

***China at the Crossroads:  
Ten Major Reform Challenges***

by

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After thirty-five years of successful reforms first launched by Deng Xiaoping and his colleagues at the famous Third Plenum of the Eleventh Central Committee in December 1978, many China watchers (and many Chinese inside China) judge that the nation is at a “crossroads” and has reached a series of critical junctures in its economic, social, political, environmental, intellectual, foreign policy and other areas. These observers argue that diminishing returns have set in and that the main elements of the broad reform program first launched thirty-five years ago are no longer applicable or sustainable for spurring China’s continued development over the next decades. Some foreign China watchers even believe that a kind of “tipping point” has been reached on multiple fronts—whereby if fundamental changes are not undertaken, national economic growth and social development will stagnate; some even argue that the entire political system could come apart. Indeed, China’s own leaders (particularly former Premier Wen Jiabao) have described the nation’s economy as “unstable, unbalanced, uncoordinated, and unsustainable.” The Third Plenum of the Eighteenth Central Committee in November 2013 unveiled more than 300 reform initiatives intended to deal with a wide variety of China’s pressing problems.<sup>1</sup>

I share the perspective that China faces daunting challenges and that China is at a “crossroads.” In this article I identify ten key challenges that I see China facing today, and also assess the extent to which the Third Plenum of the 18<sup>th</sup> Central Committee (November 2013) address these challenges and the degree to which they are being implemented to date. It should obviously be noted that the ten areas I identify as priorities are those of a foreign observer who defines China’s challenges differently from the government and Communist Party of China (CPC).

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<sup>1</sup> See “CPC Central Committee Decision on Deepening of Reforms,” Xinhua News Agency, November 13, 2013; “Xi Jinping Explains CPC Decision on Issues Concerning Deepening of Reforms,” Xinhua News Agency, November 15, 2013; David Shambaugh, “Breaking Down China’s Reform Plan,” *the National Interest*, December 2, 2013, <http://nationalinterest.org/commentary/breaking-down-chinas-reform-plan-9476>; Arthur R. Kroeber, “Xi Jinping’s Ambitious Agenda for Economic Reform in China,” *Brookings Brief*, November 17, 2013, <http://www.brookings.edu/research/opinions/2013/11/17-xi-jinping-economic-agenda-kroeber>.

## **Challenge #1: Economic Reforms**

This is, by far, the most complex of all the challenges. It includes a number of key and complex elements:

- Shifting the overall macroeconomic growth model from the “old two” to the “new two” elements—from domestic investment (primarily into infrastructure) + exports to one of domestic consumption + spurring innovation and creating a knowledge economy (with an expanded service sector).
- Undertaking state-owned-enterprise (SOE) reform, reducing the monopolies SOEs hold over various key sectors of the economy (energy, transport, telecommunications, defense industries, etc.) while introducing mixed ownership and competition (including foreign) into these sectors.
- Relaxing or lifting *hukou* restrictions and creating a true national labor market while alleviating the burden that migrants place on municipal governments.
- Financial sector liberalization related to RMB current account convertibility and a widened trading band; initiation of a bank deposit insurance program; enhancing capital markets; alleviating local bank and corporate debt and revising bankruptcy laws; and broadened direct trading of RMB with more foreign currencies.
- Deregulation and streamlining of a wide range of central, provincial, and municipal government regulations.
- Further opening of the economy, including establishing free-trade zones; relaxing various restrictions on inbound foreign investment and limits on foreign ownership; further reductions of tariff and non-tariff barriers (NTBs); reducing the “negative list” for foreign investments; broadening China’s participation in FTAs and PTAs.
- Increase budget transparency.
- Revising the tax structure and improving transfer payments from the Center to provinces and localities.

In the period since the Third Plenum, some significant progress has been made in a number of these areas. In other areas, though, reforms have encountered stiff resistance from entrenched interest groups. In yet other spheres, the announced reform plans remain on the

drawing board and have not moved ahead. Still others remain so vaguely worded in the original plenum *Decision* that Chinese officials do not know what they mean or how to implement them.

On the positive side, a number of new steps have been taken. According to research done by Deutsche Bank, more than 130 reform announcements have occurred since the Third Plenum.<sup>2</sup> These include the June 2014 announcement that the CPC Politburo adopted the *Overall Plan to Deepen Fiscal and Tax Reform*.<sup>3</sup> In August 2014 the central government launched a new *Plan to Revitalize the Northeast*. The same month the National People's Congress Standing Committee approved amendments to the Budget Law (the first time it has been revised since it came into effect in 1995) and steps have been taken at the local level to improve budget transparency and alleviate local government debt (which has ballooned<sup>4</sup>). Local governments have been permitted to independently issue bonds. Shanghai has adopted an SOE reform plan (to include mixed ownership) and other municipalities are expected to follow, while a number of SOEs in the energy sector have opened themselves up to mixed ownership (Sinopec, PetroChina, CNOOC, China Power International). The pilot Shanghai Free Trade Zone was launched in August 2013, with others to follow. In a major effort to streamline government efficiency, in January 2014 the State Council abolished 70 items that required administrative approval, in April 2014 it opened up 80 projects across a range of sectors for public bidding, and in August 2014 an additional 87 items that had previously required government approvals in the health care sector were abolished.

In all of these and other areas, the government is keeping true to the Third Plenum promise to “allow the market forces to play a decisive role in the economy.” This is encouraging and the reform impulse seems genuine in the economic sphere. But time will tell if these reforms continue or will encounter resistance from entrenched interest groups and bog down. But, so far, the early signs are promising.

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<sup>2</sup> Deutsche Bank Markets Research, “Tracking China’s Reforms,” September 15, 2014.

<sup>3</sup> Little is known about the content of this decision, but it is potentially *very* important clearing the way for much needed and sweeping reforms throughout the fiscal system, banking sector, inbound/outbound investment, and a potentially fairer tax system.

<sup>4</sup> At the end of 2013 China’s national audit office revealed that the liabilities of local governments had grown to 10.9 trillion yuan (\$1.8 trillion) by the middle of last year, or 17.9 trillion yuan if various debt guarantees were added. That was equivalent to about a third of China’s GDP. Source: *The Economist*, “Bridging the Fiscal Chasm,” February 22, 2014.

## **Challenge #2: Fostering Innovation**

The one important area where there has been little or no real reform to date concerns innovation (创造性). This is crucial if China is to avoid becoming stuck forever in the “middle income trap.” The only way out of the trap (as Japan, South Korea, Taiwan and other newly industrialized economies have shown) is through innovation and moving up the economic value chain. China’s economy today remains an assembly and processing economy, not a creative and inventive one. Most of the goods that are assembled or produced in China for export are intellectually created elsewhere. China’s rampant theft of intellectual property and its government programs to spur “indigenous innovation” (which pour billions into domestic R & D every year) are clear admissions of its failure to create. This may, and likely will, change over time—but, to date, China is not setting global standards in hardly any technology or product line (or in the natural sciences, medical sciences, social sciences, or humanities).

The Chinese government seems to believe that all that is needed to spur innovation is to invest in it—like building high-speed rail or other infrastructure. And China’s government is indeed investing increasingly large sums into R & D—but it still spends only 1.7 percent of GDP on research and development (as compared with 2.9 percent in the United States, 2.8 percent in Germany, and 3.3 percent in Japan). However, innovation requires much more than government investment in R & D—it fundamentally requires an educational system premised on critical thinking and freedom of exploration. This, in turn, requires a political system that is relatively open and does not permit censorship or “no-go zones” in research. Students and intellectuals must be incentivized and rewarded—not persecuted or penalized—for challenging conventional wisdom and making mistakes. Moreover, media needs to be open, uncensored, and thoroughly connected to the world. Chinese society is not going to be able to learn from and participate in global innovation if the government and Communist Party Propaganda Department (中宣部) blocks the Internet, foreign search engines, and most international media. Until the higher education and media sectors are liberalized, China will be forever caught in the middle income trap—assembling and producing but not creating and inventing.

### **Challenge #3: Reducing Social Inequality and Instability**

China today suffers from significant social inequalities *and* social instability. Both contribute directly to social frustrations and unrest, and could have the potential to challenge CPC rule. China is now among the top ten percent of the world's highest Gini Coefficient (.47) countries, the main measure of social inequality in societies worldwide. Income disparities in China have been steadily growing—not only between coast and interior but intra-provincial and intra-municipal inequality as well. There was some “trickle down” of income during the 1980s-1990s, but this has significantly shrunk in the 2000s. China's middle class aspirations are also stagnating as growth and incomes have leveled off. Today's university graduates do not have the job opportunities and possibilities of their predecessors. China's wealthy upper class are now increasingly moving their personal financial assets abroad in large amounts, purchasing property abroad, gaining residency permits abroad, and are preparing to permanently emigrate at a moment's notice. In January 2014 Shanghai's Hurun Research Institute (which studies China's wealthy) found that 64 percent of the “high net worth individuals” (N= 393 millionaires and billionaires<sup>5</sup>) polled were emigrating or planned to do so.<sup>6</sup> It is not a good indication when a nation's economic elite keep their personal assets abroad, as it does not evince confidence in the situation at home.

Moreover, rapidly rising frustrations across all classes in society is evident in China today, with approximately 200,000 reported protests every year (including spiking ethnic unrest and acts of terrorism in Tibet and Xinjiang). As the economic growth rate stagnates and unemployment grows (along with increased internal migration), social instability will continue to rise. In fact, rising social *inequality* is a source of rising social *instability*.<sup>7</sup> The unrest in Tibet and Xinjiang arise from other sources, however, and are likely to also continue to get worse—until the central government adopts a much more benign approach to governing these so-called “autonomous regions.” Given the extreme animosity and distrust built up over the decades, it may be too late to improve the situation.

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<sup>5</sup> China now has the world's largest number of millionaires and second largest number of billionaires.

<sup>6</sup> Hurun Report Chinese Luxury Consumer Survey 2014: <http://www.hurun.net/en/ArticleShow.aspx?nid=262>.

<sup>7</sup> See Martin King Whyte, *The Myth of the Social Volcano* (Stanford: Stanford University Press, 2013).

Thus far since the Third Plenum, the only initiatives undertaken in the social sphere have been to unify urban and rural pension systems (with special central government subsidies to the central and western regions), issue new guidelines for further healthcare reforms, and an intensified crackdown on ethnic unrest in Xinjiang and Tibet.

#### **Challenge #4: Combating Corruption**

China today faces endemic and systemic corruption throughout society, the state, the military, and the Party—costing untold billions in lost productivity and tax revenue, and compromising the ruling Party’s legitimacy. This is not a new problem in China—but has truly reached epidemic proportions. Although the Jiang Zemin and Hu Jintao governments took the problem seriously, the Xi Jinping administration has launched an unprecedented anti-corruption campaign (under the direction of the Central Discipline Inspection Commission and Wang Qishan), which aims to capture both “tigers and flies.” So far the campaign is proceeding with vigor—with a number of high-ranking party, state, and military officials under investigation or having been punished. Thus far, former Central Military Commission vice-chairman and former PLA General Political Department Director Xu Caihou is the highest-ranking official to have been held to account, but former Politburo Standing Committee member Zhou Yongkang and the Guangzhou Party Secretary are also under official investigation. Rising numbers of ministerial-level, provincial-level, and local-level officials have also been investigated.

Time will tell how successful this anti-corruption campaign is. It is certainly encouraging and there appears to be seriousness this time that was previously absent, but it should be noted that Jiang Zemin and Hu Jintao also started out with similar campaigns—which fizzled out after eighteen months or so. The scope of the corruption problem in China today is far deeper and broader—and in a sense the real challenge will be how high do the authorities wish to go? It is like pulling a ball of string or yarn; it all unravels quickly. As Chinese politics is still based (in part) on patron-client ties and factionalism, the anti-corruption campaign could aggravate these factional relationships. There are already indications that the campaign is being cynically viewed as a selective purge engineered by Xi Jinping intended to root out the networks associated with former leaders Jiang Zemin and Hu Jintao (more the former than the latter).

### **Challenge #5: Undertaking Political and Legal Reforms**

This is direly needed for *economic and social*, not just political, reasons. There is a real need to facilitate innovation in next stage of economic growth, control corruption, improve transparency, protect citizen's rights, giving voice to people's aspirations and complaints, and improving the party and state's legitimacy—*none* which can occur without a loosening of the political system.

What we see, though, is just the opposite—an intensified crackdown by the security authorities on various sectors of society and information. The crackdown on internet dissent, NGOs, religion, media, lawyers, ethnic unrest, and other political activism is severe. Since 2013, the CPC has launched tough internal political campaigns against international NGOs, the “7 No's” (七个不要), “6 Whys” (六个为什么), “Mass Line” (党的群众路线教育实践活动) and issued the draconian Document No. 9 (中发九号)—all of which reveal an insecure party-state fearing subversion from both internal and external (the West) sources. This is not a recipe for national progress, and it does not represent a confident leadership or ruling party.

On the other hand, the CPC continues to develop what it describes as “socialist democratic politics” (社会主义民主政治), “inner-party democracy (党内民主) and “consultative democracy” (协商民主), a “nation based on the rule of law” (依法治国), as well as meritocratic policies for recruitment, management, and promotion of cadres (干部管理). In theory, these are important political reforms—but since the Fourth Plenum of the Seventeenth Central Committee in September 2009 they have stalled. It will be interesting to see if the Fourth Plenum of the Eighteenth Central Committee (scheduled to occur soon) will reinvigorate these political and legal reforms. I am very doubtful and expect the regime will continue its regressive and repressive policies. Repression in China today is at its most severe point since the aftermath of 1989.

### **Challenge #6: Fostering Urbanization**

This is a high priority of the government and particularly Premier Li Keqiang. The government's goal is to have sixty percent of the population living in urban areas by 2020—requiring the relocation of 260 million rural inhabitants, creating 110 million new jobs,



permanently absorbing 150 million migrants already living in metropolitan areas and providing them with legitimate rights for dwelling, education, health care, and other basic social services. This is an ambitious and enormous undertaking that no government or society has ever attempted. If successful, it will contribute positively to two key elements of the new macro-economic growth model by creating a new pool of labor for the services sector and stimulating consumer spending.

Since the Third Plenum, two key steps have been taken towards realizing the urbanization goals. First, on June 30, 2014, the CPC Politburo approved the new “Guidelines to Step-up Reform of the Household (户口) Registration System.” Second, the Ministry of Land and Resources published “Regulations on Economical and Intensive Utilization of Land”—which proposes to control land usage in mega-cities, enhance the more efficient utilization of land in large and medium-sized urban areas. Legalizing rural landholding rights is another vitally needed reform.

### **Challenge #7: Improving the Environment**

Quite simply, China’s environment is the world’s worst. This includes diminishing and polluted water resources, life-threatening and cancer-causing air pollution, desertification, deforestation, climate change, inefficient energy usage, and so on. It directly and negatively affects human health, economic growth, the planet’s global warming. It is also potentially a volatile political issue.

Since the Third Plenum the government has released a series of new anti-pollution measures. On May 27, 2014 the State Council issued the “Notice on Assessment Performance Related to Air Pollution Targets”—a series of regulations that ties cadre performance assessments to meeting air pollution reduction targets. Similarly, in April 2014, the National People’s Congress Standing Committee approved an amendment to the Environmental Protection Law that ensures (in theory) that local government officials be held accountable should “serious environmental events” occur in their jurisdiction or if they are found to be intentionally hiding or covering up any relevant information concerning such environmental events. Several provinces (led by Shandong) have adopted the PM2.5 air pollution monitoring mechanism and several municipalities (led by Tianjin) have dramatically raised “pollutant

discharge fees” for firms that exceed regulated levels. Hebei province has also closed a number of outdated steel, cement, and coal burning factories. And the Ministry of the Environment has issued new emissions standards for tin, antimony, mercury, and other elements and chemicals discharged into the ground or water systems. These are all encouraging and important new initiatives—but, like all past environmental measures (of which China has no shortage), the key will lie in implementation and enforcement.

### **Challenge #8: Building China’s Cultural Industries and International Soft Power**

As China becomes a global power, it is (or should be) increasingly concerned with its international image, which is not particularly positive. There are some “pockets of favorability” (Pakistan, Malaysia, Indonesia, Kenya, Senegal, Nigeria, and Venezuela), but according to the Pew Global Attitudes 2013 survey China’s international image has been *mixed* (neither overwhelmingly positive or negative).<sup>8</sup>

**China Favorability Largely Unchanged from 2007**

	2007	2008	2009	2010	2011	2012	2013	07-13 Change
	%	%	%	%	%	%	%	
U.S.	42	39	50	49	51	40	37	-5
Canada	52	--	53	--	--	--	43	-9
Spain	39	31	40	47	55	49	48	+9
Poland	39	33	43	46	51	50	43	+4
Russia	60	60	58	60	63	62	62	+2
Italy	27	--	--	--	--	30	28	+1
Britain	49	47	52	46	59	49	48	-1
Czech Rep.	35	--	--	--	--	33	34	-1
France	47	28	41	41	51	40	42	-5
Germany	34	26	29	30	34	29	28	-6
Greece	--	--	--	--	--	56	59	--
Lebanon	46	50	53	56	59	59	56	+10
Turkey	25	24	16	20	18	22	27	+2
Palest. ter.	46	--	43	--	62	--	47	+1
Jordan	46	44	50	53	44	47	40	-6
Israel	45	--	56	--	49	--	38	-7
Egypt	65	59	52	52	57	52	45	-20
Tunisia	--	--	--	--	--	69	63	--
Indonesia	65	58	59	58	67	--	70	+5
Pakistan	79	76	84	85	82	85	81	+2
Malaysia	83	--	--	--	--	--	81	-2
S. Korea	52	48	41	38	--	--	46	-6
Japan	29	14	26	26	34	15	5	-24
Australia	--	52	--	--	--	--	58	--
Philippines	--	--	--	--	--	--	48	--
Argentina	32	34	42	45	--	--	54	+22
Mexico	43	38	39	39	39	40	45	+2
Chile	62	--	--	--	--	--	62	0
Venezuela	--	--	--	--	--	--	71	--
Brazil	--	--	--	52	49	50	65	--
Bolivia	--	--	--	--	--	--	58	--
El Salvador	--	--	--	--	--	--	52	--
Uganda	45	--	--	--	--	--	59	+14
Kenya	81	--	73	86	71	--	78	-3
Ghana	75	--	--	--	--	--	67	-8
Senegal	--	--	--	--	--	--	77	--
Nigeria	--	--	--	76	--	--	76	--
S. Africa	--	37	--	--	--	--	48	--

PEW RESEARCH CENTER Q9c.

<sup>8</sup> <http://www.pewglobal.org/2013/07/18/americas-global-image-remains-more-positive-than-chinas/>.

China definitely has an “image problem” in many nations. When contrasted with the United States, China’s “favorability gap” is even more apparent.

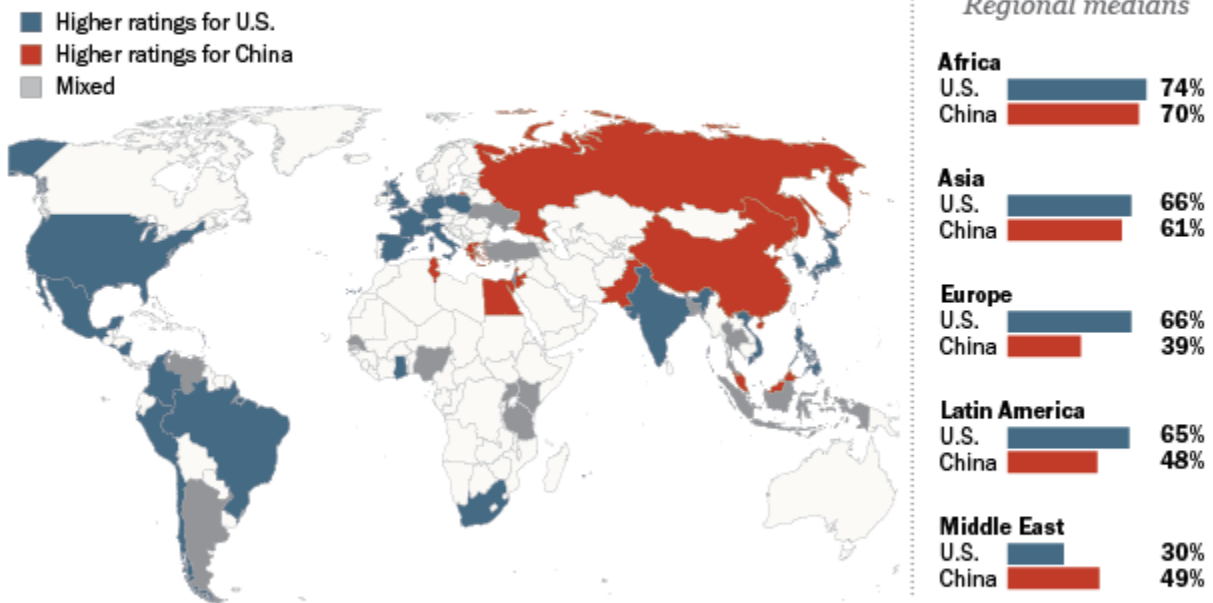
<b>U.S., China Favorability</b>			
	<i>% Favorable</i>		
	<b>U.S.</b>	<b>China</b>	<b>Diff</b>
	<b>%</b>	<b>%</b>	
U.S.	--	37	--
Canada	64	43	+21
Italy	76	28	+48
Germany	53	28	+25
Poland	67	43	+24
Czech Rep.	58	34	+24
France	64	42	+22
Spain	62	48	+14
Britain	58	48	+10
Russia	51	62	-11
Greece	39	59	-20
<b>MEDIAN</b>	<b>58</b>	<b>43</b>	
Israel	83	38	+45
Turkey	21	27	-6
Lebanon	47	56	-9
Tunisia	42	63	-21
Jordan	14	40	-26
Egypt	16	45	-29
Palest. ter.	16	47	-31
<b>MEDIAN</b>	<b>21</b>	<b>45</b>	
Japan	69	5	+64
Philippines	85	48	+37
S. Korea	78	46	+32
Australia	66	58	+8
China	40	--	--
Indonesia	61	70	-9
Malaysia	55	81	-26
Pakistan	11	81	-70
<b>MEDIAN</b>	<b>64</b>	<b>58</b>	
El Salvador	79	52	+27
Mexico	66	45	+21
Brazil	73	65	+8
Chile	68	62	+6
Bolivia	55	58	-3
Argentina	41	54	-13
Venezuela	53	71	-18
<b>MEDIAN</b>	<b>66</b>	<b>58</b>	
S. Africa	72	48	+24
Ghana	83	67	+16
Uganda	73	59	+14
Senegal	81	77	+4
Kenya	81	78	+3
Nigeria	69	76	-7
<b>MEDIAN</b>	<b>77</b>	<b>72</b>	

PEW RESEARCH CENTER Q9a & Q9c.

The 2014 Pew Global Attitudes survey graphically shows the geographical distribution of global perceptions of China and America.<sup>9</sup> Only in the Middle East does China have a higher favorability rating.

## U.S. Seen More Positively than China in Europe, Latin America, but Not in Middle East

*Favorability of U.S. and China by country*



Note: China not included in Asia regional median rating for China. Russia and Ukraine not included in Europe median.  
Source: Spring 2014 Global Attitudes survey. Q15a-b.

PEW RESEARCH CENTER

Nor does China seem to possess much soft power appeal globally. China’s “soft power deficit” is particularly apparent in Europe and North America, but what is interesting about the 2013 Pew poll is that it is also apparently quite weak in Latin America and Africa—precisely regions where it would be assumed it would be stronger.

<sup>9</sup> <http://www.pewglobal.org/2014/07/14/global-opposition-to-u-s-surveillance-and-drones-but-limited-harm-to-americas-image/>.

## Spread of Chinese Ideas and Customs Mostly Disliked

	Chinese music, movies and television			Chinese ideas and customs are spreading here		
	Like	Dislike	DK	Good	Bad	DK
	%	%	%	%	%	%
Argentina	11	68	21	28	55	17
Bolivia	37	44	19	30	51	19
Brazil	19	75	6	36	58	6
Chile	25	50	25	27	57	16
El Salvador	28	61	11	37	50	13
Mexico	19	56	25	27	55	18
Venezuela	38	58	4	37	51	12
Ghana	42	51	6	31	60	9
Kenya	36	45	19	54	34	11
Nigeria	54	32	14	58	24	18
Senegal	32	54	14	62	25	14
S. Africa	22	60	19	37	46	17
Uganda	28	46	26	31	46	23

PEW RESEARCH CENTER Q60 & Q62.

These survey findings underscore the perceptions and suspicions that exist around the world about a rising China. In trying to improve its global image, the Chinese government would do well to grasp the essential difference between *public diplomacy* (公共外交), which is quite similar in the Chinese system to *external publicity (propaganda) work* (对外宣传工作), on the one hand, and *soft power* (软实力) on the other hand. The essential difference between the two is that the former comes primarily from governments while the latter comes primarily from societies. As long as governments try to control what their societies do internally and market a society's culture, ideas, and values externally (like a commodity), they will have extreme difficulty attracting others and accruing soft power. Moreover, the entire essence of soft power occurs when a society's culture, ideas, and values "travel" beyond its borders—when they have universal appeal. This is precisely the source of China's soft power problem—that its culture, ideas, and values are seen as *sui generis* by foreign societies (as well as the Chinese government). China spends far too much time telling the world what characteristics are unique and different about itself (中国特色)—rather than what might be of general appeal to others. China also has another major problem in "selling" itself abroad—the constant propensity to use propaganda *slogans* (口号). As is said in the West, "Actions speak louder than words." China's

use of slogans are both difficult for foreigners to understand (concepts like “harmonious world,” “China Dream,” the “scientific development concept,” “peaceful development,” “Three Represents,” etc.) and they are often found to be at variance with China’s actions at home and abroad. Until China understands these essential elements of soft power, as distinct from external propaganda/public diplomacy, it will continue to find fostering a positive image abroad to be a major challenge.

### **Challenge #9: Improving the Military’s Combat Effectiveness**

The People’s Liberation Army (PLA) has come a long way in terms of its budget and hardware, but its “software” still lags behind. It is not yet well configured for integrated joint battlefield operations (air, ground, sea, space, cyber), logistics chains remain fragmented; command, control, communications, computers, intelligence, surveillance and reconnaissance remain underdeveloped; and the PLA’s power projection is virtually non-existent (other than ballistic missiles and cyber). The PLA has made great advances in recent years, but it still faces multiple impediments to being a truly modern military.

The Third Plenum Decision announced and hinted at important reforms in the military sector. New “joint operation command systems” are to be completed throughout the nation—suggesting that the sixty year-old military region and district command structure may be abandoned in favor of joint service “theater” commands. This would be a fundamental departure from the Soviet-style military organization the People’s Liberation Army (PLA) has had since the 1950s, and would move the military into an American-style command structure. Sections 55-57 of the Third Plenum Decision also offer several other specific suggestions for military professionalization, consolidation, and modernization. The military is a high priority under Xi Jinping—who has repeatedly implored the PLA in recent speeches to “prepare to fight and win wars.” Xi has also made it clear that he expects to build the PLA Navy into a “maritime strong power” (建设海洋强国).<sup>10</sup> But to truly become a world-class military, the PLA needs to undertake fundamental organizational changes that foster, rather than impede, coordination and execution of joint operations.

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<sup>10</sup> See Xi Jinping zongshuji xilie jianghua jingshen [The Spirit of General Secretary Xi Jinping’s speeches] (Beijing: Central Party School Press, 2014), pp. 99-100.

## **Challenge #10: Managing Foreign Relations**

As China increasingly becomes a global actor and power,<sup>11</sup> its foreign relations are becoming much more complicated. Overall, in my view, China's foreign relations are increasingly strained in many parts of the world (except with Russia, Central Asia, parts of Africa and some individual states like Cambodia, Laos, Argentina, Venezuela, Cuba, Pakistan, New Zealand). Everywhere else in the world China's foreign policy is struggling, suspicions of China are rising, bilateral relations are increasingly fraught with strains and problems, and its image is mixed worldwide. It may not appear this way in Beijing, but around the world this is the predominant and growing perception. It is important to realize that this is entirely natural and understandable for a rising global power that is not well understood in foreign countries. As suspicions grow, so does criticism of China. It is part and parcel of becoming a global power. The challenge is not that China is being criticized, but *how* Beijing responds to criticism. Reflexively reacting to criticism by denouncing other parties and dismissing their concerns is not a way to build confidence abroad and improve relationships—seriously considering and responding to other nation's concerns is a much better way.

The Chinese government has placed high priority on building its regional relations in Asia (周边外交工作), particularly since the high-level October 24-25, 2013 conference on the subject chaired by Xi Jinping. Despite this prioritization, suspicions of China are growing throughout the region and relations with many Asian nations are troubled. China's maritime territorial claims are, in particular, causing angst through the region<sup>12</sup>:

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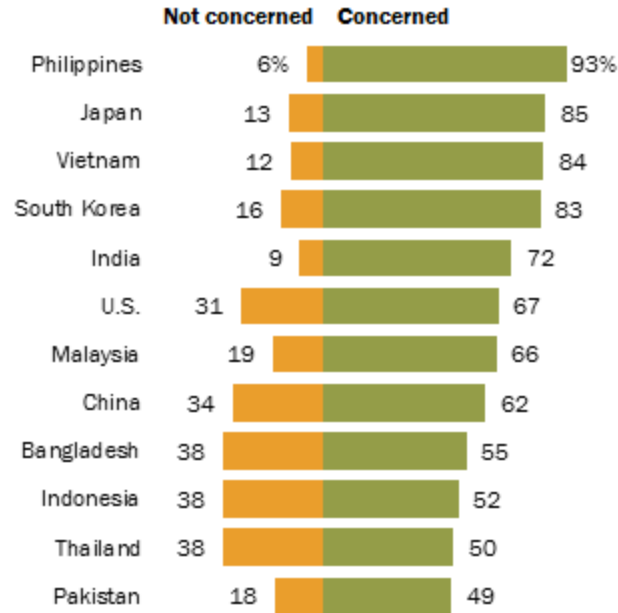
<sup>11</sup> See David Shambaugh, *China Goes Global: The Partial Power* (New York: Oxford University Press, 2013).

<sup>12</sup> <http://www.pewglobal.org/2014/07/14/global-opposition-to-u-s-surveillance-and-drones-but-limited-harm-to-america-image/pg-2014-07-14-balance-of-power-4-03/>.

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## Strong Concerns about Territorial Disputes with China

*Concern that territorial disputes between China and neighboring countries could lead to a military conflict*



Source: Spring 2014 Global Attitudes survey, Q110.

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In a 2013 Pew Research survey, strong majorities in the Philippines (90%), Japan (82%), South Korea (77%) and Indonesia (62%) said that territorial disputes with China were a big problem for their country. And nearly all Japanese (96%) and South Koreans (91%), and a majority of Filipinos (68%), thought China's expanding military capabilities were bad for their country. In the 2014 Pew Research poll, majorities in eight of the eleven Asian countries surveyed are worried that China's territorial ambitions could lead to military conflict with its neighbors. In a number of the nations closest to China, overwhelming proportions of the public expressed such fears, including 93 percent of Filipinos, 85 percent of Japanese, 84 percent of Vietnamese and 83 percent of South Koreans. Moreover, 61 percent of the public in the Philippines and 51 percent



in Vietnam say they are *very* concerned about a possible military confrontation with China. And, in China itself, fully 62 percent are concerned about a possible conflict.<sup>13</sup>

China's relations with the United States are also increasingly suspicious and strained, although the two governments continue to interact intensively. The United States and China currently are experiencing an increasingly competitive relationship which is fraught with pervasive distrust at the governmental, elite, and societal levels.<sup>14</sup> The 2013 Pew Global Attitudes poll reported that 66 percent of Americans said China was a competitor and 68 percent said China could not be trusted—while the same poll found that 61 percent of Chinese thought the U.S.-China relationship was “competitive” while only 43 percent of Chinese viewed the United States favorably.<sup>15</sup> The two nations are the principal powers in the Asia-Pacific region and globally. In terms of the balance of power, there is a clear structural contradiction between China's rise and America's primacy. This is most manifest in East Asia.<sup>16</sup> As China increasingly becomes a global actor, though, it is likely to exacerbate structural conflicts of interest as it increasingly bumps up against American equities and interests in various parts of the globe. This is already occurring in the Middle East and Latin America.

While recognizing the increased competition between the United States and China, it is equally important to realize the deep interdependence the two countries share together. China and the United States are tangled together in innumerable ways—strategically, diplomatically, economically, socially, culturally, environmentally, regionally, internationally, educationally, scientifically, and in many other domains. Thus, the overriding policy task for Washington and Beijing is to *manage the growing competition and expand the cooperation*, so that the relationship does not lurch decidedly in an adversarial direction. This will require hard work and no small degree of luck.

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<sup>13</sup> This paragraph is drawn from the Pew Research survey: <http://www.pewglobal.org/2014/07/14/chapter-2-chinas-image/>.

<sup>14</sup> See Wang Jisi and Kenneth Lieberthal, *Addressing U.S.-China Distrust* (Washington, DC: The Brookings Institution 2012); David M. Lampton, *Power Constrained: Sources of Mutual Strategic Suspicion in U.S.-China Relations* (Seattle: National Bureau of Asian Research, 2010).

<sup>15</sup> Pew Research Global Attitudes Project: <http://www.pewglobal.org/2012/10/16/chapter-2-china-and-the-world/>.

<sup>16</sup> See Aaron Friedberg, *A Contest for Supremacy: China, America, and the Struggle for the Mastery of Asia* (New York: Norton, 2012).

China's relations with Europe seem to be recovering from a prolonged strained period that began in 2007. President Xi Jinping's and Premier Li Keqiang's 2014 tours of European countries have had a positive effect. Both France and Britain have seemingly significantly improved bilateral ties following severe strains. Germany continues to enjoy excellent relations, and Chancellor Angela Merkel placed high priority on relations with China. Ties with the Scandinavian states remain somewhat strained (frozen in the case of Norway), ties with Central European states are neutral, while ties with the Mediterranean countries are generally positive but underdeveloped.

As noted above, China's relations with Russia and the Central Asian states are quite sound. Beijing's relations with African and Latin American states are also essentially positive and productive, although (as noted in the Pew data above) perceptions of China have recently been shifting in a downward direction. China's relations with the Middle East are positive and Beijing has managed to successfully navigate the various internecine conflicts in the region without being drawn in.

Thus, overall, China's global diplomacy remains mixed and will be an increasing challenge for China's leaders and officials to manage. But, first, they must realize that problems do exist and not be intoxicated by their own positive propaganda about "peaceful development," a "harmonious world," etc. China has real problems with a number of countries and there are real reasons for these problems. They will only be effectively addressed if China recognizes the problems, accepts its own responsibilities for addressing them, controls its own domestic nationalism and finds greater pragmatism in its diplomacy.

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These are the *ten principal challenges* that this observer sees facing China today and into the next three to five years. No doubt, both the identification of the challenges and the manner in which I discuss them varies from the way that Chinese analysts (and certainly the CPC and Chinese government) would do so. But, through this snapshot, I hope to contribute to the global dialogue about China's future.