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**RELATIONS ACROSS THE TAIWAN STRAIT:
CHALLENGES AND OPPORTUNITIES UNDER
NEW CONDITIONS**

**PANEL 2: OPPORTUNITIES AND CHALLENGES UNDER NEW
CONDITIONS IN MAINLAND CHINA**

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PROCEEDINGS

BONNIE GLASER: Okay, we're going to turn to the next panel now on Opportunities and Challenges under New Conditions in Mainland China. My name is Bonnie Glaser. I'm a Senior Advisor for Asia in the Freeman Chair for China Studies at the Center for Strategic and International Studies and want to thank Brookings for hosting this conference here today. So we have a terrific panel to talk about some of the recent developments in mainland China. The rise the power of the fifth generation of leaders, the nature of Xi Jinping and his presidency, the degree of power that he holds and his aspirations to shape and implement the China Dream. Economic challenges that China faces. So all of these issues are going to be addressed on this panel as we listen to four very distinguished speakers analyze the new conditions in mainland China. We are going to start with Dr. Chao Chien-min and you all have bios so I will just introduce Dr. Chao as Professor and Director at the Graduate Institute of Mainland China Studies, and Dr. Sun Yat-sen's Thoughts of Chinese Culture University, and I think as you all know, he used to be Deputy Minister at the Mainland Affairs Council in Taiwan. I understand that he has a Power Point, if somebody could get that up, we'd appreciate it, and I'll turn the floor over to you Dr. Chao.

CHAO CHIEN-MIN: Thank you. Thank you, Bonnie. Let me see how this works. Well, I thought that I, among the many issues I'd concentrate on the reforms that Xi Jinping is promoting. Seems to me this is the thing that the leadership of the fifth generation of Chinese leadership is focusing on. Some people have said that the reform passed last year at the third session of the CC session of the 18th party Congress -- it's in fact one reform package. Some said that it would either lead to great governance if it succeeds in the future, or to a greater disorder, that's what I write. I think this is good assessment because a lot is at stake, and we are really seeing a great package there. So I thought I would just review how the reform package has been going on up to this point and what the future prospects are.

First, I tried to figure out what is behind Xi Jinping's thinking: in other words, why reforms? It seems to me the old model which is a basically growth driven development model has met with obstacles and seems to me there are three major obstacles, and these are the foundation, seems to me, that has alarmed the top leadership in Beijing and driving them on the path towards reforming the system.

The first is of course, market mechanism has been greatly distorted, especially in resources in the areas of energy, telecommunications, transportation and finance. They've been distributed unfairly, in favor of the state owned enterprises, although the non-public sector accounts for 80 percent of employment in the urban area, and the 60 percent of the GDP, and 50 percent of taxes levied by the government, so this is really a huge mistake and a huge problem, especially the state owned enterprises. They are less efficient. I think there's a figure -- I think their profit margin is less than two percent overall for the state owned enterprises compared to

other non-public sector, and yet, they're sitting on the lion's share of the resources. This is really a source of public discontent, also an obstacle to further economic vitality.

The first, of course, is the income disparity is widening across regions and across professions, and you know, it's all over the place. It is another source of great public discontent. I think they need to address this issue, this issue of unfairness.

The third problem is that there seems to be a corporate structure already in place, featuring the state and the capitalist class which basically are coming from the state owned enterprises. They are forming a coalition. They also preempt the changes. So it seems to me these are the major. Of course, we are looking at a great deal of a great many other problems but I think all those problems might come down to the three. So how do they do it?

This session, the third [plenary] session of the CC [Central Committee of the Communist Party of China] session last year is called the decision of major issues concerning comprehensively deepening reforms in the rest of the presentation are simply regroup to the decision as the decision. The decision is aimed at reshaping, seems to me, reshaping that society structure so that a more equitable society might emerge. I think this is the most important core element of the reform. The decision is also a response, official response, coming from Xi Jinping and his peers to the debate. We all remember this great debate started some 15 years ago at the turn of the century, and it's ongoing over where China is headed. Some are saying that the so called Chinese model is basically based on this state-ism, where the state owned enterprises play a very important role; the state is also playing a very important role. But some others are suggesting this model is really not working because it's becoming a state of capitalism and so on and so forth. I think this is an official response coming from the Chinese bureaucracy, on the debate. And I think Xi Jinping wants to often lay it aside. I think he's taking a central position on this great debate. Then I tried to examine the contents of the so called five in one reform package, because it covers five areas, including economic, political culture, societal and environmental reforms. But I think there are -- the targets are only two. I think these two are the most important areas. The two are most important among the five, which are economic reform and judicial reform, because I think that those two are the most important things.

First, market reform, I think the main objective is to establish a clear mechanism, so that improper linkage between the state and the market can be corrected. I think this is, like I say, all of this has been a major, major issue. If that's the core objective, I think we can further speculate on two separate objectives, which is market liberalization. This is extremely important, because like I say, all those resources are being monopolized by state owned enterprises and you know, there is indeed a need for further liberalization.

Second, how to reshape the role of the state, in other words, in a relationship between the state and the market -- I think those are the main objectives. Now how do they do it, in terms of market reform? First is to redefine the role of the market. We all remember in the

16th party Congress, the market is defined as a fundamental force in the allocation of resources. (speaking Chinese), fundamental force that was defined by the 16th Party Congress, and the line was continued into the 17th Party Congress. But I think in the decision adopted last year at the (speaking Chinese), the third plenary session, it has been changed to the market has been redefined as the determining force, (speaking Chinese). You'll still be fundamental. Right now it's a (speaking Chinese) in distribution of resources. This has been, to many, this has been held as the most important change by the decision, and some would even call this a spirit of the document. I concur with that assessment.

The second thing they are doing is that they are trying to reduce market intervention. The decision demanded a loosening of control over investment. If you look at the Shanghai free trade pilot zone, they have already come up with a new policy for market access in this, where, I think they found only a few items where they are not -- people are not allowed to invest, whereas the rest of the items are open for investment. So I think this is huge progress. They are also trying to cut back on the administration powers. They have been doing this for the past decade plus, you know, ten, fifteen years. And in a new decision, made just a few days ago, the powers enjoyed by the State Council have been further cut. Some say that 60 percent of this round of reshaping of the government's powers over this, I think (inaudible), you know, how relating to the market and some say 60 percent of the powers have been shipped off, so this is huge, huge thing there.

Another thing is of course, state owned enterprises, I'm sorry, that's state owned enterprises, the decision demanded a change over the management system and also they introduced the mixed ownership system and this has been promoted by a number of provinces. I think right now it's again invoked that. The government -- that's another important area, the decision urged a budgetary transparency. I think this is a very -- indeed, a very important reform over the budget. I suspect this has something to do with the fact that Xi Jinping, when he was at Zhejiang, you remember the budgetary reforms, (speaking Chinese), right, but they tried to bring in more people into the system to review the budget. I suppose that's the model they, you know, that's the thing they tried to, you know, to introduce and peasants are given more the freedoms to dispose the land they till and the land surrounding their residence. This is very important because this is very source that contributing the discontent, in the rural area. Last, urbanization will continue to be promoted. This is the Li Keqiang's pet project, in order to offset problems of the rural unemployment and income disparity.

Okay, the second reform, major reform, is the judicial reform, so you know, in the past year, and over a year, over 40 top level officials have been under investigation in the name of corruption, and quite a few measures have been taken. Just recently, the group, the Small Leading Group over the Comprehensively Deepening Reforms; they passed framework opinions, concerning experiments in judicial reforms. A number of places have been singled out for that experiment. And in August last year, the politburo also passed an anti-graft five-year plan, but unfortunately no contents have been made public yet.

Last, challenges and future prospects. I think whether the reform is to be successful is contingent upon the deep combination of the top leadership, and for that, Xi Jinping decided to establish the Small Leading Group over Comprehensively Deepening Reforms. The group is tasked to function to design, coordinate, push forward and supervise implementation of the reforms. But there are problems. Problem number one is that the Small Leading Group, the decision making body, is basically a party organ. How would the party organ work with the different agencies at the State Council? I think that would be a problem, because most of the reforms would be -- ought to be implemented by the State Council.

Second issue, and many people have been talking about this, Xi Jinping has emerged as the most powerful leader in China after Deng Xiaoping. Some calculate that he has ten different hats. Just recently, he has been added four hats, four very important hats. He is right now head of the s Small Leading Group over Comprehensively Deepening Reforms. Then he's also head of National Security Council and the Small Leading Group on Internet Safety and the Telecommunications and also the Small Leading Group on Deepening National Defense and the Military. So that's, last, the SOE state owned enterprises, still defined as the basis of the socialist market economy. So that would put a huge constraint on, you know -- to the scope where they may go.

Very last sentence, regarding the judicial reform, I think the major problem is with the constitution. Because the constitution says the People's Congress has control over the personal operation of the judicial sector, but in the meantime, the People's Congress at various localities are still being headed by the party secretaries, so the judicial independence that Xi Jinping has been talking about seems to me, is rather unrealistic. Thank you.

MS. GLASER: Thank you very much Dr. Chao. We're now going to turn to Dr. Tsai Wen-Hsuan, who is assistant research fellow at the Institute of Political Science at the Academia Sinica in Taiwan. Dr. Tsai?

TSAI WEN-HSUAN: Hello everybody. My name is Wen-Hsuan Tsai, assistant research fellow at the Academia Sinica in Taiwan. It's my pleasure to join the conference. The topic is Xi Jinping's political agenda of the Chinese Dream and the priority of domestic problem in China. We know in 2012, Xi Jinping put forward his guiding ideology, Chinese Dream or China Dream *zhongguo meng*. Xi Jinping emphasized, we must practice the renovation of China and everybody must, to every Chinese people, must to be proud to our history culture and legacy. And Xi Jinping emphasize the CCP must to practice the economic roles and the social development so that we can -- China can be a peer that Tang Dynasty or Han Dynasty is a very glorious Dynasty in Chinese ascent.

In addition, Xi Jinping emphasize if we want to practice Chinese Dream, we must to resolve lots of social problems. This topic was discussed by Professor Chao Chien-min. Xi

Jinping believe after 1980, Deng Xiaoping carried out the opening and reform policy initially. Actually Deng Xiaoping prefaces his initial modernization in China however, lots of social problems the (inaudible) has not resolved and here now. So these problems are very important. First, is social unfairness. Second, environment protection. Third, the anti-corruption. These three issues are very important in contemporary China. It's very imperative. Xi Jinping believes if we cannot resolve these problems, we cannot practice the Chinese Dream, okay?

So after 2012, in National Party Congress, Xi Jinping put forward a tenet so how *shenhua gaige*: deepen reform comprehensively. He believes we must to change the gradual reform that was created by Deng Xiaoping. We must have comprehensive reform to resolve the so many problems in contemporary China. The first problem , we must, Xi Jinping believes is that we must resolve the current income gap between different members of society, okay. Actually, it's not a new policy in Xi's era. In Hu Jintao's era CCP ever put forward a term, we can see the photo of the left, *xiaokang* it means let everybody richer, equal richer. And the *xiaokang shehui* means wealth of society, the Xi Jinping sits in the palace and the CCP emphasize, we must emphasize the *xiaokang shehui* the wealthy society. It's a very clear schedule. And we can see the photo on the right side, Xi Jinping investigate this phrase, let's offer the poor province.

In the 2013, Xi Jinping investigated the Hunan province, a very poor province in the middle of China, and he's afraid that some minority area, in this province, and he refer his policy. Every culture must increase the funding to support this poor area, and it's not a slogan. It's a very very important policy.

And then the second direct policy, in 2014, Xi Jinping put forwards a *hukou* reform. *Hukou* means household register. We know in China they have the two *hukou*; rural *hukou* and the urban *hukou*. If the people have the urban *hukou* this means that we assure them more social wealth and more social resources and the people cannot change the *hukou*. So lots of the scholars believe the *hukou* system is the one crucial factor to cause the China's unfairness and here now. So in 2013, Xi Jinping changed the system. He allowed the people to migrate from his current residence to into the new one. He believes people can migrate freely and from the urban to rural or rural to urban, and it's break the limit of the *hukou* system. So some scholars believe this is a very very important reform of social management after 1980.

The second problem is environmental protection. There is a very very serious problem in China. Actually it is not only Xi Jinping's new style. It 2013, CCP put forward a new term, so called and you can see the photo on the right side, Shanghai ecologic civilization, okay? Hu Jintao believes we cannot sacrifice the environment, the natural environment, for the sake of economic growth, okay. Xi Jinping also follow Hu Jintao's policy and he believe the civilization, the ecological civilization is very important so he organize the official press and the propaganda department to publish lots of books. You can see the photo on the left. One is entitled, How to Practice the Beautiful Chinese Dream. The ecologic civilization is a new area.

So Xi Jinping hoping to coexist between the ecological civilization and the economic growth.

And the related policy, the State Council, *guowu yuan*, established an inspection group in 2014, okay, the group go to the province to check and inspect this leader, whether this leader follows China's central policy. One crucial policy is environment protect issue. For example, this inspector group goes into the related province to check whether the leader decrease the high polluting industry state by state and whether you develop the green industry or upgrading the industry, okay. In other words, they also protect the social stability. If the CCP, if the provincial leader closes the industry, maybe it cost lots of workers to lose their job, and the cause of the social instability, social unrest, social chaos. So the inspector ask this leader, when you close this industry, how do you handle the risk of this employer worker from the closing industry, so it can reflect the Xi Jinping's idea. We must to push the comprehensive reform, cannot resolve the problem, however, and cause another problem.

The third problem is anti- corruption. It's a very very important policy. Xi Jinping reaffirm his policy several times. We must swat the fly and the tiger simultaneously. The flies means the low level cadre and the tiger means the senior or high level cadre. The performance of anti-corruption seems very good, because until now, over 13 senior cadre, the ministry-level cadre over level dismissed and due to their corruption, including these two tigers: Zhou Yongkang and Xu Caihou. So Xi Jinping believes the bottom people and the cadre believes the corruption is the one most serious problem in contemporary China. If we can't resolve the problem, we cannot practice the Chinese Dream.

So, in my mind, the Chinese Dream involves three very important domestic problems -- social unfairness, the environment protection issue and ending corruption. Xi Jinping emphasize that if we can resolve the problem and then we and China can practice the China Dream. Before that, in addition we can see some very interesting things. Xi Jinping, in order to practice the Chinese Dream, or anti-corruption, he observe emerge lots of Mao Zedong slogan and style and measure. Now he asks every cadre to do the self-criticism. This is (speaking Chinese). It's a very, Mao's slogan. And he says we must follow the mass line to check if we have the correct political attitude or behavior and to follow the Center's policy and the direction. In 2013, Xi Jinping launch a very interesting movement, so called (speaking Chinese) the party's mass line education. He practice the rectification within the party. So we can find Xi Jinping very very good at collective pressure over the party's members over the party's cadres to practice his idea, his guiding ideology the most. And the very particular style has not been found in Hu Jintao and Jiang Zemin okay.

And the Chinese Dream, maybe is to Xi Jinping very important political symbol. To Xi Jinping maybe follow his predecessor Deng Xiaoping, Jiang Zemin, Hu Jintao. We know every CCP's top leader must put forward his particular ideology or authority. For example, Deng Xiaoping is Socialist Market Economy, Jiang Zemin is Three Represents, Hu Jintao is Scientific Outlook on Development. So maybe the Chinese Dream will be the Xi Jinping's the political

symbol and solve the problem, and maybe will be written into the party's constitution of the future, however, this is a possible criticism is, Chinese Dream, yet some parties think of another similar dream, American Dream. It's a political error to learn western to be ideology. So Xi Jinping organize lots of scholars to write a paper emphasize the idea of the Chinese Dream, was it the right or wrong for Chinese culture Chinese idea, not any association with western culture. And then we decide, Xi Jinping not only propagandize the Chinese Dream to the Chinese people, he also hoping, let the world hear the sound of the Chinese Dream to enhance his legitimacy, enhance his soft power. For example Xi Jinping ask the Propaganda Department and the Chinese Foreign Language Bureau (*zhongguowaiwenju*) to recruit lots of translators and to publish and translate that in a book. They collect the material for the Party's document or the leader's speaking or some propaganda piece to translate from Chinese into English. You can know the Chinese Dream, let everybody, let all to hear the Chinese Dream, more interesting, is Xi Jinping attended a London Book Fair in 2013 and the CCP rent a position is (inaudible) and hope the idea was the let the western people to approach this greater publicity material, okay.

So my conclusion is that the China Dream, yes, is Xi Jinping soft power and it is an overarching concept and the hope to resolve these three problems, social unfairness, environment protection and anti-corruption. And so the Chinese Dream may be a fairness dream, maybe a rich dream, maybe a strong army dream, however, eventually, it is absolutely not a dream of democracy. Actually Xi Jinping prefers administrative reform, prefers to centralize to enhance the government ability rather than participate in a democracy. So Chinese Dream no in need of profession of democracy particularly the western democracy, so we can find that reform line in the two senior CCP's political bottom line. Any reform, for example, social fairness, environmental protection and anti-corruption, probably to help China help the CCP to increase their duty ability to assure the regime survival, regime perpetuation. Xi Jinping has no any intention to share the power with the civil society. So we can see, this reflects Xi Jinping's dual thinking. Thank you.

MS. GLASER: Thank you very much Dr. Tsai. Our next speaker is Professor David Lampton, who is here at SAIS, the George and Sadie Hyman Professor of China Studies and Director of the China Studies program. Over to you Mike.

DAVID LAMPTON: Well thank you Bonnie and thank Brookings and the Association of Foreign Relations for putting this together and let me join my colleague on the last panel, David Brown, and welcome you all to SAIS. We're not a sponsor but we're glad to have it here and expose our students and our community to the good thinking that you're hearing this morning and will hear this afternoon. I've been asked to speak for 12 minutes and you should feel free to cut me off at 12 minutes. I'm planning on observing that.

And basically, it seems to me the question put in sort of colloquial form that I've been asked to answer is -- what is going on in China? And I think that's a good question, actually. My presentation will be at one level higher generalization than the very good

presentations you just heard, because I think there are some very basic questions, at least I have, and I think most of the people I talk to have about what's going on in China. I think this is a particularly important topic, because I believe foreign policy basically has, if not all its roots, at least a lot of its roots in domestic politics. So if we're, as Americans, or people living in Taiwan, or indeed in China's region, the rest of the world, I think we have to be concerned about Chinese politics if we're going to get some sort of handle over where this very large and dynamic society is headed.

I just want to say one other thing, prefatory about domestic politics. I think we're in probably for a rough couple of three or four years, just to bracket the next period and it will partly be so because not only of the dynamics in Chinese politics but it's going to be interacting with a very lively political situation in the United States. Whatever you want to say, we're going to have a new government. After our elections, Taiwan has the elections, both provincial and presidential coming up. Hong Kong has its chief executive elections and we're already into an interesting and probably many would say problematic process there. So it's not just Chinese domestic politics, but it's going to be how Chinese domestic politics is playing into the domestic politics of these other very salient societies. So I think we're in for an interesting, I don't want to say perilous, but I would say probably rough ride for the next few years, if I'm optimistic, it's only a few years.

I guess the thing that I would start out by saying is that, I'm a little confused, in the sense that I believe the last 35 years have changed Chinese system and society very fundamentally. That is to say, the bureaucracy, the relative leadership dominance -- it's become more fragmented. That Chinese society itself has become more fragmented in interest groups. We heard earlier talk about interest groups. I broadly agree with that. And society has become more empowered in terms of its -- the money available to lower levels of the system, information, human talent, capacity to mobilize it, so Chinese society has changed very fundamentally. So then the question is, if the ambition is to restore strong man leadership, is this really a feasible undertaking, or does it have high prospects of success? I think you started out your presentation Professor Chao, saying there are two big alternatives here. One is great rule, and the other is great disorder. I think that sort of covers the range of possibility here, and unfortunately none of them are zero probability, right? So in any case, I think that is a basic question. I was struck by a recent statement that Xi Jinping made at the 60th anniversary of the National Peoples' Congress and he said, "Cadres must adhere to the central leadership of the party and approve overall coordination to prevent the government from becoming leaderless and fragmented. The government must prevent political fighting and wrangling between political parties." So it seems to me that what, his attempt to, I will say, get a higher degree of strong man leadership is anchored in the very fact, facts, of how Chinese society and polity have changed over the last 30 to 40 years. So, I have that sort of basic question.

Secondly, I think you have to ask the question, I think it was mentioned, I forget, by one of my, I think it was you Professor Chao, said, Xi Jinping is in charge of about 10

committees. I think the number 10 was –

DR. CHAO: Ten hats.

DR. LAMPTON: I think it may be more than ten, but there are all these cross system integrating committees that exist. You put up some of the major ones. I think you have to ask a question. What is the feasible span of control -- effective span of control of an individual? I don't know what the answer to that question is, but that seems to me pushing or exceeding the limits. So I would just say, in a sense, we can phrase it as -- he has consolidated past, power faster than others, is the way it's often put. Yes, but can your grasp exceed your reach? And so I think we need to ask that question. Then I would say, we've got the issue of policy oversight and implementation. Now when I ask, you know I ask myself, who is the authoritative spokesman in broad policy areas after Xi Jinping? I can certainly say in anti-corruption, Wang Qishan seems to me to be the trusted lieutenant in that area. But pick the rest of your policy areas, and say who's the trusted spokesman who's in charge of that area who thinks authoritatively and I'm at a loss frequently to answer that. And when I ask Chinese coming through my office, they seem to be at a loss. So I just think we need to look at that set of issues.

Now second whole question is, in a sense, how is Xi trying to consolidate his power, become a strong man if that's a fair characterization, and I think the answer is fairly clear at the general level. He's pursuing a nationalistic rhetoric and populism and anti-corruption and heaven knows, anti-corruption is justifiably a popular topic to address in China. But I think you have to be practical and you have to say addressing or having these two themes of nationalism and anti-corruption also creates some difficulties. Certainly the anti-corruption is aimed at key power structures within China. And I expect those power structures aren't going to take this laying down. So I have a lot of Chinese that I talk to say we're just keeping our heads down until we see which way this thing is going. Well, so, we probably ought to keep our analytic heads down and wait a little bit to see how this sorts out. In terms of nationalism, of course, it creates anxiety in the region and not limited to the region, but certainly in the region. And then you see China moving a little bit closer to Russia, whatever moving closer to Russia means, but it's hard for me to imagine Chinese people see their future in Russia. After this last 40 years, it's pretty hard for me to see that.

So, it seems to me -- the third thing you need to be fair, and it relates to particularly the two presentations that -- is there has been a very impressive reform agenda laid out. And I think we have to say that. And my own belief is that if China could get on and implement at 60 points in a fairly comprehensive orderly way, it could extend its period of rapid growth for another decade or two. I think there's a lot of potential there. But I don't see the rapid movement down that list of 60 points, although I'll concede that the negative list, the Shanghai zone -- all of these are good things. I'm entirely supportive. But it seems to me this corruption and nationalism could derail or at least slow down your capacity to tackle that key agenda. I want to end by just observing that you know, this is the 110th anniversary of the birth of Deng

Xiaoping. And there's a lot to be said about Deng Xiaoping, but I think he had two core elements of his strategy and I just ask you to think about what you see going on in China in light of those two core elements. I think in the previous panel, somebody, I think it was maybe Doug Paal, said that *taoguang yanghui*, the hide and bide, or however we want to translate that, has sort of been, I don't know if his verb was buried, or something to that effect. But it seems to me that Deng had two core elements to his strategy. One is pacify the outside so you can focus internally. And the second is, don't bite off more than you can chew. Don't take on more political enemies than you can handle, tackle the easy things domestically before you go for the hard things, and use the capital you accumulated on your successes to tackle the more difficult things. And frankly speaking, I don't see that strategy at work now. Thank you.

MS. GLASER: Thank you very much. We will now turn to our last speaker, Dr. Lü Xiaobo, a Professor of Political Science at Barnard College. Dr. Lü.

DR. LÜ: Thanks Bonnie. Let me actually pick up where Mike Lampton just raised that question at the beginning of his remarks, that puzzle that puzzled him, confuses him, that also indeed puzzles me, and that is, that, why China -- we know that China after 30 some years of reform, there's huge, tremendous social change, yet there seems to be a gap of how to deal with those social change, and that seems to be the kind of -- one of the key issues, not for just us, but also for all China watchers and those who are interested in Chinese domestic politics. I think it's not a cliché; it's almost a cliché to say that China is at crossroads. I think there are two reasons why we say it is not that cliché, because now we are not only having a new leadership under Xi Jinping, but also, the tremendous social change.

Let me just sort of focus on that social change, and make a few analysis of how the government and the new leadership might deal with it. When we talk about social change, I think we could observe at least three trends. I think previous speakers already touch upon them. Number one is that you know, there are an increasing number of people that can be now called urban middle class. So you have an emerging middle class in China. I'll talk a little bit about the implication of that. And second, this mention that there is a diverse, increasingly diverse social interests -- you know, state sectors, big monopolies, urban middle class, you have migrants and so on, so an increasingly a diverse social interest. And thirdly, you have this gap between economic achievement and economic development and lack of, political reform, so institutional, between demands and institutions, and the way of dealing with those new demands. And also, with this kind of social change, also we observe that the concerns of the Chinese society at large, as a whole have seemingly changed, with this increasing number of people that can be called middle class. I would call that change, is fundamentally changed from a so-called concerns of pocket issues such as inflation and employment, economic crisis and so on, to what I call quality of life concerns, typical middle class -- again, this is not unique Chinese but you know, typical middle class concerns. And if you look at China today, you can notice that the concerns are no longer just unemployment or inflation, but rather, food safety, air quality, and also there's another interesting -- a lot of people haven't really noticed -- it's also the concern about leisure

time, about travel, how many holidays they have, how to do those, you know, whether to switch around those long weekend holidays. So the concerns have changed. And of course, about taxes, about corruption, so you can see that this new middle class-driven kind of concerns have emerged in China.

And that raises the critical question. How does the Chinese regime deal with it? Or has it -- you know, because from political science, you know, those classic theories about democratization, about modernization -- now we've seen China has entered again, a very interesting period of time. After 30 some years of reform, we know China now has an emerging middle class. Martin Lipset has predicted that could lead to political change, possibly to democratization. And not some 20 years some ago Huntington had predicted that, when countries enter this transition zone, when GDP per capita enters above 3000 U.S. dollars roughly and in 2000 China is exactly in that zone. China last year, 2013, China's GDP per capita was 6000 U.S. dollars roughly, so that China is in that zone and we see the kind of a social change. And the question is why not? Why we have not seen a kind of change. So this actually is one of the key issues that China scholars now focus on, that is, you know, authoritarian resilience. You know, this is not just in China field, but also in comparative politics field, is why then some authoritarian regime remain resilient despite all the changes elsewhere? So they haven't caught on to sort of the contingent, the kind of the virus of democratization. So, and the answer I think, let me quickly make some remarks about -- I think there are four possible answers to that, what the Chinese regime has done. And we can discuss the sort of the challenge of using those four possible ways of managing it.

Number one, I would say is, governance reform without political reform. So there is institutional adaptation, adjustment without fundamental political change. You know previous speakers, Mike Lampton all touched upon those, you know, judicial reforms -- reforms of hukou household registration, bureaucratic reforms, downsizing. Li Keqiang continued this last two premiers, Zhu Rongji started this transition, transforming bureaucracy from that of a player to referee, if you will, and Wen Jiabao continued that trend and now Li Keqiang go even further. But still, those are governance reforms, without fundamental political reforms.

And the second one -- and that worked to some extent, and I'll come back to it again. Second one, I would say, is a state capacity, particularly fiscal capacity. Until 1980s, 1990s, for the first 20 years, the Chinese actually, if you look at the fiscal capacity of the time, after mid-1990s, reform, fiscal reform, decentralization, you see a trend at that time -- the local governments was increasingly short of money. What they did was to tax local population. This is famous passing the burden issues, which Tom Bernstein and I wrote about, wrote on. And so, at that time, government had to rely on taxing local population, which caused a lot of problems. That's was when there was hundred thousand protests every year. We don't see that many now, and there's a reason to it, and because they're being taxed heavily. Now, of course, in last 10 years or so, that government has switched its tactic. And it no longer tries to tax local population, especially by the local government. Now, it was what I call revenue without taxation, the main

source of which is land, is land sale, land proceeds. And that has benefit tremendously Chinese government, especially at the local level. And that also avoided kind of directly taxing local population. You develop infrastructure, even including putting money into this *weiwèn*, sort of maintaining stability while not taxing, direct taxing people. So I argue that is another reason why we see a kind of a stability or the regime is reasonable.

The third one is control of critical goods, while providing public goods, infrastructures, you know, services. Even if you go to Chinese countryside, you really see now, villages got a lot of money, even into medical services and so on. So Chinese actually government pump the money. So they do provide public goods, while they control critical goods. And this is not my theory, but rather the theory of some scholars in comparative politics. They argue that authoritarians now today are smart. They're not just cutting off public goods. They're actually providing public goods, but they control critical goods. What are the critical goods that Chinese try to control? Information, organization -- those are two key areas I think Chinese government has really put a tight, tight, tight leash on. Information: as we know, there's rising emerging social media and the lot, but that control attempt to make the information control, I think it's quite there. And then, organization. China has a lot of freedom. You know, Chinese society is quite free individually, the space is quite extended, yet any organizational space is still very much limited.

Finally, decentralization, well decentralization is taking apart as the reason why Chinese economy has developed, but I also suggest that decentralization also had an interesting political consequence, and that is to disaggregate the legitimacy problem. So if any problem occurs, it's the local governments. It's the local monks that did not recite the scripts right. So that's actually an intended or unintended consequence of this decentralization. So the central government, Beijing always can blame the local. And that's in fact, that's survey results by Asian Barometer actually, Professor Chu Yun-han and others has shown that indeed, that's how Chinese regard legitimacy. They trust the central government more than local governments. And that I argue, is a decentralization result.

And finally, let me say that all of this is becoming more and more increasingly hard, all these four areas, becoming increasingly hard. Just take one example, is critical goods control. It's going to be very difficult for Chinese, because we're now having a possible game changer in social media. Chinese social media is as vibrant, you know Weibo and now Weixin, all this -- I think it's going to make a challenge on this trying to control, because information control is one of the key areas, that does not so freely flow. But social media try to break that kind of yoke. And so this kind of struggle going to be there and that's going to be a challenge, and state capacity too. You cannot always rely on land, because land is limited, and in fact, now they're thinking to change that from that of a land proceeds to that of taxation -- roads tax and other kind of taxing. And that, I would argue would have political implications, because that you would have to direct tax people. And that's already, you know, government is thinking about it, but I think it's going to be very difficult in next foreseeable future, next few years.

So in summary I think that the Chinese government, Chinese regime and the Xi Jinping is still struggling to find that balance to deal with this new social demands. This Chinese Dream -- it still remains to be a very vague undefined sort of an attempt to revise and renew this old social contract that Deng Xiaoping entered with the Chinese people in 1979. That old social contract says, I will make you rich, and you do not challenge me. For thirty years that worked. But now, Xi Jinping realizes that's going to be hard. You cannot -- because demand has changed. It's not all about money. It's about more. It's about corruption. It's about clean air. And to deal with that, I don't think necessarily that Xi leadership has come up with this very clear defined new social contract yet. Thank you very much.

MS. GLASER: Well thank you all for very excellent presentations. I will make a few comments and then we will open the floor to questions. It seems quite clear that Xi Jinping is a man in a hurry. He has created a sense of urgency, even crisis. As Professor Lampton said, he's doing many hard things at the same time, and personally identified himself with almost every important decision making mechanism and decision. The top priority I think that Xi Jinping has is strengthening party legitimacy and control. In order to do that, he must transform the economic structure so that he can sustain China's development. And also, he must root out corruption. So his goals and indeed even the China Dream I think is related to the reinvigoration of the party and its legitimacy. I think everybody has raised questions about whether Xi Jinping can succeed. Clearly, he faces many obstacles, many entrenched interests. There are people who have benefitted from the way things have existed for some time. So as Professor Chao has said to us, do we have *da zhi* or *da luan*? Is he going to succeed in having this great governance or fail and end up with some kind of chaos? So I think China watchers need to start thinking about what success and failure would look like and what its implications would be, and what are indeed indicators of success and failure would be.

The second question that I want to extend on remarks that Mike Lampton made about Chinese foreign policy. How do we understand the linkage between the internal reforms and policies and the external policies that Xi Jinping has been pursuing? Does China have to be tough? Does Xi Jinping have to have a very firm foreign policy in order to forge national unity, to gain support for this very difficult reform agenda that he is seeking to implement, so that he can just fight these battles at home and have everybody support him for what he is doing, in defending, particularly territorial integrity, sovereignty, China's core national interest?

And if that is true, then how does that square with what is clearly another Chinese goal that Xi Jinping himself has recently enunciated, or reiterated, that China needs a favorable international environment to continue to develop domestically. So there is a tension here, and I think that there is a potential that tensions that China has, particularly with its neighbors and with the United States, could have domestic, negative domestic consequences. And I'll just give one very brief example and that is Japan's investment in China, which has been very very important to China's development. Japan's direct investment in China fell nearly 20 percent in 2013 and

this year, the first six months; it dropped another 40 percent compared to a year earlier. So clearly, those are -- that is a phenomenon that has negative implications for China's economic development and foresees objective of achieving the China Dream.

I would argue that Xi Jinping seeks to achieve this, this sweet spot of improving relations with China's neighbors, without the appearance of making concessions. I think this was quite clearly stated at the October 2013 work conference on periphery diplomacy. China wants to share its economic growth with its neighbors so that they can all benefit, but at the same time, does not want to give an inch when it comes to sovereignty and territorial issues. I think this will be very very challenging going forward, and I think we have to ask the question, as to whether or not his very tough foreign policy towards neighbors, on territorial issues, is going to be counter-productive for Xi Jinping's domestic agenda, and whether he's going to be able to reconcile having this policy towards his neighbors and also trying to achieve a new grade type of major power relationship with the United States. That also seems in conflict as well. So let me stop there; open up the floor for questions. We have, I think, 25 minutes. I'm going to collect a set of questions. If you have a particular person in mind that you would like to answer it, please do point that out, and identify yourself when you state your question. Richard Bush please.

QUESTION: Thank you very much. I'd like Mike Lampton and anybody else who wants to comment, to elaborate on the tension that you identified between carrying out economic reform and doing anti-corruption at the same time. That seems to be a pretty difficult trick to pull off, not only in the short term. I mean, you suggested that in this environment, people are going to want to keep -- put their heads below the parapet and that would suggest -- I would argue against any sort of bold action, including in support of reform, but there may be a longer term impact too. You know, who's going to be left to carry out the reform once the anti-corruption campaign is over? So anything you'd like to say on that.

MS. GLASER: Okay, in the back.

QUESTION: Hi. I'm Yuda Chou. I'm second year Asian studies program student in George Washington University. I have a question on, to all speakers if you would like to answer. All the speakers have mentioned there is a certain gap, a social gap or social changes in China, and everybody's focusing on, all over the world is focusing on the internal problems that China is facing, just like a couple of days ago. The Ministry of Foreign Affairs, their press conference -- everybody's focusing about what happened to Jiang Zemin these days. So I think the internal problems are really important for us to observe, especially when observing the development of the Xi Jinping regime and all these kind of political changes. One question I would like to raise is how would Xi Jinping deal with the gap between the Han nations and the so called minorities in China, including Uighurs, Tibetans and all these minority groups? Because all these riots happened in Xinjiang or Xizang, in Tibet, has been observed and what we can see is the cost of *weiwen* to maintain this stability raising, but these problems are still happening, and it's not coming down, especially in recent years. So I would like to know more

about how would Xi Jinping deal with all these kind of issues, especially facing these minority groups. Thank you.

MS. GLASER: Okay, we'll take a third question, over here. Yes you. Wait for the microphone please.

QUESTION: Well thank you. My name is Yan Kang from the School of Media and Public Affairs of George Washington University. We learned a lot of information from the presentations of Mr. Tsai and Chao about the policies and reforms of Xi Jinping since he took office in 2013. And we know there are a lot of opportunities for the Chinese people to develop in the future, and I would like to know how could the Taiwan area benefit from these policies and the reforms? And if these reforms succeed, how it would influence cross-strait relations between the Mainland and the Taiwan area? Thank you.

MS. GLASER: Okay, thank you. David Brown.

QUESTION: Dave Brown. This is a question for Professor Tsai. You did not mention how Taiwan fits into Xi Jinping's Chinese Dream. The great rejuvenation of the Chinese nation is one of the ways he expresses that, and the Chinese nationalist perspective, reintegrating Taiwan with the motherland, would seem to be an element of it, and an element that he expressed in a statement he made in the spring of this year, about how Taiwan could be integrated into the Chinese Dream. So please explain how Xi thinks about this.

MS. GLASER: Okay, we'll take one last question from over there.

QUESTION: Hi, my name is Eevamaria. I'm from University of Turku in Finland. I have a question. What happened to the concept of rule of law in China? I don't mean the western concept of rule of law, but the Chinese concept of *yifa zhiguo or fazhi* that was emphasized by Jiang Zemin earlier and to some extent also by Hu Jintao. But in recent years, I haven't been noticed that, yeah, I haven't noticed that Xi would have given a lot of attention to it. Thank you.

MS. GLASER: Okay, we'll take this first group of questions, have some comments and then we will come back for a second round. We'll start with Professor Lampton and Richard Bush's question about the tension between economic reform and anti-corruption.

DR. LAMPTON: Good question, and we should start with an observation of the obvious and that is transparency is a problem. But I think you can sort of see four areas where there's tension and starting from the premise that anti-corruption is a worthwhile effort. So nobody's -- it's just, what are the objective consequences, right? So I think it has an impact. You're going to have to go after the power structure itself, or important parts of it. Zhou Yongkang is actually not only the petroleum sector but the security sector and his tentacles go

and I think to depths that most of us quite, can't quite imagine. So you've got the power structure issue, and you see the same thing going after the PLA or certain parts of the logistical system and acquisition procurement and all of that -- hard to know. So you're going after the powerful bureaucracy -- coercive bureaucracies, not limited to them, but including them. So I see a power structure push back. It's hard for me not to imagine people are going to seek to defend themselves.

Secondly, it seems to me there's a resource problem, and that is, I keep -- I faithfully read the business page and so on. We seem to see capital flowing out of China into property markets all over Asia and in the United States and elsewhere. I can't think that, on balance is a good sign. It seems to me that people are also stashing their kids around and diversifying residence and everything else, so those are all, it seems to me, signs of a lack of confidence or at least, we're going to hedge our bets in major, major ways. So there's a resource problem.

Then, there's an implementation problem. Are you going to get faithful implementation of everybody that's got their head below the parapet? So I just think there's a bit of an implementation problem. Then there's the external threat issue. And you see already, I think whatever the anxiety level was in Hong Kong before recent developments, it goes up. And I can't imagine people in Taiwan are looking at either developments on the mainland or in Hong Kong with entirely reassured of that. So you multiply the kind of unmanageable problems. And of course, people in, particularly in Taiwan, but in Hong Kong as well, want to get us involved in that and from the PRC point of view, that's not a welcome development, so those are some of the areas.

I thought I'd just say one word on the last question if I could, the rule of law? It just seems to me and I made a comment about the third plenum. It did talk a little about rule of law related issues in a pretty positive way, certainly the whole detention, administrative detention system was one topic as I recall and as I understand it -- I don't follow it that closely -- there's been some progress in that area, I don't want to -- I'm not quite sure how much. And then we have the fourth plenum coming up, about which that is supposed to be the topic, so I would say we ought to all pay attention to that.

MS. GLASER: Okay, Dr. Tsai, do you want to comment on how Taiwan fits into the *zhongguo meng*?

DR. TSAI: Thank you, thank you. Actually, Chinese Dreams, they're very vague and not meaningful. And Chinese Dream also has two category implication -- international and domestic. The international implication is CCP emphasizes the Chinese nation loves peace and to pay more attention to other nations' culture. And when CCP do the international propaganda, CCP would not the two emphasizes, the economic roles, emphasized the strong army and so. CCP hopes to let the international believe that China is a nation that's peaceful and so on.

However, in domestic category, CCP emphasize that China's dream involve some important policy that they're very imperative problem in contemporary China, if CCP can resolve this problem, I mention for example social fairness and anti-corruption. The CCP can practice the Chinese dream.

So in Taiwan, I don't know. We actually, we don't care for the Chinese dream. And it's a very vague and not meaningful. So when I receive the topic to present, I was confused. So I inject some correct attributes to the Chinese dream. I believe Chinese dream is all to resolve these three problems. Thank you.

MS. GLASER: Thank you very much. Chien-min, could you comment on how China -- on how Taiwan might benefit from China's reforms?

DR. CHAO: Well, as I said earlier, there are two kinds of prongs in this grand strategy to reshape China -- market liberalization and I think I asked the state owned enterprises to be stripped of some of the privileges and small and medium enterprises are to be promoted in China. I think that's to our benefit, because that's what Taiwan's economy is based on, small and medium enterprises, so I would say that would be one area. And a similar relevant case, is Shanghai free trade pilot zone. I think it's open and trying to open up its market. From there, other cities might follow suit. And I think it has already opened up some opportunities for the Taiwanese business people. On the judicial reform, I'm afraid Taiwan, well you know will be more, will serve more like a model. There are many things China can learn from Taiwan experiences. Ours is not perfect. There is a long way to go before Taiwan reaches the level of a mature democracy in terms of the rigor of our democratic institutions. Nevertheless, ours is much better, you know, compared to in terms of the transparency, accountability and so on, the balances of power and so on and so forth. I think there is much we can offer to the other side and I'm sure many people in the mainland China would like to pick up lessons from here and there.

On the cross-strait relations, I think it really depends on how the outcome of the reforms are. If it heads on the good side, in other words, if it succeeds to some extent, you know, the economy has been transformed, the anti-corruption is relatively successful budgetary reform and the whole political system is more transparent, of course cross-strait relations will be benefitted. But you know, the problem with China is that there is a high level of uncertainty. If the reforms are heading not only so good a direction, then I think you are going to see tensions there from within China. I think it's very likely that we're going to see -- I agree with David Lampton's assessments -- we're going to see more tensions in the years and months ahead. And I think this is by no means easy sailing. I see many problems ahead and you know, this is an audacious endeavor, but with a lot of uncertainty, so if those tensions surface in China, of course the cross-strait relations will be negatively affected. Thank you.

MS. GLASER: Okay, and Dr. Lü, maybe you could comment on the relations between Han and the minorities, and any of the other issues that you have comments on.

DR. LÜ: Great. In terms of the minority relations, ethnic relations in China, the policy, the new policy by Xi Jinping and the new leadership -- I personally don't see there's much change in the policy towards minorities. I think the change -- if any change, the problem is that in short term has stepped up more security measures if you go to China, probably as a reaction, a reactive policy towards more recent expansion of attacks and terrorist attacks outside of Xinjiang area, in more interior areas. So you can see that now, not only in Xinjiang but also outside Xinjiang in big cities, throughout China, there's a lot more security measures, including not just airports, but train stations, including subways. And China has money to put in, to hire that many people just to check your luggage, check your bags, even in subways. And buses now, they're trying to have a new measure in some cities, that even in buses, on public buses. So you can see that in the short term, that obviously, they're willing and able to spend more money into more security and one could say more repressive measures. But long term, I don't see they make much change, because long term this continues from the Hu- Wen era and that is cohabitation and more, pumping more money, providing more opportunity, especially in the Xinjiang area and I think the Chinese realize that Tibet and Xinjiang are quite different animals. They're dealing with two different -- and Xinjiang, this is obviously the most urgent and most pressing problem for them. So long term, I don't see that it has changed. In fact, I think they have set up more economic and more beneficial kind of policy towards Xinjiang so there is a long term and short term. The short term, yes, we see that there's some changes.

So the other issues about anti-corruption campaign is a very good question. I just want to add what Mike has already remarked. I think there is a -- the challenge for Xi Jinping and Wang Qishan that is, how to turn it off. How to overcome that moral hazard already built in? I say this because China had already had a number of anti-corruption campaigns in the last 30 years. But people all expect it to be last year, less than a year and then, boom; you're off to some other pressing issues. But this time is different. This time is 60 months and ongoing. But people already know there is some point it has to end, because already we can see certain backlash from the economic sector, saying wait a minute, this is, you know, state sectors and all that, are you crying that, oh, when are you going to end this? And so, the challenge is to -- to how to temper that expectation? There is something at some point it will end and then switch to some normal, new norm, new normal. And that's challenging, because Mike Lampton emphasized always on the implementation. China, I think Wang Qishan realized, you cannot always rely on these ad hoc inspectors, like sending out from Beijing, like the emperors always did. You have to rely on the rules, like declaration of assets. You know, prohibition of children's or wives now, go to immigrate over abroad, which that's obviously trying to tighten those. But how to implement those rules while you kind of tamper down? That's the hard part. They know that campaign cannot last forever. But they know that it's hard to end because if you end, then they'll say, uh oh, no everything will be all right. Let's go back to the good old days. So that's the tough part.

MS. GLASER: Okay, great. I think we have time for maybe one or two more questions. In the blue shirt over here?

QUESTION: Thank you professor. Actually, I'm Jacob from Elliott School of International Affairs. I'm a first year graduate student. I also have two questions for all the panelists. We see as before Chinese government centrally put out some important reforms, they will try out some things local provinces or in smaller places. But how does this kind of try out or what we call *shidie* in fact, actually effect ultimate policy of central government and how will this try out effect the central and local relationship? And my second question is about the civil society. Because we see that Professor Lü mentioned that the control of organization and information is still very strict, but with the growth of civil society, how can they play an important role in the future reform in Chinese society? Will the government try to lose the control on civil society organizations, or will as we say in Chinese *shehui tuanti* social groups? Thank you very much.

MS. GLASER: Okay, and one last question, woman in the back over here -- yes, you.

QUESTION: Reporter from the Voice of America, and my question is for Dr. Lü Xiaobo. You mentioned in your speech that Xi Jinping – unlike Deng Xiaoping, Xi Jinping hasn't found a new social contract, so my thinking is that if Xi Jinping says okay, I will give you more freedom, then you will certainly challenge my position, so what's your suggestion for the new social contract? Thank you.

MS. GLASER: Okay, let's please have brief answers so that we can get to lunch in a couple of minutes. Dr. Lü?

DR. LÜ: Yeah, for the last question, I don't have an answer. I don't know what Xi's -- but that's what the demand is. But I wonder if he -- so far, I don't see any signs that this would be willing to sign or renew that kind of contract with that emphasis on more freedom and so on, on democracy. The first question is, I think it's again; it's not very hard to answer. I'm pessimistic. I don't think the regime would lose any time soon the organizational space, control of organizational space. We've seen case after case that you can say anything individually, you can do anything individually, even including protests and so on, but don't organize. And also, you know, let me get back a little bit. Sure, social organizations, *shehui tuanti*, do exist in China. And they will tell you there are millions of them every day. Except of course, this civil -- when we talk NGOs or civil society, if you're -- the goals of civil society or NGOs are different from that of the state, that's trouble. If they overlap, or something close, that's okay. Environmental protection, health, public health and so on, those okay, those can flourish, survive and flourish, all right? Except of course, the other issues that can sometimes -- for example, education. Education rights, but education's okay, but then there's some groups trying to push for education rights, you know, for the kids from other provinces and so on -- uh-uh. They did, then they will crack down. So that's -- sometimes it's a very -- that line, of course, always drawn by -- the red line's always drawn by the state, by the government and if you push that line, sometimes you

begin to really get trouble.

MS. GLASER: Okay, anybody, last comments from the panel? Okay, I think we've reached an end to the session. Want to thank all of our speakers for excellent presentations.

RICHARD BUSH: And I want to thank Bonnie for getting us back on time. Thank you very much. You fulfilled your main requirement. It's now lunch time. Back in the other room we have box lunches for all of you, except they're in plastic, so bring them back here and talk amongst yourselves. Get to know each other, and we will resume the program at 1:15. Thank you very much.

(Recess)