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**PARTICIPANTS:**

**PANEL 1: CHINA'S POLITICAL DEVELOPMENT: TRENDS AND CHALLENGES:**

**Moderators:**

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## PROCEEDINGS

MS. MANION: So, I'd like to begin the second part of the part of the program, the panel on China's political development, trends and challenges.

And we have three speakers. I'm going to introduce the three speakers, and then I'm going to ask them to come up separately and make their presentations.

The first speaker is Ken Lieberthal, who you've already heard from. Ken is a Senior Fellow in foreign policy and global economy and development program at Brookings. He's also the Director of the Thornton China Center at the Brookings Institution. He's Professor Emeritus at the University of Michigan. Until 2009 he taught there in political science and the business school. He earlier taught at the Swarthmore College. And he served as Special Assistant to the President for National Security Affairs, and was Senior Director for Asia on the National Security Council from 1998 to 2000. His government responsibilities there encompassed American policy toward all issues involving the Northeast, East and Southeast Asia.

He's written and edited many books. He's published many articles. His most recent volume is *Managing the China Challenge: How to Achieve Corporate Success in the People's Republic*. It is published by Brookings in 2011 -- and I'm guessing it's available on that table out there.

So, secondly, I would like to ask Professor Wang -- yes, okay -- secondly, I'd like to ask Professor Wang to present.

Now, Professor Wang is professor and Director of Comparative Party Studies at the Central Party School of the Chinese Communist Party. For those of you who have conceptual priors about what a Communist Party "party school" is, hold on to your seats. Because the Chinese Community Party School is intellectually very lively, very open, and very interesting. And you will not find a bureaucratese spoken by Professor Wang. So this will be an interesting -- intellectually interesting -- and lively presentation, I guarantee you.

Professor Wang received his master's degree in political science at Peking University in 1985. And before that, he worked at the county level in Qinghai Province for several years. He moved to the Central Party School in 1985, and he was a visiting scholar at

Moscow University in 1989 and 1990. And he's long been engaged in comparative studies of political parties. And he's been known as an expert in the field of party politics and party-building in China.

He's got many books, and he's written many articles as well.

And then, finally, Dr. Li Cheng -- Cheng Li -- is Director of Research and a Senior Fellow at the Thornton Center at the Brookings Institution. He's also Director of the National Committee on U.S.-China Relations. He received his M.A. in Asian Studies from Berkeley, and his Ph.D. from Princeton.

Before joining Brookings, he was the William Kenan Professor of Government at Hamilton College, where he had taught since 1991. He's advised a wide range of government, business, non-profit organizations working on China. He's also published many books, many articles. And his most recent volume is *China's Emerging Middle Class*, also published by Brookings in 2011. And it is also available on the table outside, there. (Laughter.)

So, without further ado, I'd like the speakers to come up one at a time to make their presentations. And then the three of us will assemble, and we'll take questions.

Thank you.

MR. LIEBERTHAL: Thank you very much, Melanie. Let me add -- since she did not introduce herself -- the moderator is Melanie Manion of the University of Wisconsin, professor of political science, who has written many books, but does not have a book on sale in the back. (Laughter.)

Let me lay out my basic theme first, and then provide details. Because the basic theme is quite straightforward.

It is that after many years of successfully fusing the political system with its economic growth model, we now have a trend in China toward an increasing set of contradictions between China's political mode of operations and its declared need to shift to a new growth model.

The greatest challenge now, I think, is to reform the political system to sufficiently reduce that contradiction -- the contradiction between the way the political system functions,

and the effort to shift to a new model of growth, a more sustainable model of growth for the Chinese economy.

Now, let me detail that. And, as I mentioned before, you're going to hear some themes that just resonate throughout the afternoon, and I'll start with some of those.

We need to keep in mind that China has what I would term a "high capacity political system." And it's a very unusual system in what it puts together, from an American perspective -- even from the perspective of American political science. Because it is obviously authoritarian and one party, but it is decentralized -- Professor Yu said it needs to be more decentralized. But it is already quite decentralized. There's a huge amount of decision-making authority at every single level of China's five-level political system.

It is therefore a very dynamic political system. It is focused, on the whole, on promoting very competent people. The person who has the national responsibility for this is Li Yuanchao. And he has been very creative and dynamic in developing programs to get the best and the brightest to rise to the highest levels of this system. And we see the results in terms of educational credentials and performance credentials.

There is enormous competition among different localities in China. A county will compete with a neighboring county to attract resources. Cities and provinces compete. This is not, by any means, a matter of everyone just saluting and following orders. This is people trying to get things done in their area first, and make this system work extremely effectively.

And these leaders at each level of the political system -- from national level to provincial, to city, to county, to township -- are very strongly incentivized to produce a combination of rapid economic growth and public order. And to sustain that, even as China undergoes massive social transformations -- transformations based on the most rapid, large-scale urbanization in the history of the human race, combined with very rapid globalization, combined with the unfolding of the information revolution and other such transitions all at the same time. This is just extraordinary. The attempt to do all of this at the same time is audacious.

This is not a system that is ideologically driven. It's a very pragmatic political system. And it is governing a country -- let's keep in mind -- that spans, within the country, everything from a very basic developing country's set of problems, to the problems of a fully middle-class international society. So if you think of the EU, with its new members, the diversity within China is greater than the diversity between the original members of the EU and the new members of the EU by far. So this is a system that has a lot of challenges. They are not easy. But it's very dynamic and high capacity.

Now, China's political economy, the way its political system relates to its economy, has made economic growth, I would argue, a necessary outcome of the way the political system itself functions.

Why is that? The incentives that each territorial leader has -- the top party and government leaders at the provincial level, at municipal level, county level, township level -- are basically threefold. One, to avoid embarrassing leaders at a higher level -- through having major product scandals, or whatever it may be. Secondly, to achieve basic social stability -- don't have too many signs of social unrest. And if you have checked both of those boxes, the key thing is to make your GDP grow each and every year, in a visible, measurable way.

And leaders at each level are given the flexibility by their superiors at the next higher level to optimize their behaviors in order to realize these incentives. And they have enormous capacity at each level to intervene in the economy, both directly and through the legal and banking systems, so that the political leadership can be engaged in what I would term a "micro level" in the economy, enterprise by enterprise -- not only by sector or through monetary and fiscal policy, but enterprise by enterprise.

Now, this political system is highly geared to promoting the economic growth model that's produced China's rapid economic development to date. That is basically a capital and resource intensive model of growth. We can get into details in Q&A if you wish.

The 12<sup>th</sup> five-year plan has made clear, though, that China now aspires to change that growth model in significant ways. And it's a good thing they do. Because the current growth model -- as Premier Wen has pointed out repeatedly -- is simply not sustainable.

Why isn't it sustainable? Because, among other things, it builds on core assumptions that have largely become exhausted. These include that China can develop now and clean up the environment later. They're finding the environmental degradation is so extraordinary that they can no longer afford to neglect environmental issues as they develop.

It includes the assumption that people will continue to accept increasing inequality and corruption as the inevitable cost of transitioning from a planning economy to a market economy. But all public opinion polls indicate that people are very upset about the level of wealth inequality and the level of corruption.

It includes the assumption that the international arena will continue to accept significantly increasing Chinese exports. Each of you may have your own views on that. I agree with China's leaders that the future is doubtful on that.

And, finally, it includes the assumption that China will have a growing supply of young, flexible, cheap labor -- yet China's demographic pyramid is such that those days are ending extraordinarily rapidly, and the price of labor is going to be going up very rapidly. And the quantity of labor in the young part of the labor force is going down, in absolute terms, starting about two years from now.

So, all these core assumptions are now -- it isn't that you -- on Tuesday they all cease to be valid, but they are increasingly costly to sustain. And the capacity to sustain them is increasingly uncertain.

Therefore, the leaders now seek to move to higher value-added, more efficient energy and manufacturing sectors, rapid growth in the service sector, and stimulation of domestic household consumption.

I would argue, though, that to get to this new economic growth model that really prioritizes things that the previous model basically neglected or played down, requires major changes in the incentive structure for local territorial officials -- provincial, city, county, township. Those changes, in many cases, if rigorously implemented, will have, among other effects, that they will take money out of the pockets of those officials.

They therefore, I believe, would require a very strong reformist national leadership, prepared to expend substantial political capital to push those changes through. The last major reforms in China -- political reforms in China -- I would argue occurred in the mid- and late-1990s. And it's worth noting the conditions that permitted major political reform at that time; I think they were basically threefold. One, you had a very decisive leader -- in this case, Zhu Rongji, who was backed fully by the party chairman Jiang Zemin.

Secondly, the country was under real economic strain. The state-owned enterprise sector was a mess. The banking sector was in serious trouble -- even after earlier reforms, it had major problems remaining. And all of that was exacerbated, thirdly, by a sense of crisis with the Asian financial crisis in 1997 and '98.

Currently, if you ask where will the impetus for reform come from, you, frankly, don't have any of those three conditions in contemporary China. The leadership now, I believe, is basically consensus-driven and, in any case, is very much tied up already in the issue of the succession. And therefore it's not a time when you would expect leaders to take bold moves that might alienate key territorial officials at every level up and down the hierarchy. Successions are not periods of time when you take big risks.

The state, moreover, has a lot of money -- a lot of it in U.S. dollars. But, anyway, the state has a lot of money to spend, and it is pretty freely spending that money to address problems.

And, internationally, China feels very empowered. Because in the wake of the global financial and economic crises, its relative role in the global system has taken a major jump forward. So there isn't this sense of being put-upon that China had in the late 1990s.

I think, therefore, that the serious political administrative reforms necessary to successfully change major parts of the economic strategy are not going to be -- I'm sorry, are not going to start to be put in place until 2014, if then. All right?

The new leadership won't be fully in place until 2013, through the NPC, in the spring of 2013. If history is any guide, it will take them a year or so to fully get into place and get comfortable and ready to take the initiative. So I think the earliest we will have it is 2014. And

it's then that we will find out whether this new leadership really has fire in its belly to get these changes made.

This has consequences. This gap of three years has consequences. It raises the risks of continuing increases in social discontent -- even in the face of efforts to enhance the social safety net. And it allows an additional three years or more for current major vested interests to consolidate their positions, and perhaps for additional movement that we've begun to see from the recent system of bureaucratic capitalism, towards something that is beginning to look increasingly like crony capitalism.

Now, while the social discontent element will increase pressure, and possibly increase the political will to undertake necessary reforms, vested interests will make it more difficult to initiate and carry through sufficient reforms. And I think the bottom line is nobody knows how these competing forces will work out on balance.

Personally, I think there is some reason for concern.

Another way of looking at political trends and challenges is to look at it in terms of the classic issue of how governments motivate their populations. And basically there are three things any government has available in its tool kit.

You can -- there are basically values. You know, you get people to do things, what you want them to do, because they believe in you and in your aspirations.

Money -- you pay them more to do it.

And coercion, you whack them on the head if they don't. Right?

And those are the three basic tools. And every government uses a mix of those tools. But that mix can change in consequential ways over time.

China's leaders are stressing nationalism as their most successful values proposition, and material rewards -- increasing the standard of living through constant GDP growth -- as the key legitimizing element. They would like to add improved political administration to the value side of the equation, and they're proposing significant measures to shift income to lower-income earners. And they're taking measures to improve the quality of administration, especially within the CCP. -- as Professor Yu suggested in his earlier comments.

But the problem is that, to a significant extent, the system itself now channels wealth in increasing unequal directions. And phenomena such as corruption are sapping some of the effects at efforts to improve administrative quality.

The result is a serious need to undertake political reform that is deeper, in order to provide better distribution of material rewards, and the type of political administration that will enhance real popular commitment to the system. Otherwise, nationalism will remain the major fallback option.

But I personally am not terribly optimistic about such changes over the coming three years. And I hope -- but I'm not sure -- that the situation will improve in a significant fashion shortly after that. To the extent that values and material rewards do not suffice, coercion obviously comes into play.

Let me sum up, therefore, as follows.

The Chinese system is very dynamic, and is building elements such as decentralization that make it very resilient. This is not a fragile political system. But it's promoting changes that are, themselves, tension inducing -- such as very rapid urbanization, et cetera -- and has embedded deeply within the system incentives that make it extremely difficult to shift significantly away from a development model that is not sustainable.

The conditions to initiate major reforms in these critical dimensions of the system, I believe, are not currently present. Beijing will allocate a lot of funds to its new priorities, but this massive political administrative system is likely to contour the actual use of those funds largely along existing priorities that we've seen to date.

The current system makes it very difficult to achieve the improvements in political administration and distribution of material rewards that can reduce the need for coercion in the system.

I just got the signal that I'm out of time. I'm going to make two more points anyway.

Despite the new five-year plan, and the current initiatives to improve the governance capabilities of the Party, we're likely to have to wait three years, at a minimum, for another -- I'm sorry, we're likely to have to wait at a minimum for another three years until the new leadership

has been in place for about a year before there is significant chance of major changes in the above situation.

And this means, I believe, that social tensions which are already high are likely to grow dramatically in the coming few years. And the question is whether increasing social pressure will stimulate sufficient political reform, or whether the consolidation of vested interests, as the center continues to make a lot of money available, will make such reform unachievable.

So, again, this is a high-quality system, a sincere leadership, a high-capacity system. But it is now at a point where the types of changes required are not changes the system can easily come to grips with. And therein lies the problem and the uncertainty about the future.

Thank you. (Applause.)

MR. WANG: Ladies and gentlemen, good afternoon.

Thank you for giving me so great opportunity to explain my views about the Chinese political development. Different from Mr. Yu, I will put my focus on the intra-Party democracy in the Communist Party of China.

The CPC is the core of Chinese political system. And understanding the CPC is the key to grasping the orientations of the political system, China's political system.

Over the past few years, the CPC constantly emphasizes the development of the intra-Party democracy. This had happened greatly interesting researchers, interesting researchers.

Next, I want to show you my opinions about that. It includes three parts. The first is the motivation for the development of intra-Party democracy. The second, the development of the CPC's intra-Party democracy. The third is prospect of the CPC's intra-Party democracy.

Let's go to the first, the motivation for the development of intra-Party democracy.

Essentially, "democracy" means to reduce power, to limit it, to decentralize it, so many analyses about where are the motivation of developing intra-Party democracy in CPC. Foreign political parties develop intra-Party democracy because there is an internal...external

pressure from other competing political parties. But as far as the CPC is concerned, this sort of pressure does not exist.

From this, the conclusion may be sort of the motivation in CPC. It sounds responsible, but I think it's a mistake to look at the CPC monolithic. At least there are three aspects can be observed.

The first, the desire to increase the Party's political legitimacy. The second, the pressure from the development of the market economy. The third, innovative impulses from the local and the primary-level organizations.

First, the desire to increase the Party's political legitimacy. Different from the Western parties, the legitimacy on the CPC has been built especially on the base of the violent revolution, which received the support from the masses. The Party set out a series of special goals and special principles for the identification of the people. One of them is democracy.

The CPC held high the banner of democracy, and opposed the Kuomintang, now in Taiwan. After taking power, despite the fact that it adopted the Communist Party of the Soviet Union's model of higher centralized power, the CPC still believed that it had a form of democracy that was superior to that of the West.

Democracy was even used as a pretext for the Cultural Revolution -- namely, the Great Democracy. Today, under the wave of democratization, propelled by the market economic, the CPC is even less inclined to give up its pursuit of democracy and harm the political legitimacy it has inherited.

In the transformation from a revolutionary party into a ruling party, the Party's legitimacy had been somewhat reduced. It is even more important to maintain the ideological continuity. This is influenced from the strongly ideology-oriented cultural in CPC.

Next, the pressure from the developments of the market economy. Similar to the development of other transition countries, Chinese people's enthusiasm for democracy and political participation has increased in the process of modernizing, and gathered pace in line with economic development -- which inevitably requires the political system to respond. As

such, how to maintain economic development, promote the democratization process, and not let the political development affect the political stability is an important question for the CPC.

The CPC chose the approach of developing democracy in an orderly manner, the specific form being intra-Party democracy -- promoting and driving social democracy. This means that as social democracy develops in line with people's requests, accelerating the development of intra-Party democracy can provide a model that can be imitated and referred to for the development of social democracy. And it can play the role of leading the development of social democracy, which would make it unlikely to descend into chaos.

The third is innovative impulses from the local and primary-level organizations. We always say that the Party is facing risks and ordeals. In fact, the local and primary-level organizations are the first to deal with them, and then feel the pressure of social contradictions and social conflicts in the first instance.

Therefore, these organizations tried out many new practices during intra-Party reforms. They are relatively positive toward innovation. That's this first.

Next part, I will introduce the development of the CPC's intra-Party democracy.

In my opinion, democracy can be seen as a system, an organism. Many parts link up each other; make up democracy as a whole. For example, we can separate the intra-Party democracy into four parts. In every part can observe the reforms which have happened. In the election part, there are primary vote positions change, and they changed the nomination system, publicly nominating and the direct election (inaudible 00:31:09).

In decision-making part, openly decision-making is conducted. And strengthening the role of plenary meeting can (inaudible 00:31:24).

In participation part, there are public hearings and consultation. This is a (inaudible 00:31:37) contrary with annual conference, they will challenge it.

In supervision part, there are intra-Party affairs alternate (inaudible 00:31:51), responsibility investigation (inaudible 00:31:55), et cetera.

From so many practices, I want to flesh out two cases. The first case is the change of the nomination system. In the past constitution, there is a provision saying all leaders of the

Party organs are elected. But, in fact, there are always single-candidate election. The higher organization nominated, and then appointed.

So the key issue, turning the appointment system to election is to change the nomination system. A great attempt is (inaudible 00:32:44), in township level. The earliest is (inaudible 00:32:49), later in (inaudible). There are three counties perfectly carried that out. And now, in Jiangsu Province, it is widespread.

It has three fashions of nomination. These three nominations are self-nomination, joint nomination, organizational nomination. Nominees have equal rights in terms of the procedure of the multi-candidate election.

The case two is strengthening the role of the Party Congress. According to the Party Constitution, the Party Congress is the highest organ of power. Theoretically, the roles of the Party's representative is just the same as the representative of the People's Congress. But it is not true.

Now, besides the one-week conference, every five years the Party Congress itself has no activity. And the only thing the Party representative can do is, five-years, applaud. So some will make fun when the person was elected to the Party representative, he demanded, "Can I exchange this title with the People's Representative?" (Laughs.)

So the major issue is to make them play substantial roles. The practice of the reform, next, for example, open the regular annual conference, promote the activity of delegates. That means representatives put forward proposals and interact with people, observe standing committee meetings, and examine, discuss reports of the standing committees, et cetera.

And there are some place establish permanent committees. For example, in Yunnan, there established three permanent committees. It means then, the supervision committee, policy making, consultive committee, representative affairs committee. And that's all.

Then we do a summary.

There are many cases of the reform of the intra-Party democracy. And we can say the development of the intra-Party democracy has covered every aspect. But we have not enough time to put them out.

Here, I want to give you a diagram. In this diagram, you can certainly have an overview of the development of the intra-Party democracy. On the high level, there are intra-Party affairs reporting, and declaring income. In the middle, there are plenary meetings, with voting system, publicly nominated and direct vote for leadership -- opening important decision-making responsibility, investigating. And on the lower level, two-vote election system, intra-Party hearings, and the consultation regular annual conference, and three-vote assessment system, et cetera.

Now, let's enter the third part, the prospect of the CPC's intra-Party democracy.

How about you think about the intra-Party democracy of the CPC? Many some optimistic, hold positive attitudes. Some pessimistic, they hold negative attitudes. And some are puzzled -- (laughter) -- with uncertainty.

As to me, I am an optimist -- but cautiously optimistic.

Intra-Party democracy in CPC is hopeful, but it needs clear, direct and firm courage. Let's go back to the diagram.

If we, according to the different color, draw a dotted line, we will find the lower level of the Party organizations, the more comprehensive fields there are reform attempts referred to, and the more fundamental issues they deal with. On the contrary, the higher the level of the Party organizations, the less reform.

From that, I think where the direction of the intra-Party reform is, and where the intra-Party democracy is going forward is very clear. Lengthwise, we need to push forward the higher-level reforms. Horizontally, the more important and the crucial are the areas of election and decision-making.

Specially speaking, I have three suggestions.

Firstly, putting forward the intra-Party competitive elections. No competition, no election, and no democracy.

But it seems there is a confliction between the competition and the principle the Party controls the *dang guan gan*. What does “*dang guan gan*” mean? Why this complication?

The reason for this is way acceptable, the Soviet Bolsheviks model regarded control as a point. That makes election be formative.

In my opinion, Party control is normal activity in politics, but it can't cross the line of democracy.

In China, competition among the parties doesn't exist, so we can call it the “noncompetitive party system.” But I'll advocate intra-Party competition. It is improper to describe the Chinese politics as non-competition politicians. This is my position.

A second -- okay, the second is top-level planning about the intra-Party democracy. Top-level planning is an urgent need.

Today, as the reform is standing in the deep-water area, and it cannot continue to solve problems from limited vantage point. Rather, it needs overall planning.

Now we have a risk to fall into a dilemma. On one hand, reforms and innovations blossom everywhere. On the other hand, we do not have an urgency for drawing up all our plans.

In this way, if we could do nothing, this dilemma would lead to two consequences. First, we would have to face the ceiling, face the ceiling in intra-Party reforms and innovations, which will cause a lack of connection between all the links at the same level, and also a lack of cooperation and support between upper and lower levels. This bottleneck would make reform difficult, and even return to the states there were prior to reform.

Secondly, we set up many agencies in an ad hoc manner to solve particular problems, or carry out a particular action. And such agencies always lack professionalism, a sense of mission and comprehensive outlook. So it is difficult for them to consider reform in a detached manner from the perspective of the Part and the government's overall interests.

In addition, since the people in these agencies come from other departments, they invariably redirect such agencies to serve the interests of their own departments. In this context, the reform inevitably results in departmentalist and fragmentary.

The second, more space -- no.

(Pause.)

Okay. That's all. (Laughter.)

Thank you for your attention. (Applause.) Thank you.

DR. LI: Well, early in the afternoon the chair of the conference, Ken Lieberthal, specified that a Chinese speaker will have 25 minutes, and American speaker will have 15 minutes. As a Chinese-American speaker, how about 20 minutes? (Laughter.) Okay.

Well, I want to join Ken in expressing our profound appreciation to every participant - especially to the PRC scholars -- for collaborating with us on this multi-year project, and for sharing your insights and prospects this afternoon.

Now, over the past decade, I have learned a great deal from, first, your writings, more recently, through our direct scholarly exchanges. We may have very different views regarding the current status and the future direction of Chinese political reforms. And you may also have serious reservations about what I'm going to say in my presentation.

But this open dialogue is the healthiest way to advance our knowledge of China's political trajectory. As someone said, "When the door is open, minds will not be closed."

Now, the focus of my presentation is the evolution change in Chinese political leadership, or leadership politics -- a timely and essential topic, due to China's upcoming political succession at the 18<sup>th</sup> Party Congress next fall.

I want to address a simple but essential question in China studies today. Is China's collective leadership a source of strength or weakness?

There is surprisingly strong agreement among China studies communities, both in China and also abroad, that China today is led by a collective leadership. Hu Jintao is simply first among equals -- as will be Xi Jinping, his designated successor. The controversy, however, is in its assessment: Is collective leadership a source of weakness or strength in terms of China's governance?

In answering this question, I will make three observations. First, explain the large scale turnover in the upcoming succession. Second, talk about the rules in the collective

leadership, and the new challenges. And, finally, crisis in the making, or democracy on the way?

Now, the first large-scale turnover in 2012 -- about 70 percent of the top Party, government and military leadership will be replaced -- as Ambassador Stapleton Roy earlier mentioned. I will give you some specific information.

Second, the principal figures represent -- are responsible for China's political affairs, ideological affairs, economic administration, foreign policy, military operation, public security will consist of newcomers. And this is not only happening in the highest level, but also all five levels of leadership -- from town, county, city, province and central government. And thousands of them will be replaced.

Now, first look at the expected change of the Politburo Standing Committee. This is the most important leadership body in the Party. Some of them will retire. Only two of them will stay. We probably know four of them highly likely -- 95 percent can get a Standing Committee ticket. There are three seats available. But probably there are about nine to 12 people fighting -- you know, I can give you the list if you want, the names.

The State Council, the government, we know that there's a premier, four vice-premiers, and five state councillors. These are the 10 most powerful figures. Only two of them probably will stay. Most of them will retire; some will transfer to other leadership bodies. Even these two may not stay in the State Council. So it's a question mark. We have no idea, really, who will be these other eight seats.

Military -- look at the military members of the CMC, also some of them will retire. Three of them will remain. No ideas about the other seven leaders.

Now, earlier I mentioned about this top leadership, Hu Jintao and Wu Bangguo in charge of People's Congress will step down. Hu Jintao and his designated person in charge of foreign affairs, Dai Bingguo will retire. He is in town, actually, by the way. Economic affairs, Wen Jiabao will retire. Two military vice-chairmen of CMC, and the ideological czar, and also security czar, both will retire.

Now, let's look at the rules of the collective leadership, and new challenges. This is very much in line with Professor Wang's presentation -- excellent presentation. When you talk about "intra-Party democracy," it's real. These are the rules already, you know, very much implemented, including term limits. Each leader has two terms, each term five years. And age requirement for retirement, you reach a certain age, you should retire.

This election, with multi-candidate election, not all just a single candidate. Within the Central Committee, for example, they want to select 350 people, they will give 370, you know, people on the list. You can eliminate 20 candidates.

And even distribution of membership in the Central Committee -- I did an extensive study for the past three congresses. Almost each province has two full members in the Central Committee, and also with the ministers and et cetera.

And the law of avoidance -- the police chief and the party chief should now be -- should not come from the same region. And also, there is secret vote for the selection of the lower level of the appointees. For example, the provincial government, the Standing Committee members will vote to decide the mayors and the municipal party secretary et cetera.

Now, this is also -- you can look at this chart, this is the turnover rate of the CCP Central Committee from 1982 to 2007. The turnover rate is very, very high -- certainly much higher than our Congress. I probably should respect our Congress. But certainly, abolish of lifetime tenure, it's very significant.

Now, but there are some problems. Actually more and more, I found that there's a serious problem start to emerge. Actually, the past solutions become new problems.

For example, the intensity of factional politics -- this is what I call "one party, two coalitions." And our speaker is always mentioning that it's no longer a monolithic party, or monolithic leadership, it's absolutely true. It's divided by factions -- and I would say by coalitions. When its elitist coalition, confirms, you know, Jiang Zemin's princelings, and Shanghai mafia -- you know, maybe (inaudible 00:51:52), and entrepreneurs and et cetera. And the populist coalition found Hu Jintao's Chinese Communist Youth League.

So the core group for elitist coalition core group is princelings. Therefore populist coalition, the core group is Chinese Communist Youth League, known as *tuanpai*.

Now, there is also intensity of black-box manipulation. And, in my view, no solid progress, in terms of political reforms since 2009 -- you know, David Shambaugh is also in the audience -- you know, this I share with you, that really since the fourth plenum of the 17<sup>th</sup> Central Committee, there's no progress whatsoever in that front. There are a lot of changes, earlier I mentioned, but started much earlier in the later '80s and also in the '90s.

There's also a phenomenon called the "age 59 phenomenon." This is by Chinese government. There's so many people, leaders, you know, arrested on the charge of corruption when they were 59. Or, you know, they started to do crime when they were 59. Because 59 is the year they're supposed to retire as vice-minister, vice-governor. So they shall seize last opportunity, you know. And this is called "59 phenomenon."

But also, that 59, it's really very young. But there's a growing resentment of retired leaders -- you know, Li Rongrong, the former SASAC chairman, he was very angry when he surrendered his position. Recently, you can see -- for those of you who follow Chinese politics - - Zhu Rongji also a little bit angry. So that's certainly, it's a new phenomenon start to emerge.

And also the prevalence of the *guanxi* ties that lead to promotion. And also the slow upward social mobility. For example, since last December China has civil service examinations to select civil servants, or local or minister-level leaders, or low-level leaders.

The admission rate is 1.5 percent -- 1.5 percent. In some jobs, like in the energy bureau, state energy bureau, 8,000 applied for one position -- 8,000. This is not the case 10 years ago. The private sector, really difficult to make a big fortune. So they moved to civil service as a service. But now only 1.6 percent of the people can get admitted. So it's a serious problem that was a flaw of the system. Some of yesterday's solutions become today's problems.

Now, also the leadership, I talk about the populists versus elitist coalitions. It's really evenly divided. The number one leader is Hu Jintao. Number two is not Wen Jiabao, but Wu Bangguo. Wen Jiabao is number three, and Jia Qinglin is number four. Two from each.

The State Council, vice-premiers, four of them, two from each coalition. The councillors -- we have five councillors -- one is military. Military is supposed to be neutral -- so, also two from each.

And the heavyweight in the fifth generation, only six of them in the Politburo, three from each, including two Standing Committee members. And also in the Secretariat, six people, and two are the fourth generation -- I mean the fifth generation leaders, four of them, two from each.

And the rising stars in the sixth generation, there are four of them -- are currently four ministers with the Central Committee membership, or alternate membership -- two of each, including Su Shulin, recently promoted to Fujian Governor, from Sinopec. These are the rising stars of the sixth generation -- also evenly divided.

In my view, it's not a coincidence. It tells you how intensity of the factional politics in Chinese Party is. It's very difficult for non-factional leaders to enter the very top leadership. I think -- I hope things will change in the future.

Now, let me look at the last one, the crisis in making, or democracy on the way.

This, again, China is really a paradox of fear and hope, you know, in everything -- whether the economy, politics and the leadership change.

Now, let's start with fear. The fear that is emerging, political lobbying starts to emerge in, particularly in some provinces or some cities. I will show you a photo later on. And also, there's signs of vicious factional power struggles. And since 1989 Tiananmen, Chinese leadership did an excellent job -- as Ken mentioned -- they tried to, you know, not make this too public. But there's a tendency now to go to the public, some of the conflict, in terms of policies, or in terms of -- or positions.

And also, the tremendous economic problems in today's China -- and talk about property bubble, talk about inflation, talk about the shrinking of the private sector. And also, there's other challenges in different areas that could be contributing factors.

And it could be out of control. That's a fear among the leaders and among the public. And this is further intensified by the growing role of the party elderlies -- there are lot of

them now -- and they want to have a say. And also the military, also increasingly articulate. And the local leaders, also sometimes they want to revolt. For a long time there's an argument in China -- you know, national leaders are good, local leaders are bad, you know, corrupted, and ineffective or incompetent. This is what someone called, "Think nationally, blame locally." I used that as the title of my article. But this has come to an end. The local leaders also challenge, because they think it's unfair, from their perspective. They really do not have much resources for their own localities.

And, finally, there could be policy deadlock. You know, China is no democracy, but already has all of the problems of democracy -- except a lack of legitimacy.

Now that's a fear. Let me talk about hope. Oh, before that, this is a campaign, the famous Bo Xilai's campaign, Chongqing, singing the Red songs, Communist songs. And it's fascinating, this is Bo Xilai, very charming leader. And you see that all the things, you know, the revolutionary songs.

This campaign, I think he learned the first lesson from the West, is how to get campaign financing, I think. This is not cheap. Involves a lot of money, you know. But he's doing that remarkably well.

Now, talk about hope. Actually, like Professor Wang Changjiang, I'm optimistic about the future. Because there's hope from this kind of seeming crisis.

The two party -- the one party -- I'm sorry, one party, two coalitions -- borrowing Deng Xiaoping's "one country, two systems" -- can be a major step towards a true Chinese-style democracy. Because the Chinese politics no longer a zero-sum game. They can, you know, share power. And these two factions or coalitions are equally powerful. There's no way to completely defeat the other. So that's a good thing.

And the crisis can provide incentive. Early on, Professor Lieberthal mentioned that the lack of, you know, incentive or consensus for change. Sometimes crisis may solve that consensus for further change, and lead to a new consensus on fundamental political reform.

And China has a rapidly growing middle class, and emerging civil society. This differs profoundly from 1989, you know, during Tiananmen years. This is a very healthy development.

And also, the interest groups can be a stabilizing force -- whether it be business interest groups, NGOs, many other things. Localities, it can be also. And foreign companies could be an interested group -- and et cetera.

And also, finally -- and I think the most important thing -- is the Chinese public sees a vision of China's rise can contribute to a non-violent transition.

Now, in conclusion, I would argue that whether the Chinese collective leadership is a source of strength or weaknesses depends on whether the country can make an evolutionary transition to a real Chinese democracy which will consist of genuine election, rule of law, media freedom and government accountability.

You know, people probably immediately will ask whether what the Chinese scholars talk about democracy is also the democracy we talk about. My answer is yes -- although the transitional period could be quite different. But we all talk about elections, media freedom, rule of law, accountability. So, ultimately it has shared characteristics. But at the same time, Chinese democracy should, and will be, unique.

The collective leadership is a source of weakness if it becomes marred by nepotism, favoritism and other sorts of a patron-client network -- and becomes insulated from the rapidly changing society.

But the collective leadership can be a source of strength if it institutionalizes checks and balances, and becomes more representative in the eyes of the public.

In my view, this political transition, though painful, can be largely peaceful. It will be able to correspond to the increasingly complicated, sometimes contradictory, need of the Chinese economy and society. In a sense, a fundamental change in the Chinese political system is not a choice but a necessity.

I want to end with a quote from Winston Churchill. I said, I quote, "An optimist sees an opportunity in every calamity. And a pessimist sees a calamity in every opportunity."

Well, time will tell whether China's next generation of leaders -- especially Xi and Li, Xi as the President of the Central Party School -- will be optimists or pessimists. I sincerely hope that they will be optimists.

Thank you very much. (Applause.)

MS. MANION: Well, thank you. We've had three excellent talks.

I'm going to take advantage of my position as moderator to pose a question to each of them, which they can ignore. I'll pose it, and then I'll let the questions go into the audience. And if they find you too tricky, maybe they can answer the one that I've posed.

Let me start with you, Li Cheng. And it really does relate to Professor Wang's issues.

So you're talking about a Party -- both you and Professor Wang are talking about a non-monolithic Party. But in your formulation, the factions in the Party -- even though you do talk about elitists versus populists, you talk about "princelings" versus *tuanpai*, these are biographically based. These are not policy based. They're biographically based, or they're private-interests based. So this is a very different view of the Party -- divisions within the Party.

And you talk about a linkage to society. I just don't understand how you can see anything optimistic -- how you can see anything optimistic out of these particular divisions.

And so it's the use of "factions," rather than what I would call policy divisions.

When I look at what Professor Wang is talking about, it seems to me that it is quite different. And my question for Professor Wang -- and I promised you something interesting. And the notion of intra-Party competitive elections, I think he delivered something very interesting to us which, as he assures us is his own view. And it's a very radical view that *dang guan ganbu* is not about appointments. That is a very radical view.

So my question for you is if we go back up to the beginning of your presentation, you talk about the Party -- a path of orderly democracy. And that path of orderly democracy means the role of the -- the leading role of the Party, it can play a leading role for social democracy.

Well, if I listen to what you're saying about the intra-Party competitive elections, or the Party -- different groups, opinion groups within the Party, will those be known to society?

Those are not factions in the same sense that Li Cheng is talking about. But for that to play a leading role for social democracy, it seems to me that those groups -- while they don't have to be different "parties," have to be recognized within society as different. That is to say, the people in society have to recognize the Party as having different voices, different aggregations.

And then my question for Ken is sort of simpler. And Ken, you're arguing that we need a new incentive structure for local officials. You talk about a serious political administrative reform to change the strategy.

And what I'm not clear about there is whether you're talking about new incentives, or a new structure. Just a different content for the incentives, or something different altogether? And that wasn't quite clear to me.

And so rather than letting them answer these questions, I'd like to sort of leave those as rhetorical -- or you could come back to them.

But I'd like to open it up to the audience. And same ground rules apply. There's a roving microphone. And introduce yourself.

MS. CURRIE: Hello. Kelley Currie, from the Project 2049 Institute.

My question has to do with Professor Wang, you point out that there's greater democracy at the lower levels than there is at the top levels. I think this is pretty well understood. But then you also have the point that both Mr. Lieberthal and Mr. Li make about how the local levels are blamed for all the problems. They are universe -- well, they are widely regarded in China as less trustworthy. When you look at polling about what Chinese people think about their government, they tend to regard their local officials much more poorly than their senior, high officials.

So how do you kind of reconcile this greater, what you would call "democracy," greater development of democracy at the lower levels, with the lower levels of trust or regard that people have for their local officials that they're more in contact with? And how that presents for the future of democratic development in China?

MR. WANG: (through translator): I thank you very much for your questions. I will try to answer both questions together.

First, I'd like to answer the first question.

If we carry out competitive election, of course there will be competitions of different opinions and ideas. Well, when Lenin established a Bolshevik party, he proposed that the stability or the unity of the party must be maintained. But actually, between the normal competition in the party, and the factional competition in the party, there are a lot of rooms that we can operate.

Even in Lenin's concept, it's the same situation. In our Party charter, Marxism and Leninism are still mentioned. So I would like to interpret it along that line.

Lenin's conceptualization of the factionalism, actually it's a very strict interpretation or conceptualization. His interpretation of factionalism or factions in the Party, there are three aspects that have to be there. First, the faction has to have its by-laws, its charter. And second, the faction will have to have its disciplines, or specific disciplines. The third aspect of it would be the faction would consider itself a faction. And these aspects are complementary to each other. None of them is dispensable.

But Stalin made some adjustment, or made his own interpretation, that he thinks that if a group, interested group, has one of the three characteristics, it's considered a faction. That's why Trotsky was toppled, and (inaudible 01:10:41) was toppled. And he toppled anybody he can topple. (Laughter.)

I don't think I agree with his interpretation, with Stalin's interpretation. I think it's very normal that different opinions and views compete. In order to prevent vicious factional conflict or confrontation, actually we can put in the Party's charter -- we can put provisions in the Party's charter to prevent such things from happening.

And that's what I mean by competitive election and orderly democracy, or orderly election.

About my response to the second question, the greater amount of democracy at the lower level, and how do you reconcile this with the less trust that people apply to the lower level cadre -- and I think the conflict between these two is actually a driving force or motivation for intra-Party democracy.

As a ruling party, CPC is facing a lot of problems. But actually, the direct confrontation of these problems actually take place at the grassroots level, at the lower level. So just because of this, there's a strong motivation, an incentive for innovation at the grassroots level.

The problem is, when the local level or grassroots level reform reaches a certain point, there is a ceiling. It reaches the ceiling. So when we look at the higher level, it would see a dilemma when this situation happens. You either have to stop the reform, or you have to be pushed to reform. So that's basically -- again, that is in play.

Just as Professor Li, I'm more optimistic. I think in this play there's also a very important driving force, which is the market economy. My inclination is that under the push of market economy, there will be more checks and balances in place, and there will be more pushing forwards to more democracy and reform.

Thank you.

MR. GURJA: I understand this meeting is more about --

MS. MANION: could you introduce yourself, please?

MR. GURJA: My name is Gurja. I'm a researcher.

I understand this meeting is more about Chinese political reform, but I'd like to ask the question from a different perspective, which is it seems that China has pretty much pulled through quite a few crises in the past 30 years. You know, they've made nice transitions and transformations.

But on the other hand, the U.S., as a model of democracy, are facing certain significant challenges as well.

So my question is more like what do you think the U.S. side can learn from the Chinese side, in terms of managing crises and transformations.

(Speaks in Chinese.)

I was just asking the question from another direction.

Thank you.

MS. MANION: Okay. Ken Lieberthal will take that. (Laughter.) Because he's had direct experience in the U.S. government.

MR. LIEBERTHAL: I'd rather answer your first question.

No, seriously, I think that the Chinese government does relatively -- does a relatively good job at analyzing its future problems, and developing plans to deal with them. And I've been impressed over the last three decades with the pragmatism and realism of China's national leaders -- not every one, but on the whole -- in being remarkably candid and forward-looking as they plan and try to execute China's transition to a *fuqiang guojia* you know, to a wealthy and strong country. And I admire that.

And I have not seen as much of that on the U.S. side as one would wish -- especially in recent years.

Having said that -- and your specific question was about kind of "management" of problems. And there, frankly, I think the American government has nothing to learn from China. I think we, in fact, do a better job than China.

We tend to be very poor at avoiding crisis in the U.S., but very good at recovering from it. And it's just the nature of our system.

But if you look at specific management techniques, I think the U.S. government is relatively high quality. And I think the Chinese government is still a work in progress on this.

Now, frankly, we have such different political systems that it's hard to do real comparison. But when you look at -- but let me give you an example. I've talked with -- as Melanie reminded everyone, I was in the U.S. government at one point. We had -- when the U.S. Navy wanted to send some ships through a sensitive area, where it had the right to send the ships into that area, rules of navigation on the high seas, but the area would be diplomatically sensitive. Our system requires that the Navy first request, send a request to the National Security Council for permission to run the ship through that area. It's called a "Freedom of Navigation Request" internally in the U.S. government.

When I was on the National Security Council, for such requests in Asia, they would come to me. And I refused, I think, about 60 percent of them because the problem -- running a

ship through that location at that time would cause problems that the Navy did not fully appreciate. And so we would say, "No, not now. Come back some other time." All right? There was never once that the Navy pushed back on that. They always accepted it.

I was talking with a rather recent Chinese ambassador to the United States just a few months ago in Beijing, and we were talking about coordination and foreign policy between our two governments. And so I mentioned this example to him of how we coordinate military and civilian in managing potentially difficult issues. And I said, "In the Chinese government, would you have a similar mechanism?" And he said, "In the Chinese government, we would be lucky to read about it in the newspaper three days later in the Foreign Ministry."

It is inconceivable that the military would ask the Foreign Ministry first, before doing a sensitive naval navigation exercise.

So I think that we have developed in the U.S. government, in fact, quite good methods for managing complex problems and coordinating among them.

So my saying that we don't have anything to learn from the Chinese on the management side is not to disparage China. My own feeling is, in fact, we do that quite well. There are other dysfunctions in the U.S. system that are quite serious. I don't think that's where the problems are.

MS. MANION: So, Li Cheng would like to respond.

MR. LI: I think the United States has an advantage in both hard power and soft power. Soft power includes our political system and many other things.

But I think one thing we do need to be aware, that -- as Professor Yu and Professor Wang mentioned -- during the past 30 years, so-called reform era, China largely wants to learn from the outside world, and learn from the West.

For us, for people in the United States, sometimes we have a tendency for inward looking. And sometimes we tend to be very, very cynical about the things that other countries have been doing. So someone said cynicism, like dogmatism, is an excuse for intellectual laziness. So we just refuse to see anything in China, happening in China, could call it democratic change or political change or political forward.

Yes, in the past two or three years, China actually slowed down and become kind of assertiveness. So that's kind of our arrogance, in my view, we hurt China's interest. But again, I think for the long, the past three decades, I think one thing we can learn is a sense of humility, and learn from the outside world.

MS. MANION: I'm going to give time for one more question.

Yes?

MR. AARON: Thank you. My name is Bradley Aaron. I'm with the University of Virginia. My question is for Cheng Li.

You mentioned at the end of your presentation that interest groups could play a role in improving reforms. And I was wondering, given the ambivalence that the Chinese government feels toward interest groups like NGOs, both domestic and international, could you elaborate a little bit on how you see that happening, please?

DR. LI: Well, the next panel will be on interest groups, so I will let them answer your question.

But I do want to seize the opportunity -- thank you for asking me -- to answer the chair's question about the difference *tuanpai* and the princelings. I think they are not just fighting for power. They differ in terms of social backgrounds, in terms of geographical locations they represent, in terms of their policies. Let me very quickly mention each of them.

Social background -- princelings, of course princelings, children of high-ranking officials. *Tuanpai* leaders, with exception of some few leaders, most of them come from humble families. Most of them come from inland region. Princelings usually very privileged, always from the coastal region -- most of them, from Beijing and other rich cities. They want to work in rich cities like Tianjin and Qingdao and Shanghai and Fuzhou and et cetera -- name it. The coastal cities.

And also, they have profound policy differences. And just compare Jiang Zemin's policy with Hu Jintao's policy. Look at the differences -- from the coastal development in Shanghai, to more balanced regional development. From the so-called *sang ge daibiao*, largely

for the entrepreneurs development, to the harmonious society, pay more attention to farmers and migrant workers.

And also, recently, the policy towards property development. Hu Jintao and Wen Jiabao constantly talk about the controlled price, worry about property bubble -- right? Talk about give more affordable housing et cetera. But the other group talk about reform, continuously let the market decide, despite the property bubble is underway. You know, there are some differences.

And most recently, there's a very important news article published, I think, in *Outlook*, very official magazine, saying that look at the past three decades. The Communist Youth League officials at the secretary level -- you know, (inaudible 01:24:33), they're all together, about 100 of them, Communist Youth League, Central level. None of them was caught for the corruption charge. Of course, this is a very, very message, saying that, you know, "We are cleaner than you." So it's interesting. Someone said it's because they're not engaging economic administration. So Chinese say that those who are near the water are likely to be wet. (Laughter.) So they're not to be wet.

MS. MANION: So, finally, we'll give Ken Lieberthal an opportunity to answer the question that I had posed.

MR. LIEBERTHAL: Melanie's question was whether I was calling for structural reforms in the system, or just changes in incentives for leaders going up and down.

And the answer is: primarily changes in incentives, but there is an important structural change that should go with it.

The change in incentives is clearly, if you're going to reward GDP growth every year, you're going to incentivize the kinds of growth that are readily visible -- which are generally large-scale, capital-intensive projects. So, infrastructure and that kind of thing. So you need to change that metric -- either change how you define GDP growth, something closer to what used to be called "green GDP," but that's very hard, or move to a different mix of things that you seek to measure to reward leaders.

I also think you need something else, that China needs sooner rather than later. And that's to implement a policy that was first seriously discussed in the 1980s called (Chinese phrase) -- all right, separation of government and enterprise. And currently, I mean, as Chinese enterprises now begin to go abroad in a serious way, I think a lot of them, as they get into advanced markets, really need to undertake a major transition.

A competitive advantage among enterprises in China now is how close you can be to the state. The state confers competitive advantage for enterprises that have better relations with the state. You can get better access to credit, better access to inputs at relatively cheap prices, more protection from competition, more exemptions from regulatory problems and that kind of thing -- right?

You go abroad, and that's no longer your source of competitive advantage. So you need to become a higher quality enterprise, in different terms.

And I think that China, by now, would be well served by more constricting the economic role of the state to what you see in every other advanced industrial country -- which is to say, monetary and fiscal policy, law and regulation, and maybe in sectoral policy, but no longer intervention at an enterprise-by-enterprise level by the state, at its various levels of the hierarchy.

So that's an important transition. It will affect a lot of personal interests. So it will not be an easy transition. But I think it's one that is very much in China's interest to get moving forward on.

Thank you.

MS. MANION: Thanks very much, Ken.

And I'd like to thank our three speakers, Ken Lieberthal, Li Cheng, Wang Changjiang, for some very exciting presentations, and wonderful answers to our questions.

We'll take a break before the next session. Thank you. (Applause.)