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## The New Thrust of Party-building under Xi Jinping

*Xi Jinping sets the course for Party-building to modernise the Party and promote the rule of law.*

LANCE L P GORE

**B**y the end of 2013, the Chinese Communist Party (CCP) had a membership of 86.686 million. If it were a country, it would have ranked 17th in the world in population. Today's CCP is very much a product of the reform era: 79.2% of the members joined the Party in the reform era, in contrast to only 0.5% who were Party members before 1949. Today's CCP is definitively "highbrow": 41.6% of Party members are college-educated or above; 32.6% are technological and managerial professionals while only 8.5% are working-class people.

Party-building under Xi Jinping is being conducted under the rubric of "Party-building institutional reform" (*dangjian zhidu gaige*) that aims to rebuild the Party with a set of modern institutions. The thrust is first to purge the Party of corruption, then to modernise the Party and to upgrade its capability so that it can live up to the challenges of "a great struggle with new historical characteristics". In Xi's words, the key to Party-building is to "institutionalise power and the management of public affairs and human resources".

The "great struggle with new historical characteristics" refers to a new set of challenges associated with China's rapid development and ascendancy on the global stage, including upgrading the economy and changing the growth model; managing social conflicts; fighting corruption; reducing income disparity; redefining China's regional and global role; seizing ideological initiatives to counter Western attempts at a "colour revolution" and "peaceful evolution"; managing China's increasingly complex relations with the rest of the world; building "new type of great power relations" with the United States and so on. All these require building up the ruling capability of the Party-state.

The Third Plenum of the 18th Party Congress (November 2013) unrolled an ambitious and comprehensive reform programme that consists of six major parts; Party-building is one of them and considered the premise of reforms in other areas. A task force led by the CCP's Central Organization Department (COD) was established to take charge of working out the operational plans. On 29 August 2014, the Politburo passed the "Implementation Plan of Deepening Party-building Institutional Reform", the triple objectives being to enhance the internal cohesion, external legitimacy and ruling capability of the Party.

The weakening of ideological faith is regarded by Xi as a big threat posed to Leninist parties by undermining their discipline and organisational integrity. He likens ideological faith as "calcium" that builds the backbone of a party member who can resist opportunism and temptations of a materialistic world. Xi hopes the restoration of the communist faith can regain the Party initiatives in the ideological battleground with the West and in the discourse of political reform. Reminiscent of the late Mao, he calls for cadres and ordinary Party members to read the original classics of Marxism.

Corruption has seriously damaged the Party's reputation, creating state-society confrontation and causing innumerable mass protests each year. With Xi's stewardship, Wang Qishan has waged a massive anti-corruption campaign to "squash

*continued on page 14*

## Xi Jinping's Vision of the "New Normal"

The term "new normal" has gained popularity globally, but with different connotations in different contexts. In China, President Xi Jinping has clearly spelled out what the term means for China at the Asia-Pacific Economic Cooperation (APEC) CEO Summit in Beijing in November 2014: moderating economic growth from high speed to medium-to-high speed; continued industrial upgrading and expansion of the service sector, and a shift from input and investment to innovation as the growth engine.

The social and political aspects of the "new normal", though less clearly spelled out than the economic aspect, also undergird Xi's reform agenda. Socially, China has entered a new stage of development. A more urbanised, more affluent and better-educated society is also more demanding, asking for quality and affordable public services, clean environment and expanded sociopolitical rights. Politically, a disciplined Party, a clean government and a system of rule of law constitute Xi's "new normal".

Xi's "new normal" is best viewed as a mixture of reality and vision. To many observers, transition to the "new normal" is taking place, at varying paces, across different domains. A critical question looms large whether Xi has what it takes to move China into the "new normal".

In order to realise his vision, what he needs is not just the power to rule, but also the power to transform. The Party leadership's transformative capacity was seriously weakened under the previous leadership by the intervention of retired Party seniors, the fragmentation of power associated with collective leadership, the loss of control over powerful factions within the Party, and the lack of ideological consensus amid leftist and rightist quarrels.

Xi has made tremendous efforts to regain the transformative power through the establishment of high-level leading groups, large-scale reshuffling of Party and government personnel, strengthening of Party discipline and ideological education, and various measures to shape public opinions.

The anti-corruption campaign, the return to some of Maoist languages and ideals, and the strategic use of populism and traditional moral resources are meant to help him garner support from different walks of life.

The concern is that some of the measures, no matter how necessary they are for power consolidation, may stifle the transformative power Xi needs for his "new normal" agenda. To a large extent, China's success in the past three decades is built on entrepreneurial local governments and individuals, made possible by Deng Xiaoping's decentralisation of power to local governments and enterprises, and the Party's retreat from economic and social affairs. Xi's move towards power centralisation and greater Party penetration is in the opposite direction. The ongoing anti-corruption campaign seems to exacerbate the problem of government inaction. Will Xi continue what he has been doing, or make major adjustments to incorporate Deng's approach? This is a key question for China watchers in 2015 and beyond. ■



Professor Zheng Yongnian  
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**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).

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# The CCDI under Wang Qishan: Xi's Anti-corruption Weapon

*Casting the net wider, the Central Commission for Discipline Inspection has intensified efforts on the corruption crackdown, focusing on Party and military bigwigs.*

CHEN GANG

Since Xi Jinping launched his formidable anti-corruption campaign soon after he took power in November 2012, the Party's Central Commission for Discipline Inspection (CCDI) under Wang Qishan's leadership has significantly expanded its power in China's Party-state system. The CCDI held two plenums in three months, which is an unprecedented move and signals an escalation in the intensity level of the anti-graft drive in 2015, indicating the possibility that more incumbent or retired state leaders may be placed under investigation. Until today, the CCDI, a vital organisation within the Communist Party of China (CPC), is still little known outside China.

The Party's discipline inspection system was imported from Russia during the CPC's founding years. The CPC's discipline inspection was institutionalised in 1927 when the Party established the disciplinary supervisory commissions at the central and provincial levels. When the People's Republic of China was founded in 1949, the CPC Central Committee issued the "Decision on Establishing the Party's Discipline Inspection Commissions at the Central and Other Levels" and thus founded the CCDI. Since the 1980s, the CPC has been strengthening and reforming its discipline inspection system as China transitioned from a command economy to market economy, in recognition of the urgent need to suppress moral degeneration and corruption of Party members. The reform of the discipline inspection system henceforth revealed the Party leadership's awareness of its organisational problems and willingness to fight corruption through institutional building.

At the top level, the CCDI has 27 departments with a staff strength of approximately 1,000 by the end of 2014. In recent years, the CCDI paid more attention to tip-offs from ordinary Party members and the public and opened its website portal for the first time to the public in September 2013. The Departments of Complaints under the CCDI and its subordinating branches are the recipients of reports from the public that expose or accuse officials of violation of law or breach of discipline. The public can make a report to the CCDI by mailing letter, posting on the CCDI website, paying a visit to one of the special reception venues set up by discipline inspection organs or dialling the telephone number "12388". Under China's one-Party political system, the CCDI and its local branches, rather than the procuratorate or the police, usually start the investigations and detain suspects with Party membership.

The CCDI is expected to shift the focus of corruption crackdown to factions and organised graft within the Party's ranks in 2015. In January, the state mouthpiece, *Xinhua*, made a rare acknowledgement of factions in the Party, naming several disgraced senior officials connected to the so-called "Shanxi", "secretary" (*mishu*) and "petroleum" gangs. Ling Jihua is accused of heading the "Shanxi gang",

a corrupt network of officials and businessmen from the coal-rich province. The "petroleum gang" was composed of bureaucrats and executives in China's oil industry, a sector intimately linked to Zhou Yongkang's political clout. The "secretary gang" was essentially a group made up of top aides and former personal secretaries of retired or incumbent state leaders.

The "new normal" for the CCDI to suppress corruptive networks at the provincial level is to despatch reliable CCDI officials to lead local disciplinarians in that corrupt-prone province. In January 2015, CCDI Secretary General Cui Shaopeng was transferred to head Jilin provincial discipline inspection commission, while Yao Zengke, member of the CCDI Standing Committee, was despatched to be the chief of Tianjin municipal discipline inspection commission. In 2013 and 2014, two other members of the CCDI Standing Committee, Hou Kai and Huang Xiaowei, were parachuted in to lead discipline commissions in Shanghai and Shanxi province, respectively. It is expected that more corruption cases would be exposed in places like Jilin, Tianjin and Shanghai.

Wang Qishan, who is nicknamed "fire chief", is famous for his boldness and efficiency in quelling crisis like the SARS epidemic in 2003 and the massive bankruptcy restructuring in 1998. Wang, who is a son-in-law of Yao Yilin, the late revolutionary leader who became China's vice premier from 1982 to 1993, has got deep trust from Xi of similar revolutionary family background. Known for his resolute and unyielding personality as the country's top graft-buster, Wang has been efficient in mobilising the entire CCDI to fight powerful Party figures like Zhou Yongkang and Ling Jihua and organisations such as the China National Petroleum Corporation and China Central Television. Ranked sixth in the seven-man Politburo Standing Committee, Wang is now believed to be the second-most powerful man only after Xi himself.

Generals, especially members of the People's Liberation Army (PLA)'s discipline commission, were present at the Fifth Plenum of the CCDI in January. This marked the first time that PLA disciplinarians attended the CCDI plenum. In January and March 2015, it was announced that 30 senior PLA officers and generals were under investigation or convicted. The top brasses being investigated were nabbed from the PLA's military regions including Shanxi, Tibet and Sichuan as well as its logistics department, second artillery corps and two military universities. The unprecedented attendance of many representatives from the PLA and the reveal of the long list of corrupt generals both sent strong signals that the PLA is acting tougher on corruption and more "tigers" in the military are expected to be purged under corruption charges. ■

Chen Gang is Research Fellow at EAI.

# China's Economic "New Normal": Context, Characteristics and Policies

*Under the "new normal", China needs to restructure, encourage innovation and explore new growth potentials.*

SARAH Y TONG

**"N**ew normal" has become the catchphrase in the Chinese media since Chinese Communist Party (CCP) General Secretary Xi Jinping used the term in May 2014. While the context and exact meaning remain vague, it is evident that the so-called "new normal" concerns mainly economic issues, especially against the backdrop of considerable slowdown in Chinese economy. Indeed, there are efforts aplenty to provide a more comprehensive interpretation. However, the question whether "new normal" describes a period of transition and change or actually defines a new economic equilibrium remains unanswered.

According to some, "economic development in the new normal means that China's economic development has already entered the stage of medium- to high-speed growth of high efficiency, low-cost and sustainable development". However, closer examination reveals that deliberations regarding the "new normal" often concern the rationale, objectives and challenges of a transitional period. For example, the so-called "new normal" theory is put forward recognising that China's economy now enters the "three superimposed periods", namely the period of growth deceleration; the painful period of structural adjustment; and the digestive period of earlier stimulus policies.

The "three superimposed periods" proposition suggests that current policy deliberations under the grand banner of the "new normal" focus mainly on challenges facing China's economic transition. This transition may be viewed from several aspects. The first and most obvious is the transition in growth from high speed to that of high quality but at medium-high speed. The second and more important aspect is the structural transition from a relatively low-level to a higher-level economy. The third is the transition of growth engines from factor input and investment-driven to that of innovation-driven.

While growth deceleration seems inevitable, "it is only recently that the Chinese leadership has come out to endorse this lower growth threshold as the 'new normal'". In fact, China's economic growth has decelerated since 2011. Gross domestic product (GDP) growth declined from 10.6% in 2010 to 9.5% in 2011, and plummeted to 7.7% in 2012 and in 2013. In 2014, growth slowed further to 7.4%, the lowest since 1990. EAI Professorial Fellow Professor John Wong forecasts that: "with the economy still facing a lot of headwinds, growth for 2015 may slow further to 7.1 per cent, or even 7 per cent".

Managing critical transition in economic structure is therefore inevitably challenging, especially when the economy undergoes considerable slowdown. Restructuring is also an economic imperative, as the key sources of China's

past hyper-growth have been largely depleted and the new engines of growth have yet to gain traction. In fact, during the CCP's Economic Work Conference in December 2014, the government identified nine characteristics of the "new normal", covering wide-ranging areas such as resource allocation, consumption and investment demand, trade and cross-border investment, production capacity and industrial organisation, market competition, and constraints of resources and environment.

In identifying these characteristics, the government acknowledges that both difficulties and potentials will arise during the transition period. For example, the conference document stated that in deciding the future direction of industrial development, China has to solve the issue of excess capacity while strengthening the role of the market. The Chinese government also recognises that global demand remains weak although China's competitive advantage in its exports still exist. The government admits that while investment demand in traditional industries has been relatively saturated, there is however great potential in infrastructure interconnectivity, new technology, new products and new business models.

More significantly, the government recognises the hard constraints imposed by an ageing population as well as limited resources and environmental capacity. First, as population ages and rural surplus labour decreases, economic growth has to rely more on human capital accumulation and technological progress. Second, the environmental capacity has reached or is approaching its limit. As such, extensive efforts have to be made to promote a new, green and low-carbon, and sustainable development model. At the December 2014 Work Conference, the government assigned five key tasks for 2015—i.e. maintaining a modest growth, which is an imperative task; exploring and nurturing new sources of growth; accelerating the transformation of agricultural development; optimising spatial economic development; and strengthening security and improving people's livelihood. This reflects the Chinese government's dual emphasis on both growth and structural changes.

Despite the apparent political rhetoric associated with the "new normal", Chinese leaders' response to the recent economic deceleration has been sensible and vigilant. So far, the government has implemented policies that are deemed restrained but targeted, including moderate monetary relaxation. One such example is the State Council's announcement of the "Guiding Opinions on Measures to Reduce Enterprises' Financing Costs" in August 2014.

On 25 February 2015, at the State Council's first Standing Committee meeting, new measures were announced

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# Intergovernmental Fiscal System under the “New Normal”

*Reforms in intergovernmental fiscal relations with initiatives to exercise fiscal prudence, regulate governance of government bonds and ensure tax law compliance are targeted to improve fiscal sustainability of local governments.*

QIAN JIWEI

**A**fter over two decades of double-digit growth, China's economy has entered a new stage since 2014. Its gross domestic product slid to 7.4% in 2014, the lowest since 1990. Also, the growth of fiscal revenue in 2014 was 8.6%, registering the lowest growth rate since 1991. One of the key challenges of the Chinese economy is therefore adapting to this “new normal”. Fiscal system, in particular the intergovernmental fiscal relations between the central and local government, is critical for social and economic development in China under the “new normal” for the following three reasons.

First, local economic and social development in China depends on the fiscal health of local governments. Under current intergovernmental fiscal system, majority of the social expenditure and local infrastructure-building are financed by local governments. Local government expenditure amounted to RMB12 trillion or 20% of GDP in 2013. However, the share of local government revenue only accounts for about 50% of total government revenue, in contrast to the large expenditure responsibility of local government. Therefore, local governments have to rely on fiscal transfers from the central government or employ off-budget revenue as a major source for funding infrastructure-building and providing public services.

Second, related to the first reason, local government debt is an important issue which must be addressed. Under current intergovernmental fiscal system, local governments with tight fiscal condition may need to take out loans to finance local economic and social expenditures. As at June 2013, the local government debt amounted to over RMB17 trillion, over 150% of local fiscal revenue in 2013. With such a massive local government debt, a considerable part of local government budget revenue is going to be used to pay back the loan. In this case, huge local government debt may have an impact on future government input for social and economic development.

Third, local fiscal condition is also critical for local governments to implement local industry policies. The central government has implemented a performance evaluation system for local officials, who are assessed based on tasks and targets set by the upper-level government. The appointment, promotion and demotion of local officials are also determined by their fulfilment of the upper-level government's requirements of providing public services and improving economic development. In particular, the GDP growth rate has become an important index for performance evaluation of local officials. In this case, local governments have strong incentives to implement local industry policies in order to promote economic growth. These policies include policies to promote and shape local business environment and to coordinate business decisions in land allocation,

infrastructure construction, etc. Also, to attract investment, local governments may transfer land at a price below the market rate to investors. Sometimes, local government may also offer tax breaks of three or five years to investors.

The Chinese government has recently introduced a series of reforms of intergovernmental fiscal relations and these policies have important implications for the Chinese economy under the “new normal”. As the first initiative in the reform, the fourth reading of the budget law was approved by the National People's Congress in August 2014 for implementation from 1 January 2015. According to the amended budget law, transfers should be allocated to fulfil the tasks of equitable provision of basic services. General purpose transfers, which are more effective in improving local fiscal capacity, will be the major form of intergovernmental transfers.

Second, in October 2014, the State Council issued a new government guideline, released in the No. 43 document, about local government debt. This is a document regulating the issuance and management of the local government bond. For example, the municipal bond can only be issued by a provincial-level government and local municipal bond requires the endorsement of the Ministry of Finance. Local municipal bonds can be issued for public service provision and infrastructure, subject to an upper limit set by the State Council, and should also be included in the provincial-level government budget. Since 2014, 10 provincial and municipal governments have been granted more discretion to issue bonds for public projects. In 2014, they are allowed to issue around RMB100 billion worth of local government bonds. These 10 pilot sites include eight provinces (i.e. Shanghai, Zhejiang, Guangdong, Shandong, Jiangsu, Beijing, Jiangxi and Ningxia) and two cities (i.e. Shenzhen and Qingdao).

Third, in November 2014, the State Council released a government guideline to regulate local industry policies for promoting investment and economic growth. According to this new regulation, all firms must adhere to the national tax code and in this context, local governments are not allowed to offer tax breaks to firms without the endorsement of the State Council. More importantly, transfer of land and other state-owned asset to enterprises at below the market prices is not permitted.

It is noteworthy that some of these new initiatives are complementary to each other. With new regulations on local industry policies in place, local governments' fiscal revenue may increase and they may not need to borrow money to finance their expenditure. By allowing issuance of local government bonds to finance the building of local infrastructure, local governments are more likely to be able to attract investors. ■

Qian Jiwei is Research Fellow at EAI.

# Development of Physical Connectivity in Western China

*A comprehensive interregional and intraregional transport network in the western provinces will improve economic opportunities and give new impetus to the “One Road, One Belt” strategy.*

YU HONG

The last two decades have produced relatively extensive studies on the role of topography in economic growth and the effects of transport infrastructure investment on economic development; most of these scholarly works have, to varying degrees, suggested a positive relationship between transport infrastructure investment and economic growth. Conversely, inadequate and poor-quality transport infrastructure has been found to impede national economic growth.

As China’s vast western region is made up of challenging mountainous terrain and barren lands with poor accessibility, development of an efficient and reliable transport network is essential in order to overcome these unfavourable topographical features, reduce interregional transport costs, and improve intraregional and interregional connectivity.

The Chinese authority aims to open up the western region, create a more favourable business investment environment, and boost local industrial growth by attracting more foreign investment and human talent to the inland western region under the “Go West” strategy. Nevertheless, fulfillment of the state’s ambitions depends much on adequate provision of efficient transport infrastructure. The potential huge consumption market in the western region will become more appealing to investors only if transport links are effective and cost-competitive.

Transport infrastructure development improves interregional connectivity and contributes to the spillover of benefits from China’s remarkable economic growth to its underdeveloped western region. Promoting connectivity is therefore the key to industrial catching-up and economic prosperity in western China.

To tap into the potential economic opportunities derived from state policies for western development, and to increase the pace of interregional industrial transfer, the western region has initiated to overhaul its totally inadequate and inefficient infrastructure facilities—a task that is imperative and urgent—by means of massive investment in large-scale interregional transportation construction. The central government provided 8.5 trillion yuan in development aid to the western region between 2001 and 2013, with about 40% of this aid being spent on large-scale infrastructure projects in the region, to upgrade and expand the region’s creaking transport network.

While the task in the eastern cities has mainly been one of economic restructuring and industrial upgrading, the central government regards the vast inland western region as an important new growth engine that can help to maintain the stability of the Chinese economy. Transportation investment in western China is crucial to ensure sustainability of the Chinese growth story as China seeks to shift its export-

oriented growth model to one more reliant on domestic investment and consumption.

However, the lack of transport infrastructure is still impeding the economic performance of western China and preventing it from achieving rapid economic growth on the scale previously enjoyed by the eastern region. Western infrastructure remains generally backward, inadequate, inefficient and unreliable due to lack of investment.

Although state investment has brought about improvements to the western region’s transport infrastructure over the past decade, improving the physical accessibility of the vast western China region remains a challenging long-term task. The regional inequality affecting transportation development in China is striking.

Therefore, while the east coast region of China has well-developed transport networks with high-quality facilities including high-speed railway, expressway, shipping and air transport, the western region still lacks a comprehensive transport network. Interregional connectivity is poor, particularly in remote mountainous areas, rural areas, poverty-stricken areas and peripheral areas with sizeable ethnic minority populations.

Since the announcement of a third government-to-government project between China and Singapore by Chinese Executive Vice Premier Zhang Gaoli in October 2013, Chongqing, Chengdu and Xi’an have been shortlisted by the Chinese and Singapore governments as potential bases for the project in the western region of China and all three cities are engaging in an intensive bidding war.

After the iconic projects of the Suzhou Industrial Park and Tianjin Eco-city, the third bilateral project will be based on the theme “modern connectivity and modern service”. These initiatives clearly show that the Chinese government is giving more weight to increasing connectivity and improving cross-boundary transport links in the western region. The Chinese government views the promise of investment in infrastructure construction as a catalyst to speed up industrialisation and urbanisation in the western region.

In their pursuit of more state infrastructure investment and faster economic development, the local governments in many western provinces have expressed their interest to be involved in the “Silk Road Economic Belt” and “Maritime Silk Road of the 21st Century” strategy initiated by the central government in late 2013, known as the “One Road, One Belt” (*yilu yidai*) initiatives.

Through involvement in the “One Road, One Belt” strategy, local authorities in the western region hope to accelerate local transport infrastructure construction and promote interregional trade and economic exchanges with neighbouring regions at home and abroad, thereby boosting

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# China's Ambitious Plan to Fight Air Pollution

*The Chinese leadership has mapped out effective and drastic measures to combat air pollution nationwide, demonstrating its determination to improve transparency and governance.*

WAN JING

China's era of hyper-economic growth, massive industrialisation and rapid urbanisation has been accompanied by mounting environmental woes, one of which is the deteriorating air quality felt by everyone in vast parts of the country.

At the annual assembly of the National People's Congress on 5 March 2014, Premier Li Keqiang acknowledged that "smog is affecting larger parts of China and environmental pollution has become a major problem, which is nature's red-light warning against the model of inefficient and blind development". He announced that "we will declare war against pollution and fight it with the same determination we battled poverty".

China recorded its worst year of hazardous smog in 2013. At the national level, the average annual number of days with smog amounted to 35.9 days, doubling the number in the previous year. The most populous areas in China were blanketed by smog for 50 to 100 days each year.

Based on an analysis of 281 cities during the 2005-2010 period, the School of Environmental and Natural Resources of Renmin University reported in March 2013 that the overall air quality had deteriorated alarmingly: by 2010 air quality was classified as "bad" or "extremely bad" in 89% of the cities and 58% of the population were exposed to bad air quality. Over 45% of the residents were dissatisfied with urban air quality.

It is a well-known fact that the top cause of smog in China is the consumption of fossil energy. Of all fossil fuels, coal is the biggest polluter. Since China depends on coal as its primary source of energy (almost 80%), the country is the world's largest consumer of coal and accounts for around half of the world's coal consumption. Shijiazhuang, the capital city of Hebei province, saw its coal consumption increased by more than 10 times between 2000 and 2012 from five million tons per year to 61 million tons per year.

Severe air pollution has caused huge economic costs and severe health problems, threatening the sustainability of China's further development. A study by the Massachusetts Institute of Technology's Joint Program on the Science and Policy of Global Change quantifies the economic costs from both labour lost and the increased need for health care, and finds that air quality degradation due to these pollutants had cost the Chinese economy US\$112 billion in 2005, a significant rise from the US\$22 billion for the same kind of damages in 1975.

The Xi Jinping-Li Keqiang administration has been proactive in preventing and controlling air pollution. The current government's resolution and capability to fight the war on smog are increasingly perceived as a touchstone

of its competent governance. A series of policy initiatives have been introduced to tackle the challenges of air quality degradation.

Comprehensive actions, such as developing a nationwide air quality monitoring and early warning system; disclosing readings of real-time air quality data of more cities to the public; and preparing and testing emergency response plans of severe urban air pollution, are already taken and in place. In terms of air quality monitoring, the air quality monitoring criteria were overhauled in line with the international standards and a nationwide air quality monitoring and early warning system has been developed.

The Air Pollution Prevention and Control Action Plan (September 2013), considered the most concrete policy agenda, includes 10 policy initiatives to improve overall national air quality and regional air quality in the Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta regions, and to dramatically reduce heavily polluted days by 2017.

The most remarkable measures to achieve the objectives of the Action Plan are plans to cut down coal consumption, close polluting mills, factories and smelters, boost nuclear power and natural gas use, phase out outdated production capacity in industrial sectors and tighten vehicle emission standards.

The Action Plan is expected to cost immense financial resources. It will be difficult to simply rely on centrally planned command and control to meet the ambitious goals outlined. Fiscal reforms to create new revenues from substantial increases of taxes and levies on energy use, car ownership and polluting activities are needed. These reforms are also necessary to incentivise firms and households to reduce pollution and economise energy use. Although there are signs that such tax reforms are on the government's agenda, details are still lacking.

The government has included clean air targets in performance evaluation of government officials. Incorporating the new criterion in the evaluation and applying it in practice remain challenging due to the externality of air pollution across jurisdictional boundaries.

Control and prevention of air pollution requires high-level coordination of governments at different levels and various local jurisdictions. Political risk of possible failures in meeting these challenges, however, may hold the central government back from taking on more explicit responsibilities in coordinating local efforts in air pollution prevention and control. ■

Wan Jing is Visiting Research Fellow at EAI.

Severe air pollution has caused huge economic costs and severe health problems, threatening the sustainability of China's further development.

# Recent Staff Publications

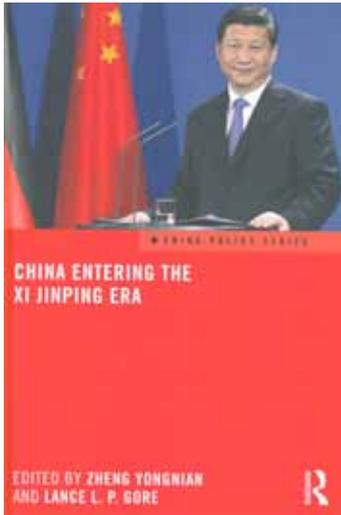
## Books

### *China Entering the Xi Jinping Era*

Editors: **Zheng Yongnian and Lance L.P. Gore**

Publisher: **Routledge**

Year of Publication: **2015**



This book presents a comprehensive overview of the key areas and issues, assessing how things are likely to develop under the new leadership. It considers the economy, trade, politics and demographics; appraises the leadership, both at the national and provincial levels; and discusses potential flashpoints in China's relationship with its neighbours and China's emerging role in world politics. Against this

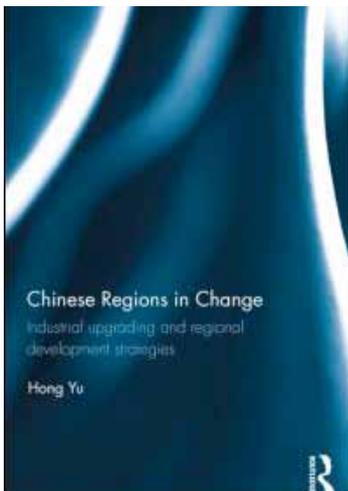
backdrop it measures the emerging leadership of Xi Jinping to assess the prospects of China in the next decade and beyond.

### *Chinese Regions in Change: Industrial Upgrading and Regional Development Strategies*

Author: **Yu Hong**

Publisher: **Routledge**

Year of Publication: **2015**



This book offers extensive and quality research on and original insights into China's internal regional dynamics. It provides a focused analysis of the internal dynamics and regional economic diversity of China covering the eastern, central and western regions through case study, data analysis and review of state-initiated policy measures. The book also identifies and analyses existing and

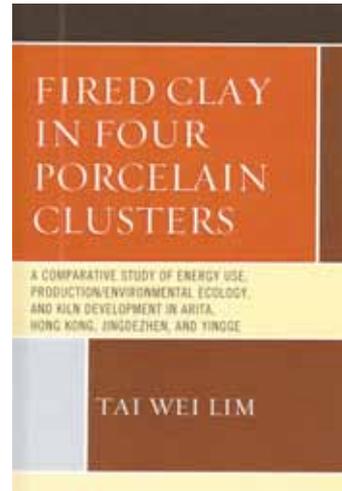
potential challenges facing China's regions in their pursuit of sustainable development and examines the difference and similarities among local government policies to boost regional industrial and economic growth and assesses their implications and effectiveness.

### *Fired Clay in Four Porcelain Clusters: A Comparative Study of Energy Use, Production/Environmental Ecology, and Kiln Development in Arita, Hong Kong, Jingdezhen, and Yingge*

Author: **Lim Tai Wei**

Publisher: **University Press of America**

Year of Publication: **2014**



This book examines how energy use in the ceramics-making industry has evolved as a result of technological advancements and changing social norms and ideas in environmental conservation. Three main research themes are highlighted. First, the book examines how the evolving use of energy fuels has impacted the developmental history of the ceramics-making

industry. The second theme focuses on energy use by networks of specialists and technicians in ceramics-making artistic clusters and how ceramicist communities in the world organise themselves institutionally to maximise resource-sharing. The third theme studies the changes in production and design, environmental thinking, energy use, and aesthetic trends among ceramicists and consumers.

### *Eco-Cities: Sharing European and Asian Best Practices and Experiences*

Publisher: **East Asian Institute and Konrad Adenauer Stiftung**

Year of Publication: **2014**



This publication is the result of a series of workshops and public forums on the topic of sharing the best practices and experiences on building eco-cities in Europe and Asia held from 2012 to 2014. The articles are written with the aim of showcasing experiences and examples that would be useful to both Europe and Asia. They are arranged in order of broader discussions of theoretical frameworks,

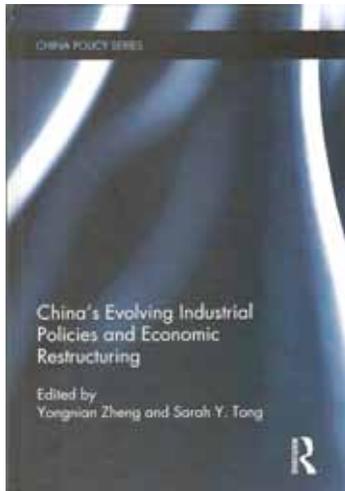
broad principles, and features of eco-cities to more specific discussions of themes related to eco-cities to country and even local examples of eco-cities that are either in practice or are being built.

## *China's Evolving Industrial Policies and Economic Restructuring*

Editors: **Zheng Yongnian and Sarah Y Tong**

Publisher: **Routledge**

Year of Publication: **2014**



Currently industry accounts for nearly two-fifths of China's gross domestic product and since 2009 China has been the world's largest exporter of manufactured products. This book explores the question of how far this industrial growth has been the product of government policies. It discusses how government policies and their priorities have developed and evolved, examines how industrial

policies are linked to policies in other areas, such as trade, technology and regional development, and assesses how new policy initiatives are encouraging China's increasing success in new technology-intensive industries.

## *Health Policy Reform in China: A Comparative Perspective*

Authors: **Qian Jiwei and Åke Blomqvist**

Publisher: **World Scientific Publishing**

Year of Publication: **2014**



This book gives a broad overview of the process of health system reform in China. It draws extensively from both the Western literature in health economics and the experience of health care reform in a number of other countries, including the United States, the United Kingdom, Holland and Japan, and makes a comparison with China's approach. It also places the process of health

system reform in the context of re-orienting China's economic policy to place greater emphasis on equity and income distribution.

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By **Zhao Litao (with Chien Shiu-Shen)**

# The Social Aspect of the “New Norm”

*Xi Jinping's command of moral leadership across all social domains has alleviated social inequality, strengthened ideology indoctrination but stifled freedom of expression.*

HUANG YANJIE

In contemporary China, the “new norm” primarily refers to a numerically lower but economically more sustainable and socially less costly pattern of growth. But implicitly, the “new norm” is also recognised to have a marked impact in the social aspect as well. At the societal level, the “new norm” seems to imply tightened Party control, greater stress on social equity and more conservative cultural values.

One important aspect of the “new norm” is the reassertion of Party’s moral leadership across all social domains. While the Chinese government has always been the moral guardian of the society since ancient times, its moral leadership has been eroded by rampant corruption and disciplinary laxity with the infiltration of neo-liberal ideology and practice in recent decades. However, after Xi Jinping has consolidated his power, he makes sustained effort not only to eradicate corruption at all levels but also reinstitute the Party’s discipline and moral leadership. This means, among other things, less perks and privileges for the Party and government organs and a more level playing field between the public servants and other social echelons. Till now, Xi’s effort has reaped some temporary results, as the lower reach of the bureaucracy became less profligate and extravagant in spending.

Xi Jinping’s crackdown on public consumption spending has not received much grievances from the bureaucracy, especially the lower reach, thanks to Xi’s policies and rules of economic and social equity. Although such values have been championed by all Chinese administrations, the new leadership seems to have put in place more concrete measures. Recent efforts are focused on controlling income inequality within the public service and state enterprises: low-ranking civil servants mostly received a significant wage hike in the second half of 2014, while the top-earners, such as the top managements in the state-owned enterprises, received a wage cap. Meanwhile, following recent reforms, wages and benefits in the public sector are now more closely aligned to years of service rather than ranks and office. Backed by the overwhelming support of China’s millions of public servants and state-sector workers, these policies are regarded as the early signs of broader income distribution reform geared towards greater economic and social equity.

Meanwhile, the Party also tightens its grip on the control of ideology and social thoughts, especially in the cyberspace. Since 2013, the Party’s propaganda organs, aided by enthusiastic nationalist youth, have launched a fervent attack on the so-called online *gongzhi* or public intellectuals, who have been the most vocal advocate of Western values. Most of these activists are now either subject to state supervision or acquiesced. Instead, the most politically active elements in the Chinese cyberspace today are the so-called *ziganwu* (literally self-sponsored 50-cent party), who are mostly

unabashed nationalist youths eager to criticise Western values and uphold the Chinese ways. In other words, the Chinese cyberspace, which has been considered the domain that allows the greatest freedom of expression in the Chinese society, now increasingly succumbs not only to state control but also to a socially hegemonic ideology centred on nationalism. While liberalism still enjoys strong support in the economic domain, it has been under severe attack in the social domain.

Another implication to the social aspect of the “new norm” is the return of a state-centred value paradigm that focuses on nationalism and cultural conservatism. Again, this change can be read in the context of China’s rise and the global decline of neo-liberal values, which are inherent in the America-centred value system. The shift was most evident in the establishment of two national days in 2014 to commemorate heroic state sacrifices: 30 September as Martyrs’ Day in memory of the revolutionary martyrs and 13 December as a national memorial day to commemorate the sacrifices of victims of the Nanjing massacre. Meanwhile, the new leadership also increased official sponsorship of cultural projects, including high-profile media propagation of traditional values and heightened official support for related cultural projects among others. On 24 September 2014, Xi Jinping personally attended a symposium in commemoration of the birthday anniversary of Confucius, and that marked the first time that a Party and national leader graced such occasion. Even the 2015 Spring Festival Gala televised on 18 February 2015—the annual showcase of official values—offered a surprisingly conservative outlook, emphasising on gender roles, moral leadership of government officials and exaltation of Xi Jinping as the supreme leader. While some of the insinuations prove to be controversial, the gala show, as well as many cultural projects, still have a tight hold on a significant part of the society.

China’s “new norm” reflects not only changes in the Chinese economy and society but changes in global order as well. In recent years, the neo-liberal order, which has been dominant since the 1980s, is now under severe strain across the world due to gaping global inequality, shrinking middle class and weakened fiscal state worldwide. China, on the other hand, has been riding the wave of neo-liberal order and reaped the most benefits to become an emergent global economic power. However, neo-liberalism has also created many social problems within China, notably income inequality, cultural imperialism, identity crisis and the effective weakening of the Communist Party as a social and political force. Xi Jinping’s new comprehensive policies, which shape this emergent social norm discussed above, could be regarded as a response to these changes. ■

Huang Yanjie is Research Assistant at EAI.

# The Internet: A Key Driver of China's Economic Growth

*The boost in productivity, innovation and consumption generated by the internet revolution, together with China's vast internet user base, will have a transformative impact on China's economy.*

SHIH HUI MIN

The year 2014 marked the 20th anniversary of internet development in China that has witnessed the internet population skyrocket by 1,000 times since 1994. Today, China has the world's largest internet user base of 649 million people, more than double the 279 million users in the United States. In the past two decades, the internet has contributed to the development of China's information communication technology, inter-industry integration, information consumption as well as a boom in industrial investment and acquisition, and rapid business internationalisation.

In 2013, China's internet economy generated RMB600.4 billion (US\$100 billion) in revenue. Leveraging its vast e-commerce market, touted to be the world's largest, revenue is expected to increase to RMB1.7 trillion in 2017. China's internet GDP (IGDP) has reached 4.4%, exceeding that of the United States (4.3%), France (4.2%) and Germany (3.7%), moving into the ranks of the global leaders.

On 7 October 2014, the International Monetary Fund announced that China's economy measured by purchasing power parity has surpassed United States to become the world's largest. It is a significant milestone in China's evolution into a global economic power. Alibaba's successful mega initial public offering in September 2014 signalled China's integration into the world economy. It is also a classic example of an internet-related company in China driving industry internationalisation and global investment. The internet leads with its new economic model (also known as the Silicon Valley model) through market mechanisms. In 2014, the market value of listed internet companies in China had exceeded RMB3.95 trillion, with four companies, namely Alibaba, Tencent, Baidu and JD.com, ranked among the world's top 10. Apart from the information technology giants, Qihoo 360, Xiaomi, Netease and a number of internet companies with a market capitalisation of US\$10 billion have also embraced e-commerce. They are the main forces in China's digital life innovation.

On 11 November 2014, also known as *shuang shi yi* (meaning "Double 11") and China's Singles' Day or the American equivalent of Black Friday, China's top e-commerce company Alibaba created the world's biggest online shopping day, grossing US\$9.3 billion in gross merchandise value, an increase of 60% from US\$5.8 billion in 2013. Alibaba's Singles Day sale was, in fact, larger than the combined e-commerce spending on Thanksgiving Day, Black Friday and Cyber Monday conducted from desktop computers in the United States. Almost overnight, China has become the world largest e-tail market at RMB1.9 trillion, registering a growth of 18% in internet commerce in the first three quarters of 2014.

The rapid growth of China's internet economy is driven by the largest internet consumer population and the most avid online shoppers in the world, i.e. its own domestic

consumers. Mobile internet usage has also worked its way into the daily lives of smartphone and tablet users, enabling consumers to access information, connect through social media and shop online while on the go. China's mobile internet users had reached 557 million, representing a penetration rate of 85.8% in January 2015.

Although China's internet penetration rate is only 47.9%, there is a huge potential market in the rural areas. Consumption levels used to exhibit striking variations across cities but e-tailing is equalising these differences in fourth-tier cities with that of second- and third-tier cities.

The next wave of internet development will help transform China's model of economic growth based on productivity, innovation and consumption. New applications of the internet would be expected to boost China's labour productivity growth from 7% to 22% between 2013 and 2025. To realise the full potential of the internet economy, China will need to invest in the large-scale expansion of broadband penetration, 3G+ coverage, data analysis capability and logistics infrastructure. Information communication development is hence one of China's major infrastructure development at the national level from now to 2030.

However, to China, the internet is a double-edged sword—"it can open Ali Baba's treasure cave if it is wielded well, and it will also open a Pandora's box". The Chinese government has supported the development of the internet due to its importance for economic growth. Meanwhile, the top leadership has paid a great deal of attention to internet security as evidenced by the fact that President Xi Jinping heads both the State Security Committee and the Central Internet Security and Information Leading Group.

On 27 January 2015, China's internet authority, in response to recent reports about inaccessibility of some virtual private networks (VPNs), explained that this was because of the upgrading of the great firewall. In addition, "improper" information online will be regulated in accordance with Chinese law and the new policy management measures.

By 2018, China's retail e-commerce sales will exceed US\$1 trillion, accounting for more than 40% of the world's total. The Chinese government has strongly supported the development of e-retailing, especially the overseas development in e-retail. The inaccessibility of foreign VPN service in China will further enhance local internet industry development. Questions however remain: will the introduction of VPN regulation become an obstacle to China's e-tail overseas development? Or will it serve as a form of protectionism, favouring Chinese e-commerce companies? Or will China use it as a bargaining chip to make concessions to foreign tech companies that hope to gain entry into China, in order to obtain advantage for Chinese e-tailing foray into international markets? ■

Shih Hui Min is Visiting Scholar at EAI.

# The Slump in International Oil Prices and Its Implications for China

*The plunge in international oil prices brings important implications for China's national economy, energy security and international strategy.*

ZHANG CHI

**T**here are various reasons for the steep fall in international oil prices since the second half of 2014. The key reason is in the supply-demand fundamental, i.e. the combination of weak global oil demand and robust world supply growth.

On the demand side, given China's economic slowdown and economic stagnancy in Japan and the European Union, global oil demand has grown very slowly. The sustained low oil prices hence reflect weak global economic growth. Additionally, from 2011 to the first half of 2014, the international oil prices remained very high (at about US\$110 per barrel), which in turn also weakened the global demand for oil.

On the supply side, there are three contributing factors to the expanding global oil supply. First, since 2000, against the backdrop of skyrocketing international oil prices and low interest rates, many enterprises have increased their investments in the oil industry, thereby leading to a rise in global oil output. Second, the "shale revolution" in the United States has made the country the third-largest oil producer in the world. The third factor is the unexpected resumption of oil exports from Iraq and Libya. Considering the ongoing conflicts in both countries, that Iraq and Libya could resume their oil exports within such a short period of time was totally unexpected.

Other significant explanations for the oil prices decline include the price competition among major oil exporting countries, the bearish sentiments in the market, indifference to geopolitical risks and the appreciation of US dollar.

For China, the plunge in international oil prices may be a double-edged sword.

Firstly, it is generally beneficial to the Chinese economy, as it has reduced the costs of China's oil import, which in turn led to reduced prices of oil products domestically. From July 2014 to January 2015, the Chinese government lowered the prices for domestic oil products 13 times consecutively. This would help cut consumption costs of oil products, therefore increasing enterprises' profit margins as well as stimulating domestic consumption. Also, the slump in oil prices could ease inflationary pressure in the Chinese economy, giving more operational leeway to the government's monetary policy.

Secondly, the dramatic fall in international oil prices is a mixed blessing for China's energy security. On the one hand, it allows China to build up its strategic oil reserves (SOR) at a lower cost. China started building SOR in 2003. The first phase of the project has been finished and put into

service, and Beijing is gearing up for the completion of the second and third phases. The overall target is to stock up 850 million tons of crude oil by around 2020, equivalent to about three months of the country's oil imports in that year. At the moment, China can take advantage of the low oil prices and import more oil to stockpile into its SOR.

But on the other hand, falling oil prices could hinder the investment in and development of China's oil, new energy and renewable energy industries, causing adverse impact on China's energy security in the long run. The sustained low oil prices would also reduce profitability of the oil industry, putting restraints on oil companies' investment and affecting further exploration of China's domestic oil resources. Simultaneously, as oil prices drop, the costs for production of alternative energies become relatively higher. As a result, the impetus for development of alternative energies may be weakened, and China's efforts to adjust its energy consumption mix and improve its ecological environment could be undermined.

Thirdly, falling oil prices have important implications for China on the international strategic level. Beijing faces both opportunities and challenges, with opportunities outweighing challenges.

On the one hand, steep drop in oil prices pushes the international oil market to transform itself from a market that favours sellers to one that favours buyers, which would increase China's influence in the market, and enhance Beijing's clout in world economy and politics. In this context, China's relations with major oil exporters are expected to be strengthened. Meanwhile, competition in the areas of energy and geopolitics among the United States, Russia and Saudi Arabia have intensified. Since China is the world's largest oil importer and a major global power, the three countries may need more support from China, thus giving Beijing greater leverage in international relations and more room for diplomatic manoeuvre. Therefore, China could take advantage of this opportunity to promote its global influence and accomplish more.

On the other hand, with the slide in oil prices, the United States has become a major oil producer, and coupled with the obvious decline of the Organization of Petroleum Exporting Countries' (OPEC) influence globally, that has given rise to a changed international energy strategic landscape that is more favourable to the United States. To a certain extent, Washington's enhanced influence in the global energy system may create greater strategic pressure on Beijing. ■

Zhang Chi is Visiting Research Fellow at EAI.

**Falling oil prices could hinder the investment in and development of China's oil, new energy and renewable energy industries, causing adverse impact on China's energy security in the long run.**

# The New “Normal” in China’s Foreign Policy Orientation

*Xi wants China to build a distinctive diplomatic approach as a major power.*

LYE LIANG FOOK

In the realm of foreign policy, under President Xi Jinping leadership, there is also apparently a new “normal” in the form of new emphases or shifts in China’s orientation. These new emphases or shifts, driven largely by China’s position as a major power on the world stage, demonstrate China’s willingness to play a more active role in foreign policy that is formulated in line with its status and national interests. This article highlights some key features of China’s new emphases or shifts in its foreign policy orientation.

## DEVELOPING A DISTINCTIVE DIPLOMATIC APPROACH AS A MAJOR POWER

Xi has called on China to develop a distinctive diplomatic approach befitting its role as a major power when he delivered an address at the Second Central Conference on Work relating to Foreign Affairs by the Party’s Central Committee in November 2014. This is a very important conference as it sets the guidelines, if not strategic directions, for China’s foreign policy in the years to come. The conference was last held in 2006 during the Hu Jintao administration.

Xi’s advocacy to develop a distinctive diplomatic approach is significant in a few ways. For one, it indicates that China has discarded Deng Xiaoping’s foreign policy dictum of “hiding one’s capabilities and biding one’s time” in favour of a much more confident and active foreign policy posture. Deng previously advocated the axiom that China should maintain a low profile and never take the lead.

In contrast, Xi champions China to have a distinctive diplomatic approach that aligns with its role as a major power, implying that China should establish its own brand of diplomacy even if it entails assuming a higher profile and playing a leadership role, albeit in certain areas.

Xi’s articulation of Chinese foreign policy is also different from what his predecessor, Hu Jintao, had emphasised. In 2005, Hu Jintao propounded the concept of a harmonious world when he spoke at the 60th anniversary of the founding of the United Nations. At the time, Hu’s proposal appeared to be largely a response to other countries’ concerns about the negative consequences of a rising China, such as the dumping of Chinese products in the world market, unfair trading practices and poor treatment of foreign workers by Chinese enterprises that have ventured abroad.

In contrast, Xi’s pursuit of a distinctive diplomatic approach appears to be primarily driven by China’s attainment of major power status. Inherent in this call is the recognition that other countries now have to make adjustments to China’s major power status rather than for China to simply respond to the concerns of other countries.

In fact, China has already begun to lay foundation to develop a distinctive diplomatic approach even before Xi’s formal announcement in November 2014. More specifically,

China has embarked on a number of initiatives as well as established institutions that reflect a more confident and active foreign policy posture.

## LAUNCHING INITIATIVES AND ESTABLISHING INSTITUTIONS

China’s “One Belt and One Road” initiative is, foremost, of great strategic significance. Xi proposed the Silk Road Economic Belt (One Belt) and Maritime Silk Road of the 21st Century (One Road) in September 2013 and October 2013, respectively. Since then, Chinese leaders have extolled the benefits of other countries working with China on projects that promote infrastructure connectivity, trade and investment facilitation, financial settlement in each other’s currencies and people-to-people linkages. The purpose is to enable other countries to ride on the abundant opportunities offered by China’s growth in order to create its vision of a “community of common destiny”.

A key target audience of China’s “One Belt and One Road” initiative are its neighbours and other developing countries. China held its first-ever Central Conference on Diplomatic Work on Neighbouring Countries in October 2013, indicating that it values the importance of developing ties with its neighbours.

Putting its money where its mouth is, China announced the setting up of a US\$40 billion Silk Road Fund in November 2014 to provide support for projects related to the “One Belt and One Road” initiative. It also signed a memorandum of understanding with several countries in October 2013 to establish the Asian Infrastructure Investment Bank (AIIB), which would supposedly complement the work of the International Monetary Fund and Asian Development Bank in easing infrastructure bottlenecks in the Asia region. The AIIB is expected to be formally established by the end of 2015.

At the APEC Economic Leader’s Meeting that China hosted in November 2014, it pushed for concrete action towards an eventual realisation of the Free Trade Area of the Asia-Pacific (FTAAP). While the call for a FTAAP is not new, the fact that China has taken the lead in reviving the momentum towards a FTAAP at a time when the more developed economies seem to have lost interest in this endeavour is considered new and unprecedented. In the event, the APEC Economic Leaders in their 2014 Declaration endorsed the *Beijing Roadmap for APEC’s Contribution to the Realisation of the FTAAP*.

Beyond economics, China is also trying to reshape the regional security architecture. At the Conference on Interaction and Confidence Building Measures in Asia (CICA) held in Shanghai in May 2014, Xi said that “it is for the people of Asia to run the affairs of Asia, solve the problems of Asia and uphold the security of Asia”. He further proposed

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## **The New Thrust of Party-building under Xi Jinping**

tigers and flies at the same time". Measures have also been taken to purge the Party of unqualified and undesirable Party members.

At the 18th Party Congress, Xi proposed to "modernise the state's governance system and capability" as a key objective of institutional reforms during his tenure in office. The Party seeks to develop appropriate institutions and bureaucratic systems to stabilise and buttress the exercise of CCP authority, and to consolidate the foundations for the nation's continued rise and accumulation of national power through the establishment and strengthening of an array of economic, social and political "institutions" (*zhidu*) and "systems" (*tixi*). On 2 September 2014, the Politburo passed the "Action Plan for Deepening Party-building Institutional Reforms", which outlines 26 concrete measures to reform the Party in four key areas, specifies the expected outcomes and designates respective organisations to be in charge of the reforms in four key areas for completion by 2017. The four areas of reform are Party institutions, cadre management, grass-roots consolidation and human resources management.

Xi's Party-building has shown notable departures from his predecessors and that include the re-emphasis on ideological unity, the rollback on intra-Party democracy, renewed emphasis on intra-Party legislation, and controlling the growth of the Party's size. Xi has pioneered the idea of "managing the Party according to law" as a modern feature of Party-building. On 27 May 2013 the CCP adopted the first-ever "intra-party legislation act" and in the following November, a five-year plan (2013–2017) on intra-Party legislation. The CCP regards the rule by law within the Party as an integral part of establishing the rule by law in the country.

The CCP is an organisation that incorporates and creates cohesion in China's diverse elite; it prevents the formation of independent political centres or forces and hence keeps China's rise a purported movement led by the vanguard party. However, unlike a traditional Leninist party, the CCP has to accommodate the social diversity and conflicting class interests in a globalised market economy. It is therefore attempting at a new type of political party; Party-building as such is an unprecedented endeavour. There are, however, inherent dilemmas in building a Leninist party in a globalised market economy, in particular the attempt at achieving unity to accommodate diversity. ■

Lance L P Gore is Senior Research Fellow at EAI.

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## **China's Economic "New Normal"**

to further reduce tax and fee burden to support the development of small and micro businesses, and to cultivate entrepreneurship and encourage innovation. The State Council also decided to reduce the rate of unemployment insurance contribution by a third, from 3% to 2%. Another measure that aims to sustain growth is to accelerate the

deployment of major water conservancy project construction and investment in public goods. These are consistent with the policy direction set at the December 2014 Work Conference, including "a proactive fiscal policy with strength". China's annual "*liang hui*", the plenary meetings of the National People's Congress and the National People's Consultative Conference, opens in March 2015 (at the time of writing). It is useful to observe whether the Chinese government will introduce stronger stimulus policies if growth figures for the first two months of the year disappoint. ■

Sarah Y Tong is Senior Research Fellow at EAI.

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## **Development of Physical Connectivity in Western China**

local economic growth. They believe that the inclusion of their infrastructure construction projects in the Silk Road strategy will increase their chances of receiving state funding. Since the announcement of the "One Road, One Belt" initiatives, local governments in regions such as Xinjiang, Yunnan and Guangxi have hastened to formulate plans and initiate fast-track proposals for transport infrastructure construction along the Silk Road routes. ■

Yu Hong is Research Fellow at EAI.

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## **The "New Normal" in China's Foreign Policy Orientation**

developing CICA into a platform for security dialogue and cooperation in Asia and even suggested exploring a new regional security cooperation framework on the basis of CICA.

In another indication of its effort to play a more active role in regional security, China elevated the status of the Xiangshan Forum that it hosts from a largely academic platform to a high-level defence and security platform. Besides the usual academic participants, the Xiangshan Forum held in Beijing in November 2014 had convened representatives from 47 countries and regions, with over 20 senior officials of vice-ministerial level and above. China further decided to increase the frequency of the forum from a biennial to an annual affair.

There is a view that Beijing is promoting the Xiangshan Forum as an alternative to the Shangri-La Dialogue, which is organised by the London-based International Institute of Strategic Studies in Singapore every year. China was reportedly unhappy for being the target of public criticism by representatives of other countries in previous sessions of the Shangri-La Dialogue. Although China has stated that the Xiangshan Forum is not intended to replace other forums, it is clear that China wants to promote alternative platforms where it has better control of the agenda and proceedings so that it can project its voice and views clearly on defence and security-related matters. ■

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# EAI International Conference

## EAST ASIA OUTLOOK 2015



From left: Professor Zheng Yongnian and panellists at the session on Japan and the Korean Peninsula

East Asian Institute (EAI) ushered in 2015 with its signature forum, East Asia Outlook 2015, on 9 January 2015. The forum not only encapsulated important topics such as Chinese President Xi Jinping's theory of "new normal" (*xin chang tai*) for China, but also Hong Kong's Occupy Central movement and Taiwan's local elections that had hogged the headlines of the international media at the end of 2014, as well as emerging political issues in Japan and the Korean peninsula.

EAI Director Professor Zheng Yongnian, in his welcome address to the 80-strong audience, said Chinese President Xi Jinping's power consolidation at such a rapid pace and in such sweeping dimensions had caught many by surprise in the past two years. Professor Zheng explained that this is completely understandable and necessary because Xi does not have the de facto legitimacy that Mao and Deng had in absolute power.

### OUTLOOK FOR CHINA

Looking ahead in 2015, EAI Research Fellow Dr Chen Gang said Xi's power consolidation and war on corruption will continue unabated. Corruption investigations in 2015 will centre on the military, propaganda apparatus and centrally controlled state enterprises.

Turning to the topic on Communist Party of China (CPC), Visiting Senior Research Fellow Dr Wang Zhengxu said Xi has plenty on his plate currently to prepare for the 2017 congress — he has to select a successor each to the top position and premiership in 2022, fill a total of five seats in the Politburo Standing Committee (PBSC) and a total of six to eight seats in the Politburo.

On foreign policy, EAI Assistant Director and Research Fellow Mr Lye Liang Fook said Xi Jinping has led China on the path of a "new type" of international relations that underpins peace, development and win-win cooperation not only with major powers like the United States but also with its neighbours and developing countries.

EAI Professorial Fellow Professor John Wong said speculations about China's economic growth in 2015—likely to be a little over 7%—are mixed, depending on the global economic outlook.

Society-wise, EAI Senior Research Fellow Dr Zhao Litao anticipated that the Chinese government will face challenges in 2015 dealing with pension disputes that involve first-generation migrant workers as well as wage disputes raised

by construction workers. EAI Research Fellow Dr Shan Wei also noted a few worrying trends in these terrorist attacks in terms of the increased sophistication displayed by terrorists in organising and mobilising attacks.

### OUTLOOK FOR HONG KONG AND TAIWAN

EAI Research Fellow Dr Lim Tai Wei rationalised that with the relatively peaceful closure of the Occupy Central movement, which in fact reflected the "go green" spirit and "civic-mindedness" of the young generation, the Hong Kong government has begun its arduous task to adjust and tweak the system to fit more pluralistic views of Hong Kongers.

EAI Research Associate Dr Tseng Hui-Yi attributed the disastrous defeat of Taiwan's ruling party, Kuomintang (KMT), at the 29 November 2014 local elections to President Ma Ying-jeou's unpopularity, poor economic performance and failing governance and weak appeal of KMT candidates.

EAI Visiting Senior Research Fellow Dr Chen Chien-Hsun indicated that Taiwan's economy is unlikely to be seen as taking great strides, with mounting challenges in its industrial structure, R&D, financial markets, labour market, income distribution and the like.

### OUTLOOK FOR JAPAN AND THE KOREAN PENINSULA

EAI Senior Research Fellow Dr Lam Peng Er foresaw that Sino-Japanese relations will remain frosty and testy since Xi and Abe assert their nationalism, power and ideology, and promulgate competing national historical narratives.

Elaborating further on Abenomics, Professor Yoshihisa Godo from Meiji Gakuin University said the third arrow, namely the new growth strategy (NGS), is showy with creeping risks and thus lacks economic sustainability.

Dr Kim Sung Chull, Humanities Korea Professor at Institute for Peace and Unification Studies at Seoul National University, expressed his cautious optimism of inter-Korean talks between South Korean President Park Guen-hye and North Korean leader Kim Jong-un in 2015. The Sino-North Korean relationship is described as "cooling off" but Kim Jong-un is definitely seen to be warming up to Russia.

Dr Joo Jaewoo, professor of Chinese foreign policy at Kyung Hee University, said South Korea had a bumper year, signing free trade agreements with Australia, Canada, China, New Zealand and Vietnam. ■

## Some Highlights at EAI



Extreme left: EAI Director Professor Zheng Yongnian addressing the audience.



Dr Lu Haiyang (Institute of Public Policy, South China University of Technology)



Associate Professor John Donaldson (Singapore Management University)



Dr Qian Jiwei (EAI)



Dr Li Hui (Lee Kuan Yew School of Public Policy, NUS)

**Above: At the Workshop on "China's Social Policy and Governance under Xi Jinping" jointly organised by EAI and Institute of Public Policy, South China University of Technology (SCUT) on 28 November 2014.**



**At the EAI Distinguished Public Lectures held on 10 and 16 October 2014: (from left) Professor Kjeld Erik Brødsgaard talks on "Cadre Management and Party Reform in China" and Professor Jonathan Unger speaks on "Deliberative Decision-Making in Chinese Communities: Grassroots Initiatives in an Authoritarian State".**

## *INTERNATIONAL CONFERENCE*

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