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Beijing's North Korea Challenge

Beijing's challenge is how to rein in North Korea while preserving its security interests in the region.

YUAN JINGDONG

Compared to his diplomatic activism and bold initiatives since assuming power in late 2012, Chinese President Xi Jinping's North Korea policy has more or less followed the scripts of his predecessors. For years, Beijing's mantra of North Korea is nuclear disarmament, peninsular stability and dialogue. North Korea's nuclear and missile tests in recent months had raised serious questions, not so much of the principles as to the specific approaches that China has embraced in order to achieve the objectives. Beijing is facing a major challenge in its foreign policy.

North Korea's latest provocations have seriously undermined Chinese interests. South Korea is reassessing its approach to inter-Korea relations based on trustpolitik and its delicate balancing act in maintaining close ties with both the United States, its security ally, and China, its key trading partner. South Korean President Park Geun-Hye has so far struck a decidedly China-friendly policy in the hope that Beijing would exercise its influence over North Korea. South Korea not only delayed discussion on US-proposed deployment of Terminal High Altitude Area Defence (THAAD) missile defence system, but also joined the China-led Asian Infrastructure Investment Bank (AIIB) despite pressure from the United States. Park even went to Beijing to attend the military parade that marked the 70th anniversary of the end of World War II, much to Washington's irritation.

This is however going to change. Facing North Korean nuclear and missile threats, South Korea is increasingly more receptive to the THAAD proposal and may eventually accept deployment on its soil despite Chinese opposition. Park has also vowed to inflict "bone-numbing" sanctions on North Korea, and first things first, with the suspension of the Kaesong Industrial Complex. The American and the Republic of Korea troops have been staging the largest joint military exercises in recent years and US F-22 stealth fighter jets will be based in military bases in South Korea. Besides, Seoul is already mending ties with Tokyo following the agreement on the comfort women issue and the North Korean threat could draw the two US allies closer.

None of these developments bode well for China. A strengthened US-Japan-South Korea alliance, along with the Obama administration's rebalance to Asia and Washington's active engagement with ASEAN states, could reshape Asia's geostrategic landscape favourable to the sustenance of American primacy. THAAD, if deployed, could pose a serious threat to China's second strike capabilities as its radar system could track Chinese strategic missiles. The new US unilateral sanction measures imposed recently not only target North Korea but could also threaten to penalise Chinese entities doing business in and with North Korea.

China's North Korea challenge will be a major item on Xi Jinping's foreign policy agenda in the coming months. Beijing needs to carefully re-evaluate both the evolving and volatile situation in the peninsula and its own policy and approaches towards it. One of the issues to consider would be: Should maintaining stability at all costs be China's priority even though North Korea's continuing and heightened provocations make that proposition increasingly untenable? Indeed, even though North Korea's dependence on China from energy to food, to economic assistance has deepened in the past few years, Beijing has not been able—nor has it been willing as some would argue—to convert its economic leverage to political influence over Pyongyang. If anything, the fear of regime collapse and the growing strategic rivalry with the United

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Xi Jinping Faces Numerous Formidable Challenges

Having assumed power as the Party chief and head of the state more than three years ago, Xi Jinping continues to face a number of serious challenges.

On the international front, the external environment, especially in China's neighbourhood, seems to be worsening. Rising tensions in the South China Sea may have serious implications not only in China's relationship with ASEAN and some of the member states, but also its relations with other major powers, particularly the United States. North Korea is another major challenge in China's foreign policy. While China advocates a consistent stance on North Korea based on three principles, i.e. achieving nuclear disarmament, safeguarding peninsular stability and resolving the issue through dialogue, North Korea's recent provocations, such as conducting nuclear and missile tests, have raised serious questions about China's approach in achieving those objectives. In addition, sustaining the momentum of implementing Xi's One Belt, One Road initiative may also prove to be challenging as it is essential that the projects launched are not only economically viable but also perceived positively by some recipient countries.

Domestically, Xi also faces mounting difficulties. Xi appeared to have successfully recentralised and consolidated his political power through the establishment of a number of leading small groups. However, in recent months, there have been new efforts to promote Xi as the "core" of the Party leadership. Readings of such moves vary, ranging from that being a response to bureaucratic paralysis to telltale signs of heightened political struggle at the top. Uncertainties and grave concerns about Xi's invulnerability as China's top man and whether his protracted anti-corruption campaign has hit some

hard walls. Meanwhile, he has also adopted a populist leadership style to shore up support from ordinary people. Such support could be beneficial to Xi's efforts in pushing through difficult reforms such as the People's Liberation Army reform and state-owned enterprise reform.

China's insipid economic health also poses additional challenges to the Xi administration. As external demand remains weak with domestic investment constrained by both overcapacity in certain sectors and high overall leverage, economic growth continues to decelerate. Moreover, as bad debt piles up, the fiscal standing of local governments and health of the banking sector warn of rising risks. Although China has made progress in the internationalisation of its currency, with the inclusion of renminbi in the International Monetary Fund's special drawing rights basket, there are concerns about its stamina for further reforms in the financial sector. Indeed, as China's financial sector becomes more open and integrated with the rest of the world, managing the financial system will be extremely tricky.

Overall, 2016 may prove to be a defining year for Xi and for China. By overcoming external and domestic challenges, Xi could triumph as a great leader, taking his country on the road to sustainable development and prosperity. ■



Professor Zheng Yongnian
EAI Director

2016: A Tough Year for China in the South China Sea

Beijing is likely to face several challenges in its policy towards the South China Sea, from US military patrols to a possible new stance from Taiwan.

ZHANG FENG

South China Sea tension has been at the centre of Asia-Pacific regional politics since 2009. However, since 2015, a new set of strategic dynamics has dominated regional tensions. In 2016, China is expected to face four challenges in its policy towards the South China Sea—how it should respond to America's freedom of navigation operations (FONOPs); deal with a US-centred regional coalition that wants to curtail China's positions; respond to the outcome of an international arbitration case initiated by the Philippines; and respond to a possible new stance from Taiwan's new leadership of the pro-independence Tsai Ing-wen on the claims to the South China Sea.

The immediate trigger of the new strategic trends was China's significant decision to reclaim land and build islands in the Spratly Island chain of the South China Sea in late 2013. The United States has responded with two FONOPs since last October.

So far, US operations and Chinese reactions at sea were relatively restrained. But China is deeply unhappy with US assertions of military power in this manner. The United States and some regional states may hope that, with sustained diplomatic and military pressure, FONOPs will eventually be able to impose appropriately adequate costs on China to force the Chinese leadership to do some rethinking. But that could probably yield contradictory and far more dangerous outcomes. That is, facing what it perceives as an unrelenting affront from the United States while at the same time contending with the rising pressure from domestic nationalism, China's leadership may decide to arm the newly constructed islands to fend off US threats. Between backing off and arming the islands, China has a number of policy choices to consider. None of them is likely to be easy.

The US adoption of FONOPs as the main response to China's island-building has presented China with an additional challenge. There are now signs that the United States is trying to build a regional multilateral framework to support its FONOPs, making what it originally intends to be a unilateral show of force into a broad-based multilateral endeavour. Australia, Japan, the Philippines and South Korea—all US treaty allies—have openly supported US operations and may join US patrols in the future. Meanwhile, Singapore has agreed to host a temporary deployment of a US P-8 Poseidon surveillance aircraft for operation over the South China Sea. Even Vietnam—a claimant state with an uneasy attitude towards the United States—appears to be

supporting FONOPs, judging from its response to the latest sail-by of the USS Curtis Wilbur. Dealing with the emerging regional coalition of various states supporting US actions is thus the second challenge facing China's South China Sea policy this year.

The third challenge, despite being considered a "soft" area of international law, is potentially more serious in the immediate future. Coming May, the International Tribunal on the Law of the Sea is expected to rule in favour of the Philippines in a case Manila filed against Beijing in 2013 over Chinese claims in the South China Sea. When the Philippines initiated this arbitration process, China declared its position that it will not participate in the proceedings and accept any rulings. If China totally disregards the court's judgement, it would undoubtedly be perceived as an outlaw state in defiance of international law by the United States and other regional states. This would create new opportunities for the United States and its regional coalition to exert further pressure and impose additional costs on China.

The immediate trigger of the new strategic trends was China's significant decision to reclaim land and build islands in the Spratly Island chain of the South China Sea in late 2013.

A fourth challenge has emerged beyond Beijing's control despite the fact that Taiwan's position on the South China Sea is largely supportive of Beijing's policy during the Ma Ying-jeou administration for the past eight years. This is perhaps unsurprising given that the People's Republic of

China (PRC) has inherited many of its policy positions in this area from the Republic of China (ROC) exiled to Taiwan after the Chinese civil war in 1949. However, the election of Tsai Ing-wen, leader of the opposition Democratic Progressive Party known for her pro-independence penchant, as Taiwan's next president may change Taiwan's role as a positive force for Beijing's claims. If, for example, Tsai decides to modify Taiwan's position on the nine-dash line, which forms the historical basis of both the PRC and ROC claims and is central to the recent round of disputes, this will have massive consequences to China's positions.

Year 2016 is indeed likely to be a tough year for China's South China Sea policy. As it struggles with an effective response to US FONOPs, ponders the significance of a new regional coalition against its policies, gets anxious over the outcome of the Philippines arbitration case and worries about a possible new stance from Taiwan's new government under Tsai Ing-wen, how well can Beijing navigate the treacherous waters of the South China Sea this year? ■

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China's Foreign Policy Challenges in 2016

China's ability to manage its differences with other countries in the South China Sea and implement credible projects related to its One Belt, One Road initiative will have a strong bearing on its international image.

LYE LIANG FOOK

China will face a couple of foreign policy challenges in a seemingly more complex or even worsening external environment in 2016. How China handles or addresses these challenges will shape other countries' perception of China. China will likely be perceived as a constructive and responsible member of the international community if it manages the challenges well. Conversely, if it handles them poorly, it will probably be regarded as an assertive or even aggressive player that is eager to stake its claims with scant regard for the interests of other countries.

One of the foremost foreign policy challenges for China in 2016 is having a better grip of the South China Sea (SCS) issue to prevent it from overshadowing the cooperative agenda that China seeks to promote. Tensions in the SCS escalated following China's expansive island-building efforts on seven of the eight features it occupies. It has gone a step further to build civilian facilities as well as deploy military assets, which some ASEAN claimant states as well as major powers such as the United States are strongly opposed to. The challenge that the SCS issue poses to China can be observed from two dimensions.

The first dimension relates to China's relationship with its neighbours. The ASEAN claimant states such as Vietnam, the Philippines and, to some extent, Malaysia—being relatively smaller or weaker—are particularly concerned about China's building of artificial islands. In their view, such actions belie China's ambition to ride roughshod over their claims in the SCS. In response, they have strengthened their defence and security ties with other powers such as the United States and Japan. They have also reiterated calls for the Code for Unplanned Encounters at Sea to be expanded to include other maritime agencies (a veiled reference to China's huge fleet of civilian maritime vessels that have been used to enforce its claims in the SCS). To its smaller neighbours, China's building of artificial islands contradicts Chinese President Xi Jinping's emphasis on the importance of strengthening China's ties with its neighbours and severely dents the cooperative message behind China's One Belt, One Road initiative.

The second dimension relates to China's relationship with other major powers. With greater involvement of external powers, the SCS issue is at risk of becoming internationalised, making a resolution far more difficult. Worse still, the presence of external powers has increased the possibility of unintended scuffles involving the military forces operating in the SCS and escalation into conflagrations.

The most significant external military power is the United States which has engaged in freedom of navigation operations (FONOPs) and overflights beyond and within 12 nautical miles of China's artificial islands. Such operations demonstrate the resolve of the United States to uphold its pivot to Asia strategy and commitment to its allies in the region. On the other hand, China is determined to enforce its

sovereignty claims in the SCS and would not take kindly to be seen as the weaker party. From the strategic standpoint, the actions and counteractions taken by China and the United States in the SCS reflect a shift in the relative strengths of the two powers and their adjustments to such a shift. It remains uncertain how adjustments made by the two powers will pan out.

Apart from the United States, other major powers have also demonstrated inclination to support the principle of freedom of navigation in the SCS. Late last year, a Royal Australian Air Force plane conducted FONOP patrol in the SCS. This year, Japan is likely to send its navy vessels to dock at Vietnam's international harbour of Cam Ranh Bay that overlooks the SCS. India and the United States had reportedly held talks on conducting joint naval patrols that could probably include the SCS. China's strong opposition, however, has not deterred these external powers from "meddling" in the affairs of the SCS. Ironically, China's building of artificial islands, intended to strengthen China's claims in the SCS, has galvanised the external powers and regional countries to work closer together to balance its heft.

Another key foreign policy challenge facing China in 2016 is to sustain the momentum of the One Belt, One Road initiative. China's image will be shaped, to a greater extent, by recipient countries' perception of how well the initiative is implemented, and to a lesser extent, by high-sounding pronouncements. This is often easier said than done. Apparently, China's rail project in Indonesia, i.e. the Jakarta-Bandung high-speed rail, which broke ground hastily with much fanfare in January 2016, already hit a snag. The Chinese-led consortium has not submitted the required development design and technical details for the Indonesian railway authorities to issue the construction permit for the railway.

In fact, prior to the launch of China's One Belt, One Road initiative, a few China-led projects, such as the Myitsone dam and Letpadaung copper mine projects in Myanmar, had already run aground. These projects encountered strong local opposition chiefly because of their impact on people's livelihood and the environment, and the fact that such projects are seen as only benefiting the politically connected. Based on these past negative experiences, recipient countries are likely to scrutinise other China-led projects closely, especially those under the One Belt, One Road initiative. If these projects can take the "externalities" arising from their implementation into account, they would help shape a positive image of China that is committed to the principles of joint consultation and joint construction, and mutual sharing of benefits, which it ardently advocates. In this regard, much effort is required of China and for it to work with the recipient countries to implement credible projects. ■

Lye Liang Fook is Research Fellow and Assistant Director at EAI.

The "Kernelisation" of Xi Jinping

Xi Jinping's self-promotion as the "core" of Party leadership may well indicate his increasing vulnerability.

LANCE L P GORE

On 18 January 2016, the *People's Daily* ran a front-page article with the title "Casting the iron leadership core of socialism with Chinese characteristics", with glowing descriptions of Chinese President Xi Jinping as a leader and as a person, as well as his policies and statecraft in the past three years. A Politburo meeting held on 29 January urged Party organisations of all levels and all Party members to "keep highly aligned in both thoughts and actions with the central Party leadership led by General Secretary Xi Jinping". In the next couple of days, Party chiefs of a dozen or so provinces pledged their loyalty by referring to Xi as the "core" of the Party's leadership. A movement to enshrine Xi as the paramount leader is under way.

The concept of a "leadership core" was invented by Deng Xiaoping, who regarded Mao Zedong as the core of first-generation CCP (Chinese Communist Party) leadership and himself as the de facto leadership core of the second generation. Deng's real purpose, however, was to shore up the power and authority of Jiang Zemin, whom he designated as the core of the third-generation leadership amid the uncertainty following the Tiananmen crisis in 1989.

In other words, Jiang's "core" status was not earned but bestowed, at least in the beginning. Hu Jintao, Jiang's successor, was too weak and unconfident to even attempt to claim the core status. His official designation was "the central Party leadership with comrade Hu Jintao as the General Secretary". And that has also been Xi's designation over the past three years.

But Xi is no Hu. Since taking over, Xi has engineered a massive recentralisation of power by establishing a number of leading small groups on top of the political structures. The power he has amassed makes him the indisputable top leader, but it is largely institutional power. The ongoing campaign to promote him to "core" can be regarded as his quest for personal power.

Speculations abound about such a concerted effort to "kernelise" Xi. The easiest interpretation is that it is the natural outcome of his institutional centralisation of power. There are, however, other more sinister interpretations.

One regards it as a panicky response to an emerging crisis of governance. China's economic slowdown is more abrupt and massive than many had anticipated. Global financial sharks are betting on a hard landing for the Chinese economy. Quick and effective policy responses are called for

at a time when widespread shirking and inaction are plaguing the political system.

The ferocious anti-corruption campaign over the past three years has a petrifying effect upon the CCP's cadre corps. No one knows if the Party's discipline inspector will knock on the door tonight, or whether tomorrow's meeting is going to be his or her last as an incumbent. The Sixth Plenum of the Central Discipline Inspection Commission on 14 January has made it clear that the anti-corruption campaign will continue unabated.

Under such circumstances, there is serious lack of trust among colleagues—because anyone can be an informant to bring down anyone else. It is hard to muster the kind of synergy and teamwork required to carry out the vast and complicated reform programmes introduced at the Third Plenum of the 18th Party Congress in November 2013. It is hoped that Xi's "kernelisation" may help to jolt the system and overcome the bureaucratic immobility.

Another interpretation reads Xi's kernelisation as the climax of the power struggle between Xi and the previous "core" of the Party—Jiang Zemin, who is long retired but still in the habit of exerting influence from behind the scenes. Truth be told, there could only be one legitimate core.

The most creepy reading of Xi's kernelisation alludes to conspiracies within the Party to overthrow Xi. On 14 January, a collection of Xi's internal speeches on Party discipline hit the shelves of bookstores in China. In one of the speeches, Xi accused six disgraced top officials—Zhou Yongkang, Bo Xilai, Guo Boxiong, Xu Caihou, Ling Jihua and Su Rong—for

their "bloated political ambitions" and "political conspiracies to split the Party". A WeChat account associated with the *People's Daily* hailed the purge of the six as "having removed a major hidden political danger".

The kernelisation of Xi has reached a level of personality cult rarely seen in the post-Mao era. There is no doubt that Xi has made many enemies and is facing a resentful if not hostile cadre corps. Indicative of this is his call, at the end of last year, for Politburo members to "frequently and actively emulate the Party centre (i.e. himself)". However, time has changed. Personality cult is unlikely to grant Xi the immunity Mao enjoyed. Demanding absolute loyalty and obedience is just that—demand. ■

Lance L P Gore is Senior Research Fellow at EAI.

The concept of a "leadership core" was invented by Deng Xiaoping, who regarded Mao Zedong as the core of first-generation CCP (Chinese Communist Party) leadership and himself as the de facto leadership core of the second generation.

The Populist Leadership Style of Xi Jinping

Xi has been successful in projecting himself as a populist leader with the use of traditional propaganda and Western-style public profile-building tactics.

SHAN WEI

Populism is an approach often adopted by political strongmen, who seek to consolidate their power base through gaining the support of ordinary people by giving them what they demand. More than three years in power, Xi Jinping has been successful in projecting himself as a populist leader.

With such popular support, Xi has been able to concentrate his power, push through the anti-corruption campaign, and push ahead with reform of the People's Liberation Army and other reforms.

In a recent public opinion survey done by a research centre at Harvard University that required 26,000 people in 30 countries to rate 10 world leaders, Xi was rated the highest by Chinese respondents compared to any other leaders as rated by their own people in the poll. The survey thus indicated that the "Chinese respondents showed the highest confidence in regards to how their leader handled domestic and international affairs".

Such high degree of confidence bestowed in a leader is not achieved by accident. In fact, Xi may be the first Chinese leader to have a big team for public profile-building. The Party's propaganda machine has been mobilised to publicise Xi in an overwhelming way. His smiling countenance is everywhere in the

country—on billboards along highways and in restaurants, photo image of him in newspapers and on the internet, and even as small souvenirs sold by street vendors. In addition, a collection of his official speeches was published in nine languages with 17 million copies already reportedly sold or given out as gifts.

In the first 18 months after Xi came to power, his name appeared in the headlines of the *People's Daily*, the Party's No. 1 mouthpiece, not only at a much higher frequency than his Politburo colleagues, but also exceeded that of his predecessors like Deng Xiaoping, Jiang Zemin and Hu Jintao. Only Mao Zedong could level the score with him.

Xi has been learning from Western political culture whereby politicians need the common touch to court public opinion. Unlike Mao, who was propagandised as a semi-god, Xi has attempted to portray himself as a "man of the people", a warm, tender-hearted and easy-going man.

The official media picked up from the internet a nickname for Xi, "Xi Dada" which means Uncle Xi. Personal information about him has been steadily released: the Hollywood movies

he likes, the books he reads, anecdotes about his teenage years and the layout of his office. Photographs of him riding a bike with his young daughter on the back and pushing his aged father in a wheelchair were also released.

That said, even Xi's wife and daughter may probably become part of the publicity team. His wife, Peng Liyuan, is a singer of nationwide repute and regarded as "the most beautiful first lady" in the history of the People's Republic of China. Peng, known for her elegance and style, has helped Xi improve his public image by complementing colour of Xi's neckties with her outfits and the occasions. The interactions between Peng and Xi during his state visits have also portrayed Xi's personal side as a devoted and caring husband, winning him wide popularity at home.

Although Xi's daughter, Xi Mingze, has never appeared in the public or in the mainstream media, she is reportedly to have joined the team that manages Xi's public image after graduating from the Harvard University. She introduced to the team skills on how to attract the younger generation. She gave suggestions to her father on what to wear and how to behave in public, as well as how to harness social media to build his image. In addition, she purports to have written articles online under pseudonym in defence

of Xi's policy.

Xi may be the first Chinese top leader to use the internet for personal publicity. In November 2012, on the first week of Xi's inauguration as the Party's general secretary, an account called "Learning from Xi Fans Club" (*xue Xi fensi tuan*) was registered at Sina Weibo, China's largest twitter-style social media site. This site reports Xi's family life, updates his whereabouts and posts his personal photos, much like what fans of pop stars would do. Through this site, people get to know Xi the "everyday man", feeling closer to this supreme leader.

There are over 2.94 million followers of this "fans club" as of February 2016. This account seems to be set up and run by an ordinary worker from Sichuan. However, people believe that there is official support behind this site, as many news and photos released on this site are supposedly not accessible to the general public.

Xi's team has skilfully used the internet to create newsworthy events that attract eyeballs. A few days before the Lunar New Year in 2014, Xi lunched at a local dumpling

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Anti-corruption and Bureaucratic Paralysis

China's ongoing anti-corruption campaign has caused slower economic growth and dented morale of the civil service but the 13th Five-Year Plan's release in March is expected to put the Chinese bureaucracy back in motion again.

CHEN GANG

Chinese President Xi Jinping's campaign of fighting official corruption and people-pleasing measures of curbing extravagance continued unabatedly in 2015. Despite intense government efforts, China's ranking in global corruption index has not improved considerably. According to the Corruption Perceptions Index (CPI) by Transparency International, China was ranked 83rd among 168 countries in 2015 in descending order of cleanness, sharing the same rank as Sri Lanka and Colombia. Records have shown those Chinese corrupt officials that were exposed and punished in the past were generally from the low and middle levels, but high-level and high-stakes corruption cases are on the rise these days. China's corruption is therefore deemed to be systematised and embedded in the system of state capitalism.

In 2015, the Xi-led Party-state charged 30 officials at the ministerial level or higher for corruption and carried out unprecedented investigations on 30 senior military officers, most of whom had ties with scandal-ridden Guo Boxiong or Xu Caihou. These generals were from the People's Liberation Army (PLA) major military regions as well as its logistics department, the second artillery corps and the military universities. In July 2015, Guo Boxiong, a former vice chairman of the powerful Central Military Commission (CMC), was expelled from the Communist Party of China (CPC) for alleged corruption and handed over to the military prosecutors. Guo is the most senior military official under investigation in the ongoing anti-graft campaign. His expulsion came more than a year after the downfall of former top general Xu Caihou, who was also a CMC vice chairman under former President Hu Jintao.

Corruption is in fact not a new phenomenon in the history of the People's Republic. That it is perceived as "new" came about because of the perennial lack of an independent judiciary system and media supervision in China. After 30 years of gradual economic reform, the Party-state's partially marketised economy has become a hotbed of more high-level and high-stakes corruption cases. Despite three decades of economic liberalisation, the state has not withdrawn its control on the economy, which is still securely controlled by the state sectors and strongly intervened by government policies.

The CPC's Central Disciplinary Inspection Commission (CDIC), with approval from the Politburo, is the only organ

empowered to investigate and detain leaders at ministerial level and above. The three-year anti-corruption campaign has therefore significantly expanded the power base of Xi Jinping and the CDIC headed by Wang Qishan in the Chinese Party-state system. Wang, who is ranked sixth in the seven-man Politburo Standing Committee, is believed to be the second-most powerful man in China currently, only after Xi himself.

The economic costs of the campaign have started to mount. Many of the government's anti-corruption and anti-extravagance measures as stipulated in Xi's "Eight-point Regulations", covering official travels and dinners as well as other perks for officials, have reduced domestic consumption.

Such harsh anti-graft and austerity measures have decelerated China's galloping economic growth to slow trots. Local officials' appetite in promoting gross domestic product and fiscal revenues, which were incentivised by the 1994 tax-sharing system reform and rent-seeking activities that the CPC acquiesced to, has been hampered by Xi's anti-corruption movement.

Corruption in China, as in many developing countries, is basically endemic in the system. Corrupt officials are everywhere and Xi cannot keep on swatting them without disrupting or eventually damaging the

system. In reality, Xi's crackdown on corrupt officials is by itself an indirect official admission that the Party and its related apparatus have all along been extensively corrupt. Such a revelation would only undermine the image of the Party and the credibility of the government.

Corruption investigations at various levels of government by the CDIC have created a kind of "witch-hunt" fear in the bureaucracy, leading to inaction of government officials and a political paralysis that has, in turn, stalled project implementation or even led to a cutback on domestic investment, particularly at the local government level. All of these have taken a toll on China's economy, which is already slowing down.

Year 2016, the first year of the 13th Five-Year Plan, will be a year of action as the whole bureaucracy has to be mobilised to enforce the new policy initiatives. The Five-Year Plan will be formally approved by the National People's Congress (NPC), China's top legislature, at its annual meeting in March 2016. With the emergence of civil society, the growing pluralism within the CPC and the development of

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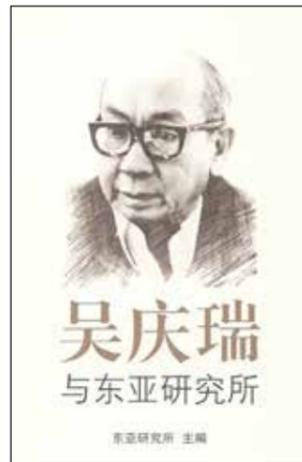
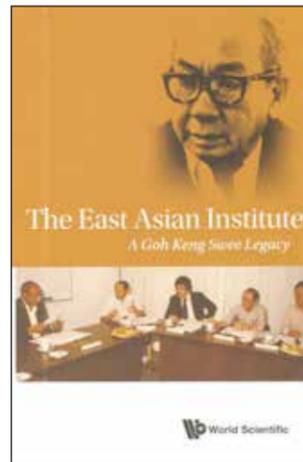
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Author: East Asian Institute

Publisher: World Scientific Publishing

Year of Publication: 2016



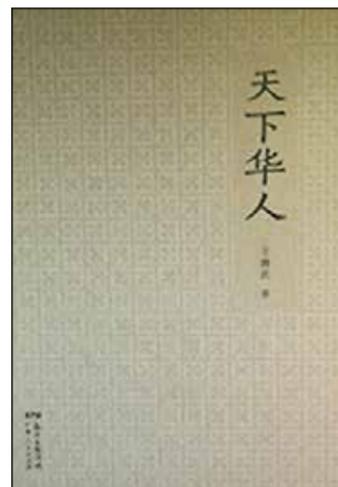
This book records the achievements of the East Asian Institute (EAI), one of the top five think tanks in the world, under the leadership of Dr Goh Keng Swee, Professors Wang Gungwu, John Wong and Zheng Yongnian. The hard work behind the nurturing of this institute is sometimes invisible, unwritten and under-appreciated but the contributions and results are clear and relevant to the scholarly world. The works of EAI's originating guardians as well as the future endeavours of its current directorship thus need to be chronicled for future generations of scholars to learn from this intellectual experience of managing an institution as complex as EAI. The detailed historiography of EAI in this publication represents the multiple histories of EAI, China's developmental path since the initiation of market reforms as well as Singapore's collaborative interface with China's development.

Chinese under Tianxia

Author: Wang Gungwu

Publisher: Guangdong People's Publishing House

Year of Publication: 2016



This collection of essays by Professor Wang Gungwu examines various contemporary issues on the study of the identity of Chinese overseas, such as the origins of the term *huaqiao* or "Chinese overseas", how the Chinese overseas have been portrayed in history, the Chinese revolution and Chinese overseas, the Chinese diaspora, and the Chinese overseas in the past and

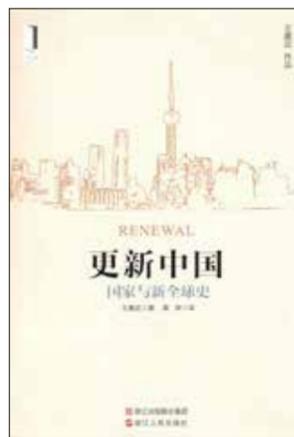
the future. This volume shows Professor Wang's scholarly rigour and academic integrity in his research, and is therefore an important and exceptional reference for the study of Chinese migration and Chinese overseas.

Renewal: The Chinese State and the New Global History

Author: Wang Gungwu

Publisher: Zhejiang People's Publishing House

Year of Publication: 2016



Will the rise of China change the international system built by the industrial and constitutional democracies of the West of the past centuries? Should China be content with the maintenance of that system: one of competing nation-states of absolute sovereignty and relative power? Does the Confucian past contain a moral vision that may connect with universal human values of the modern world? And will

the rising China become an engine for a renewed Chinese civilisation that contributes to the equity in the international system? Pondering these fundamental questions, historian Professor Wang Gungwu probes into the Chinese perception of its place in world history and traces the unique features that propel China onto its modern global transformation. This collection of Professor Wang's thoughts is a must-read for us to contemplate China's root and routes along its modernisation trajectory.

The Taiwan Independence Movement In and Out of Power

Author: Qi Dongtao

Publisher: World Scientific Publishing

Year of Publication: 2016



This book is a study of the Democratic Progressive Party (DPP), the Taiwan Independence Movement (TIM) and electoral politics in Taiwan during the 2000–2012 period. The first part of the book proposes a movement government framework to understand the fluctuating popular support for the DPP government from 2000 to 2008 when it was in power, and the second part includes a series of studies on the DPP's quick but limited

revival from 2008 to 2012 when it was out of power. For the DPP in and out of power, its strategic relations with the TIM have either promoted or constrained popular support for the DPP under different circumstances.

This book reviews the history of the TIM since 1945, its relations with the DPP since 1986, the DPP's strategies in dealing with the TIM, and explains how these strategies have significantly affected the size and composition of the DPP's support base since 2000 by analysing rich survey data collected from 1996 to 2013. Theoretically, this book challenges the traditional dichotomous and overly structuralist understanding of state-movement relations; empirically, it provides both qualitative and quantitative analyses of Taiwan's major political and social events since 2000, such as presidential and legislative elections, and the rise of Taiwanese nationalism.

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By Qian Jiwei

China's Fiscal Sustainability

Although its government debt is still manageable, China must adopt sustainable fiscal policy to avoid over-accumulation of debt.

LIN SHUANGLIN

As China's economic growth slows down, its government revenue growth also declines. Meanwhile, China's government debt, particularly local government debt, has reached historic highs, causing deep concern from economists, investors and policy-makers worldwide over China's fiscal sustainability. Since the implementation of economic reforms, the Chinese government has begun to issue bonds. In the 1980s and the early 1990s, the size of government debt was small. Immediately after the Asian financial crisis in 1997, China adopted an expansionary fiscal policy, and budget deficits and government debt increased rapidly. In the wake of the 2008 global financial crisis, the government again adopted an expansionary fiscal policy, and government debt, particularly local government debt, increased dramatically. China's government budget deficit accounted for 2.3% of gross domestic product in 2009, 1.7% in 2010, 1.1% in 2011, 1.7% in 2012, 1.9% in 2013, 2.1% in 2014 and 2.3% in 2015. Noticeably, the share of government budget deficit in GDP in 2015 was as high as that in 2009, the year when China launched its large stimulus package. China's central government debt-to-GDP ratio was 17.5% in 2009, 16.7% in 2010, 15.1% in 2011, 14.8% in 2012, 14.6% in 2013 and 14.9% in 2014.

Local government debt has mainly come from the bank borrowing through the local government investment companies or financing vehicles. There are various reasons for the increase in local government debt. First, the expansion of local government fiscal responsibility. In 2014, local governments were allocated 54% of total government revenue but had to undertake 85% of total government expenditure. Second, a large percentage of transfers is in the form of appropriations for special projects (matching grants), which local governments cannot dispose of freely. Third, local governments can no longer rely on administrative and operation fee collections for revenue, and revenues from land leasing will not be adequate too. Fourth, the global financial crisis and the central government's expansionary policy have speeded up local governments' debt accumulation. Fifth, the high demand for local infrastructure development. It is estimated that local government debt-to-GDP ratio was 7.9% in 2000, 15.2% in 2005, 17.7% in 2008, 26.1% in 2009, 26.1% in 2010, 25.8% in 2011, 29.8% in 2012, 30.4% in 2013 and 37.7% in 2014. Apparently, the size of local government debt has been increasing.

Adding up the central government debt, local government debt, the debt of government-owned Railroad Corporation and government branches, as well as the social security system's social pooling account debt, China's total government debt had already reached 60% of GDP in 2014, hovering at the upper limit set by the European Union for its member countries.

Under the strong expansionary fiscal policy, the Chinese economy has grown at an extraordinary rate. High growth was also accompanied by high government tax revenue growth. In 2007, government revenue growth was over 30%! However, government spending has also grown significantly, leading to an increase in government debt.

China's government debt-to-GDP ratio is currently higher than many developing countries, but lower than many developed countries. In 2014, the debt-to-GDP ratio was 15% in Chile, 42% in Mexico, 45% in Argentina, 59% in Brazil, 28% in Indonesia, 53% in Malaysia, 51% in the Philippines and 46% in Thailand. The ratio of government debt to GDP in most of the advanced economies has been increasing. In 2014, the debt-to-GDP ratio was 226% in Japan, 179% in Greece, 132% in Italy, 103% in the United States, 88% in the United Kingdom and 75% in Germany.

On the other hand, China's geographic distribution of local government debt is uneven, with several provinces registering relatively higher debt-to-GDP ratios. The estimated debt-to-GDP ratio as of end of June 2013 was 90% for Guizhou, 66% for Chongqing, 57% for Yunnan, 56% for Qinghai and 53% for Gansu, while it was only 14% for Shandong, 18% for Guangdong and 20% for Zhejiang.

To reduce financial risks, the Chinese government has adopted the "bonds-for-loans" reform, i.e. issuing bonds and using the revenue to repay bank loans. For many years, local governments have utilised local government financing vehicles to borrow money from commercial and policy banks. Bank loans to local governments may become non-performing and could imperil the financial sector. Under the 1995 budget law, China's local governments were banned from issuing bonds directly or running budget deficits. However, under the 2014 budget law, local governments have the rights to issue bonds.

Since local government officials are appointed by the central government and are responsible for the growing local government debt, the central government should take responsibility for and provide financial assurance for local government debt. Therefore, China's local governments will not go bankrupt and the local fiscal risk is controllable at the moment.

Overall, China's government debt is still manageable. However, a rapidly ageing population in China implies that its social security and health insurance accounts will face deficit and debt, and that the environmental spending and welfare payment will increase. Also, the slowing growth of the government revenue may become a serious problem. To maintain fiscal sustainability, the Chinese government should adopt a prudent fiscal policy and prevent over-accumulation of debt. ■

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China's Recent Accomplishment in Exchange Rate Reform: Joining the SDR

The inclusion of renminbi in the special drawing rights (SDR) basket is significant to China as its central bank believes that SDR should take on the important role of a "super-sovereign reserve currency" because a national currency was unsuitable as a global reserve currency.

WAN JING

China's sudden decision to devalue its currency, the Chinese yuan, by almost 2% against the US dollar on 11 August 2015 indicates that its exchange rate reform continues apace. The International Monetary Fund (IMF) viewed this move as part of China's efforts to liberalise foreign exchange rates, suggesting that the fund had no problem with the inclusion of the yuan in the SDR basket. The IMF formally reviews the composition and valuation of the special drawing rights (SDR) basket every five years. The most recent review was completed on 30 November 2015, and decisions were made to include Chinese yuan in the current SDR basket with effect from 1 October 2016. China has looked forward to this result for a long time.

Effective from 1 October, the SDR basket will consist of five currencies based on the following weights: 41.73% for US dollar, 30.93% for euro, 10.92% for Chinese yuan, 8.33% for Japanese yen and 8.09% for the British pound. The weights assigned to each currency in the SDR basket are adjusted to take into account their current prominence in terms of international trade and national foreign exchange reserves.

As uncertainty in both international and domestic economic environments prevails, even without the prospect of joining the SDR, it is time for China to somehow devalue its currency. On the international front, the United States stopped quantitative easing in October 2014 and entered in a cycle of increasing its interest rate which makes US dollar even stronger; domestically, the outlook for China's economic fundamentals is not optimistic. China, as a big economy, should attach greater priority to an independent monetary policy over a stable exchange rate regime. China's central bank has attempted to adhere to its policy guidelines of easy monetary policy domestically and a stable exchange rate internationally. But when conflict between independent monetary policy and stable exchange rate arises, accelerating the depreciation process of renminbi and expanding the fluctuation zone are reasonable moves for now.

The SDR was created in 1969 under the Bretton Woods fixed exchange rate system to meet the shortage of global liquidity as US dollars and gold, which are preferred foreign exchange reserve assets, are not enough for the global reserves. However, SDR plays a very minor role in the modern context after the collapse of the Bretton Woods system. In addition, relying solely on the US dollar as the major global reserve currency causes economic conflict in the US government between achieving domestic monetary goals

and meeting the monetary needs of the global economy. Cumulative market frictions that laid bare during the 2008 global financial crisis indicate that the current international monetary system is incompatible and unsustainable in the long run, and may shorten business cycle and amplify fluctuations.

Joining the SDR basket is significant to China. However, in reality, SDR has very marginal usage, as member countries largely rely on capital markets and hard currencies to cover their obligations. Therefore, the inclusion of the Chinese yuan in SDR has major implication for IMF restructuring in that it allows SDR to play a bigger role. After the 2008 global financial crisis, the IMF has a clear idea about implementing reforms to gradually rely less on the US dollar as the single international reserve currency and advocate for a super-sovereign reserve currency, which in this case SDR is deemed the most ideal. It is, hence, evident that IMF will embark on major reforms on its structural framework.

China has noticed the changes inside the IMF and been making bigger plan for years. The People's Bank of China governor Zhou Xiaochuan said in 2009 that the global financial crisis underscored the risks of a global monetary system that relies on national reserve currencies.

Zhou argued that the SDR should take on the role of a "super-sovereign reserve currency" with its basket expanded to include currencies of all major economies, because a national currency was unsuitable as a global reserve currency.

China, whose emphasis is on the future, does not expect it could play a major role under the IMF's existing framework upon joining the SDR. In other words, the vision of China's central bank is beyond the ken of current international monetary system—it hopes the ongoing restructuring within the IMF would create more opportunities for SDRs to play an essential role in dealing with the underlying asymmetries. Until then, renminbi, as a major currency in the basket, would realise its potentials and functions like an international currency.

While reformers within the Chinese government regard the push towards the internationalisation of renminbi, having obtained the IMF's endorsement to join the SDR basket, had borne fruit, there are still some aspects, such as the offshore RMB bonds market, to be improved in the future. Therefore, it would be considered a significant achievement if China keeps on improving for a chance to increase its voting power in the IMF. ■

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China has noticed the changes inside the IMF and been making bigger plan for years.

China's Policy Challenges in Poverty Alleviation

The Chinese government must take measures to overcome challenges encountered in the implementation of poverty reduction policies.

QIAN JIWEI

The “Suggestions for drafting of the 13th Five-year Outline Plan” was released at the Fifth Plenary Session of the 18th Communist Party of China Central Committee in November 2015. This document highlights the importance of the poverty alleviation in China’s policy agenda. According to this document, there will be no more national-level poverty-stricken counties by 2020. All 70 million rural poor (based on 2014 data) will be lifted out of poverty by 2020. Among which, 30 million people will be lifted out of poverty under programmes promoting local economic development. Another 20 million people will be relocated to find jobs in other places (urban areas) or out of areas with harsh natural conditions. The remaining 20 million rural poor will be assisted and covered by the social safety net. Some short-term targets to achieve these goals were announced recently. In January 2016, at least 23 provinces set their poverty reduction target for 2016 and at least 11 provinces claimed to lift at least one million people in their respective provinces out of poverty.

However, poverty alleviation is not an easy task for China. Even for many economically advanced countries, poverty is persistent. For example, the absolute poor in the United States had actually increased in recent years and its poor population currently stands at 45 million.

The poverty rate in the European Union, which uses relative poverty to set poverty lines, is also rising in recent years. The Social Protection Committee reported in 2014 that “there are 6.7 million more people living in poverty or social exclusion since 2008, a total of 123.2 million people for the EU-28 or close to one in four Europeans in 2012”.

In China, two important poverty reduction policies were highlighted recently. The first set of policies aims to improve the targeting accuracy of poverty reduction programmes. To improve targeting, villages are gradually replacing counties as the basic unit for poverty reduction programmes. Since 2001, 148,000 poverty-stricken villages have been singled out and development programmes like “Whole Village Advancement” have been introduced. Over 80% of the poor population were covered by the “Whole Village Advancement” programme. In addition, the Organization Department of the Communist Party of China deployed over 128,000 urban cadres to be Party secretaries of poverty-stricken villages, and with their working experiences in urban areas, they were expected to help promote local economies. To further improve the accuracy of targeting, the Chinese government has set up profile databases for over 89 million rural poor since 2013. Officials managing the poverty reduction programmes can thus make use of these data to target the rural poor more accurately.

To further improve the accuracy of targeting, the Chinese government has set up profile databases for over 89 million rural poor since 2013.

The second set of policies for poverty reduction programmes focuses on adjacent regions with disadvantaged natural and economic conditions. In 2011, the State Council released a 10-year plan for rural poverty reduction that complements social protection with area-based development-oriented poverty reduction programmes. The plan targets the 14 extremely poor regions which are adjacent to each other in western and central China, with emphasis on improving regional coordination in infrastructure upgrading and public service provision. In addition, developing infrastructure for tourism has been identified as a new direction in poverty reduction in these regions.

However, China faces several challenges in implementing the two above-mentioned policies in its poverty alleviation efforts. First, efforts to improve the accuracy of targeting population living below the poverty line would not suffice because there are still a large number of low-income households that live above the poverty line facing the risks of falling into poverty. Recent research has shown that some of the rural poor (over 62% of 35 million in 2009), who got out of poverty, were soon found to have fallen back into poverty. Action plans are imperative to address the issue of low-income households that live marginally above the poverty line being

driven to poverty.

Second, the information in the rural poor profile databases may be insufficient to achieve accurate targeting. Currently, the databases simply record the reasons of poverty of rural poor individuals or households. The common reasons of poverty that the rural poor often cite when filling up forms include poor health, low level of education and skills, poor natural conditions for farming and shortage of credit options, etc. However, in reality, the reasons can be far more complex and most are interrelated.

Third, the lack of institutional and agency coordination will pose challenges to infrastructure upgrading and public services provision in adjacent regions. Coordination between local governments will be challenging, particularly in the area of tourism development that requires protection of the environment and maintenance of a sustainable local ecosystem. Furthermore, coordination is also lacking in implementing poverty eradication programmes in the designated 14 adjacent regions and several national-level regional economic development plans such as Yangtze River Economic Zone and Coordinated Development of the Beijing-Tianjin-Hebei area.

In order to be on track to achieve the policy goals of poverty alleviation by 2020, the Chinese government must address all of these challenges. ■

Qian Jiwei is Research Fellow at EAI.

Taiwan's 2016 Presidential and Legislative Elections

The mainland China's Taiwan policy will need to be adjusted to deal with the pro-independence Democratic Progressive Party (DPP) administration and growing Taiwanese nationalism.

QI DONGTAO

On 16 January 2016, Taiwan held its second two-in-one presidential and legislative elections for the 14th president, vice president and the ninth Legislative Yuan. Tsai Ing-wen, chairwoman of the main opposition Democratic Progressive Party (DPP), won the presidential election with 56.1% of the votes to become Taiwan’s first female president when she is inaugurated on 20 May 2016. Eric Chu Li-uan, chairman of the incumbent ruling party Kuomintang (KMT), and James Soong Chu-yu, chairman of the People First Party (PFP), received 31% and 12.8% of the votes, respectively. In the legislative election, the DPP secured 68 seats, a significant increase from 40 seats previously, and achieved its goal of garnering over half (about 60.2%) of the seats in the legislature, while the KMT won only 35 seats, down from 64. Two smaller parties, the newly established pro-independence New Power Party (NPP) and pro-unification PFP, took five and three seats, respectively.

Neither the presidential nor the legislative election result surprised the observers, although the defeat is unprecedented for the KMT. Since the launch of the election campaigns in mid-2015, Tsai had consistently led the other two presidential candidates by a comfortable double-digit margin and the DPP legislative candidates were also ahead in various public opinion polls. Less than a month before the elections, some political pundits even speculated that the KMT would not only be defeated badly in the elections, but also unable to revive in the next 20 years.

The KMT’s devastating defeat in the elections was generally attributed to the incumbent Ma Ying-jeou administration’s constantly declining and extremely low approval rate since the second term in 2012. In particular, Ma’s China policy—his administration’s most significant achievement in improving cross-strait relations during his first term—has become a major catalyst for public dissatisfaction and resistance during the second term. The KMT’s China policy, which contributed greatly to Ma’s re-election in 2012, became a heavy liability to the KMT four years on.

Moreover, serious internal conflicts had plagued the KMT during the election campaign due to the controversial replacement of Hung Hsiu-chu with Eric Chu as the party’s presidential candidate. The lack of unity within the KMT not only discredited its capability to improve government performance if elected, but also alienated many of the party’s traditional supporters. A strong sense of defeatism had prevailed among KMT supporters during the election

campaign, while the DPP side was in buoyant mood. Pre-election public opinion polls indicated that not only swing voters, but also a large number of previous supporters of KMT had likely contributed to a swing in votes.

Since 2012, Taiwanese politics has witnessed the decline of KMT against a rising DPP that has sustained its revival through maintaining close engagement with various social groups and winning local elections. As the leader who played a pivotal role in reviving the DPP for the past seven years, Tsai had effectively consolidated her leadership and significantly diminished factional conflicts within the party before the campaign. A rising DPP that stands in solidarity apparently appeals to Taiwanese voters more versus a declining KMT marred by constant factional conflicts within the top leadership. Most importantly, Tsai adopts a moderate China policy in maintaining the “status quo” with mainland China achieved by the Ma administration. However, she still

rejects the “1992 consensus” that is based on the one-China principle endorsed by the KMT and the mainland Chinese government. Her delicate balancing between economic pragmatism and Taiwanese nationalism reflects Taiwanese society’s dual preferences on cross-strait relations: Taiwanese want to keep economic benefits and avoid political risk, both of which are associated with improved relations with mainland China. In the context of increasingly strong Taiwanese nationalism, Tsai’s position on maintaining the “status quo” in her China policy has gained her wide support from majority of voters.

The DPP’s legislator-at-large candidates also received higher public approval than the KMT’s candidates before the elections. The DPP’s nomination list included scholars and professionals with expertise and experience in fields like food safety that are of grave concern, while the KMT’s nominees were believed to be largely selected involving compromises among different party elites and factions. This was, interestingly, a reversal of the last legislative election in 2012 whereby several DPP’s candidates were tainted by corruption records and the KMT was lauded for nominating more representatives of disadvantaged social groups and reform-oriented scholars as candidates.

The rise of the “third force” represented by the New Power Party was one of the factors contributing to the KMT’s poor election performance. Third force parties aligned themselves ideologically with the DPP because of their common stance on anti-KMT, rejection of one-China principle and advocacy of pro-independence for Taiwan. Supporters of the third

The DPP’s return to power with 60% of the legislative seats will have a profound impact on Taiwan’s politics, economy and social development in the next few years and further boost Taiwanese nationalism.

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Democratic Progressive Party and its Pragmatism in Taiwan's 2016 Presidential Election

President-elect Tsai Ing-wen is expected to lead Taiwan, taking a pragmatist approach to protect its sovereignty and economy as well as to maintain the status quo in cross-strait relations.

LIM TAI WEI

Despite the political jabbing and highly charged debates before the polls, Taiwan's presidential candidates turned their back to adopt a moderate stance as the election neared. Pragmatism prevailed less than a month before the polls. The candidates adopted non-ideological positions that reflect practical realities and a willingness to accommodate alternative ideas in the name of economic development and maximising regime interests.

In January 2016, Democratic Progressive Party's (DPP) presidential candidate Tsai Ing-wen won the election by a wide margin and was elected the next leader and Taiwan's first female president. The strong support for the green factions (pro-independence individuals of different stripes) stemmed largely from the perception that Taiwan has swung too close to China and may be veering too far into the mainland Chinese orbit. Such narratives perceive that close economic ties with China have downplayed or ignored Taiwan's achievements in instituting democracy and freedom.

Mitigating this perception, the pragmatist argument points out that mainland China is a large market and alienating it may hurt Taiwan's economy, including tourism. Chinese authorities even warned of dwindling number of mainland Chinese tourists during the election period. While Taiwan is likely to opt for a longer-term diversification strategy in terms of attracting tourists from other non-Chinese sources, this may take time to implement. Pragmatists therefore suggest that maintaining the status quo or at least not angering China is sensible.

In the election season and its aftermath, Beijing has made clear its bottom line in the context of its nationalist awakening underpinned by charismatic strongman President Xi Jinping. In essence, Beijing appears to leave some room for a pragmatic outreach to the prospective DPP leadership as long as the DPP leader does not move or lead Taiwan towards the path of independence. Therefore, following this narrative, the burden now rests on Tsai to abandon the long-standing mission of DPP and opt for the political status quo.

Being more careful with Beijing does not necessarily correlate to Taiwan's increased proclivity towards pro-independence. The Taiwanese electorate seemingly wished to see the emergence of a leader, who can engage in an ambiguous relationship with Beijing, i.e. maintaining political ties that are cautious, conservative, retrospective and even laggard while both sides enjoy healthy and liberal economic and people-to-people exchanges.

Internally, taking this pragmatically ambiguous approach, the DPP sets out to strengthen its grass roots and civil society base, and put in place more legislative/legal procedures to prevent fast-track economic agreements (the so-called "black boxes" practice used to describe the non-transparent procedure of negotiations between the Kuomintang and Beijing in economic agreements) in the near future.

To protect Taiwan, the victorious green factions may set out to strengthen Taiwan's traditional ties with the US-Japan alliance, and diversify its economy and economic relations with ASEAN countries following the establishment of the ASEAN Economic Community (AEC) while not rocking the boat since it already made inroads into the Chinese consumer market.

In her victory speech, Tsai had already indicated the intention to forge closer ties with Japan while keeping existing channels of communication open with the United States, which is Taiwan's key ally. She will be only the second leader of Taiwan to hail from the DPP when she takes office. The elected Tsai will now have to walk a delicate line between the regional powers in Northeast Asia. Even if the Taiwanese government diversifies its economic relations with Trans-Pacific Partnership (TPP) signatories, AEC and other major economies, it cannot leave the trajectory of mainland China's economy, at least in the near to medium term. Cross-strait relations will in all likelihood remain status quo, at least during the Tsai administration and politics is not likely to affect Taiwan's economy in a significant way.

Tsai and Beijing may have to work around issues of common interests even as they try to articulate their boundary markers in cross-strait relations. From a regional perspective, the new Taiwan government seems poised to reach out to the US network of allies and also gravitate closer to Japan. The United States is sending an unofficial high-level delegation to Taiwan. Tsai also appears to have indicated Taiwan's interest in entering the TPP and said that she wants to maintain the existing channels of communication with the United States which she considers effective. Tsai said her administration has the interest to maintain peace and freedom of navigation in the South China Sea. This resonates well with US priorities. In her victory press conference and speech, Tsai emphasised the importance of Taiwan-US and Taiwan-Japan relations, in addition to cross-strait relations.

Beijing is likely to press Tsai for a stance on the "1992 consensus", which Tsai may maintain some form of strategic ambiguity. She is unlikely to roll back all the initiatives in cross-strait relations achieved by the previous administration, particularly the people-to-people and economic exchanges. In general, Tsai has stated her preference for cross-strait relations to be based on Taiwan's ideas of democratic principles.

Tsai's immediate concern is to ensure a smooth handover until May 2016, introducing greater consultation with other political parties to achieve a unified government and overcome what she characterised as the green-blue dichotomy in Taiwan politics. ■

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Beijing's North Korea Challenge

States has convinced the Chinese leadership that North Korean regime survival and stability becomes critical. Beijing has to worry about the consequences of regime instability or worse, collapse—massive refugee flows, major disruption in regional economic development, not to mention the nuclear weapons and materials in the custody of North Korea.

However, North Korea's latest provocations are seriously undermining Chinese national interests; they are not only an insult to China's status as a great power, but also raise questions about China's image as a responsible power. Clearly, it no longer serves Chinese interests in dealing with the North Korea problem business as usual, but finding the right balance between expressing one's frustration or even anger on the one hand, and carefully evaluating and situating the North Korean issue in the totality of Chinese interests in peninsular and regional contexts on the other should be the guiding principle for addressing the current crisis. There are steps that China can and should take, including tightening the imposition of existing sanctions, lending support to new and tougher sanctions, and reducing economic aid to North Korea such as oil supplies.

However, at the end of the day, China views the North Korean situation not simply as an issue of nuclear proliferation; there are broader considerations such as Beijing's ties with Seoul and the Northeast Asian balance of power. Given the emerging Sino-US competition and rivalry, punishing North Korea beyond the effective limit would not necessarily benefit China, if the endgame results in the collapse of the North Korean regime and a unified Korea that remains allied with the United States. To a significant extent, China has the least room to manoeuvre, not without facing some of the unpleasant consequences. The challenge for Beijing is how to get Pyongyang to recognise both China's interests and its patience, while convincing Washington that the United States holds the key to halt, and perhaps eventually roll back North Korea's nuclear and missile programmes. Chinese Foreign Minister Wang Yi's recent call for a mechanism that simultaneously pursues peninsular denuclearisation and negotiation on replacing the 1953 armistice agreement with a peace treaty is aimed at addressing the security concerns of all relevant parties, de-escalating tensions and seeking breakthrough in the current impasse in the nuclear issue. That both Beijing and Washington finally reached an agreement to impose tougher sanctions on North Korea is a welcome development. To what extent these sanctions will and can be enforced remains to be seen. ■

Yuan Jingdong is Associate Professor at the University of Sydney and was Visiting Senior Research Fellow at EAI.

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The Populist Leadership Style of Xi Jinping

shop in Beijing without prior notice—he queued up, ordered and collected the food at the counter himself. One diner at the shop photographed Xi and posted the story on Sina Weibo,

which immediately went viral and won Xi praises from the netizens across the country.

While the event appeared to be unplanned, political analysts suggested this was a carefully orchestrated publicity "intended to portray the leadership as being in touch with common concerns". Top leaders are therefore seen to be more adept at using social media to establish their personal image.

Not since Mao has a Chinese leader consolidated so much power, blended with populism and determination to change the country. The kind of legacy footprint Xi will leave depends on how he uses the power and the popularity. ■

Shan Wei is Research Fellow at EAI.

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Anti-corruption and Bureaucratic Paralysis

social media, different voices are expected to be heard at the sessions. However, it is unlikely that the NPC, often dubbed by Western media as a "rubber stamp", will disapprove of any major reform mandates.

The problem of reform enforcement, however, lies at the local level. Several controversial policies like land, household registration (*hukou*), state-owned enterprises, pollution control and financial reforms that affect vested interests are likely to take a longer time to implement by an indolent bureaucracy.

To win in a full-scale war on corruption in the long run, China has to gradually institutionalise an independent anti-corruption agency and judicial system, and execute civil service reform to raise nominal salaries of majority of officials, which have been long suppressed, and to limit their discretionary powers. ■

Chen Gang is Senior Research Fellow at EAI.

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Taiwan's 2016 Presidential and Legislative Elections

force parties are basically made up of younger voters, who mobilised social protests against the Ma administration's domestic and pro-China policies since 2012, and those became disappointed with the existing major parties. During the election campaign, they rallied against the KMT and effectively augmented the DPP's efforts in defeating the KMT.

The DPP's return to power with 60% of the legislative seats will have a profound impact on Taiwan's politics, economy and social development in the next few years and further boost Taiwanese nationalism. The mainland China's Taiwan policy will need to be adjusted to deal with the pro-independence DPP administration and growing Taiwanese nationalism. As a result, cross-strait relations involving not only Taiwan and mainland China but also the United States are expected to undergo gradual changes. ■

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Some Highlights at EAI



Above: At the East Asia Outlook 2016 Forum organised by EAI on 19 January 2016. Panel discussants on Japan and the Korean Peninsula with (from left) Dr Lam Peng Er, Dr Xing Yuqing, Dr Zhang Feng (moderator), Dr Kim Sung Chull and Dr Yuan Jingdong.

Left: EAI Director Prof Zheng Yongnian addresses the audience at the forum.



Above: Professor Margaret Pearson of the Department of Government and Politics at the University of Maryland delivers a lecture entitled "Understanding the Adaptive Qualities in Chinese Bureaucracy: The Case of Science and Technology Funding" at the EAI Distinguished Public Lecture co-organised by EAI and S. Rajaratnam School of International Studies (Nanyang Technological University) on 7 January 2016.



Above: Academics and researchers from China, Hong Kong SAR, Singapore and Australia convene at the Workshop on Rebuilding China's Public Sector, jointly organised by EAI and Institute of Public Administration and Human Resources, the Development Research Centre of the State Council of the People's Republic of China on 3 and 4 December 2015.

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6 MAY 2016

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CHINA'S NEO-SOCIALISM

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18 AND 19 AUGUST 2016

Singapore

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