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*Quarterly*



## Governing China

**Kerry Brown** The challenge for the new generation of leaders

**Yao Yang** From production- to welfare-oriented government

**Tony Saich** Governance through the people's eyes

**Zhao Boying** China's road

**Wang Gungwu** Governing a mixed heritage

**Christine Wong** Reforming public finance: how far across the river?

and more . . .

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Quarterly

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This issue of *EAFAQ* is being published in the centenary year of the Xinhai revolution, which in overthrowing the Manchu Qing dynasty was supposed to have resolved the question of how China should be governed. Of course it did not. Wang Gungwu notes the ambiguity of Sun Yat-sen's legacy as one of the elements in China's mixed heritage influencing the next stage of reforms.

The wide range of contributions to this collection examine 'governing China', including 'the government' at its various levels, but also all those issues covered by the expanding vocabulary of governance, social management, harmonious society, civil society, and new development models. We look at social change — in particular, the frequently misunderstood role of the emerging middle-class and its interests; the role of nationalism as a factor impacting upon both domestic and foreign-policy; and reform of governance in public finance and state-owned enterprises, as well as crucial elements in the overall task of 'governing China'.

Our contributors include non-Chinese and Chinese scholars from a number of countries, and the latter include both scholars outside the system and those occupying influential positions within the system. We are particularly happy to welcome contributors from the Central Party School in Beijing, with which the ANU has formed a research partnership.

The striking feature here is the agreement by all on the need for further reform, including political reform. As Wang Gungwu reminds us, many fine minds are juggling, and struggling, with a wealth of ideas and ways to achieve the goal of a state and nation that is progressive, stable and widely admired.

This has not been a good year for continued progress in the direction of greater liberalisation of the political system, wider press freedoms or a truly independent judiciary, all essential components of the sort of China sought by its best minds for well over a century. At the same time, the number of individual citizens who have announced they will run for district people's congresses in elections — despite admonitory comments from some official sources — between July and December 2012 is one encouraging reminder that China's reality is complex. This issue of *EAFAQ*, as well as offering authoritative diagnosis of current problems, also sets out positive signposts for the future of governing China.

**Richard Rigby**

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# CONTRIBUTORS & STAFF

**Kerry Brown** is Head of the Asia Programme at Chatham House, London, where he leads the Europe China Research and Advice Network. He is author of *Ballot Box China* (Zed Books, 2011) and a biography of Hu Jintao which will appear in early 2012.

**Cao Xin** is Professor in the Department of Economics, Chinese Central Party School, Beijing.

**Peter Drysdale** is Emeritus Professor and Head of the East Asian Bureau of Economic Research and the East Asia Forum, Crawford School of Economics and Government, Australian National University.

**Kingsley Edney** is a PhD candidate in the School of Social and Political Sciences, University of Melbourne. His research focuses on the Chinese propaganda system and China's international relations.

**Baogang He** is Professor and Chair in International Studies at the School of Politics and International Studies, Deakin University, Melbourne.

**Feng Jun** is Professor and Executive Vice President of the China Executive Leadership Academy Pudong (CELAP), and former Vice President of Renmin University.

**David Kelly** holds a doctorate in Chinese studies from Sydney University. He has held teaching and research positions in China studies in the ANU, UNSW@ADFA, East Asian Institute (Singapore) and the University of Technology Sydney.

**Liu Lili** is Associate Professor, Department of Culture and History, Chinese Central Party School, Beijing.

**Yawei Liu** is Director of The Carter Center's China Program and is the founder and editor of China Elections and Governance ([www.chinaelections.org](http://www.chinaelections.org) and [www.chinaelectionsblog.net](http://www.chinaelectionsblog.net)).

**Tony Saich** is Professor and Director of the Ash Center for Democratic Governance and Innovation, Harvard Kennedy School.

**Shen Chuanliang** is Associate Professor, Department of Party History, Chinese Central Party School, Beijing.

**Luigi Tomba** is a political scientist with the Australian Centre on China in the World, ANU. His work is mainly concerned with local politics, urbanisation and social change in China. He is co-editor of *The China Journal*.

**Wang Gungwu** is University Professor, National University of Singapore, and Chairman of its East Asian Institute and Lee Kuan Yew School of Public Policy. He is also Emeritus Professor of the Australian National University.

**Christine Wong** is Senior Research Fellow and Chair, Chinese Studies School of Interdisciplinary Area Studies, Oxford University.

**Xiao Lihui** is Professor, Department of Politics and Law, Chinese Central Party School, Beijing.

**Yao Yang** is Professor and Director of the China Center for Economic Research (CCER) and Deputy Dean of the National School of Development (NSD), Peking

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Each author's name appears in the form preferred by the writer.

---

University. He is also editor of the Center's house journal, the *China Economic Quarterly*.

**Yu Keping** is Professor and Director of the China Center for Comparative Politics & Economics (CCCPE), and also Professor and Director, Center for Chinese Government Innovations, Peking University.

**Yongsheng Zhang** is a senior research fellow in the Development Research Centre of the State Council, China.

**Zhao Boying** is Professor and Director-General, Department of Culture and History, Chinese Central Party School, Beijing.

**Suisheng Zhao** is Professor at Josef Korbel School of International Studies, University of Denver, and Director of its Center for China-US Cooperation.

## Issue Editor

Richard Rigby, Head of the China Institute at the Australian National University.

## Editors

Peter Drysdale, Head, EAF and EABER, Crawford School, ANU

Shiro Armstrong, Executive Director, EAF and EABER, Crawford School, ANU

## Editorial Staff

Alex Storrie, Crawford School, ANU;  
James Boyers, Crawford School, ANU

**Editorial Advisers** Peter Fuller, Max Suich

**Production** Peter Fuller, Words & Pics P/L

**Original Design** Peter Schofield

**Email** [Peter.Drysdale@anu.edu.au](mailto:Peter.Drysdale@anu.edu.au),  
[Shiro.Armstrong@anu.edu.au](mailto:Shiro.Armstrong@anu.edu.au)

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COVER: The closing session of the 17th Chinese Communist Party National Congress in the Great Hall of the People, Beijing, on 21 October, 2007.  
PICTURE: Xinhua News.

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# The challenge for the new generation in 2012

KERRY BROWN

**O**NE side-effect of the Dengist economic reforms which started to penetrate deeply in the 1980s was the transition from a ruling Chinese Communist Party (CCP) that was focused on class struggle and revolutionary aspiration under Mao, to one in which a new technocratic elite were in control. In the words of Wang Hui, one of contemporary China's foremost public intellectuals, that meant that the party started fulfilling a more 'evaluative' function and became the sort of 'bureaucratic machine' that Mao had tried to prevent. While the economy grew and prospered, the party looked at its own internal governance, at how it promoted key officials, how it dealt with its own accountability, and disciplined those in its fold who had become corrupt. In short, it tried to professionalise itself.

Central to this task was the need to have a mechanism (mostly peer pressure) by which the top elite controlled themselves. There was no question of some entity, like the legal system or civil society, standing above the party and placing obligations and regulations upon it. But there was a sense that the party needed to tidy up its act, and that another messy leadership transition of the kind that had occurred between Mao and Deng (which had taken almost two years to achieve) was a luxury the party could no longer afford. Party congresses which had occurred sporadically before 1982 started to happen every

five years. Time limits were set on those holding high office. By stealth rather than by stated aim, retirement ages were brought in. By 2002, when there was a transition from the third to the fourth generation of leadership (from Jiang Zemin to Hu Jintao), nervousness that this process would lead to infighting among factions in the party remained evident till some years into Hu's era. Only in 2007 was Hu seen by commentators and experts of the party to become his own man with the party congress, meaning he could then elevate a number of people close to him, and gently ease out of positions of influence those seen as close to Jiang before.

The imminent party congress in late 2012 is arousing all the speculation that the congress of 2002 did. There has been a decade more of the party being able to build its own internal governance, and trying to modernise its own structures. In the last few years it has practised what has been called 'intra-party democracy', attempting to make its processes more predictable and a little more transparent. In a

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cautious in its political  
views

strategy of careful management, the likeliest successor to Hu next year, Xi Jinping, looks like he is following exactly the same path to the crucial position of General Secretary of the CCP — elevation to the Standing Committee of the Politburo as Vice Premier (like Hu), and vice chairmanship of the Central Military Commission, in charge of army affairs (like Hu). A range of leaders around him are also being carefully groomed to slip into major leadership positions when the current incumbents on the all-important Standing Committee of nine see seven of their members retire. So far, so good.

While the party has managed its affairs with great care and attention (Hu is known to almost religiously follow due process, and attempts to build broad consensus across all shades of party opinion for what he does), there is still a nagging sense that while this fourth generation leadership may well have got the internal issue of succession well sorted, it has done so by pushing aside the larger, and much more contentious and challenging issues of broader political reform that are now staring it in the face. Since its entry into the World Trade Organisation in 2001, China's economy has rocketed ahead — as much to the surprise of its leaders as those outside. Good economic performance was predicted back in 2001, but not that, in less than ten years, China would become the world's largest exporter, largest importer, largest holder of foreign reserves and second largest



Leadership team: President Hu Jintao, left, and Vice President Xi Jinping after a session of the National People's Congress in 2009.

economy. Five years ahead of what had been expected, China is in a much more powerful position than it, or others, had believed possible.

This has been a double-edged sword. While it has brought massive increases in GDP and prosperity, it has also created a society where there remain sharp divisions between the haves and the have-nots, and where social classes, from entrepreneurs, to the urban middle class, to the farmers — who, after all, still make up over half the population — are increasingly in conflict with each other over issues from property rights, the state of the environment, rights over pensions, and demands to have more of the wealth that the country has created.

The increasing repression since June 2009, where rights lawyers and activists have been victimised and frequently imprisoned, is symptomatic of a leadership that has been bold in its economic thinking but profoundly

cautious in its political views. In the new leadership there are no signs, as yet, that anyone has a particularly strong idea about how, for instance, to deepen the rule of law in the country by allowing genuinely independent courts, or giving a proper legal status to civil society groups. In 2011 the fundamental contradiction of contemporary China is that it runs on a largely centralised system inherited from the Soviet Union in the mid-20th century while its economy is one of the most modern in the world.

**A**S IT becomes clearer who the fifth generation leaders will be, and how jobs will be allocated among them, scrutiny will be focussed on what clues they give about how they might approach this hugely challenging and sensitive issue of political reform. The 12th Five-Year Program which was passed in Beijing last March at the annual National

People's Congress, the Chinese parliament, gave some recognition to this in talking a little about the need to build social infrastructure and a more stable, equal society. For the next decade, therefore, the issue will not be about the first battle — to build GDP — but about the conflicts that have come after that, dealing with the issues China will face as it progresses towards a middle-income-status country (its stated aim by 2020). These are proving to be far trickier and more demanding than simply pumping out good growth rates, and it is on these, more and more, that the future leadership of China will need to show the same kind of strong vision that their predecessors did about the economy, back in the late 1970s.

So far there is little sign that they have the vision, or the capacity, to do this. But like it or not, over the coming decade, this more than anything else will be their key task. **EAFQ**

# From production-oriented to welfare-oriented government

YAO YANG

**T**HE Chinese government is a 'production-oriented government' because it spends more money and effort on economic affairs than on services and transfers that aim to improve citizens' welfare. This label can be justified on several grounds.

First and foremost, economic growth is the central task of the Chinese government. The current administration puts more effort into rebuilding China's social security and health care systems than the previous administration, but the essence of government policy still prioritises economic growth over immediate welfare improvement. Second, out of total government spending, more than 20 per cent is spent on economic affairs, particularly infrastructure. The figure in other countries is most often less than 10 per cent.

Third, the Chinese government saves a lot. It is commonly held that China's national savings are extraordinarily high because Chinese people love to save a lot. In addition, however, the government's saving rate has been higher than the household saving rate in most recent years. While households save 37 per cent of their disposable income, the government saves about 40 per cent of its disposable income.

Fourth, the central government controls close to 60 per cent of total government budgetary revenue. Out of that, about 70 per cent is transferred back to the provinces. More than

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... economic growth is not the only concern of ordinary citizens

60 per cent of the transfer is either project-based or proportional to tax growth in individual provinces; less than 40 per cent is formula-based. Last but not the least, governments at all levels give subsidies to producers by suppressing the prices of land, energy, labour, capital, and environmental costs. According to economist Yiping Huang (CCER), the total amount of subsidies reaches 10 per cent of GDP.

Despite its positive role in promoting China's economic growth, the production-oriented government distorts the Chinese economy. The most serious distortion is in economic imbalances. By encouraging production and paying less attention on welfare improvement, the government suppresses domestic consumption.

Take the example of government infrastructure investment. In any other developing country, increasing infrastructural investment is a virtue. In China, however, government infrastructural investment seems to have passed the productive limit and begun to have a negative impact on the country. In a recent study of Chinese provinces in the period 1978-2008, Binkai Chen and I find

that when infrastructure investment increases by one percentage point in a provincial government's budget, household consumption drops by 0.31 percentage point as a share of GDP in that province.

Why is the Chinese government a production government? One cause is the legacy of the planned economy. In the period of economic planning, only agriculture, factories, transportation, and the like were regarded as productive forces, the growth of agricultural and industrial outputs were the only aims identified for society. Consistent with this emphasis, the improvement of people's welfare was kept to a minimum.

Another cause is the lack of political participation by ordinary citizens. Government officials have strong incentives to pursue economic growth because it suits their own interests, either in the form of direct financial gains or their promotion. But economic growth is not the only concern of ordinary citizens. They also care about health, security for the elderly, housing, education, the environment, equality, and so on, none of which is necessarily linked with higher rates of economic growth. Allowing ordinary citizens' voices to be taken seriously in the political process would thus change the nature of the production government.

China's income distribution has worsened and will continue to worsen if no action is taken. The production-oriented government should take much of the blame because it

subsidises producers and does minimal redistribution.

International experience shows that societies that have successfully escaped the 'middle-income trap' are those that have kept their social structure flat and opened up the political process for democratisation, permitted freer movement of labour, and enhanced the welfare system. Japan, South Korea, and Taiwan all fall in this group. Their transition began when their per-capita purchasing power parity (PPP) income reached \$8,000. In the next ten years, China's per-capita PPP income will likely increase from the current \$6,300 to \$13,000. Using the East Asian experience as a reference, the next ten years will be a critical period for China to take serious political reform.

The Chinese government has been aware of the danger of the middle-income trap and has written in its 12th Five-Year Plan that structural adjustment and welfare improvement are its most important goals in the period 2011-2015. Still, the measures proposed to achieve these two goals are inadequate. At the policy level, they are summarised as 'transforming the mode of production', which is often understood by local governments to mean moving up the global value chain.

The goals set by the 12th Five-Year Plan are admirable, but to realise them, it is imperative to transform the production government into a welfare-oriented government. China's private sector is strong enough to sustain the country's healthy economic growth. The government should shift its attention from production to welfare enhancement. The Chinese people suffered tremendously in the planning era and have continued to save a lot in the last three decades. It is time for them to enjoy the fruits of economic growth. **EAFC**

# Governance seen through the people's eyes

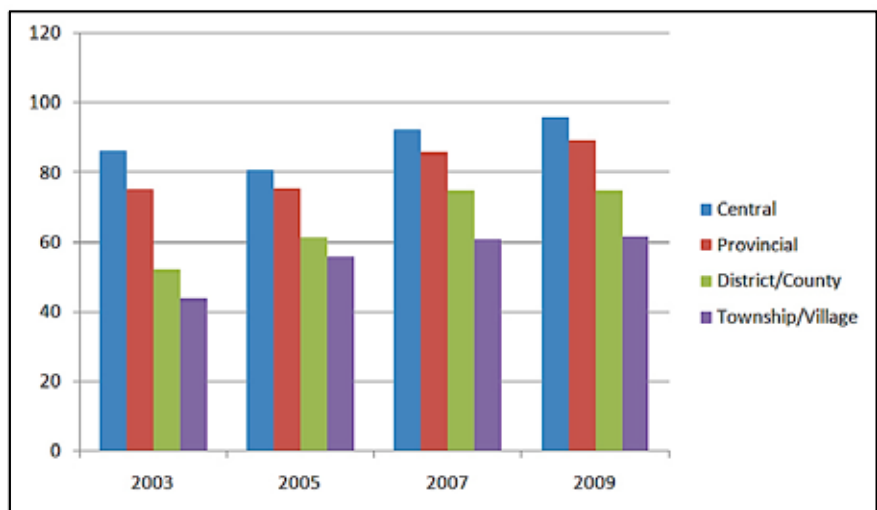
TONY SAICH

**W**HILE radical changes have taken place in both China's economy and society, political reform has lagged. The central leadership seems well aware of the problems confronting it and has responded with calls for better and more transparent government and for the Chinese Communist Party (CCP) to monitor itself and the actions of government more effectively.

The key challenge is whether the CCP can develop the governing capacity to deal with the multiple challenges it faces (inequality, social unrest, unemployment, effective

urbanisation, environmental degradation) or whether these questions will rise to a level where they overwhelm the administrative capacity to deal with them. The leadership rejects 'Western-style' political structures and thus it is incumbent on them to develop the kind of institutions within the framework of one-party rule that can not only maintain economic growth but also deal with social tensions, provide sufficient transparency to reduce corruption, and make officials accountable to the citizens who pay their wages. Liberalisation will have to be at least a partial substitution for full democratisation.

**Percentage of citizens relatively satisfied or extremely satisfied with government**



Source: Author's own surveys 2003-2009

Since taking power in 2002-2003, General Secretary Hu Jintao and Premier Wen Jiabao have committed the administration to improving the quality of governance and, in particular, improving the lot of those who have not benefitted so well from the reforms to date. Managing this process would be a tall order for any system. One important question is what the Chinese people think of the nation's governing capacity. It is reasonable to presume that, if citizens are more satisfied with government performance and the provision of public goods and services, the administration will have a greater capacity for policy experimentation and enjoy a residual trust that may help government to survive policy errors.

To investigate this, I surveyed some 4,000 respondents on their attitude towards government. There are two sets of findings with implications for governance and reform.

**F**IRST, how satisfied are citizens with their government? With substantial reform ruled off the agenda, policy is focused on improving the quality of local officials and instilling in them a more upright, moral vision of what a good official should be — a Confucian notion in all but name. Policy initiatives have been introduced to help those at the bottom of the pile.

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IN OUR NEXT ISSUE . . .

**Asian integration  
and its  
global impact**

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. . . satisfaction with lower levels of government has risen steadily since Hu and Wen took over leadership

Two clear trends are visible. Citizens 'disaggregate' the state and, while they express high levels of satisfaction with the central government, satisfaction declines with each lower level of government. While in 2009, 95.9 per cent were either relatively or extremely satisfied with the central government, this dropped to 61.5 per cent at the local level (see graph on Page 7).

In China, local governments provide almost all public services and the fact that satisfaction levels decline as one gets closer to the people is a worrying sign. However, satisfaction with lower levels of government has risen steadily since Hu and Wen took over leadership, rising from 43.6 per cent. In the villages, the highest and the lowest income earners are the most satisfied. This would suggest that the wealthy have done well under the current system, while the poorest are clearly responding to such Hu-Wen policy initiatives as the abolition of the agricultural tax or the extension of medical insurance and basic welfare guarantees. This notwithstanding, the trend is distinct from that in many developed economies, where satisfaction levels tend to rise as government gets closer to the people, indicating that people in other countries feel that they may have

greater control over the decisions of local government than Chinese citizens do.

So what do Chinese citizens want their government to do? Citizen satisfaction with the provision of specific public services reveals some interesting insights that are helpful for thinking about what local government should concentrate on to improve satisfaction levels.

**E**SENTIALLY, citizens are satisfied with those services that the traditional model could deliver well (water and electricity supply, road and bridge construction, family planning) but want the government to concentrate on providing solutions to those challenges that derive from the shocks of the transition to a market-influenced economy (job creation, labour and medical insurance, environmental health). It is unlikely that local governments will raise more funds to provide these services, with the consequence that they will have to reduce costs, contract out services or find new partnerships and focus more clearly on the kinds of services local governments can and should provide.

While the consequences of these findings may raise concerns about the quality of local governance, it is not necessarily bad news for the central government. In 2009, 30 per cent of respondents thought that their officials were incompetent, and 40 per cent that they just looked after their own interests. Corruption is always ranked as the biggest problem. The low levels of satisfaction might be an indicator of possible social instability but the survey suggests that citizens do not see the problem as lying with the central government but rather with poor implementation at the local level or the incompetence or venality of local officials. **EAFO**



# Election reform and grassroots governance

XIAO LIHUI

**S**INCE reform and opening up, a pluralistic pattern of governance has emerged at the grassroots level of China's political life involving rural (village and township level) party organisations, people's congresses, people's governments and villagers committees. One of the high points of pluralistic governance is reform of the procedures for electing township heads. According to the relevant stipulations in the country's Constitution and the Organic Law of Local People's Congresses and Local People's Governments, candidates for the head of towns and townships are first nominated by the presidiums of town's people's congresses or jointly nominated by deputies, and then put to vote and elected by the congress. In reality, however, joint nominations are very rare.

By the mid- to late 1990s, this system for electing town heads, in which the nomination process was directed by the presidiums of towns' people's congresses, was no longer suitable for what China needed for its social and political development. It was also at loggerheads with the trend of democratic development at the grassroots level in rural China. New features in the election processes of townships in Sichuan, Guangdong, Shanxi and other provincial areas reveal that this deficiency has been addressed, and indicate a new stage in the country's political democratisation.

Several different approaches can be observed in the practice of township head elections across China. Representatives of local people's congresses have a much stronger role than they did previously, with deputies directly nominating candidates for town head. This is exemplified by elections in the Mianyang municipality of Sichuan province. Alternatively, the will of the constituency may be more influential, with constituents directly electing their town heads. This is the scenario that played out in the Buyun township election that took place in the Shizhong district of the municipality of Suining, Sichuan province. A third approach, introduces the participation of the constituency into the present electoral framework, encouraging people to get involved in nominating candidates. This approach, which is most prevalent in the 'open selection' electoral system of Shizhong district,




PICTURE: GREG BAKER / AP PHOTO / AAP

Going to the polls: voters' opinions now seem to hold more sway.

shows signs of influence from the reform practices of open assessment and appointment of leading party officials, and reforms in the party personnel system. There are two more examples worth mentioning: the model of 'three rounds and two votes' that was adopted in the Dapeng town of the municipality of Shenzhen, and the 'two votes' model adopted by Zhuoli, a town in Linyi county, Shanxi province. The first of these was adopted because of the influence of the electoral practice of 'two votes' in party branches in rural areas. One final point of interest is the 'two recommendations and one vote' model employed by the Yangji town in Jingshan county, Hubei province.

**S**OME key trends are evident in the changing practices for electing township heads. The role of deputies of people's congresses appears to be strengthening, as evidenced by the practice of deputies directly nominating candidates for township head. Similarly, the public opinion of voters is beginning to hold more sway, as evidenced by the widespread adoption of the model of direct election of township heads by the people. Election practices seem to be trending towards the active participation of voters in the nomination process of the candidates for township heads.

Throughout this period of change, the party has been in direct leadership and control of the reform process. Reform has been driven mainly by government, with a top-down approach. The objective of the reforms is to find new ways to underscore the legitimacy of party and government. Reform of election processes in many parts of the country has not broken the existing political system, but merely changed the process by which candidates are nominated and selected. This has introduced the measurement of public opinion into the process of the candidate's nomination, so that public opinion can now play a role in the traditional political system.

In order to promote the ongoing reform of township head elections, several steps should be taken. First, local governments should be given more freedom in terms of institutional innovation, which will allow them to take specific local conditions into account. Second, in terms of the reform of the township head's election, the top leadership of the Communist Party must continue to strengthen the function and role of deputies of people's congresses. This will allow for further reform and improvement of representative politics, and establish an effective mechanism by which the government is responsible to the National People's Congress (NPC), which has the power to impeach, question or remove them. Third, a mechanism needs to be designed by which selection and election politics are positively integrated with each other. That is to say, while adhering to the ongoing reforms of the system of selecting party officials, the orientation of election reforms should be directed towards the expression through voting numbers of public opinion and decisions. 

# How will China become 'democratic'?

YAWEI LIU

**N**O CHINESE Communist leader has ever said democracy is a bad thing. When asked how the Chinese Communist Party (CCP) would avoid the notorious dynastic cycles of the previous emperors, Mao Zedong proudly said that the CCP had found a miraculous mechanism to keep them away: democracy. Deng Xiaoping repeatedly said that the ultimate reform was political reform. Without political reform, there is no way to sustain economic reform. Deng even predicted that China might adopt national presidential elections by 2050 after she overcame gaps in wealth and education between urban dwellers and rural residents. Both Jiang Zemin and Hu Jintao at the past four CCP national congresses touted 'four democracies' at the grassroots level, namely democratic elections, democratic decision-making, democratic management and democratic supervision in official and public affairs.

Nevertheless, it is Premier Wen Jiabao who has in recent years turned

This measure does  
require significant  
amendment of the laws

the vague rhetoric of adopting democracy into a real action plan-cum-timetable. In Wen's design, China's democracy is made up of three components: first, direct elections moving up from villages to towns and to counties; second, restraining government power via independent judiciary oversight; and third, enhancing government accountability through a freer and more autonomous media. Wen's repeated calls for meaningful political reform have not only fallen on deaf ears within the top echelons of the CCP, but also disillusioned the broad masses, as the latter have not seen any tangible action being taken. Some even label Wen as the best actor in China's theatre of politics.

If people see Wen as merely being a good actor, many CCP movers and shakers may perceive his utterance on initiating political transformation as an unfathomable threat to the political consensus and a devious plot to influence power transition at the upcoming 18<sup>th</sup> CCP National Congress. In response Wu Bangguo, who is ranked second in the CCP Politburo Standing Committee, seems to have attempted to put the brakes on Wen's runaway train by making a solemn 'six nos' declaration at the recent annual session of the National People's Congress in Beijing. The now infamous 'six nos' are no multiple party system, no diversity in

ideology, no checks and balances, no two-chamber parliament, no federal republic and no privatisation.

If Wu indeed wanted to shut down Wen's vision for political reform, he is missing the target by a wide margin because none of the 'six nos' are remotely applicable to Wen's proposals. In fact, if the CCP does have political reform (or democracy with Chinese characteristics) in mind, its engineers do not need to 'westernise' anything for now. Although these reform measures do eventually require amending the Constitution and relevant laws, most of them will fall into China's current legal framework.

In order to implement democratic reform, first, direct village election measures need to be put in place for the election of deputies to town and country people's congresses. China has about four million elected people's deputies at five levels (town, county, municipal, provincial and national) and the elections at the town and county levels are direct. Adopting village elections measures at these two levels means free nomination of candidates, unrestricted campaigns by candidates, multiple candidates and secret ballots. These elected local people's deputies will not only elect township and county magistrates but also deputies at the next higher level. Competitive, open and free elections at these two levels will change the dynamics of China's politics overnight. Yes, CCP candidates may dominate the process as the system now exists, but it does provide an avenue for non-party candidates to compete free of hassle by the CCP apparatus. This first step needs no major amendments to the Constitution and laws.

Second, is to allow people's congress deputies at all levels (during the trial period, it may first be limited

to the bottom two levels) to use their authority to the fullest extent, as stipulated by the law. Their authority includes electing executive leadership of the government at the same level, approving budgets and expenditure, auditing reports by the judicial and law enforcement branches of government, and voting on all major decisions of government. This requires no change whatsoever to existing law but certainly requires the CCP to cede lower level control and stop manipulating or interfering in the proceedings of people's congresses. This seems to be the biggest hurdle for an empowered and accountable

PICTURE: GREG BAKER / AP PHOTO / AAP



people's congress system to take shape.

Third, is for the people's deputies to be responsible, responsive and respectful to the people who elect them. Their number should be significantly reduced and their representation determined by geography. For example, a Chinese scholar suggests that the NPC cannot function unless its number is cut from the current number of about 3,000 to

about 800. No one of the 800 should come from the central government or the military but strictly from the provinces. They must be elected by the provincial legislature (similar to the way that US senators were chosen before the 1920s). This measure does require significant amendment of the laws in China.

These three measures are interconnected and intertwined. No single measure will work unless the other two are in place and enforceable. The first two of the three measures are already stipulated in the law but not even remotely enforced. The real adoption of these measures will have no Western writing on the wall and does not require the CCP to allow other political parties to compete on the same level playing field for now. In other words, these measures are not designed to undermine the supremacy of the CCP, despite their having not been tolerated by the CCP and being perceived by many CCP leaders as potential harbingers of chaos and even civil war.

The adoption of these three measures will not necessarily mean China meets the benchmarks of a real and vibrant democracy, but they would make a meaningful beginning. It is a process that is not drastic and unlikely to trigger radical political activism. These measures are a touchstone as to whether the CCP is taking political reform into serious consideration. They are also a countermeasure against the most powerful and persuasive excuse against democratisation: ordinary Chinese people are not ready to engage in democracy and political stability is paramount. I am hopeful Wen Jiabao and Wu Bangguo can reach a compromise on this issue with full backing from Hu Jintao. They only have 17 months of their term left to do so. **EAFO**



# The China model and the authoritarian state

SUISHENG ZHAO

**T**HE Jasmine Revolution that began in North Africa early 2011 frightened the Chinese government because China faces social and political tensions caused by rising inequality, injustice, and corruption. In an attempt to address these tensions, Bo Xilai, the Chinese Communist Party chief in Chongqing, and who is a contender for the 2012 leadership succession, has crusaded to resurrect socialist values and Maoist revolutionary culture. Bo has become

popular in certain political circles within China for the 'Chongqing model', which he has championed.

After Xi Jinping, heir-apparent to Hu Jintao, visited Chongqing in late 2010, five Politburo standing committee members made high-profile trips to the city. The most recent visit was in April by Wu Bangguo, Chairman of the National People's Congress (NPC) and the number two ranking member in the Politburo. Less than a month before, in his annual NPC address, Wu had ruled out the possibility of major

political changes, saying that China would never adopt a multi-party political system and that the aim of all laws should be to consolidate and improve one-party rule. These visits were confirmation of the Chongqing model's acceptance by a number of the CCP elite.

In their defence of China's authoritarian state, the Chinese leadership has found reason to be satisfied with the Chongqing model because it is an important component of the China model of state capitalism, fashioned by nationalistic new-leftists,



'Arbitrary land acquisitions are prevalent': stick-wielding men move forward to guard workers demolishing houses in Wuhan, central China, in May 2010. Local government authorities had classified the buildings as illegal.

PICTURE: AFP PHOTO / AAP



and a contrast to the Western model of liberal democratic capitalism.

Chinese liberal intellectuals have always been sceptical of a unique China model and have argued that China's modernisation is not only aimed at building power and wealth, but more importantly at introducing the enlightened values of liberty, democracy, and rule of law. Despite this view, the China model as an intellectual symbol of national pride surged in popularity after the country successfully hosted the Olympic Games and the Western world was consumed by the financial crisis in 2008. For many Chinese people, their nation's recent success in weathering the financial crisis has passed judgment on the failure of the Western model and the rise of the China model, which features a strong authoritarian state to make use of capitalism and create wealth.

The authoritarian state has made a deliberate effort to direct China's national goal toward economic growth rather than civil and political rights. This effort is supported by its extraordinary ability to make difficult economic decisions quickly on issues such as large investment and construction projects, and translate them into effective action. This is not only because the Chinese government has huge economic and financial resources at its disposal but also because the Chinese state, in contrast to its Western counterparts, doesn't have to put up with the distractions of vocal opposition parties nor submit itself to public scrutiny at regular intervals. One good example is that, after Lehman Brothers fell in September 2008, the CCP Politburo met in early October 2008 and quickly implemented a four trillion yuan (US\$586 billion) economic stimulus package, which the State

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... the authoritarian state's ability to make quick decisions has often come with high economic and environmental costs


Council announced the following month. Thereafter, state-run banks pumped a huge amount of money into the economy. The government was therefore very effective in deploying its enormous state capacity to push its economy out of global recession. In comparison, the transition of power from President George W. Bush to President Barack Obama and political gridlock in Congress delayed the US government's adoption of a stimulus bill until February 2009, too late to prevent deep economic recession.

For all its glitter and shimmer, the China model has some clear faultlines that are responsible for China's many social and political problems. For example, without accountability, the authoritarian state's ability to make quick decisions has often come with high economic and environmental costs, leading to irrational and distorted investment, waste of resources and environmental deterioration. In addition, without an opposition party to keep watch on privileged state officials, a combination of authoritarian politics and the market economy has produced corrupt crony capitalism (权贵资本主义) in which power and money are closely connected. Acting to protect and enrich specific interests, the state has come to infringe upon ordinary people's rights. Arbitrary land acquisitions are prevalent and workers

have to endure long hours and unsafe conditions, causing discontent within society.

China now has one of the most unequal income distributions in the world, with a gini coefficient of 0.50 in 2009, even higher than the United States, at 0.46. This alarming inequality has come as China has dismantled its social welfare structures, leaving hundreds of millions of people with minimal or no provision of healthcare, unemployment insurance, and other social services. These growing gaps are at the root of social unrest, that threatens political stability, an accepted pre-condition for economic development. Coercive force has been deployed with increasing frequency to suppress popular unrest. This year, the financial cost of 'maintaining stability' (维稳) is estimated to have outstripped the size of the defence budget. The dramatically rising costs of maintaining internal control have raised questions about the sustainability of the China model, which is based on the wrong assumption that economic growth trumps all else. If the government takes care of economic growth the assumption is, people will be willing to give up all moral and other demands.

As economic growth has delivered the essentials of living, Chinese people appear, in fact, to be expressing greater demand for social justice and protection of their rights. So it is increasingly difficult to contain or discourage social discontent through economic growth alone.

In this case, neither the China model nor the Chongqing model is a solution to China's intensifying social and political problems. A sustainable model requires China to find ways to balance the power of the state by democratic and legal institutions based on liberal values. 



# China's road

ZHAO BOYING

**W**HILE the media focuses on the 'Chinese miracle', some scholars have used terms such as the 'Beijing consensus' and 'China model' to describe China's overall strategy and path to development. I prefer the term 'China's road', because China's development has not yet fallen into a pattern.

China started a new revolution by adopting a 'crossing a river by feeling the stones' approach over 30 years ago, and gradually found a new path towards socialist modernisation. 'China's road' may be described, in brief, as the development of a unique state system which combines the Chinese socialist system and traditional market economy, including the ways of maintaining political stability and constantly improving people's livelihoods and the efforts at handling the relations between China and other countries.

China's road is characterised by gradual domestic reform and opening up to the outside world under strong governmental control. China has seized the economic opportunities presented by globalisation, and has maintained rapid economic growth to quickly develop into a large manufacturing and trading country. Throughout this process, China has striven for a peaceful international environment and refrained from intentionally making a big impact on the current international order.

China follows a path of evolutionary reform. This allows it to manage effectively the interrelationships

Looking ahead: 'Efforts are being made to achieve the goal of common prosperity and ensure that development is for the people, by the people, with the people sharing its fruits.'

between economic restructuring, social reform and political restructuring, and balance the competing demands of reform, development and stability. Crucial to this strategy is the establishment of the socialist market economy, which is strikingly different from the Soviet model, and models of Western countries. The new system gives play to the role of the market mechanism while emphasising the government's strong macro-regulatory functions. Political restructuring is carried out steadily to improve administration, the legal system and democratic governance. The achievements to date offer proof that China is following a unique and successful path to development.

China's road has led to a miracle in the history of the world economy, of development without any external expansion or egregious internal conflicts. There are, however, many challenges that have to be faced during this period of social transformation.

**E**XTENSIVE economic growth results in increased consumption of material resources, and to environmental deterioration. China's export-oriented economic development pattern is unsustainable. Domestic demand is insufficient. Gaps in income, in rural-urban development, and between regions are continuing to widen because of unbalanced economic and social development. There are problems in social security, medical and health services, education and housing. Corruption remains a serious problem and there is also the occasional issue of people's rights and interests being infringed.

The ideas of a creating a harmonious society and taking a scientific approach to development

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Some people fear that 'China's model' will take the place of the Western model, and warn against its export around the world. But China has no intention of exporting its model

are key tools for dealing with the contradictions and problems which have accumulated over the past 30 years. These concepts are written in the Constitution of the Chinese Communist Party (CCP) and are reflected in the 12th Five-Year Plan. This shows that the CCP is committed to finding the best path to development.

A huge effort is being made to promote scientific development and social harmony. The CCP has emphasised an all-round approach to development which gives weight to economic, political, cultural and social concerns. Under this approach, improvements can be made to the socialist market economy while building a domestic demand-based economy and fostering a harmonious society. To ensure rapid and sustainable economic growth, the pattern of development and the mode of economic growth have to be transformed, building a resource-conserving and environment-friendly society.

Reforms are being carried

out to ensure social equity and justice, prerequisites to sustainable development. Efforts are being made to achieve the goal of common prosperity and ensure that development is for the people, by the people, with the people sharing its fruits.

Terms such as the rule of law, inner-party democracy, primary-level democracy, and people's democracy point the way forward for improving socialist democracy.

The value of China's road lies in the fact that it expands our understanding of the principles of social development and the different ways that a nation-state can modernise. China's success suggests that there is no universally applicable or immutable development model.

**S**OME people fear that 'China's model' will take the place of the Western model, and warn against its export around the world. But China has no intention of exporting its model. It is still in an early stage of socialist development, and per capita GDP is only about US\$3,800. China is determined to pursue a road of peaceful development to attain its goal of building a moderately prosperous society by 2020. The China road includes such important aspects as opening to the outside world, international cooperation and peaceful development. The ideas of creating a harmonious society and a harmonious world are rooted in the core value of 'universal harmony' in Chinese culture. Any practice of exporting a so-called model would violate this principle.

China's road continues to evolve and change. Whether China's socialist ideal and its road design is of universal significance remains to be proved over time and tested in practice. **EAFO**





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# Governance and the momentum of reforms

YONGSHENG ZHANG

**C**HINA'S 12th Five Year Plan enshrines a commitment to transforming China's development model. A top priority is commitment to moving from the current low-efficiency, high-growth model of development to a more balanced approach that addresses a wider range of concerns. The targets of the new model include economic growth, structural adjustment, social services development, carbon mitigation and environmental protection, and transparency and governance reforms.

Calls for the transformation of China's economic development model are nothing new. China has aimed to improve efficiency and move from a GDP and export-oriented economy to a 'wellbeing' and home-market-oriented model of growth since the early 1980s. Previous calls for reform have failed because transformation has never been self-enforcing, and vested interests have formed a major obstacle to change. Now, new momentum is needed in the reform process to make the new Chinese development model a reality.

Three sets of reforms need to top the new development agenda.

First, and most fundamentally, are governance reforms. Without transformations in governance, the shift to a new development model will be impossible. Horizontal reforms will have to clearly define the border between government and the market by limiting government power and

improving the functioning of the market. Vertical reforms will have to establish a balanced relationship between different levels of government to prevent intergovernmental opportunism.

Second are reforms to establish fair market competition. As long as state owned enterprises (SOEs) monopolise competition, it will be impossible to have fair markets in China. The fundamental reason why SOEs should be restructured is not, as many argue, their inefficiency, but the need to build fair, competitive markets. The American Chamber of Commerce recently stated, 'The United States should focus less on China's currency practices and more on the threat to US companies posed by Beijing's support for state owned enterprises.' According to them, support includes 'regulatory and other barriers to promote "domestic champions" in high-tech areas such as electric cars, green energy and high-speed rail'.

Third are sector-specific policy reforms. These include the need to

reform the distorted pricing systems for factors of production, and the tax, investment, and fiscal policy systems.

These reforms will not be easy to achieve while two main impediments persist. Firstly, during early reforms, benefits were spread widely throughout the community. After decades of reforms, the 'cake' is much bigger, stakeholders have become diversified, and vested interest groups have been largely institutionalised. Reforms that benefit the majority but not vested interest groups will be opposed. Secondly, easier low-level reforms have been mostly completed. What remains on the reform agenda are deeper, more difficult reforms that face even stronger resistance from vested interests.

New momentum is needed to overcome these obstacles. The pressure for reform that China needs is currently coming from four principal directions.

The first is the fear of economic crisis. The high-export, high-investment economy is unbalanced and unstable, and the accumulation of existing risks will become dangerous in time. Another risk is the slow-down of growth. Existing risks are masked by high growth. For instance, huge local government debt is underwritten by sale of government land, the high revenue of which is based on high growth. Once growth slows down, this arrangement will be unsustainable.

Second is the need to enhance the ruling party's legitimacy. As China's economy grows rapidly the needs of its

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... the success of reform schemes will continue to be haphazard in the absence of strong rule of law



One of China's 'domestic champions': two trains rest on their elevated tracks inside the Shanghai maintenance workshops of the Beijing-Shanghai High-Speed Railway. Services run for almost 18 hours a day and the rolling stock undergoes maintenance every night.

people are changing. Soon economic success will not be enough to guarantee the legitimacy of party rule. Korea and Taiwan are both examples of states in which authoritarian governments were unable to sustain their legitimacy on the basis of economic success. Reforms directed to build democratic processes and the rule of law are needed to deepen the legitimacy of the CCP.

Third, China needs to integrate with the international community. Although China is on its way to becoming the world's economic powerhouse, this will not be enough to convince the world to embrace its success. Its values and institutions need to be acceptable as well. The boycott of the Olympic torch relay and some rejections of attempted overseas acquisitions by China's SOEs exemplify the difficulties faced.

The fourth driver for momentum is regional competition. Baechler argues that competition by political units

with the same cultural background in Western Europe led to the development of modern growth and constitutional rule. Many analysts see competition among ambitious regional leaders in China as potentially providing a similar impetus for economic growth and institutional evolution.

Regional institutional experiments have been emerging throughout China in the last few years. These include land reform in Chengdu, grassroots elections in Jiangsu and Yunnan, crackdowns on organised crime and the promotion of Maoist songs in Chongqing, free medicare in Shenmu, and official property openings in Aletai. The successes and failures of these pilot reforms are valuable learning experiences for other regions, and for national institutions.

Despite the good intentions behind these projects, the success of reform schemes will continue to be haphazard in the absence of

strong rule of law, and checks and balances on government power. Regional experiments tend to be initiated, controlled, and dominated by strong regional leaders, so they are sustainable only as long as these leaders make the right decisions. Government economic opportunism presents another serious challenge, but without the kind of civil society that can flourish under strong rule of law, it will be difficult to curb government power.

China's economic miracle is the result of three decades of reform. As its economy grows, it is reaching a crossroads with its development model. Whether China will continue modernisation and transform its development agenda depends on whether it can overcome the challenges presented by vested interests. New sources of momentum will therefore be needed to overcome these challenges and continue reform.

EAQ



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DAVID KELLY

**W**E LIVE in a riskier, more uncertain world than just a few years ago. Climate change, financial crisis and the decline of the West are three issues many put high on their list of 'Black Swan' factors, that is, major events that might occur very unexpectedly. China figures centrally in all three. There is now a long list of public goods that the world badly needs China to deliver at an accelerated rate — stability, growth, green energy, peace. Given China's politics, size, appetite for recognition, resources, and security, none of these public goods are easy to deliver.

Take the demand for recognition. Much commentary over the past year or so points to a more assertive China. Scholars note escalating claims of nationalism, or 'statism', in policy circles. In this view, China, in attempting to overcome its deep sense of humiliation caused by events in recent centuries and regain status as a great civilisation, will challenge the western world order and the 'universal values' it claims to embody.

Yet this is but one face of today's rising China. Whether or not it is

assertive abroad, it is plagued by a lingering sense of insecurity at home. The National People's Congress (NPC) in March placed ever-greater emphasis on maintaining stability (*weichi* wending, often shortened to *weiwen*). The shift was one of relative emphasis. Stability is a repeated theme in contemporary ideology. Formulations like that of the Fourth Plenum of the 17th National Party Congress, that 'development is the highest priority task, and stability the highest priority responsibility,' are common.

In February, President Hu Jintao addressed the Central Party School on the related theme of 'social management', a higher-level abstraction within which the mechanisms of *weiwen* are now packed. Despite its reference to improving redistributive social security measures, there was a close relation between this policy statement and external events.

The strongest voice in support of Hu Jintao was the Minister for Public Security, Zhou Yongkang, and the underlying message was about nipping social protests in the bud, especially the 'mass events' that have been steadily increasing in number since

the late 1990s. Following the early successes of Middle East democracy movements in early 2011, China struck hard at dissidents at home, arresting hundreds of activists and putting stringent limits on liberal discourse. A high-level Party instruction in late May extended these limits to virtually all public contention.

*Weiwen* policies were often successful when first applied earlier in the Hu-Wen era. Involving carrots as well as sticks, *weiwen* is thought of in public security circles in China as a more nuanced set of policy instruments than the *yanda* ('strike hard') repressive measures of the past.

In recent years there have been many accounts of overuse of *weiwen*. It is liable to take on a life of its own, escaping central control and embedding itself in local political games. Warnings against 'stability' being invoked as a barely disguised tool for uncompensated takeovers of land and other assets, providing fertile soil for local mafias along the way, have appeared in Party documents. Overemphasis on *weiwen* is paradoxically damaging to government legitimacy. It uses a variety of extra-legal means to lower the level of



reports of ‘incidents’ and petitioning that higher authorities demand. It damages the credibility of the China model: a model underwritten by ever-larger budget allocations to buying off protests, an approach which is unlikely to be sustainable.

Autonomous organisations, resembling the civil societies found elsewhere, are kept within narrow bounds. Lacking critical mass, they are easily targeted as destabilising elements. But this is not the end of the story. Overdriven *weiwen* generates a perception at significant levels within the party-state that it is dangerous, particularly when it damages other tools of social management. According to the sociologist Sun Liping, overcentralisation of control, of which *weiwen* is an expression, leads to acceleration of social disorganisation.

Above all, it runs against the objective of modernisation of governance institutions, and the interests of sizeable sectors of the elite. Middle managers, not merely the putative middle class, have a lot to lose in the long run from the escalating cost of maintaining stability. From where they stand, it is a backward step, arbitrary and counter-productive. It downgrades their entire stock of tools in governance. Many regulatory areas — notably the newly installed social security mechanisms — are recognised by this class of officials and managers as requiring more bottom-up participatory management.

If anyone is likely to push back against overdriving this approach to stability maintenance, it is the middle-manager stratum of Chinese society that has its own vested interest in modernising governance. Prospects of any alternative to the stability maintenance model are not good, but the fact remains that *weiwen* does not have the floor to itself. **EAFQ**

# Nationalism and where it might lead

BAOGANG HE AND KINGSLEY EDNEY

**W**HEN Premier Wen Jiabao recently spoke of political reform his remarks were censored within China. Yu Keping, a pro-reform scholar-official, has discussed the concept of co-governance, which involves both government and civil society, but propaganda authorities have attempted to ban the phrase ‘civil society’. Although the suppression of concepts such as civil society appears to limit the Chinese people’s political autonomy, popular nationalist sentiment is a constant force that presents an ongoing challenge to the government and particularly to its propaganda system as the process of reform continues.

How the Chinese government decides to respond to domestic nationalism has implications not only for relations between the government and the Chinese people, but also for relations between China and other states. There are debates about whether Chinese nationalism poses a threat to world order or to individual countries. Whether Chinese nationalism constitutes a threat is uncertain. It depends upon a number of conditions and their interaction in particular situations. The traditional metaphor of the ruler being like a boat and the people like the water can be used to describe five possible future scenarios in which Chinese

nationalism is likely to impact on Chinese foreign policy.

The first is benevolent Chinese nationalism. Just as river water is beneficial for irrigation and daily use, Chinese nationalism can be generous with a cosmopolitan outlook.

Tony Blair’s call for the cancellation of African debt has not been successful in the West, but the Chinese government has cancelled debt in order to improve and increase its international status and national prestige (of course it has also done so from considerations of national interest). In his trip to eight African countries in February 2007 President Hu Jintao cancelled Cameroon’s debt, Sudan’s \$19 million debt, \$15 million of Liberian debt, and Mozambique’s \$15 million debt. In the future, China will continue to spend more money to ‘buy’ its international reputation through new public diplomacy efforts.

Second is controlled nationalism. In the way that a riverbank needs to be strengthened with stones and sand bags in order to control flooding, Chinese popular nationalism has been subject to constant official monitoring and scrutiny. Suisheng Zhao argues that although the party-state exploits popular nationalism ‘when doing so suits its purposes’, it has ‘practised pragmatic nationalism tempered by diplomatic prudence’.

In the future, the Chinese government is likely to exercise more

control over popular nationalism to prevent it undermining the Chinese official national strategy. Beijing will adopt tougher control and punishment of any unfriendly or insulting language towards Islam or Muslim countries, but is relatively relaxed in its control of popular anti-American opinion.

Third is expanded nationalism. As water sometimes flows into new areas and creates new rivers and streams, Chinese nationalism has expanded in new directions. One example is the protection of Chinese citizens and businesses abroad. In recent years this issue has become a matter of international status and national pride that has the potential to influence China's military policies.

The Chinese navy has joined in international efforts to patrol the Gulf of Aden and reduce the threat of Somali piracy in that region in 2009. International incidents such as political violence and natural disasters have resulted in the Chinese authorities taking steps to evacuate their nationals from the danger areas in the same way that wealthier developed countries attempt to protect their citizens in such situations.

During the 2011 uprisings in the Middle East the government took steps to evacuate Chinese citizens from countries such as Egypt and Libya, providing a stark contrast with the situation facing large numbers of Bangladeshi refugees who were unable to return home. It is possible that the idea that China can and should dispatch ships or aircraft, including military vehicles, to evacuate its people from foreign lands could evolve into greater Chinese acceptance of the idea that the country's interests lie not only within its own territory but also extend beyond its borders.

This could in turn result in a more positive attitude towards Chinese

intervention to protect its own people in situations where the sanctity of state sovereignty would previously have been paramount, which may have important implications, particularly for Southeast Asian countries that contain large numbers of Chinese nationals.

Fourth is aggressive nationalism. Two completely different power transitions are taking place. At home Xi Jinping is likely to succeed Hu Jintao as the next President of China and General Secretary of the CCP; and abroad the power of China is continually rising at a time of the relative decline of US power. This will affect the development of Chinese official nationalism, which is likely to be a strong current that flows more aggressively.

With more confidence and resources provided by the rise of China, China's new leadership is likely to defend China's core national interests in a much tougher manner. It is expected that Xi will adopt a hardline policy towards US arms sales to Taiwan in the near future to gain legitimacy and consolidate his power.

Xi expressed strong criticism of the US's democracy promotion program in China when he delivered a public speech in Mexico in 2008.

Fifth is explosive nationalism in economic crisis. Chinese popular nationalism might explode in a violent form if China's economy slows down and suffers a serious crisis. When economic crisis strikes in Western liberal societies, immigrants often become a target of nationalist discontent. In China the US is more likely to be the focus of nationalist anger. In the worst situation, Chinese public anger might explode out of control so that the 'boat of the CCP' itself would be swamped by the surging waters of popular nationalism.

The question of which scenario is more likely to occur remains because the outcome depends upon many factors and their interaction. But it is clear that, as the process of reform continues, nationalism is likely to exercise a major influence on China's foreign policies in a number of different ways and to have an impact that is felt well beyond its effects on China's domestic political system. **EAFO**



Protesters demonstrate outside the Japanese embassy in Beijing.

PICTURE: GREG BAKER / AP PHOTO / AAP



CHRISTINE WONG

**J**UDGING from the experience of transition in countries in Eastern Europe and the former Soviet Union, the transformation of governments and their finances is fraught with difficulties, and success and failure in this transformation have an enormous impact on the welfare of their citizens. China is no exception. Through the first two decades of its market transition, the government suffered a brutal fiscal decline that impaired its ability to allocate resources and provide services. At the trough, the government budget had shrunk to less than 11 per cent of GDP, and the central government's revenues just 3 per cent. Though the depth of the retrenchment was masked by the resort to extrabudgetary sources of finance, and by devolving the funding shortfalls to local governments and especially to the rural sector, the outcomes were costly. Not only did it lead to inadequate provision of vital services, but the government played virtually no role in ameliorating

differences in fiscal capacity across localities, resulting in huge disparities in offerings.

In the twenty-first century, China's fiscal position has changed markedly for the better. Since the introduction of a largescale reform package in 1994 (the Tax Sharing System), China has rebuilt its revenue mechanism, and the recent growth spurt has brought annually double-digit increases in revenue that have filled government coffers to overflowing, especially at the central government. It was this strong fiscal position that enabled the government to roll out the biggest fiscal stimulus program in the world in late 2008 to combat contagion from the global financial crisis. The improved fiscal outlook has also enabled the government to embark on an ambitious effort to try to reverse or alleviate the problems created in the 1990s. Over the past decade, numerous programs have been introduced: the rural fee reform abolished all fees and taxes in the rural sector, the free rural compulsory education program ensures that rural


children can attend basic education free of charge, and the new rural cooperative medical scheme has enrolled virtually all rural residents in a highly subsidised medical insurance program. These programs are impressive; they serve huge populations (for example 935 million rural residents are enrolled in health insurance, and 140 million children are enjoying free rural education). They are clearly aimed at reducing inequalities, promoting fairness and improving public services, as part of the shift to a 'service-oriented government' and building social harmony.

The new 'harmonious society' programs are laudable, but they are addressing only one part of the problematic legacy of the earlier retrenchment. A far bigger challenge is to repair the damage wrought by the decade-long ad hoc devolution of authority from the centre, which, driven by crumbling public finances, had broken the intergovernmental fiscal system. With local governments assigned too little revenue to fulfil



their responsibilities, the system became unable to support national policy implementation. The era also saw a severe erosion of accountability, since no government, agency or person could be held accountable for results. The dependence on extrabudgetary revenues in turn distorted incentives for government agencies and public service providers. Even today, the government is hobbled, throughout the whole administrative apparatus, by agents whose (own) revenue-hunger dominates decision making. These legacies make China's public finance opaque and difficult to manage, and lie at the root of the current problems of weak governance, regulatory failures and growing inequality.

The problems of the intergovernmental fiscal system and distorted incentives were created when China muddled through the brutal fiscal decline without a strategy for reshaping the public sector. This structure and incentives are now hardened and deeply embedded, and undoing them will take time and a determined effort. A program of comprehensive reforms will be required: building new accountability mechanisms and information systems, reorganising and streamlining government, and, most of all, repairing the intergovernmental fiscal system.

These are large and politically difficult reforms. Until revenue and expenditure assignments are realigned, and the revenue-driven orientation of government agencies and public service providers is fundamentally altered, pushing more money through the system will not solve the problems of weak governance, and will likely have only limited effect on improving the government's capacity to ensure fairness, public safety, and consumer protection. 

## CLOSING THE GAPS

# The question of income distribution

CAO XIN


**R**EFORM and the opening up of China's economy has been successful on several fronts, and these achievements coincide with remarkable changes in China's economy and society.

The national economy is increasing by roughly 10 per cent annually. China's aggregate output is second largest in the world. Gross domestic product per capita is now more than US\$4000. China's estimated GDP in 2010 was RMB39.8 trillion (US\$6 trillion), representing a 10.3 per cent increase when compared with 2009. State revenue was RMB8.3 trillion (US\$1.3 trillion) — an increase of RMB1.45 trillion (US\$0.21 trillion), representing a 21.3 per cent increase when compared with 2009.

The net per capita income of rural residents is now RMB5,919 (US\$913), having increased by 10.9 per cent since 2009 in real terms. Urban per capita disposable income is now RMB19,109 (US\$2,949), a real increase of 7.8 per cent. Food consumption expenditure as a proportion of household expenditure in rural and urban areas for 2010 totalled 41.1 per cent and 35.7 per cent respectively. At the end of 2010, the impoverished rural population was 26.8 million — a decrease of 9 million since 2009 if we use the rural poverty standard of 2010.

Income and standard of living continue to increase each year. But, unfortunately, the income gap between different social classes is also widening. This trend appears not only between rural and urban areas, but also between different industries and sectors. The income gap can be seen in statistics. First, the share of GDP accounted for by wages has decreased year by year. Second, the income gap between rural and urban areas is also very wide. Third, the income gap between different industries is growing. Finally, the income gap between different strata is growing. According to measurements by the World Bank, the Gini coefficients of Europe and Japan are generally between 0.24 and 0.36. China's, on the other hand, has risen to 0.47. This is higher than the internationally recognised warning limit of 0.4.

To reverse growing income disparity and level up people's incomes with economic growth, payment for labour needs to match growth in labour productivity. Increasing household income as a proportion of the national income and increasing the proportion of the GDP accounted for by payments to labour are urgent objectives in the 12th Five-Year Plan.

An ineffective income distribution system is the primary cause of the increasing income distribution problems. It is imperative that China accelerate reform of the income distribution system, adjust the structure of income distribution, expand the middle class's share of national income, increase the income of farmers, and establish a reasonable income distribution system. 



# Domestic politics and the world economy

PETER DRYSDALE

**C**HINA'S economic rise presages a fundamental change in the global economic and political system. The surge in Chinese investment abroad is the latest major element, beyond trade, of China's integration into the global economic and political system. More so than trade, business abroad involves not merely economic, but significant political interaction between foreign enterprises and the state — importantly because China's dominant investors abroad are state owned enterprises (SOEs).

There is growing debate globally about whether and how the role of SOEs affects the benefits for host countries from Chinese investment abroad, a debate that is really about the interaction between national political institutions ordered around different principles and political constitutions.

Most countries enjoy the economic benefits of China's integration into the world economy. At the same time they take proactive positions in managing both their economic and political interests as they are affected by developments in China, and these developments impact on the structure of international markets for goods, services, capital and investment.

The changes associated with China's integration into the global economy have seen China seek to conform to established international norms and institutions — for example, through accession to the World Trade Organisation (WTO) — and play an

increasingly active and constructive role in international diplomacy (for example, in the United Nations and through the six-party talks on North Korea). This strategy has meant that the economic effects of China's economic growth on the rest of the world have thus far been overwhelmingly positive. But China's economy remains one in transition, with wide-ranging reforms still in progress, and this affects the way in which the market operates across all sectors of the economy. It also has a political system that is different from the broadly representative political systems that typify the established industrial economies. There is no system of international governance for foreign direct investment, such as there is in the WTO for trade. In no dimension of China's economic engagement internationally is the interaction between the economic and

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Corporate organisation  
and corporate  
governance in China is  
evolving towards a system  
increasingly governed by  
market institutions and  
international  
market practice

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political system more prominent and important than in respect of the surge in China's overseas direct investment (FDI).

Economic transition in China has clearly had, and is continuing to have, an important impact on the political system and the way in which the political system operates in China. There is a question of whether continuing economic reform might lead inevitably to a trend towards further political system change because of the need for separation of the state from economic enterprise, to facilitate the governance arrangements and transparency necessary to very high levels of prosperity. The relationship between the efficiency of economic institutions and the nature of the political institutions in which they are nested is an important underlying question about which many are thinking.

Of more immediate and practical importance is understanding the way in which Chinese markets and businesses are affected in their activities abroad by evolving economic and political institutions, how participants in these markets interact with the state in their dealings in international markets, and whether the relationship between the market and political system requires particular strategic policy responses from China's economic partners.

These issues have become a prominent and urgent undercurrent in popular and policy discussion around the world. They are cogent in respect

of the response to Chinese investment abroad, both FDI and the investments of Chinese sovereign wealth funds (SWFs). China itself is also a very large recipient of FDI, and that is additional context.

SOEs in China are the primary vehicle for Chinese overseas investment. They are increasingly subject to the discipline of the market at home, but have preferred access to domestic credit through the state-owned banking system, although on terms that are, given that distortion, increasingly commercially based. The prevalence of SOEs is wider in China, for example, than was the prevalence of state-ownership, strictly defined, in the resource-consuming and resource-investing industries from Japan 30 or 40 years ago, although it is unclear whether their entrenchment in the market is so different. Corporate

organisation and corporate governance in China is in a state of transition and is evolving towards a system increasingly governed by market institutions. Yet it remains different, in significant respects, from corporate organisation and governance in the major industrial countries.

Chinese SOEs are in reality locked into a continuing, dynamic process of corporate reform at home. The latest example is the separation of party from the management at China's largest oil firms. In the past the local party secretary also held the position of managing director. The new arrangements require that these positions be held by different people. This does not, of course, guarantee that the party will relinquish control, but it does suggest a significant retreat from day-to-day party management of the firm. Chinese companies in

which the state has a stake are now also publicly listed at home and increasingly in Hong Kong and abroad.

Corporate organisation and corporate governance in China is evolving towards a system increasingly governed by market institutions and international market practice. It is a process that is clearly not yet complete. And it is a process in which countries that are host to investments by Chinese state-owned enterprise naturally have an active, legitimate and continuing interest. It is also a matter to which Chinese authorities will have to give more and more attention if Chinese firms are to receive equal treatment to that provided to other multinational investors in international markets, and if China is going to be successful in the next and crucial phase of its integration into the global economy. 

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enhancing global outreach robust **china** tradition learning engaging positive legacy  
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## AUSTRALIAN CENTRE ON CHINA IN THE WORLD

中华全球研究中心 / 中華全球研究中心

ANU College of Asia and the Pacific T +61 2 6125 7088  
HC Coombs Building #9 E ciw@anu.edu.au  
The Australian National University W http://ciw.anu.edu.au  
Canberra ACT 0200

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# Who's afraid of the middle class?

LUIGI TOMBA

**T**HERE are two diametrically opposed narratives about the Chinese middle class. In the mainstream views of what many call 'the West', its growth represents the inescapable sign that China is destined to converge, bend its ways and eventually become like us, adopt the universal values of our superior civilisation and finally provide us with a way to understand it in the familiar language of democracy.

In the idiom and ideology of the autocratic rulers of China's capitalism there is an alternative story: the middle class is seen as the lynchpin of political stability, the staunchest and most rational, self-interested supporter of China's new (urban) way of life, the foundation of its advanced economy, whose social position was fostered by 30 years of economic development and guaranteed by an unlikely champion, the Communist Party.

Both visions appear to be supported by historical precedents (including in Asia), as middle classes have revealed themselves to be revolutionary social formations in some cases and status quo watchdogs in others. Yet the determinism of both narratives might be fundamentally wrong.

The prior question to ask, however, is: what is the Chinese middle class?

It is, in fact, a fuzzy social formation, with no horizontal homogeneity, bordered north and south by other fuzzy social groups. If we adhere to Marx's analysis, a class



would need a consistent consciousness and a stable relationship to the means of production, something hard to find in the segregated, high-rise residences of China's middle-income urban families. If we take note of Weber they would need to share consumption, lifestyles (and values). Whichever way one looks at the Chinese middle class, it is almost impossible to grasp what it really is without accepting that a definition is only a convention, a simplification.

Attempts, often sophisticated, at defining an acceptable understanding of the Chinese middle class are indeed broadly available in the newly rediscovered Chinese social sciences.

Relying on numbers — such as the 150 million credit cards in circulation in 2008 or 26 million cars sold in 2009 despite China having one of the lowest consumption rates and one of the highest saving rates in the world — one can explain the global appeal of the middle class and the awe inspired

in many commentators by its growth. Whether defined by employment or by education, by lifestyle and values, by income or by a combination of these factors, middle-class citizens are said to constitute between 3 per cent and 40 per cent of the Chinese population. Most scholars agree to disagree on what the middle class is although Cheng Li's recent Brookings's Institution volume provides the best survey of definitions to date.

Sometimes the urge to define says more than the definition itself. The bean-counting exercises around finding the Chinese middle class are not only a sign that something real is changing in Chinese society, but also that many different identities are becoming visible and that social complexity is becoming harder to describe and therefore to govern. This frenzy of definitions occupies the Chinese mainstream media and has an osmotic effect on social and cultural policies, especially in large cities faced with rapid stratification of interests and clustering of their population into interest groups.

The 'model' role of the middle class is a crucial element of the dominant social and cultural discourses that the Chinese government promotes in pursuit of the political imperative of social stability. In an age when harmony is the centrally-defined goal of policy, what group is better equipped to become the exemplar of social behaviour than the educated, well-off, responsible, self-interested and propertied middle class? Who




# A shift towards social governance

is more suitable to be made into the prototype of China's modern citizens than those who display economic dynamism, enjoy success and have a vested interest in the existing social order that made them so?

The behaviour of the middle classes thus features prominently, for example, in the textbooks distributed to migrant workers who arrived in Shanghai on the eve of the 2010 World Expo, to be taught how to walk, dress, eat and use the restrooms. The 'harmonious' (hexie) and 'civilised' (wenming) lifestyle of the successful, well-off, educated urbanites becomes a benchmark for both the advertising campaigns of real estate companies and the modernisation and civilisation campaigns of the local governments.

This exemplarism, and its central role in advancing social stability, is made manifest by the existing structure of China's labour market inequality, one where, despite 33 years of economic reform, the most efficient and rewarding components of the labour market remain in the hands of the state, and working for the public sector (or 'within the system', as it is normally referred to) is still the top desiderata of Chinese graduates.

The middle class is therefore as much a social structure (constructed by the state and reproduced by the market) as it is an object of political discourse. As a publication of China's Police Academy reveals, it is also becoming a symbol of all that China wants to be.

Our country needs the middle strata because it is the political force necessary to stability, it is a regenerative force of production, it is the scientific force behind creativity, it is the moral force behind civilised manners, it is the force necessary to eliminate privilege and curb poverty, it is everything. 

YU KEPING

**I**N RECENT years, a new institution has been established within the Chinese Communist Party (CCP): at the very beginning of each year, a senior workshop of leading officials at the ministerial or provincial level is held at the Central Party School. At this workshop, the priorities of each year's work are laid out. This year's Central Party School workshop, held in February, focused on 'social management innovation' (社会管理创新). President Hu Jintao, general secretary of the CCP, delivered a keynote speech which indicates that 'social management innovation' has now been placed at the top of the CCP agenda.

What exactly is 'social management'? It is difficult to find an English translation that accurately reflects the Chinese meaning of 'social management'. It is one of many political terms that are difficult to define outside their Chinese context. Broadly speaking, social management means the government manages and regulates social affairs (社会事务), social organisations (社会组织) and social life (社会生活), with the guidance of law. The connotation of social management is so broad that it includes areas such as social justice, public security, social stability, social trust, the coordination of various social interests, food safety, emergency management, city management and community governance. In other words, social management

encompasses all government dealings with society, excluding business management and administrative management. Social management in China, therefore, could be understood as social governance that distinguishes itself both from economic governance and state governance.

The term 'social management' first appeared in the Proposal to Restructure the State Council, adopted by the central government in 1998. According to this proposal, the basic functions of government include 'macro-economic control, social management and public services'. After that, social management began to gain prominence in the agendas of both the party and government. 'Social management' was further elaborated on in the 16th and 17th party congresses. 'Strengthening and innovating social management' was a focus at the Fifth Plenary Session of the 17th Central Committee in 2010. According to the resolution of this session, 'the general principle of social management is party leadership, government responsibility, social coordination and public participation. Relevant laws, institutions and capacities should be perfected and strengthened in order to be compatible with the demands of social management. Laws, regulations and policies need to be perfected, management and service functions of grassroots governments strengthened, the CCP's organisational work at grassroots level improved, the functions of mass organisations

and social organisations be fully exploited, and community autonomy and service functions enhanced.' By following these actions, the CCP aims to improve social management and sharpen government capacity for delivering public services.

Why did China direct its focus of governance reform specifically towards social issues? At the very beginning of reform and opening up in the late 1970s, the major difficulties China faced included a backward economy, extreme poverty, administrative inefficiency and an ineffective legal system. Put differently, the major tasks at that time were to reform economic governance and state governance. After more than 30 years of reform and opening up, China has achieved rapid economic growth, accompanied by great improvements in people's living standards, enhancement of administrative efficiency and the establishment of a basic legal system. With the establishment of the market economy and acceleration of industrialisation and urbanisation, the monolithic party-state governance model has become unsustainable — the functions of government have experienced tremendous change, social or civil organisations have rapidly emerged, the traditional working unit system (单位体制) has collapsed, the household registration system is under pressure to change, and the domestic migrant population is surging. Because of these changes, a lot of new social issues have emerged. Social stability has become a prominent problem and a crisis in social governance is ever more likely. Strengthening and perfecting social governance has become a pressing priority for the Chinese government.

In recent years, there have been some courageous institutional reforms in the social sphere, including the



Metal scavengers on a Shanghai demolition site: accelerating urbanisation and industrialisation have brought new social issues to the fore.

establishment and improvement of civil rights mechanisms, the protection and coordination of public interests, social safety, public security, social stability, public service, emergency management and grassroots governance, as well as social autonomy. The government has tried hard to broaden the scope and improve the quality of public service, establish a social security network as well as promote social autonomy. The ultimate purpose of social governance reform lies in mitigating the threat of social conflicts and safeguarding social order and stability.

A noticeable development in the recent social governance reform is that

the Chinese government is attaching more importance to civil society. The CCP's general principle for social management is 'party leadership, government responsibility, social coordination and public participation.' A larger role for social organisations in social governance is an indispensable element of 'social coordination and public participation.' By 2010, there were over 450,000 registered civil organisations and 250,000 community organisations, respectively, in China. If we take unregistered civil organisations into account also, the overall number would jump to over three million. The government has taken a cautious attitude towards civil organisations. More recently, however, top leaders have advocated the participation of social organisations in social management innovation. Top Chinese leaders even made it clear that social organisations would receive more support and encouragement from the government. In the recently adopted 12th Five-Year Plan on Social and Economic Development of China, 'pushing the development of social organisations forward' was given an unprecedented level of attention. These changes indicate that although the government has never made reference to the term 'civil society' in official documents, it now recognises its importance.

With continuing urbanisation, modernisation and democratisation, the Chinese government is certain to face more pressure in maintaining social stability. Social governance reform is a way for the government to release social pressures and maintain social stability. Success will largely rests on the growth of democracy and rule of law, increased civil engagement and social autonomy, and development of civil society. **EAFO**

# Reinventing social management

FENG JUN

**P**RESIDENT Hu Jintao outlined a new focus on social management and development for the Chinese Communist Party (CCP) at the 2011 Forum on Social Management and Innovation. He noted that improving social management and promoting social harmony were basic conditions for building a prosperous and harmonious socialist society, and as such required a social management strategy that could coordinate social relationships, regulate behaviour, promote social justice and stability, and manage social risk. Implicit in this shift are insights into both the challenges that social policy now has to contend with in China, and the way in which the CCP has come to view the role of social policy, and the government-population nexus.

This is the latest in a series of steps taken by the CCP over the last few years to improve its social management capabilities as social development and management has become a separate and increasingly sophisticated goal.

The CCP agenda broadly involves improving the party's social management capabilities, and improving social cohesion by promoting equality and justice. In procedural terms, the CCP's agenda includes a commitment to pooling social resources, building a social management structure led by party committees, building cooperation between government, non-government organisations and

the public, and building coordination between social development, and economic, political and cultural development initiatives.

This is complemented by a focus on tangibly accelerating social development, developed in the 12th Five-Year Plan. The plan calls for expanding and improving social development services. Steps include ensuring service delivery is equally effective in urban and rural areas, providing equal access to fundamental public services, adjusting income distribution to increase the ratio of people's incomes to the national income, accelerating reform and development in the healthcare sector, and improving population management.

This policy shift provides a number of insights into the CCP's evolving attitude toward social policy.

First, the strategic importance of social development and management is increasing. For a long time social management reform and development had been treated mostly as a way of supporting economic reform by fostering social stability. Increasingly, the CCP is aware of the broader strategic importance of social management in governance.

Second, the content of social development and management is increasingly complex. Industrialisation, urbanisation, marketisation, informationisation and internationalisation have profoundly altered the pattern of interests in Chinese society. New social strata, organisations, needs, affairs, and social

conflicts have arisen. In this context, the content of social development and management has become richer and more sophisticated in order to solve social conflicts and develop and enhance service delivery in response to new public concerns.

This has involved comprehensive moves to improve the depth and effectiveness of service delivery across the provinces. Restructuring, transparency measures, and social management networking form the backbone of this new approach.

**T**HE central government has undergone an overall process of restructuring, including a program of ongoing law reform. Many departments, notably the State Council, have been restructured, and their duties and responsibilities have been redefined. Thirty-one provinces, municipalities and autonomous regions have cut their licensing requirements by almost half, and the number of items subject to administrative licensing at the city and county level has been sharply reduced.


Since the outbreak of severe acute respiratory syndrome (SARS) in 2003, administrative accountability has been implemented throughout China, and relevant mechanisms have been gradually adopted and improved. Various sections of government have established and improved administrative transparency and policy hearing systems, which have inspired people to participate in political and public affairs. In August 2003, the city of Changsha in



Hunan Province promulgated a set of provisional methods for implementing administrative accountability. Tianjin, Chongqing, Anhui, Yunnan and some other provinces and municipalities soon followed suit and adopted similar methods and mechanisms.

To complement these reforms the CCP is promoting the development of grassroots and non-government organisations to increase the autonomous development and management capacity of society. An extensive community service network has arisen. By the end of 2009, there were 175,000 community service centres in the country, including 53,000 neighbourhood service stations. Meanwhile, there were 693,000 convenience and benefit points for urban citizens and 289,000 community volunteering service organisations.

The development of these networks has included a particular focus on promoting grassroots community involvement in rural areas. Rural organisations have played positive roles in formulating village development plans, driving the development of public service and commonwealth undertakings in villages. By the end of 2009, throughout China, there were 599,000 village committees, 4.8 million villager groups, and 2.34 million village committee members.

The CCP's social management strategy remains in a state of flux, but it seems certain that social management, in the form of improved and broadened service delivery, and increased grassroots involvement, will be of enduring importance in Chinese policymaking. 

# Education: a path to unity with diversity

LIU LILI

**C**HINA is a united multicultural country. The development of each national minority (with its unique language, culture, location and shared experience) has different requirements and the educational needs of each nationality within China involves unique challenges. What is the best way to renew thinking about education for minority nationalities and improve multicultural education in ethnic minority areas?

First, a pattern of diversity and unity should be adopted for the education of China's nationalities. In multicultural education and practice, Western countries have developed different patterns, which can be divided into two categories. The first is that of integration and diversification, which coordinates ethnic and cultural differences, eliminates cultural barriers, and respects the cultural particularities of minority nationalities. The other is the pattern of cultural coexistence, which lays stress on the independent value and status of different cultures through education, while the internal relations among these cultures are largely ignored.

In China's long history, there has been a great deal of interaction between different minority nationalities via cultural transmission and cultural communication between

them. A particular cultural perspective has developed as a result — 'we are among you and you are among us'. Not only has the dominant national culture absorbed aspects of ethnic minority cultures, but the cultures of ethnic minorities have also absorbed elements of the main national culture. In the big multi-ethnic country family, a 'cultural community' has formed which is characterised by the coexistence of multiple national cultures. Well known Chinese sociologist Fei Xiaotong calls this 'the pattern of diversity and unity'.

In promoting culturally sensitive education, the government should not only emphasise the special value and position of minority group cultures, but also consider the close relationship between those cultures and the culture of Han Chinese. In promoting united Han culture, China must take care to leave a position for each minority group and strengthen communication and integration among different cultures.

There is scope to broaden the character of education for minority nationalities and to cultivate students' adaptability and understanding. The provision of special education services for minority cultures in China is a traditional academic concept. In a multicultural context, members of the majority Han nationality and minority nationalities need to learn about each other's cultures, and all of China's

nationalities should be included in nationality education and research.

To cultivate their adaptability and understanding, students should be guided towards 'cultural awareness'. This is a long and difficult process. Students should not only be taught to recognise their own culture, but also to understand the other cultures they encounter. This will lead to mutual understanding and mutual respect between cultural groups.

Bilingual education is the most important means by which to cultivate students' adaptability and understanding of other cultures. It allows students to understand the perspectives of people belonging to other cultures. It can help them to effectively receive cultural information and cultivate cross-cultural communication skills. Bilingual education can provide students with a perceptual awareness of different cultures, help them to recognise language codes and cultures connected to their own, as well as strengthen individuals' awareness of their multicultural identity.



Different but the same: majority and minority nationalities need to learn about each other's cultures.

**A**T PRESENT, most textbooks for minority cultures are translated versions of Chinese textbooks. That is to say, the language codes of ethnic minorities are not consistent with the cultural content these books express. The government should introduce the idea of coexistence of multiple cultures. It should seek to eliminate prejudices against minority ethnic groups and their cultures, and strengthen students' sense of cultural dignity and self-confidence.

Furthermore, teachers should develop multicultural educational viewpoints, and multi-cultural education should be pursued in general education. Teachers' attitudes are very important throughout

the process of education, and they should try to avoid being influenced by prevalent attitudes towards assimilation or by feelings of cultural prejudice. They should pay attention to their own words and deeds in the teaching process. It is also important for them to familiarise themselves with students' family backgrounds, personalities, hobbies and ways of thinking, and regularly communicate with students and provide assistance when needed.

Qualified teachers are essential to improving the quality of bilingual education. So it is important to improve development programs for bilingual teachers. Besides having fluency in two languages

and possessing high competence in thinking and knowledge, bilingual teachers should also understand the unique thinking and skills of minority cultures in addition to those of the Han Chinese. Where possible, they should have expertise in linguistics, psychology, and education. They should understand their own national culture as well as be devoted to the language and culture of other minority ethnic groups. In short, education for Chinese minority nationalities needs reform and promotion. Reform should adapt to the overall needs of society as well as the needs of different cultures. Only in this way can different Chinese cultures coexist and develop together harmoniously. **EAFQ**

# The party's self-management

PICTURE: AFP PHOTO / AAP

SHEN CHUANLIANG

**M**EMBERSHIP of the Chinese Communist Party (CCP) has grown from 50 million in 1921 to more than 80 million in 2011. Under the leadership of the CCP, China, with its ancient traditions, regained a youthful vitality and has become a powerful economy with the second largest GDP in the world. How does the CCP manage so many party members and mobilise them to help achieve national goals?

One of the key strategies of the CCP is to establish and develop organisations in large population centres. In September 1927, Mao Zedong made the decision to establish party branches in military units. He believed this was an important way to manage the army and develop the party. The party has since been active in the grassroots units of the army. The leadership role taken by party members has improved the army's skills and its esprit de corps.

The CCP built on the organisational experience it gained from its work within the army and expanded it to areas already occupied by the army, establishing a well-knit organisational network. Later, the party's constitution stipulated that it should establish grassroots units throughout China. It is through these ubiquitous units that the CCP has penetrated into every corner of society and maintains effective organisation of the country and Chinese society.

To deal with problems affecting its grassroots organisations, the CCP pursued a grid management system whereby the whole of China was divided into grids. At the time,



Since 1921, membership of the Chinese Communist Party has grown to more than 80 million. The party's strength is attributed to its dedication to learning and continuing efforts to remain progressive.

the CCP succeeded in creating a new regional party structure, and deployment of the grid arrangement allowed party organisations comprehensive coverage.

The CCP's ability to grow stronger and retain its vigour and authority has a lot to do with its dedication to learning and absorbing new dimensions of governance, as well as its continuing efforts to remain progressive.

Strict entry criteria and procedures guarantee that the CCP's organisations consist mainly of progressive thinkers. Currently, before becoming a party member, a candidate must go through 17 procedures. When admitted to the party, individuals must swear their loyalty to the party, be obedient to the party's constitution, and be willing to sacrifice their lives for the party's cause.

The CCP attaches great importance to the daily management of its members. It holds up model party members, encouraging the wider membership to learn from them. The party also stresses the role of learning in its future development, and underlines that the task of establishing

a 'learning party' is paramount.

One aspect of CCP policy that is crucial to its success is its dedication to investing in the ideological education of its members, and developing and refining its internal philosophy. The party regularly makes ideological adjustments and theoretical innovations in various areas, as an examination of the ideological history of the party shows.

**M**AO Zedong proposed adapting Marxism to China's unique social context. His ideas are referred to as 'Mao Zedong thought'. After the Cultural Revolution, Deng Xiaoping put forward a series of ideas about how China should go its own way ideologically — 'Deng Xiaoping theory'. This evolutionary progress continued with former President Jiang Zemin, who put great stress on the internal reconstruction of the party. General Secretary Hu Jintao also advocated the importance of scientific development concept strategy.

To foster acceptance of theoretical innovations, many bases were established for cadre education and training at all levels of the party. The




# Governing a mixed heritage

WANG GUNGWU

CCP also expends great energy making its guiding principles more accessible to the masses. With its globalised citizens facing different ideological concepts, the CCP stresses the need to guide China's development with the theoretical system and path of Chinese socialism. Constitutions have been of fundamental importance to the CCP and underpin its long-term governance.

**T**HE CCP asks party members to follow a strict discipline. In the revolutionary period the party rallied behind a song titled Three Disciplines and Eight Attentions. Nowadays members abide by some 100 party regulations. The party's strict constitution has been integral to improving its capacity to rule and develop the art of leadership. In recent years, the CCP has introduced the political practice of 'falling on one's sword' — taking the blame and resigning — for major failures or scandals.

The CCP's decision-making process has gradually changed from one that was dominated by individuals to a structure that registers more collective weight and influence. Decision-making has become more democratic and decisions more efficacious. The CCP has tried to change its mode of governing, putting forward the idea of ruling in a scientific, democratic and law-based manner. It has been suggested that the party should function mainly as an ideological core and its organisations as the main coordinators.

In these ways, the CCP exercises management of the affairs of the country and society, and has extra muscle to manage what is an extremely large organisation. 

**C**HINA'S economic reforms since 1978 have been unprecedented. They have followed no specific model and have proceeded very much as Deng Xiaoping said: crossing the river by feeling for the stones. China's governance record is harder to assess but no one can deny that, despite some notable missteps, it has enabled massive economic reforms to take place in exceptional ways.

What follows next is, understandably, difficult to predict. For one thing, new social and cultural elements have also been subject to reforms and have to be taken into account in future economic and political policies. Although slow in having an effect on nation-wide change, they contribute to problems that cannot be solved by wealth and power alone.

The reforms so far add up to a China that has eschewed copying other peoples' models and does not appear to behave like any other country. Thus, when the Chinese ponder current conditions and ponder the direction of governance reforms, what do they have to work with? One thing calls for attention. They do not have a single heritage to master or contend with, but at least four. How they reconcile what they have learnt from their past with what they see ahead is likely to guide the next stage of needed reforms and the institutions needed to make the reforms successful.

The immediate heritage are the principles laid down by Deng Xiaoping himself: concentrate purposely on opening to the world economy, master its methodologies as quickly as possible, adapt advanced technology to meet China's urgent needs, but retain the governing structure as much as possible. Many believe that China has done enough of all that and now needs a new vision.

The second heritage derives from the bitter fruits of revolution with lessons learnt through its several stages, including civil wars, foreign invasions, superpower threats and violent self-renewals. The result was a well-tested political system dominated by the Chinese Communist Party, a political system not afraid to change but that would change only in order to make itself stronger. It believes that it must always be positioned to fulfill its mission to build a united and prosperous China. It was initially inspired by Marx and Lenin, but the Maoist innovations, indigenous and nationalistic, are still present.

The third heritage goes back to the elusive Sun Yat-sen, representing the first flash of modernity in the Chinese consciousness. Hugely imperfect is the mixed set of ideas he left behind, but it contains ingredients of enlightened urges to learn from the world outside that at the same time long for the affirmation of Chinese values. Sun Yat-sen's calls for nationalism were based on both a respect for democratic ideals and the liberation of the poor peasant



A portrait of Sun Yat-sen looks down on National Day celebrations in Tiananmen Square: his modernist ideas are mingled with an affirmation of Chinese values.

masses from millennia of patronising neglect. It was a heritage that drew, with reservations, ideals from the Anglo-American West that could not sink deep roots in Chinese soil.

I hesitate to identify the fourth heritage because few would recognise it as such in the face of the three outlined above. But many of the people who are contemplating governance reforms are turning to pre-1911 texts

for inspiration. There is a sense that feeling for stones is no longer enough, that the CCP structure is too rigid, and that nationalist slogans can be dangerous.

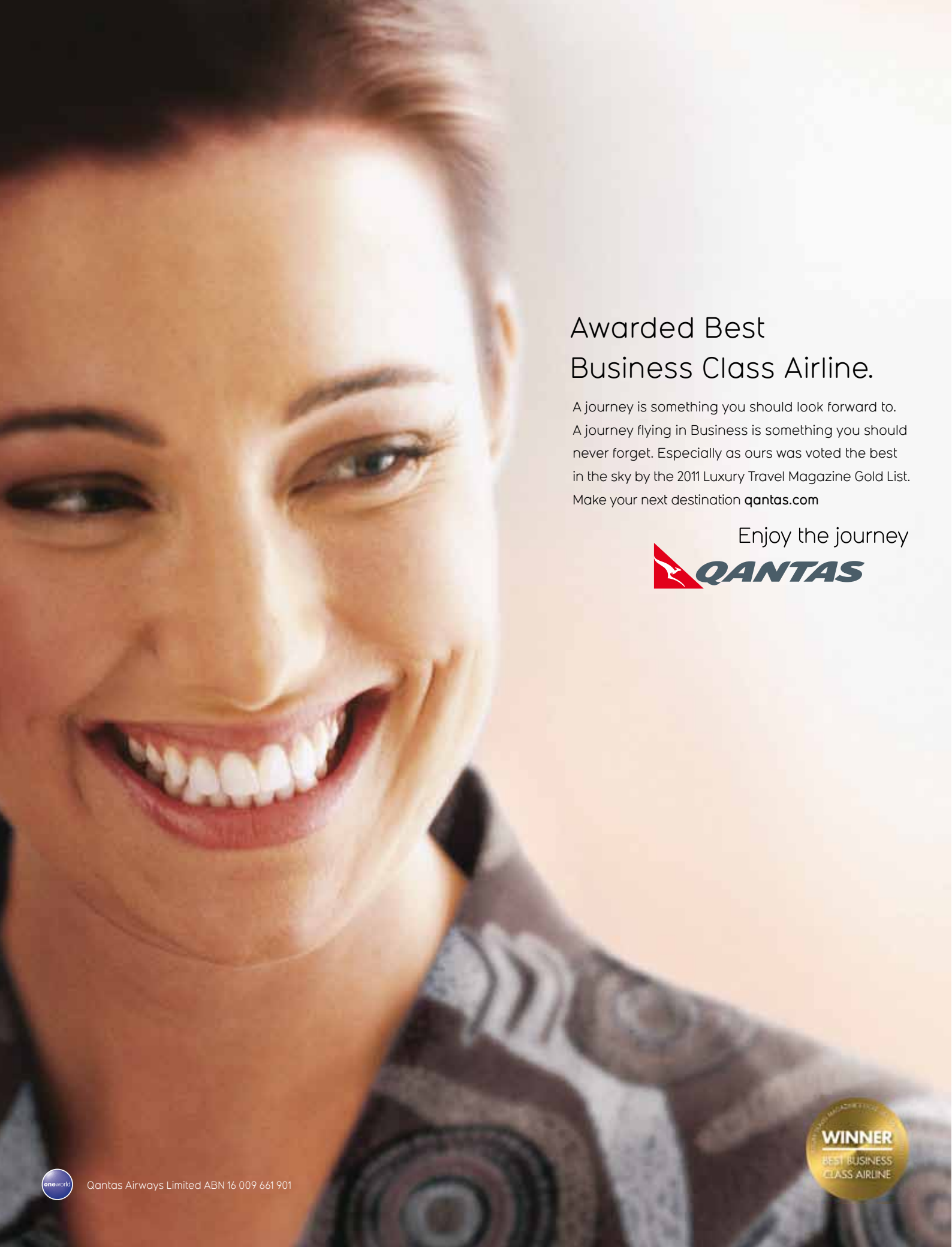
To all those fervently modernising youth and jaded revolutionaries, looking back to the wisdom of the sages must seem odd, but it is extraordinary how many old ideas have surfaced. Some notable examples

are: orientation towards the people; quest for social harmony; respect for elders, family and key traditional values; merit-based officialdom for public service.

There seems to be no doubt that the ultimate goal is to be a state and nation that is progressive and stable and widely admired. Many fine minds are juggling, and struggling, with a wealth of ideas and methods to achieve that goal. About the only thing they all can agree on is that whatever China will become will be different, as its history has always been distinctive. China cannot and will not be modeled on any other state or nation.

But for China to find its own way towards improved governance requires the full attention of all those who care. Most Chinese seem resigned to the belief that no one outside would really be sympathetic to efforts that seem so self-centered. The reality, however, is that the world is too small for China not to be affected by what is happening elsewhere. And the extra dimensions of having to find a Chinese way while responding to changing global conditions are posing more new challenges.

In that context we see the people of China deeply conflicted between, at one end, those who feel deeply insecure about making changes to what they still control and, at the other, those who are desperately keen to import new ideas that could make a difference. The next step into China's future is uncertain but, given the heritages that are simultaneously at work on the national psyche, the Chinese people have a rich stock to work with. If they can creatively gather all that together, they may be able to find the coherent governance structure that will enable China to become the admired country it wants to be. **EAQ**



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