Apr 2018

eai bulletin

Vol 20 No 1

a publication of the East Asian Institute

MCI (P) 036/08/2017

东亚研究所通讯



EAST ASIAN INSTITUTE

NUS National University of Singapore

# Xi Jinping Consolidates Personal Power and Party Leadership through Constitutional Change

*Xi's move to change China's Constitution paves his way to rule the country and hold on to power indefinitely.*

CHEN GANG

At the annual session of the National People's Congress (NPC), Chinese lawmakers voted nearly unanimously on 11 March 2018 in their approval of changes to the state Constitution that included removing the term limit for the presidency and vice presidency, and stipulating the Party leadership as the defining feature of socialism with Chinese characteristics. Abolishing the term limit allows Chinese President Xi Jinping to remain in power beyond his scheduled departure in 2023. The term-limit change is also a departure from intra-Party rules in the reform era that imposed term limits of top leaders and collective leadership within the Party.

The round of constitutional revisions endorsed by the NPC indicates that underlying the intense power struggle, Xi has taken control and demands his colleagues to develop a keener sense of policy continuity. He explained that his idea of further progress for China cannot be realised within a short period and has called for longer-term planning that aims to achieve goals in 10, 20 or even 30 years from now.

The four significant changes in China's Constitution included the removal of the two-term limit for China's presidency and vice presidency, the inclusion of a new sentence that stresses the Party's leadership over the country, the establishment of supervisory commissions as a new type of state organ in the Constitution and the introduction of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era.

Other amendments to the Constitution are the inclusion of core socialist values into a clause, the inclusion of the mandatory pledge of allegiance to the Constitution, the inclusion of "patriots devoted to national rejuvenation" as part of the united front, the inclusion of ecological advancement as a new function and power of the State Council, granting legislative power to more cities and promoting harmonious relations among all ethnic groups.

These changes to the Constitution were proposed at a Party plenum following the 19th Party Congress when Xi's political thought, officially worded as Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, was written into the Party charter, thus sealing his name in the charter ahead of his two immediate predecessors, Hu Jintao and Jiang Zemin.

In October 2017, the Party Congress did not install an heir apparent in the apex Politburo Standing Committee, which already reinforced speculation that Xi may not step down after the next Party Congress in 2022. The constitutional amendment further set the stage for Xi to stay in office indefinitely, with the absence of young Politburo Standing Committee members born in the 1960s in his second term.

Wang Qishan, the feared anti-graft czar who retired from his Party post at the 19th Party Congress, was appointed China's vice president at the NPC session in March 2018. Wang, born in 1948, already surpassed the informal retirement age of 68 for top leaders. The removal of term limit for vice presidency could also mean that Wang will be able to assist Xi as vice president for many more years to come.

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# Institutional Reforms and Policy Initiatives under China's New Administration

The first session of the 13th National People's Congress (NPC) held in March 2018 witnessed Chinese lawmakers' endorsement of amendments to the state Constitution. The four significant changes in China's Constitution entail the removal of the two-term limit for the presidency and vice presidency, the inclusion of a new clause emphasising the Party's leadership over the country, the introduction of supervisory commissions as a new type of state organ in the Constitution and the introduction of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era.

The NPC session had elected top leadership positions in the Chinese government that will take charge for the next five years. While Li Keqiang remains as premier, it is a new team in the cabinet. The four new vice premiers are Han Zheng, Sun Chunlan, Hu Chunhua and Liu He. Liu He, in particular, is expected to play a pivotal role in economic policymaking. Wang Qishan was named vice president of the state, taking charge of China's foreign policies. He is expected to assist President Xi Jinping in managing thorny issues in foreign policy such as China–US relations and Taiwan affairs.

China had achieved annual average gross domestic product growth of 7.1% between 2013 and 2017. In the same period, 68 million people were lifted out of poverty. China's outbound direct investment in the Silk Road countries reached a total of over US$50 billion from 2014 to 2016. Budgetary military spending is set to increase by 8.1% in 2018. However, the incoming administration needs to manage risks in the Chinese financial system. Premier Li highlighted that containing the risks of local government debt is among the Chinese government's top priorities. To improve regulatory coordination and ensure financial stability, Chinese lawmakers approved, at the NPC, the merger of the regulatory agencies for banking and insurance and the transfer of policymaking functions of the two agencies to the People's Bank of China.

Professor Zheng Yongnian
EAI Director

The 13th NPC also announced a major restructuring plan for cabinet-level departments that will affect more than 20 ministries and institutions. The objective of the restructuring is to streamline government responsibilities, reduce bureaucratic infighting and enhance governance capacity. A day after the 13th NPC concluded, the Communist Party of China unveiled a massive plan to further assert its control of the state, including restructuring of a number of party and government organisations.

For foreign policymaking, the highest decision body on the party side—the Central Foreign Affairs Leading Group—is now upgraded to Central Foreign Affairs Commission.

On the social development front, a number of party and state institutions that are charged with education, social policymaking and science and technology have been restructured. The Office for Maintaining Social Stability and the Office for Comprehensive Management of Social Security have been incorporated into the Politics and Law Commission. ■



**EAI Bulletin** is published twice yearly by the East Asian Institute (EAI), an autonomous research organisation set up in April 1997 under a statute of the National University of Singapore. EAI succeeds the former Institute of East Asian Political Economy (IEAPE).



Please address all correspondence to: **Mr James Tan**, East Asian Institute, 469A Tower Block #06-01, Bukit Timah Road, National University of Singapore, Tel: (65) 6779 1037 • Fax: (65) 6779 3409 • Email: eaitanj@nus.edu.sg.

**http://www.eai.nus.edu.sg**



# China's New Foreign Policy Team

*China's diplomacy, receiving a professional personnel boost, gets ready for bigger roles and tougher challenges ahead.*

LANCE L P GORE

During President Xi Jinping's first term, China has practically abandoned Deng Xiaoping's low-profile foreign policy for more active participation in global affairs and more assertive defence of China's national interest. China under President Xi has also begun to promote alternative visions of world order that it believes can better serve the world. China's "new era of socialism with Chinese characteristics" is defined as one in which China must "become strong", in contrast to the Mao Zedong era when "the Chinese people stood up" and the Deng Xiaoping era when China "got rich". A strong China will have to be manifested in a strong foreign policy.

Consequently, the foreign affairs apparatus has been upgraded at the 13th National People's Congress in March 2018. There are two aspects to the upgrading. The first is the elevation of career diplomats in the overall political structure and the second is the overhaul of the foreign policy establishment.

The new foreign affairs team selected by the 19th Party Congress in October 2017 on the Party side and by the 13th National People's Congress in March 2018 on the government side consists of strong personalities and seasoned professionals. Wang Qishan, the anti-corruption czar for President Xi's first term who retired in October 2017, was appointed vice president of the state. Wang has vast experiences with foreign affairs, especially in association with trade and financial matters, from his days as vice premier. He is expected to assist Xi in managing thorny issues in foreign policy such as Sino–US relations and Taiwan affairs. The addition of Wang is a huge boost to the foreign policy team.

**The new foreign policy team will be a strong albeit untested team; team members will need time to adjust to their new roles and relate to one another.**

For the first time in 14 years, a career diplomat serves on the Politburo—Yang Jiechi, former state councillor in charge of coordinating foreign policy, was promoted to the 25-person Politburo. The last time was Qian Qichen, who was also a vice premier before his retirement in 2003. Yang did not make it to the vice premiership as expected and this may be attributed to Wang Qishan's return to politics. Another career diplomat, Foreign Minister Wang Yi, took over from Yang to become state councillor. The promotion of Yang and Wang, and the return of Wang Qishan have substantially elevated the status of foreign policy establishment among the Chinese Party-state bureaucracies. There are some uncertainties though with regard to what respective roles Wang Qishan and Yang Jiechi will play, and how they can relate to each other.

In addition to personnel reshuffling, the foreign policy apparatus has also been overhauled. Following the trend of President Xi's rule, foreign policy power has also shifted to the ruling party from the state side. The highest decision-making body on the Party side—the Central Foreign Affairs Leading Group—is upgraded to Central Foreign Affairs Commission. A new agency, namely State Agency for International Development and Cooperation, is created in the State Council. It appears to be modelled on the United States Agency for International Development. The new agency integrates the foreign aid related programmes and institutions of the Ministry of Commerce and the foreign aid coordination role of the Ministry of Foreign Affairs. It is also expected to play a significant role coordinating various projects associated with the Belt and Road Initiative. The 2018 budget for the Ministry of Foreign Affairs will increase by 15.6%, reaching RMB60 billion in total.

The new foreign policy team will be a strong albeit untested team; team members will need time to adjust to their new roles and relate to one another. Xi's personality ensures it is he who will be in paramount control of not only domestic politics but also international relations. The role of all others will be to facilitate Xi's vision of China as a great power diplomatically. Xi's strong personality has affected the style of the entire foreign policy team. Even those reputed as liberal reformers are now talking tough. To be sure, Xi Jinping, Wang Qishan, Liu Jiyi (director of the Taiwan Affairs Office of the State Council), etc., are nationalists but they are also hardliners who do not buy into Western liberalism and its basic values. They have alternative world views and are convinced of the superiority of "Chinese way" at least in certain important areas.

The new team now faces mounting challenges of a trade war with the United States, increasing interventions from external powers in the South China Sea, an about-face of US government's Taiwan policy, and a general trend of Western states turning cold and less compromising towards China. A new Cold War appears to be brewing. With China becoming more confident and assertive and the West less compromising, heading off a confrontation, averting flare-ups of the Taiwan issue and the South China Sea dispute, and maintaining a generally favourable international environment for China's development are difficult challenges to the new foreign policy team. ■

Lance L P Gore is Senior Research Fellow at EAI.

# Reshuffled Top Leadership and Restructured Central Government at the 13th National People's Congress

*The Congress' decisions for a significant reorganisation indicate the government's working priorities in the coming years and the adjusted relationship with the Party.*

ZHOU NA

The 13th National People's Congress (NPC) held in March 2018 made significant decisions on top leadership and institutional restructure in Chinese central government. These decisions have affirmed the government's working priorities in the next five years and the Party's tightening grip on the government.

Over 2,900 representatives from 35 local and military groups elected the new top leadership of the State Council on 20 March. Li Keqiang continues his appointment as Chinese premier in his second term. The four new vice premiers are Han Zheng, Sun Chunlan, Hu Chunhua and Liu He. Han will be in charge of the public finance, natural resources and environment, social development, etc. Sun's responsibilities will cover science and technology, education, culture, health and Hong Kong and Macao affairs, while Hu's work portfolio will include agriculture, water resources, commerce and poverty alleviation, in particular. Liu will be responsible for overseeing financial and industrial policies and reforms.

Among them, Liu, currently Xi Jinping's top economic adviser, is deemed to be a powerful vice premier. Liu—having been elected to the Party's 25-member Politburo and appointed to lead the Party's financial and economic office—will probably take over Ma Kai as director of the recently established Financial Stability and Development Committee. Educated in Harvard, he understands the value of the market and private sector, and may formulate policies for market liberalisation with Chinese characteristics.

Five state councillors were appointed in this leadership reshuffle. They are Wei Fenghe, who is also a member of the Party's Central Military Commission and defence minister; Wang Yong; Wang Yi who continues to lead the Ministry of Foreign Affairs; Xiao Jie, who is the secretary-general of the State Council; and Zhao Kezhi, who heads the Ministry of Public Security.

The aforementioned 10 leaders will make up the core organisation of the State Council—the Executive Meeting. This meeting will make major decisions on important government agendas and national institutional frameworks, such as reviewing the drafts for amendment of national laws and regulations.

The 13th NPC also announced a deep restructuring plan for cabinet-level departments that would affect more than 20 ministries and institutions. This plan is aimed at streamlining government responsibilities, discouraging bureaucratic infighting and enhancing governance capacity.

> A day after the 13th NPC concluded, the Party unveiled a massive plan to further assert its control over the state, including more actions on government restructuring.

First, it established new ministry-level institutions, namely the Ministry of Natural Resources; Ministry of Ecological Environment; Ministry of Agriculture and Rural Affairs; Ministry of Culture and Tourism; Ministry of Emergency Management; Ministry of Veterans Affairs; and National Health Commission. The creation of these new institutions indicated the government's priorities in the next five years—i.e. the government's emphasis on effective utilisation of natural resources, environmental protection, social stability maintenance and enhanced social welfare in both urban and rural areas.

Second, the sweeping institutional changes also involved the subordinate units of the State Council, such as the merger of the banking and insurance regulatory agencies into China Banking and Insurance Regulatory Commission; and the setting-up of the State Immigration Administration to oversee issues related to immigration and the establishment of the State Market Regulatory Administration to regulate market activities and sustain economic development.

The NPC also made another remarkable move, revising the State Constitution and setting up a new anti-graft institution named the National Supervisory Commission. This commission, ranked at the vice-national level, functions independently from the judiciary and other state organs. It merged the former Ministry of Supervision, National Bureau of Corruption Prevention and some departments from the Supreme People's Procuratorate such as its Anti-corruption and Anti-bribery Bureau, Procuratorial Department for Dereliction of Duty and Infringement of Citizens' Right, and Department for Prevention of Duty Crime. Yang Xiaodu was elected as the inaugural director of this commission.

The commission will further institutionalise Xi Jinping's ongoing anti-corruption campaign that began five years ago. Empowered with the investigation authority to the Party, the government, state-owned companies, service institutions and social organisations, the commission monitors and keeps an eye on all public officers. It is also deemed to be Xi's important instrument for personnel control and policy implementation.

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# Liu He Has Moved Centre Stage in Managing Chinese Economy

*The capable scholar-technocrat turned policymaker will face mounting challenges in steering the world's second-largest economy to further prosperity.*

SARAH Y TONG

On 22 March, China concluded its annual "*lianghui*", or two sessions, namely the first session of the 13th National People's Congress (NPC) and the first session of the 13th National Committee of the Chinese People's Political Consultative Conference (CPPCC). Although Premier Li Keqiang's delivery of annual work report was a key highlight in the two-week programme, deliberation on economic policies did not take centre stage at the annual event. Nonetheless, major institutional restructuring and appointment of key positions will doubtless have significant implications for the country's economy in 2018 and beyond.

The most noteworthy personnel change is the promotion of Liu He to vice premier. Liu's prominence in China's economic policymaking under the Xi Jinping administration has been increasingly recognised. In May 2013, President Xi Jinping introduced Liu to the then US national security advisor Thomas Donilon as "very important to me" when he met and shook hands with Donilon. Liu is widely believed to be Xi's most important and trusted economic adviser. In early 2013, shortly after Xi assumed leadership of the Communist Party of China (CPC), Liu was promoted to be the director of the Office of the Central Leading Group on Financial and Economic Affairs, where he served as deputy director for 10 years. He was soon appointed deputy director of National Development and Reform Commission (NDRC).

Liu He's latest elevation started in late 2017 when he was elected into the CPC's Central Politburo. On 19 March 2018, Liu was nominated one of the four vice premiers by Premier Li Keqiang. Speculation abounds that Liu will likely take on an important portfolio in China's economic policymaking. As Xi Jinping successfully secured his authority within the Party-state structure, he will naturally appoint his trusted lieutenant to handle the increasingly complex economic affairs.

What will be the precise responsibilities incumbent on Liu He remains unclear. The signs are his power will be considerably expanded. First, he will likely continue to play a central role in the newly established Central Commission for Financial and Economic Affairs. Upgraded from the Central Leading Group for Financial and Economic Affairs, the Commission is one of the four powerful new institutions under the CPC's central leadership. In comparative terms, the Commission will set strategic priorities, whereas the State Council and NDRC formulate and implement specific policies.

Liu's second important portfolio is probably the monitoring of reforms and development of China's financial sector. In particular, he is expected to replace Ma Kai in heading the State Council's Financial Stability and Development Commission, established in November 2017. This commission is tasked with numerous responsibilities including the planning for the reform and development of the financial industry and the oversight of policy coordination of major financial regulatory issues. Incidentally, preventing and containing financial risks will also be a key focus of the government's work from 2018 to 2020, as the annual Central Economic Work Conference announced in December 2017.

Third, Liu may also assume some responsibilities to deal with China's external economic relations, especially vis-à-vis the United States. In January 2018, he led the Chinese delegation to the World Economic Forum and delivered a speech. In the following month, he travelled to Washington, DC to discuss trade issues between the world's two largest economies. It therefore seems plausible that Liu will be a lead person for the US–China Comprehensive Economic Dialogue, i.e. the former US–China Strategic and Economic Dialogue.

Having attended US universities, Liu is thought to value market principles more for economic development. He also seems to have sharper vigilance of financial risks in Chinese economy. As such, his elevation to the key post in economic policymaking and financial risk prevention is logical. More significantly, it signifies Xi's efforts to rationalise the Party-state structure and to enhance consistency within the bureaucracy, while delegating economic policymaking authority to his trusted deputies.

Indeed, the responsibilities that Liu assumes are formidable. Despite Liu's capability in formulating pragmatic policies, his main responsibility is to implement Xi's economic vision, which implies that the economy serves the interest of the Party and the government, not vice versa. This may also mean the strengthening of the state sector, thereby enticing the private sector to serve the state. Under a strong state dominance, nurturing private entrepreneurship and genuine creativity is particularly challenging.

Coordinating and rationalising relations of the restructured Party-state institutions require time and efforts. At the organisational level, the relations between the State Council and the Central Commission for Financial and Economic Affairs have yet been defined clearly. Furthermore, Premier Li Keqiang's role in dealing with China's economic affairs appears to be further overshadowed by the prominence of Liu He. It is also unclear what role Deputy Vice Premier Han Zheng will assume.

On a final note, handling economic relations with the United States under the Trump administration may prove the most difficult. The US government has, of late, announced that it is drafting measures to curtail imports and investment from China. The China–US Comprehensive Economic Dialogue has been stalled since mid 2017. Both sides have reportedly started discussions but in all likelihood, the way forward will be a rocky one. ■

Sarah Y Tong is Senior Research Fellow at EAI.

# Recent Developments of Managing Local Government Debt in China

*China's effort in containing financial risks of local government debt is still a work in progress.*

QIAN JIWEI

At the 2018 meeting of China's National People's Congress (NPC), Premier Li Keqiang highlighted that containing financial risks of local government debt in the government currently ranks top in priority in the government's policy agenda. China's outstanding local government debt, despite the increase from RMB15.3 trillion in 2016 to RMB16.6 trillion in 2017, is still below the upper limit of local government debt set by the NPC. Besides, it was estimated that local government debt in 2016 accounted for 80.5% of total local fiscal revenue (including general budgetary revenue, fiscal transfers and land sale revenue), compared to 89% in 2015. It should be noted that the figures refer to official local government debt.

One of the major sources of official local government debt is loans from commercial banks. Based on a report by the National Audit Office, bank loans already accounted for about 56% of local government debt by June 2013. Another key source of local government debt is local municipal bonds. By the end of 2017, total outstanding local municipal bonds reached over RMB14 trillion. Since the 1990s, local governments have borrowed heavily from commercial banks to finance infrastructure-building by setting up local government financing vehicles (LGFVs), an indirect channel for local governments to borrow from banks to finance infrastructure projects. These LGFVs can borrow from commercial banks or issue municipal corporate bonds to finance their projects. According to estimates by the National Audit Office, debts by LGFVs accounted for 39% of local government debt by June 2013.

Further, there exists a large volume of local debt that is not part of official local government debt but local governments have implicit/partial liability. These implicit local government debts are under-regulated and come with significant financial risks. A major type of implicit local government debt is associated with LGFVs. Besides debts borrowed for infrastructure-building, LGFVs borrow to invest in commercial projects such as real estate development. A recent research estimated that the total debt incurred by these LGFVs amounted to around RMB45 trillion by the end of 2015, much higher than the official amount of local government debt and an increase of over RMB14 trillion compared to the value incurred in two years (i.e. 2014 and 2015).

Local governments also have implicit/partial liability for debts associated with alternative models of financing for public-private partnership (PPP) projects, government procurement of services and industrial investment fund. For example, for many of the PPP projects, local governments guarantee debts and promise to buy back the requested shares of the private sector.

More importantly, huge local government debts are associated with shadow banking activities including trust loans and wealth management products. By estimates, local government non-bank debt accounted for 48% of total shadow banking activities in 2016 and by end of 2016, about 60% of municipal corporate bonds were held by wealth management products.

**More importantly, huge local government debts are associated with shadow banking activities including trust loans and wealth management products.**

To manage the risks of local government debt, the central government has introduced a number of initiatives in recent years. First, in October 2014, the central government released guidelines to disallow LGFVs to borrow on behalf of local governments and to decouple LGFVs from local governments. Second, since 2015, the NPC has set an upper limit for local government's debt, which in 2017 was set at RMB18.8 trillion. Third, in April 2017, the State Council released another guideline to prohibit local governments' guarantee or endorsement for repayment of LGFVs' loans by financial institutions. Policymakers have also considered other policy initiatives such as asset-backed securities, establishing local asset management companies in China and drafting a set of regulations on bankruptcy of commercial banks to address the financial risks associated with local government debts.

These initiatives have addressed the financial risks of government debt to some degree. By the end of 2016, the ratio of total government debt to gross domestic product was 0.367, compared to 0.389 in 2015. Former Finance Minister Xiao Jie, who currently is the Secretary-General of the State Council, mentioned at this year's NPC that the ratio in 2017 dropped further to 0.362, much lower than the threshold of 0.6 set by the European Union.

Concerns about managing the risks of local government debt, however, still remain. First, the central–local fiscal relationship in managing massive local government debt has yet been adjusted. With limited fiscal capacity, many local governments may need to continue their borrowing via various avenues to finance infrastructure-building. Second, given the underdevelopment of China's financial sector, shadow banking activities prove to be useful in providing cheaper financial services and also widely accessible to actors in the real economy. Imposing regulations that are too restrictive may impact negatively on the economic growth of China. It is therefore imperative to strike a balance between providing financial services and maintaining financial stability. Third,

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# China's Financial Deleveraging Tops Policy Priority at the National People's Congress

*China has made containing financial risks a top priority in 2018. Supervisory and regulatory tightening is expected to continue in view of financial risks and high corporate debt.*

SARAH CHAN

At the annual National People's Congress (NPC), it was announced that the banking and insurance regulators will be merged; the policymaking functions (that entail drawing up key regulations and prudential supervision) of both regulatory commissions will be transferred to the People's Bank of China (PBOC), marking a crucial step towards improving regulatory coordination and ensuring financial stability.

This follows an important development in July 2017—the establishment of the Financial Stability and Development Commission (FSDC) to coordinate financial supervision and bridge existing supervisory gaps. Led by Vice Premier Ma Kai, the FSDC is the coordinating entity within the State Council on major issues related to financial stability, financial reform and development.

China's financial regulatory framework has become fragmented and lagged behind the rapid and increasingly complex development of the financial sector. The rise of internet financing and shadow banking activities in recent years have contributed to risks of financial instability, with rapid credit creation worsening the corporate debt problem, particularly in an environment of slower economic growth and declining productivity. According to the PBOC, China's overall leverage ratio was 247%, of which corporate sector leverage ratio hit 165% at end-2016.

The 2018 government report delivered at the NPC aims to "keep overall leverage stable", and this marked the first time that total leverage ratio (i.e. debt-to-gross domestic product ratio) is stated as a goal in the paragraph on economic targets. This implies that the ongoing drive to strengthen supervision on various shadow banking activities will continue. Since 2016, financial supervision and regulations have tightened progressively along with liquidity in the money market, as the PBOC guided money market rates upward to curb excessive risk-taking and arbitrage in the financial system.

China's campaign to tighten supervision has further extended to local government financing. In early May 2017, the Ministry of Finance issued a directive restricting local governments from guaranteeing debt issued by local government financing vehicles (LGFVs) and other public-private partnership projects. It also prohibits local governments from injecting public assets or land reserves into these financing vehicles or pledging future land revenue as sources of LGFV debt payment. Such stiffer enforcement of local government financing practices signals the ongoing campaign's further supervisory tightening to contain debt and related financial risks.

China's deleveraging efforts have thus far made some progress. Data has shown that banks' lending to non-bank financial institutions had decelerated sharply from around 60% in 2016 to 10% in August 2017. The stock of wealth management products had also declined; outstanding stock of such shadow-banking products that were reported on banks' balance sheets declined to RMB28.4 trillion, from RMB29.1 trillion in end-2016.

Further, there are indications that initiatives to promote deleveraging are gradually starting to produce results. The debt-to-GDP ratio of non-financial enterprises soared to 121% in 2010 from around 96% in 2008 as a result of the introduction of the RMB4 trillion stimulus package, and by the end of 2016, further swell to 166%. However, a glance at the data from the Bank of International Settlements shows that the ratio began to slide gently, from 166.8% in end-June 2016 to 165.3% in end-March 2017. The trend was partly aided by a recovery in nominal GDP growth rate but largely because the debt of non-financial enterprises grew at a slower rate compared to before.

The authorities' deleveraging efforts have produced some results—declining growth in interbank lending and stabilised corporate debt-to-GDP ratio. However, it is unlikely that these developments signify China's reduced reliance on credit since the drivers behind the recent improvement in debt are mainly cyclical (i.e. the supply-side cuts in 2016 and demand recovery generated a significant improvement in industrial revenue and cash flow, which in turn helped to reduce corporate demand for credit). If China's economic growth slows down further than expected, this could weaken corporate internal funding and China's credit reliance may rise again, particularly if the tighter controls of local government financing are enforced.

Supervisory and monetary tightening is expected to continue in view of the financial risks, and high debt and leverage. China's rising corporate financial stress level could lead to loan defaults that would in turn adversely affect bank balance sheets, threaten the stability of the financial system and ultimately jeopardise future economic growth.

Although China's financial system is buffered by some unique features (i.e. high domestic savings, capital controls, government ownership of most banks, etc.), implying that a systemic debt crisis is unlikely to occur, the high debt overhang can weigh on economic growth and productivity in the long term.

Policymakers will have to address these structural weaknesses in the financial system through institutional reforms. Financial deleveraging needs to be accompanied by policies to reform inefficient state-owned enterprises (SOEs) which have accounted for more than half of China's corporate debt. Introducing tougher fiscal discipline and implementing institutional reforms to improve governance and competitiveness of the SOEs is key to macroeconomic and financial stability. ■

Sarah Chan is Research Fellow at EAI.

# Recent Staff Publications

## Books

***The Chinese Communist Party as Organizational Emperor: Culture, Reproduction, and Transformation***

*Author:* **Zheng Yongnian**

*Publishers:* **City University of Hong Kong Press and Routledge**

*Year of Publication:* **2018**


The Chinese Communist Party (CCP) is the largest, and one of the most powerful, political organisations in the world today, and has played a crucial role in initiating most of the major reforms of the past three decades in China. China's rapid rise has enabled the CCP to extend its influence throughout the globe, but the West remains uncertain whether the CCP will survive China's ongoing socio-economic transformation and whether China will become a democratic country. With rapid socio-economic transformation, the CCP has itself experienced drastic changes. The author argues that while the concept of "political party" in China was imported, the CCP is a Chinese cultural product: it is an entirely different breed of political party from those in the West—an organisational emperor, wielding its power in a similar way to Chinese emperors of the past.

Using social and political theory, this book examines the CCP's transformation in the reform era, and how it is now struggling to maintain the continuing domination of its imperial power. The author argues that the CCP has managed these changes as a proactive player throughout, and that the nature of the CCP implies that as long as the Party is transforming itself in accordance with socio-economic changes, the structure of party dominion over the state and society will not be allowed to change.

***Belt and Road Initiative, the Rise of China and International Cooperation: What Does it Mean to China and the Region***

*Author:* **Yu Hong**

*Publisher:* **World Affairs Press**

*Year of Publication:* **2018**


Since Chinese President Xi Jinping's announcement of the Belt and Road Initiative (BRI) in 2013, China has made diplomatic and political efforts, and pledged massive infrastructure investment to promote this initiative to its regional neighbours as well as the international community in recent years.

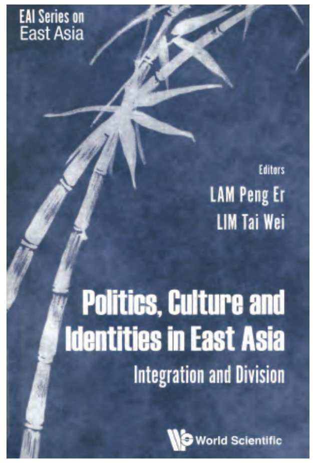
The BRI could potentially redefine the regional as well as global economy through establishing a comprehensive and efficient infrastructure network of unique scale. This book specifically discusses the motivation behind China's push for the BRI, the infrastructure development in Asia and the role of the Asian Infrastructure Investment Bank in China's BRI, as well as assesses the long-term implications of the BRI to the region and the world. The author also addresses the main challenges faced by China in promoting the BRI.

***Politics, Culture and Identities in East Asia: Integration and Division***

*Editors:* **Lam Peng Er and Lim Tai Wei**

*Publisher:* **World Scientific Publishing**

*Year of Publication:* **2017**




This edited book reflects the "yin-yang" of East Asia—the analogy of co-existing "hot and cold" trends in that region. To concentrate only on geopolitical competition and regional "hot spots" will exaggerate, if not misrepresent East Asia as a Hobbesian world. There are four "vectors" in the geopolitics of East Asia: China rising, the United States "rebalancing" to this region, Japan "normalising" as a nation-state and ASEAN emerging as a regional community. The interplay of these four "vectors" will set the trajectory of geopolitics in East Asia. This volume also focuses on the politics of identity. The distinctiveness, character and flavour of a group, real or imagined, can be "cool". However, the assertion and the intricacy of identity and nationalism in East Asia can be problematic.



## As Book Chapters

"What if the Nation-state is No Longer the Key Organisational Unit of the International Community?", in Gillian Koh and Debbie Soon (eds), *Singapore Perspectives 2017: What If?* (Singapore: Institute of Policy Studies, and World Scientific, 2018), pp. 19–30.
***By Wang Gungwu***

"Foreword", in Yeo Lay Hwee, Peggy Kek, Gillian Koh and Chang Li Lin (eds), *Tommy Koh: Serving Singapore and the World* (Singapore: World Scientific, 2018), pp. xv–xvii.
***By Wang Gungwu***

"鲁迅，林文庆和儒家思想" [Lu Xun, Lin Wenqing he Rujia sixiang (Lu Xun, Lim Boon Keng and Confucianism)], in Wong Yoon-wah (王润华) and Phua Kok Khoo (潘国驹) (eds),《鲁迅在东南亚》[*Lu Xun zai Dongnanya* (*Lu Xun in Southeast Asia*)] (Singapore: Global Publishing, 2017), pp. 167–182.
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"Foreword", in Zhou Min (ed), *Contemporary Chinese Diasporas* (Singapore: Palgrave Macmillan, 2017), pp. vii–x.
***By Wang Gungwu***

"Foreword", in Tansen Sen, *India, China, and the World: A Connected History* (Lanham, MD: Rowman & Littlefield, 2017), pp. ix–xii.
***By Wang Gungwu***

## In Journals

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# The Belt and Road Forum for International Cooperation: China's Showcase to Build Connections

*To give the Belt and Road Initiative a less China-centric image, the Belt and Road Forum convened world leaders in support of China's ambitious project that will change the world for the better.*

YU HONG

The Belt and Road Initiative (BRI) has been the centrepiece of Chinese President Xi Jinping's strategic vision for China's position in the world. During his tenure of office, Xi is determined to sustain the growth of Chinese economy and capitalise on the Initiative to reshape China's role in the changing world. Since the unfolding of the BRI, it has gradually emerged as China's national strategy.

The BRI signals a shift in China's foreign policymaking and a departure from the long-held low-profile approach. China has advanced rapidly towards the centre stage of the global economic arena since the global economic crisis in 2008. Leaders from 29 countries across different regions in the world attended the Belt and Road Forum (BRF) for International Cooperation from 14 to 15 May 2017 to support Xi's most ambitious endeavour.

The forum was China's major diplomatic event of 2017 and the largest and highest-level public relations event held by China on the BRI since Xi announced that BRI is his signature project in 2013. According to the Chinese government, 76 items involving over 270 concrete results in the areas of policy communication, infrastructure, trade and finance, and people-to-people exchanges were achieved as the major outcomes of the forum.

The BRF is intended to cement China's new geopolitical dominance in the region and beyond, and to shore up the BRI's international credentials worldwide by giving it a less China-centric image. It is also a platform that elaborates the specifics of this most ambitious initiative. The Chinese authority has deliberately changed the term "One Belt, One Road" Initiative (or OBOR in short) to "Belt and Road" Initiative (BRI). The removal of the word "One" is perceived as a move to encourage a sense of ownership of the New Silk Road initiative among other participating countries and regions.

The BRI centres on both soft and hard physical connectivity, aiming to forge an integrated and extensive network of regional infrastructure, including railways, highways, seaports, aviation, energy and digital communication. At the two-day forum, Xi pledged over US$100 billion to fund massive infrastructure projects under the BRI, thus enhancing the attractiveness of these huge investment opportunities for China's regional neighbours to participate in its development orbit.

In his closing remarks at the BRF, Xi announced that the second BRF for International Cooperation will be held in 2019. This sends out a clear signal that China intends to institutionalise this multilayer cooperation mechanism under the BRI in the future. The BRI demonstrates China's growing confidence and its aspiration to play a rule-shaper role in the economic governance of the region and beyond.

China's rise to become the world's second-largest economy and one of the largest trading nations has exerted a very powerful pull on the economies in Asia and beyond. Many developing countries along the Silk Road are desperately keen to attract Chinese investments to address the chronic infrastructure deficit that has impeded their development for decades.

These developing countries along the Silk Road are planning to develop transshipment port, sea, air logistics or financial hubs by riding on the BRI and the massive investment promised. According to official data, China's outbound direct investment in the Silk Road countries reached a total of over US$50 billion from 2014 to 2016. In 2016 alone, China invested US$14.5 billion in these countries, accounting for 8.5% of its total outward investment abroad.

From the domestic perspective, in seeking to gain higher profits and expand their global business operations, Chinese companies have strong incentives under the BRI to invest their capital in other nations and implement a "going-out" strategy. Chinese firms are eager to participate in the construction of infrastructure facilities in the Silk Road countries as such outward infrastructure investment will boost their manufacturing investment and hence China's economic growth. The Silk Road countries will provide new markets for China's enormous excess of manufactured products and construction capacity.

Nevertheless, despite China's aggressive diplomatic and propaganda efforts to promote the BRI to the international community, it is still struggling to convince certain sceptical countries of its benign intentions. India is a typical case in point. India rejected China's invitation to participate in the BRF; although a few Indian scholars attended on behalf of think tanks, no official delegation was sent.

India went further to criticise the lack of transparency and openness of the large-scale infrastructure projects under the BRI, and claim that the Initiative may cause an unsustainable debt burden to recipient countries. Essentially, India is uneasy about China's increasing geopolitical influence and China's expansionist policies in Asia, and South Asia in particular, through promoting the new Silk Road strategy within India's traditional sphere of influence. ■

Yu Hong is Senior Research Fellow at EAI.

# China's Defence Budget Increase: More Than Meets the Eye

*China's increase in military spending by 8.1% this year keeps pace with its annual economic growth.*

LI NAN

China's recent session of the National People's Congress approved the 2018 defence budget with an increase of 8.1% that translates into an annual spending of US$175 billion for the People's Liberation Army (PLA). Chinese analysts interpreted that the increase has kept pace with China's annual economic growth of 6.9% for 2017, and that in contrast to the period before 2016 when defence budget had gained mostly double-digit growth since the early 1990s, it has slowed to single-digit growth for the past three consecutive years. They also highlighted that China's defence budget as a percentage of gross domestic product (GDP) and of total government spending and in terms of per capita spending on defence remains low compared to other major powers. China's 2018 defence budget constitutes only about 1.4% of its annual GDP compared to, for instance, the United States' at 3.4% and Russia's at 2.8%. As China's defence budget is only one quarter of the United States', Chinese analysts argue that this year's budget increase serves to benefit China's military modernisation moderately. While such an argument is logical, there are several other explanations indicating that the budget increase may be more significant than it appears to be.

**China's 2018 defence budget constitutes only about 1.4% of its annual GDP compared to, for instance, the United States' at 3.4% and Russia's at 2.8%.**

First and foremost, due to the substantial growth achieved for more than three decades, the base of China's defence outlays has expanded to such an extent that its single-digit growth today can also generate much larger monetary figures than in the past that used to enjoy double-digit growth. This year's increase of about US$25 billion, for instance, already surpassed China's total defence spending in 2003 at US$23 billion. As a result, PLA analysts' argument that defence spending increase is largely an effort to compensate the past austerity efforts attributable to Deng Xiaoping's policy guidelines in the 1980s to require "the army to be patient" (*jundui yao rennai*) and maintain low defence budget may become less persuasive.

Moreover, the ongoing anti-corruption drive in the PLA, together with more independent and authoritative supervision by discipline inspection and auditing agencies, should produce deterrence effects that contribute to substantial waste reduction and more efficient use of defence spending for military tasks.

Also, the recent restructuring and downsizing of the PLA by 300,000 personnel—with an eye on cutting non-combat agencies, units and personnel, and on stricter supervision on the authorised strength of various PLA organisations—should lead to more optimal use of defence spending for combat tasks by a smaller military.

Furthermore, the relatively successful civilian governance by the Party and government leadership, which emphasises continued economic growth as well as political and social stability, has prevented PLA intervention in domestic politics and involvement in power struggle. Consistent with Xi Jinping's call on the PLA to make preparations to fight and win wars, the current development allows the PLA to focus narrowly on perfecting its functional and technical expertise, thus optimising defence spending on military tasks too.

Despite the rising cost of doing business in China, it is still lower than in the United States, even in terms of acquisition of a comparable technology. For instance, China's fifth-generation combat aircraft J-20 costs US$110 million each to build, compared to its US counterpart F-22 which costs US$150 million per aircraft. China's defence budget covers mainly the costs of acquiring and upgrading weapons systems, training and exercises, and manpower. As a substantial proportion of China's military spending is not related to high technology, its defence budget likely offers a much higher purchasing power than US defence budget.

With the implementation of Xi's policy guidelines requiring the "PLA to completely stop compensated services and activities" (*jundui quanmian tingzhi youchang fuwu huodong*), the PLA would lose a major source of its extrabudgetary income, i.e. the revenue from its business activities. As these business interests have corrosive effects on the PLA causing military corruption, military–societal tension, tensions among various PLA units, neglect of combat readiness and erosion of civilian control, the PLA's complete divestiture from business activities should therefore be seen to enhance its combat effectiveness.

On the other hand, Xi's emphasis on civil–military integration is expected to generate new non-budgetary investment in China's science, technology and industrial sector, infrastructure development, higher education, and social safety net that would translate into benefits for improving the PLA's combat effectiveness.

It is noteworthy that with a defence budget that is only one-fourth of that of the United States, China's primary objectives for the PLA are regional, unlike US military's global orientation. The PLA adopts a defence and deterrence posture, even though its defence perimeter has expanded from China's continent to its "near seas". Such a limited orientation has also helped optimise the use of China's defence budget. ■

Li Nan is Visiting Senior Research Fellow at EAI.

# Reshaping Social Policymaking through Party-State Restructuring

*The Chinese Communist Party's latest plan to restructure party and government institutions includes measures that seek to improve social development and governance.*

ZHAO LITAO

The Xi Jinping leadership enters the second term in 2018 with unabated efforts to centralise decision-making power to the central Party organisations at the expense of the State Council. The bold changes can have profound impacts on China's social policymaking.

### REDEFINING SOCIAL CHALLENGES AND PRIORITIES

At the Chinese Communist Party's (CCP) National Congress held in October 2017, Xi underscored "unbalanced and inadequate development" as the main challenge facing China. He redefined the "principal contradiction" facing Chinese society which has evolved to one that is "between unbalanced and inadequate development and the people's ever-growing need for a better life". Previously, the principal contradiction Chinese society faced was the "ever-growing material and cultural needs of the people versus backward social production". The new statement is, hence, an acknowledgement of China's remarkable achievements in meeting the basic needs of over a billion people as well as mounting problems of unbalanced development.

**It is highly likely that China will further relax the current two-child policy, or even abolish the birth control policy altogether.**

By main social indicators, China continued to make remarkable progress in social development in the first five years of Xi's rule. More than 66 million new urban jobs were created. Income growth remains strong, making China a country with the world's largest middle class. Through campaign-style top-down mobilisation, 68 million rural people were lifted out of poverty. Travel has never been so easy in China, as its high-speed railways have increased from 9,000 to 25,000 kilometres, accounting for two-thirds of the world's total. In the countryside, China has built/upgraded 1.27 million kilometres of rural roads. Tourist departures have grown from 83 million to over 130 million. Despite the impressive report card, large social inequalities remain a big challenge. Research has shown that China's social programmes and expenditures have little equalising effects.

### RESTRUCTURING PARTY AND STATE INSTITUTIONS

Immediately after this year's National People's Congress, the CCP Central Committee released a plan to restructure party and state institutions. On the social front, a number of changes are noteworthy. First, a central leading group for education will be formed. Previously, the top governing body was the Leading Group on Science, Technology and Education, which was under the State Council to make major education policies. In line with the principle of "Party managing education", the new central leading group for education clearly shifts the decision-making power from the State Council to the Party.

Second, a social development affairs committee will be set up at the National People's Congress. The new committee is assigned the task of studying, drafting and reviewing proposals and laws on labour issues, social security, civil affairs, mass organisations and safety production, and of conducting related law enforcement inspections. The establishment of this committee reflects the growing importance of social development on the CCP's agenda.

Third, a national health commission will be formed. It will replace the National Health and Family Planning Commission and the Health Care System Reform Leading Group of the State Council. Family planning has been removed not only from the name of the new commission, but also from its task list. It is highly likely that China will further relax the current two-child policy, or even abolish the birth control policy altogether.

Fourth, a state medical insurance administration will be established, directly under the State Council. The purpose is to integrate the fragmented health-care programmes by taking over the medical insurance programme for urban employees and a separate programme for urban residents from the Ministry of Human Resources and Social Security, the similar medical insurance programme for rural residents from the National Health and Family Planning Commission, as well as medical aid from the Ministry of Civil Affairs.

Fifth, the existing Ministry of Science and Technology (MOST) will be restructured. Notably, the National Natural Sciences Fund (NSF), which has come directly under the State Council since its inception in 1986, will be moved to the MOST. The NSF has been widely seen as a better funding agency than the MOST. The former uses peer review as a built-in measure for quality control, while the latter lacks or does not conduct rigorous and fair peer review. Consequently, the MOST, as a funding agency for mega projects, has been criticised for poor judgement and misallocation of research funds. Inevitably, there will be concerns about the NSF's future performance.

Overall, the CCP's latest plan to restructure party and state institutions serves to shift the decision-making power from the State Council to the Party, and to a lesser extent reduce overlapping and fragmentation between and within party and state institutions. The plan underlines the belief that strengthening and optimising the CCP's leadership role is critical to tackling unbalanced development, but this stance is not shared by those who view social empowering as a better approach to social development. ■

Zhao Litao is Senior Research Fellow at EAI.



# Social Control in China: Towards a "Smart" and Sophisticated System

*The recent years featured the Party-state's continual efforts to strengthen its mechanism of social control, with sophisticated internet censorship, artificial intelligence and big data technologies.*

SHAN WEI

At the National People's Congress session in March 2018, Beijing announced a comprehensive institutional reform package. The reform will involve combining and reorganising a number of ministries and central Party departments. Generally, the Party's control over the government agencies will be reinforced as it will directly assume some administrative duties.

Also in the reform agenda is the reshuffle of agencies in charge of social control and policing, also known as "maintaining social stability" in official terminology. The Office of Maintaining Social Stability and the Office of Comprehensive Management of Social Security will be incorporated into the Politics and Law Commission, which is the Party's leadership organ in charge of police, security, courts and procuratorates. Both offices used to coordinate dozens of governmental bureaus and Party organs in social control missions, and reorganising the two offices implies that the Politics and Law Commission will play a more direct role in commanding various governmental agencies.

The institutional reform is only a minor component of China's endeavour to maintain regime security. The recent years featured the Party-state's continual efforts to strengthen its mechanism of social control, particularly that of the internet. With sophisticated internet censorship, artificial intelligence (AI) and big data technologies, social control mechanism in China has become "smarter" and more effective. Protests were defused at the very early stage. News and opinions in cyberspace have been heavily censored. Software or apps that help netizens gain access to websites outside the country's firewall have been eradicated.

Previously, Beijing's focus of internet censorship had been more on maintaining the country's "Great Firewall" and restricting access to unsavoury external sites. Over the recent two years, the focus has been on legalising content control and state access to citizens' private data.

In June 2017, a new regulation on internet news reporting was enforced. According to the new rules, all websites, apps, forums, blogs, instant messengers, WeChat official accounts and live webcasts are not allowed to report news without the government's permission.

The new regulation is also intended to restrict international businesses operating in China. Both private and foreign capitals are not allowed to collect and edit internet news. Besides, only corporations registered in China are eligible to apply for a permit for internet news reporting. The persons-in-charge and the chief editor must be Chinese citizens.

In the lead-up to the 19th Party Congress in October 2017, the administration targeted the country's instant messaging apps, such as WeChat, QQ, Sina's Weibo, demanding owners and administrators of chat groups to be held accountable for comments made in their group. The new rules also mandate chat service providers to verify users' real identity and maintain records of group chats for at least six months. Chat group owners should also take responsibility to censor "inappropriate" information or opinions in the group.

Since the leadership transition in 2013, Beijing has attempted to set up a unified "social credit code system" based on residents' identity card number and codes for organisations and institutions to establish a nationwide population information database. The system is scheduled to be completely set up by 2020.

Unlike the credit system in other countries, which focuses on financial information, the Chinese system aims to generate a score on citizens' financial credit, and their social and political behaviours. Various details of a citizen's life—from one's bank loan to booking of train tickets—will be filed and scored in the system. Even the minutiae of everyday life like failing to pay the taxi driver via mobile payment app or coming in late for work could be recorded in the credit system.

Internet users' behaviour in group chats will also be scored by chat service providers and included in the credit system. Information and opinions posted by chat group participants will be examined and any negative comments about the government found in their posts may drag their credit scores down.

Citizens who earn good public credit scores will someday be rewarded with, for instance, discounted air tickets, bank loans at a better rate, or employment opportunities in the public sector or state companies. A poor score could lead to difficulties in getting loans or seats on planes and trains.

**News and opinions in cyberspace have been heavily censored. Software or apps that help netizens gain access to websites outside the country's firewall have been eradicated.**

All foreign companies are required to store their data onshore in China and allow data surveillance by Chinese security apparatus. In addition, foreign companies offering cloud computing services must be in partnership with Chinese enterprises. In June 2017, Apple transferred its China data to a state company in Guizhou province; and in November, Amazon had to sell part of its operating assets to a local Chinese partner.

Big data and AI have also been used to predict people's

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## Xi Jinping Consolidates Personal Power and Party Leadership through Constitutional Change

The establishment of supervisory commissions as a new type of anti-graft state organ is China's efforts to integrate the functions of the Party's disciplinary inspection authorities and anti-corruption agencies in the administrative and judiciary apparatuses, hence the setting up of the National Supervisory Commission (NSC) and its local branches at various levels. This national institution will consolidate all activities of anti-graft institutions and legitimise extralegal investigations on the pretext of the "rule of law".

With the establishment of the NSC, which will absorb the anti-graft forces of the police, prosecutors and other supervisory departments, the political power of the Party's Central Commission for Discipline Inspection is expected to expand further.

The two-term limit was never imposed on the two key positions that Jiang and Hu previously held, namely the Party general secretary and the chairman of the Central Military Commission (CMC). Theoretically, they could continue to serve both positions indefinitely after stepping down as president but in reality, it did not happen. For Jiang, he held on to the CMC chairmanship after stepping down as president in 2003 but eventually gave up the post two years later.

Since 1993, China's paramount leader concurrently serves as the chief of the Party, the state and the military. However, the true power remains with the Party and the military. Thus, the two-term limit imposed on the presidency, but not on both the Party and military chief positions, meant that such a check on power was never fully effective. The presidential term limit is only a check on the presidency per se, not truly a check on power.

On 3 March 2018, an editorial in the *People's Daily* argued that the term limit removal of presidency does not necessarily imply lifelong rule by Xi. On 4 March, NPC spokesman Zhang Yesui clarified that eliminating the term limit is necessary to preserve the unified leadership and conforms with Xi's two other positions, the Party general secretary and CMC chairman, which do not have term-limit restrictions. ■

Chen Gang is Assistant Director and Senior Research Fellow at EAI.

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## Reshuffled Top Leadership and Restructured Central Government at 13th National People's Congress

According to the restructuring plan of the cabinet-level departments, the NPC endorsed the appointment of the secretary general of the State Council and 26 minister-level cadres, including ministers, commission directors, the president of the People's Bank of China and director of the National Audit Office, as well as two vice presidents and four members of the Central Military Commission of the State Council. These cadres now form the new top leadership team in the Chinese government.

A day after the 13th NPC concluded, the Party unveiled a massive plan to further assert its control over the state, including more actions on government restructuring. On the one hand, it would dissolve several institutions under the State Council such as the Ministry of Supervision, the National Bureau of Corruption Prevention and the State Administration of Civil Service. Instead, the Organization Department of the Communist Party will take over the responsibilities of managing all civil servants. On the other, the Party will set up new commissions and leading groups within the government departments. For example, the Central Auditing Commission will be installed in the National Audit Office.

The massive top leadership reshuffle and central government restructuring announced at the 13th NPC will have profound impacts on China's economy, foreign affairs, society, culture, etc. The sweeping reforms of party and state institutions signal Xi Jinping's tightening grip on government personnel. Certainly, Xi has solidified his power at the 13th NPC, installing his trusted aides and allies in the top echelons of the government, exercising oversight of all public officers and subjecting the civil service system under the Party's close control. ■

Zhou Na is Visiting Research Fellow at EAI.

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## Recent Developments of Managing Local Government Debt in China

financial risks are higher in lower-level governments (e.g. city/county governments) than in provincial-level governments. According to the Ministry of Finance, by the end of 2015, over 90 cities and 300 counties were flagged in the risk-warning list for local government debt. ■

Qian Jiwei is Senior Research Fellow at EAI.

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## Social Control in China: Towards a "Smart" and Sophisticated System

mind. Provincial Party School in Sichuan established a "Smart Red Cloud" system to "compute" the state of mind of Party members. This system collects and stores information of Party members' demographics, their participation in the Party branch and remarks made at political education sessions on the cloud. Based on the data, with the aid of AI technology, the system is able to provide a political profile of each Party member as well as a solution for the Party branch pertaining to further education of individual Party member.

Overall, Beijing has sought to deepen its control of society without substantially opening up the political system. This strategy has yielded temporary success. However, as Chinese society becomes increasingly diverse and the citizens more inclined towards self-expression values, this strategy may not work in the long run. Further changes to the strategy are therefore inevitable. ■

Shan Wei is Research Fellow at EAI.



# Opportunities and Challenges to Regional Cooperation in Northeast Asia

### EAI–KHU International Conference ● 5 February 2018

EAI and KHU scholars collaborate in this second conference that aims to enhance scholarship of Northeast Asia.

As the United States urges China to gear up efforts to rein in the bellicose North Korea, what are the responsibilities that China should assume? EAI Director Professor Zheng Yongnian posed this question to participants at the International Conference on "Opportunities and Challenges to Regional Cooperation in Northeast Asia", jointly organised by East Asian Institute and the College of International Studies (KIC), Kyung Hee University (KHU). Against the Northeast Asian backdrop made up of both middle and developing powers, Professor Zheng remarked that there may not be any immediate and obvious answers but urged scholars to watch closely the domestic dynamics of these powers. He pointed out that while China's older and younger generations differ in their perspectives about international relations, the onus is on the young generation to exercise flexibility in tackling such issues.

The first panel, chaired by EAI Senior Research Fellow Dr Lam Peng Er, focused on the major trends of security and economic cooperation, and potential "disruption" in East Asia. Professor Park Hahnkyu, professor of international studies at KHU, highlighted that South Korea should fully cooperate on "maximum pressure strategy" with the United States and international community after the 2018 Pyeongchang Winter Olympics. The best, albeit not ideal, strategy to deal with a "nuclear" North Korea is to deplete all resources that Kim Jung Un will use to develop and possess nuclear weapons and missiles.

Dr Li Nan, visiting senior research fellow at EAI, outlined the sequence of events that led to China's shifting perception and policy towards North Korea from strategic asset to liability and to "assebility". Dr Li posited that "assebility" underlies China's policy of tightening sanctions, and also its proposed short-term "dual pause" (*shuang zanting*) and long-term "dual track, parallel moving forward" (*shuangkui bingxing*).

Dr Kim Sunil, assistant professor of international studies at KHU, broached on the rising economic nationalism in Northeast Asia and its political ramification. He said under the lack of regional leadership—since Trump's America has transformed from a "reluctant sheriff for peace" into an "enthusiastic merchant selling crises"— only ad hoc tactical responses can be made.

The second panel, chaired by EAI Professorial Fellow John Wong, focused on economic cooperation in East Asia. EAI Research Fellow Dr Chiang Min-Hwa analysed and compared the impact of "China factor" in Taiwan's and South Korea's post-industrial development. Compared to Taiwan, South Korean manufacturers have a more diversified investment strategy. In terms of trade, both Taiwan and South Korea have depended on exports of intermediate goods to China for their economic growth.

Dr Yoo Tae Hwan, professor of international trade and economic cooperation at KHU, shared his empirical findings on the impact of terms of trade (TOT) and TOT volatility on economic growth and stability in ASEAN countries. Generally, increasing oil prices lower TOT; higher real exchange rate improves TOT and decreases TOT volatility; and a rise in the raw material price index improves TOT and lowers TOT volatility.

As dictated by non-economic factors, there is limited economic cooperation between China and North Korea other than trade. This contrasts with the comprehensive economic ties that China and South Korea share, backed by strong economic rationales. Dr Sarah Tong, EAI senior research fellow, added that given the escalating nuclear threat from North Korea, it is increasingly difficult to isolate economic issues from other considerations like power relations.

The third panel, chaired by Professor Park Hahnkyu, examined traditional and non-traditional security challenges in East Asia. Environmental challenges such as dust and sandstorms, fine dust and transboundary air pollution, degradation of marine environment and hazardous chemicals are serious non-traditional security issues in Northeast Asia. Dr Lee Young Jo, professor of political economy at KHU, attributed the lack of a binding environmental cooperation to lack of epistemic community, national disinterest and fallout from historical and political discords.

Dr Yu Hong, senior research fellow at EAI, stressed the significant role that China's north-eastern provinces have played in their trade with North Korea, having accounted for more than 60% of China–North Korea bilateral trade volume in 2016. In fact, China's trade with North Korea is widely perceived as the lifeblood of North Korea's economy, which is crucial to the country's stability.

North Korea's nuclear tests are considered geopolitical risks that send shocks to regional financial markets. Dr An Jiyoun, associate dean of KIC and associate professor at KHU, explained that these are temporary shocks as investors believe war will not break out. Dr An also highlighted the difficulty of determining the impacts of North Korea risks on Asian financial markets due to information asymmetry and measurement problem. ■

# Some Highlights at EAI

Professor Peter Nolan

*Above:* **Professor Peter Nolan**, director of the China Centre at Jesus College, University of Cambridge delivers an engaging lecture entitled "**Convergence and Divergence in the Long-run Development of China and the West**" at Goh Keng Swee Lecture on Modern China organised by EAI on 5 December 2017.

*Left*: **EAI Director Professor Zheng Yongnian** (right) welcomes **Professor Saw Swee Hock** who sponsored this much-anticipated lecture.


Professor Katherine Morton


**Professor Katherine Morton**, Professor of China's International Relations at University of Sheffield, examines who governs the world as she analyses **China's dilemmas of global leadership** at the EAI Distinguished Public Lecture jointly organised by EAI and S Rajaratnam School of International Studies, Nanyang Technological University on 16 November 2017. **EAI Senior Research Fellow Dr Lance Gore** (holding a mic) chairs the lively Q&A exchange.

*Above***:** EAI Scholars in meetings and discussions with overseas delegates.

## *INTERNATIONAL CONFERENCE*

## China 2035: Xi Jinping's Vision for Modernisation

**THURSDAY, 24 MAY 2018**
**Sheraton Towers, Singapore**

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## In Honour Of

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**China and the World: History and International Relations**

**and**

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FOR EVENT DETAILS, PLEASE CONTACT
JAMES TAN
TEL: (65) 6779 1037
EMAIL: eaitanj@nus.edu.sg