

What Does General Secretary Xi Jinping Dream About?

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China's Rise

- Clearly is reshaping geopolitics
- Two general features are important
- 1) world's largest economy will not be a Western nation, and with a different set of values and institutions
 - Gives rise to discussions about the need for challenge and containment from the US
- 2) For the first time, the world's largest economy will not be the one that enjoys the highest living standards and quality of life
 - Gives some hope to those favoring engagement
- These two views have been reflected in the Presidential campaign

Topics for Discussion

- 1) What does General Secretary Xi dream about?
- 2) Is it realistic or is it a nightmare? Is China's economic growth sustainable
- 3) Three scenarios for China's future

Political Priorities

- Xi has proved adept at accumulating power and dominating the political discourse
- Will he be able to use this power effectively to force through his economic priorities?
- New leadership exudes a confidence that has been lacking since Deng Xiaoping
- The overriding priority is to retain the CCP's political power
- BUT, this is not a sufficient explanation what does he intend to do with the power he has accumulated?
- In key respects, Xi has decided to break away from the existing norms and rules.
- Restore people's faith in the CCP by reducing pomp, circumstance and extravagant waste by officials and launching a major campaign against corruption in CCP and government ranks

Six Political Priorities

- 1) Promotion of traditional Chinese culture (especially Confucianism)to boost legitimacy
- 2) However, continued stress on Marxism and work in the ideological and theoretical sphere
- 3) More frugal approach to government work and entertainment
- 4) Stepped up fight against corruption that has moved beyond factional struggle
- 5) Stronger control over state and society
- 6) Vigorous defense of sovereignty

Reviving Confucius

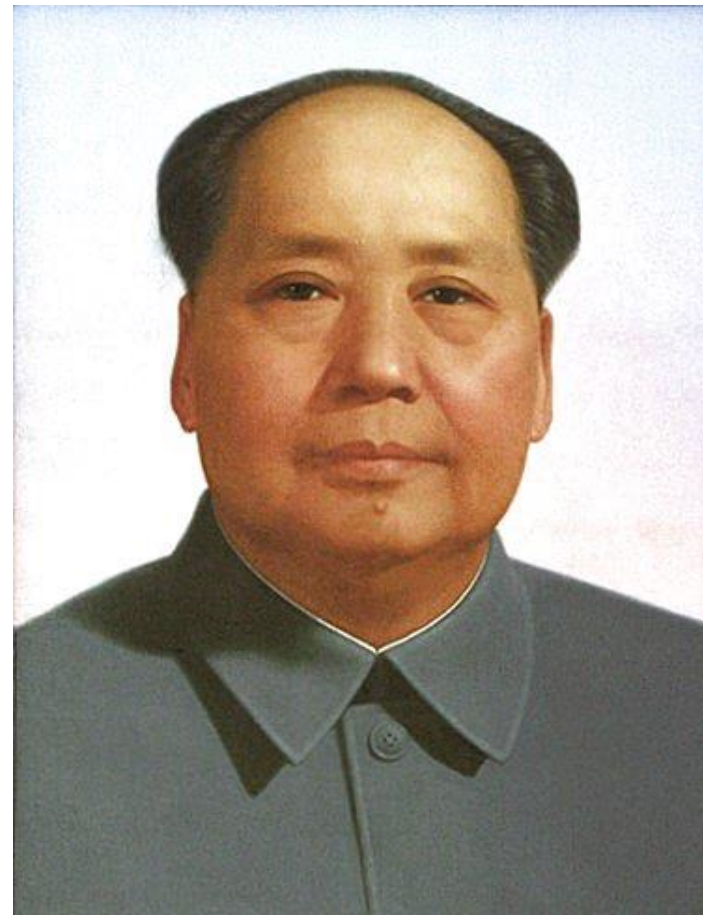
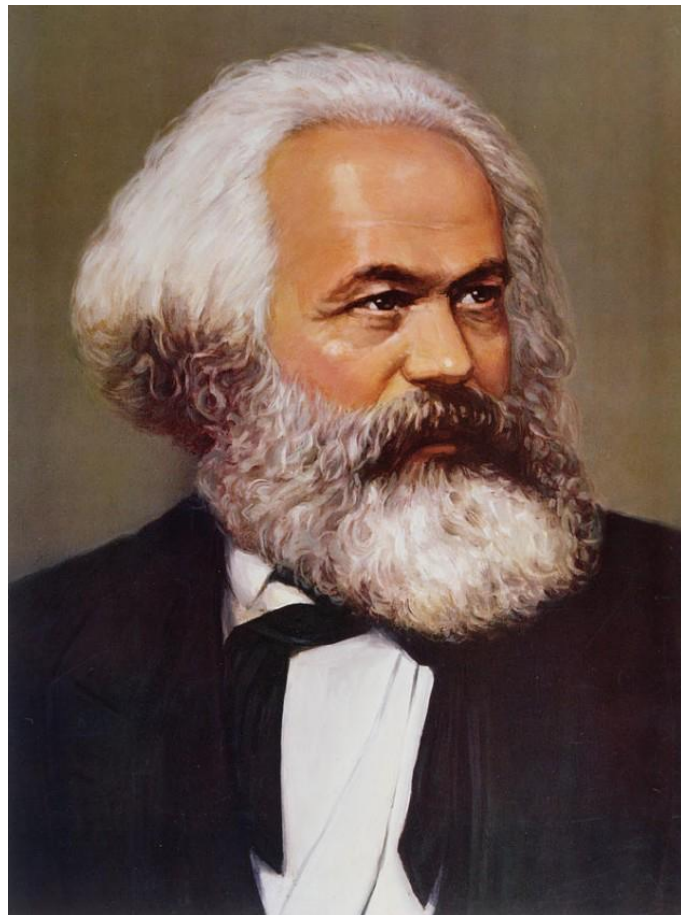


Fight the people's battle of criticizing Lin Biao and Confucius well, 1974



Criticize the reactionary thought of Lin Biao and Confucius, firmly walk with the workers and peasants on the road of unity, 1974

But renewed stress on the study of Marxism



What to Eat



What to Drink



Often called China's national liquor, Maotai is often served to distinguished guests



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And Certainly not this



Anti Corruption to boost legitimacy and remove rivals



Stronger Control over State and Society



Promotion of Nationalism and More Assertive Territorial Claims



Economic Priorities for China

- US and Chinese analysts share the same starting point. Past model no longer viable Xi Jinping (9/22/2-15) need to address successfully “the problem of unbalanced, uncoordinated and unsustainable growth”. Need to shift the growth model.
- Liu Shijin, former VM of the Development Research Center, “the end has come to the period of purely ‘quantitative expansion’” and of “extensive cultivation for meagre returns.”
- Priorities laid out at the 3rd Plenum of the 18th Central Committee (November 2013)
- A) Shift to consumption as key driver to achieve balanced and sustainable growth—the ‘new normal’
- B) Greater use of the market. But the state will still dominate over the market
- C) Reduction of the role of state-owned enterprises and boost small and medium enterprises. But Xi still clearly sees SOEs as the pillar of CCP rule.
- D) Emphasis on financial sector reform
 - Desired sequencing: clear up too big to fail state-owned banks; exchange rate reform; interest rate liberalization; capital account convertibility; RMB internationalization

Priorities for Hu Jintao-Wen Jiabao

- 1 Restructure drivers of growth
- 2 Reduce role of SOEs and boost private sector
- 3 More sustainable development
- 4 Reduce corruption
- 5 Make growth more equitable
- 6 Reduce administrative interference in the economy
- Issues are well understood but flexibility is reducing as power of vested interests is rising

Will Xi Realize his Dream?

- A more confident and stronger leader
- Created a vehicle to push through reforms—Central leading group on comprehensively deepening reforms. Set up at lower levels of government.
- Challenges:
 - Are there too many priorities? Sixty in the Decision, can allow local leaders to pick and choose
 - Resistance of vested interests
 - Reform has produced strong winners and a) the proposed economic reforms challenge their interests and b) the anti-corruption campaign paralyzes those local officials that Xi must rely on to push forward reform at the local level
 - Is there a trade off between economic growth and environmental degradation?
- External barriers
 - Depends on the general health of the global economy
 - And how other countries respond to China's continued growth

A Middle Income trap?

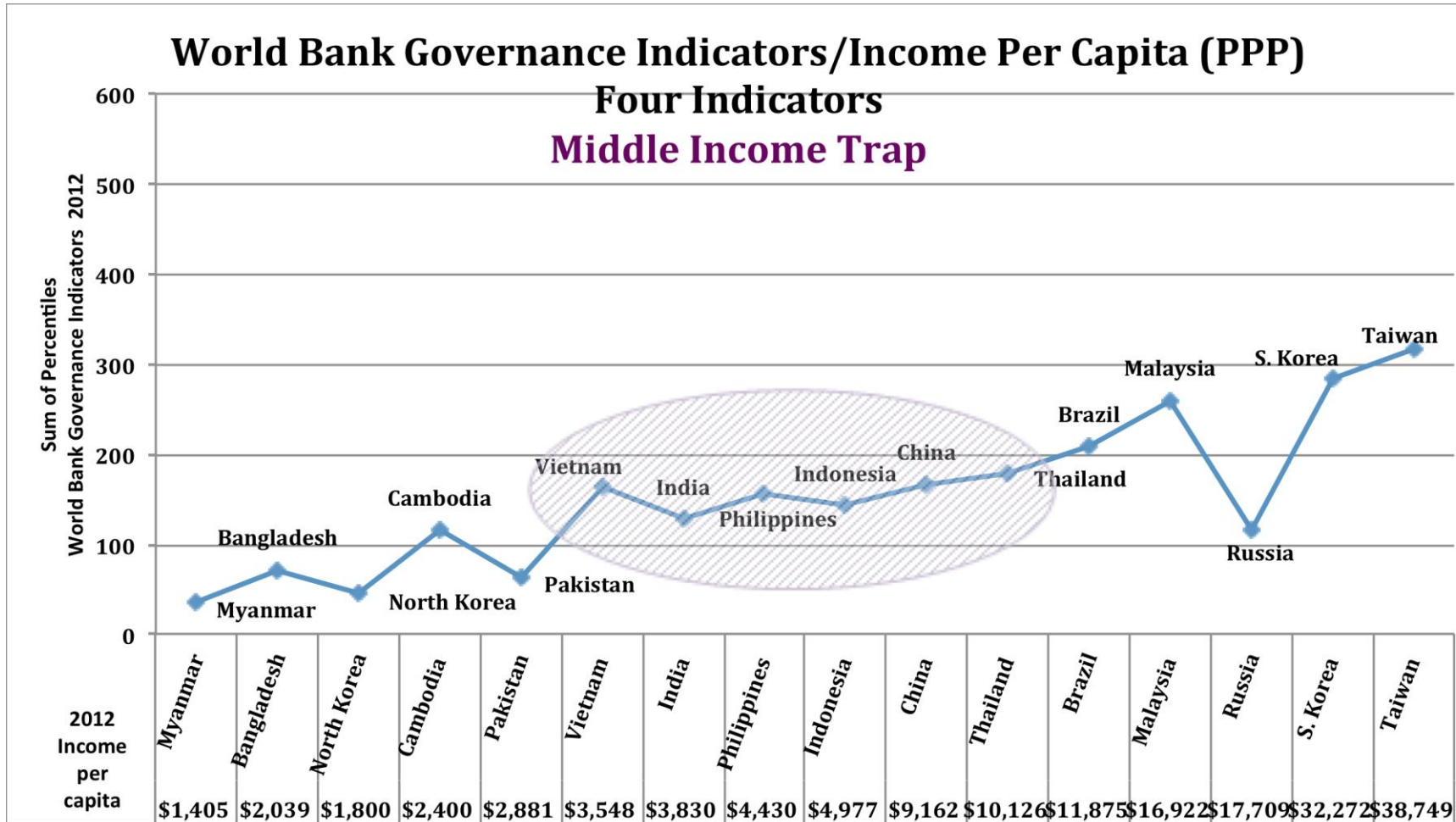
- Lou Jiwei (May 2015)—China has a “50-50 chance” of sliding into the middle-income trap in the next 5-10 years
- Pritchett and Summers rejected idea of a “middle income trap” and
 - state that it is growth reverting to the mean.
 - Past performance less of a guide to future trends.
 - Income is a poor predictor of growth slowdowns
 - Rapid growth a more powerful predictor of slowdown than income level
 - For China: they see a significant risk of a major growth slowdown at some point in the next decade
 - Rapid growth cannot be taken for granted

The Quality of Institutions and Economic Growth

- South Korea and Taiwan success not longer attributed to the absence of state regulation and interventions
- But rather the specific nature of them: a high degree of state intervention but one which provided a framework for competition
- Does China have the necessary institutions for constraint?
- China and Vietnam have good institutions for their level of economic growth and has allowed them to attract FDI
- At a higher level of growth authoritarian institutions prove less viable as the need is to promote competition, innovation and productivity growth rather than acquiring increasing amounts of capital

World Bank Governance Indicators/Income Per Capita (PPP)

Four Indicators Middle Income Trap



Per Capita GDP Growth Rates (from Perkins and Rawski)

	1955-1960	1961-1970	1971-1980	1981-1990	1991-2000	2001-2010
China	4.2	1	4.3	7.7	9.3	9.8
Hong Kong	na	7.7	6.9	5.4	2.3	3.4
Taiwan	3.4	7	7.9	6.4	5.7	2.3
Japan	7.3	9.8	3.3	4	0.9	0.8
Republic of Korea	1.6	5.7	5.4	7.5	5.1	3.7
Mongolia	na	na	3.4	4.2	-0.8	5.1
Indonesia	na	1.8	5.4	4.4	2.7	4
Vietnam	na na	na	na		5.9	6
Philippines	3	1.8	3.1	-0.9	0.8	2.8
Thailand	2.6	5.1	4.3	5.9	3.5	3.4
Malaysia	1.3*	3.4	5.3	3.1	4.4	2.6
Cambodia	na	na na	na	na		6.5
Singapore	na	4.4	7.2	4.9	4.6	2.5
Laos	na	na	na	na	3.5	5.4
Brunei	na	na	13.5	-1.2	2.3	7.1

Dating the End of High Growth (from Perkins and Rawski)

Table 6

Country	Year start of slowing	Period before slowdown	Growth Rate Before	Period after slowdown	Growth Rate After	PPP GDP per cap at slowdown (2005 prices)	Exch Rate GDP at slowdown prices)
Japan	1971	1968-1970	10.72	1971-78	2.605	13800	16500
Taiwan	1990	1980-89	8.56	1990-99	6.304	13370	10880
Korea	1992	1982-91	9.05	1992-2005	5.28	13370	8810

Three Scenarios for Future Growth (based on Rosen)

- Demographic dividends propelled growth but labor will shrink
- Capital formation powered investment-led growth but now diminishing returns
- 1) Growth at 6% in 2020—half growth through continued investment and half through more efficient and productive use of human resources and capital
- 2) Growth driven only by investment, no better than 3%
- 3) Falling productivity could pull down private investment leaving GDP growth at 1%.

The Rejuvenation of the Chinese Nation

- China's IR theorists do not seem to read China's economic analysts: IR theorists remain very bullish about China's ability and need to project its international interests. China's economists are more circumspect about the prospects for economic growth.
- Dec. 2014, Xi—important to “inject more Chinese elements into international rules” and promoted the “China Dream” that envisages the nation playing a stronger role in global affairs and especially in regional politics and economics
- But—not necessarily change the rules of the game or confront the US
- Desires a multi-polar world
- Needs a peaceful environment to continue development
- But China has clearly abandoned Deng Xiaoping's “hide your strength, bide your time, never take the lead, accomplish things where possible”

China within the Region

- China has developed a number of new initiatives and clearly sees itself as the dominant power in East Asia
- Compared to America's "pirouette", China has made a concerted pivot.
- 2013, Foreign minister Wang Yi, neighboring countries had become a 'priority direction' for diplomacy with the desire to build a community of shared destiny in Asia centered on China
- Carrots and sticks
- Carrots—trade, BRICs bank, AIIB and the 'One Belt, One Road'
 - All aimed to draw China into China's economic sphere and influence
 - Not a threat to established players
 - US decision not to join was short-sighted and misguided

China within the Region

- Stick
 - Territorial disputes in East China and South China Seas
 - China may reduce aggression but will not renounce claims
 - Creates a realm of conflict for US-China relations
 - Additional differences over Taiwan and how to deal with the Korean Peninsula
- Result is a potentially dangerous bifurcation
 - Economic Asia within which China is the core
 - Security Asia that is focused on the US

Scenarios for Future Development

- 1) Fluctuation between soft and hard authoritarian rule
 - A form of muddling through
 - Is Xi accruing power to push through tough reforms in his second term? Even if this is the intent, this is hard to do given the patron-client nature of the Chinese political system
 - Maintenance of an authoritarian political structure overseeing modest economic liberalization
 - Minimal political reform with emphasis on developing the rule of law to govern economic activities
 - Weak national consensus, continued corruption and lack of social cohesion
 - Reliance on economic development to provide legitimacy and support BUT
 - Flirtation with more strident nationalism to bolster the national consensus
 - Relations with US and Japan manageable but frictions will persist
 - Policy will harbor the tensions of appeasing the new economic elites and trying to support those who have been left behind by reforms
 - Fits with ideas of Leninist adaptation, authoritarian resilience etc.

Scenarios for Future Development

- 2) Xenophobic nationalism combined with a domestic inefficient authoritarianism
 - Pacted transitions are rare and even rarer during periods of economic growth
 - Potential emergence of an “illiberal democracy” as in Russia at the positive end of this scale with the dominance of the executive and a weak legislative development and a strong role for the military
 - At the other end of this scale would be the emergence of a pre-democratic Central American-style political system
 - CCP dominated by new elites who would resist any political opening
 - Rule by new economic elites backed by the military in the name of preserving social stability and national sovereignty
 - Strident nationalism to provide a minimal level of social glue
 - Inequalities will continue to rise
 - CCP as the preserve of the elites
 - Permanent underclass in rural and urban China
 - Relations with the US and Japan would be fragile and liable to uncertain trends

Scenarios for Future Development

- 3) Liberalization
 - Leadership responds to increasing diversity in society and moves to accommodation
 - Produces similar outcomes to democratic breakthrough elsewhere in East Asia
 - Requires a significant section of the elite to break with the old system and form a new compact with progressive forces in society
 - Beneficial for relations with the US and Japan with considerably reduced tensions over Taiwan offering a potential route for reunification