Dr. William Overholt
“Critical Issues for Xi Jinping’s China”
Critical Issues Seminar Series: Summary of Talk
Wednesday, September 25, 2013

Dr. William Overholt opened the first session of Critical Issues Confronting China with his presentation “Critical Issues for Xi Jinping’s China,” overviewsing the challenges that confront the People’s Republic’s new leadership and laying out an agenda for the weekly seminar series. China’s new leadership is likely to depart from the previous Hu/Wen administration and implement more vigorous market reforms. While political problems to serious reforms of China’s financial and economic institutions will be great, the risks of failure to reform will cause leaders to pursue reforms vigorously.

The imperatives of economic reform include transitioning from export led to domestic led growth; shifting the economy from investment to consumption; ensuring financial investment in small and medium-size enterprises, thereby diminishing the dominance of large state owned enterprises; curtailing the property bubble by increasing loan interest rates and providing alternative attractive investments; and positioning Shanghai as a global financial center, open to free market investment and competition. Without addressing these issues, Xi’s China could fall into the middle-income trap with attendant political problems. Knowing they must act, the new leadership team has organized itself for decisiveness by reducing the Politburo Standing Committee to seven members, excluding extreme factions from political power, trying to ensure compatibility in the way the PBSC is organized, and giving key government appointments to reformers.

In addition to these reform-minded decisions, the new leadership team has developed important plans for addressing the above-mentioned economic problems. Shanghai has been designated as a free trade zone through which foreign and Chinese companies will invest in sectors traditionally closed off to non-state organizations. While the trading will take place through Shanghai institutions, the capital invested will spread across China. The central leadership has also constructed a five-year plan to consolidate land use rights, mapping land and defining management and leasing rights. The hukou system in medium-sized cities will be reformed and increases in minimum wage rates will be tied to provincial median income levels. Banking system reforms will encourage more lending to small and medium-sized enterprises and the development of more local banks.

There will be political consequences for these planned economic reforms. Leaders plan to dilute the power of the large state-owned enterprises, institutions endowed with great financial and political might. The challenges of the explosion of internet criticisms to state censorship are likely to lead over several years to a decision to increase greatly the freedoms or else the regime will require much tighter controls. The growing sense of unfairness among Chinese citizens will require Xi’s leadership team to carefully consider the sequencing of reform and the process behind their new direction for China.

Logically, the leadership team has several reform sequencing options, including simultaneous political and economic reform, economic before political reform, or political before economic reform, but current signals suggest that Xi is interested in pursuing economic reform without serious political liberalization. Instead, the new leadership team seems to be instigating a “new repression,” cracking down on political opposition created in the wake of economic reform. This move can be observed in the new crackdown on bloggers, ideological campaigns within the party, financial and criminal consequences for citizens who speak out against the leadership and a ban on open discussion of the “Seven No’s,” which include universal values and an independent judiciary.

Despite this “new repression,” leaders are interested in pursuing some political reform steps. They intend to end the labor re-education program, introduce new controls on secret investigations,
prosecute individuals involved in the proliferation of black petitioner jails, and in some areas allow greater freedom of speech in publishing. Whether Xi will eventually reverse the new repression and these small steps will constitute the beginnings of true political liberalization remains to be seen.

Xi’s leadership will differ from the Hu/Wen era – the new standing committee will overcome the previous era’s stalled transition and implement serious market reforms. While Hu Jintao and Wen Jiabao made similar statements about reform at the beginning of their tenure, Xi will be compelled to act on his promises by the economic and political reform imperatives of his time. This transition will be immensely difficult, but ultimately Xi’s leadership team will engage with policy choices that are likely to take China forward.