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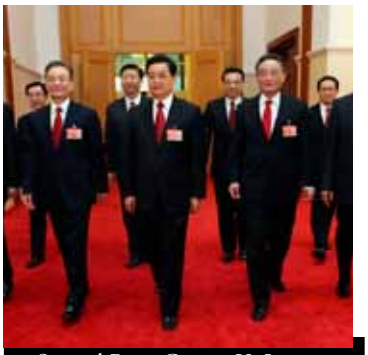
China in 2012:



Second Row, Center, Xi Jinping (L) and Li Keqiang (R) Prepare to Emerge in 2012

Executive Summary for "China in 2012"

By Peter Mattis

This set of essays takes *China Brief* away from current events, looking ahead at some of the key questions facing analysts in the coming year. The authors—Dennis Blasko, Bruce Gilley, Willy Lam, and Robert Sutter—highlight some of the dynamic tensions at work in China and in its policy processes. While the year of a leadership succession typically stalls new policy initiatives as Beijing turns inward, several of the analysts point to new opportunities this year where Chinese leaders may not be as confined as in the past. Perhaps, more than any previous succession year, this year probably will challenge Beijing's ability to stay inwardly focused as new challenges emerge on China's periphery and its domestic political-economy faces crisis.

Analysts and potential contributors should use these essays to stimulate thinking about potential submissions and their implications. In some cases, the authors directly identify topics, issues of concern and lingering unknowns in need of attention. In others, they point to trends, which should be revisited as the year progresses. Events and potential new policy formulations—like the recent apparent additions to Deng Xiaoping's 24-character strategy that China should "*actively* achieve something" (*jiji yousuo zuowei*)—that challenge these continuities are clear hooks for analysis (*PLA Daily*, December 27, 2011). Alternatively, they are opportunities to show why the conventional wisdom should prevail.

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As visible as the leadership changes will be in the Politburo Standing Committee (PBSC) and Central Military Commission (CMC), observers lack much of the access needed to trace—much less foresee—the selection process. The focus on the leadership and the unknowable horserace possibly distracts from more fundamental building blocks of understanding Chinese policy and military modernization. Leadership and new high-tech weapons may be glamorous, but foreign observers rarely find access to the Chinese officials in the know, and rarer still do weapon systems equate to capabilities.

Bruce Gilley in his essay examines the landscape of Chinese politics through three interrelated levels: leadership, policy and government. At a time when ambition is running wild, it seems fitting that Gilley mentions factions only once and focuses instead on the thinking—Marxist romanticism and Leninist nationalism—which shapes policy debates and does not necessarily follow factional lines. Outcomes in all three levels will affect outcomes in the others. While leadership may be the Holy Grail for analysts, researchable questions on how Beijing addresses property issues, migrant labor protections and cadre performance measures could provide leading insight into the murky succession contest.

- *Leadership Succession*: With the more consensus-based approach at the highest-levels of policymaking, observers should be looking for how the two presumptive leaders, Xi Jinping and Li Keqiang, will be able to find and promote allies into key positions. Neither has the revolutionary imprimatur; watching where they find allies, especially among the upcoming 6th Generation leaders, could prove crucial to their success. Additionally, with the luster of the revolution gone, Xi, in particular, may have the opportunity to push bolder policies.

- *Policy Aspirations of the State*: The main lines of the policy debate now hinge on the nature of state policy—a choice between a strong, nationalist state with a market economy or a more accountable, albeit still communist, state with a more equitable economy. Watching whether a proposed law on emission controls includes coercive state controls or popular participation in local policy formulation will be one of several opportunities this year to see how this debate plays itself out.

- *Managing Government Performance*: How to deal with China's increasingly complex and fractious society is one of the key questions dividing the country's leaders. The romantics, like Wen Jiabao and Li, favor more, if still controlled, citizen participation to improve governance and rein in excesses. The nationalists, like Xi, seem prepared, however, to institute more draconian government controls on local governments and state-owned enterprises, such as through the "performance management system" for cadres currently being fiercely debated.

Willy Lam examines economic governance as the seeming stalemate between state control and political-economic liberalization runs up against China's increasingly precarious financial situation. The three options—state control, liberalization/rationalization, and no clear choice—all will generate their share of problems and require tradeoffs among the Chinese leadership. Though the leadership succession has the potential to stifle change, this year may be a watershed where rapid policy shifts are possible.

- *Domestic Consumption*: Chinese domestic consumption actually has declined since the 1980s as government outlays and investments increased to contribute consistently more the 50 percent of GDP growth recently. Domestic consumption may be the key to sustaining China's economic growth in the midst of the international economic downturn; however, the state-led economic boom has locked money away from private consumers, complicating this already difficult policy problem.

- *Reinvigorating the Privately-owned Economy*: Two measures, renminbi internationalization and redressing the so-called "*guojin mintui*" phenomenon of state-owned enterprises (SOEs) buying out the private sector, will be worth watching because of their potential impact on domestic consumption and relationship to the policy debates Gilley highlights. The former would boost Chinese consumers' buying power at the expense of exports. Curbing the latter would improve employment and salary for Chinese workers, but would limit Beijing's direct influence on the economy and the ability of government elites to collect rents off of China's growth.

- *Rationalization of Economic and Financial Policy Bureaucracies*: Central decision-making is split

between several ministries, commissions, and the People's Bank of China, reducing Beijing's ability to monitor sub-national spending. The idea of super-ministries ebbs and flows; watching to see whether Vice Premier Li, a previous proponent, revives the issue could help explain how Beijing tackles the local-level financial crises if not also succession politics.

If the analytic problems of Chinese politics must be teased out, the Chinese themselves are much more explicit about the challenges of military modernization. Dennis Blasko highlights the need to go beyond CMC changes and new equipment entering the People's Liberation Army (PLA) force. Starting from the Chinese formulation, the "Two Incompatibles" (*liang ge bu xiang sheying*)— "the current level of our military modernization is incompatible with the requirement of winning local wars under informatized conditions and our military capabilities are incompatible with the requirement of performing the historical mission of our armed forces"—Blasko walks readers systematically through the different analytic areas where observers can evaluate Chinese military power without hyperbole.

- *Leadership and Command & Control Exercises*: The PLA's ability to wield its new systems effectively and fight in a networked way will depend on the quality of its combat leadership and its ability to decentralize operations. Beyond evaluating professional military education and the products of that schooling at all levels, analysts also should continue exploring how PLA exercises test command-and-control in China's as yet untested joint operations. These research topics will provide insight into the PLA's effective fighting power.

- *Equipment in Operation*: The PLA is now in its tenth rotation of naval vessels operating in the Gulf of Aden on anti-piracy missions. This mission along with contingent humanitarian deployments offers one of the few windows into how the PLA performs in real situations, including new equipment like the Type 071 amphibious transport dock (LPD). Inside China, the high-rate of missile tests and the seemingly stable number of short-ranged ballistic missiles raises questions about the direction of the missile force and the role of cruise missiles.

- *Force Structure and Bureaucracy*: Newer equipment entering the force may lead the PLA to consider another round of personnel cuts, probably focused on the ground forces. The new equipment may require fewer soldiers to operate, but likely will require more care and maintenance, leading to redistribution of personnel. Last year, the PLA made a number of organizational changes to help manage the challenges discussed here. Watching the effectiveness of these new offices will be a necessary, if challenging, task.

Finally, Robert Sutter provides an overview of Chinese foreign policy, highlighting the challenge of maintaining unity over foreign policy while Beijing is preoccupied with the leadership succession. Despite the general consensus about a "fractured," "thickened" or otherwise more diverse foreign policy process, there still has not been enough work ferreting out the details on how these divides actually influence Chinese policy outcomes. Like in economic governance, Beijing faces three choices—conciliation, confrontation or complacency—where each choice challenges fundamental interests on either side of the policy debates. Yet, the status quo will continue to put pressure on the leadership to deal with increasingly unfavorable outcomes.

- *Understanding Chinese Policy Fluctuations*: As Chinese foreign policy fluctuates between truculence toward and reassurance of its neighbors, the timing of Beijing's actions often remains shrouded in mystery. Even tentatively identifying leading indicators, or at least post-hoc understandings of these patterns, would be a useful contribution.

- *Reactions to New Regional Policies*: China's restrained responses to India's "Look East" and the U.S. "Strategic Pivot," as well as chagrin at challenges over the South China Sea, will warrant watching as Beijing finds time to consider the implications of these changes to its immediate security environment.

- *Managing Foreign Expectations on Economics*: Beijing's traditional "win-win" formula involves concrete benefits for Chinese development—goodwill is insufficient. As the second largest economy and one that has benefitted from its incorporation in the global market, China faces increasing foreign criticism for its unwillingness to support the liberal trade system. Beijing once again faces competing

choices between practicality and principle.

Even if Beijing turns internally to focus on succession while avoiding big new policies, there are still plenty of topics that should engage China Watchers and policymakers' attention. Indeed, if the status quo reigns, this year offers an opportunity to step back and revisit some lingering unknowns that were left behind in the wake of the dramatic events of the last three years. These essays are designed to provide lasting value as a tool to approach analysis of China in the year ahead.

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The Politics and Policy of Leadership Succession

By Bruce Gilley

In 2012, China will enter for the first time an era in which political leadership is held by people who do not have the direct imprimatur of veterans of the Chinese revolution. This will be important not just because it means they will have to work harder to establish their personal legitimacy as rulers, but also because it will open up wider possibilities for new thinking and bold policies.

The political challenges facing Xi Jinping, who will be installed as general secretary of the Chinese Communist Party in a succession scheduled for late 2012, concern both policy and government reform. Key benchmarks can be used to trace the implications of each of these three political stories of 2012—succession, policy and government—giving signs about the future direction of politics and leadership in China.

The Succession

There is little doubt that Xi Jinping will become CCP General Secretary. Under a succession process overseen by the party's Organization Department under the "third generation" party leader Jiang Zemin, who was party general secretary from 1989 to 2002, Xi was identified as early as 1997 as the "fifth generation" head of the party after a broad-based vetting by the party of widely-admired younger leaders [1]. In that year, Jiang appointed Xi as an alternate member of the party's Central Committee after the party rank-and-file failed to elect him to the body.

Since then, Xi has cultivated carefully his image and his alliances within the party leadership in order to consolidate his succession. Xi however lacks the revolutionary imprimatur of his predecessors. His father was a party revolutionary, but one who frequently butted heads with both Mao and Deng and is thus tainted in the minds of some in the party. The nod from Jiang, meanwhile, carries little weight within the party elite because Jiang did not fight in the revolutionary war and thus, even though he is a former top leader, he lacks the historical mantle of previous elders. Indeed, Jiang probably did not even join the party until after it emerged victorious in Shanghai, where he was a student, despite claims to the contrary. Hu Jintao, by contrast, was chosen by an ally of Deng Xiaoping and enjoyed Deng's support, giving him a virtually untouchable position despite his gray personality. He too, however, will lack authority once he retires because his position was given as part of a new model of orderly, planned retirements of top leaders.

For that reason, the broader slate of candidates who join the CCP's Politburo Standing Committee in late 2012 along with Xi will be critical. Without key allies on the body, Xi will be unable to push his political agenda. In particular, Xi needs three key allies to join the body: Bo Xilai, currently party secretary of Chongqing, Wang Qishan, currently vice premier in charge of trade and finance, and Zhang Dejiang, currently vice premier in charge of energy, transportation and industry.

Those appointments will depend on some power-plays and evidence of a strained succession will be watched closely. Key data here would be media criticisms of the controversial Bo, whose heavy-handed attack on gangs and corruption in Chongqing (generally referred to as "striking the dark forces" or *dahei*) has divided party opinion [2]. Another key indicator will be whether Xi's rival Li Keqiang, currently executive vice premier, retains his presumptive succession as premier or is passed over in favor of Wang Qishan and sent to chair the National People's Congress. If so, it would be a significant blow to the balanced bipartisanship of the last decade with major implications for policy (discussed below).

The third data point to watch for is the appointment of one or two presumptive "sixth generation" leaders to the regular Politburo. The value of a predictable succession is not lost upon all party members and will be realized with Xi's ascension in 2012. It however may be a one-off, made possible by the unique combination of Hu Jintao's consensus-style and Jiang's earlier choice of Xi as successor. If no clear "sixth generation" leaders are evident, it will imply a more competitive and potentially unstable succession is in the cards for 2022, when Xi presumably will step down.

Policy

For the past three decades, policy preferences among China's leaders have been fairly easily divided into those who wanted to abandon most totalitarian controls over the economy and society and those want wanted to retain them. Today, however, those debates are over. The liberalizers won. Instead, the main policy division is between those who believe in a strong, nationalist state with a bare-knuckled market economy (labeled here "Leninist nationalists") and those who believe in a harmonious, accountable state—albeit still led by the Chinese Communist Party—and an egalitarian economy (labeled here "Marxist romantics"). This divide is a return to the early years of the People's Republic, when social progressives who believed in Marxist theories of social emancipation struggled against anti-Japanese (and anti-American) nationalists who were more taken with Lenin's theories of political control.

The Marxist romantics, like Li Keqiang, usually earned their spurs within party organizations and in poor inland areas. The Leninist nationalists, like Xi, moved up through technocratic positions in government, usually in wealthy coastal areas. The Marxist romantics care most about social equity and party ideology, while the Leninist nationalists care most about national power and party discipline. Xi's Bismarckian formulation, delivered in a speech in September 2011, is "state power and popular welfare" (*guojia fuqiang, renmin xinfu*) (Xinhua, July 21, 2010). Both groups play to populist audiences and both have elitist tendencies and backgrounds.

Xi Jinping has served only one term on the Politburo Standing Committee since joining the body in 2007. While his "two-step" elevation (bypassing regular Politburo status) was unusual, it had the advantage of limiting his time as a lame-duck leader-in-waiting. Such time can neuter distinctive policy preferences because of the necessity of showing deference to elders and maintaining conciliatory relations with colleagues through incessant private meetings. As a result, and especially if Xi gains extra allies on the Politburo standing committee, he will have more opportunity for advancing the Leninist nationalist preferences on public policy.

Like former premier and arch-Leninist nationalist Zhu Rongji, who famously threatened in 1993 to "cut off the head" of any local official who refused to honor postal money orders sent by migrant peasants, Xi wants to restore order to China's domestic economy and society through a more powerful state. One key indicator of this in 2012 will be how and how much China's housing bubble is exploded. A rapid and centralized deflation, as Zhu oversaw in 1993-1994, would indicate a restoration of central macro-economic controls.

By contrast, the policy issue that the Marxist romantics care most about is improving the welfare of the poor and rural. When Guangdong province officials under provincial party secretary Wang Yang stepped in to defuse a 30-month long standoff between villagers in Wukan village in December, the *People's Daily* said the effort "embodies the abiding mission of our party to take responsibility for the public's interests" (December 22, 2011). Wang has extended rights and privileges to Guangdong's migrant workers, 35 percent of the provincial population. The Guangdong model of the Marxist romantics (a concrete version of the universal values model or *pushi jiazhi moshi*) contrasts with Bo Xilai's Chongqing model of the Leninist nationalists (a concrete version of the China Model or *zhongguo moshi*). Shifts in the migrant worker policies in 2012 either in Guangdong or nationally will be a good indicator of this policy balance.

Another will be whether steps are taken to stop the spiraling use of transferring, leasing, and mortgaging rural land-use rights. This pits the Leninist nationalists, who are suspicious of the 2008 law allowing the practice, against the Marxist romantics, who believe it is essential to rural prosperity. About 16 percent of the country's contracted arable land had been used for such purposes

by the end of 2011.Finally, a draft climate change law may be released by the NDRC for consideration by the NPC. The contents of that law will be closely watched for whether they contain provisions that allow for coercive actions against emissions and whether they allow for a right of public participation in formulating (rather than just implementing) policies. The Leninist nationalists believe that China's "authoritarian environmentalism" is the way forward, but the Marxist romantics believe it is ineffective in delivering results [3].

Government

The basic split between the two groups also extends to the question of how to organize government in an increasingly complex and fractious society. Middle class and nationalist anxieties about a lack of central state capacity to control local government mountain rebels (*shandai wang)* and state enterprise oligarchs (*guoqi zongjingli*) are rising. There is a sense among the middle class that China is experiencing its "Yeltsin years" and needs a Putin with "tough tactics" (*qiangying shouduan*) to restore central authority [4]. Li Keqiang however is not seen by the Leninist nationalists as having the charisma (*poli*) and iron fist of Putin, much less of Zhu Rongji—whose memoirs of his attempted recentralization of powers as vice premier and then premier from 1991 to 2003 were released in 2011 [5].

The Marxist romantics are keener on political reforms—as Wang Yang has done in Guangdong—because they see some modest forms of citizen participation such as public hearings and a relatively autonomous and critical media as inherent in the developmental process. Wen Jiabao has on two occasions emphasized his close personal ties to the late Hu Yaobang, considered in Chinese politics the epitome of the Marxist with an honest concern for the people and their rights and welfare even at the expense of state power. As good universalists, Marxist romantics embrace universal values, as Wen has stressed. They reject the "China Model" of particular national development strategies led by a wise state. The Leninist nationalists, by contrast, see participation as something that is achieved at the end of the developmental process—much as Sun Yat-sen and Chiang Kai-shek argued for a period of tutelary democracy (*jianhu minzhu*) in the period of early development.

Wen has attempted to radically reform the system of "administrative examination and approval" (*xingzheng shenpi*) in everything from consumer products to lending and financial regulation. This drive dates from 2001 when China's WTO entry brought new pressures to reduce red-tape in economic regulation and a cabinet-level leading group was established. Wen has taken it beyond WTO commitments to include public administration in general. In November, he claimed that since WTO entry, the State Council had eliminated or reduced 2,200 of the 3,600 items it originally needed to approve (Xinhua, November 14, 2011).

Wen's emphasis has been on market forces and social autonomy—good Marxists after all believe in the forces of history rather than the force of man and in their ideals are not far from Tocquevillian conservatives. The rush to regulate, by contrast, is more associated with the Leninist nationalists who cater to middle class anxieties about "chaos" (*luan*). In this trench warfare over regulation we can see two visions of China's future. A key indicator for 2012 will be whether the administrative examination and approval reductions movement is wrapped up or continued.

The preferred administrative reforms of the Leninist nationalists relate to the pitched battle over "performance management" (*jixiao guanli*). This is a system of government reform that creates data-driven assessments of government performance gathered by separate internal agencies rather than just the old reporting of outputs by the units themselves. It plays to the Leninist nationalist desire for organization and control, but is criticized by the Marxist romantics for its inability to measure results [6]. It is held out by proponents in China as the magical bullet for everything from the misappropriation of funds and the lax enforcement of building standards to local violations of central rules and cronyism in cadre appointments. The system was launched formally on an experimental basis by the State Council in eight provincial governments and six central ministries in mid-2011 (Caixin, June 30, 2011; June 10, 2011. Last October, Sun Zhengcai, the party secretary of Jilin, one of the experimental provinces, said performance management would aid in "improving the Party's leadership, the transformation of government functions, the party's cohesion, the government's credibility, cadres' executive force and the overall binding force of the political system" (Continued, pg. 8)

Table 1. Scoring China's Succession, Policy and Government Challenges

Issue	Key Question	Evidence to Watch For	Implications
SUCCESSION			
Xi Jinping Majority	Whether enough close allies of Xi Jinping make it onto the PBSC to give him a majority.	Key figures would be Bo Xilai,Wang Qishan, and Zhang Dejiang.	More powerful Xi regime and more nationalist and state-directed policies
Sixth Generation	Agreement on a successor candidate list for the 2022 succession	Leaders under the age of 50 placed on the Politiburo or its Standing Committee	Greater stability for next succession
Factional Struggles	Attempts by key actors to upset the leadership deliberations on succession	Expressions of preference by the military on the succession; Failure of Li Keqiang to become premier; Official media criticisms of Bo Xilai.	Less stability in new leadership; more centrifugal tendencies in elite politics
POLICY			
Equity and Rights	Extension of rights and privileges to migrant workers against middle class preferences	Migrant worker provisions enacted into law or regulations	Shift to equity in policy priorities
Urban Property	Ending of the property bubble	Use of decisive fiscal and monetary policy to reduce property prices	Re-emergence of centralized macro-economic power
Rural Property	Limits on rural land-use rights	Controls on transfer, lease, and mortgage of rights	Re-assertion of Leninist controls over rural populations through land
Climate Change	Passage of climate change law	Coercive emissions controls; participatory mechanisms	Consolidation or decay of authoritarian environmentalism
GOVERNMENT			
Performance Management	Debate on using objective data rather than popular approval to rate governments	Performance management experiments extended to more governments and departments	Emphasis on efficiency over accountability
Administrative Examination and Approval	Efforts to reduce administrative regulation of economy and society	Continuation of State council leading group under new premier	Balance of priorities between state downsizing and state rebuilding

(Jilin Provincial Government, October 25, 2011).

For Marxist romantics, the performance management system focuses too much on measurable government performance and not enough on citizen views and policy impacts. It offers accountability to the party and to internal monitors, but not accountability to the people. For many critics, it is redolent of the Stalinist economy with its input-output tables. The fate of those experimental units will be another key indicator to watch in 2012 for clues about the direction of China's political future.

Bruce Gilley (Ph.D. 2008, Princeton University) is an Associate Professor of Political Science. His research centers on democracy, legitimacy, and global politics, and he is a specialist on the comparative politics of China and Asia. He is the author of four university-press books, including The Right to Rule: How States Win and Lose Legitimacy (2009) *and* China's Democratic Future (2004) *in addition to* Tiger on the Brink: Jiang Zemin and China's New Elite (1998).

Notes:

1. Hu Jintao leads the "fourth generation" while Mao Zedong and Deng Xiaoping headed the first two, respectively.
2. For critiques, see Guo Ping, "Cong sifa chengxu zhengyi kan "Chongqing dahei" yu woguode xianzheng jianshe" [A View of the Chongqing Strike on Dark Forces and the Construction of Constitutional Government in China From the Perspective of Legal Procedual Fairness], *Fazhi yu Shehui* [Legal System and Society], No. 5, 2011, pp. 157—158; Wang Junmin, "Zhongguo fazhi lujing zhengyizhi bianxi – you "Chongqing dahei" yinfade sikao" [Debates on the Future of China's Legal Road—Thoughts Inspired by Chongqing's Strike on Dark Forces], *Huadong zhengfa daxue xuebao* (Journal of the East China University of Political Science and Law), No. 2, 2011, pp. 97–104
3. . Chen Demin and Huo Yatao, "Woguo jieneng jianpaizhongde gongzhong canyu jizhi yanjiu" [Public Participation in Energy-Saving and Emission-Reductions in China), *Keji jinbu yu duice* [*Science and Technology Progress and Policy*] Vol. 27, No. 6, 2010, pp. 86–89.
4. Tang Ling, "Pujing gaigede tedian jiqi qianjing zhanwang" [The Unique Aspects, Outlook, and Prospects for Putin's Reforms], *Chanye yu keji luntan* [Industrial & Science Tribune], No. 7, 2011, pp. 8–9.
5. Zhu Rongji, *Zhu Rongji Jianghua Shilu* [The Authentic Speeches of Zhu Rongji], Beijing: People's Press, 2011.
6. Tang Bing and Guo Wei, "Huanquan yu min: zhengfu feichang taixia guanli jixiao pinggu zhutide zhuanhuan" [Returning Power to the People: Transforming the Structure of Government Performance Management Evaluations in Times of Emergency], *Tansuo* [Exploration], No. 3, 2011, pp. 93–97; Li Ming and Zong Shuai, "Jixiao guanli zai zhongguo difang zhengfu guanlizhong yingyongde xianzhuang he quexian" [The Situation and Shortcomings of the Use of Performance Management in Local Government Management in China], *Zhonggong Taiyuan Shiwei Dangxiao Xuebao* [Journal of the Party School of the Taiyuan CCP], No. 2, 2011, pp. 44–46; Luo Jian, "Lun zhengfu jixiao guanlide renben xiangdu" [On the Orientation of Government Performance Management Towards Putting People First], *Liaoning Xingzheng Xueyuan Xuebao* [Journal of the Liaoning College of Public Administration], No. 3, 2011, pp. 13–15.

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Political Challenges in China's Economic Governance

By Willy Lam

Just as in the political and social arenas, the economic focus of the Hu Jintao-Wen Jiabao administration in 2012 will be upholding stability. In view of factors including the Eurozone debt crisis—which will impact on China's exports to Europe adversely—top priority is being put on preventing a hard landing of the economy. The big question for this year is, with the Chinese Communist Party (CCP) leadership preoccupied with holding the fort, will new initiatives still be introduced to attain the long-standing goal of rationalizing and reforming the economy?

The tension between preserving stability and furthering reforms has been highlighted by Beijing's efforts to prevent a hard-landing of the economy. Recently announced figures by the State Statistical Bureau showed China's GDP grew year on year by 8.9 percent in 2011, down from the comparable figure of 9.1 percent for 2010. In anticipation of a further economic downturn, a series of high-level financial meetings held by the party and state leadership in December recommended a significant loosening of the country's tight monetary policy. For example, the "loan target" for 2012—the extent of credit that Chinese banks are allowed to extend to domestic enterprises—is fixed at 8 trillion yuan ($1.27 trillion), or 500 billion yuan ($79 billion) more than that of 2011. And the M2 money-supply growth rate is set at 14 percent compared to 13.5 percent the year before (Reuters, January 11; Ming Pao [Hong Kong], January 12).The newly available credit—which could be used to prop up the stagnant housing market as well as to finance more infrastructure-related ventures—represents a continuation of the much-criticized strategy of realizing GDP expansion through state investment.

Despite the obsession with stability and the penchant for sticking with time-tested means to re-inflate the economy, this year could be a watershed in the Chinese Communist Party (CCP) administration's long-standing effort to restructure the economy. Major targets for 2011 to 2015 have been laid down in the 12th Five-Year Plan (12FYP) released in late 2010. Traditionally, the second year of every five-year plan is deemed crucial for its satisfactory completion. While Executive Vice Premier Li Keqiang is not expected to become premier—and China's economic czar—until March 2013, the key protégé of President Hu's was already given more authority over economic planning and "macro-level adjustment and control" (hongguan tiaokong) early last year. To both consolidate power and boost his national stature in the run-up to the 18th Party Congress in late 2012, it is possible that Li will map out far-reaching economic strategies in the coming months. Similarly, other prospective Politburo Standing Committee (PBSC) members with known ambitions to reform the economy, such as Vice-Premier Wang Qishan, also might want to turn the current crisis into an opportunity for showcasing their talent for ushering in new solutions.

The foremost indicator of China's economic health—and the sustainability of the so-called Chinese economic miracle—will be the extent to which domestic consumption will play a bigger role in GDP expansion. For some 30 years, the CCP leadership has depended on government cash injections—mainly fixed-assets investments in infrastructure, housing and other areas—in addition to exports as engines of growth. In the past decade, government outlays have consistently taken up at least 50 percent of GDP. Indicative of the leadership's determination to retool the economic is the frank admission by President Hu last month that "at this stage of China's economic development, questions of imbalance, lack of coordination and unsustainability are still very pronounced" (Xinhua, January 13; China News Service, December 14, 2011).

In spite of the consensus within the leadership that the key to sustainable growth is boosting domestic spending, household consumption as a percentage of GDP has declined from 50-odd percent in the 1980s to just 34 percent (New York Times, December 18, 2011; Financial Times, March 14, 2011). To encourage Chinese – particularly workers and farmers – to spend more, the government has repeatedly raised the minimum wage as well as social-insurance payouts. For example, Beijing pledged at the outset of the 12th FYP that worker's income will increase annually at least at the same rate as GDP. Medical insurance, once available only in the cities, has the past few years been extended to more than 90 percent of rural townships and villages (Global Times, November 16, 2011; Beijing Morning Post, December 13, 2011).

Yet the main reason behind Chinese consumers' tepid spending is that the bulk of the wealth generated by the "world factory" in the past two decades has gone to state coffers as well as yangqi conglomerates, or state-owned enterprise (SOE) groups that are directly controlled by the party-state apparatus. Equally detrimental to consumers' spending power is the deliberately low interest rates set for Chinese citizens' 80-odd trillion yuan's ($12.7 trillion) worth of bank deposits. This has resulted in the equivalent of up to 7 percent of GDP being siphoned off annually from households to benefit government banks and their SOE borrowers. Moreover, for the past decade or so, the salaries of workers as a proportion of GDP have fallen by an estimated 1 percent each year (China

Youth Daily, January 5; Xinhua, September 27, 2011; Businessweek, August 6, 2010). Whether Premier Wen and Vice Premier Li will roll out policies to reverse the trend of "rich state; poor citizens" (guofu minqiong) is a good yardstick of Beijing's commitment to rationalizing the economic structure and promoting more equitable income distribution.

Two related areas where seminal developments may take place this year with significant impact on economic reform merit scrutiny. One is the globalization of the renminbi, or yuan. The renminbi's internationalization will mean not only that it will be freely convertible but also that its valuation will be less subject to state fiats. The yuan appreciated by 4.27 percent against the U.S. dollar in 2011. Full liberalization will make for a higher rate of appreciation. While this may hurt exports in the short run, it also will lessen Beijing's dependence on trade surpluses as a locomotive of growth. Moreover, a freely convertible yuan will expedite the development of Shanghai and other mega-cities into international financial centers. Equally significantly, a stronger yuan will boost consumer spending in view of the fact that imports will become significantly cheaper (Reuters, December 26, 2011; The Economist, October 16, 2011).

Yet a tug-of–war has erupted within the central government over the pace of yuan globalization. The Ministry of Commerce and other departments close to China's powerful export section do not favor a drastic reform of the yuan. It also is not surprising that many experts have spoken out against a faster pace of currency reform. For instance, Huang Yiping, Economics Professor at the China Center for Economic Research at Peking University, noted in New York last week that it would be hard to argue the yuan was undervalued when China's trade surplus was only 2 percent of GDP. There are indications, however, that more forward-looking officials are toying with bolder visions. Several senior government officials and advisors have the past year leaked to the overseas media rough "deadlines" for the yuan's internationalization. These have ranged from 2015 to the end of this decade (Bloomberg News, September 8, 2011; Businessweek, September 25, 2011). Premier-in-waiting Li will have no better platform for demonstrating his reformist credentials than a resolute and speedy resolution to the long-standing question of the internationalization of the Chinese currency.

The other touchstone of Beijing's commitment to economic liberalization is whether a brake will be put on the disturbing trend of guojin mintui, or the state sector making advancements at the expense of privately owned enterprises (POEs). "In recent years, China seems to be embracing state capitalism more strongly, rather than continuing to move toward the economic reform goals that originally drove its pursuit of WTO membership," said the U.S. Trade Representative's Office in its annual report on the Chinese economy. The enhanced status of the state sector is a major reason why China was ranked a lowly 138th in the Heritage Foundation's annual world index of economic freedom (Associated Press, December 13, 2011; Globalpost.com, December 1, 2011; Heritage Foundation, January 12).

While the number of government enterprises has decreased significantly from the early 1990s, the remaining state-held firms—about 130 yangqi and several thousand regional SOEs—have been given much more monopolisitc powers. Particularly since the onset of the global financial crisis, SOEs have gone on a spree of nationalization during which they have snapped up thousands of relatively well-run and lucrative POEs. The bulk of the government's investments as well as bank loans is still going into the state sector. For example, close to 90 percent of the 4 trillion yuan ($633 billion) that the State Council pumped into the economy in late 2008 has benefited SOEs rather than non-state-sector firms (Sina.com, October 9, 2011; Southern Metropolitan News, September 23, 2011). By contrast, some of the most active and efficient POEs in quasi-capitalist havens in the coastal provinces of Zhejiang and Guangdong have gone bankrupt due to factors including failure to secure financing from state banks (See "Beijing Battles Brewing Crisis in Financial Sector," China Brief, October 14, 2011).

In the past few years, the guojin mintui trend has been supported by the 130 or so yangqi, many of whose chairmen and CEOs are either princelings or ministerial-level cadres who have already been inducted into the CCP Central Committee. Highly respected economists, who have the ears of reformist leaders such as Wu Jinglian and Li Yining, however have upped the ante in their critique of the nationalization trend (Yangcheng Evening Post [Guangzhou], September 29, 2011; China Daily,

September 2, 2011; Xinmin Evening Post [Shanghai], March 4, 2010). A reversal of the guojin mintui policy could help realize pledges by both Hu and Wen to spread the wealth more evenly. Given that the great majority of Chinese workers are hired by POEs, a bigger role for the private sector will not only advance the goal of social justice but also enable ordinary citizens to have more money to spend. Equally significant is that a healthy and vibrant private sector is essential to boosting indigenous innovation, which is another major goal of the 12FYP. It is true that in tandem with the leaps-and-bounds expansion of the economy, Chinese technology has scored some impressive triumphs. Spectacular high-tech breakthroughs since the late 2000s have ranged from the world's fastest computer and speediest train service to the installation of a semi-permanent scientific station in outer space (The Guardian [London], November 3, 2011; New York Times, October 28, 2011).

The Chinese approach to innovation however is still reminiscent of that of the former Soviet Union. Within the 12FYP period, Beijing is spending $1.5 trillion to boost research and development (R&D) funding for seven key sectors that range from green energy to IT-related technologies. This dovetails with the long-held tradition that the bulk of China's technological innovation emanates from laboratories and R&D facilities in SOEs as well as military units. Yet state-dominated innovation may not be working that well. For instance, while China boasts the world's largest number of scientists and engineers—more than 53 million—most of the core technologies used in China still have to be imported from the United States, Europe, Japan and South Korea (Reuters, July 7, 2011; Qdcaijing.com [Qingdao], February 19, 2011; Forbes, January 20, 2011). Not a single Chinese firm was featured in the "Top 100 Global Innovators" list of the world's innovation-driven companies compiled by the Thomson Reuters agency late last year. As is well-illustrated by the Silicon Valley model, the great majority of of innovative and technologically advanced products and services in Western countries hails from private firms (New York Times, January 1; Reuters, November 15, 2011).

Apart from formulating more market-oriented policies, the CCP administration needs to reform China's tradition-bound and unwieldy government structure. The conventional wisdom that one-party authoritarian rule makes for efficient policymaking does not seem to apply to China—or at least not oversight of policy implementation. Take monetary and fiscal policy. Decision-making powers in this crucial area are split among at least the following departments: the CCP's Leading Group on Finance and Economics, the premier's office, the National Development and Reform Commission, the People's Bank of China, the Finance Ministry, and the China Banking Regulatory Commission. Moreover, despite well-established top-down command-and-control mechanisms, central authorities often have a hard time monitoring the finances of sub-national administrations. This accounts for the fact that theoretically illegal underground banking institutions have cobbled together a credit market worth 10 trillion yuan ($1.6 trillion). Additionally, local governments along with 6,587 government-related investment and financial companies have run up debts totaling an estimated 14 trillion yuan ($2.2 trillion) (Bloomberg News, December 19 2011; Wall Street Journal, December 10, 2011).

It is significant that, immediately upon being promoted to Executive Vice Premier in March 2008, Li helped Wen formulate a master plan to restructure government departments with a view to centralizing authorities in a number of "super-ministries" (See "Beijing Unveils Plans for Super Ministries," China Brief, February 4, 2008). One proposal entertained at the time was the establishment of a Super-Ministry of Finance to take charge of monetary and fiscal policies. The creation of a Super-Ministry of Transport also was proposed to unify and coordinate policymaking affecting railways, highways, aviation and marine transport. Owing to opposition from vested interests, however, most of Wen and Li's plans failed to materialize (China Daily, March 11. 2008; China.org.cn, March 5, 2008). Nonetheless, the National Energy Commission, which was set up in 2010, was an effort to unify decision-making on energy-related matters under one roof. Whether premier-in-waiting Li would soon give another big push to restructuring the central-government bureaucracy merits careful attention.

The near-universal condemnation of the Ministry of Railways in the wake of the July 23, 2011 high-speed train disaster in Wenzhou has given institutional reformers within the State Council a God-sent pretext to revive the old agenda of setting up a Super-Ministry of Transport. Vice Premier Wang Qishan, who is in line to become Executive Vice Premier after his expected induction into

the PBSC at the 18th Party Congress, is known to favor the creation of a Super-Ministry to handle monetary policy. It is thus possible that Li and Wang soon join forces to lay the groundwork for a thorough restructuring of central government units in the near to medium term.

As Premier Wen has reiterated, "without reform of the political structure, achievements attained in economic reform could suffer a serious setback" (Chinanews.com.cn, September 14, 2011; China.com.cn, August 23, 2010). Factors key to the rationalization and reform of the Chinese economy, such as boosting the private sector and allowing ordinary citizens to enjoy a bigger share of the economic pie, hinge upon whether the CCP leadership is willing and able to resuscitate political and structural reform. However, given the apparent consensus among disparate factions that political liberalization would jeopardize the CCP's "perennial ruling party status," the possibilities for resolute steps in this direction may not be high this year.

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Shifting Perspectives: Assessing the PLA from the Ground Up

By Dennis J. Blasko

In 2012, most analysis of Chinese military developments probably will focus on the senior-level leadership changes expected to take place in the Central Military Commission (CMC) and new military equipment. To be sure, these issues are important, but in order to judge the degree of improvement in People's Liberation Army (PLA) operational capabilities many other factors need to be assessed. These factors include examination of the PLA's actual military operations, including the Navy's continuing anti-piracy and other non-traditional security missions [1]; changes in PLA force structure and efforts to improve the quality of personnel; training, including experiments in command and control; and the state of military-civil integration (*junmin ronghe*).

The non-equipment elements of PLA modernization determine whether the new weapons that are entering the force can be operated, maintained and employed to their maximum effect and deserve greater attention. Unbalanced foreign assessments, focusing mainly on unproven weapons' potentials, however, can lead to overestimation of PLA capabilities and result in the subsequent misjudgment of Chinese intentions [2]. Similarly, top leadership changes will be scrutinized for their political implications, but tactical and operational leaders have received much less attention despite their immediate impact on unit operational effectiveness.

Leadership and Politics of the CMC

With all eyes focused on the leadership succession, less attention will be spent on the new uniformed CMC leaders and the cascading effects felt in the four General Departments, services, military regions and lower levels of command. The chemistry among all CMC members and other senior national-level military leaders is important because of the consensus leadership practices that have been practiced since 1979. For the past two decades, the CMC chairman has reflected the collective view the entire CMC and this situation is unlikely to change in the near future ("China's Assertive Behavior, Part Three: The Role of the Military in Foreign Policy," *China Leadership Monitor*, Winter 2012).

While the senior leadership sets policy, lower level leaders must work with each other (commanders, political, logistics and armament officers) to interpret and execute that policy in units with whatever equipment and other resources are available. The PLA recognizes it is only halfway through its two-decade "Strategic Project for Talented People" to build an officer and noncommissioned officer corps capable of fighting informationized wars (*China's National Defense in 2004*).

Important insights into adjustments to the direction of

PLA modernization likely will be found in the new CMC chairman's personal guidance he eventually issues to the troops, even if not this year. Such guidance actually will be the result of CMC consensus and probably will replace or modify Hu Jintao's "Historic Missions."

An indicator of how much progress the PLA leadership has assessed the force has made over the past decade may be revealed if Hu's "major contradiction," also known as "the two incompatibles" (*liangge buxiang shiying*), is changed in a major way. This assessment, which states, "the current level of our military modernization is incompatible with the requirement of winning local wars under informatized conditions and our military capabilities are incompatible with the requirement of performing the historical mission of our armed forces," was first issued in January 2006 and has continued to be used as recently as this week (*PLA Daily*, January 17). Operational PLA commanders and staff officers have written numerous specific assessments of training, personal quality, force structure, logistics and levels of technology that support the CMC's assessment. In particular, senior PLA generals frequently acknowledge a 20-year gap between PLA weapons and equipment and that of developed countries. This set of Chinese literature probably has received inadequate attention as measure of progress in PLA modernization.

New Equipment

This technology gap is closing in some areas. In 2012 additional tests for the PLA's first aircraft carrier, the J-15 carrier-based fighter, J-20 stealth prototype and a variety of increasingly sophisticated unmanned aerial vehicles (UAVs) and missiles, including the DF-21D medium-range ballistic missile (MRBM), can be expected. The foreign media will follow many of these tests closely, often taking their cues from information derived from the Chinese Internet and blogosphere. Ironically, some of these tests are conducted by the civilian-led and managed defense industries—though PLA liaison officers are assigned to many civilian defense factories and research facilities.

Less visibility might be afforded to the PLA Navy's third Type 071 *Luzhao* class landing platform/dock or amphibious transport dock (LPD), which, according to Internet reports, is now in the water but has not been commissioned into the Navy. Two Type 071s are active in the force and each gives the Navy the capability to take a battalion of marines, 15-20 amphibious armored vehicles and multiple landing craft and helicopters on extended voyages beyond China's territorial waters—its first true "blue water" amphibious capability. The development of this class of ships and potentially other large amphibious transport ships over the next decade will dramatically augment the PLA's force projection capabilities and its ability to conduct non-traditional security missions outside of the country.

Though there is little likelihood the Chinese themselves will discuss their ballistic missile inventory and deployments in public, PLA watchers will want to see if the U.S. Department of Defense (DOD) provides any further information about its 2011 judgment that the total number of short-range ballistic missiles (SRBMs) "represents little to no change over the past year" [3]. Based on analysis of the numbers of missiles the DOD reports to Congress from 2002 to 2011 have assessed to be in the PLA, from 2001 to the end of 2007 SRBM force roughly tripled in size (starting at about 350). Since 2008, that number however has leveled off somewhere between 1,000 and 1,200 while the number of launchers has remained constant between 200 and 250. Possibly in a related development, the PLA's land-attack cruise missile (LACM) force came online in 2008 and has grown to some 200 to 500 missiles with 40 to 55 launchers. Unfortunately, observers made no attempt to investigate the significance behind these numbers provided by the DOD.

The PLA leadership might consider the addition of the LACM force to mitigate the need to increase the SRBM force. At the same time, SRBM capabilities have improved as newer, longer range variants replaced older models expended in live fire training. Could the PLA's long-term development plan have called for building the SRBM force in the first decade of the century and a shift in focus to the development of its LACM and MRBM (all variants) capabilities in the coming decade? Since there is little chance the Chinese will explain these developments, perhaps the Pentagon can provide its analysis in the 2012 report to Congress.

Ongoing Military Operations

The PLA has announced it will continue to dispatch naval task forces on its most high-visibility, out-of-area operation: the Gulf of Aden anti-piracy patrols (*PLA Daily*, December 1, 2011). This decision was made despite the acknowledgement made by Chief of the General Staff Chen Bingde at the U.S. National Defense University in May 2011 that supporting the mission was causing difficulties within the PLA because of its limited number of modern ships.

The PLA Navy is in its tenth rotation of two combatants, a logistics support ship, ship-borne helicopters and Special Operations Forces personnel. Responsibility for providing ships for the mission has been shared between the South and East Sea Fleets. While the North Sea Fleet has not contributed surface vessels to the task, it has provided helicopters for half of the rotations (*PLA Daily*, January 6). Based on deployment patterns, five different destroyers out of about 26 and eight different frigates out of 53 along with one Type 071 LPD have been dispatched on the mission. The need for these destroyers and frigates to perform repeat missions, instead of assigning the task to other ships of the same type, supports Chen's statement. This practice also supports the Pentagon's assessment that only about 25 percent of the Navy's surface ships are considered modern, though that still is a marked jump since 2000 [4].

The Gulf of Aden mission also gives the Navy opportunities to visit foreign ports and conduct exercises with foreign militaries on the voyages to and from the area of operation. In February 2011, a frigate was diverted from the anti-piracy mission to take up a position near Libya "to provide support and protection for the ships to evacuate Chinese nationals" (*Xinhua*, February 28, 2011), although the ship did not actually transport any Chinese citizens itself. On the other hand, four PLA Air Force Il-76 transports did assist Chinese civilian charter aircraft and cruise ships to evacuate Chinese citizens from the country (Ministry of National Defense, March 7, 2011).

While the PLA's sealift capacity is increasing with the addition of Type 071 LPDs, its long-distance, heavy airlift capacity remains as it has for years with less than 20 Il-76 transporters. This shortcoming, along with relatively few helicopters (perhaps some 700 for the entire PLA), is understood to be a major limiting factor in the PLA's participation in non-traditional security missions within and beyond its borders. In the last month, the Chinese media have reported on the expansion of two army aviation regiments into brigades (adding to the one existing army aviation brigade formed in 2009). More changes to the numbers of helicopters and fixed wing transport aircraft are likely in the future indicating the PLA's long-term intention to gradually overcome this shortfall.

Reforming the Force Structure

In 2012, there may be some movement to rebalance and redistribute forces in the PLA. Officially, the Chinese state the active duty PLA consists of 2.3 million personnel, but they have not broken that figure down by service. The Army is estimated still to constitute over 60 percent of the force, but priority for development is given to the Navy, Air Force and Second Artillery (*China's National Defense in 2004*). Sometime in the near future another round of personnel reductions may occur with the ground forces taking the brunt of the cuts.

In many cases, more advanced weapons require fewer crew members and may replace older systems at less than a one-to-one ratio, allowing for equipment numbers to be reduced without a loss of capability or an actual increase in capability due to advanced technologies. At the same time, advanced equipment also requires a more extensive maintenance, repair and supply system than older weapons did.

Concurrently, the PLA is looking to flatten its command structure to take advantage of new communications and computer systems, which permit faster, secure horizontal and vertical coordination. Structural changes within the General Staff Department to help oversee these developments include changing the name of the Communications Department to the Informationization Department and the formation of the Strategic Planning Department. In addition to the formation of new army aviation brigades, recent Internet postings speak of downsizing the existing armored divisions to brigades. Assessing the extent and impact of these new structures should be an analytic priority in the coming year ("New Departments and Research Centers Highlight Military's Concerns for the Future," *China Brief*, January 6).

In 2012, structural reform in the PLA's professional

military education system probably will continue in order to better prepare officers and NCOs to execute the PLA's new doctrine within its evolving force structure. Since the summer of 2011, nearly a dozen changes to military academy names and functions have been reported. (*PLA Daily*, November 3, 2011; November 8. 2011). In some cases, these reforms are aimed at producing a more qualified non-commissioned officer corps—two new NCO schools have been formed from former officer academies—but the majority of cases appear to be focused on updating existing officer academies to meet the requirements of the PLA's changing force structure, enhanced equipment capabilities and joint doctrine. Examining these reforms offers insights into how the PLA is preparing its officers and NCOs to function within its ever-changing force structure and execute its doctrine.

The new CMC may execute decisions made already or further address these force structure issues in the coming years. In either case, the PLA's force structure is likely to undergo significant change over the decade as the Army's clout gradually is reduced. The goal is for a smaller, more technically advanced PLA to be prepared to handle both the combat and non-traditional missions it will encounter in the future. These structural changes require well-trained personnel and probably will take years to implement through a process of experimentation to determine the appropriate solution for the PLA—a solution that will be different from other advanced militaries. While analysts may not be able to predict the final outcome, Chinese-language publications have and will continue to make this evolution accessible.

Tracking PLA Training

A "process of experimentation" also is an apt description for the training underway in all services as the PLA seeks to raise its functional and joint capabilities to execute a new doctrine that has never been tested in modern combat. The creation of the Training Department in the General Staff Department in December 2011 aims to enhance joint training management for all the services to overcome this deficiency.

As a reminder to the troops of the increasing complexity of the PLA's joint operations doctrine, over the past two years the term "system of systems operational capabilities" has been adopted as the formula to reflect the integration of all units and capabilities, especially capabilities derived as a result of "informationization." This supersedes the older term of "integrated joint operations," which itself updated the original concept of joint operations.

In contrast to other militaries that have conducted recent combat operations, PLA leaders identify the lack of real combat experience as an inhibiting factor on the force's development (*People's Daily*, November 20, 2009). Accordingly, making training as realistic as possible, in conditions replicating complex electromagnetic environments, has been the objective for many years.

Unit training follows guidance issued at the beginning of every year and is adjusted around mid-year as necessary. The annual training season culminates with large joint operations from September through November in which units are evaluated through force-on-force and live-fire drills. The PLA has established a process of reviewing each exercise to uncover shortfalls to be corrected through remedial training that year or in the next training season. Senior officers still perceive many improvements need to be made to the PLA's joint training regime. In particular, technical and logistics support to training must be upgraded and the lack of personnel "expert" in joint operations remains an obstacle (*PLA Daily*, December 8, 2011).

In the coming year, additional attention could be given to the command and control experiments that have been the focus of numerous training exercises. Currently the PLA is exploring command structures for joint operations at the group army/corps (*juntuan*) and division and brigade (*bingtuan*) levels so that these headquarters can control units from multiple arms and services in multiple locations simultaneously. At the center of these experiments is the temporary formation of multi-service/multi-arm functional groups (*qun*) for specific tasks such as reconnaissance, assault, firepower and logistics. At the same time, the PLA also is practicing how to form combined arms task forces at the battalion level and has discovered the existing battalion headquarters is not structured adequately to control combined-arms operations ("The PLA's Evolving Joint Task Force Structure: Implications for the Aircraft Carrier," *China Brief*, October 28, 2011 and "PLA Developing Joint Operations Capability (Part One): Joint Task Force

Experimentation," *China Brief*, May 20, 2011).

Command and control organization has been a major component of many trans-regional exercises, in which units move from one military region to another within China, since 2006. Large, joint exercises involving three or four military regions were conducted in 2009 and 2010, though no such exercises occurred last year. Navy and Air Force training has extended its reach beyond the traditional areas near China's coasts and over the continent out to several hundred miles from the mainland. Amphibious training has become routine in several military regions. Second Artillery units have been included in many exercises involving the Army and Air Force, but to date no Second Artillery training in conjunction with the Navy has been reported. What new wrinkles will be reported in 2012?

In addition to active duty forces, the PLA often incorporates reserve units, People's Armed Police and militia units into training for both combat and non-traditional security missions. Civilian elements frequently augment the armed forces in both training and during real world operations. Logistics support, especially in providing long-distance air, rail, or sea transport, as well as fuel, repair and subsistence support during road movements, is practiced regularly during exercises and disaster relief efforts. This is one aspect of the contemporary emphasis on military-civil integration (*junmin ronghe*).

Military-Civil Integration and Modern People's War

Military-civil integration is regarded as an important way to enhance China's comprehensive national power through a variety of means exploiting China's population, economic base and natural resources. It also remains a persistently underexplored area of inquiry. The voluntary support of the civilian sector to the military in both physical and psychological ways helps lessen the need for higher defense expenditures as the PLA modernizes. Military-civil integration continues the PLA tradition of being a "people's army" as well as a "party-army."

The system of National Defense Mobilization Committees from national to county level, that integrates military, government and party leaders, is the basis for planning and implementation of military-civil integration. These local committees plan for many infrastructure projects to have both civilian and military purposes. They also keep track of civilian resources and capabilities that can be used to support military and non-traditional security missions. They have built joint civilian-military command centers supported by modern communications systems that are tested both in exercise and real world conditions. Though the efficiency of the National Defense Mobilization Committees probably varies from region to region, the Chinese media frequently reports on exercises that integrate military with paramilitary and civilian capabilities (*PLA Daily*, December 7, 2011 and February 22, 2011).

Civilian support to the military (and vice versa) is a basis for People's War, a traditional concept that has been updated and adapted for modern times. In addition to the weapons and equipment the economy produces for the PLA, the armed forces need "the people" to understand the need for their children to serve. In the coming year, how enthusiastically and effectively "the people" support the Chinese armed forces will be an important indicator of China's domestic stability and for PLA effectiveness as it seeks to attract more volunteers into the force ("Noncommissioned Officers and the Creation of a Volunteer Force," *China Brief*, September 30, 2011).

Conclusion

Even considering the many improvements in PLA capabilities over the past decade, the complexities of modernization will not become any simpler, or less expensive, in 2012 and beyond. A large body of evidence exists in the Chinese media that reflects the internal assessments of PLA commanders of progress made to date and the tasks that remain ahead. Greater outside effort could be spent on analyzing the PLA on its own terms to better understand how well new equipment is being integrated into the force and the doctrine by which it will be employed. Admittedly, these areas are more difficult to analyze than new equipment capabilities and require a degree of judgment to be applied. With important information lacking, the Chinese themselves also could assist in providing direct answers to some of the questions frequently raised by foreigners, lest partial information give way to false assumptions based on worst-case scenarios.

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Notes:

1. Non-traditional security missions include a wide range of non-war or military operations other than war, including, but not limited to, peacekeeping, disaster relief, internal stability and public health operations.
2. For an example of extrapolation of intentions based on potential weapons capabilities, see Jonathan Greenert, "Navy 2025: Forward Warfighters," Proceedings Magazine, December 2011, at http://www.usni.org/magazines/proceedings/2011-12/navy-2025-forward-warfighters.
3. Office of the Secretary of Defense, "Annual Report to Congress Military and Security Developments Involving the People's Republic of China 2011," p. 30.
4. Ibid., p. 43.

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Foreign Affairs a Secondary Priority but Salient Challenges Ahead

By Robert Sutter

This year holds major domestic preoccupations for Chinese leaders. Heading the list are preparations for the 18th Chinese Communist Party Congress later this year and the following National Peoples Congress in early 2013. To ensure a smooth transition that will sustain the unity and legitimacy of Communist Party rule, President and party leader Hu Jintao and his colleagues in China's collective leadership are expected to devote special attention to carefully managing the leadership changes involving most top posts and thousands of important positions in the Chinese party and government structure. Chinese foreign relations take a back seat in Chinese policy priorities during such transitions. For almost a year during the lead up to the 17th party congress and related National People Congress five years ago, Hu stopped his usually busy foreign travel schedule and stayed at home to deal with the transition and related issues ("Incremental Progress without Fanfare," *Comparative Connections*, April 2008).

International harmony is an important goal of the Hu Jintao administration. It provides an appropriate environment, a "strategic opportunity," for China to continue to develop national wealth and power in the first two decades of the 21st century. As a result, the outgoing Chinese leadership has worked hard to promote stable relations with China's neighbors, the United States and other powers in China's ever widening scope of deepening international involvement. The upcoming Chinese leaders expected to take top-level positions dealing with foreign affairs in the new party and government hierarchy have come up the ranks and duly supported harmonious foreign relations.

Unfortunately, the foreign policy objectives of harmony and stability have been challenged at home and abroad. Domestic commentators seen as representing important leaders, bureaucracies or other interests have pushed in recent years for more assertive policies that employ China's growing power and capabilities in order to defend Chinese sovereignty and interests in the face of perceived intrusions and challenges by neighboring countries, the United States and other powers. They have supported sometimes tough statements by the Chinese foreign affairs apparatus and periodic shows of force and resolve by Chinese military and other security forces. Even Chinese leaders stressing harmonious relations with neighbors and involved powers like the United States also have underlined Chinese resolve in defending "core interests" involving sovereignty, disputed territorial claims and interference in Chinese internal affairs.

Chinese neighbors generally have not been intimidated by Chinese truculence. While continuing to seek mutual benefit in close economic and diplomatic engagement with China, they have engaged in self strengthening, cooperation with other concerned neighbors in bilateral relations and multilateral forums, and growing ties with

the United States as means to protect their interests. The United States has weighed in with a new emphasis on the Asia-Pacific region that strengthens allies and associates at odds with China over territorial or security concerns, competes with China for leadership in regional economic and security forums, and sets forth a vision of a Pacific community with democratic values and trade and security goals opposed by China.

As a result, China has endured recent setbacks in Asian multilateral groups where it had previously held sway. China's leaders lost face as they failed to keep the controversial and sensitive issue of the South China Sea off the agenda at the ASEAN Regional Forum meeting in Vietnam in July 2010 and at the Asian leadership summit meeting in Indonesia last November. Among China's troubled bilateral relations, even Myanmar, the neighboring country sometimes seen as most dependent on China, reflected weakened Chinese influence when it surprised China by cancelling a several billion dollar Chinese dam project in September 2011 and subsequently reached out to an interested United States in seeking to broaden its foreign options ("China Assesses President Obama's November 2011 Asia-Pacific Trip," *China Brief*, December 20, 2011).

In sum, China's main problems in foreign affairs in 2012 relate to Chinese leaders' difficulty in sustaining an effective and unified approach to foreign affairs amid challenges along China's periphery in Asia.

A second set of problems in Chinese foreign affairs involve consequences of the protracted weaknesses in the economies of the United States, Europe and Japan, the main destinations of China's export-oriented economy. One questions is how the negative consequences of falling exports for China's domestic economy will mesh with Chinese nationalistic sentiment and reinforce China's usual negative reaction to growing international criticism of Chinese trade-related economic practices. Another is the impact that strengthened Chinese preoccupation with concrete economic gains for China will have on its interaction with other countries and international organizations. The self-centered Chinese approach has often disappointed those seeking more generosity and leadership from the world's second largest economy.

Fractured Authority amid Challenges in Asia

Specialists remain unsure what exactly prompted more assertive Chinese actions since the end of the past decade regarding contested claims along China's periphery, perennial disputes with the United States over Taiwan and Tibet, challenges to U.S. economic policies and the leading role of the US dollar, and other issues. Some specialists played down the assertive nature of the Chinese actions, but a more mainstream view based on in-depth study and extensive interviews held that the harder Chinese approach reflected a spectrum of opinions in what is seen as "fractured" Chinese foreign decision making, ranging from Maoist leftists and a strong nationalist wing on one side to much less influential liberal internationalist officials on the other. Monitoring how the Chinese leadership reflects such varying views and endeavors to weave them into an approach that supports the stated objective of harmonious foreign relations represents a major task for analysts during the coming year and beyond [1].

The consequences of the Chinese assertiveness and truculence, presumably supported by strongly nationalistic leaders, have been widely seen abroad and also by some leading commentators in China as negative for Chinese interests in preserving a stable environment needed for smooth economic development and leadership transition. Authoritative statements by the Chinese government and senior Chinese leaders, notably China's top foreign policy official, State Councilor Dai Bingguo, have reaffirmed China's longstanding commitment to peace and development in an effort to reassure neighbors and other concerned powers. At the same time, however, Chinese security forces confront foreign intruders as they build ever greater capabilities to secure Chinese contested territorial claims. When Secretary Clinton at the July 2010 ASEAN Regional Forum meeting joined others in expressing concerns about China's position regarding the South China Sea, the usually diplomatic Chinese foreign ministry reacted harshly to this perceived American "attack" on China ("China's Search for a Grand Strategy," *Foreign Affairs*, March/April 2011; *Beijing Review*, December 23, 2010).

The mix of messages of reassurance and signs of assertiveness put many of China's neighbors on edge, strengthening their interest in developing closer ties with

one another and with a willing and re-engaging United States to deal with their common China problem. One way out is for China to show clear commitment to policies of reassurance. Unfortunately, such an approach can easily be seen in China as appeasement that might encourage growing foreign intrusions involving China's territorial claims and other key interests. Moreover, China's recent truculent behavior has alerted foreign powers that Chinese reassurances may be ephemeral. As a result, current wariness by Chinese neighbors probably will not be easily reduced unless declarations of reassurance are accompanied by concrete actions involving compromises of important Chinese interests and principles.

A major step forward in improving Chinese relations with its neighbors would see China undertake serious efforts to define its uniquely broad claim in the South China Sea in a clear way that is compatible with principles accepted by the international community, especially China's neighbors. Also helpful in easing tensions and improving relations would be more active and accommodating Chinese negotiations with ASEAN members on implementing the declaration of the code of conduct in the South China Sea. Analysts also will need to evaluate the behavior of Chinese fishing and other coastal security forces for signs of moderation or assertiveness in dealing with perceived intrusions by foreigners along China's maritime rim.

The salience of the recent disputes is reinforced because China's periphery in Asia has always been the area where Beijing has exerted greatest influence and devoted the greatest attention in Chinese foreign relations. One needs to add here that these disputes are generally not great matters of war and peace. All parties are inclined to avoid military conflict and to sustain active engagement with one another as they endeavor to manage disputes in ways that benefit their respective interests. China and most other neighboring states as well as the United States and other concerned powers see their legitimacy resting heavily on economic development, which would be undermined by serious conflict. Moreover, not all sectors of China's periphery show serious challenge. The Central Asian countries and China have witnessed improved relations in recent years. Relations with North Korea and Taiwan also have improved, though not without reservations or negative implications. Relations with Russia seem stable. Elsewhere, in northeast, southeast and southern Asia, China's relations have encountered continued and often growing troubles.

China's Asian Priorities

In China's calculus, Taiwan probably remains the most important area around China's periphery [2]. In the past four years, cross strait relations have improved dramatically and to the benefit of Chinese interests in halting moves toward Taiwan independence and moving Taiwan ever closer to China. The victory of incumbent President Ma Ying-jeou and his Kuomintang Party colleagues in the presidential and legislative elections on January 14 helped to preserve the gains China has made. Looking out, analysts will need to assess the influence of Taiwan's vibrant political opposition among other factors limiting Taiwan's moves closer to China, and to evaluate China's positions in dealing with the Ma government, especially as Hu Jintao, the main architect of China's current Taiwan policy, retires from leadership positions.

The strategically vital Korean peninsula comes next in Chinese priorities. To deal with uncertainties caused by the dynastic leadership succession in North Korea, Beijing has solidified political, economic and military relations even though Pyongyang periodically attacks South Korea, continues developing nuclear weapons and governs malignantly causing recurring food shortages. What President Obama depicted as China's "willful blindness" to North Korea's provocations has undermined past gains in Chinese relations with South Korea, posing a major challenge for Chinese diplomacy (*New York Times*, December 6, 2010). China can be expected to emphasizes the broad common ground between Beijing and Seoul over burgeoning economic, cultural and political relations in order to offset South Korean anger and concern over China's close alignment with the North. South Korea also seems dependent on China as the main foreign intermediary for interaction with the reclusive North.

Chinese tough handling of territorial disputes with Japan has added to concerns over Chinese support for North Korea and the buildup of the Chinese military to reverse tendencies by the Democratic Party, in power since 2009, to adjust Japan's position more toward China and away from the United States. As in the case of South Korea, China probably will expand trade and other economic

relations in order to ease tensions and improve relations. Also, analysts will assess the implications of Chinese, Japanese and South Korean leadership meetings and other efforts to develop common policies, thereby closely integrating the three countries as a multilateral group.

The states of Southeast Asia and their regional groupings centered on the Association of Southeast Asian Nations (ASEAN) come next in priority in Chinese interests. As noted above, China's ability to return to its impressive advances in relations in the region during the post -Cold War period will depend heavily on how it deals with recent disputes, especially over the South China Sea.

The massive geographic barrier of the Himalayan Mountains means that southern Asia is somewhat lower in China's regional priorities. India's rise has followed China's and coincided with Chinese and Indian overtures that significantly improved relations. However, progress on border issues stalled, and in recent years the two sides have registered sharp public disputes amid periodic reports of troop mobilizations along the frontier. They also differ over Tibet and regarding India's developing strategic relationship with the United States and China's close security ties with Pakistan.

The U.S. re-engagement in Asia undertaken by the Obama government means the United States will be more deeply involved in all of these sensitive areas along China's periphery. Chinese officials in the past registered often prickly opposition to such perceived U.S. efforts to "contain" and "encircle" China. Recent Chinese commentary has been more reserved and measured, though deep suspicion of U.S. policies and practices persists. How such sentiment influences Chinese foreign policy represents a crucial and as yet unclear determinant in Chinese international behavior in the near future.

Meanwhile, India, Japan and Australia are the leading Asian-Pacific powers seen working with or in parallel with the United States in complicating China's approach to its periphery. India's military cooperation with the United States and Japan, its "look east" policies focused on Southeast Asia, and its cooperation with Vietnam in oil exploration in South China Sea areas claimed by China head the list of Chinese concerns.

Against this background, analysts and other interested observers will need to assess the following: (1) possible lapses in Chinese efforts to maintain a measured public stance toward its neighbors and the United States in Asia; (2) gains China makes through growing economic and other cooperation with neighboring countries; and (3) signs of Chinese flexibility in the handling of territorial or other disputes with its neighbors. Indicators of tougher Chinese policies and practices include the kinds of assertive and truculent actions seen directed at the United States and neighboring states during 2009-2010, that have subsided somewhat over the past year.

Meeting Economic Expectations Abroad

Poor world economic growth featuring stagnating U.S., European and Japanese development poses challenges for Chinese foreign relations as well as Chinese economic growth. In these circumstances, major developed countries have less ability to play their past leadership roles in supporting efforts to assist world development. Increasing international attention is focusing on China as the world's second largest and best performing economy. With over $3 trillion in foreign exchange reserves and other resources, China is seen by various foreign representatives as needing to assist others in order to restore stronger international development and deal with related common concerns. The international spotlight also focuses more on narrowly self-serving features of China's economic practices and their negative consequences for broader international development (*New York Times*, November 22, 2011; "An Economic Assessment of China's Rare Earth Policy," *China Brief*, November 5, 2010).

Preoccupied with declining Chinese economic growth amid sensitive leadership transition at home, Chinese leaders show little sign of responding positively to these international interests and concerns. Analysts will assess the resulting implications of persistent and probably growing friction in relations with both developed and developing countries. Chinese leaders insist that Chinese assistance and other economic involvement abroad adhere to China's "win-win" formula whereby China's contribution needs to provide generally concrete benefits (a "win") for China's development. Thus, China eschews most grant aid or foreign assistance that may not be paid back, while it continues to receive several billion

dollars annually in assistance from international financial institutions and UN programs, along with various programs from developed countries. China also ensures that it continues to enjoy low annual dues to the UN budget—about the same as Spain—and a commitment to the UN peacekeeping budget—about the same as Italy. China generally dismisses international complaints regarding Chinese state directed and financed trade, investment, intellectual property rights and market access practices as unwarranted and is quick to retaliate against foreign pressure [3].

European leaders seeking Chinese financial support for faltering state finances have been disappointed by China's reluctance to lend and its insistence on clear guarantees for repayment with interest. The calculated Chinese support for its "all weather friendship" with Pakistan has carefully avoided the kind of broad assistance Islamabad seeks now that its relations with the United States and its multibillion dollar annual aid efforts are in decline. After eschewing criticism of Chinese trade and other economic practices for many years, President Obama has publicly lost patience and joined a growing chorus of American and other international critics in attacking China for "gaming" international economic practices in self-serving ways that come at the expense of others and the overall viability of the liberal trade and investment regime (Reuters, November 14, 2011).

China has the option of following the requests and demands of the United States and various developed and developing countries to adopt more generous and "responsible" international economic practices that help to sustain the existing international economic system, which has benefited China's development. Whether or not China is willing the bear the costs of these kinds of change in policy will be an important determinant in what role China actually plays in the world political-economy.

Meanwhile, China's growing importance in fostering economic activity among developing countries has been accompanied by continuing and sometimes growing dissatisfaction with Chinese practices that seems likely to persist with stagnating international growth. China provides extensive financing for often Chinese built infrastructure projects that facilitate exports of raw materials to China's remarkably resource intensive economic growth. China's need for foreign resources was underlined by a Chinese official who told the media in 2010 that China used four times the amount of oil to advance its economy a specific amount than did the United States (*China Daily*, May 6, 2010). China balances these massive raw material imports by promoting through state support and other means large flows of Chinese exports of manufactured products to developing countries. The overall pattern is seen by critical observers in developing countries and the West as reminiscent of past colonial efforts to gain valuable commodities, markets and contracts to produce infrastructure projects; the recipient country is required for many years into the future to make payments in kind or cash for infrastructure that historically has proven to be hard to maintain and of limited use apart from export to international markets. Chinese commentary reacts defensively to such criticism. Whether China will shift its approach, giving greater attention to truly sustainable development, remains to be seen

Outlook

Chinese leaders are preoccupied for now with domestic issues headed by a massive leadership transition and thus appear more likely to adhere to current foreign policies than to change course despite important challenges in the Asian region and self-serving economic policies that act as a drag on China's international stature. Nevertheless, the past three years have featured a muddled picture of repeated Chinese statements of reassurance accompanied by firm actions by Chinese military, border security forces and diplomats to protect Chinese claims in disputed territories and to protect Chinese interests in international forums.

As a result, analysts will want to determine as well as possible how dynamic and conflicted foreign policy decision making actually is within the secret deliberations of the Chinese leadership. Observers also should be watching closely for signs that Chinese leaders may decide that the recent U.S. reengagement in Asia accompanied by frictions between China and many of its neighbors requires a new Chinese approach regarding regional disputes. At present, a markedly more forceful or more accommodating approach each has significant negative implications for China. But the current trajectory can be viewed as costing China dearly through loss of territorial

claims and growing challenges posed by other powers along China's sensitive periphery. Such issues head the list of concerns of nationalistic Chinese leaders who presumably would favor responses with more forceful Chinese policies.

Meanwhile, China needs to determine the appropriate mix of incentives and pressures to continue Taiwan's movement toward closer integration with China. The dynastic succession arrangements in Pyongyang head the list of immediate and possibly perilous concerns that could impact China's foreign policy and practice in ways that may be hard to predict. Observers also will be on the look out for indicators of changing Chinese economic policies that would be more supportive of international common goods and take more account of the perceived negative consequences of China's economic practices on others.

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Notes:

1. Linda Jacobson and Dean Knox, "New Foreign Policy Actors in China," Stockholm International Peace Research Institute, Policy Paper No. 26, September 2010.
2. For this and other points on contemporary Chinese foreign relations noted here, see among others, Robert Sutter, *Chinese Foreign Relations: Power and Policy since the Cold War*, 3rd Ed., Boulder, CO: Rowman and Littlefield, 2012.
3. Sutter, *Chinese Foreign Relations*, pp. 83–85.

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