

# Xi Jinping's Policy Challenges

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## Being Explicit can be Problematic

- Ironically, the international community has been pressuring China to be more explicit about its domestic and international intentions and when it has done so it has created a counter reaction
- A) Domestically—“Made in China 2025” to make China “master of its own technologies”
  - Gaining self-sufficiency in important advanced industries, created concern from foreign businesses
  - Does it negate a level playing field?
- Not just a US concern: see September 25, 2018 “Joint Statement on Trilateral Meeting of Trade Ministers of the US, Japan, and the EU”
  - Does not name China specifically but it is clear that it is clearly directed and China and its current practices

## Being Transparent Can be Problematic

- B) Internationally,
- October 2017, Xi announced that by 2050 China will be a “global leader in terms of composite national strength and international influence”
- June 2018 “foreign policy with Chinese characteristics”
- Brings the “Belt and Road Initiative” into the spotlight with concerns about its real aims and objectives
- For China—it contributes and builds on existing structures
- For some in the US—setting up a system to parallel the post-WWII institutional structures

## Domestic Challenges

- Priorities: first combatting corruption
  - Our 2016 survey shows some success
- Currently: Poverty Alleviation and Environmental Clean-Up
- But, most enduring challenges relate to governance: e.g. poor implementation at local level of good national policy, illegal land transfers by local governments, lack of transparency
- Prior reforms: promoting inner-party democracy have been rolled back
- Instead: restore party prestige through anti-corruption campaign and instill notions of simple living by cadres. Top-down party led approach not open to scrutiny by the public and press

## Barriers to Meeting Objectives

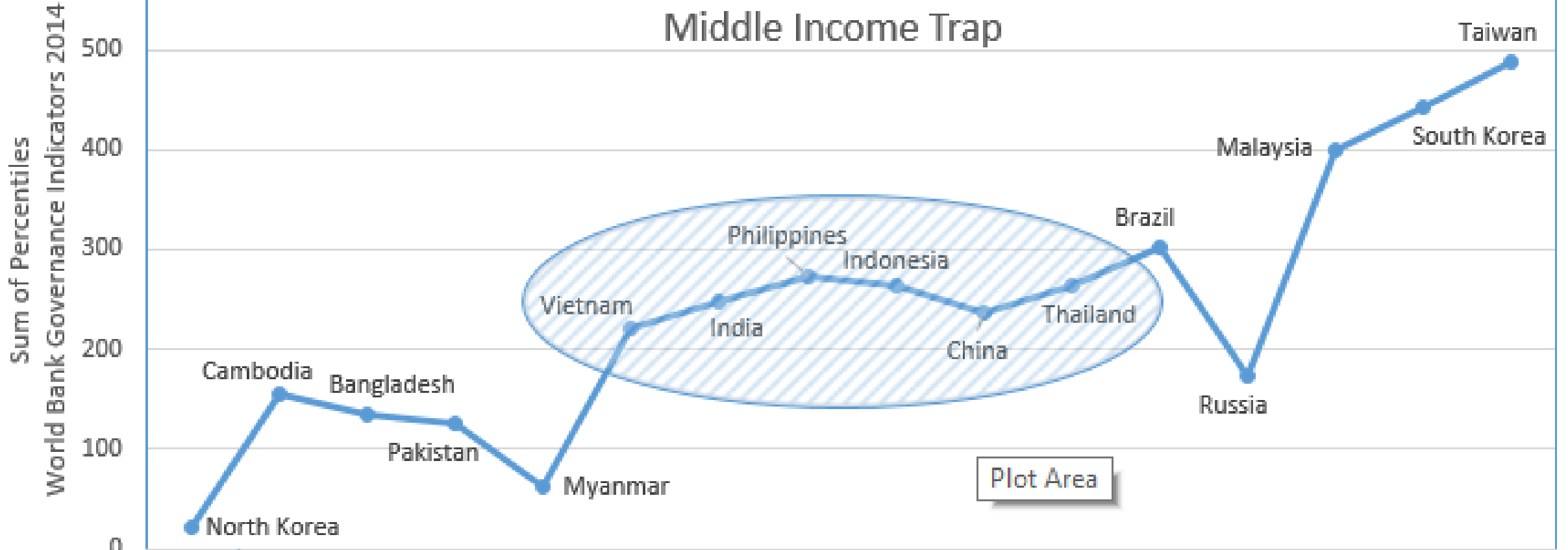
- Externally: depends on not only general health of the economy but also how other countries interpret China's growth and increasing influence
  - From "strategic engagement" to "strategic competitor"
- Internally: a) Can growth be maintained at a sufficient level, while shifting from pro-active fiscal spending to consumption driven growth?
- B) Can China build the necessary institutions to deal with social tensions and increasing plurality?
- C) Can powerful "vested interests" be resisted to reduce regional inequality, and support the private sector more effectively?
- D) Can the leadership oversee the transition of governing structures that manage a command economy to those that manage a modern economy?

## Two Key Challenges

- 1) Developing the kind of institutions that can help China move to the next stage of economic growth.
  - Related to the question of the middle-income trap
  - David Dollar: there is a link between institution and growth
  - Success in Taiwan, South Korea, Japan = nature of the institutions and state institutions that provided a framework for competition, growth and exports
  - China and Vietnam have good institutions for current level of economic development (Attracts high levels of FDI) but may not be suitable as incomes rise
  - Need political and economic institutions that promote competition, innovation and productivity growth rather than simply accumulating increased 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

## Two Key Challenges

- 2) Centralization of Power as A Development Strategy
- From Xi's perspective understandable:
  - Bo Xilai affair
  - Extensive corruption
  - Local Governments and society that seem to be pursuing their own interests
- Strong contrast to the approach of Deng Xiaoping and Jiang Zemin
  - Relatively decentralized, more flexible—"soft authoritarianism"
  - More corruption and appears institutionally more fragile but produced a more adaptive party-state
  - Success of reforms?
- Xi Jinping rule: concentrates more power at the Center with more decision-making power taking from the state administration; centralized control over domestic and international economic activity with clearer national industrial policies to favor the state-owned sector
  - Clear in the High-tech sector domestically
  - Clear in Belt and Road externally
- To retain support: policies of redistribution and greater investment in social welfare and poverty alleviation: 2016 survey shows positive results



## External Questions

- President Trump is clearly China's biggest challenge
- As noted: external response has come to "Made in China 2025" and the "Belt and Road Initiative"
- Some Chinese analysts see BRI as a counter to US intransigence on reforming the IMF and the creation of TPP as meaning "anyone but China"
  - E.g. Lin Yifu: an opportunity for China to take on a global role and to provide an alternative to TPP and US actions
  - US actions are cynical about the use of the international architecture, it has created; Trump's launch of a trade war; the attack on the global trading system; withdrawal from the Paris Agreement etc.
- Significant shift in the sentiment of foreign business communities and they deem previous practices by China as no longer acceptable

## External Questions

- However, they have not necessarily accepted the nature of the the tariffs applied by the Trump administration
- A problem for US business as the stock of investment in China is much higher than the reverse
- Also, those investments form a part of their global production chains and are strategic unlike many Chinese investments, to date, in the US
- AmCham (September 2018 report) on the impact of the first \$50 billion of tariffs
- 60% said negatively affected their company; expecting future negative impacts, 74.3% from US tariffs and 67.6% from China tariffs. Of those considering relation only 6% said they would consider the US

# Belt and Road Initiative

- Pressure to show results is enormous: is included in the Constitution and is the centerpiece of Xi's external strategy
- With the USA withdrawal from the TPP, increase the dangerous bifurcation of an Economic Asia with China at the core and a Security Asia with the USA still at the core.
- Success or failure will be a game changer or a game breaker: e.g. in terms of meeting climate change goals
- In this changing environment, the question arises as to whether modified engagement is viable or whether more confrontational policies should be used
- The increased investment for BRI should be welcomed but problems have already emerged:
  - In recovering default on debts sometimes this has been turned into equity, allowing SOEs to gain a foothold in what might be seen as strategic industries
  - Criticism of breaches of sovereignty
  - Economic and financially viable projects or investments to serve geo-political objectives (e.g. the Pakistan corridor)

## Policy Challenges

- Leaves a number of key questions
- Is the concentration of power with the “chairman of everything” what China needs at its current stage of development?
- Can China develop the institutions necessary to provide transparency of government and feedback loops for its citizens?
- Will China develop the institutions necessary to help lift China beyond the middle-income gap?
- Can the “vested interests” be overcome or their influence moderated?
- Can investment be directed to the more profitable sectors of the economy?
- Is China a responsible stakeholder in the international environment?
- Can it take on the role as a key player in providing global public goods?