast Asia’s diversity in race and religion, Kausikan reminds us that regional integration was not inevitable at all. Rather, it was the deep fear of the further spread of communism into Southeast Asia that provided the impetus for these countries to overcome their divisions. Through the ebbs and flows of the past half century, the general commitment of these countries to regional cooperation never completely disappeared.

After the end of the Cold War, ASEAN, through the Singapore summit of 1992, re-oriented its focus to economic cooperation, the least controversial subject among its member countries. In recent years, it has entered a second phase of economic cooperation with the goal of creating common markets and standards. In 2006, ASEAN held its first meeting of all of its defense ministers and established norms for the peaceful resolution of military conflicts in the region. It has established the ASEAN Regional Forum (ARF) as a venue to hold dialogues between ASEAN and many major powers of the world. Although many of ASEAN’s meetings are criticized
as “talk shops,” they serve as a very useful vehicle for diplomacy. Furthermore, all ASEAN member countries—now ten of them—realize that they need a regional organization to mitigate their problems and manage their relationships. They see their national interest in regional interest and visa versa.

Kausikan gleans four lessons from this history. First, ASEAN’s progress and vitality should not be taken for granted, for this can obscure the many differences in political systems and economic development levels, as well as the diversity in race, languages, and religions within the region. Kausikan anticipates that these challenges will surface from time to time in various new forms, but insists that they must be managed. Second, he gives credit to Indonesia’s former President Suharto for playing a key role in making ASEAN work in its earlier years. Leading the largest country in ASEAN, Suharto chose not to dominate it, but allowed decision-making by consensus. This non-intrusive approach has permitted member countries to preserve their own autonomy and sovereignty. Even if this convention results in inaction or less-than-ideal outcomes at times, Kausikan opines, it is a price that must be paid to keep ASEAN functional.

Kausikan’s third lesson is that, ASEAN is not a supranational organization like the EU, nor does it have the ambition to become something similar. It allows its member countries to pursue their own national goals in their own ways at their own pace. Fourth, Kausikan believes that none of the major powers competing for influence in Southeast Asia can shape ASEAN completely in accordance with their own wishes, short of military occupation as Japan did during the World War II (WWII). Neither the Soviet Union during the Cold War, nor China or the U.S. today, have managed to repeat this feat. Kausikan explains that ASEAN’s outlook has been broadly in line with that of the U.S., but is not identical to the U.S. He underlines the importance of ASEAN’s centrality in the region, because it allows ASEAN to cope with the politics of the great powers without being subsumed.

Kausikan sees a conflict between the rule-based international order, led by the U.S. after the WWII, and the new, more hierarchical approach represented by China’s rise. Kausikan recognizes that it is beyond ASEAN’s capacity to resolve the South China Sea territorial disputes because these are proxy conflicts of the major powers, just like Vietnam’s invasion of Cambodian in the 1970s. China cannot prevent the U.S. and its allies from using the South China Sea, nor can the U.S. prevent Asian countries from benefiting from China’s rise. Kausikan does not think President Xi Jinping’s Belt and Road Initiative (BRI) is only an indication of China’s global ambition and the end of Deng Xiaoping’s foreign policy doctrine of “biding the time and nurture ourselves.” He sees it as an effort to export China’s development model to foreign countries, in which State-Owned Enterprises (SOEs) play a key role. He postulates that China considers the BRI as one way to buy time and ameliorate some of the problems identified in Xi’s speech at the 19th Party Congress. But, Kausikan suspects that this will not resolve China’s fundamental contradiction between improving market efficiency and simultaneously strengthening the Party’s control.

Although he does not think that China will entirely fail, Kausikan foresees strong headwinds for the BRI. China’s promotion of infrastructure projects abroad can result in liabilities on both sides. Instead of evoking gratitude for Chinese investments, it can evoke grievances and resentment in target countries, even in countries already economically dependent on China. He criticizes China for deliberate blurring of the line between overseas ethnic Chinese of several generations and current Chinese citizens by extolling the rejuvenation of the Chinese civilization and pursuit of the Chinese dream. Beijing presumes this dream be shared by all Chinese around the world, saying it will pose a serious liability for China in Southeast Asia. He emphasizes that Singapore, with three quarters of its population being ethnic Chinese, must resist China’s outreach and retain its own identity. Although Southeast Asian countries will resist China in their own ways, Kausikan considers that continued U.S. presence in Asia is vital to balance China’s influence in the region, and to maintain conditions for ASEAN to remain open.
Is the Chinese Government Legitimate?

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March 21, 2018

China’s recent constitutional change to abolish the presidential term limit has evoked overwhelming disapproval from the Western media and renewed their entrenched view that the Chinese government is not legitimate. In contrast, Kishore Mahbubani, Senior Advisor and Professor in the Practice of Public Policy at the National University of Singapore, says no one questions the legitimacy of President Trump regardless how much he is disliked by however many Americans. How can this be?

In an effort to write a new book on U.S.-China relations, Kishore Mahbubani singles out the West’s perception of the legitimacy of the Chinese government as a key factor in shaping this critical bilateral relationship. He examines this legitimacy question under Chinese norms first, then under American norms, and finally addresses the issue of which set of norms is superior.

Mahbubani argues that it is fairly straightforward to see that the Chinese government is legitimate under Chinese norms. He notes that since its paramount leader Deng Xiaoping unleashed market reforms in 1978, the Chinese government has consistently and dramatically improved the quality of the lives of its people - now 1.3 billion of them - in a peaceful and stable political environment. More important than this progress measured in aggregate statistics of life expectancy, infant mortality, literacy level, and educational attainment is the uplifting of the bottom 10-20 percent of its population from absolute poverty and natural disasters to much more comfortable living conditions. Mahbubani states that progress of such a scale is unprecedented in human history. No government has done so much for so many people in a time span of four decades.

Thus, Mahbubani argues, it is not surprising that the Chinese government has earned a quite high level of satisfaction and trust of its people according to public opinion surveys. Daily complaints and ordinary discontents are normal within its own culture. Chinese history has shown that China is likely to be better off with a strong leader who can deliver stability and development than with a weak leader who foreshadows chaos. From this perspective, the continuity of Xi Jinping’s strong leadership is viewed positively in China as a sign of continued stability.

Under Western norms, however, the Chinese government is not legitimate for three reasons, Mahbubani argues. First, the Western judgment is based on process rather than outcome. The West focuses on the process of how a government is elected in the first place. Is there a contested election? Is there a way to remove a government? If such process is absent, Mahbubani says, then the government cannot be legitimate, regardless how much the government has achieved. Second, according to Mahbubani, the West is influenced by the American philosopher John Rawls (1921-2002), who preached the importance of individual liberty as a foundation for a just society, and believes that if a government does not explicitly endorse individual liberty or limits its people’s political freedom in any way, then the government cannot be legitimate.

Third, Americans believe that if a government does not protect basic human rights, then the government cannot be legitimate. Mahbubani points out that when Americans criticize the Chinese government for arbitrary detention and torture, they seem to have forgotten that the Bush administration introduced torture in its military-run Guantanamo Bay prison in Cuba. He believes that this double standard undermines the American argument against the Chinese government’s legitimacy.

Which set of norms is better then? To answer this question, Mahbubani dives into the dynamics of power. The dominance of any set of mainstream values is a reflection of and underlined by the dominance of the state power that holds those values. In the 19th and 20th centuries, the West was the dominant world power, hence its values prevailed for about two centuries. Now with China’s rise in recent decades, the power balance of the world has shifted toward the East. China has become important enough to be reckoned with argues Mahbubani. It should be given the right to preserve its cultural values and lead development in its own way.

Furthermore, Mahbubani notes that political norms and values are culturally and historically bound. What is deemed good and effective in one context can be indecent in another. He argues that cultural and historical context determines whether the people of a particular country aspire
to performance-based selection of government over process-based, or group thinking over individual interests.

Mahbubani also attributes this difference in preference to the way we frame our choices. Often the very language and the concepts we use to frame a situation automatically determine the outcome. If we frame our choice of good governance between democracy and autocracy, he says, then of course we would choose democracy, even though the American democratic election process almost always boils down to a few powerful interest groups controlling the outcome, regardless what a majority of Americans think. Gun control and health care policies are just two examples. But, Mahbubani contends, if we frame the choice of good governance between plutocracy and meritocracy, then meritocracy will certainly win.

Mahbubani suggests that one way to check if democracy is working is to ask: how are the people on the bottom 10-20 percent of the income ladder doing? Has the quality of their lives improved over time or remained largely stagnant? By this measure, he states, China has outperformed many democracies by a large margin. When John Rawls placed so much emphasis on individual liberty as a foundation for social justice, Mahbubani says, he neglected the fact that many democracies really work for the elite few rather than a majority of the people, especially those at the bottom. Mahbubani asks, “Which country do you think will improve more the lives of its lower-middle class in the coming decades?” He predicts that China will come out on top in this regard.

In conclusion, Mahbubani calls for the charting of a new discourse on the norms of legitimacy and to envision a world with contending norms and values, with different civilizations respecting each other and flourishing together. This world may seem inconceivable to Americans, and the West at large, he says, but we must be open-minded enough to consider it instead of continuing to think along the same lines as “When will China become like us?” or “China can’t fulfill its potential until it becomes a democracy.” Mahbubani believes that this change in attitude will help ensure that U.S.-China relations are on the right path in the coming decades.
AN “OLD YOUTH” (老青年) LOOKS AT CHINESE YOUTH TODAY

Professor Thomas B. Gold
Professor of Sociology, University of California, Berkeley
March 28, 2018

Curious about how the Chinese Communist Party (CCP) manages different groups of people in order to maintain social stability, Thomas B. Gold, Professor of Sociology at the University of California, Berkeley, has followed contemporary sociology of China for decades. Citing his 1991 paper “Youth and the State,” published by the China Quarterly, he offers broad, but incisive brush strokes to delineate the profiles of a number of cohorts since the 1950s, using what he calls a “life course approach.” This approach links the progression of individuals, categorized by birth cohorts, through the biological life span with the socio-cultural context and historical events through which the progression occurs. In other words, it focuses on the “intersection of biography and history” by paying particular attention to major events that have shaped the outlook of each cohort.

Gold describes four birth cohorts separated by major historical events and different economic contexts. He calls the first cohort “the 1950s liberation brand.” These people, born between 1947 and 1954, were raised under “the red flag” and were taught not to be affected by “the old society.” They finished their high school around 1966-68, and are nicknamed “the Old Three Cohorts” (老三届). They had totalitarian inclinations toward the Marxist-Leninist system with little knowledge of the outside world. By the time college examinations were restored in the end of 1977, they were about 30 years old. They vowed to catch up academically. From their experiences in the countryside, they had learned to become creative and resourceful, as well as to think and fend for themselves.

Gold got to know some of these people when he spent a year at Fudan University in Shanghai during 1979-1980 while a PhD student at Harvard University in sociology. Being a direct beneficiary of the U.S.-China agreement on cultural and scholarly exchanges signed in 1978, Gold arrived in China soon after the 3rd Plenum of the CCP’s 11th Central Committee Meeting; to “revitalize the economy and open to the outside world,” the mantra of the day. It was also a time when swaths of educated youth previously dispatched to the countryside during the Cultural Revolution (1966-1976) began to return to the cities (下放知青回城风). These young people were the main force for the Democracy Wall Movement in Beijing and Shanghai (1978-1979), demanding redress of their grievances.

Gold sensed a clear tension on the campus between those students who came to Fudan strictly based on merit as manifested in their success in the highly competitive college entrance exams at the end of 1977 or 1978 and those students who were enrolled based on political criteria because of their “peasant-worker-soldier” (工农兵) background. In addition to this cleavage, this class of students was bifurcated by age as well. The age gap between the oldest and the youngest was larger than a decade due to the suspension of schools during the Cultural Revolution. Gold met people of various backgrounds, not only intellectuals. After his return to Harvard in 1980, Gold began to study how sociological forces shape people’s life course and worldview.

Gold calls the second cohort “the 1960s swing cohort.” These people, born during 1955-69, did not attain the same level of education as the first cohort before the Cultural Revolution created havoc. They spent most of their youthful years “hanging out.” The brightest among this cohort studied on their own. They learned to be responsible for themselves and eventually turned their attention to their economic affairs. They were active in the “Bourgeois Liberalization” movement during 1985-87.

Gold calls the third cohort of people, born in the 1970s, “the reform cohort.” These people grew up in the era of Deng Xiaoping’s market reforms, and were influenced by the life style and cultural icons of Taiwan and Hong Kong. They were the main force in the 1989 demonstrations in Tiananmen Square and bore the brunt of the crackdown afterwards. The CCP reasserted its control through required military training of college freshmen and stepped up ideological education. After Deng’s 1992 Southern Tour, which renewed China’s commitment to opening up and reforms, a large swath of these people became engaged in the business world and focused on their own economic well-being.

Gold combines people born in the 1980s and 90s into the fourth cohort because they share the same characteristics and differ only by degrees. This grew up in a historical context radically different from the previous era. It was a period of rapid economic growth with significantly expanded opportunities. They could work for foreign companies or other private companies, establish their own companies, speculate
in the stock market, or choose to obtain higher education. Witnessing the smashing of the iron rice bowl, they realized that they had to be proactive because there was no permanent “work unit” to take care of them. Gold distinguishes their desire to have more space to take control of their lives from a genuine wish for democracy, as many of them have tuned out politics and turned to utilitarianism as a guide for life.

After Beijing’s successful organization of the 2008 Olympic Games, this generation of people assume that China would play a greater role in world affairs. They have gained enough confidence to be assertive, whether speaking against Japan or other domestic “separatists.” They also grew up in a period of fast high-tech development, which enabled horizontal communication, linking them to a wider global world.

They are also single children in their families, surrounded and often spoiled by six adults - two parents and four grandparents. Their life course is similar to that the youth of developed countries, with an adolescence period in which they do not have to work right away to make a living. They can afford the time to find their own identity in their relationships and with their surroundings. Having seen the behaviors of many princelings of high-level officials and the class of the nouveau rich, they are disgusted with inequality, corruption and the centrality of “Guanxi” (关系). Being cynical about joining the party, some of them turn to religion or public service for meaning in life. Others choose an exit strategy by leaving China for overseas, especially if they find their initiatives being curtailed by official doctrines, such as the 2013 Document No. 9, which severely limits the extent of civil society.

Gold is concerned what China will be like when this cohort of people climb up the social ladder either within or outside the party. This generation has little fear of social turmoil because they have no experience with it or knowledge about China’s modern history. Given these characteristics, Gold ponders how the Party could “manage” or co-opt this cohort in order to maintain “stability.”

Linking their desire to have more space with the grass-root Sunflower Movement in Taiwan and the Umbrella Movement in Hong Kong in 2014, as well as the current student demonstrations around the U.S. protesting gun violence and other ills of the American society. Gold wonders if there is a global trend, enhanced by social media and increased mobility, that could be a prelude to a replay of the 1968 world-wide demonstrations. He asks, “Can there be any catalytic event that serves as ‘a single spark’ that ‘can start a prairie fire’ as Chairman Mao said of the Chinese revolution?”

HOW TO MEASURE CHINA'S ECONOMIC REFORM?

Professor Dwight Perkins
Harold Hitchings Burbank Professor of Political Economy, Emeritus, Harvard University
April 4, 2018

Is China’s economy slowing down? Are China’s reforms successful or not? How are China’s state-owned enterprises (SOEs) and its financial sector doing? These are some of the questions featured at a high-level official meeting in Beijing in June 2017. Dwight Perkins, Research Professor of Political Economy of Harvard University, has systematically thought about these questions and come up with an evaluation tailored to the complex realities of the Chinese economy.

The first phase of China’s reforms during 1978-1992 is easy to judge, Perkins says. Under Deng Xiaoping’s pragmatic slogan, “crossing the river by feeling the stones,” China jump-started its economy by releasing the institutional constraints on parts of its economy and opening foreign trade. Although rapid inflation and widespread corruption in the 1980s foreshadowed the June 4th Movement in 1989, according to Perkins, the overall performance of the revitalized economy is a clear success.

Since the 3rd Plenum of the 14th Party Congress in 1993, China embarked on building a “socialist market economy.” Then the question, Perkins says, is: to what extent has China created an efficient market economy? Can a socialist market economy function in the same way as a capitalist market economy? Perkins points out that some economists such as Ludwig Von Mises (1881-1973) did not believe it could because producers of goods and services in a socialist economy have no incentives to maximize profit. Others such as Abraham (Abba) Lerner (1903-1982) and Oskar Lange (1904-1965) believed that it is possible because the central planner of the economy can order producers to maximize profit and can create institutions for a market economy. If so, Perkins asks, how should we measure the success of a socialist market economy?

Perkins believes he has an answer for this question and explains the rationale for his measurement matrix.
First, he says, there must be markets for goods and services to be purchased and sold. Second, these markets must be competitive with essentially no monopolistic behavior, and market participants must be profit maximizers. Third, there must be a stable financial market where banks and other financial institutions effectively channel savings to investments. Fourth, to keep this system functioning smoothly, there must be clear property rights; and the economic rights associated with ownership must be protected and enforced by a legal system. Under these conditions, Perkins asserts, one can prove mathematically that the market is efficient.

Perkins then evaluates Chinese reforms along these four dimensions. Since the early 1980s, an increasing percentage of goods and services have been allowed on the market. By the mid-1990s, markets for most goods and services had become completely competitive, and their prices reflect market conditions of supply and demand. But today, some markets are still highly regulated. These remaining regulations create the potential for government interference, Perkins states, creating market distortions and corruption opportunities. In the 2006 rankings by the World Bank on the ease of doing business, China ranked 93rd, with mixed results, without much overall improvement in recent years. Moreover, China’s record of protecting minority shareholders’ interests continues to be dismal. However Perkins notes, it has made quite a bit of progress in terms of enforcing contracts.

In terms of financial reforms, Perkins says, China has moved from having a completely state-controlled financial sector to a financial structure that increasingly resembles that of a modern economy. Under the planned economic system, state-owned banks took in deposits and then distributed funds in accordance with the state plans. In the 1990s, China began to modernize its banking system by establishing a central bank, the People’s Bank of China (PBOC), and four state-owned commercial banks. But, he notes, this structural shift did not change the essential practice that state-owned banks allocated funds to SOEs without professional risk assessment. Perkins tells us that when Zhu Rongji was the Central Bank Governor during 1993-95, he was determined to rein in inflation and set quotas for loans to SOEs. When he became the Prime Minister in 1998, he ordered SOEs to make profits and compete. Under his leadership, SOEs laid off tens of millions of excess employees. He also locked China into the World Trade Organization system in 2001 to put pressure on SOEs and to integrate China into the global supply chains. When Zhou Xiaochuan succeeded Zhu Rongji as the Central Bank Governor in 1995, he continued pushed market reforms and helped stabilize macroeconomic policies. Under his tenure (1995-2018), state-owned Chinese banks behaved more like real commercial banks with a reduced party role and improved professional standards and quality. Perkins points out, however, that the system still suffers from the caveat that the top management team of these banks is still selected by the Party’s Organization Department based on candidates’ loyalty to the Party first and their capability to implement the government’s intentions second. For the stock market, insurance market and other segments of the Chinese capital market, China has established governing laws very similar to those in the U.S. However, Perkins questions how these markets, despite having all the trappings of a modern economy, function in reality with the Party’s involvement.

On the topic of private ownership, Perkins says that China has come a long way, starting from de-collectivizing farmland and forming a household farming system in the early 1980s to promoting township and village enterprises (TVEs), and fostering other privately owned small and medium-sized enterprises (SMEs) later on. Since private ownership ensures profit maximization by aligning interests between owners and managers, to protect property rights and enforce contracts in dispute settlements is of critical importance. One positive difference made by foreign direct investment in China is to break a largely relationship-based (关系) system and force professionalism into China’s legal system.

But now, with the 19th Party Congress calling for stronger SOEs and the primacy of the Party leadership throughout the economy, including dispatching Party secretaries into private enterprises, Perkins is concerned that the goals of enterprises’ profit maximization and protecting private economic rights may be compromised, so that China deviates from the path toward becoming a genuine market economy.

Perkins’ evaluation of the quality of Chinese institutions is mixed, as China does not function like an ordinary market economy. China fares better in some areas than others. The share of goods and services going onto the market has been on the rise with increasing market competition. The Chinese banking sector is improving amid well-managed financial and macroeconomic stability. But, in places where the Party is involved, such as regulations and the legal system, China’s performance is not yet up to par. Perkins finds such mixed conclusions “unsatisfying,” but says that any sweeping generalization would not capture the complexity of the Chinese economy.
Having a long standing interest in grassroots activism and various forms of civil society mobilization, Diana Fu, Assistant Professor of Asian Politics at the University of Toronto and an affiliate of the Asian Institute at the Munk School of Global Affairs, immersed herself in her field work during 2009-2011, and has come up with a framework to conceptualize how weak organizations can facilitate rights claiming under repression. She calls this particular type of protest “mobilizing without the masses.”

Her rich field experiences in labor organizations in China form the basis for a fascinating political ethnography. She effectively uses this ethnography as a focal point to illuminate the larger issue about the relationship between popular protest, state power, and civil society in contemporary China.

Since it is dangerous for civil society to organize collective action in China, it is critical for Non-Governmental Organizations to avoid mobilizing the masses. They must steer away from organizing the masses to take to the streets while still being effective at aiding participants in claiming their rights. Based on her fieldwork in China, Fu has found that organizations can bypass this risk by coaching workers to challenge the state one by one or in small groups. The organizations provide moral support as well as technical guidance on how and when to make a threat when their problems cannot be solved through legal means. A case in point is a female migrant worker who was injured on the job: her arm was badly damaged due to her work conditions. Unable to get any help from the local labor bureau, she became desperate and threatened the Bureau Chief that if her injury was not compensated, she would “take extreme measures.” A week later, she received her compensation.

Behind this atomized contention - an individual confronting the state - is a disguised form of collective action in which activists inside NGOs provide tactical and moral coaching to workers. Fu perceives this dynamic of mobilizing without the masses as being situated between two other familiar dynamics of contention. One dynamic often seen in social movement societies is when an NGO serves as a mobilizing structure that amasses resources for collective action. The other dynamic, which often takes place in illiberal regimes, is James Scott’s weapons of the weak, in which aggrieved individuals purposely do not form groups in order to avoid state attention. The dynamic that Fu illustrates is somewhere in between these two forms—it is neither strictly collective nor individualized. Rather, individuals form groups in order to better contend as individuals. Hence, the purpose of forming an NGO is not to rally the crowds to take their issues to the streets but to coach citizens to challenge the state individually.

According to Fu, there were about 72 such labor organizations, with chapters in various cities, at the time of her field work. They formed two broad clusters in the Beijing area and the Pearl River Delta area respectively. The Beijing cluster tended to have more resources and contributed to the policy-making process. The Pearl River Delta cluster had roughly two subgroups, with one being more explosive than the other. One subgroup consisted of labor organizations founded by mainlanders. The other subgroup consisted of more people from Hong Kong, who were more engaged in collective bargaining. They tried to educate migrant workers about civil society and citizenship. They were more likely to be perceived as a threat to social stability and therefore were often harassed by state authorities.

Mobilizing without the masses is a response to a fragmented form of state control over civil society. Fu discusses three variations of the dynamic. One is what Fu calls “micro-collective action.” An example of such action is a “flash protest” by a group of people, which just lasts long enough to get their message out but short enough for them not to be detained.

The second variation is atomized action, which is really a form of disguised collective action. These are actions by individuals who have been coached to use techniques from a repertoire of everyday tools, including verbal threats, possible media exposure, stalking factory bosses, individual sit-ins, and suicide shows. They learn to how to sensationalize their demands, when legal means do not work for them or take too long to address their grievances, while they make their actions appear as isolated and individualized actions without the backing of any group.

The third variation is what Fu calls “discursive action.” Labor activists offer an alternative narrative to migrant
workers, such as identifying them as “new proletarians” opposed to capitalist bosses, instead of “peasant workers” as they are commonly referred to, and as citizens of the country with due rights as rich people. These activists try to use moral persuasion to change a public discourse. Some labor organizations explicitly state, “The law is implemented in favor of the rich. We need to do things in our own way and from our perspective. We may need to use forceful means. We don’t discourage using illegal methods to claim your rights.”

In conclusion, Fu underlines the increasing pertinence of mobilizing without the masses in today’s China, not only in labor relations but also in other areas, as state repression increases under Xi Jinping’s reign. Leaders of many labor organizations had been detained and charged by the end of 2015. Even atomized contention is in peril under consolidated state repression.

ELITE PHILANTHROPY IN THE U.S. AND CHINA: WHAT DO THE DATA TELL US?

Dr. Edward A. Cunningham
Director of Ash Center China Programs and Asia Energy and Sustainability Initiative, Harvard Kennedy School
April 18, 2018

Edward A. Cunningham, Director of the Ash Center China Programs and of the Asia Energy and Sustainability Initiative at Harvard Kennedy School, presents his recent work from quantitative research on the rise of Chinese private wealth and philanthropy. This work is part of the Ash Center’s China Philanthropy Project, which also includes training programs for leading philanthropists and qualitative research on the history of giving in China and case studies.

Before he reveals the patterns from his team’s extensive research, Cunningham delineates at the outset some characteristics of the landscape of Chinese giving and the challenges in calculating the relevant statistics for comparison purposes. First, when a Chinese businessman gives away a large sum of money, there is always a question of whether this giving is part of normal business with a tacit quid-pro-quo embedded with the giving, whether it is a camouflage for channeling money overseas or for other illicit uses, or a genuine giving for charity.

Second, Cunningham says that there have been examples of unfulfilled pledges, which creates problems for calculating the statistics on giving for any particular year. In addition, if a pledge of total giving is made in one year, but disbursed over several years, keeping consistent measurement standards through all the data sources is a challenge. Third, the amounts of some Chinese giving appear to be deliberately capped by the donors’ deference to their predecessors who are older and enjoy a more established status in the charity world.

Fourth, for many one-time natural disasters, some companies donate large sums by raising money from their employees collectively. Fifth, technology has made crowd funding on-line possible. For example, the Tencent Foundation raised over a billion RMB from more than 12 million individuals. Sixth, some Chinese give for specific religious projects such as
building a temple, but religious giving is not nearly as prevalent as that in the U.S.

Cunningham then talks about the sources of his data. He uses both “manual data” from the Chinese Weibo, Weixin (WeChat), Baidu and foundations’ annual reports, as well as what he calls “machine data” or “web crawler data.” Having compared thousands of data points on elite giving - top 100 largest givers - in the US and China respectively, and being conscious of those “dogs that don’t bark”, he gleans ten patterns.

First, most Chinese elite givers’ donations concentrate in one cause, whereas American givers spread their donations more. Second, more than half of Chinese elite giving goes into education-related activities, followed by welfare and poverty alleviation. This is an area that the central and local governments try to support and encourage private giving under its guidelines. In contrast, most giving in the U.S. is more evenly shared among education, public health care, social welfare, and other Non-Governmental Organizations (NGOs). Third, most Chinese private wealth used for donations comes from real estate and information technology industries, whereas in the U.S. it comes from financial services and the health care sector. Fourth, if we change the measurement yardstick from the absolute amount of giving to the amount of giving as a percentage of the giver’s total wealth, then the data show that American elite donors are much more generous than their Chinese counterparts. The top 10 Chinese donors gave away less than 10 percent of their wealth, whereas their American counterparts give many times more.

Fifth, in terms of the geography of the donation destinations, about two-thirds of Chinese donations go to the coastal areas in east China, with very limited amount to inland China, and even less overseas. Sixth, the biggest recipient of private giving in China is educational institutions and foundations, which absorb about half the total amount, followed by government-sponsored charities and organizations; whereas in the U.S. about 60 percent goes to churches and other NGOs. Seventh, about two-thirds of Chinese elite donations are through corporations and foundations, and only one third is directly from individuals. This ratio is the reverse in the U.S., with individuals and individual foundations dominating the landscape.

Eighth, almost all Chinese giving is in the form of cash, whereas more than half of the giving in the U.S. take the form of stocks and in-kind donations, including goods and services. Ninth, on average, Chinese elite givers are much younger than their American counterparts. They are likely in the age range of 40-60 years old. American donors have a much larger age variation. Tenth, Chinese elite givers are predominantly male whereas their American counterparts are more gender balanced.

Overall, Cunningham argues, Chinese appear to have fewer mechanisms for giving, with lower transparency. Their giving is most likely to be cash-based and to be channeled to government-affiliated organizations, which enjoy the guidance and the support of state policy. Most Chinese donations come from rich coastal areas and stay local. The relative size of total private giving in China is about one tenth of that of the U.S.: 0.2 percent of GDP vs. two percent of GDP. Cunningham leaves the audience to ponder: why does corporate giving dominate in China? Why do so few Chinese individuals give? Why is giving so local in China? And why do the government and government affiliates receive so much more funding in China than real NGOs?
MANAGING GROWING AND EXPANDING COMPETITION BETWEEN CHINA AND THE U.S.

Professor Wu Xinbo
Professor and Dean, Institute of International Studies, and Director at the Center for American Studies, Fudan University
April 25, 2018

In anticipation of growing and expanding competition between China and the U.S., Wu Xinbo, Professor and Dean of the Institute of International Studies, and Director of the Center for American Studies at Fudan University, makes an effort to think about and deal with the rising tensions between the two countries, in order to contribute to the mitigation of one of the biggest challenges of our time.

He explains why competition, rather than cooperation, will be the main theme of this bilateral relationship, and discusses how to keep competition in an appropriate perspective to better manage it for the benefit of the two countries and the world. He warns of vicious competition and promotes healthy competition in economic, political, and international relations areas.

Increasing competition between a rising power and the established power is predicted both by international relations theories and by empirical evidence. China’s GDP reached 60 percent of that of the U.S. in 2016 at the market exchange rate. It is projected to catch up with the U.S. in the next ten years or so. China is also moving up the technological value chain, with enhanced manufacturing capability as outlined in the blueprint “Made in China 2025,” which was released by the Chinese government in 2015. Following China’s economic prowess is its expanding geopolitical influence in Southeast Asia and Eurasia, especially with the Belt and Road Initiative (BRI) forging ahead. Militarily, China has demonstrated credible deterrence capability in the western Pacific region.

China’s increasing economic and geopolitical traction has posed some challenges to the U.S. and tilted the balance of American perception of China from a combination of cooperative partner and competitor to “a strategic competitor” or even adversary along with Russia, as identified in U.S. national security documents.

However, Wu firmly opposes this official American assessment, which, he says, does not accurately capture the reality. Wu believes that in the high-tech area and in terms of military capability, China will not be on par with the U.S. in the next decade or two; in terms of soft power, China is behind the U.S. by decades. Yet, the reality has changed, he acknowledges, in such a way that the U.S. has to learn to share power with others, including China, and to learn to deal with others from a less dominant position than it is used to.

Wu assures his American audience that China is not trying to export its political system or ideology, but only tries to show the rest of the world that its own governance system and economic development model, which have long been viewed as alien to the Western model, work well and should be accredited.

How then should both countries manage the increasing competition? Wu reminds the audience not to forget the cooperation aspect in this relationship now and in the future. He underlines the high degree of economic interdependence between China and the U.S. in terms of each other’s huge market size and potential for more bilateral investment and trade. He expounds that China has no intention of dominating the Pacific as Japan did before World War II. China only wishes to safeguard its rights within a few hundred miles off its coast, he says; it does not want to start an arms race as the Soviet Union did in the Cold War.

Wu warns against a vicious cycle of destructive competition. If neither side compromises, it will result in a lose-lose situation, he says, with collateral damage to international institutions. The Cold War is a case in point, which eventually forced other countries to take sides.

Wu promotes two other kinds of competition. One is what he calls “regulated competition,” guided by international rules and norms to ensure that competition does not to get out of control. In this framework, both sides would agree not to challenge each other’s domestic stability or governance system; not to challenge international rules, or allow normal economic competition to affect overall bilateral relations. In the international arena, China and the U.S. would continue to engage each other through international organizations. Even China-initiated multilateral organizations, such as the Asian Infrastructure Investment Bank (AIIB), would not replace, but only complement, the World Bank and other pillars of the post-WWII international order. In the security area, both sides would agree not to use force to resolve any differences,
but rely on negotiation and dialogue.

Even better than “regulated competition” is what Wu calls “convertible competition,” in which both sides adjust to mitigate competition and even cooperate with each other. In this framework, both sides would decide to work with and learn politically from each other despite competition in some economic areas. For example, the U.S. can learn from China on long-term planning, effective implementation, and strong governance capability. China can learn from the U.S. on how to cultivate a more conducive environment for innovations. On the security front, China would contribute, with its growing capacity, more to maintaining the international security order and other global common goals, thereby becoming a real stake holder of the international system. In this way, China’s economic and technological strength will be an asset, instead of a threat, to the world. Wu proposes that the direction in trying to resolve many differences in the economic competition between the two countries should be geared toward making “a bigger cake” instead of treating every dispute as a zero-sum game.

As China arrives on the world stage, Wu calls on Americans not to hold any bias against China’s political system or feel anxious about China’s influence in America. He states that America is “an open society,” and China is becoming increasingly open. After all, about half a million Chinese students go abroad every year to study; about 100 million Chinese travel abroad every year. The U.S. is a major destination for both of these groups. Wu urges Americans to keep an open mind and to adapt to this globalized and fast-changing world.

POWER SHIFT? AMERICA AND CHINA IN SOUTHEAST ASIA

Professor David Shambaugh
Gaston Sigur Professor of Asian Studies, Political Science and International Relations, George Washington University
May 2, 2018

David Shambaugh, Gaston Sigur Professor of Asian Studies, Political Science and International Relations at George Washington University, provides his evaluation of Southeast Asian nations’ relationships with the United States and China, based on six months spent in the region in 2017. He highlights the underappreciated fact that America has a longstanding and widespread relationships throughout the region, and thereby refutes the narrative by many media outlets in the region of a “power shift” from the U.S. to China. He characterizes the relationship between the two major powers as “a competitive dynamic in all domains,” and prognosticates that this dynamic will continue indefinitely.

Although Southeast Asia is not as sensitive as Northeast Asia with its major flashpoints, it is not a backwater either, Shambaugh says. It is culturally and politically diverse, economically burgeoning, and geopolitically significant — particularly with the Malacca Strait as a potential military choke point. It links the Indian Ocean with the Pacific, channeling 40 percent of global trade every year, including 25 percent of the world’s liquefied natural gas and oil. Shambaugh is less critical than many Americans about the role of the Association of Southeast Asian Nations (ASEAN), which just celebrated its 50th anniversary last year. Although ASEAN is vulnerable to accusations of being “a talk shop” with its inefficient decision-making convention of consensus building, Shambaugh says that it has prevented inter-state warfare, enhanced regional security, and fostered economic growth and cultural connectivity.

Shambaugh thinks that Southeast Asian countries need not feel uneasy about their position in the U.S.-China dyad, since neither Washington nor Beijing are asking them to choose. Yet, he notes, there has been a noticeable gravitational shift toward China since 2017. Shambaugh thus ranks the ten ASEAN countries in descending order in their closeness to
China: Cambodia - a capitulated client state of China; Myanmar and Laos - reluctant to be close to China but feel neglected by the U.S.; Malaysia and Thailand - accommodating China economically and militarily because of their frayed security alignment with the U.S.; the Philippines and Brunei - tilting toward China; Singapore and Vietnam - straddling between the U.S. and China; and Indonesia - being the only outlier in this shifting landscape and trying to preserve its independence between the two major powers.

However, Shambaugh does not see this overall relational shift toward China as static or permanent. He emphasizes the longstanding and deep-seated U.S. relationships with Southeast Asian countries, which have been underappreciated. Most of the ASEAN countries are security allies of the United States. Although China’s total trade with ASEAN has surpassed that of the U.S., and its foreign direct investment (FDI) in this region on annual basis is about the same as that of the U.S., the total stock of U.S. FDI in ASEAN is still ten times that of China’s. American companies have a vast presence in this region, with most of them concentrating in information technology and other service industries, in contrast to building infrastructure and trading goods as Chinese companies do. Except in Cambodia and Laos, he says, the U.S. also has expansive cultural ties with Southeast Asian countries through Fulbright Scholars and other educational programs, leadership training programs, sports exchanges, and other public diplomacy programs.

China has its own initiatives and programs with ASEAN countries, such as a variety of “strategic partnerships,” and building economic corridors and industrial parks, many of which have been encompassed in its ambitious Belt and Road Initiative (BRI). Beijing is also building its cultural and “united front” ties to the region, and is diplomatically very active.

Shambaugh then compares the strengths and weaknesses of the U.S. relationship with Southeast Asia with those of China. From the point of view of Southeast Asian countries, he says, the U.S. emphasis on human rights and democratic governance limits how close these countries can be with the U.S. American diplomats tend to be impatient (after traveling a long distance to the west Pacific) with the “ASEAN Way” of consensus building, which often results in no decisions, let alone enforcement. In Shambaugh’s opinion, the U.S. relationships with ASEAN countries suffer from episodic American inattention to, or even outright neglect of, these countries.

By contrast, China enjoys the geographic proximity to the region and ample government finance to back up major projects. But Chinese diplomats and businessmen are perceived by many as too pushy and overbearing. Moreover, China does not provide security guarantees to any of the ASEAN countries. Its territorial disputes over the South China Sea with several ASEAN countries and its defiance of the PCA (Permanent Court of Arbitration) ruling aggravated Beijing’s regional ties. Furthermore, China’s active use of the United Front, a range of Chinese Communist Party and government activities to reach overseas ethnic Chinese for economic and political gains, is ill perceived and potentially dangerous.

In conclusion, Shambaugh advocates continuing American investment in various public diplomacy programs in Southeast Asia, and continuing American presence there, without being overbearing, so as to provide an alternative to those countries when they run into difficulties with China. He believes that there is scope in Southeast Asia for “competitive co-existence” between the U.S. and China for an indefinite period; and that the principal challenge is to manage it in such a way that prevents this competitive relationship from becoming acute and adversarial like that during the Cold War.
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