

# What Does General Secretary Xi Jinping Dream About?

Tony Saich

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## 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?

# 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

# Leadership Challenges

- Domestically:
  - Avoid the “middle income trap”
  - Dealing with severe environmental degradation
  - Rising inequality
  - Urbanization
- Externally:
  - Does China wish to fill the leadership void left by the US?
  - North Korea
  - Sovereignty Claims

# Power Consolidation

- Five key events confirming Xi Jinping's preeminent position:
  - 1) 6<sup>th</sup> Plenum (October 2016) confirms Xi as the core of the party leadership
  - January 2017, comments released about five former leaders having engaged in "political conspiracies."
  - March 2017 NPC meeting, noticeable for the dominance of Xi over proceedings rather than the Premier
  - Early 2015, Xi's policy slogan the "Four Comprehensives" began to be promoted
  - Removal of Chongqing party secretary and replacement with Xi loyalist
- Needed to exert control over government and society
- Centralized power as much as possible

## 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 with a stepped up fight against corruption that has moved beyond factional struggle
- 4) Vigorous defense of CCP record and history
- 5) Stronger control over state and society
- 6) Promotion of nationalism as a legitimizing force

# Reviving Confucius

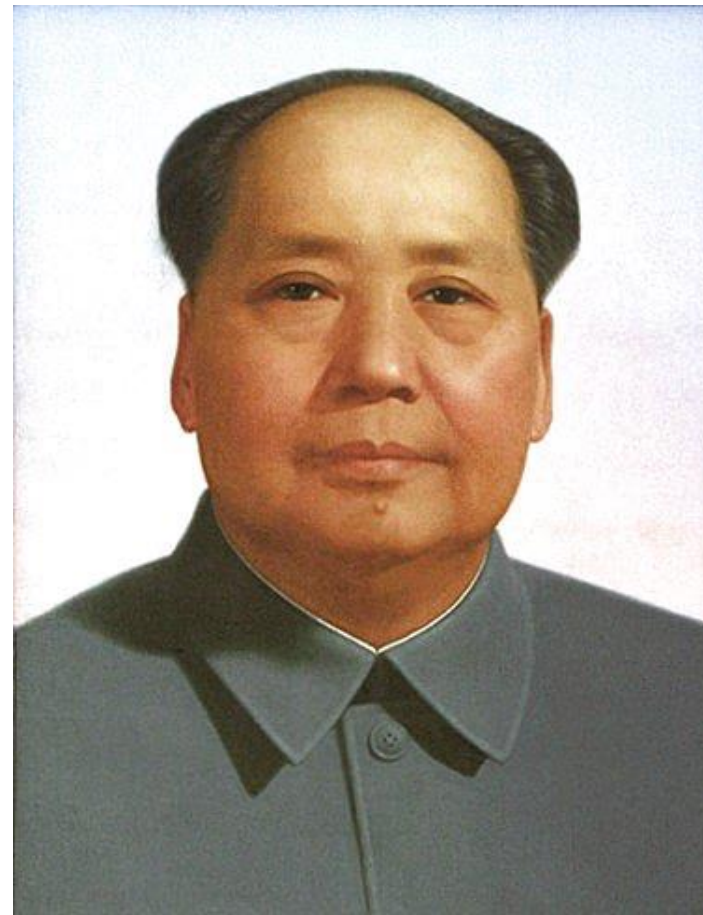
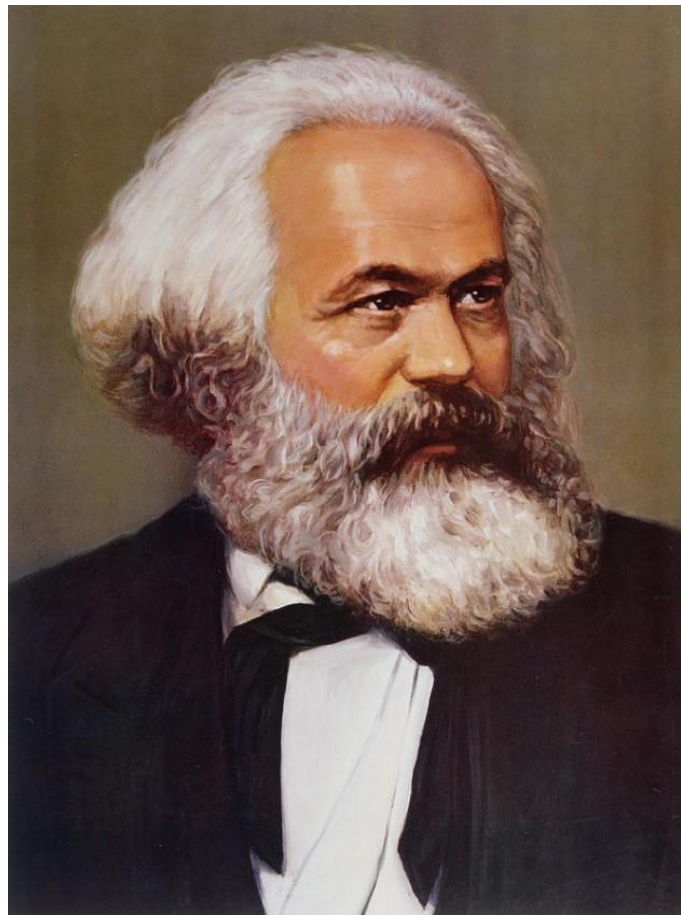


Fight the people's battle of criticizing Lin Biao and Confucius well, 1974



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.”
- Xi Jinping (WSJ 9/9/2015) China needs to deal with unbalanced, uncoordinated and unsustainable growth, need to shift to a “innovative and consumption-driven economy”.

- Priorities laid out at the 3<sup>rd</sup> Plenum of the 18<sup>th</sup> Central Committee (November 2013)

despite emphasis on the market, it contains a clear commitment to the role of SOEs and state management of economic development

the concepts of indigenous innovation and made in China 2030 are important

OBOR and AIIB will ensure that the state plays an important role in outbound investment  
also

# Key Features of Economic Policy

- A) Slower and more balanced growth under the slogans “New Normal” and “supply-side economic reform”
- B) As a result, the shift to consumption as key driver to achieve balanced and sustainable growth.
- B) Greater use of the market. But the state will still dominate over the market
- C) Shrink but strengthen the remaining state sector of the economy, the key 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



## 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.
- See a divergence of views about how to accommodate China's economic rise
- See a potentially dangerous divergence between an economic Asia dominated by China and a security Asia dominated by the US
- Powerful countries dominate global rule setting and China will have to decide how much it wishes to engage and to what purpose
- But China has clearly abandoned Deng Xiaoping's "hide your strength, bide your time, never take the lead, accomplish things where possible"

# The Rejuvenation of the Chinese Nation

- Strange to see the President of China as one of the firmest defenders of economic globalization
- Promotion of “new-type of great power relationship” to dictate the relationship with the US
- 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

## Will Xi Realize his Dream?

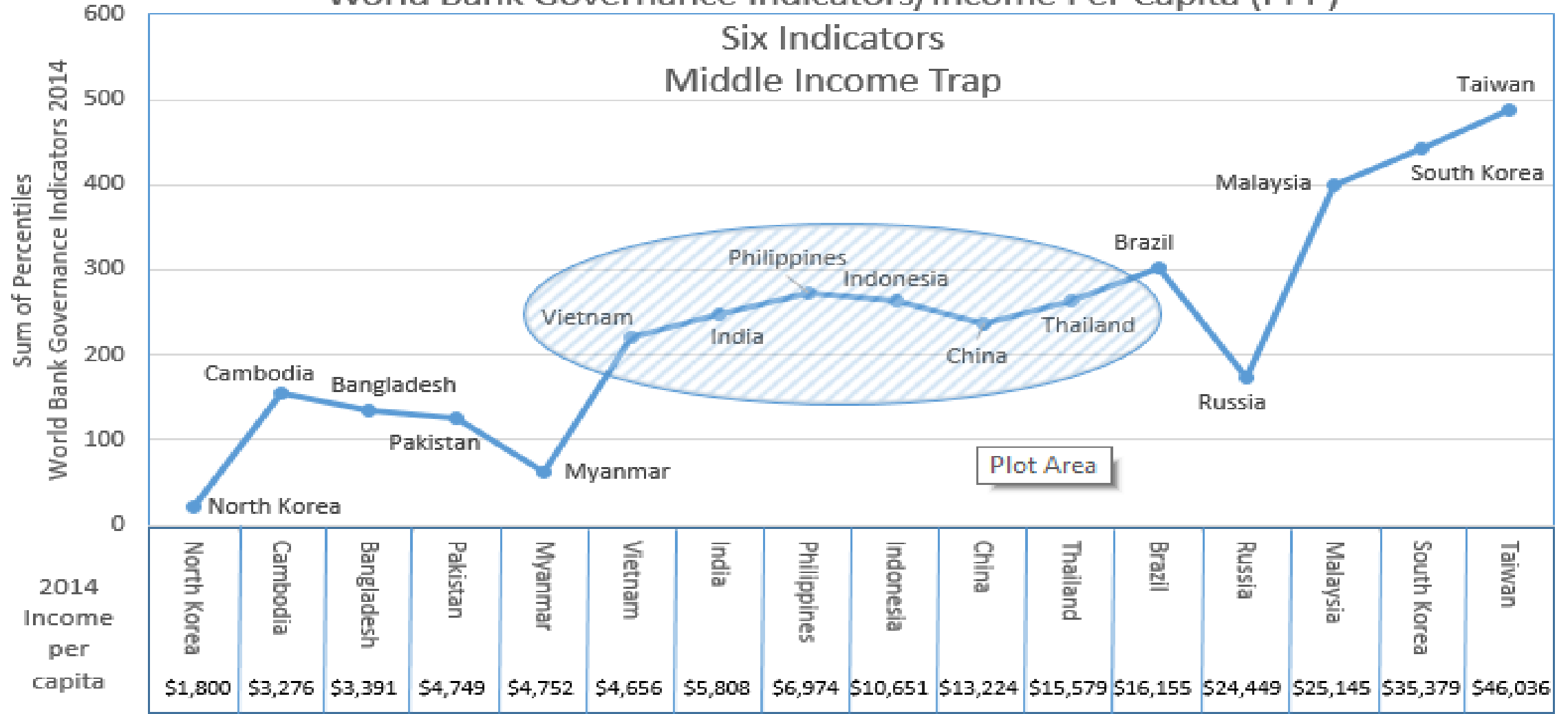
- A more confident and stronger leader
- Created a vehicle to push through reforms—Central leading group on comprehensively deepening reforms. Set up at lower levels of government.
- Challenges:
  - Are there too many priorities? Sixty in the Decision, can allow local leaders to pick and choose
  - Resistance 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? Institutions and Economic Growth

- Lou Jiwei (May 2015)—China has a “50-50 chance” of sliding into the middle-income trap in the next 5-10 years
- 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)

## Six Indicators Middle Income Trap



2014  
Income  
per  
capita

North Korea	Cambodia	Bangladesh	Pakistan	Myanmar	Vietnam	India	Philippines	Indonesia	China	Thailand	Brazil	Russia	Malaysia	South Korea	Taiwan
\$1,800	\$3,276	\$3,391	\$4,749	\$4,752	\$4,656	\$5,808	\$6,974	\$10,651	\$13,224	\$15,579	\$16,155	\$24,449	\$25,145	\$35,379	\$46,036

# 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	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%.