

东亚研究所通讯

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## **China's Leadership Succession: Institutionalisation of Elite Turn- over via Generational Replacement**

*China's leadership succession has become a highly predictable affair with leaders that are largely 10 years apart in age.*

WANG ZHENGXU and ANASTAS VANGELI

**G**enerational turn-over in the leadership elite is becoming more predictable in China. This makes China's internal politics a bit more transparent to the outside world, and has greatly helped us in understanding who are likely to emerge as new leaders, how the outgoing leaders arrange the power transition, and what policy positions the new leaders are likely to take.

The second half of 2012 will see the 18th Congress of the Chinese Communist Party (the first one was held in 1921). Besides serving as an occasion to re-calibrate the Party's ideological and policy platform, the Congress will facilitate the power succession of the leaders of the fifth generation from the fourth. The Congress will elect a new Central Committee of the Party, which will in turn elect its executive bodies, the Politburo (PB) and Politburo Standing Committee (PBSC). The three bodies will govern China for the next five years, with the PB and PBSC serving as the Party's collective leadership and supreme decision-making body.

### **ESTABLISHING THE EXITING RULES**

For the most part of the history of the Chinese Communist Party (CCP), the leadership succession had been an extremely opaque and contentious process, and decided by leaders in a very small circle, often indeed by a sole individual. The top leader, Mao Zedong before 1976, and to a lesser extent Deng Xiaoping in the 1980s, could more or less choose to stay in power until his passing, appoint anyone he favoured to any powerful position, and depose of anyone he disliked or deemed incompetent. The chosen successors, such as Liu Shaoqi, Lin Biao, Wang Hongwen, and Hu Yaobang and Zhao Ziyang, all lost their power (and sometimes life) because the top leaders did not like them any longer.

Starting from the 1980s, Deng had attempted to establish a set of rules to govern power succession. He re-institutionalised the Party Congress (PC), and introduced age and term limits for leading government cadres. By the 16th Party Congress in 2002, a number of implicit and explicit rules seemed to have been established. Age limit now effectively rules out the possibility of top leaders staying in power for too long, resulting in much more predictable elite turn-over. At the 15th Party Congress (PC) in 1997, the then No. 2 leader in the Party, Qiao Shi, had to retire as he was 70. Five years later, at the 16th PC in 2002, the No. 4 leader, Li Ruihuan, retired at age 68 after having served two terms. Since then, 67 has become the oldest age for anyone to start a new term in the Politburo and PBSC; at the 17th PC in 2007, all PB members aged 68 or above retired, and the same is expected to happen at this year's 18th Party Congress.

### **THE INSTITUTIONALISATION OF THE "GENERATION"**

The age limit has therefore greatly curbed the rise of charismatic leaders and figures with sultanistic tendencies. Setting age limits means leaders come of age

*continued on page 15*

## New Leaders New Challenges

The Fall of 2012 is important in China's political calendar as a once-a-decade top leadership transition is taking place. The ruling Communist Party (CCP) is holding its 18th National Congress in early November and its all-powerful Political Bureau Standing Committee (PBST) is to be reshuffled. The next generation of leaders is supposed to inaugurate and to lead the country for the next decade. Who will be the new leaders and how they will address domestic and international challenges has become a heated topic among China observers

While these leaders and even the exact size of the next PBST remain unknown, to a large extent leadership succession has become more predictable in China. Since the 1980s a set of informal or formal rules of power transition has been established. Institutions such as the team limit and the age limit have greatly helped us anticipate who are likely to emerge as new leaders and what kind of policy positions the new leaders are likely to take.

One of the most serious challenges facing the CCP was the crisis of faith in the orthodox Marxist-Maoist ideology and crisis of trust in the party. The leadership has promoted a series of programmes to redefine its membership and mission. More private entrepreneurs will sit in the 18th Congress than ever, demonstrating the party's endeavour to become an inclusive ruling system. The mission of the party has veered towards a more nationalistic view, stressing the shared sense of Chinese national identity, history and culture. The recent anti-Japanese mass protests over maritime disputes were largely a result of this reorientation towards nationalism.

Another major challenge is the urgency for reforming the party-state system. The lack of substantive political reform creates a situation in which power-based and market-based interests become intertwined in the existing political structure. As a result, there are few incentives within the establishment to reform the political system. The ascension of the next generation of leadership provides a window of opportunity but not necessarily the energy needed for successful new reform initiatives.

In the social sphere, two important challenges are the housing issue and the reform of the healthcare system. The spike in housing price has aggravated urban poverty and social polarisation, provoking great social grievances in recent years. While the central government has tried to promote social housing, poor construction quality and management have caused a lot of conflicts. Given the rapidly increasing health expenditure and the nature of health service provision, hospital reform is particularly challenging for the new leadership. As long as the new leadership commits to a deepening health reform, some successful patterns of hospital reform may emerge from a large number of local pilot projects.

Events leading up to the 2012 election of Hong Kong's political chief had revealed deep social cleavages, political tensions and a crisis of governance in this special administrative zone. How to recover Hong Kong people's confidence in the model of "one country, two systems" is another challenge the new leadership will have to face.

On the international stage, China experienced a series of setbacks in its diplomacy in East Asia this year. Territorial disputes in the South China Sea and East China Sea simultaneously flared up, threatening China's relations with the Philippines, Vietnam and Japan. The new group of leaders will need to pay more attention to its security environment in Asia. Building trust among different countries is a long-term process. Apart from strengthening mutual economic benefits based on trade and investment, Chinese leaders may also need to devote more attention to new areas of cooperation with clear-cut mutual benefits. ■



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# From Vanguard to Patriot: Reconstructing the Chinese Communist Party

*Lacking the procedural legitimacy of democratically elected governments, the CCP will have no choice but to fall back on China's history, culture and patriotism as its "societal glue".*

WANG ZHENG

Following the crackdown on the protest demonstrations of the spring of 1989 and the collapse of communist regimes in Eastern Europe, the most serious challenge facing the Chinese Communist Party (CCP) was the so-called "three belief crises": crisis of faith in socialism, crisis of belief in Marxism and crisis of trust in the party. When the official communist ideology lost credibility, the communist regime became incapable of enlisting mass support behind a socialist vision of the future. In dealing with these challenges, the leadership of the CCP has conducted a series of ideological programmes to reconstruct the rules and norms of the ruling party, in particular, to redefine its membership, role and mission. To some extent, this internal reform that happened during the recent 20 years has been a "quiet revolution" that transformed the CCP from a revolutionary party to a ruling party.

The classic definition of the membership of the CCP is "the vanguard of the Chinese working class" and a political party of the proletariat. Following major political changes after 1989, the CCP began to use new narratives to replace the old statements. In a speech delivered at the Sixth Plenary Session of the 14th CCP National Congress in 1996, Jiang Zemin introduced his Party this way: "Our Party has made the biggest sacrifice and the biggest contribution in the struggle of national independence and safeguarding of national sovereignty. The Chinese Communist is the firmest, the most thorough going patriot". As such, he used four superlatives to define the new identification of the Party — no longer an ideological "vanguard," but a national "patriot".

The CCP's campaign of "Three Represents" is another attempt to transform the Party from a vanguard revolutionary party driven by the proletariat to a ruling party representing the majority of the people. According to Jiang's speech at the 16th Party Congress in 2002, the Communist Party should represent "advanced productive forces, advanced Chinese culture and the fundamental interests of the majority". That is, the Party can be all things to all people, promoting the interests not just of workers and farmers but of wealthy entrepreneurs and university professors as well. In actuality, this is a farewell statement to the old Communist Party.

For any political party, it is vital to have a vision for the future that serves to provide compelling ethical or moral motivations to inspire people's participation in the party's cause. The CCP's traditional objective or mission was the realisation of a communist society and the triumph of socialism over capitalism. However, they were no longer attractive to the Chinese people after the political changes. The party badly needed a new vision for the future that could retain the support of its people.

From the early 1990s, the Party has begun to use the new phrase "the great rejuvenation of the Chinese nation" (*zhonghuaminzu de weidafuxing*) as its new mission. The word "rejuvenation" is deeply related to China's history. This word emphasises the party's task of restoring China to its former position and glory. The mission of the party is no longer the realisation of communism but that of a more nationalistic objective.

Hu Jintao became the CCP's new leader in 2002. Compared with Jiang Zemin, Hu is even more enthusiastic about the "great rejuvenation" narrative. Many of his public speeches ended with calling people to "strive harder for the great rejuvenation of the Chinese nation."

Hu's political report presented at the 17th Party Congress in October 2007 was called the "general guidelines for the great rejuvenation of the Chinese nation" by Beijing's ideological scholars. In this report, Hu called "the great rejuvenation of the Chinese nation" the "historical mission" of his party. The report also discussed the process by which this great rejuvenation can come to fruition. For example, in this report, Hu said that "reform and opening up are the only way of rejuvenating the Chinese nation" and "[e]ducation is the cornerstone of national rejuvenation". Hu also believed that "the great rejuvenation of the Chinese nation will definitely be accompanied by the thriving of Chinese culture". In particular, Hu emphasised the relationship between national rejuvenation and the reunification between China and Taiwan. According to him, the two sides of the Strait are bound to be reunified in the course of the great rejuvenation of the Chinese nation.

In the post-Tiananmen era, the leaders of the CCP have creatively used China's traumatic modern history to generate new theories and explanations to redefine the Party's membership and mission. As an integral part of the CCP's reform package, the government abandoned the communist ideology and began to stress the shared sense of Chinese national identity, history and culture.

The CCP leaders have transformed China from an ideological nation to a social nation. In the future, the new leadership of CCP will most likely continue to work on the same path. Lacking the procedural legitimacy of democratically elected governments, and at the same time, facing the collapse of communist ideology, the CCP will have no choice but to fall back on China's history, culture and patriotism as its "societal glue". ■

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# Status Quo Interests Stall China's Reform

*More imaginative society building and state restructuring are needed to prevent status quo interests from perpetuating themselves in China.*

LANCE L P GORE

For 15 times in the past five years Chinese Premier Wen Jiabao had openly called for political reforms. He repeatedly warned against the dangers of a delay that may reverse the gains of economic reforms. His plea met with significant resistance from the Chinese political establishment. Responses were usually that of hesitation followed by inaction. Meanwhile, a sense of urgency for political reform is spreading. The left and the right share the same fear of a pending crisis arising from an increasingly restive and alienated society, and the anticipated economic slowdown. China's halfway reform has created a situation in which the old system is badly eroded while the new order is unable to fully establish because of political obstacles posed by status quo interests.

Nine main clusters of status quo interests can be distinguished: local governments, state agencies, state-owned monopolies, property developers, civil servants, the military-industrial complex, foreign multinationals, large connected private firms and, ultimately, the Chinese Communist Party. They have reaped most of the wealth generated by rapid economic growth, creating one of the world's most lopsided income distribution. They have also prematurely hardened the class structure and reduced social mobility.

The main characteristic of status quo interests in China is their close integration with state apparatuses. The lack of substantive political reform creates a situation in which power-based and market-based interests become intertwined through the existing political structure. In the resultant political economy, power is the most important form of capital, to which political, economic and intellectual elites converge to form a symbiotic coexistence. They are simultaneously dependent on and corrosive of the current system, hardening its power structure while distorting the functions of its apparatuses.

Because of their obstruction many proposed laws have languished in the bureaucratic maze for years or even decades. The law requiring public officials to disclose property was first proposed in the 1980s but has yet to come to fruition. The highly anticipated compensation law for the public requisition of land and property is still in the making despite its urgency. Since 2004 the State Commission on Development and Reform has led a host of government bureaucracies in the drafting of a plan to reform income distribution but eight years thereafter, it is still on the drafting board. State agencies maximise their own interests and the interests of those groups or industries closely associated with them. Law and public policy making becomes a balancing act among the various status quo interests.

Status quo interests have delayed, deflected and derailed

some of the most needed reforms in areas such as household registration; environmental and intellectual property rights protection; SOE monopoly; the overhaul of state structure and redefining state's roles; separation of the party from the government and, above all, judicial independence and the excessive concentration of power in the hands of party secretaries. Even the notion of reform is losing popular support because most reform measures since the late 1990s have disproportionately benefited status quo interests, often at the expense of the masses: housing, education, health care and SOE reforms, to name just a few. Popular discontent has given rise to the New Left, threatening party unity and political stability as evidenced by the recent Chongqing incident.

Because China's status quo interests have either evolved largely inside the political system or are attached to the political structure, there are few incentives within the establishment to reform the political system. As a result the Chinese system's capacity to reform and renew itself is diminishing. The inability to forge ahead with bold reforms in an increasingly restive society has left the regime with one dominant survival strategy: "maintaining stability" (*weiwen*), the costs of which have skyrocketed to surpassed the defence budget.

Social forces are the only possible counterweight to status quo interests. The potentially progressive forces consist mainly of the middle class, the unconnected entrepreneurs in small and medium-sized enterprises, part of the academia, lawyers, journalists, NGOs and other advocacy groups, opinion leaders active in both the old and new media, and enlightened and ambitious politicians. In comparison with the well-oiled machine of status quo interests, progressive forces of China are disorganised, divided in opinion, and lack of effective political instrument. The masses are the ultimate source of energy for social change that can be both constructive and destructive depending on how it is channelled. They may well turn out to become a reactionary force under demagogues such as Bo Xilai, who channelled mass discontent through neo-Maoist populism.

The ascension of the fifth generation leadership in late 2012 provides a window of opportunity but not necessarily the energy needed for successful new reform initiatives. If the new leadership does not shift its policy from *weiwen* to more imaginative society building and state restructuring, the status quo interests may well be able to perpetuate themselves. China is entering a difficult stage in its development. ■

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Even the notion of reform is losing popular support because most reform measures since the late 1990s have disproportionately benefited status quo interests...

# Political Participation of Private Entrepreneurs in China

*Political inclusion of businessmen is getting more apparent with private entrepreneurs gaining a bigger and bigger ratio in the recruitment drive of the Chinese Communist Party over the years.*

GUO XIAJUAN

A recent report declares that 24 private entrepreneurs have been elected as representatives in the forthcoming 18th Plenum Party Congress, outnumbering the number of private entrepreneurs in the previous plenum which had only 17. This report highlights not only the adaptability of the party, but also the political identity of private entrepreneurs. It is undoubtedly a success for the party to rise to the new challenge and meet the requirement of becoming an inclusive ruling system. Looking back, the legitimacy of industry players in the private sector has experienced many ups and downs over the past two decades. The process, beginning from the party's decision at the third Plenum in December 1978 to abandon class struggle and to pursue economic modernisation, can be categorised into three periods, namely 1978-1988, 1988-1989 and 1999-now, and which are also understood as the first, second and third decades respectively.

The first decade is also called the "informal entry stage" during which businessmen in non-state-funded enterprises invaded the state to gain entry into the market despite the lack of a legal framework. This decade was accompanied by substantial modifications made to the Constitution and therefore legitimising the non-state-owned sector.

The State Council issued a document in 1981 defining self-employed enterprises were "getihu" (individual enterprise), with no more than seven employees in each enterprise; it led to the first amendment of the 1982 Constitution which validated private firms as a "complement to the socialist public economy".

Further changes emerged in the Party's document, which included introducing the notion "siying qiye" (private enterprise) in January 1987. Thereafter, the report of the 13th Party Congress in October 1987 recognised the need to develop the private economy.

Again it resulted in the second amendment to the 1988 Constitution, with the notion of "siying jingji" (private economy) being introduced to Article 11 of the Constitution. It stated that "the private economy thus complements (buchong) the economic system of public ownership under socialism". Since then, the private economy has reentered the legal position after over two decades of being outlawed and this phenomenon has been developing rapidly.

However, the second decade coincided with the stage of retrogression from 1989 to 1999. Since the development of the private sector was accompanied by controversies of the effects it had brought about, private entrepreneurs were politically excluded when the "Notice on Strengthening the Leadership of the Communist Party" was released in August 1989. The door to private entrepreneurs' political participation was consequently closed. After the inspection tour to south

China by Deng Xiaoping in January 1992, the two party congresses paved the way to achieving the objective of building a system of "socialist market economy": i) The 14th Party Congress in October 1992 initially presented the notion of "socialist market economy", and set achieving it as one of the main responsibilities of the party. ii) The 15th Party Congress in September 1997 went one-step ahead to explicitly recognise it as an "important element".

Soon afterwards, the third stage witnessed the process of private entrepreneurs' cooptation. It began with further modifications made to the 1999 Constitution, stipulating that "the individual economy, the private economy and other forms of the non-state economy are important components (zhongyao zucheng bufen) of the socialist market economy".

This led to the "Three Represents Theory" presented by former president Jiang Zemin during the eightieth anniversary of the founding of the Chinese Communist Party (CCP) on 1 July 2001. It stated that "we should unite with the people of all social strata who help to make the motherland prosperous and strong...and commend the outstanding ones in an effort to create a situation in which all people are well positioned, do their best and live in harmony". The Party Constitution in 2002 stated that "the CCP accepts qualified members of all people, including Chinese workers, peasants, soldiers, intellectuals and outstanding ones of other social strata above 18 age years old". It was a significant advancement.

Political inclusion of private entrepreneurs in great numbers is getting more apparent. Statistics show that 13% of private businessmen were members of the party in 1993, and this percentage jumped to 18.1 in 1997, 19.9 in 2000, 30.2 in 2002, 33.9 in 2005 and 35 in 2006. The ratio of private entrepreneurs to the total number of party members has been increasing since 2006, from four per cent in 2006 to 4.7% in 2008, and further to 4.9% in 2009. In addition, there are a great number of party members who were appointed to leading positions in party committees.

Based on the momentum of recruiting businessmen from seven to 17 in the 16th and 17th congresses respectively, the tendency to recruit more businessmen can be expected in future sessions. In addition, the younger generation of private entrepreneurs is also more willing to become party members, and this includes the post-80s or "the 80 hou" generation. This is reflected in the the "Opinions on the Further Development of Private Sector" enacted by the State Council recently, implying that the party-state will expand political recruitment to realise a better society. ■

Guo Xiajuan is Professor of Politics and Public Administration in the School of Public Administration at Zhejiang University, China.

# China's Massive Social Housing Construction Programme: Mission Impossible?

*In March 2011 the government announced its plan to build 36 million social housing between 2011 and 2015. Will this be a "mission impossible" programme?*

ZHOU ZHIHUA

To create a harmonious society and to smooth the pathway to the 18th Communist Party of China (CPC) National People's Congress in the autumn of 2012 and the leadership handover in 2013, the central government needs to tactfully deal with the controversial housing issue.

The plan to construct 36 million social housing units will generate huge capital and land pressure for local governments which are already struggling with revenue deficit in the current stagnant commercial housing market. Will this be a "mission impossible" plan?

The compendium document of the housing reform in 1994 set out that Economically Affordable Housing (EAH) would provide accommodation for 70% of low- and middle-income urban households and commercial housing for 30% of upper- and middle-income groups. However in 2010 the ratio of new construction floor space of EAH to total floor space of residential building decreased from 20.8% in 1998 to 3.8%. The investment in EAH only represented 3.1% of the total investment in residential housing in 2010. The dominance of market housing and the poor provision of social housing have aggravated urban poverty and social polarisation, provoking great social grievances in recent years.

To alleviate social discontent and create a harmonious society, the National Development and Reform Commission announced in March 2011 that 36 million social housing units would be constructed during the national Twelfth Five-Year Programme period (2011-2015), of which 10 million units would be constructed in 2011 and 2012 respectively, and 16 million would be constructed during the remaining three years.

By this plan, the percentage of social housing to the overall housing stock will increase from the current eight per cent to 20% by end 2015. It is expected to provide accommodation to an additional 100 million citizens. One out of five urban citizens will live in social housing units by then. The configuration of housing structure between private and public sectors will be changed by the significant increase of social housing in the programme. This programme reveals a shift in the government's strategy of providing social housing type from ownership (EAH in the 1994 compendium document) to a mixed tenure package of ownership (EAH and small-sized and price-capped housing) and tenancy (Public Rental Housing, Low Rental Housing and the renovation of shanty housing).

The Ministry of Housing and Urban-Rural Development (MHURD) will supervise the overall construction and management of this programme, while the Ministry of Land and Resources and the Ministry of Finance will be

responsible for land supply and capital provision respectively. As estimated by MHURD, a capital of RMB5.0 trillion and a land area of 1.2 trillion square metres are needed for the realisation of the entire programme.

The central government, local governments and social institutions would jointly commit to the capital provision of RMB1.3 trillion for the construction of 10 million units in 2011. Assuming a capacity rate of 2.5 and an average construction area of 70 square metres per unit, the actual land supply of a ground floor area of 1,088 million square metres in 2011 was sufficient to meet the construction of such 10 million units. On 5 March 2012 Premier Wen announced that China had initiated the construction work of 10.43 million housing units in 2011. This was in sharp contrast with the 15 million units of social housing provision in the whole 11th Five-Year Programme period (2006-2010). Particularly, the social housing units under construction in some major cities even surpassed that of commercial housing in 2010.

However there remain problems with the 2011 social housing construction. For example, most social housing projects are located in suburban areas with poor commercial facilities and infrastructure provisions. The vice minister of MHURD stated that about one-third of the 10 million initiated projects were at the soil-excavation stage. The poor construction quality of such units has been frequently reported in the public media. The distribution and management of completed units have been unfair and causing conflicts.

Although the task to construct 10 million social housing units in 2011 had been achieved, those units to be built over the next four years remain as huge challenges for the local governments, which are already struggling due to the cut in revenue derived from land-use right transfers in the current stagnant commercial housing market.

The public questioned the massive construction of such housing units in the programme. Many suggested that if the government had provided social housing provision in a gradual process over the past two decades, housing pressure from capital and land would have been alleviated. Indeed, instead of making such "Great Leap Forward" in housing construction, the government would do well to adopt a long-term strategy on the social housing sector by developing more innovative instruments for social capitalisation, integrating effective land use for urban development and improving the legislative framework for not only the proper implementation of this plan in the coming years, but also the overall social housing development in the coming decades ■.

Zhou Zhihua is Visiting Research Fellow at EAI.

# Reforming Public Hospitals in China: An Imperative Task for the New Leadership

*The reform of public hospital governance and financing is challenging and local pilot projects are important for the success of the reform.*

QIAN JIWEI

**A**fter China overhauled the healthcare system in 2009, public hospital reform is next on the agenda of the new leadership. Health expenditure in China increased very rapidly to over RMB2 trillion and accounted for about 4.8% of total GDP in 2011. The affordability of health care is a serious concern for many Chinese people. From 1990 to 2004, average disposable income increased by 5.24 times for urban residents while average health expenditure increased much more rapidly by around 20 times. Financial burden for patients is particularly high in China compared to other countries. Out-of-pocket expenditure as a share of total health expenditure was 36% in China in 2010. In comparison, out-of-pocket expenditure accounted for 22% of total health expenditure in Poland and Turkey while the United States registered a figure of about 12% in 2008.

Public hospitals' profit seeking behaviour is believed to be one of the major reasons for the rapidly increasing health expenditure in China. Public hospitals accounted for 87% of total hospital assets and over 90% of total hospital revenue in 2010. Since public service providers are dominant, the increases in health expenditure can be largely explained by the increasing expenditure in public hospitals.

As the physician is the key decision maker during a treatment process, health expenditure could be driven to a very high level if the physician has the incentive to profit from the treatment. Public hospitals have the incentive to behave opportunistically for two reasons. First is the low government grant for public hospitals. Second is the flexibility in charging a price markup of up to 15% for drug prescription in public hospitals.

A landmark guideline for health reform was released by the State Council in April 2009 to reduce out-of-pocket-fee of unnecessary treatment/drugs. One way is to reform the governance structure of public hospitals by enhancing the regulation of hospital physicians and hospital managers, or by market forces such as competition as a complementary mechanism to influence provider's behaviour. Public hospital reform will start from several pilot sites and will be gradually extended nationwide.

In February 2010, 16 cities were announced as pilot sites for the public hospital reform. The focus of many local reforms is hospital's governance structure in which hospital managers are granted a higher degree of autonomy and local governments are given larger de jure power to supervise and regulate budget and investment within public

hospitals. One example is in the establishment of Shenkang Hospital Development Centre in Shanghai, which oversees operation and resource allocation for three-fourths of all tertiary-level public hospitals.

Apart from hospital governance reform, another major area of hospital reform is hospital financing by reducing the share of revenue from selling drugs and increasing the share of revenue from other sources. In May 2012, public hospital reform was initiated in Beijing, one of the pilot cities. In the hospitals in Beijing, 15% price markup for selling drugs has been removed to reduce the incentive of doctors to over-prescribe drugs. To compensate the financial losses after the removal, the minimum consultant fee has been increased from RMB3 to RMB42 per visit. For social insurance enrollees, RMB40 out of this RMB42 consultant fee will be reimbursed by the insurance fund. Since June 2012, Shenzhen city initiated similar reform to remove markups for the sale of drugs in all local public hospitals and adjust fee schedule by increasing the prices for healthcare services by RMB11-14 per outpatient visit.

Many of these reforms are still work in progress and it is still too early to gauge how successful these reforms are. In March 2012, the government released a blueprint document for the 12th Five-Year Programme. The document places the reform of public hospitals as the key task for the next stage of the health reform, highlighting three major areas. First, the leading role of public hospitals in providing healthcare services and government's responsibility for infrastructure upgrading, resource allocation as well as other policy targets. Second, price markup for selling drugs will be gradually removed and financial losses of hospitals will be compensated by increasing service prices and government grants. Third, county level public hospitals will be the major targets for the next phase of health reform by 2015 including removing price markups for selling drugs, payment method reform as well as governance reform. In June 2012, 311 counties were selected by the State Council as pilot counties to be allocated RMB3 million grant from the central budget for public hospital reform.

Given the rapidly increasing health expenditure and the nature of health service provision, hospital reform is particularly challenging for the new leadership. Success in some local pilot projects could be achieved if the new leadership commits to a deepening health reform. ■

Qian Jiwei is Research Associate at EAI.

Public hospitals' profit seeking behaviour is believed to be one of the major reasons for the rapidly increasing health expenditure in China.

# Recent Staff Publications

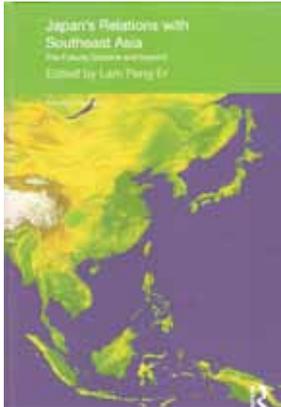
## Books

### *Japan's Relations with Southeast Asia: The Fukuda Doctrine and Beyond*

Editor: **Lam Peng Er**

Publisher: **Routledge Taylor & Francis Group**

Year of Publication: **2013**



The Fukuda Doctrine has been the official blueprint for Japan's foreign policy towards Southeast Asia since 1977. This book examines the Fukuda Doctrine in the context of Japan-Southeast Asia relations, and discusses the possibility of a non-realist approach in the imagining and conduct of international relations in East Asia.

The collapse of 54 years of Liberal Democratic Party rule and the advent of a new

Democratic Party of Japan raises the question of whether the Fukuda Doctrine is still relevant as a framework to analyse Tokyo's policy and behaviour towards Southeast Asia. Looking at its origins and norms amidst three decades of change, the book argues that the Fukuda Doctrine is still relevant to Japan-Southeast Asia relations, and should be extended to relations between China and Japan if an East Asian Community is to be built.

### *Japan's Strategic Challenges in a Changing Regional Environment*

Editors: **Purnendra Jain and Lam Peng Er**

Publisher: **World Scientific Publishing**

Year of Publication: **2013**



Japan faces significant challenges in both traditional and non-traditional areas of national security policy as the economic resurgence of China and the loss of US hegemonic clout significantly transform the strategic landscape of the Asia-Pacific region. How is Japan coping with this new global and regional politico-security environment? What strategic moves has it taken to best position itself for the future to maximise its global

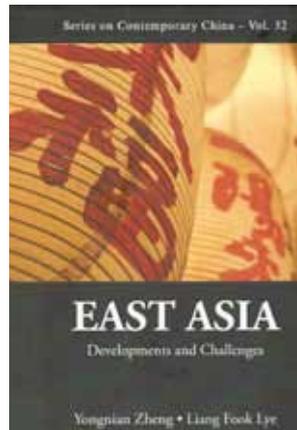
and regional influence? These are some of the crucial questions that are explored in-depth by a group of scholars both distinguished and diverse in this comprehensive volume.

### *East Asia: Developments and Challenges*

Editors: **Zheng Yongnian and Lye Liang Fook**

Publisher: **World Scientific Publishing**

Year of Publication: **2013**



This book aims to provide readers with an understanding of the important and emerging political, economic and social trends and challenges in East Asia in the coming years. There is urgency to conduct such a review of the state of East Asian affairs as the international and regional environments seem to be headed towards greater uncertainty. In this book, East Asia refers to countries such as the People's Republic of

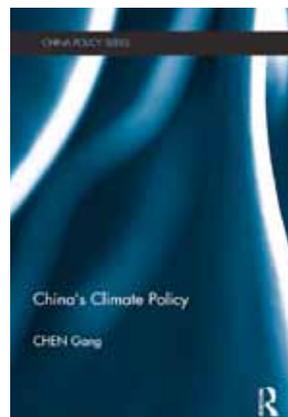
China, Japan, North and South Korea, and the localities of Taiwan and Hong Kong.

### *China's Climate Policy*

Author: **Chen Gang**

Publisher: **London: Routledge**

Year of Publication: **2012**



This book argues that as a vast continental state with a mix of authoritarian politics and a quasi-liberalised market economy, China's climate policy process is fragmented and self-defensive, seemingly having little room for significant compromises or changes; yet in response to mounting international pressures and energy security concerns and attracted by lucrative carbon businesses and clean energy market, the regime shows

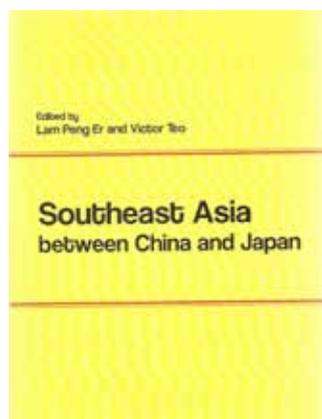
some better-than-expected flexibility and shrewdness in coping with the newly emerged challenges. Its future climate actions, whether effective or not, are vital for not only the success of the global mitigation effort, but also China's own economic restructure and sustainable development. The book concludes that instead of being motivated by concern about its vulnerability to climate change, Chinese climate-related policies have been mainly driven by its intensive attention to energy security, business opportunities lying in emerging green industries and image consideration in global climate politics.

## *Southeast Asia between China and Japan*

Editors: **Lam Peng Er and Victor Teo**

Publisher: **Cambridge Scholars Publishing**

Year of Publication: **2012**



Triangular relations which frame China and Japan as two sides of an isosceles triangle usually focus on the United States as the significant third side. This edited book examines another relatively underexplored set of triangular relations: those between China, Japan and Southeast Asia. The region, comprises 11 small and medium-sized states, is often considered

inconsequential in the tempestuous world of international politics where political clout, economic prowess, military strength and soft power matter most. The country-specific case studies of this book collectively support the thesis that the Southeast Asian states actively seek to manoeuvre between China and Japan to their own advantage and at the same time grapple with developments in Northeast Asia through regional integration efforts. Through the establishment of benchmark norms and values, Southeast Asia attempts to socialise China and Japan and other external powers to the ASEAN way.

## *In Defense of China*

Author: **Zheng Yongnian**

Publisher: **Zhejiang Publishing United Group**

Year of Publication: **2012**



The fifth and last volume in the series of Zheng Yongnian on China, this book gathers together Professor Zheng's commentaries on China's internal and external transformations in a globalising world. Published between 2002 and 2010, these commentaries are timely responses to the dilemma of China's socioeconomic transformations and its external implications in an

increasingly interdependent and complex international environment. Eschewing a simple and ideological-laden approach to China's phenomenal rise, the author proposes his own conception of the China Model based on carefully analysing China's economic, financial, cultural, diplomatic and strategic situation in the world.

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"Goh Keng Swee and Chinese Studies in Singapore: From Confucianism to China Watching" in Emrys Chew and Kwa Chong Guan (eds), *Goh Keng Swee: A Legacy of Public Service*, Singapore, World Scientific, S Rajaratnam School of International Studies and National Archives, 2012, pp. 245-277.

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**By John Wong and Sarah Y Tong**

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**By Qi Dongtao**

## **In Journals**

"20 Years of China-Singapore Diplomatic Relations", *Global Review*, Shanghai Institute for International Studies, Summer 2012

**By John Wong and Lye Liang Fook**

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**By Chiang Min-hua**

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**By Zhao Hong**

"China-Myanmar Energy Cooperation and its Implications", *Journal of Current Southeast Asian Affairs*, vol 30, no 4, 2011, pp. 89-109.

**By Zhao Hong**

### **FORTHCOMING**

"Hospital Behaviors under Administrative Cost-Containment Policy in Urban China: The Case of Fujian Province," *The China Quarterly*

**By Alex He Jingwei and Qian Jiwei**

"Globalization, Social Justice Issues, Political and Economic Nationalism in Taiwan: An Explanation of the DPP's Limited Revival during 2008-2012", *The China Quarterly*

**By Qi Dongtao**

"China's Five-Year Plan: A Potential Game Changer for Economic Restructuring and Socio-Economic Development", *Journal of Asian Public Policy*

**By John Wong**

"A China-Centric Economic Order in East Asia", *Asia Pacific Business Review*, Routledge, London.

**By John Wong**

# The Hong Kong Chief Executive Election in Perspective

*The city's third Chief Executive Leung Chun-ying took office in July 2012 after emerging victor in March's scandal-laden election.*

YEW CHIEW PING

In 1995, *Fortune* magazine published a controversial article titled “The Death of Hong Kong”, spelling the doom of the vibrant metropolis: “as Hong Kong becomes a captive colony of Beijing and increasingly begins to resemble just another mainland city, governed by corruption and political connections rather than the even-handed rule of law, it seems destined to become a global backwater”. These words seem to ring eerily true in today’s context.

Well, Hong Kong is still a bustling *laissez-faire*, ranked as the world’s most developed financial market in 2011. But events leading up to the 2012 election of Hong Kong’s political chief confirm the suspicion that endemic corruption in mainland China has percolated Hong Kong; Beijing’s overt and covert manipulation of the scandal-laden election also demonstrated a flagrant disregard for Hong Kong’s autonomy.

Hong Kong’s second Chief Executive (CE) Donald Tsang, who stepped down in July 2012, allegedly accepted the hospitality of tycoons in the form of private jets and yachts while paying symbolic fees. This sparked concern about the exchange of favours and collusion between politicians and tycoons that many believed have contributed to Hong Kong’s soaring housing prices and one of the world’s biggest wealth gap.

Tsang was already a lame duck leader with public approval hovering at below 50% as his term drew to a close. His successor Leung Chun-ying does not seem capable of arresting the downward slide in popularity and reversing the public’s growing disillusionment with the government. Leung won the CE election with merely 35% popular support—the lowest ever—in contrast to his predecessors who had more than 60% popular support when they took office.

But a candidate’s popularity was of the least importance in this election. The Hong Kong chief is elected by a small circle of 1,200 voters made up of the rich and powerful, most of whom had always voted in accordance with Beijing’s wishes. This time round, however, factional politics had so ruptured the electorate that Beijing had a hard time trying to lobby support for Leung. Not only did Beijing mobilise its Liaison Office in Hong Kong, it even sent a high level official to convince the electorate to switch sides. Other less pliant media was also being pressured to report more favourably on its preferred candidate.

Imagine the frustration of disenfranchised Hong Kongers

as they watched this farce unfold. So far Beijing has turned a deaf ear to Hong Kongers’ demand to elect their own chief as reflected in past opinion polls. That demand came out loud and strong again in a civil referendum held two days before the CE election. Yet Beijing and the pro-Beijing electorate again paid no heed. On 25 March 2012, 689 members of the electorate voted for Leung, allegedly an underground Communist Party member, to lead Hong Kong in the next five years.

Leung took office in July, which also marked the 15th year of Hong Kong’s return to China. Close to one-third of 50 years had passed, the period within which Hong Kong’s lifestyle shall see no change. Yet at this juncture, an opinion poll shows that more Hong Kongers have lost confidence in governance by “one country, two systems.” Despite closer economic ties, Hong Kongers also feel estranged from mainland China – more Hong Kongers than ever have identified themselves as Hong Kong citizens rather than Chinese citizens.

Is this any surprise? In the run-up to the CE election and over the past 15 years, shrewd Hong Kongers witnessed how Beijing had delayed

the implementation of universal suffrage, curtailed media freedom as well as protest rights, and encroached upon its judicial independence. The influx of Mainlanders competing for resources in the small and densely populated city has not bred fondness either.

Now that Leung, who has shown scant tolerance for criticism and dissent, emerged victor in the Beijing-orchestrated election and will rule for the next five years, what will become of Hong Kong’s civil liberties? Is the city moribund?

To be optimistic, all is not lost. In this September’s Legislative Council election, the democratic camp – political parties that champion Hong Kong’s core values of democracy and freedom – won enough seats to retain its veto power. This is a clear signal to Beijing that Hong Kongers want their norms and way of life preserved. To mitigate the social cleavages and political tensions between mainland China and Hong Kong, Beijing has to make good its promise of a “Hong Kong ruled by Hong Kongers” in the long run. The first step will be to let Hong Kongers choose their political chief in a free and fair election in 2017. ■

Yew Chiew Ping is Research Fellow at EAI.

To mitigate the social cleavages and political tensions between the mainland China and Hong Kong, Beijing has to make good its promise of a “Hong Kong ruled by Hong Kongers” in the long run.

# Challenges in China's "Good Neighbour Diplomacy"

*China faces tremendous challenges in its relations with several neighbours. It must revitalise its "good neighbour diplomacy".*

ZHU ZHIQUN

The year 2012 will probably be remembered, among other things, as a year in which China experienced a series of setbacks in its diplomacy in East Asia. Territorial disputes in the South China Sea and the East China Sea simultaneously flared up, threatening China's relations with the Philippines, Vietnam and Japan and hurting China's international image. As a new group of leaders take control of the Chinese government and the Communist Party after the 18th Party Congress, China will need to pay more attention to its security environment in Asia.

China launched its "good neighbour diplomacy" (*mu ling wai jiao*) in the early 1990s in an effort to break out of the Western-imposed diplomatic isolation after the Tiananmen Square incident. When Deng Xiaoping was still alive and Qian Qichen was the chief implementer of the new diplomacy, China achieved considerable success in the 1990s. Relations between China and ASEAN (Association of Southeast Asian Nations) improved greatly. This was significant given the fact that many ASEAN nations remained firmly anti-communist not long ago. Even disputes over the controversial South China Sea were temporarily shelved, making way for closer economic and political cooperation. China-Japan relations were also strengthened. In 1990, Japan became the first great power to lift economic sanctions against China and resume economic and political dialogues with Beijing. In October 1992, China welcomed Emperor Akihito and Empress Michiko to Beijing, signalling the restoration and expansion of Sino-Japanese relations. The Republic of Korea, partially due to its own nordpolitik policy, established diplomatic relations with Beijing in 1992 and severed formal ties with Taiwan which it had maintained since 1949.

By the mid-1990s, as Chinese economic power continued to grow, talks of "revitalising the Chinese nation" (*zhen xing zhong hua*) had become prevalent inside China. Increasingly, the Chinese government and the Chinese public began to consider China as one of the great powers in the world. Accordingly, China adjusted its policy and refocused on the big powers in its foreign relations. Chinese leaders started to travel to major capitals and invited their foreign counterparts to visit Beijing. Most notably, this "great power diplomacy" (*da guo wai jiao*) resulted in Presidents Jiang Zemin and Bill Clinton's exchange of visits in 1997 and 1998. Understandably China's foreign policy has focused on the big powers, especially the United States, and a stable US-China relationship is crucial for China's national interests.

Following 9/11, while the United States was preoccupied with the war on terror, China strengthened relations with

countries in far-away lands such as Africa and Latin America as part of its strategy to "go out" (*zou chu qu*) and project power globally. In Asia, China has emphasised economic cooperation and trade promotion with its smaller neighbours while not taking the security concerns of these countries seriously. As a result, China is facing a dilemma now: economically China has become the largest trading partner of almost all the countries in Asia, yet most of these countries do not identify with China politically and are seeking security protection from the United States. While China enjoys mostly favourable views in other parts of the developing world, its image in Asia remains mixed and even negative in several countries.

A decade after 9/11, the United States realised that it had not paid sufficient attention to Asia, the fastest growing region. As part of its global strategic restructuring, the United States has decided to "pivot" towards Asia or to "return" to Asia. Scholars are still debating over the true intentions of America's strategic rebalancing towards Asia, but one thing is clear: China looms large in America's strategic thinking. The United States will compete with China for resources and influence in Asia.

China looms large in America's strategic thinking. The United States will compete with China for resources and influence in Asia.

Although China's overall relations with East Asian countries are strong, its troubled relationships with Japan, the Philippines and Vietnam have generated negative international media coverage. In addition to the South China Sea and the East China Sea, the Korean Peninsula presents a different type of challenge. Kim Jong-un succeeded his father Kim Jong-il when the latter died suddenly in December 2011. By mid-2012, the younger Kim had assumed all top positions in the Korean Workers' Party and North Korea's military and government. He has sent out mixed messages. While sticking to the "songun" (military first) policy and refusing to give up the nuclear programme, Kim has introduced some positive changes within North Korea. As the most influential external power, China has a unique role to play in encouraging North Korea's opening up and contributing to peace in East Asia.

It is China that needs to "return" to Asia and work harder to improve relations with Asian countries. After all, close neighbours are dearer than distant relatives. It will be a major challenge for China's new leaders to revive the "good neighbour diplomacy" and create a better regional environment for China's continued development at home. ■

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# Maritime Disputes in the South China Sea: A Challenge for the New Leadership?

*Maritime disputes in the South China Sea continue to test regional relations and are reflective of claimant states' internal dynamics. Policy direction will be decided by the new leadership and will remain ambiguous in the interim period.*

ALISTAIR D B COOK

In April 2012, the most recent dispute in the South China Sea took place around Scarborough Shoal. The dispute began after China blocked an attempt by the Philippines to arrest Chinese fishermen suspected of taking government-protected marine species from around the shoal. In response, both China and the Philippines asserted their sovereignty claims by subsequently basing non-military vessels at the shoal to 'effectively administer' their perceived rights. Indeed, increased US presence in the region has bolstered Southeast Asian claimant states – the Philippines in this case – to take a stronger stand against Chinese territorial claims in the South China Sea. In turn, Chinese responses have also appeared more assertive. Yet despite the escalation of tensions, the status quo of conflict management prevails. However, with increased militarisation of the dispute, the prospects for unintended consequences remain real and will pose a challenge to the new leadership in Beijing.

Since the dispute, it has become clearer that there are multiple voices within the government in China. These internal and informal policy influences can be seen through the different media outlets associated with various organs of the government. For instance, the chief publication for China's military, *The Liberation Army Daily*, charged "US statements have provided the Philippines with room for strategic manoeuvre and to a certain extent has increased the Philippines' chips to play against us, emboldening them to take a risky course".

It is important to recognise the prominence of the armed forces in determining Chinese foreign policy, which has historically been viewed through a military lens with a much lesser role given to diplomats and foreign ministry officials.

Another important gauge of internal government debate is the state-run *China Daily*. It published an editorial which argued that "[no] matter how willing we are to discuss the issue, the current Philippine leadership is intent on pressing us into a corner where there is no other option left but the use of arms". Likewise the Communist Party-affiliated *Global Times* warned that the international community should not be "completely surprised" if a military confrontation ensues. So while the rhetoric surrounding the disputed territories has escalated within China, it is also important to keep rhetoric in context. Internal political views in the public domain or within government are neither necessary nor sufficient conditions to determine policy outcomes. In essence, particularly in a bureaucratic state like China, leadership matters.

The once-a-decade leadership transition will take place in China in late 2012. Major policy 'parting shots' are less likely particularly within a country with an increasing wealth gap between rich and poor, and a weak central government vis-à-vis foreign policy choices in addition to other internal dynamics playing out. Once the leadership transition takes place and is consolidated, it is then the most likely time for major policy decisions to be made as the new leadership plots their own policy course.

However, while progress towards dispute resolution in the immediate term is unlikely, there have been cooperative developments nonetheless. This procedural progress was made in 2011 illustrating soft power as a facet of China's strategy. In November 2011, China made a goodwill gesture of providing US\$475 million to establish the China-ASEAN Maritime Cooperation Fund. As a result there are several working groups now in place. While these are 'low hanging fruits' it does illustrate China's public diplomacy. At present, being seen as the aggressor is in neither China's nor the Philippines' strategic interests.

While bilateral negotiations have allowed for de-escalation, the root causes of the disputes remain in place. Currently Beijing pursues a bilateral strategy with individual Southeast Asian claimant states in the South China Sea. However, so long as China continues to block discussion of South China Sea disputes in multilateral forums, it incentivises other claimant states to escalate tensions to gain more global and regional attention most often by articulating the UN Convention on the Law of the Seas.

Claimant states are also attempting to reach a regional agreement on a common position within the Association of Southeast Asian Nations (ASEAN) framework. Yet both these avenues have not garnered adequate motivation and support to resolve the various territorial disputes. Indeed, the recent failure to gain consensus around the joint communique at the 2012 ASEAN Summit because of disagreement over whether or not to include reference to the Scarborough Shoal dispute illustrates this well. Importantly, negotiations with ASEAN on the Code of Conduct currently do not directly involve the United States and are therefore of significance to the new leadership. Once the leadership transition takes place, the approach it takes to the disputes in the South China Sea will be a bell-weather as to how it will interact more broadly in the international system. ■

Alistair D. B. Cook is Visiting Research Fellow at EAI.

# Building Mutual Trust to Advance Regional Cooperation in East Asia

*Economic integration is not sufficient for countering political tensions. It however provides good economic foundation for building mutual trust.*

JOHN WONG

“**M**utual trust” is the mother of all international cooperation. For any form of international cooperation and exchange to succeed, it must start in the spirit of good will. But good will alone will not be enough; it has to give rise to mutual trust. There are certain essential preconditions for building long-term mutual trust.

To begin with, countries in East Asia (EA) must make concerted efforts to clear, to defuse or just to put aside the existing political frictions, irritations and obstacles that are standing in the way of their cooperation. Right now, the EA cooperation process is under the shadow of some complicated and sensitive bilateral issues and geo-political problems related to territorial disputes among several EA countries.

All territorial disputes can be very emotive when they are fanned by nationalism. Historically, many territorial disputes have the potential to escalate. They are therefore not easy to resolve in the short run. But if the problems cannot be resolved, the governments concerned have the responsibility to contain the issue and put it under control. The best way is for the countries concerned to put aside the issue until some acceptable means of solutions can be worked out in the future.

## MUTUAL TRUST AND MUTUAL BENEFITS

To be realistic, mutual trust must be built on a solid ground, i.e. one based on mutual benefits, be they political, economic and social benefits. To achieve this, the best starting point is to further enhance regional economic cooperation. Most economic cooperation programmes yield mutual benefits because they are usually by themselves win-win in nature. The case in point is the FTA (free trade agreement) among the member states. All FTA arrangements create more trade and generate economic growth. Of course, they can also carry some short-term adjustment costs (or what economists call “externalities”) because they can lead to uneven distribution of benefits and costs in the short run. This can easily translate into political and social costs as the FTA is being implemented. Over the long run, the economic benefits will usually outweigh political and social costs.

Suffice it to say that the EA economies have already become quite well integrated in terms of trade and investment. Intra-regional trade in the EA region is now slightly more than 50%, which is lower than that of the EU but higher than many other regional groupings. Regional trade is

further boosted by increases in regional FDI (foreign direct investment) inter-flow and the growth of regional tourism. All these add up to greater economic inter-dependence among member countries and hence a higher level of East Asian economic integration.

Historically, Japan was the region’s economic growth engine as Japan provided the market as well as the source of capital and technology for other EA economies. In recent years, the rise of China has produced even more profound impact on the region. Increasingly, the Chinese economy operates not just as a powerful engine of economic growth for other ASEAN Plus Three (APT) economies, but also a catalyst for regional economic integration because China is

the home to many regional and global production networks. In this way, EA countries have already developed a good economic foundation for building mutual trust. This is also the right step towards the East Asian Economic Community in the long run.

## EAST ASIA “HOT IN ECONOMICS, COLD IN POLITICS”

Still, the present level of economic integration in East Asia based on trade and investment is still not sufficiently strong to counter political tensions among member countries. The present pattern of inter-state relations in the region is often likened

to “hot in economics, but cold in politics”. The existing level of economic integration in East Asia is still not high enough or “hot” enough to warm the sometimes cool relations among certain member countries.

Building trust among APT countries is a long-term process and there are a lot of challenges to overcome. Apart from further strengthening the areas of mutual economic benefits based on trade and investment, more attention to new areas of cooperation with clear-cut mutual benefits is needed.

The case in point is how to further improve “regional connectivity”, which comprises (a) physical connectivity in terms of better transportation and communication; (b) economic connectivity in terms of more trade and investment; and (c) social connectivity in terms of more people-to-people exchanges. This is a comprehensive way to produce mutual benefits to all, and ultimately increase mutual trust. ■

John Wong is Professorial Fellow at EAI.

... the EA economies have already become quite well integrated in terms of trade and investment. Intra-regional trade in the EA region is now slightly more than 50%, which is lower than that of the EU but higher than many other regional groupings.

# EAI Distinguished Public Lecture

## After State Socialism: The Economic Costs of Regime Change



From left: Professor John Wong and Professor Andrew Walder

Professor Andrew G Walder, Denise O’Leary and Kent Thiry Professor of the Department of Sociology at Stanford University, drew a detailed comparison of the annual growth rates of China, Vietnam, Russia, Poland, Hungary and other former communist states between 1990 and 2009 at EAI’s Distinguished Public Lecture. He highlighted the various arguments put across by academics and countered them with well-analysed explanations.

Some academics figured out that China’s stellar performance was due to its implementation of gradual economic reform, which was considered a superior strategy. However, in counterargument to the above, radical reforms were ill-advised and were at least partly responsible for the collapse of many post-communist economies in what was known as “market Bolshevism”.

Another group of academics claimed that gradual economic reform was not considered a superior strategy for China, and neither was it an option for former USSR and Eastern Europe. Reforms in East Asia flagged off at different starting points though.

A third argument proposed that China was exemplary in that “single transition”, i.e., economic reform, was easier than taking the route of “dual transition”, i.e., political and economic transition at the same time. Indeed, regime change makes for a more difficult transition, in which new institutions need to be created to implement painful reform and restructuring.

China, Laos and Vietnam were the only three of 10 countries with a GDP per capita below US\$1,000 that did very well economically in the 1990s. The other seven countries averaged one per cent in growth, which was half of the average for all transitional economies.

To the various hypotheses and arguments, Professor Walder raised many questions. His question on why only certain countries benefit from reforms since low levels of initial industrialisation presented itself as an advantage, in fact, overturned the arguments framed by other academics. It also becomes obvious that former communist states, which

were early democracies, post-communist dictatorships or mixed authoritarian/electoral regimes, suffered stagnant economic growth. Hence, policy content and the speed at which the reform was implemented could not explain sufficiently the variation in the outcomes of post-communist regimes.

Professor Walder added that many academics and observers had overlooked the level of political disruption during the onset of economic transition—that is, whether or not the communist party organisation collapses and the timing of the collapse. Party organisations in traditional socialist economy, as Prof Walder explained, enforce state property rights and contracts between firms. If party organisation collapses and there is no immediate substitute, the state loses its ability to define and enforce property rights. Ownership of assets becomes unclear, resulting in a contest of ownership rights among managers, employees of regional and local governments. These theories, in another perspective, suggest that the state is a primary threat to property rights.

Studying the average annual growth, China, by 2008, still lags far behind other transitional economies in GDP per capita—at 25% that of Slovenia and 39% that of Russia—despite spectacular growth rates. Essentially, different levels of political disruption make the problem of market reform qualitatively different, and this explains why there is no clear relationship between policy approach and economic outcomes.

Translating his analysis to China’s case, Professor Walder foresees that China will face a “stability trap”. China is likely to drag its feet to carry out any kind of political reform for fear of retracing the path of other countries in the 1990s. The fear originates from the fact that the Chinese government is still based on the old Soviet model.

However, as Professor Walder explained, China’s economy today is very different from former socialist countries and China’s reforms have gone far back to over 30 years. State ownership—which focuses mainly on large firms and “national champions”—accounts for a small percentage of the economy now.

Furthermore, the economic role of party organisation has receded considerably in China today compared to the former socialist states of the 1990s. What would be deemed crucial is the response of party leadership to future challenges. As for impact of political reform on its economy, that will really depend on the extent of political disruption.

From a historical perspective, the People’s Republic of China is effectively the first modern state that China ever has in its history. Professor Walder drew analogies to cars of China’s reforms—China’s economic reform powered on like a Ferrari, while its political reform chugged along and got stalled like the Russian-made car, Lada. In his parting shot, Professor Walder remains optimistic about China’s future reforms if it maintains the same spirit of experimentation since the establishment of PRC—the first 30 years focused on establishing a constitutional state, and the subsequent 30 years in opening up its economy. ■

## Challenges Facing the New Chief Executive in Hong Kong



From left: Dr Bo Zhiyue and Professor Joseph Cheng Yu-shek

At EAI's Distinguished Public Lecture, Professor Joseph Cheng Yu-shek, chair professor of political science and coordinator of the Contemporary China Research Project at City University of Hong Kong and a pro-democracy activist himself, examined the 2012 Chief Executive election in Hong Kong in the context of Beijing's Hong Kong policy and offered his take on Hong Kong's prospect for democracy.

Professor Cheng highlighted two broad challenges Hong Kong faced—first, the sharp decline in international competitiveness of Hong Kong, and second, the government's role in the provision of social security net.

Many major cities in China has stopped looking upon Hong Kong as an exemplary of economic success. Furthermore, the socio-economic gap between China's coastal cities and Hong Kong has narrowed considerably in recent years.

Shanghai's race to become an international financial centre by 2015—a new target year brought forward from 2020 planned originally—has intensified, putting a threat to

Hong Kong's position as one of the world's leading financial centres. In addition, Hong Kong's lack of sovereign wealth fund means that it has few tools and instruments to promote economic reforms and make strategic investments. The subsidies offered by the administration of former Chief Executive Donald Tsang in 2009 to develop six key industries were far from adequate.

Most Hong Kongers believe that the government has large fiscal revenues and should take responsibility to give provide for social welfare. The Hong Kong government, on the other hand, faces uphill challenges in forging a consensus with Hong Kongers on such issues like subsidies for medical and health care, and value-added tax, etc.

To a certain extent, Beijing's control over Hong Kong is relatively obvious at three levels, namely Hong Kong's Basic Law, which is in the authority of the central government; the Legislative Council, which is in the hand of the Chief Executive, who is in turn appointed by Beijing; and the electoral system, which is deliberately designed to allow greater say from Beijing. The new Chief Executive CY Leung faces a herculean task without the recognition of his legitimacy as Chief Executive and support from the people.

Being pragmatic, Hong Kongers also understand and are fully aware that the central government will never accept a candidate whom they do not endorse. That said, Hong Kongers are deemed to be politically sophisticated to vote pro-democracy political groups into the legislative council to offer a form of effective check and balance mechanism to the government.

Professor Cheng opines that Hong Kong's route to democracy is not optimistic in the foreseeable future, not unless China itself democratises, and also because in economic terms, Hong Kong is still umbilically tied to China. In closing, Professor Cheng maintains that Hong Kong still enjoys an edge over China's coastal cities for its rule of law, good corporate governance and social orderliness. ■

*continued from page 1*

## China's Leadership Succession: Institutionalisation of Elite Turn-over via Generational Replacement

and leave the stage in generations—every 10 years, a group of leaders will leave their positions, which will be taken over by another group who are roughly 10 years younger than the exiting ones.

The concept of "generation" of leadership was first introduced by Deng in 1989. Mao Zedong's cohort, who ruled between 1949 and 1978, was dubbed the first generation. Deng's, who ruled between 1978 and 1989, was dubbed the second. Since then, the idea of generation has been institutionalised, and each generation will take control for 10 years, ranging two PCs.

The institutionalisation of generational replacement means age is now a critical criterion when the Party identifies future leaders. For each "generation" of leaders, a very small number (up to four or five), are expected to form the 'core', and are expected to sit on the PBSC for two terms, or 10

years. This means that a small number of promising leaders must be identified early on and be appointed to ministerial or provincial leadership positions in their early and mid-50s. The top one or two of these leaders will be promoted to the PBSC five years ahead of their scheduled succession, serving one 'apprenticeship' term as heirs-apparent.

The fifth generation (mostly born after 1949 and before 1960) will take command between 2012 and 2022. They were born in the dawn of the People's Republic, socialised during the period of the Cultural Revolution and became politically matured in the post-Mao era. The sixth generation will consist of leaders mostly born in the 1960s. A few of them are already emerging as front-runners, and are likely to be put in the PB and PBSC halfway through the tenure of the fifth generation. This way, the generational replacement is institutionalised to ensure predictable renewal of the ruling elite of the Party-state. ■

Wang Zhengxu is Associate Professor of the School of Contemporary Chinese Studies at the University of Nottingham, and Senior Fellow and Deputy Director of the School's China Policy Institute. Anastas Vangelis is a graduate student at the School of International Studies, Renmin University of China.

## Some Highlights at EAI



At the “Two Decades of GMS Cooperation: Restrospects and Prospects” conference in Kunming, China, organised jointly by Yunnan University and the East Asian Institute.



Left (above): Professor Andrew Walder, Denise O’Leary and Kent Thiry Professor, Department of Sociology, Stanford University, USA spoke on “After State Socialism: The Economic Costs of Regime Change”. Right (above): Professor Joseph Cheng Yu-shek, Chair Professor of Political Science and Coordinator of the Contemporary China Research Project, City University of Hong Kong. Professor Cheng gave an EAI Distinguished Lecture on “Challenges Facing the New Chief Executive in Hong Kong”.



At the NEAT Workshop Group Meeting on “Sharing the Experiences of Inclusive Growth” (above). EAI scholars met overseas delegates (below).



# 40TH ANNIVERSARY OF SINO- JAPANESE OFFICIAL TIES: EAST ASIAN PERSPECTIVES

- China and Japan in East Asia
- Regional Perspectives: India, Indonesia and Australia
- Whither Sino-Japanese Relations?

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