

November 15, 2012 4:02 am

New leaders dent hopes for reform

By Simon Rabinovitch in Beijing

China's new leaders are a conservative group likely to favour cautious economic reforms and to steer clear of more radical policy changes.

While that incremental approach served China very well over the past decade, there are growing concerns that bolder steps are now needed to keep the economy in good health.

China is on track for sub-8 per cent growth this year, its weakest in more than a decade. While it is now enjoying a mild rebound, this has come in large part thanks to a boom in investment that many analysts warn is unsustainable.

Chinese officials and economists have long said the country needs to unlock consumption as a bigger driver of growth, but that is easier said than done. It will require difficult reforms, from freeing up the closely controlled financial system to curbing the overwhelming power of state-owned companies.

The new leadership line-up does not appear to be the one likely to push through these difficult reforms.

The biggest disappointment is the relegation of Wang Qishan, a strong voice for change, to the second lowest-ranked position in the standing committee of the politburo, the seven-person team that forms the core of China's leadership.

Many had hoped that Mr Wang, previously a vice-premier responsible for economic and financial affairs, would be given even more authority over the economy. Instead, he looks set to head a discipline inspection body that conducts corruption investigations.

Perhaps even more worrying is that Zhang Gaoli, party secretary of Tianjin, has been given a spot on the standing committee, which will give him an important seat at the table for most major economic decisions.

Under Mr Zhang's watch, Tianjin, a sprawling municipality just east of Beijing, has been the country's fastest-growing region. But Tianjin achieved that only by following the precise model of economic development that the central government has been trying to wean the country off:

it racked up huge debts and built scores of offices, homes and highways that now stand empty.

Nevertheless, the new standing committee does offer a few points of optimism for those hoping for economic reform.

First, as long anticipated, Li Keqiang will rank second and will succeed Wen Jiabao as premier in March, making him the ultimate authority on the economy. There is hope that Mr Li, who holds a doctorate in economics, might work to curb the power of state-owned companies after he signed off on a controversial World Bank report this year that called for such action.

“He really does agree with what’s in the report,” said Yao Yang, director of the China Center for Economic Research at Peking University.

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Second, the size of the Politburo Standing Committee has been pared back from nine to seven members. The country's top security official had held a standing committee position for the past decade but this has now been downgraded to an ordinary politburo post.

The upshot is that the standing committee will be a tighter group, which could make it slightly easier for China's top leadership to reach consensus on challenging issues.

Tang Jie, research director of the Shanghai Finance Institute, said that the main facets of the government's economic strategy of recent years – promoting urbanisation, building up a stronger social safety net and controlling housing prices – were unlikely to

change.

“There is some relationship between who holds power and what policies are implemented, but it's not that big. There will be policy continuity and stability,” he said.

Additional reporting by Sarah Mishkin and Emma Dong

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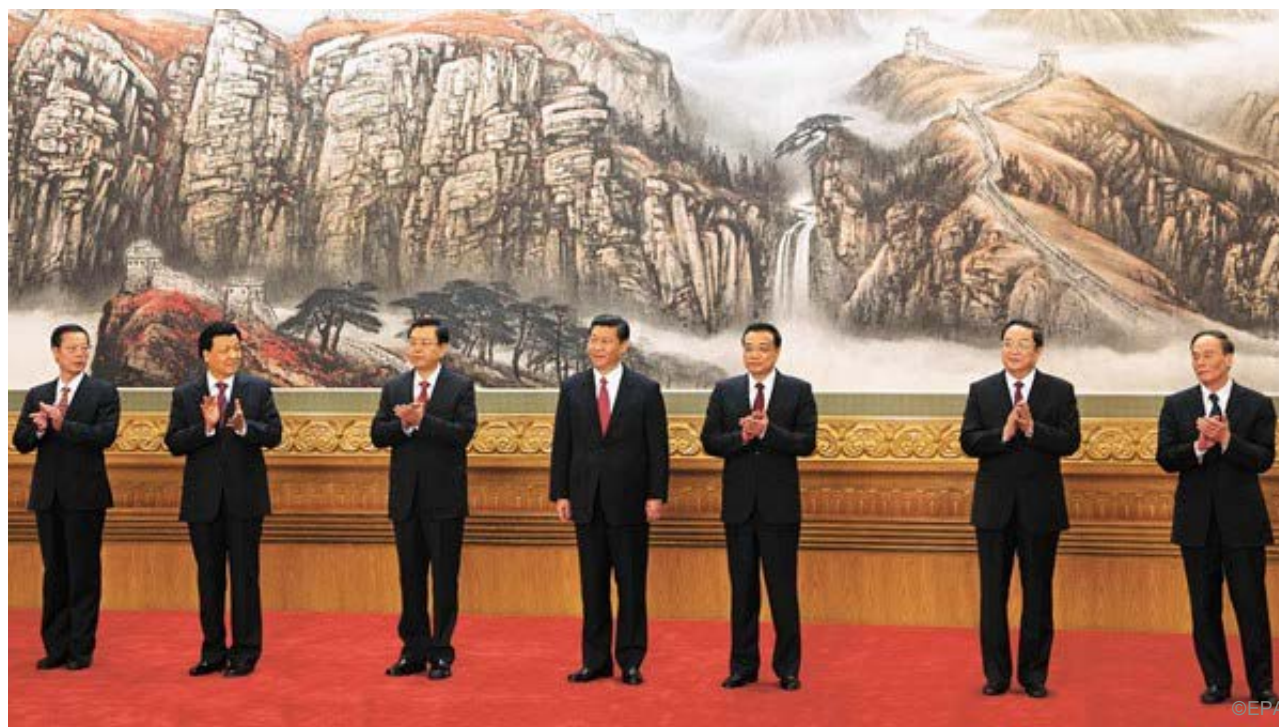
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November 15, 2012 7:19 pm

China: The thin red line

By Jamil Anderlini in Beijing

New leaders face social and economic change that threatens the system in which they thrived



New guard: the seven members of the Communist party's Politburo Standing Committee

The faces of the seven ageing men in dark suits were new, but the script they followed as they walked stiffly on to the stage in the Great Hall of the People was little changed from that of their predecessors a decade earlier.

China's new leader, Xi Jinping, introduced the newly minted members of the Communist party's Politburo Standing Committee in turn, they bowed and applauded each other and then, after a short speech by Mr Xi, filed out to begin governing the world's most populous nation.



The rituals of the Communist party have barely changed in the past 10 years and its leaders are still chosen behind closed doors by a tiny clique of party elders.

But the country it reigns over has been transformed since the last leadership transition and the challenges it faces in perpetuating

its rule are mounting. Mr Xi acknowledged as much in Beijing yesterday during an address that was unusually plain-spoken and bereft of communist jargon.

“Our party faces many severe challenges and there are many pressing problems within the party that need to be resolved,” Mr Xi said. “We must make every effort to solve these problems; the whole party must stay on full alert.”

If the seven new leaders needed any evidence that, offstage, the world had changed around them over the past decade, it came in the form of Weibo, China’s equivalent of Twitter. Puncturing the fusty decorum of the politburo, cheeky commentators mocked the party elite over their speaking styles and accused them of being an hour late because they were getting their make-up done.

China’s new leaders rose to power when uncomfortable facts could be reliably kept out of public view, as happened with outbreaks of Sars and Aids. But their fossilised political apparatus will struggle to contend with a more critical and confrontational public discourse. This was illustrated last year when comments on Weibo from witnesses of a high-speed rail crash forced China’s authorities into direct action. This would not have been possible a decade ago.

Passing the flower

In fact, public defiance is increasing. Sun Liping, a professor from the elite Tsinghua University who is said to have supervised Mr Xi’s doctorate, estimates there were more than 180,000 public demonstrations in 2010, compared with an official estimate of about 40,000 in 2002.

Interactive graphic

Who’s who: China’s new leadership



Profiles of the 25 members of the Politburo and the seven members of its Standing Committee

The response from the previous administration was to ramp up the budget for domestic security and “stability maintenance” – and to crack down on anyone who was seen as threatening the status quo.

“I would characterise the last five years, and especially since 2009, as a period of authoritarian stagnation in which all political, social and economic reforms were stillborn,” says David Shambaugh, director of the China Policy Programme at George Washington University. “I’m afraid we’re going to get more of that under Xi.”

The outgoing administration of President Hu Jintao and Premier Wen Jiabao can rightfully claim to have presided over one of the most flourishing periods in Chinese history: a decade of double-digit growth and a corresponding rise in China’s global standing. China’s nominal gross domestic product is four times larger than it was 10 years ago and it has gone from being the world’s

sixth-largest economy to the second-largest.

Over the same period, the country's foreign exchange reserves jumped from \$287bn to \$3.3tn, the number of Chinese tourists travelling abroad each year increased from less than 17m to more than 70m and the length of the national highway network more than doubled.

But the most common assessment from Chinese policy makers, intellectuals and officials is that Mr Hu and Mr Wen presided over a "lost decade" during which they reaped the benefits of smart decisions made by their predecessors but failed to outline or implement a viable vision for the future. The Chinese quip that they engaged in "jigu chuanhua" – literally "beating the drum and passing the flower" – a traditional Chinese game like pass the parcel or musical chairs.

"During their 10 years in power, Hu and Wen relied entirely on the fruits of the investment and development of the previous 13 years [before they took over in 2002]," says Ma Xiaolin, a prominent political commentator and founder of an online discussion forum. "But now in the Xi [Jinping] era, if the leadership cannot solve the major problems, such as serious corruption and problems in the judiciary, then they will definitely not be able to maintain social or political stability."

Losing steam

China's quarterly year-on-year growth rate has dropped from 12 per cent at the start of 2010 to about 7.5 per cent now and the country is on track to register its slowest full-year growth since 1999.

With the growth model running out of steam, the country's new leaders do not have the luxury of an economic boom like that enjoyed by their predecessors.

"We've seen very quick growth for almost 30 years but now we have come to a crossroads," says Mao Yushi, an influential liberal economist.

"The [outgoing] administration didn't push reforms, the force of earlier reforms has been used up and we see mounting problems stemming from the political dictatorship."

Mr Hu came into office with a promise to narrow a widening gap between rich and poor and shift to a more environmentally and economically sustainable growth model.

The government did make some progress in building a rudimentary social welfare system. Chinese growth is now less reliant on exports but environmental degradation is a source of serious social unrest. Inequality has worsened considerably.

The demographic dividend that has fuelled China's double-digit growth for decades with a seemingly endless stream of cheap, pliant labour is now coming to an end.

During Mr Xi's first five-year term, the Chinese labour force is forecast to peak and start shrinking. Over the longer term, the average age of the Chinese populace will rise rapidly, thanks largely to the one-child policy.

At the same time, a huge boom in investment, the bulk of which went into the export sector and property, is increasingly unsustainable, according to Beijing's own estimates.

The party is intent on shifting China's growth model away from exports and investment towards domestic consumer demand. Mr Xi is likely to make this a focus of his economic policy.

This will mean placing a continued emphasis on expanding the country's woefully inadequate social services and a slew of policies aimed at boosting the country's weak service industries. It will also involve taking on powerful constituents in the state sector, where the Hu administration oversaw a resurgence that is popularly referred to as "guojin mintui", or "the state advances and the private sector recedes".

"If you look at the next 10 to 15 years, China has huge potential to grow and huge scope to increase its GDP," says Mr Mao.

"But we still have too many state-owned enterprises and monopoly industries controlled by the state; these are very inefficient and are limiting the growth potential."

The private sector in China has been the main driver of growth and the biggest creator of jobs since the country began to dabble with capitalism in the early 1980s.

Many Chinese economists agree with Mr Mao that the state companies must be reined in for growth to continue.

This will be a key problem for Mr Xi and will test his willingness to tackle entrenched vested interests that oppose economic and political reforms.

"I'm dubious that the new government will be able to do much on state-owned enterprise reform or any other major reforms," says Prof Shambaugh. "Even if they really want to reform they will find themselves blocked by four groups of very powerful institutional interests – the state enterprises themselves, the military, the apparatchiks and the state security apparatus."

Many Chinese and international analysts say the increased power of these entrenched groups has caused stagnation, which in turn is aggravating some classic symptoms of late-regime dynastic decline in China.

One of these signs is factionalism at the top of the party, evidence for which came this year with the downfall of former political high-flyer Bo Xilai.

Mr Bo is awaiting trial on charges related to corruption and his wife's murder of British businessman Neil Heywood last November. Until March he was seen as a frontrunner to ascend into the Politburo Standing Committee at this week's Communist party congress.

Accurate figures are hard to find but the outflow of capital and wealthy, well-educated people from China appears to be gathering pace, while rampant corruption pervades every level of government.

Mr Xi and his incoming team will have to implement a much more active policy agenda than their predecessors if the party is to avoid the fate of other authoritarian regimes that failed to keep ahead of societal demands for change.

The party's ability to meet those demands is hampered because of the rise of the internet – and in particular microblogs such as Weibo – which spread information much faster than the government can censor it.

The number of internet users in China has increased from less than 60m in 2002, when Mr Hu came to power, to well over 500m today.

This presents an enormous challenge to a party that desperately wants to promote high-tech innovation and modernity but has always maintained an iron grip on all forms of public expression, from fine art and theatre to newspapers and television.

“The general public is using the internet in a creative way to gather information, communicate with each other and also to mobilise,” says Guo Weiqing, a professor of politics at Sun Yat-sen University.

Marxist orthodoxy

In this era of more free-flowing information, state ideology, based on “Marxism-Leninism”, “Mao Zedong Thought” and a porridge of less coherent theories such as Mr Hu's “Scientific Outlook on Development”, rings hollow and is widely ridiculed, even within the party ranks.

Mr Xi has presented himself as an orthodox Marxist but most political analysts believe he will need to reposition himself, and the party, to present a vision of the future that more people can relate to.

Another worrying sign for the party is the rise of an assertive military that does not appear to be under the full control of the civilian leadership.

This has enormous implications for the rest of the world, in particular China's increasingly wary neighbours who have seen Beijing's official military budget expand from Rmb171bn in 2002 to Rmb603bn last year.

"From South Korea and Japan, along the entire first island chain, and westwards to India, China is increasingly seen as an antagonist and potential adversary," say Derek Scissors and Dean Cheng of The Heritage Foundation, a US think-tank.

Chinese experts say Mr Hu's biggest foreign-policy achievement was reducing tensions with Taiwan, the self-ruled island nation that Beijing claims as its sovereign territory.

But a ratcheting up of rhetoric and aggressive action over territory in the South China Sea and East China Sea – some of it rich in fish stocks and energy reserves – have left Beijing with precious little goodwill from the rest of the region.

"When Hu Jintao took over [in 2002] China didn't need to look to Russia or elsewhere to make friends because relations with its neighbours were quite good but now relations are really terrible," says Shi Yinhong, director of the Center for American studies at Renmin University. "A military conflict is still a very remote possibility but for the past 40 years I've never heard so many people [in China] talking seriously about going to war."

Some analysts hope Mr Xi's status as the "princeling" son of a revolutionary commander and founding member of the Communist party will allow him to bring the military to heel and present a foreign-policy agenda that is less abrasive.

But others question whether that is something he really wants.

"Chinese leaders tend to think of the US as a paper tiger and believe if they show they're tough on their neighbours and on Washington then that will force everyone to back down," says Andrew Nathan, a professor of Chinese politics at Columbia University and co-author of "China's New Rulers".

"On foreign policy I expect Xi to continue a policy of promoting a more assertive China on the world stage," he adds.

Forging harmony

Most analysts believe the biggest difference between Mr Xi and his predecessor will be one of style rather than substance.

Mr Xi is less scripted and more confident than Mr Hu and his affable style allows him to build consensus in the fractious world of elite Chinese politics.

He spoke frankly yesterday, highlighted corruption while barely mentioning socialism or any other orthodox ideological phrases.

But his ability, or even his desire, to push much-needed economic and political reforms remains completely untested, and most pundits are quite pessimistic.

“It’s silly to expect China’s new leaders to come up with a reformist blueprint that will be anything other than a reactive attempt to stay on top of demands from below,” says Perry Link, emeritus professor of East Asia studies at Princeton University. “There is no reason at all to think that Xi is going to be the Gorbachev of China.”

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Last updated: November 15, 2012 5:40 pm

Xi Jinping anointed China's new leader

By Jamil Anderlini and Kathrin Hille in Beijing



Xi Jinping was anointed as the new head of the Communist Party of China on Thursday, taking charge of a relatively conservative leadership team that is considered reluctant to embrace any major new economic or political reforms.

Mr Xi, who also assumed command of China's military, introduced a new Politburo Standing Committee that has been reduced from nine to seven members in an effort to streamline the party's collective decision-making process. "Our party faces many severe challenges and there are many pressing problems within the party that need to be resolved, particularly corruption, being divorced from the people, going through formalities and bureaucratism," Mr Xi said.

The once-in-a-decade handover marks only the second peaceful transfer of power in the history of the People's Republic and capped months of intense factional battles and discord, punctuated by the downfall of former high-flying politician and Standing Committee candidate Bo Xilai. Mr Bo is awaiting trial on charges related to his wife's murder of a British businessman last November.

Under the cautious 10-year rule of Mr Xi's predecessor, Hu Jintao, China's GDP increased

nearly fivefold. But this year the economy is expected to grow at its slowest pace since 1999, leading to calls for bolder reforms. “[They] will be inclined to be risk-averse . . . whereas China’s conditions in the next five to 10 years will require risk-taking, otherwise the much-awaited economic restructuring cannot be implemented,” said Steve Tsang, an expert in Chinese politics at the University of Nottingham.

In a brief but confident speech to journalists in which he mentioned the word “socialism” only once, Mr Xi dispensed with the slogan-laced language of his predecessor and promised to “improve the lives of the people”. Mr Hu, who succeeded Jiang Zemin as party general secretary in 2002, has been criticised for inaction during his decade in power, and Mr Xi’s speech appeared calculated to draw a distinction between the outgoing administration and a more pragmatic and practical incoming team.

“I think Xi will be a stronger leader than both Jiang Zemin and Hu Jintao in their early years,” said Bo Zhiyue, an expert in Chinese politics at the National University of Singapore. “He is getting a very clear start, he has all the major positions and if he wants to make changes he will be in a position to make changes.”

Joining Mr Xi on the standing committee was Li Keqiang, a Hu Jintao ally who has been in line to take over as China’s premier for the last five years.

Other new members included Zhang Dejiang, a North Korea-trained economist; Yu Zhengsheng, the current party boss of Shanghai; and Liu Yunshan, who has overseen a tightening of state control over China’s media – including the internet – as head of the party’s propaganda department in recent years.

Wang Qishan, an advocate of financial and economic reforms with close ties to former Premier Zhu Rongji, was also promoted but has been named anti-corruption chief instead of being given a central role in economic policy making.

Interactive graphic

Who’s who: China’s new leadership



Profiles of the 25 members of the Politburo and the seven members of its Standing

The final member of the Standing Committee is Zhang Gaoli, the party boss of Tianjin and a close ally of Mr Xi.

Of the seven men who made it to the top of the party, four including Mr Xi are “princelings” or children of former senior party leaders.

The Standing Committee did not include two candidates viewed by some as advocates of reform: Li Yuanchao, head of the party’s powerful organisation department, and Wang Yang, party boss of Guangdong province.

Committee

According to the party's unofficial age restrictions, Mr Xi and Mr Li will serve two five-year terms, while the other members of the standing committee will step down in 2017 to make way for a new crop of leaders.

Mr Xi takes over amid rising discontent and demands for more political representation from the middle class, which is increasingly free to vent its frustrations on Weibo, China's equivalent of Twitter. "[Weibo] has totally changed the power relationship between the government and the people," said Guo Weiqing, professor of politics at Sun Yat-sen University. "In the past the officials could just censor everything but now they have to contend with camera phones and microblog accounts."

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In his brief speech, Mr Xi vowed to address the Chinese people's "desire for a happy life" by providing "better education, more stable jobs, more income, greater social security, better medical and healthcare, improved housing conditions and a better environment."

The decision by Mr Hu to relinquish his chairmanship of the party's central military commission was unexpected, and will allow Mr Xi to consolidate full control over the country. Bringing the military into line quickly should allow him to present a more coherent Chinese foreign policy to the world, but could also herald a more assertive approach from Beijing in the various territorial disputes it has with its neighbours.

Some analysts had expected Mr Hu to retain his position as chairman of the 12-member military commission that controls all of China's armed forces for at least two years, as Mr Jiang Zemin did when he stepped down as party leader and president 10 years ago.

The 86-year-old Mr Jiang stepped down as head of the military in 2004. But despite not having held any formal role in the party or government since he remains extremely influential in Chinese politics.

During the party's 18th National Congress last week, he sat side by side with Mr Hu at the head of the top leadership of the party and is believed to have had a major say in the composition of the Standing Committee unveiled on Thursday.

Some analysts have argued that Mr Xi will be constrained in his ability to set his own policies by the established party practice of having to consult retired elders on major issues, as he will now have to consult two retired presidents.

Additional reporting by Simon Rabinovitch and Leslie Hook

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November 15, 2012 3:36 pm

Xi presents new face of China's socialism

By Kathrin Hille in Beijing

When China was waiting for its new leader on Thursday morning, CCTV, the national broadcaster, passed the time with some propaganda. For nearly an hour before the Communist party's general secretary led his team out on stage in front of the invited global media, two men in a studio analysed "socialism with Chinese characteristics" in microscopic detail.

Then Xi Jinping made his entrance. In just a few minutes, the man who will lead the world's most populous nation for the next 10 years laid out his agenda. In short: to make the Chinese nation great again, address the grievances of the people and root out corruption. Socialism was mentioned only once.

"It is the people who have created history, and it is the people who are true heroes. The people are the source of our strength," Mr Xi said. While Hu Jintao, his predecessor, introduced himself 10 years ago with a concatenation of Communist party ideological inventory, Mr Xi used simple language easily understood by non-party members.

Many observers welcome him as a leader who resembles western-style politicians and hope he will put an end to an era of functionaries. "[After] a decade of the inexpressive wooden style of Hu Jintao, someone actually just having facial expressions is [...] revolutionary," says Kerry Brown, a professor of Chinese studies at the University of Sydney.

Mr Xi pledged to address issues such as education, healthcare and environmental protection. While more sustainable and balanced growth especially for rural residents had been Mr Hu's priority goal, analysts said Mr Xi was targeting the middle class, the group which formed the main pillar of support for the party since its economic reforms but is growing more disaffected by the day. "Xi is speaking to the mortgage class," says Russell Leigh Moses, dean of academics and faculty at the Beijing Center for Chinese Studies.

Mr Xi focused on the new leadership's responsibility for the Chinese nation and the people. Only then did he turn to the party, and only to highlight the severe challenge of corruption and rampant bureaucracy.

"He does seem to have the personality and political strength to start quickly and out of the box," says Joseph Fewsmith, an expert on Chinese politics at Boston University.

Analysts believe that with Mr Hu retiring from the Central Military Commission, Mr Xi has a relatively strong mandate to initiate reforms that have stalled during Mr Hu's second term in office. The party's decision to reduce the leadership from nine to seven members is also likely to make Mr Xi's job easier.

Mr Xi will need such increased efficiency as he might not have much time. "It will be very difficult to guarantee continuity in policy over his two terms as five of the seven members of the new leadership will retire after five years," said Prof Fewsmith.

With the appointment of Wang Qishan, a veteran economic policy maker known for his crisis management skills, to head the party's internal anti-corruption watchdog and the singling out of corruption by Mr Xi as one of the key issues in his first speech, the leadership has sent a strong signal.

But some analysts are sceptical as personal networks and vested interests have hampered the party's fight against corruption for many years. "Xi needs to curb the abuses by local officials; they need to do something about the buying and selling of local office," says Prof Fewsmith. "That's where the rubber meets the road. I just don't know that he'll go there."

Mr Xi's family background as the son of one of China's revolutionary leaders and his personal charisma may be his best chance to battle ingrained reform inertia.

Although his speech made no reference to Marxism or the teachings of Mao Zedong, Mr Xi included some references that went down well with left-leaning party members who have been alienated since the leadership's purge of Bo Xilai, the flamboyant former party secretary of Chongqing who pitched for a top job with Maoist revival policies.

In his speech, Mr Xi pledged to "unwaveringly pursue common prosperity", a principle coined by Mao which many leftists complain has been abandoned since Deng Xiaoping, the architect of China's market reforms, ruled that some should be allowed to "get rich first". He also criticised officials' "divorce from the masses" as one of the party's greatest problems, another phrase read by leftist intellectuals as a reminder of Mao-era values.

Some believe all this is more than just personal style. "Xi's public persona has been built up very carefully by releasing more biographic information than we ever had about Hu Jintao," says Prof Brown. "The move to Xi as a person with a back story matters because the party is trying to make him a human face."

Additional reporting by Leslie Hook, Sarah Mishkin and Zhao Tianqi