

## Thoughts from the Chairman

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XI LOOKING STRONG, DETERMINED  
HEADING TO THE BEACH

CHRISTOPHER K. JOHNSON

Pessimism is the flavor of the month these days when talking about China. Whether it is jitters about the stability of the banking system and the explosion of credit, worries about slowing growth, or uncertainty over recently launched pricing and bribery investigations targeting foreign multinational corporations, the narrative is decidedly downbeat. To be sure, these are all legitimate areas of concern. But as is so often the case when analyzing the Middle Kingdom, a much more nuanced, and potentially very meaningful, storyline is developing behind the scenes.

China’s new leadership team has settled in quickly and appears quite stable and effective in the early months of its tenure. In particular, President Xi Jinping is rapidly consolidating power. He is steadily, if quietly, placing close associates in key nodes of power and he has underscored his control over the Chinese Communist Party (CCP) by launching a sweeping antigraft crackdown paired with a yearlong ideological study campaign emphasizing the emerging themes of his administration.

But Xi seems to be kicking his campaign into overdrive as July comes to a close. Of course, the timing is not coincidental. Xi and the rest of the new leadership team understand they are facing an early test of their credibility as they seek to push through an ambitious economic reform agenda at a key party plenum this fall. They are confronting stiff resistance from entrenched interests and are seeking to overcome an economic slowdown that is sharper than expected. Fresh off their annual summer provincial inspection tours, the chief powerbrokers of the CCP also will soon decamp for their summer retreat at the seaside resort town of Beidaihe, where

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## XI LOOKING STRONG, DETERMINED HEADING TO THE BEACH *(continued)*

they can hotly debate these contentious issues secluded from the strictures of unflinching unity in the public eye.

Xi's actions suggest he recognized that he and his team needed a boost. The leadership transition that culminated in the unveiling of a new cabinet in March offered the prospect of a new wave of economic experimentation with the appointment of several senior officials with strong reform credentials. However, the encouraging personnel lineup was regrettably not matched by a parallel radical restructuring of the government machinery that would streamline government processes, reduce administrative red tape, and facilitate reform. The failure to execute on substantial structural change left party insiders uncertain about the new leadership's overall policy direction, a sentiment that only deepened as it became clear in recent months that the new team's notional reform blueprint for the fall plenum was encountering substantial headwinds.

Xi is going on the offensive by reprising tested strategies from his political playbook. He has set the table for the Beidaihe meetings with a weeklong blitz intended to showcase his authority within the leadership and his control over shaping the party's agenda going forward. The salvo mirrored the successful rollout of his initial public appearances and inspection tours after his ascent to power, underscoring Xi's knack for political sequencing. Also implicit in the messaging was his determination to use his influence to chart a course toward some form of increased economic liberalization.

The week opened with the official media's release of comments by former Chinese president Jiang Zemin during a meeting nearly three weeks earlier with former U.S. secretary of state Henry Kissinger. In a rare display of near-hagiographic proportions, Jiang extolled Xi as "a very capable and intelligent state leader" who had acted decisively in dealing with a recent spate of unrest in China's Muslim northwest. Jiang also expressed his "full confidence in the new leadership" to tackle the many challenges confronting the nation. Such an unequivocal endorsement from a major party magnate—

## IN THE NEWS

"(Hayden's claim that Chinese intellectual property theft was analogous to the Germans' use of unrestricted submarine warfare was) apt because there is almost no bar for what the Chinese will go after."

—Christopher Johnson  
in *Financial Review*  
"China Denies Huawei spied for state"

"I think the U.S. would say at this point it's premature to return to the six-party talks. And I think that China also understands that."

—Bonnie Glaser in *Global Times*  
"U.S. not yet ready to return to six-party talks"

"The president takes it personally...there was agreement that this relationship would move forward in a personal way. I think the president probably feels burned."

—Bonnie Glaser in *Bloomberg Businessweek*  
"Snowden Sendoff from Hong Kong Signals Obama's Limited Pull"

## XI LOOKING STRONG, DETERMINED HEADING TO THE BEACH *(continued)*

Jiang’s allies make up a clear majority of Xi’s colleagues on the Politburo Standing Committee—sends an unmistakable signal on the eve of Beidaihe that Xi has the support of key party constituencies for his agenda.

Xi wasted no time following up on Jiang’s comments with a midweek media barrage covering a conference he chaired in the central Chinese city of Wuhan. Flanked by half a dozen senior provincial and municipal level officials, Xi stressed the need for pressing ahead with market oriented reforms and overcoming “barriers from entrenched interest groups” that hinder progress. Driving home the point, Xi was joined on the rostrum by Liu He, the architect of the reform blueprint being sketched out for the plenum.

In case there were any errant cadres who may have missed the reformist memo, Xi closed out the week by announcing the formal indictment of fallen political star Bo Xilai, signaling an impending trial for Bo and with that, the formal conclusion of the biggest political earthquake to hit the CCP in decades. In keeping with Xi’s emphasis on fighting graft and “improving party workstyle,” the indictment was heavy on Bo’s corrupt ways and dereliction of duty. But the move also takes the Bo case off the table as a potential distraction at the Beidaihe discussions, allowing the leadership to stay focused on pushing the reform package. Official media commentary also sent a clear warning to regional party barons by suggesting that a key lesson from the Bo case was the need for localities to faithfully carry out central directives, an essential ingredient for the successful implementation of any new reforms.

But that same week witnessed more than just adroit political messaging. The government also rolled out a series of practical economic policy changes and signals that, while modest, clearly underscored the leadership’s reformist direction. In a potential step toward broader financial liberalization, the central bank eliminated a decades-old floor on lending rates even as it kept the more politically sensitive cap on bank deposit rates in place. The cabinet also announced targeted measures directly

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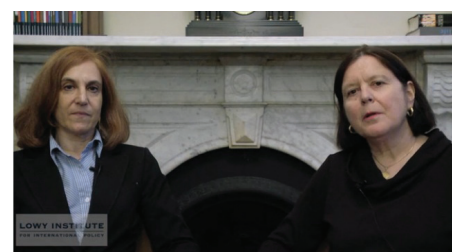
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Brian Todd Interviews Christopher Johnson



**WATCH** “In Conversation: Bonnie Glaser and Linda Jakobson—The U.S. and the East China Sea dispute”

## XI LOOKING STRONG, DETERMINED HEADING TO THE BEACH *(continued)*

benefiting small and medium enterprises, as opposed to channeling stimulus spending through local governments as it did with the massive relief package in 2008. Finally, the cabinet ordered that the government undertake an “urgent” nationwide audit of government debt, signaling its willingness to tackle concerns about threats to growth and the financial system from a record credit boom.

Such measures are encouraging trial balloons, but Xi’s full court press suggests the leadership is eyeing even more ambitious reform goals. Of course, his political tour de force also implies that there is serious resistance that must be surmounted. Xi’s princeling pedigree and broad network in the party give him a distinct advantage in navigating the informal politicking that generally characterizes the Beidaihe conclave. Still, only the plenum’s final outcome will reveal whether the leadership’s reform push results in meaningful change, or instead evokes the Chinese proverb, “loud thunder, little rain.” ■

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