Australian Government
The Treasury

TSY/AU

UNDERSTANDING CHINA'S POLITICS, ECONOMIC POLICY MAKERS, AND POLICY MAKING UNDER XI JINPING

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Treasury Paper

1 The paper is the outcome of an independent study the author undertook as the National Government Fellow at the Crawford School of Public Policy of the Australian National University. The author acknowledges with gratitude the assistance he received while preparing the paper. However, the views expressed in this paper are only those of the author's and do not necessarily reflect those of The Australian Treasury or The Australian Government.

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1. INTRODUCTION

This report discusses how political change under Xi Jinping has changed the shape of China's policy-making system within which economic policy players operate.[2]

1.1. China's economic policy making: an important but little-understood subject

Economic policy is product of a policy making process, in which policy players seek to influence the economic developments to achieve social, economic and political objectives. Policy making is a key variable in determining policy outcomes and economic performance. Ultimately, policy making is shaped by politics, which sets out policy goals, and defines the rules and institutions within which policy is made. Policy players operating within this political environment determine how policies are formulated and implemented.

As China's economic importance grows globally, China's economic policy making has attracted worldwide attention. International familiarity with China's leaders and economic policy makers has grown over recent years as China's international engagement has intensified. There has been growing reporting in domestic and international media of events relating to China's policy making.

Like other advanced economies, Australian officials have had a great amount of direct contact with Chinese officials in the bilateral, regional and global official dealings and forums that occur around the year. Many Chinese officials with whom Australian officials have met hold key positions in China's political and policy system. Their names, positions, responsibilities and activities have become more readily available in Chinese media and official websites.

Yet for Australian officials advising on China's economic policy, there remains a considerable lacunae of understanding about how Chinese leaders and policy makers operate within China's political and policy making system. The non-transparency in China's political system means the conduct of policy making in China has remained significantly behind-the-scenes. There are aspects of every country's policy making processes that remain secret but the level of secrecy in the Chinese policy process is of another dimension. The whole picture of how Chinese policy is developed may never be fully revealed.

Lack of understanding, however, is also related to unfamiliarity with China's political and policy settings, which are very different from those in Australia. For Australian policy advisers, the comprehension of China's economic policy making is likely to be far less intuitive than that of the United States, the political system and culture of which are familiar to Australia.

1.2. Why should Australian economic policy makers care?

There are few more important economic relationships for Australia than the one it has with China. China is Australia's largest trading partner and bilateral trade with China accounts for around a quarter of Australia's overall trade. Nearly one-third of Australian exports go to China. China is also one of the

[2] The writing of the paper was largely completed by May 2017. Update is made only when absolutely necessary, such as key personnel changes made in the leadership after May 2017. This includes the addition of information on the leadership change of the 19th CPC national party congress, including the Central Committee, Politburo and Politburo Standing Committee in the Appendix.

largest sources of new foreign direct investment into Australia. For many Australian businesses, China represents an enormous growth market.

The importance to Australian policy makers of understanding China is at least two-fold. First, a good understanding of China's economy, economic policy and policy making is needed to help assess Australia's fiscal and economic outlook. Second, it helps Australian officials' international engagement in support of global and regional economic and financial policy objectives and regimes, the healthy running of which is vitally important to Australia.

As the Chinese economy continues to grow, it is reasonable to expect that its importance to Australia can only increase. China's economic policy making shapes China's economic growth, international trade and investment, and has implications for the Australia–China economic relationship. It is important that Australian policy advisers and decision makers understand changes in China's economic policy and, to that purpose, the thinking and behaviour of China's policy makers that are behind them. This includes who they are, their views of the world and global development, and how they make economic policy, as well as the political context and policy making processes within which policy is formulated and implemented.

Moreover the bilateral economic relationship between Australia and China overall is relatively more important to Australia than to China. While China accounted for nearly one-third of Australia's total merchandise exports in 2016, Australia only absorbed 1.8 per cent of China's total merchandise exports that year.[3] Changes in the Chinese economy tend to have a relatively larger impact on Australia than changes in the Australian economy have on China. China's economic scale means that changes originating from China's economic policy making are of particular interest to Australia. In a word, Australia is the 'taker' when it comes to Chinese policy shifts — not the other way round.

This is particularly relevant at a time when China's growth model and policy focus are in the middle of substantial transformation. This means that adjustments will inevitably have to be made in the relationship between Australian and China, and that new opportunities and challenges will emerge as a result of the adjustment to change in China.[4]

Capturing the economic potential of the relationship will depend on how both the public and private sectors in Australia and China engage up-close and shape the relationship. This also includes managing the risks that will inevitably arise. Getting the most out of the relationship for both countries will require a functional understanding among policy-makers, corporate leaders and the broader community of the changes that will shape China and the regional and global environment in coming years.

1.3. Power structure in China's political system

The endeavour of understanding change in China can start from gaining an understanding of the structure and processes of China's political and policy-making system, within which change is being put in place by China's economic policy makers.

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3 However, this broad statement may understate the importance of the Australian relationship to China, as in some key sectors China's development rely critically on imports of resources and raw materials. For example, Australia supplies around a quarter of China's externally procured raw materials.

4 East Asian Bureau of Economic Research, and China Center for International Economic Exchanges. Partnership for Change: Australia–China Joint Economic Report, ANU Press, August 2016, press-files.anu.edu.au/downloads/press/n2068/pdf/book.pdf.

China is a party state, in which the ruling Communist Party of China (CPC or the Party) sets the direction of economic policy and the priorities that the government follows and implements.

The party state provides the formal hierarchical structure of China's decision-making system. At the central level, it comprises the Chinese Communist Party's Politburo Standing Committee, the Politburo, and the Central Committee. In the state system, it consists of the State Council and, underneath it, different ministries and agencies, including the National Development and Reform Commission (NDRC), the People's Bank of China (PBC) and the Ministry of Finance (MOF).

This dual structure of party and state is duplicated throughout China's administrative system below the national level, which has four other layers of administration down to the county level. Recognising this dual structure is the starting point for understanding how economic policy is made in China. Yet, focusing too much on this formal structure could mean missing the real centres of power and action in policy making that run through different parts of the party-state system.

Since the founding of the People's Republic of China in 1949, real power has not always resided in formal institutional arrangements. The real policy makers might not be the ones wearing the formal official hats.

One example is Chairman Mao Zedong, who ruled China and wielded considerably more power than the rest of the leadership group combined until his death in 1976. He had ceded formal authority in running daily party and government affairs to his lieutenants in the late 1950s and early 1960s.

Another example is Deng Xiaoping, who emerged as China's 'paramount leader' in late 1970s. Deng held sway on major policy decisions in the 1980s and early 1990s, but never took on the top formal leadership position—as chairman or the general secretary of the CPC.

China's political and policy-making system has been under a further overhaul since late 2012 when Xi Jinping became the general secretary of the ruling Communist Party. Over the past four years, Xi has effectively tightened control of the party state and firmly consolidated power at the centre of China's political system. By late 2016, Xi was endorsed by the party as the 'core' of its leadership, which means he became the final arbiter of major policy and personnel decisions.

1.4. Change in China's economic policy making under Xi Jinping

Under the leadership of Xi Jinping, the relationship between the Party and the state has been evolving, with implications for economic policy making in China. The journey towards centralisation of power has accompanied significant changes in China's policy-making system.

Xi has substantially stepped up his direct leadership on economic decision-making. There has been a reassertion of Party leadership in economic affairs over which the State Council and the Premier used to be perceived responsible. That responsibility has diminished over recent years, while the role of the Party continues to rise. Old decision-making institutions have been refurbished and new ones established within the Party organised around the leadership of Xi Jinping. This has led to the adjustment of relationships between different policy-making agencies involved in the process of policy coordination and implementation.

Xi's effort to centralise power can be interpreted as an attempt to find a political solution to resistance to change that his leadership envisages, and paving the way for the next phase of China's development. It is important to understand what the fundamental problems are that his leadership is trying to resolve.

Over the past four decades, China has enjoyed rapid growth, transforming its economy from poor to middle-income. Now the Chinese economy is already the second-largest in the world. China's GDP per capita exceeds US$8,000 — an upper middle-income country by the World Bank's definition. China is now facing the challenges middle-income economies normally face: slowing growth, and difficulties in the transitions towards consumption, services and innovation-led growth. China also faces the risks associated with industrial overcapacity, high and rising corporate and local government debt, and financial opening.

Behind these problems are price and institutional distortions associated with government intervention in business and industrial activities, and the entrenched vested interests that benefit from these distortions. Removal of these distortions will help China lift productivity and sustain a relatively fast growth rate. There are many vested interests, however, that resist this transition.

China's political leaders and key policy makers understand that continuing market-based reform helps sustain growth. They also want the reform to help consolidate, rather than undermine the Party leadership. They recognise that reform has entered 'deep waters' and that effective policy change to move China out of the middle-income trap requires overcoming the vested interests that resist reform.[5] China's leadership under Xi Jinping has chosen to pursue centralisation of power in order to revamp China's political and policy-making system in a way that can overcome resistance to the change that they intend to put in place.

1.5. A scan of the field of China's policy making

Western understanding of China's policy makers and policy making has come a long way since the 1950s. Researchers have developed different models to advance this understanding, which has moved beyond a simple assumption — though this is still common in media reports — that China's policy is made in a black box.

From the 1950s to the 1970s, Western researchers assumed simple totalitarian and authoritarian models in interpreting Chinese policies. These models took it that China's policy making was top down, centred on the hands of the top leader or a leadership group, and uniformly implemented throughout the party-state machinery. Ideology and national interest were two important objectives, and policy makers largely acted rationally in pursuing them.

Following China's opening in the late 1970s, and as more information became available, this model had to be modified. Researchers in the West discovered that Chinese policy making in some ways resembled processes in their own countries where bureaucratic turf wars were rife, which fragmented policy-making processes most of the time. During policy deliberations, different policy ministries (or departments within a ministry) were in competition for influence and resources. Deliberations also reflected different groups' efforts to promote or protect their own interests. This 'fragmented authoritarian' model became a popular conception of the operation of the Chinese system in the 1980s. A recent report from the US-based Center for Strategic and International Studies (CSIS) continues to use this model to explain the making of economic reform policies under the Xi Jinping administration.[6]

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5 Xi Jinping has repeatedly stated that 'China's reform has entered a deep-water zone, where the problems that are crying out to be resolved are all difficult ones.' See 'Xi says China's reform enters deep-water zone', Xinhua, 1 April 2014, news.xinhuanet.com/english/china/2014-04/01/c_133230720.htm.

6 Goodman, Matthew, and David Parker. Navigating Chopping Waters: China's Economic Policy Making at a Time of Transition, CSIS, 31 March 2015, csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150327_navigating_choppy_waters.pdf.

Systematic study of Chinese policy making in China has only begun recently. Understandably, the themes developed by Chinese researchers tend to be set within the boundaries that the Party draws. Chinese studies indicate a policy making style that is consensus-driven and elaborately consultative. Policy making is described as having become more inclusive in recent years, involving a growing number of stakeholders, including think tanks and specialists. Endorsement of policy positions by top leaders remains important and different interests compete for the attention of top leaders to gain influence.

There is more information now publicly available on China's policy makers and policy making. The media in China is an increasingly good source of information, particularly on leadership activity, major policy events and initiatives. Chinese official news agencies and government websites offer a wide coverage of policy developments, including on China's political system and structure, its key institutions, and developments affecting leadership. Each government agency reports agency-related activities, major policies, events, meetings and announcements. Information on Party organisations and their internal activities, however, remains sparse. There is more information available on the Party's decision-making processes, but that often needs to be pieced together laboriously to get a more complete picture of what is going on.

Other sources of information come from overseas Chinese media and studies centres in Hong Kong, Taiwan, Singapore, the United States, and European countries. There is a steady stream of reports on leadership politics and how it might affect policy making. It is hard to verify the authenticity of information in the media, and particular caution must be applied before using this source of information.

This report is the outcome of my research that is based on first-hand information publicly available in China. All information used can be verified by open sources unless indicated otherwise. The report is also a continuation of academic debate and investigation of the subject. The focus is on finding facts rather than theorising.

1.6. How is this report structured?

Following this introduction, Chapter 2 discusses recent political developments in China, seeking to understand why and how the concentration of power has occurred under Xi Jinping. It explains how the shifting power structure at the top of China's political system has redefined the official ideological and institutional contexts within which new players have emerged and policy is made. It discusses how these political changes interact with the evolution of China's policy-making system. Political forces, particularly changes in China's elite politics, which are shaping the change in China's economic policy-making system, are explored. This sets the scene for understanding the trends and dynamics of China's economic policy and by extension, China's economic development.

Chapter 3 discusses China's key economic policy makers and the most important decision-making body in China's economic policy system. It describes the rising importance of the central leading groups (CLGs) in the top decision making bodies within the CPC. In particular, it examines the Central Leading Group on Financial and Economic Affairs (CLGFEA),[7] which has emerged recently as the most important economic policy making body, as well as the Central Financial and Economic Office[8] that supports the CLGFEA. It summarises their functions, key personnel and activities, and their overall role in China's economic policy-making system.

7 This organisation goes by a few different English names. Its Chinese name in pinyin is Zhongyang caijing lingdao xiaozu. Leading small group, another English translation for the 'Central Leading Group', is a literal, and more common, English translation of the name, Lingdao xiaozu in Chinese.

8 Its Chinese name is Zhongyang caijing lingdao xiaozu bangongshi or, in short, Zhongcaiban.

Chapter 4 explores the policy making processes involving key economic policy-making bodies at the leadership level and policy implementation in the ministries and at the local government level. The Belt and Road (B&R) initiative has become the most important national strategy for development under Xi Jinping's leadership. This chapter examines the making and implementation of the initiative as a case study in understanding how policy is designed and implemented throughout the Chinese system. It depicts the processes and features of the evolution of a major economic policy. This case provides an understanding of how the B&R policy has evolved, first from a set of ideas among China's policy community, then to a leader's proposal, and ultimately to an official policy sanctioned as China's national strategy. It examines the B&R policy as an instructive example of China's contemporary political and policy-making system at work.

Chapter 5 concludes briefly.

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East Asian Bureau of Economic Research, and China Center for International Economic Exchanges. *Partnership for Change: Australia–China Joint Economic Report*, ANU Press, August 2016, press-files.anu.edu.au/downloads/press/n2068/pdf/book.pdf.

Goodman, Matthew, and David Parker. *Navigating Chopping Waters: China's Economic Policy Making at a Time of Transition*, CSIS, 31 March 2015, csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150327_navigating_choppy_waters.pdf.

'Xi says China's reform enters deep-water zone', *Xinhua*, 1 April 2014, news.xinhuanet.com/english/china/2014-04/01/c_133230720.htm.

2. THE CENTRALISATION OF POWER IN THE XI JINPING ERA

Policy is made and implemented within a political and administrative system. The Chapter explores the main features of China's political system, the extent of change to the system since late 2012 and the implications for China's policy making.

Xi Jinping became the General Secretary of the ruling Communist Party of China (CPC) in late 2012. Xi has since effectively tightened control of and firmly consolidated power at the centre of China's political system. In late 2012, he was first among equals at the Politburo Standing Committee (PSC), the CPC's highest decision-making organ. By late 2016, he had secured the endorsement of the party as the 'core' of the leadership, elevating him to the arbiter of important party and state affairs. Over the past five years, the journey towards power centralisation has traversed many steps, including launching and sustaining a large-scale anti-corruption campaign, strengthening internal political support, removing disloyal members, imposing new political norms and building new institutions that reshape the party state.

This Chapter explains why this would occur, how the centralisation of power was achieved, what the objectives of making the change and where and how China's policy making and implementation are heading.

2.1. Under the facade of a strong party state

Why would the CPC, which has long appeared to be in effective control of the political system, needs to secure the greater centralisation of power that has occurred in the Xi Jinping era? Answering this question requires an understanding of the power and the resilience of the party; its challenges as well as the sense of crisis that its leaders have strongly felt in recent times.

China's political system is best characterised as a party state, in which the party maintains effective control of the state, the military and society. Party organisations permeate and become the backbone of the state and society. Much of the party's power resides with its firm control of personnel and policy of the state machinery. That has not fundamentally changed since the founding of the People's Republic of China in 1949.

The power of China's party state has undergone greater institutionalisation during the reform era since the late 1970s while China has been in the middle of rapid growth and social transformation.

The Politburo and its Standing Committee members are chosen through a behind-the-scenes internal selection process involving consultation and negotiations current and retired leaders. This process has helped the development of checks and balances within the top echelon of the leadership system. The checks and balances have effectively limited the influence by individual leaders in selecting favoured candidates or dominating in policymaking. Internal consultation and negotiations that have grown wider in scale and more intense over time lead the selection of party leaders. The party has also developed conventions for regulating promotion, retirement and succession, with term limits and age requirements.

The party state has proven resilient and adaptable. In the wake of the devastating Cultural Revolution (1966-1976), party leaders in the late 1970s initiated the opening of the economy to negate the impact of failed policies espoused by Chairman Mao Zedong. In early 1992, Deng Xiaoping undertook the 'southern tour' to put policy back on the course of reform and opening after the Tiananmen Square protests. Since then, the party state has been steering China's seemingly unstoppable economic rise, including through the global financial crisis. China's ever rising economy, and the job opportunities and

income generated through rapid growth, have confirmed the management credentials of the party state and become a new source of legitimacy to its rule.

The party has also made an effort to broaden its political support base. Prior to the late 1970s, its membership came mainly from urban workers and rural peasants. It has since embraced intellectuals, professionals, students and knowledge-based office workers into the party. Party membership opened to private entrepreneurs in the late 1990s, now claiming to represent the 'vanguard of all Chinese people', with private entrepreneurs considered part of the 'advanced productive forces'. By the end of 2016, the CPC membership had reached 89 million, or one in every eight adult Chinese. A large number are middle-income and urban elites.

Beneath the surface of strength and effective control, the party state has faced growing economic, social and political challenges. A sense of impending crisis grew in the minds of China's ruling elites in the early 2010s on the eve of Xi Jinping taking over the top job of the CPC.

First, while rapid growth had lifted the Chinese economy to middle-income status and made it the second largest in the world, China's growth had been overly driven by investment and credit expansion. There were rising economic imbalances in terms of a low consumption rate, excess production capacity, rising debt levels and environmental degradation, all indicating that China's growth pattern has become unsustainable. The RMB 4 trillion stimulus package announced in late 2008 to cope with the impact of the global financial crisis was mainly channelled into investment, exacerbating imbalances.

Second, deepening market-based reform, accompanied with governance reform to create a clean, competent and market-serving government, would help put the economy back on a more balanced growth path. Yet since the mid-2000s market-based reforms became difficult to push ahead due largely to the resistance of powerful groups in the state sector protecting their interests. The state sector's monopolistic position in industries deemed strategically important was a major source of distortion preventing efficient resource allocation and productivity growth.

Third, society was polarised by widening income gaps between urban and rural areas, the coastal and inland regions, and the haves and the have-nots. The existence of these gaps indicates residual institutional barriers in preventing free flows of resources and factors across the rural and urban divide, regional boundaries, and different social and economic strata. Social fairness and justice became important political issues.

Rampant corruption was the most obvious symptom of the malaise in China's political system. Bribery had permeated every corner of the party, the state and the military. By the 2010s, it had become an unavoidable part of people's daily life. It became commonplace for ordinary people to give bribes for receiving appropriate treatment when giving birth, having medical operations, or getting their children into good kindergartens and schools. There were implicit price tags for virtually every public position. Promotion into any government or military position was no longer possible without paying the expected sum of money to one's superiors.

Corruption has economic and political costs. It increases the transaction costs of doing business.[9] There were observations that the growth of corruption had far outstripped the growth of GDP over the decade from 2002 to 2012.[10] The economic benefits that some suggest corruption might bring—for example, as an incentive for local officials to focus on growth, or as a means for businesses to bypass

9 Craig Charney and Shehzad Qazi, Corruption in China: What Companies Need to Know, Charney Research White Paper No. 1, 21 January 2015, http://www.charneyresearch.com/wp-content/uploads/2015/01/White-Paper-Corruption-in-China-FINAL-v10.pdf

10 张维迎 (1 July 2013)：过去十年腐败增长速度远超 GDP，财经网. http://finance.sina.com.cn/review/hgds/20130701/191915977917.shtml.

red tape—are far outweighed by the costs.[11] In 2013, some estimated that corruption might account for 10 per cent from China's GDP.[12] As corruption has almost always involved the exchange of power, money and privilege, it has been the focus of public anger and outcry. Party state leaders including the then-general secretary Hu Jintao repeatedly warned that corruption was the biggest threat to the party's continuing rule.[13] Yet all anti-corruption measures tended to be short-lived, never effective, and only a show in the eyes of the public. Rampant corruption was corroding the inside of the party state and sapping its political legitimacy outside.

While the outside world was dazzled by China's phenomenal economic rise, there was a growing sense of impending crisis in the minds of China's political and business elites. A sense that a train wreck was about to happen but nobody could do much about it led many elite members to migrate overseas or hold foreign passports as a hedging option.

That was a time when intellectuals and policy advisers started openly discussing the need for more fundamental reform of the party state to ward off the prospect of revolution. A strong undercurrent in China's political debate was the race between reform and revolution. When Xi became the party general secretary, Wang Qishan was put in charge of the anti-corruption campaign. Wang recommended party cadres to read Alexis de Tocqueville's *The Old Regime and the Revolution*. His unspoken intention was clear: the collapse of the party was as real as that of the grandiose ancien régime Louis XIV built more than three centuries ago. Xi worried aloud about the vitality of the party by posing a question to party members that, while the Soviet Union was about to collapse, why did nobody stand up and fight hard enough to save it?

For Xi, Wang and their supporters, addressing these challenges and saving the party demanded a dramatic revamping of the power structure of the party state. A critical part of the exercise was to fix the centre of China's political system, including the Politburo and its standing committee. In its current form, these leaders saw the party as inept in addressing China's economic, social and political challenges.

2.2. Collective leadership

The top of China's party state is centred on the Politburo (PB), particularly the Politburo Standing Committee (PSC). The PSC comprises five to nine top party leaders with the most senior positions in the party state.

Since 1982, these positions have invariably included the party general secretary, the chairman of the military, the state presidency and the state council premier. They have also expanded to include the chairman of the National People's Congress; the chairman of the party's political alliance with 'democratic parties', known as the Chinese People's Political Consultative Conference; the head of the Secretariat of the Party Central Committee, with the overall responsibility on party affairs including

11 Yao Yang (14 May 2015) Costs of corruption far outweigh benefits, China Daily. http://www.chinadaily.com.cn/opinion/2015-05/14/content_20711383.htm.

12 Xie, Andy (13 May 2010) China's Foul Assets, Fouler yet', english.caixin.com/2010-05-13/100143676.html. Massoud Hayoun (26 August 2013), 'Bo Xilai trial may shake China's economy for years', http://america.aljazeera.com/articles/2013/8/26/as-bo-xilai-trialendsantigraftcampaignwillrearon.html.

13 任建明（Ren Jianming），'总书记强调把反腐工作成效看作取信于民的重要指标', 16 January 2008, http://cpc.people.com.cn/GB/66888/77791/6783889.html

personnel and public relations; the head of the legal and public security system, and the executive vice premier responsible for the economy.[14]

The PSC adopts collective leadership in governing its operation, with several rules and norms. First, major decisions should be made at meetings and based on majority rule. Second, majority views can be formed through voting at the meetings with one vote for each PSC member, the general secretary included. Third, once a decision is made, those who initially took different views are obliged to PSC solidarity by adhering to the collective decision, for which the PSC takes collective responsibility. Fourth, there are divisions of labour among members of the PSC, and under the roof of collective leadership, each member tends to have own turf to look after.

These rules and norms of collective leadership—first briefly initiated in 1956—were restored by the post-Mao leaders in the late 1970s and early 1980s to prevent the return of a Mao-like strongman who would lead China to another Cultural Revolution. Separation of power between the CPC and the government was emphasized by the post-Mao leadership in the prevention of abuse of power, and as a result economic policy tended to be the main responsibility of the Premier and the State Council that he led, the position of which was usually taken up by the second ranked PSC member.[15] Many party elders — who helped Mao found the People's Republic — were no longer in the PSC by the 1980s but remained influential in selecting the PSC members and decision making.

The institution of collective leadership was put to test during the 1989 Tiananmen incident. The five members of the then PSC were at an impasse on whether forces should be used to put down the student demonstration. In voting on the decision, two members were in favour, two against and one abstained. Party elders were horrified by the impasse. To avoid this from recurring, Deng accorded the newly anointed party general secretary Jiang Zemin as the 'core' of the new leadership group in the wake of Tiananmen. Being the core of the leadership was intended to give Jiang some extra weight in decision making. Deng also referred himself as the core of leadership in his generation and to Mao as the core of the 'first generation' of party leadership.

The Jiang era lasted from 1989 to late 2002, during which he continued to follow the rules of collective leadership. Jiang's long reign gave him time to nurture his loyalists, whom like Jiang and most of his cohort of leaders were technocrats. Many were closely associated with Jiang and had working experience in Shanghai where Jiang was once the city's party secretary. Jiang was able to place his 'Shanghai gang' into key party state and military positions.

During the early years, from 1989 till the mid-1990s, Jiang's leadership was under the long shadows cast by party elders including Deng Xiaoping and Chen Yun. They helped Jiang by removing the potential of rival power bases that could challenge Jiang once they were no longer around, which indeed occurred around the mid to late 1990s. From the mid-1990s, Jiang acted as the core of his leadership not only in name but also in substance. While sticking to the collective leadership institution, he managed to wield personal influence through ensuring the Shanghai gang the majority in the Politburo and its Standing Committee. However, Deng had already arranged Jiang's successor in 1992 when Hu Jintao entered the PSC at the age of 40.

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14 The head of the legal and public security system has not been a member of the current 18th PSC. The PSC members dropped to seven at the 18th party Central Committee from nine at the 17th party Central Committee.

15 However, the Premier was not always the second ranked official. In later times, when Wen Jiabao was the State Council Premier in 2003-2013, he was the third ranked PSC member, after Wu Bangguo who was the chairman of the national people's congress. However, being the Premier of the State Council tended to have substantive decision making power, especially on economic affairs.

The handover of leadership from Jiang Zemin to Hu Jintao 10 years later in late 2002 was the first large-scale orderly transition of power in the history of the People's Republic of China. The succession involved the turnover of a whole leadership group, which largely followed the rules and norms recently developed in limiting the ages and terms of officials in office.[16]

Yet the transition from the Jiang era to that of Hu was also not fully complete. While retiring from the post of the party general secretary, Jiang managed to stay as the chairman of the CPC Military Commission (CMC) for two more years. Throughout the Hu era, Jiang remained influential on major policy and personnel decisions. Jiang continued to weigh in on military affairs through keeping an office in Zhongnanhai as well as through Guo Boxiong and Xu Caihou, two of his loyalists as the vice chairmen of the CPC Military Commission. Equally important, Jiang managed to stack the PSC with a 'Shanghai gang' majority during Hu's first term (2002–07), thus curtailing Hu's influence.

Reflecting his weak leadership position, Hu was never accorded the 'core' of his leadership cohort throughout his 10-year tenure (2002–12). Hu also could not prevail in getting his favoured candidate, Li Keqiang, as his successor in the lead up to the party's 17th National Congress. Li only managed to enter the PSC in 2007 as successor to the premier.

During his second term (2007–12) Hu did become more influential as more of his supporters managed to ascend to the Politburo and its Standing Committee. Many of Hu's supporters, including Li Keqiang, shared the same work experience at the Communist Youth League (CYL). Since the 1980s, the CYL had become a major platform of grooming future party leaders. Both Hu and Li were once heads of the CYL. Ling Jihua, head of Hu's office since 1999 and also a Youth Leaguer, became the powerful head of the General Office of the Central Party Committee in 2007.

There are China scholars, particularly Cheng Li, who believed in the existence of two political coalitions within China's one party state system, one being led by the CYL faction and another by Jiang's Shanghai gang. Both factions had equal influence.[17] However, this may prove to be a too mechanical view, and the political reality has been far more complex and the relationship between leaders far more informal. While the Shanghai gang could grow under Jiang's long reign, Hu never had enough time to develop his own power base. This was despite a lot of officials with the CYL background being promoted during the Hu era. If time had allowed, Hu would probably have been able to develop his power base to match Jiang's Shanghai gang.

The promotion of a lot of cadres with the CYL background was more a reflection of the CYL having been a platform for future leaders than Hu's influence itself. While there was also a greater effort in promoting officials with CYL backgrounds, Hu was never strong enough to control the PSC. He could not prevail in major personnel decisions while Jiang continued to exert influence from his retirement. Hu didn't have enough time to groom his supporters as Jiang previously enjoyed. At the start of his second term, Xi was already the 'crown prince' waiting in the wings to take over the position of the general secretary. That further took away the appeal of Hu as the centre of political power.

2.3. Nine dragons ruling over the waters

Hu's weak leadership, in an environment of collective leadership, created a new dynamism in China's elite politics. Following the rule of internal division of labour, each individual PSC member was expected to look after a key area of the party state. Hu's weak authority helped encourage growing autonomy

16 This was despite political manoeuvres favouring members of the Shanghai gang entering the new leadership group at the disadvantage of other current and potential members.

17 Cheng Li, 'One party, two coalitions in China's politics', East Asia Forum, 16 August 2009, http://www.eastasiaforum.org/2009/08/16/one-party-two-coalitions-in-chinas-politics/

among particular PSC members. These members tended to have the final say on matters related to whatever was the sphere of their responsibilities. A weak leader meant that they could do so as if they were 'feudal lords' in charge of their own domains with no external interference. This situation at the PSC was aptly characterised as 'nine (PSC) dragons ruling over the waters (of the party state)' (*jiulong zhishui*, 九龙治水).

The development of this situation at the top of China's political system had serious consequences.

First, it encouraged power bases to grow around individual PSC members. Loyalties were nurtured to grow around and attach to individual members, rather than the PSC as a collective or around the general secretary. Over time, this patronage pattern was replicated in other organisations throughout the party state. Factionalism was rife at different levels of the party state.

Second, it caused policy paralysis. The veto power of certain groups could easily hamper policymaking, particularly those with across-the-board influence and having negative impact on certain groups. Due to the resistance of powerful groups, serious policy reforms made little headway during the Hu era. Some, including state-owned enterprise reform, were actually reversed, as 'the advance of the state sector at the expense of the private sector' became a real and noted phenomenon. Collectively endorsed decisions would not be seriously carried out unless doing so would benefit the interest of one's own 'turf'. There was a cry that 'policy made in Zhongnanhai (the Party state headquarters) could hardly reach outside' (or zhengling buchu zhongnanhai, 政令不出中南海).

Third, the development of power-centred patronage provided fertile ground for corruption. The protection afforded by power helped many family members and their affiliates take advantage of their powerful positions and connections for profiteering activities. The most extreme corruption case revealed so far has been that of Zhou Yongkang. Dubbed the fearful 'political and legal king', Zhou was one of nine PSC members in the 17th Party Central Committee and responsible for political and legal affairs in 2007–12.[18] Investigation into Zhou's case led to seizure of assets worth at least RMB 90 billion (US$14.5 billion) from his family members and associates. More than 300 of Zhou's relatives, political allies, protégés and staff have also been taken into custody or questioned.

Looking back, the start of the 10 years under the Hu era saw rapid economic growth following earlier tough reform decisions, including those in preparation for entry into the WTO. His era ended with accumulating structural imbalances, including excessively high investment, overcapacity across industries and rising local government debt. Serious reforms, including for SOEs, were not implemented. In some cases, they were reversed.

Many in China regarded the period as a lost decade of opportunity in pushing for fundamental market-based reforms. Weak leadership within the collective leadership was commonly seen as being responsible for this state of affairs.

2.4. Political elites divided

China's economic, social and political challenges were what Xi was trying to tackle once he took the post of the general secretary in late 2012. He wasted no time in putting up his vision for China's development and over the following few years laid out the strategy for its realisation. Xi's resolve in putting in place his vision to define the future of China's politics stood in stark contrast to China's elite politics at the start of his leadership when different views were competing for influence.

18 Benjamin Kang Lim and Ben Blanchard, 'China seizes $14.5 billion assets from family, associates of ex-security chief: sources', Reuters, 30 March 2014, http://www.reuters.com/article/us-china-corruption-zhou-idUSBREA2T02S20140330.

The enormous challenges facing China had laid bare the fact that it was impossible to assume a business-as-usual approach to maintaining the old growth model and modus operandi of the party state system. However, China's political elites were deeply divided on where China should go. The right, mainly the liberal-leaning academia and their sympathisers within the party and policymaking circles, promulgated constitutional politics, which in Chinese political discussion referred to rule of law and Western-style political democracy. They saw constitutional politics as a natural complement to the building of a market economy. The left, galvanising around Bo Xilai, who promoted the 'Chongqing model' of development, was arguing for a rekindling of the Maoist past.

Dividing China's political spectrum into right and left is too simplistic a way of painting China's political reality. There were many more political ideas and forces competing for influence, including ideas of nationalism, populism, environmentalism and traditionalism. Facilitated by the internet, blogs and WeChat amid the relatively loose censorship of the time, many different views could find their supporters in the political elites, including the 'princelings'.

Princelings were loosely labelled as the offspring of senior officials in the first or second generation of leadership. While a diverse group, the princelings of the 1950s generation to which Xi and Bo both belonged started emerging as an important political force in the Hu Jintao era.[19] They were mostly well-connected in the party state even if they did not hold key political or corporate positions. Most princelings suffered, and their parents were prosecuted, during the Mao era particularly during the Cultural Revolution. As of the early 2010s, more and more of them came to view Mao as the founding father of the PRC, the pillar of the party state, whose name and contribution to the party should not be tarnished. The edifice of the party state could otherwise crumble if this pillar was torn down.

Of all the competing views and forces, except perhaps for the supporters of the constitutional politics, there was a growing agreement across the whole political spectrum of support for having a strong leadership. A strong leadership was seen as essential in helping overcome China's political, social, and economic malaise. It would help combat corruption within the party state, promote clean government, better protect the environment, or ensure social fairness and justice. A strong leadership could help overcome the resistance of vested interests and push forward market-based reform.

2.5. The China dream and its strategy

In this sense, Xi's rapid consolidation of power has been riding on a rising tide of demand for a strong leadership. Xi started his leadership from a much stronger position than Hu. Hu facilitated that transition by simultaneously handing over to Xi the posts of the general secretary and the chairmanship of the CPC Military Commission.

And Xi immediately stamped his vision on the future of China's politics and laid out a strategy for its realisation once becoming the party's general secretary in late 2012.

Xi's vision was the China Dream, which he proposed immediately following his takeover of the leadership. The China Dream was defined as the rejuvenation of the Chinese nation, with two centenary goals. The first centenary goal was to make China a 'moderately prosperous society' by 2021 when the

19 Princelings of this generation were imbued with the prevailing communist ideology in their formative years and tended to have a strong sense of mandate to take over the positions of their parents (succession or jieban, 接班). This does not mean that every princeling of that generation persevered with that ambition. Indeed, many went to do business or study overseas in the wake of the Cultural Revolution, with some becoming important corporate leaders. Those still harbouring political ambition received assistance from the party, beginning in the 1980s, to be groomed to take over the future of the party leadership.

CPC has its one hundred years anniversary. The second was to make China a wealthy nation by 2049 one hundred years after the PRC was founded.

Over the following three years, Xi gradually laid out his four-pronged comprehensive strategy (also known as the 'four comprehensives' strategy or *sige quanmian*, 四个全面). They are to make comprehensive moves to: 1) finish building a moderately prosperous society; 2) deepen reform; 3) advance the law-based governance of China; and 4) strengthen party self-discipline.

Of the four-pronged strategy, the first prong, which is to 'comprehensively build a moderately prosperous society'**,** corresponds to the first 'centenary' goal of the China Dream. The centenary here refers to that of the founding of the Communist Party of China, which roughly coincides with the end of Xi's expected second term in 2022. It is therefore the goal that Xi sets for the party state to pursue.

The other three prongs of the 'four comprehensives' are expected to be pursued to assist the realisation of this first centenary goal.

The Third Plenum of the 18th Central Committee in November 2013 spelled out how to proceed with the second prong, which is to 'comprehensively deepen reforms'. The Fourth Plenum in November 2014 adopted a resolution on how to 'comprehensively advance the law-based governance', the third prong. The last prong of the strategy, to 'comprehensively strengthen party self-discipline', Xi added to the first three prongs in October 2015.

To Xi, this last prong is the most critical part of the 'four comprehensives' strategy, through which the party will be made strong again with a strong leadership. Xi loathes seeing party leadership eroded by corruption despite party membership continuing to grow. He sees a strong party and strong party leadership as both the means for realising his vision as well as the end.

An objective in the four-pronged comprehensive strategy is to modernise China's governance system and capacity, which the Third Plenum Decision explicitly stated as the outcomes of undertaking 'comprehensively deepening reforms'. The third and fourth prongs, the rule of law and the strengthening of party self-discipline, are footnotes to what Xi regards as the modernisation of China's governance system and capacity.

Xi has made the China Dream the vision of the party state. He has clearly told the world what he aims to achieve. That, in a word, is the pursuit of his vision—the China Dream—through a four-pronged comprehensive strategy, which the party with strengthened self-discipline will pursue through embracing market-based reform and rule of law. In so doing, the political path offered through constitutional politics is rejected outright. Xi aims to map his path for China that will be different from that the Soviet Union walked or that the United States is walking.

2.6. Anti-corruption campaign

Over the past four years, the pursuit of the four-pronged strategy has been mainly channelled through an anti-corruption campaign that has significantly facilitated the centralisation of power around Xi.

Upon becoming the new party leader, Xi lost no time in launching the anti-corruption campaign, which was a move certain to invoke political risk and possible backlash.[20] It was also a smart opening to achieve his many objectives. They were to gain a high moral ground and regain public support, remove political rivals, level competing power bases, place loyalists in key positions, tighten control of the party state system, and help build new institutions in strengthening the party leadership centred on Xi.

20 Xi reportedly said to be prepared to risk his life to push the anti-corruption campaign. http://www.zaobao.com.sg/realtime/china/story20140805-373998.

Corruption was so pervasive and very few officials could stay clean. The pressure of being targeted by the campaign would effectively silence anyone who could otherwise dare to challenge Xi in tightening the control of the party in the name of party discipline. The campaign has also enabled Xi to target and tear down potential political rivals.

For instance, in pursuit of the case against Zhou Yongkang, all Zhou's key associates in the legal and public security establishment, the Land and Resources Ministry, the State-owned Assets Supervision and Administration Commission, the petroleum industry and the Sichuan provincial government were investigated, removed from leadership positions or prosecuted.

In the case against former Hu's former adviser Ling Jihua, most of Ling's key subordinates at the general office of the Central Party Committee were removed. The office was refilled with staff who were politically loyal to Xi. An avalanche of purges of officials in Ling's native Shanxi province accompanied his downfall. Many of Ling's associates shared his CYL background. The CYL was separately warned for being 'too aristocratic' and it was reformed.

Accompanying the investigation of the cases of Guo Boxiong and Xu Caihou, two former vice chairmen of the CPC Military Commission, Xi undertook several rounds of large scale purging of their affiliates and influence in the military. The command system of the military has also been significantly restructured.

Zhou, Lin, Guo and Xu were just the four of the highest profile among many such corruption cases. Through taking down corrupt powerful officials, Xi has brought down associated entrenched patron-client relationships at the national level, as well as in the state sector, provinces, industries and military.

The campaign has been unprecedented in its scale and duration. By the end of 2016, more than a million of party members including 100,000 officials at all levels of the party state were caught, punished or prosecuted. That included 200 officials at or above vice-ministerial level.

2.7. Centralisation of power to strengthen the leadership

The aim of the anti-corruption campaign has been to strengthen the party state system. First, this meant addressing the malaise of weak leadership through centralising power. To do so, the campaign aimed to curtail the interference of retired leaders on policy and personnel, rein in the build-up of alternative power bases, broaden political support for Xi and build up new institutions.

Xi's ascendency to the top party position owed much to the support of Jiang's Shanghai gang, which prevented Hu's favoured candidate Li Keqiang from becoming his successor. But everything Xi has done since becoming party secretary shows that he has been working to cut off the Shanghai gang's influence as well as that of other power bases. This goal has been largely achieved through the anti-corruption campaign and measures to strengthen party self-discipline.

The political alliance with Wang Qishan has provided critical support that Xi has counted on at the PSC. Associates since youth, Xi and Wang have shared the same concern for the survival of the party and that made Wang Xi's trusted assistant in reshaping the party state.

The appointment of Wang as the anti-corruption tsar in Xi's leadership team was initially viewed as a waste of talent.[21] Wang had a reputation as a deep thinker, a tough negotiator, an effective administrator and experienced financial and economic policy operator. The campaign that Wang waged soon proved his placement as strategic.

21 Wang said publicly that he didn't expect to be appointed to the position.

Wang has been empowered to lead teams to touch any corner of the party state, and he has done so methodically. Wang's investigation teams probed powerful organisations, including offices under the State Council, the Central Party Organisation Department, the Central Party Propaganda Department, the National Development and Reform Commission, the Ministry of Finance and the People's Bank of China, along with all provincial governments, major state-owned enterprises and important universities. As the anti-corruption tsar, Wang has arguably become the second-most powerful individual in the PSC, despite the fact that he ranks formally only as the sixth.

The alliance with Wang has been so far critical to Xi's consolidation of power. It reflects part of Xi's broader reliance on the princelings of his generation. Despite their differing economic interests and ideological beliefs, this group immediately threw their political support to Xi when he became general secretary. Xi has counted on their support, particularly at the start of his term, and so far largely looked after their interests. No princeling has yet been prosecuted in the anti-corruption campaign—no one except Bo Xilai, who competed directly with Xi for the highest office. As Xi's position continues to consolidate, he may feel strong enough to tackle corruption cases linked to princelings or their associates. This would be a logic step to take in Xi's effort to modernise China's government system and capacity. It is interesting to watch how this would unfold.

Xi has also been strengthening his support base by promoting his loyalists to key party and state positions. Xi appeared to have no significant power base prior to becoming the successor of the top party job. It has been suggested that, ironically, this was the main reason why Xi could be accepted as a compromise between the Shanghai gang and Hu Jintao during leadership selection back in 2007.

Since becoming general secretary, Xi has been in a hurry to promote his loyalists, largely his trusted earlier subordinates from Tsinghua University, in Shaanxi, in Zhejiang and Fujian provinces into key positions. Xi has also promoted officials perceived to be previously affiliated with other power bases but have demonstrated loyalty to his leadership and vision.

Xi has been getting his way in placing his loyalists into key party state positions in the lead up to the 19th National Congress commencing from 18 October 2017. While any drastic overhaul of existing political order, including fast tracking the promotion of loyalists, creates losers and resentment, the fact that Xi can make these appointments indicates the extent of power consolidation that he has achieved.

A major indication of Xi's authority was the endorsement at the Sixth Plenum of the 18th Central Committee in October 2016 that he was now the 'core' of the party leadership. That title is not only symbolically important but the recognition that Xi has the final say in major decision making.

Alongside the anti-corruption campaign, Xi's innovative use of the key central leadership groups (see Section 8) places him at the centre of virtually each of the most important top policymaking bodies, in which other individual PSC members only participate in a few, not many. Xi now can exert a great influence in shaping policy, in a way remedying the situation of 'nine dragons ruling different waters'.

As other PSC members have vowed to follow the political direction and toe the policy line that he defines, Xi has gained real power in the making of policy and personnel decisions. That was a far cry from the collective leadership that Xi inherited in late 2012, when as the new general secretary Xi was considered first among equals at the PSC.

Also at the Sixth Plenum, Xi declared that his anti-corruption campaign reached a 'phased victory'. At the start of the campaign in late 2012, Xi stated that the goal of the campaign was to lead to a new situation where no officials 'would be able to, dare to, or consider engaging in corrupt activities'. Four years later, he said this goal was being realised.

2.8. The rise of 'new' decision making bodies

In centralising power, particularly to circumvent the constraints from the collective leadership of the PSC, Xi has been empowering central leading groups within the Politburo to shift the power locus within the inner party circle. The operation of the central leading groups (CLGs) provides clues to what the core of leadership really means.

The CLGs exist inside the formal structure of China's system. They are task-oriented; set up to lead, advise, coordinate and implement policies assigned from the party or the state. While CLGs within the Politburo existed long before Xi's administration, Xi has elevated them to a vastly different level by personally leading a total of up to 12 CLGs within the Politburo, covering all key policymaking areas.

These CLGs that Xi leads cover the following areas: comprehensively deepening reforms, economic and financial affairs, national and cyber security, foreign affairs security, military and defence reform, and Taiwan affairs. In these CLGs, led by Xi, one to three other PSC members serve as deputies. Many relevant Politburo and Central Committee members are also included in these groups.

The CLG on the Comprehensively Deepening Reform (CLGCDR) is such a high profile leading group. Created in late 2013 at the Third Plenum of the 18th National Congress, the CLGCDR leads, coordinates and supervises the implementation of the reform agenda that the Third Plenum has endorsed. Xi is leading the CLGCDR with three PSC members — Li Keqiang, Liu Yunshan and Zhang Gaoli — as his deputies. Its ranks include 10 Politburo members and many other party leaders including People's Bank of China (PBC) Governor.

Under the CLGCDR sits an office headed by Wang Huning. Wang is a Politburo member and head of the Central Policy Research Office, a policy think tank directly serving the Politburo.[22] The office has six units, including one on the economic system and eco-civilisation reform, which is headed by Liu He. Liu also holds the position of Vice Chairman of the National Development and Reform Commission (NDRC) (More on the role of Liu will be discussed in Chapter 3). The CLGCDR had held a total of 38 meetings as of late August 2017, covering all reform areas. This CLGCDR setup has been replicated at every lower level throughout the Chinese system, and they are all headed by the party secretary at that level of administration.

Through leading key CLGs, Xi has developed a new decision-making system within the Politburo under his direct leadership. While the Politburo and its standing committee continue to meet regularly and make decisions, they appear increasingly acting to endorse decisions made in CLGs, which can handle all important matters.

2.9. Power in the institutional cage

By late 2016, the anti-corruption campaign was moving towards a new phase and focusing mainly on building institutions for effective corruption prevention. This change dovetails Xi's effort to build institutions to strengthen the party system.

Through institutionalisation of the exercise of power, Xi hopes that he can prevent power being used arbitrarily and decisions largely based on preference of individual leaders without following due process

22 In fact, the CLGCDR Office is housed in Wang's Central Policy Research Office.

and procedure. He wants leaders at different levels of the party and state system to follow laws, proper rules and regulations.[23]

For that purpose, he has put in place strict internal party discipline, rules and regulations that define what party leaders at the Politburo and its Standing Committee should and shouldn't be doing. Moreover, he is setting up a system that will systematically supervise the conduct of officials in the party and the state. This includes the trials for the establishment of a new State Supervision Commission to replace the current anti-corruption agency the Central Commission for Discipline Inspection that Wang Qishan was leading, which is only a party organisation. Xi is also supporting the development of a register within the party to which the assets and incomes of all party officials should be reported. The design of these institutional settings aims at placing power in the 'cage of institutions'.

However, the Xi leadership also acknowledges the difficulty of relying on self-discipline and supervision to 'put power in the cage of institutions'. In his private conversation with Francis Fukuyama and Masahiko Aoki on 23 April 2015, Wang acknowledged the effort in using the Party's own discipline and supervision to get rid of the corruption was as difficult as a surgeon trying to operate on himself.[24]

'To put power in the cage of institutions' has been a widely misinterpreted phrase. Many in the liberal wing of the Party and their sympathisers outside the Party took it as meaning 'to place the power of the party leadership under the cage of a constitution'. This perspective would inevitably lead to a view that the rule of law and party leadership contradict, and the solution should be the development of the separation of powers. However, in the same conversation, Wang plainly rejected the notion of judicial independence and stressed the court system in China to be placed under the party leadership.

While Xi has repeatedly emphasised the importance of 'rule of law', his intention to stress the term could also be misinterpreted. What he means by the 'rule of law' is that the party should follow the rules and laws that it makes and supports. Therefore, there should exist no conflict of objectives between the party's leadership and the rule of law.

In a sense, the effort 'to put power in the cage of institutions' responds to the need to rein in the abuse of power by building a system of strong party state institutions. For a long time, joining the party has been associated with gaining opportunities for personal gains, be it power, fame or fortune. Corruption became epidemic and almost all corruption cases exposed involved officials abusing their public positions for private gains.

Through anti-corruption, the Xi leadership has made it clear that power and fortune run on two parallel paths, and corruption occurs when the two paths are crossed. He would like to build an institutional setting which prevents that from happening. A clean, competent and rules-based party will strengthen its leadership position.

2.10. Concluding remarks and implications

Xi was endorsed as the core of China's leadership in late 2016. It is reasonable to expect that the current trend of power consolidation will continue and that Xi will assume firmer control of the Party following the 19th National Party Congress.

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23 学习中国 (2016 年 04 月 13 日 22:51:42) 习近平首论补齐党内制度短板, source: http://news.xinhuanet.com/politics/2016-04/13/c_1118614215.htm.

24 德地立人（整理）(28 April 2015）難忘的會談——記王岐山與福山、青木的會見, Chinese in Perspective, http://www.chinainperspective.com/ArtShow.aspx?AID=43971.

While this chapter explained why and how the political change had occurred the Xi Jinping era, there remains much speculation as to what Xi would likely do as he acquires broader political support and more discretionary power.

An insight into the enterprise that Xi is leading can be gleaned from the nickname 'the young owner (*shaodongjia*) that Xi was dubbed when he took over the position of the Party's general secretary.[25] Calling him the 'young owner' implies that Xi's assumption of the Party leadership is just like second-generation owners coming of age and taking over the shop their parents set up. Following this line of analogy, the shop was run in the interim by professional managers who put in hard work but also made a fair bit of mess. As the young owners takes over, it is timely to sort out the mess. However, the change to be put in place does not amount to a wholesale change of the shop, but rather a kind of refurbishing or at most restructuring for its better running. A wholesale change is rejected as that would be seen as a betrayal to the faith and course of their parents' generation.[26]

To continue this analogy, the clean-up was the anti-corruption campaign. The 'four-pronged comprehensive strategy' clearly spell out the kind of a renewed system that the Xi leadership would like to build and is already putting effort to construct.

In this regard, the 19th Party National Congress is just a key milestone in the revamping of the red shop. While it will give a clearer clue about what kind of formal party institutions and power structure Xi can put in place, it is never a departing point for a completely different direction.

Another important issue is how the change at the top of China's political system is going to impact on the operation of China's policy making.

While the current trend of centralisation will likely continue to strengthen Xi's position as the paramount leader in China's decision making system, some forms of collective leadership will likely remain. The Sixth Plenum that accorded Xi his role as the core of the leadership continued to emphasise that collective leadership would be upheld. This was a recognition that, in China's complex system, there are many factors beyond the control of one person or the system developed around the top leader. There is always a need for coordination and cooperation between individual and institutional players representing different interests and perspectives. It is impossible to get everyone in complete sync with the power centre.

All this indicates that China's political and decision making system is in the middle of transition. During the transition, political development and policymaking interact with each other. Centralisation of power at the top echelon of the political system has influenced the institutional settings within which policy is made and implemented. Change in the policymaking system has been used to reinforce power consolidation.

While we discussed how the centralisation of power has brought the CLGs to the fore as the party's key decision making bodies, the next chapter will take a closer look at the CLGs, particularly the CLG on Financial and Economic Affairs. It will discuss the channels of command, coordination and communication within the party and the state as the result of greater use of the CLGs in policy making and implementation.

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25 In contrast to another more popular name Xi Dada (meaning uncle Xi or grandpa Xi) that was more likely used by the general public, the name *shaodongjia* was more likely used by a political insider in China.

26 Xi repeatedly speaks that the Party inherits the 'red DNA' and should never 'forget the original heart (which can be translated as the original goal, vision or commitment)' of their parents' generation when they first joined the revolution.

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3. CHINA'S TOP ECONOMIC POLICYMAKERS

Who are China's top economic policy makers? For years, external observers, including experienced long-time China watchers, would point that to the State Council and its Premier. They may have been right at the time. Now, under the leadership of Xi Jinping, the true decision maker has emerged: the Central Leading Group on Financial and Economic Affairs (CLGFEA).[27]

It's no longer news that Xi Jinping, the CPC General Secretary, makes the final call on important economic matters. More information has also become available on the role of the Office that supports the CLGFEA and works within China's economic policymaking system.

3.1. Central leading groups lead in China's decision making system

To understand why this has become so, it needs to take a step back and first understand how the central leadership of the CPC is structured.

The formal structure

The CPC is led by a Party Centre, comprised of the formal structures of the CPC Central Committee (CPCCC), the Politburo (PB) and the Politburo Standing Committee (PSC). Every five years in Beijing a national congress produces a new CPCCC, which elects the PB and PSC.[28]

Of the three political structures, the PSC is the most powerful. It currently has seven members, ranked from number one to number seven, which fill key top Party and State leadership positions.

For example, Xi Jinping (number one) is the State President and the Chairman of the Central Military Commission; Li Keqiang (number two) the State Council Premier; Zhang Dejiang (number three) the Chairman of the National People's Congress; Yu Zhengsheng (number four) the Chairman of the Chinese People's Political Consultative Conference; Liu Yunshan (number five) responsible for Party affairs, Wang Qishan (number six) responsible for Party discipline and anti-corruption, and Zhang Gaoli (number seven) who assists the Premier with the overall responsibility of economic and social policy (Appendix 1).

The PB currently has 25 members,[29] including the seven in the PSC. The PB members take key Party and state positions above the ministerial level, such as the Vice President, the Vice Premiers, the State Councillors, the party secretaries of China's largest cities, the heads of central party organisations and heads of the military (Appendix 1).

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27 Chapter 2 has already discussed another overarch CLG, the CLG on Comprehensively Deepening Reform as the decision making bodies on reform, including economic reform. There is a lot of overlapping in terms of key leaders and supporting personnel between the CLGCDR and the CLGFEA. The Chinese name 中央财经领导小组（zhongyan caijin dedao xiaozhu）can be literally translated as Central Financial and Economic Leading Small Group). 'Central Leading Group' is the English translation Chinese officials have used in their business cards.

28 The CPCCC also includes the Central Military Commission, the Central Commission for Discipline Inspection and a Secretariat.

29 However, the current PB has only 24 members, after the expulsion of Sun Zhengcai. On 24 July 2017, the Party announced that Sun Zhengcai was under investigation for violating party discipline. Sun was removed from the Party Secretary of Chongqi. His PB membership is therefore vacant.

The CPCCC currently has 205 full members and 161 alternate members.[30] While it nominally 'elects' the PB and the PSC, the CPCCC is the 'least' important of the three. The 366 CPCCC members head the central ministries, provincial governments, military, and China's largest state-owned enterprises and financial institutions. As such, they are powerful players in China's policy circle.

The Central Leading Groups

Where does the CLGFEA fit in this structure and why is it important?

The CLGFEA cannot be found in the formal Party structures, but tucked within the PB. As to its role and importance, we need to place it into the broader context in which Central Leading Groups (CLGs) has operated in China's policy making system.

CLGs have long existed at different levels of China's political system. They are usually led by the head of the Party or state organisations of that level. The CLGs are set up as platforms to deal with important or urgent tasks cutting across a wide range of areas or different levels of the party state. These tasks require a comprehensive approach through planning, coordinating and decision making (Box 1).

The CLGs that provide such platforms have advantages that the structure of a bureaucracy can't offer. Fragmentation, narrow focus and turf war are commonplace in bureaucratic systems. The Chinese one is no exception.

Within the PB, CLGs are where specific policies are determined. The CLGFEA is the only economic policy-focused CLGs within the PB. It is where real economic policymaking power at the Party centre resides. While a policy endorsed by the CLGFEA may still need approval from the PSC or the PB, it is highly unlikely that this approval will not be granted, given that the Party Secretary, the Premier and the Executive Vice Premier all sit at the CLGFEA.

30 Full members have voting rights, while alternate members are ranked in order and step up to fill the positions vacated by full members for whatever reason through the duration of a CPCCC.

Box 1: CLGs hold real policy making power but not all are created equal

Central leading groups exist informally within the formal structure of the party-state system. As such, they have largely been kept outside public view. Until recent years, there were seldom media reports about their activities. This has changed recently with more information appearing publicly through Chinese media, government publications and academic studies.

Chinese journalists counted that by 2014, there were at least 18 CLGs within the Politburo, all led by one of its seven Standing Committee members. One Chinese scholar put all existing CLGs within the CPCCC into one of six different categories. They are: organisational and personnel, publicity, culture and education, politics and law, finance and economy, foreign affairs and united front, and Party building and Party affairs.

By 2016, Xi was personally leading at least four, possibly up to 12, of the CLGs within the PB. The four that Xi leads are on the Comprehensively Deepening Reform, the Financial and Economic Affairs, the Central Cybersecurity and Informatisation, and the Central Military Commission Deepening Defence and Military Reform. The first three CLGs that Xi leads cover a total of at least 30 central government ministries, the State Council and its subordinate organisations. 'Small' that is used in their Chinese names is indeed a confusing word to describe these leading groups'.[31]

More frequent use of CLGs in the Xi Jinping leadership can be seen as an effort to overcome weak leadership and facilitate more effective execution of reform policy.

3.2. Rising profile of the CLGFEA under Xi Jinping

The CLGFEA was established on 17 March 1980 by a PSC decision. Its first director was Zhao Ziyang, who was a PSC member and the State Council Vice Premier at that time. Half a year later, Zhao became the State Council Premier. Throughout Zhao's entire premiership, he led the CLGFEA.

The CLGFEA played a critical role in reforming China's then centrally planned system. This included its endorsement of introducing a 'two-track' pricing to China's centrally planned system proposed initially at the now historic 'Mount Moganshan Meeting' that young policy advisers and academic experts held in 1984.

Zhao became the Party General Secretary in 1987, and continued to lead the CLGFEA. That started the Party General Secretary leading the CLGFEA, a tradition followed by subsequent Party General Secretaries, including Jiang Zemin (1989-2002), Hu Jintao (2002-2012), and Xi Jinping (2012-).

However, during the Jiang era, Zhu Rongji started leading economic policy, first as the Executive Vice Premier particularly from 1993 and then as the Premier from 1998 until 2002.[32] Premier Wen Jiabao and his State Council remained active in economic policymaking during the Hu Jintao era. Further institutionalisation of the State Council system has occurred since 2002. This included introduction of the weekly State Council Executive Meeting. The decision on the US$4 trillion stimulus program during the global financial crisis was made at a State Council Executive Meeting. Division of labour under the rule of collective leadership meant that the State Council under the leadership of the Premier led

31 Another confusing word in this term is 'group'. In Chinese, it is 'zu', meaning unit. Image if the Chinese term were originally translated into English as 'leading small unit'!

32 Zhu owed his meteoric rise to Executive Vice Premier to the strong support of an ageing Deng Xiaoping. Deng reportedly said, 'Zhu is the only one who knows economics in the current leadership'. Zhu became a vice premier in 1991 and became increasingly influential from 1993.

economic policy making in the Hu era. Chapter 2 on recent political development under Xi Jinping has explored this point in more detail.

For a long time, the CLGFEA kept a very low profile and the public had little knowledge of its work. Part of this relates to a tradition of secrecy surrounding decision making in the Party Centre. Part of it relates to the fact that the State Council was increasingly perceived as China's de facto primary economic policymaker.

This perception changed on 13 June 2014 with a news story in China's official news agency, Xinhua. The Party General Secretary Xi Jinping reportedly chaired the sixth meeting of the CLGFEA that day discussing China's energy security strategy. In that report, Xi was referred to as its director, Premier Li Keqiang its deputy director and Vice Premier Zhang Gaoli a member.

It was the first time in the history of the CLGFEA that its name appeared in China's official media together with the names of its director, deputy director and a member. The name CLGFEA had only been previously mentioned once in China's official media, back in January 1999. An article in the People's Daily referred to a CLGFEA meeting chaired by the then-Party general secretary Jiang Zemin, held more than two years earlier in August 1996!

Release of the news was a surprise to most China leadership observers, as the premier was generally assumed to head the CLGFEA, rather than the general secretary.[33] As Chinese journalists were soon led to believe, the premier leading the CLGFEA was a misperception. The directorship of the CLGFEA had been in the hands of the Party general secretary since 1987. Xi simply followed what his predecessors did in stepping into that position.

The time that the official news on the CLGFEA was released remained intriguing. There were a number of theories in the Chinese media. First, it could be an effort to make the Party's decision-making mechanism at the leadership level more transparent. That every subsequent CLGFEA meeting was almost immediately reported in the media supports this explanation.

Second, it could be seen as a signal that the Party is at the centre of economic management, confirming that the CLGFEA is China's most important economic decision-making body. The news revealed a political design that the Party general secretary leads and the premier implements.

Third, the news release could have also served to demonstrate that economic work remains the central task of the Party. It may have sought to communicate that the Party is strengthening its leadership to help the 'economic ship' steam ahead over the 'deep waters'. Making it public that Xi's authority, rather than that of the premier, is behind the CLGFEA could lend greater support to the design and implementation of economic reform. It could make it easier to mobilise resources and break through institutional barriers and roadblocks to reform.[34]

3.3. The composition and responsibilities of the CLGFEA

The importance of the CLGFEA is reflected in its composition: the who's who of China's economic policymakers in the party state.

33 For example, even long-time Chinese leadership specialist Alice Miller in her study of the CLGs refers to Zhu Rongji and Wen Jiabao as the director of CLGFEA when each was in their premiership. http://www.hoover.org/sites/default/files/uploads/documents/CLM26AM.pdf. However, she corrected this in her later study when more information became available. http://www.hoover.org/sites/default/files/research/docs/clm44am.pdf .

34 Wu Peng, 'Zhongyang Caijing Lingdao Xiaozu renshi yiwei [The implications of CLGFEA's personnel]', Caixin, 19 June 2014, http://opinion.caixin.com/2014-06-19/100692922.html.

Apart from the three Politburo Standing Committee members who hold the positions of the Party General Secretary, the Premier and the Executive Vice Premier, the CLGFEA includes other Vice Premiers, Secretary General to the State Council, heads of the National Development and Reform Commission (NDRC), Ministry of Finance, People's Bank of China, China's three financial regulators (China Securities Regulatory Commission, China Banking Regulatory Commission and China Insurance Regulatory Commission).

For example, the 6th CLGFEA meeting attendees, apart from Xi Jinping, Li Keqiang and Zhang Gaoli, also included five Politburo members (Vice Premiers Liu Yandong, Wang Yang, Ma Kai, and Central Policy Research Office Director Wang Huning, Central General Office Director Li Zhanshu), two State Councillors, one Central Military Commission member, the PBC Governor (Zhou Xiaochuan) and eleven other ministers.

The key responsibilities of CLGFEA include:

- The creation of the five-year National Social and Economic Program (Five-Year Plan, or FYP),
- guiding the drafting of the government work report prepared by the State Council, which determines the government's annual economic plan,
- organising the Central Economic Work Conference,
- conducting surveys and analysis of economic conditions, and
- making macroeconomic policy decisions.

The FYP is China's most important economic document, prepared every five years. It is worth noting here that Premier Wen Jiabao was responsible for the 11th FYP in 2005 and Executive Vice Premier Li Keqiang was responsible for the 12th FYP in 2010. However, Xi Jinping as the General Secretary was responsible for the preparation of the 13th FYP.

The CLGFEA leads the Central Economic Work Conference, the most important economic policy event, which will be discussed in the section on the CFO.

The CLGFEA has the final say on major economic policy issues, such as foreign exchange policy and currency, despite the People's Bank of China administering these areas.[35]

3.4. The rise of the CFO

It is impossible to fully explain the role of the CLGFEA without explaining the Central Financial Office (CFO). The full name of the CFO is the Office of the Central Leading Group on Financial and Economic Affairs, but it is called Zhongcaiban, or Central Financial Office.

The CFO supports the CLGFEA by providing it with policy advice, gathering critical information, and coordinating and monitoring the implementation of policy. For example, the CFO supported the CLGFEA in coordinating and drafting the 13th FYP. At the beginning of 2014, the CFO organised the FYP drafting unit, with members coming from ministries, local governments and academic institutions.

35 This is based on an interview with Li Daokui, once an adviser to the Monetary Policy Commission at the People's Bank of China (Esther Teo, 'China's economic policy: So just who is in charge?', The Straits Times, 17 January 2016, http://www.straitstimes.com/asia/east-asia/chinas-economic-policy-so-just-who-is-in-charge).

The CFO's influence is derived from its direct access to top leaders. It acts as the conduit between leaders and ministries, provincial or local governments. Its director holds a ministerial ranking and its deputy directors are equivalent to vice ministers. CFO officials can reach every level of the administration and beyond. It is the linchpin of the economic policymaking system within China's party and state system.

Like the CLGFEA, the CFO had kept a very low profile for a long time. It was seldom picked up by the media and little about it was publicly known. All this, of course, has changed since 2014, from around the time of the now famous sixth CLGFEA meeting. Chinese media has since started reporting the activities of the CFO. But the office has yet to publish its official website and its address remains hidden inside Zhongnanhai, the Chinese leadership compound. This picture of the CFO's key personnel and functions is pieced together through publicly available information in Chinese media reports.

3.5. Liu He and his CFO team

Liu He is at the centre of the CFO. His name is already mentioned in Chapter 2 as heading the unit on economic reform and eco-civilisation when the CLG on Comprehensively Deepening Reform (CLGCDR) is discussed. As a matter of fact, the CFO is the economic policy team also simultaneously supporting the running of the economic policy for both the CLGFEA and CLGCDR.

By the time Liu was thought to be the 'authoritative figure' who first appeared in the People's Daily in May 2015, he had already been the director of the CFO for over two years, from March 2013. Xi became the Party General Secretary in November 2012. Liu appears to have great influence on Xi's views on China's economy and economic policy, which Xi has acknowledged publicly (Box 2).

Liu is the sixth director of the CFO. From 1980, his five predecessors are Li Zhisheng, Jiang Guanzhuang, Zeng Peiyan, Hua Jianmin, Wang Chunzheng, and Zhu Zhixin. From Zeng Peiyan on, every director of the CFO also held the position of either the Chairman or Vice Chairman of the NDRC (or its predecessor ministry, the State Planning Commission), including Liu.

Box 2: Liu He — A scholar-official and economic reformer

Liu was appointed as the director of the CFO in March 2013, four months after Xi Jinping became the General Secretary of the CPC. Around the same time, Liu was also appointed as Vice Chairman of the NDRC. While Liu was widely suspected to be the 'authoritative figure' in the People's Daily, the article published on 9 May 2016 most likely had Xi's imprimatur, judging from analysis of the article's authoritative tone. Liu is Xi's top economic adviser, and since 2012, has often been in company with Xi on his domestic or overseas tours. Xi introduced Liu to US National Security Advisor Tom Donilon in Beijing in May 2013. Xi said to Donilon, 'This is Liu He, and he is very important to me'.

Born in 1952, Liu He studied at the 101 Middle School in Beijing during the 1960s, when he became friends with Xi Jinping. From 1978 to 1987, he first studied industrial economics and later taught at Renmin University. From 1988, he started research work at the State Council Development Research Center and joined the State Planning Commission (the predecessor of the NDRC). He moved to study in the United States and by 1995 was already a graduate from the MBA program at Seton Hall University and had obtained an MPA at the Kennedy School at Harvard University.

From 2001, Liu became the deputy director for the Information Office and also later for the State Information Center of the State Council. Over the ten years from 2003 to 2013, he was Deputy Director of the CFO and, in 2011, became the Party Secretary and Deputy Director of the Development Research Center (DRC) of the State Council. He was the first official to simultaneously hold these key positions at the CFO and the DRC, one being the Party's top policy advisory body and the other the government's. He was personally responsible for the 2012 joint DRC-World Bank report, *China 2030*, which provided the blueprint for the 'Decision' to comprehensively deepen market-based reform that the Third Plenum of the 18th CPCCC adopted in late 2013. He was also the drafter of this Third Plenum Decision.

Liu He has been consistently urging market-based reform since the 1990s. He has a Schumpeterian view, which stresses the importance of innovation, entrepreneurship, protection of property rights and investment. He has paid a great deal of attention to the new economy, the information industry and the modern services sector.

He has been pragmatic and has favoured a gradualist approach to progressing market-based reform. Many of his research papers and policy discussions centre around the transformation of the economic development model, the middle-income trap, urbanisation and income distribution. They stress paying close attention to unemployment and social issues, institution building and top-level policy design during China's economic transition.

Indeed, top-level design and bottom-line thinking are among those of Liu's original concepts which are now already very popular in China's policy circles and used by leaders daily. Explaining top-level design, Liu argued that China's reform process has passed the stage of 'crossing the river by stepping on the stones', and what's needed for China is to steadily push forward coordinated progress in economic, social and political system reform. His speeches and published papers also show his appreciation for using external pressures to support domestic efforts in advancing reforms.

Under Liu's directorship, the CFO has significantly expanded its policy capacity. The number of deputy directors has doubled from three in 2013 to six in 2016 (Box 3), covering the key economic sectors and departments.

Box 3: Leadership group of the CFO

- Liu He - Director, concurrently the Vice Chairman of the NDRC,
- Tang Renjian - Deputy Director on Agricultural Policy,
- Yang Weimin - Deputy Director on Agricultural Policy,
- Yi Gang - Deputy Director of the CFO and Deputy Governor of the PBOC,
- Han Jun - Deputy Director,
- Shu Guozen - Deputy Director and Xi's former associate (when Xi was Party Secretary of Zhejiang province), and
- Zhu Guangyao - deputy director and also vice minister of MOF.

Liu He would be responsible for overall economic policy, as well as the design of systemic economic reform. The six deputies have their own specialities and responsibilities. Yi Gang would look after monetary and financial issues. Yang Weimin would be specialised on economic development and planning. Tang Renjian[36] and Han Jun are specialists on agricultural policy, and Zhu Guangyao on fiscal policy and international economic engagement, including the G20 and international financial institutions. The association of Liu He with the NDRC, Yi Gang with the PBC and Zhu Guangyao with the MOF means the CFO is directly connected to each of China's key economic policy ministries.

Internally, CFO has six bureaus. They are: general affairs, the secretariat, finance and trade, international economy, macroeconomic policy and rural policy bureaus. The actual number of officials within each bureau was said to be very lean, from three or four to five or six.

Who are these officials and what are their experiences and qualifications?

Take for example Fang Xinghai, who was the head of the international economic bureau. Fang graduated from the management school at Tsinghua University. He received a PhD in economics from Stanford University and worked at the World Bank for five years as an economist and investment program manager. After returning to China, Fang became the head of the coordination department of the China Construction Bank, a member and secretary general of China Galaxy Securities, and the head of the Office of Financial Services in the Shanghai municipal government. He was one of the key figures driving the Shanghai Free Trade Zone. From October 2015, Fang moved to be the deputy chairman of the China Securities Supervisory Commission.

Direct information is lacking on how work at each bureau is organised in detail. From media reports, the work at the CFO appears highly issues-oriented and organised through task forces, rather than work being allocated through a set of bureaucratic structures.

36 Tang Renjian replaced Chen Xiwen as Deputy Director on 1 July 2016. Chen was the deputy director responsible for the CFO's agricultural policy from 2003 to 2016.

3.6. The linchpin

According to the recollections of Li Zhisheng, a former director, the CFO tended to have three types of key responsibilities. They were: to undertake policy surveys and research, deliver major policy proposals, and organise the CLGFEA meetings. Media reports of the activities of CFO officials largely support Li's recollection.

The CFO assisted the CLGCDR in drafting the 13th FYP, mentioned above. Another particularly important work, which the CFO undertakes every year, is drafting the speech for the CPC General Secretary for the annual Central Economic Work Conference (CEWC). The CEWC is the Party's most important economic policy meeting, held at the end of every year to set the tone, direction and priorities for next year's economic policy. This includes economic and social targets which are included in the government work report and endorsed at the National People's Congress in March every year. The CFO spends months drafting of the document, inviting experts from different departments and research institutes for discussion and dispatching officials to undertake fieldwork around the country.

Most publicly available information on the CFO is about their field trips around the country. The field trips that Liu often led would have meetings with local party secretaries and governors, responsible departments as well as representatives from enterprises.

For example, Liu He led a team that visited Shanghai, Zhejiang and Sichuan during ten days in end of June and early July 2016. The visit was focused on assessing the progress of supply-side structural reform in different sectors and regions, as well as signalling the Party's determination in pushing forward this reform. Entrepreneurship was an important topic of the visit. These visits also aimed to find out whether the data reported was accurate. Deputies and other responsible officials also frequently led fieldwork teams. Relevant officials from ministries and policy institutions were included as team members.

All these activities feed into the creation and adjustment of economic policy at the top of China's political system.

3.7. Conclusions

As has emerged, under Xi's leadership the CLGCDR sits at the centre of China's economic policy making system. Directly led by Xi Jinping, it gives final call to China's economic policy. The CFO that supports CLGCDR is where the ideas and information for economic policy are generated, collected, collated, tested or advised to the CLGCDR and Xi personally.

The CLGCDR and the CFO sit at the pinnacle of China's economic decision making system, and are the brain and nerve centres of China's economic policy making. They also act as the coordinator of policy implementation and can reach every corner of the system.

Liu He has been called as China's top economic policy adviser to Xi Jinping. While he is called China's Larry Summers in some overseas reports, arguably Liu is comparatively more influential.

As influential as he is, Liu was only part of a collective effort and process in the making of China's economic policy. This was the reply by his office to a media inquiry on the role of Liu He in China's economic policy. Liu, or his office, was not only modest but also honest. Liu appears unable to move forward many reforms at the speed or direction that he wants, the state-owned enterprises being the most obvious example that he has strongly supported and written into the Third Plenum Decision.

The following part will explore the making and implementation of economic policy by looking into the case of the Belt and Road Initiative, which has been arguably China's most important foreign economic

policy initiative in recent years. The case demonstrates that policymaking is not only driven by a few key players, but their actions are also shaped by China's institutional and political context.

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4. THE MAKING OF THE BELT AND ROAD INITIATIVE

Economic policy is shaped by key policy players with their ideas, perspectives and interests - a result of their knowledge, experience and positions - in facing a country's economic and policy challenges.

The previous Chapter explores the CLGCDR as China's most important economic policy making body under Xi Jinping and the CFO sitting underneath it as the linchpin between the Xi-led CLGCDR and the rest of China's policy making system. The leaders and key staff members at the CLGCDR and CFO are China's most important economic policy players. As important as they are, headquartered daily in Zhongnanhai, the leadership compound, they are not the only players. Economic policy making involves the whole party state machinery in China. There are myriad institutional and individual players, some of whom may not be formally part of the government, including the policy community, that can exert influence on the making and implementation of economic policy.

This Chapter looks into the Belt and Road Initiative (B&R) as a case to illustrate how a major economic policy has been made and implemented in China under Xi Jinping. It addresses the following questions: where would the idea of the major policy would be generated? What were the key steps taken through the Chinese system in formulating the policy? Who were the main policy makers responsible for the making of the policy? What institutional arrangements and processes have been put in place to coordinate the implementation of the policy? And how has the policy evolved during its implementation in responding to perceived risks?

4.1. What is the B&R?

In a speech delivered at the Nazarbayev University in Astana, Kazakhstan, on 7 September 2013, visiting Chinese President Xi invited central Asian countries to work 'innovatively' with China to build a 'Silk Road Economic Belt' (SREB, or the Belt) for close economic ties, cooperation and joint development to benefit people across the land of Eurasia. In his speech at the Indonesian Parliament on 3 October 2013, President Xi invited ASEAN countries to work with China to build a '21th Century Maritime Silk Road' (MSR, or the Road) for achieving joint development and co-prosperity. These two proposals, put together, were the original 'One Belt, One Road initiative'.

In Astana, Xi spelt out five key areas of cooperation that China would like to pursue with Central Asian countries to build the Silk Road Economic Belt (SREB) for co-prosperity. President Xi explained that China and SREB countries should:

- Enhance policy communication to help align their development strategies, policies and regulations.
- Improve road connectivity through developing a major transportation route between the Pacific and the Baltic Sea and cross-border transportation infrastructure and networks connecting East Asia, West Asia and South Asia.

- Realise unimpeded trade through removing trade barriers, facilitating investment and reducing transaction cost.

- Improve monetary integration by using the model between China and Russia in settling their bilateral trade with local currencies.

- Strengthen people-to-people bonds through encouraging exchanges and developing friendship.

Xi said that through enhancing these five types of connectivity ('wu tong' in Chinese), China and its partner countries could help facilitate economic cooperation and integration, reduce costs for trade and investment, improve business competitiveness, so as to benefit the region of 3 billion people and make it the biggest market in the world. Building people-to-people bonds is important for garnering public support for the cooperation that was being proposed.

4.2. Why was the B&R proposed?

When Xi first announced the initiative at Astana, Chinese bureaucrats, within the NDRC and MFA, had to scramble for more information. With scarce official information to support the initiative, most media attention was focused on infrastructure, as this happened to be the focus of the Chinese officials at the time.

In framing the proposal, President Xi was advised by a few of his close aides, including Wang Huning. This was despite that there were some bureaucratic inputs before the announcements. Wang, the head of Central Policy Research Office under the Politburo and the CLG on Comprehensively Deepening Reform,[37] has been influential in developing strategies for China's reform policy and international relations. He was with President Xi in Astana and, in fact, has accompanied Xi on every overseas trip since early 2013. He has been credited for the design of the China Dream, an aspirational concept Xi has used ever since becoming the Party general secretary in late 2012 to rally the public to support his drive to make China a 'moderately prosperous society' by 2021 and a wealthy nation by 2049.[38] Wang also served in the Central Policy Research Office under the previous two administrations of Jiang Zemin and Hu Jintao. He contributed to the hallmark theories of Jiang's 'Three Representatives', and Hu's 'Theory of Scientific Development' and 'Harmonious Society'.[39]

Economic growth underpins the delivery of the goals of the China Dream.[40] For instance, reaching the first centenary goal will require the delivery of annual growth at a rate of 6.5 per cent from 2016 to 2020. Chasing the China Dream would lend support to the Communist Party, the political legitimacy of which derives increasingly from its competence in managing the economy and social development.

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37 Refer the previous section on the Central Leading group on Comprehensively Deepening Reform.

38 The China Dream, which is often referred to as Xi's answer to the American Dream, is an aspirational goal that Xi sets for the two 'centenaries' for China as a measure of national rejuvenation. That is, to build China a moderately prosperous society by 2021 when the Communist Party of China marks its centenary, and to make China a wealthy nation by 2049 when the PRC marks its centenary.

39 王沪宁同志简历, http://cpc.people.com.cn/GB/64192/106129/7018183.html, 大水 (23 October 2007)王沪宁 三个代表和科学发展观的献策文胆 ,http://blog.wenxuecity.com/blog/frontend.php?act=articlePrint&blogId=3060&date=200710&postId=32658; Jeremy Page, 4 June 2013, The Wonk With the Ear of Chinese President Xi Jinping - WSJ,http://www.wsj.com/articles/SB10001424127887323728204578513422637924256; http://www.wsj.com/video/is-wang-huning-china-karl-rove/3777F0FF-4E1D-4B13-A8F8-B3AB7D7EE99D.html

40 http://theory.people.com.cn/n/2014/0506/c40531-24978998.html; http://news.xinhuanet.com/politics/2013-05/08/c_124678987.htm

But the country's economic future has been overshadowed by emerging internal and external challenges. These challenges can broadly be put under two categories: the 'middle-income trap' and the 'Thucydides trap'.

The middle-income trap describes the problems that some countries at the middle income level have in moving to high income. This is mainly due to the disappearance of traditional sources of growth they used to rely on, including abundant unskilled labour, technology transfer from advanced economies, and high returns on investment. There are challenges in replacing the old growth drivers with productivity growth, which depends on the accumulation of human capital and innovation. As a result, these middle-income countries get squeezed between low-wage poor-country competitors in mature industries, and rich-country innovators in industries with rapid technological change.

Since becoming a middle-income economy this decade, China has faced growing challenges that resemble those of the middle income trap. Growth has been slowing. Rising wages and production costs are eroding China's competitiveness in labour-intensive production. The return on investment has fallen as excessive capacity has developed through over-investment in manufacturing and infrastructure. Heavy reliance on export markets (particularly in advanced economies); and the import of resources, energy and foreign technology makes policy makers worried about global growth, China's secure supply of strategic materials, and the rise of protectionism.

The 'Thucydides trap', first coined by Graham Allison, refers to a geopolitical situation when a rising power causes fear in an established power that escalates toward war.[41]

China's leaders regarded the Thucydides trap as a real risk, as rapid economic rise has increasingly put China on a collision course with the US. As a solution, Chinese leaders have proposed to the United States since the late years of the Hu Jintao administration 'a new type of big power relationship' between the two countries to manage their relations. This 'new type of big power relationship' implies that the United States and China respect each other's 'core' interests as a foundation to managing potential conflict.

Xi started earnestly pursuing this idea after 2011, but the US reception to China's proposal has been at best lukewarm.[42] Instead, the US responded to China's economic rise and military build-up through its rebalancing towards the Asia Pacific, which Chinese leaders interpreted as a largely strategic move of containment. While the perceptions of Chinese policy experts on the US-led Trans-Pacific Partnership (TPP), which excluded China from writing global trade rules, were diverse and continue to evolve, most would see containment as an important part of US intentions with TPP.

4.3. The role of the policy expert community

Xi was reportedly considering these challenges before becoming the general secretary of the CPC. The twin traps often intermingled. Experience from his trip to Australia in 2010 served as a catalyst to his thinking on these issues. Protest greeted the delegation throughout the visit, making Xi wonder why a country exporting so much iron ore to China could still be politically unfriendly. More broadly, he felt

41 Thucydides originally wrote: 'What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta.' The new power's rise and the established power's fear are the key elements.

42 Robert Daly (September 22, 2015) 'How Washington can manage sustainable strategic competition with China', The Diplomat, http://thediplomat.com/2015/09/how-washington-can-manage-sustainable-strategic-competition-with-china/. Jimin Chen (April 9, 2015) China-US: Obstacles to a 'New Type of Major Power Relations', The Diplomat, http://thediplomat.com/2015/04/china-us-obstacles-to-a-new-type-of-major-power-relations/

that China's model of growth, which focused on processing industries while relying on external markets to source raw materials and export final products, would not be sustainable.[43] For Xi, China needed overseas production bases, as its economy was moving toward the next phase of its development.

These lines of thinking might have just remained open questions, but they arose at a time when China's policy community was already in heated debate on whether the twin traps would confront China. China's policy expert community consists of retired officials, eminent scholars at universities and research institutions, and a growing number of policy think tanks that have direct access to Chinese leaders.[44] They were debating the imminent challenges that China faced and trying to advise on how to deal with them.

Exports used to be a growth engine, but export growth slowed significantly in the post-global financial crisis world. China needs new markets in the emerging economies. Energy security was a rising concern with Chinese oil dependence rate reaching over 60 per cent in 2013. And with most of this oil coming to China through the Straits of Malacca, China was actively seeking the diversification of its energy supply and shipping routes. Initiatives like the New Silk Road, the Eurasian Landbridge and China-Myanmar Passageway were already in discussion in early 2013.[45] In the face of the US pivot to Asia, there were also academic proposals on China's own pivot towards Central, South and West Asia.[46]

What influence exactly the policy community had on Xi and his aides in forming the Belt and Road concept is not clear.[47] But it is unlikely that the discussion escaped their attention as they contemplated the answers to China's internal and external challenges.

Once announced, the idea of Xi's B&R proposals would provide a framework in shaping the direction, scope and substance in the discussion of the policy expert community. The lack of detail in Xi's initial proposals also provided space for experts to interpret Xi's ideas using their own understanding. Many of these interpretations at the time would be quoted in the media as Chinese official views — often falsely — and shaped the views about B&R in analysis overseas.

4.3.1 A design to address the twin traps

The initial B&R proposals attempted to address the challenges of the twin traps. This is evident in President Xi's Astana speech.

Xi's proposal called for achieving sustainable development in China — a direct response to the challenge of the middle income trap. Xi said achieving sustainable growth in China would require economic cooperation with its neighbours, and that cooperation could only succeed if it could deliver mutual benefit. So the cooperation proposed was based on mutual interest.

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43 王义桅，袁训会/采 (22 September 2016) 一带一路是向世界推出中国模式 http://www.21ccom.net/html/2016/zlwj_0922/8400_all.html.

44 The role of policy expert community in China's economic policy making will be explored in a separate paper.

45 http://policycn.com/13-04-22-diplomacy-with-economic-characteristics/

46 Wang Jisi 王辑思 (5 August 2013)：China has already become 'a country in the middle' in nominal and real terms', 中国已经成为名副其实的中央之国 http://chinadigitaltimes.net/chinese/2013/08/%E3%80%90%E5%BC%82%E9%97%BB%E8%A7%82%E6%AD%A2%E3%80%91%E7%8E%8B%E8%BE%91%E6%80%9D%EF%BC%9A%E4%B8%AD%E5%9B%BD%E5%B7%B2%E7%BB%8F%E6%88%90%E4%B8%BA%E5%90%8D%E5%89%AF%E5%85%B6%E5%AE%9E%E7%9A%84%E4%B8%AD/

47 The proposal for the 21th Maritime Silk Road that highlights the importance of Southeast Asia negates, at least partially, the argument that the B&R is China's pivot to Central and West Asia.

This would require cooperation to be designed to dovetail Chinese needs with those of B&R countries. They found this match in infrastructure development.

Cooperation in infrastructure development could be a first step in facilitating the growth of trade, investment and economic development in China and the countries that were engaged. But it would also require policy cooperation and domestic efforts to lower trade and investment barriers and improve the business climate to facilitate free flows of factors. It would require financial integration and strengthening people-to-people bonds. Through cooperation — including the linking of development strategies between China and its economic partners to develop infrastructure, trade, investment and financial relations — each economy involved could advance to its next phase of development.

Salient to President Xi's original proposal was his response to the Thucydides trap, though it was less explicit. Comprehensively strengthening relationships with countries across the vast region of Eurasia through enhancing the five types of connectivity would significantly enhance China's regional and global position. It would critically beef up China's relationship with EU countries, as well as countries between China and Europe, including Russia.

In a way, the B&R initiative can be seen as a geo-economic response to the US geopolitical pivot towards Asia and the Pacific, including through the process of the US-led TPP.[48] Xi's initial proposals emphasised deepening China's relationships with countries along the old Silk Road across Central, South and West Asia, Europe and Africa. From this perspective, the SREB was a Chinese pivot to the region west of China. It was a move, however, that was balanced by the introduction of the 21th Maritime Silk Road.

These were still very early days. China had not then spelt out clearly the 'rules of the game' for developing international economic cooperation through the B&R.

4.4. How was the B&R turned into a national strategy

President Xi's initial proposals at Astana and Jakarta were very broad and needed further definition, clarification, and development to become a 'fully-fledged' policy.[49] Indeed, the Chinese government did not complete the B&R policy until March 2015.

Activities taking place in the interim reveal the key steps Chinese leaders had taken in making the B&R a major national strategy. These steps included formal endorsement, the forming of a policy drafting leading small group, the involvement of the community of policy experts in policy deliberation, the endorsement of the CLGCDR on key B&R principles and priorities, the forming of a high-level leading group on B&R, and the release of a comprehensive and actionable official document on the B&R.

4.4.1 Formal endorsement

The B&R initiative was almost immediately written into official documents, and the 'Decision' of the Third Plenum of the 18th CPC Party National Congress held in November 2013 made it 'a national strategy'. The Decision also endorsed establishing development finance institutions to help expedite

48 Jane Golley, David Murphy and Michael Wesley (2016), The Geoeconomics of One Belt One Road (OBOR) (draft paper).

49 There was no detail at all on the 21th Maritime Silk Road in Xi's speech to the Indonesian Parliament. It is therefore very likely that the concept of the MSR was a last-minute addition to Xi's speech.

the building of infrastructure connectivity between China and surrounding countries. It stated that pushing forward the B&R would help China form a new comprehensive opening posture.[50]

Following the Third Plenum, the CPC held the central economic work conference (CEWC) in December 2013, the Party's most important annual economic policy meeting. That meeting listed the B&R as a key priority for the government in 2014, and reinforced the B&R as a way of strengthening infrastructure connectivity.[51]

Echoing the CWEC decision, Premier Li Keqiang stated at the National People's Congress in early March 2014 that the government would accelerate B&R planning, including the planning work for the construction of the Bangladesh-China-India-Myanmar Corridor (BCIMC) and the China-Pakistan Economic Corridor (CPEC). This was the first time the BCIMC and CPEC were officially rebadged into the B&R framework. Both existed prior to the announcement of the B&R initiative.

4.4.2 Policy deliberation

Notwithstanding the endorsement of the B&R as China's national development strategy at official meetings, official information remained scarce during the first year following the official announcement of B&R. Behind the scenes, China's policy community was encouraged, with some already commissioned, by the authorities to undertake B&R-related research. For example, Hu Angang and his team at Tsinghua University were consulted, and their report was submitted to the National Development and Reform Commission (NDRC).[52]

Understandably, views on the B&R from experts included a very broad range, from considering the Silk Road Economic Belt as: the revival of traditional trading routes along the ancient Silk Road; the extension of another domestic regional development policy equivalent to China's other regional development strategies: the great western development strategy, the revival of the northeast old industrial bases, and the rise of the middle region. The R&R was also regarded as a new version of the 'Go Abroad' global investment strategy; or as China's geo-economic and geo-political answers to the US pivot and the US-led TPP.[53]

The 'five types of connectivity' provided a conceptual framework for guiding B&R-related policy research work. The scarcity of official information likely meant that the B&R was still under policy deliberation. Policy makers were still considering the direction, roadmap, and priorities for realising the ideas that President Xi had flagged.

Most media attention at that time, in China as well as overseas, remained on infrastructure construction. In this context, media speculation abounded on the definition of the B&R, such as which countries belonged to the B&R, how many routes would be built, where they would pass across, and how many projects China would undertake and finance.

This was inevitable, given President Xi's initial announcements mentioning geographical terms like 'the member countries of the Eurasian Economic Community and the Shanghai Cooperation Organisation', 'from Pacific to Baltic', and 'East Asia, Central Asia, and South Asia'.

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50 Xinhua (15 November 2013) 中共中央关于全面深化改革若干重大问题的决定, item 26 http://news.xinhuanet.com/politics/2013-11/15/c_118164235.htm.

51 人民网-人民日报（2013）: 中央经济工作会议闭幕 部署明年经济工作六项任务, http://news.xinhuanet.com/fortune/2013-12/13/c_118553239.htm.

52 Consultation with experts were undertaken by seeking their input and advice through policy research projects. Refer to Hu, Angang (2015).

53 Liu Weidong (2016) The Misunderstanding of the One Belt, One Road ('yidaiyilu' zhanlue de renshi wuqu') Guojia xingzheng xueyuan xuebao, 26 January 2016.

Speculation also abounded on the geo-strategic and economic intentions behind China's B&R initiative. While potential B&R countries would generally welcome the economic benefit from the B&R projects, the distribution of that economic benefit would be affected by where the projects were actually located. Moreover, there were varying degrees of disquiet in overseas media reporting about the rise of Chinese influence through the B&R that would cut across the economic and geopolitical interest of existing players active in the B&R region.[54]

Research projects undertaken among China's policy community studied the interests of potential B&R countries, and analysed carefully the regional strategies by Russia, Mongolia, the US, and Kazakhstan. Prior to President Xi's SREB proposal, Russian President Vladimir Putin had already proposed a Eurasian Economic Union[55] and the US proposed the New Silk Road in 2011.[56] President Nursultan Nazarbayev proposed Kazakhstan's New Economic Policy ('Nyrly Zhol') in 2014.

Chinese policy makers paid attention to these developments, particularly keeping a close eye on Moscow's likely response to China's economic entry into Central Asia. Chinese officials regarded the attitude and position of Russia as the most critical, not only as it was becoming China's major energy supplier and an important B&R country in its own right, but as Central Asia was Russia's traditional sphere of influence. As policy makers saw it, China's success in the Silk Road Economic Belt would depend largely on the cooperation of Russia.

In fact, Russia was initially suspicious on learning of Xi's proposal, and regarded B&R as potentially undermining its own influence in Central Asia. Russia was also worried about its economic benefit from the Trans-Siberian railway being curtailed due to China's developing parallel railways through the B&R. Only after the annexation of Crimea and facing western sectoral sanctions in 2014 did Russia gradually tilt towards being in favour of cooperation with China's B&R.[57]

To assuage the disquiet that its neighbours might have toward the B&R, Chinese leaders, including President Xi and Premier Li, were busy promulgating at bilateral and multilateral forums on the mutual benefit that the B&R would bring. On each of the official visits that President Xi and Premier Li made, which were on average over 20 countries from the time of the Astana announcement to late 2014, Xi and Li promoted with their counterparts the virtue of cooperation with China on the B&R. Xi's first official overseas visit was made to Russia in March 2013, eight days after he became the President.[58]

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54 Tanvi Madan (14 March 2016), 'What India thinks about China's One Belt, One Road initiative (but doesn't explicitly say)', https://www.brookings.edu/blog/order-from-chaos/2016/03/14/what-india-thinks-about-chinas-one-belt-one-road-initiative-but-doesnt-explicitly-say/.

55 S. Frederick Starr and Svante E. Cornell (eds), (2014) Putin's Grand Strategy: The Eurasian Union and Its Discontents, https://www.silkroadstudies.org/resources/1409GrandStrategy.pdf.

56 The State Department, U.S. Support for the New Silk Road, https://www.state.gov/p/sca/ci/af/newsilkroad/; James McBride (25 May 2015) Building the New Silk Road, http://www.cfr.org/asia-and-pacific/building-new-silk-road/p36573.

57 Alexander Gabuev (2016) 'Crouching Bear, Hidden Dragon: One Belt One Road' and Chinese-Russian Jostling for Power in Central Asia' in The Journal of Contemporary China Studies Vol.5/No. 2 2016: 61-77. Bob Savic (7 December 2016) Behind China and Russia's Special Relationship' The Diplomat, http://thediplomat.com/2016/12/behind-china-and-russias-special-relationship/.

58 David Herszenhorn and Chris Buckley (22 March 2013), 'China's New Leader, Visiting Russia, Promotes Nations' Economic and Military Ties. http://www.nytimes.com/2013/03/23/world/asia/xi-jinping-visits-russia-on-first-trip-abroad.html

That was also six months before his Astana speech. Throughout 2014, Xi and Putin met five times, including a meeting in every second month from May to November.

4.4.3 Key institutional players

Immediately following the 2013 CEWC, a forum was co-chaired by the then Chairman of the NDRC, Xu Shaoshi, and Foreign Minister Wang Yi, in mid-December to kick-start the policy drafting process. Apart from the NDRC and the Ministry of Foreign Affairs (MFA), senior officials from 12 other ministries and 14 provincial governments participated.[59] Following the forum, an inter-ministerial leading small group was formed to lead the drafting of the B&R action plan.[60]

The preparatory work included undertaking extensive domestic and international consultation. While not yet disclosed, this leading small gruop appears to have been convened within the NDRC, with the support of other ministries, particularly the MFA.

The NDRC took the leading role because of its position in China's economic policy making, including preparing and coordinating economic planning and undertaking investment approvals. The MFA was involved in helping on the fronts of economic diplomacy and external engagement. The MFA and the Ministry of Commerce (MofCOM) would also have been working behind the scenes in consultation with counterpart agencies to learn about their concerns and involve them in the NDRC-led process of policy drafting.

4.4.4 Finalising the rationale and guiding principles

By late 2014, policy preparation had made significant headway and was ready for endorsement by leadership.

The CLGCDR has been China's de facto top economic decision making body in the Xi administration (Chapter 3). The 8th CLGCDR meeting, held on 6 November 2014, was dedicated exclusively to the discussion of the B&R.[61] President Xi chaired the meeting. Joining him were his deputy, Premier Li Keqiang, and two members of the Politburo Standing Committee, Liu Yunshan and Zhang Goli.

NDRC, MOF and People's Bank of China (PBC) representatives briefed the 8th CLGCDR on the preparatory work. This included the launch of the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF), for which the MOF and PBC had the prime responsibility for their preparation.

President Xi made remarks that spelt out the rationale, guiding principles and implementation priorities for the B&R policy (Box 4). It is notable that President Xi introduced openness, inclusiveness and mutual benefit as the guiding principles for the development of the B&R. This indicated an evolution of B&R thinking, tilting towards the approach — at least in rhetoric — of supporting open regionalism and the global free trade system.

This new stance should not be seen as a surprise, but should be viewed in the context of China's own interest as the world's largest trading nation. It had certainly felt the heat from the erosion of the global free trade system.

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59 They included provincial leaders from nine western provinces: Shaanxi, Gansu, Qinghai, Ningxia, Xingjian, Chongqin, Sichuan, Yunnan and Guangxi and the heads of provincial Development and Reform Commission from five eastern provinces: Jiangsu, Zhejiang, Guangdong, Fujian and Hainan. http://news.inewsweek.cn/detail-965.html.

60 Hu Angang (2015) 'One Belt, One Road: Geo-economic Revolution and An Era of Win-Win' (yidaiylu: jijidiligeming yu gongyingzhuy shidai', p27, Gaibian shijiejiji dili de yidaiyilu (One Belt, One Road that Changes the World Geoeconomics), Shanghai Jiaotong University Press, 2015.

61 http://news.xinhuanet.com/politics/2014-11/06/c_1113146840.htm.

China took on the APEC presidency in 2014, and in that role China tried hard to push the inclusion of the Free Trade Area of the Asia Pacific (FTAAP) in the APEC processes and partially succeeded. China also tried to insert the B&R as a part of the APEC effort to progress regional free trade and infrastructure connectivity, but failed. Despite this, the trend was clear that China was moving to reposition the B&R as a platform for free trade and investment.

Box 4: Rationale, guiding principles and implementation priorities for the B&R

The rationale is to facilitate China's further economic opening to the world and achieving sustainable development.

The guiding principles should be to make the B&R an open, inclusive, mutually beneficial platform through which China and regional countries can cooperate for development, improving people's livelihood, crisis management and structural adjustment.

The priorities should be for China to work together with other countries on developing plans, particularly on major projects in transport, electricity and telecommunication, involving public and private participation, and designing projects.

The project list should be developed to suit local circumstances and benefit local communities, making use of development and policy financial institutions, and aiming for 'early harvest' in 'landmark projects'. [62]

At the same time, China also started downplaying the geographical element of its B&R initiative. In so doing, China made clear the contrast of its approach in B&R to the exclusive approach taken by the United States in the TPP process. Openness and inclusiveness could also be viewed as a response to concern in the region that China would be predominant through the B&R and use the process to serve China's interest only.

Two days after the meeting, on 8 November 2014, President Xi announced at the Dialogue on Strengthening Connectivity Partnership Relations that China would inject US$40 billion to set up the SRF.

China was pushing ahead with the establishment of the multilateral AIIB at the time. The SRF was a bilateral financing vehicle. Together, they were expected to finance infrastructure investment, resource development, industrial capacity and financial cooperation, and other connectivity-related projects along the B&R region.[63]

By the end of 2014, China's B&R policy was nearly fully developed. The CWEC held in December 2014 listed the B&R — together with the Beijing-Tianjin-Hebei Concerted Development and the Yangtze Economic Belt — as top government priorities for 2015.

62 On these two institutions, President Xi said at the meeting that China and AIIB member countries should use AIIB to fund for infrastructure construction, while China would use the Silk Road Fund to directly tap into Chinese capital for investment in B&R countries. He also said that both the AIIB and SRF should follow international practices, be transparent, inclusive, and complement the work of multilateral development banks.

63 http://cpc.people.com.cn/n/2014/1109/c64094-25997795.html.

4.5. The Vision and Action Plan for the Belt and Road

The Vision and Action Plan (the Action Plan)[64] — a comprehensive official document on the B&R — was jointly released by the NDRC, MFA and MofCOM on 28 March 2015. President Xi announced its imminent release at the Boao Forum that day.[65]

Like most Chinese official documents, the Plan contained a hodgepodge of dense, broad and sometimes vague terms and jargon. Despite that, its vision, guiding principles, conceptual framework and policy priorities signalled a further clear shift in emphasis (Appendix B: Summary of Key points of the Vision and Action Plan). The Plan continued the recast of the B&R as a platform for supporting open regionalism, global free trade and an open economic system.

While international commentators often cannot help noting traditional Chinese diplomatic language, such as the emphasis of sovereignty and non-intervention,[66] a predominant theme that emerged was to adhere to high standards, international norms and market principles. One way to interpret this change in emphasis could be as affirmation that China did not seek predominance through the B&R. This could also have been a positive response to the US-led TPP, which was aimed to set high standards for trade in the Asia Pacific.

The official document explained China's rationale for the B&R as being to achieve sustainable development, which entails China's further economic integration into the world. This required China to uphold international rules and market principles while conducting regional economic cooperation, joint design and the development of projects with partner countries that could deliver mutual benefit.

The Action Plan established a close link between the B&R and China's own development. It described the B&R as China's national strategy and said it would help improve China's internal economic integration and competitiveness, while spurring more balanced regional growth. The infrastructure projects proposed would run through some of China's poorest and least developed regions to improve connectivity between underdeveloped southern and western provinces and the richer coastal regions.

The infrastructure connectivity with regional countries was also intended to help ease the entry of Chinese production capacity and develop those underdeveloped markets through making use of China's industrial and manufacturing overcapacity.

The Plan included a list of more than a few hundred projects on which China wanted to seek cooperation any interested countries.[67] They cover the fields of policy, road, railway, energy, information, industrial parks, trade, investment, production cooperation and people-to-people exchange.

While the Plan does not include specifics, informed sources disclosed that each item in the Plan would contain detailed projects linked to responsible entities. Chinese media reported that as of May 2015, there were over 900 major projects at the national level that were already in the pipeline, of which 50

64 The full title is Vision and Action for Advancing the Joint Construction of the Silk Road Economic Belt and 21th Century Maritime Silk Road (tuidon gongjian sichou zhilu jinjidai he 21 shiji haishang sichou zhilu de yuanjing yu xingdong). http://news.xinhuanet.com/world/2015-03/28/c_127631962.htm.

65 Xi Jinping (20 March 2015) 迈向命运共同体 开创亚洲新未来 ——在博鳌亚洲论坛 2015 年年会上的主旨演讲. http://news.xinhuanet.com/politics/2015-03/29/c_127632707.htm.

66 David Parker and Scott Kennedy (3 April 2015) Building China's 'One Belt, One Road', https://www.csis.org/analysis/building-china%E2%80%99s-%E2%80%9Cone-belt-one-road%E2%80%9D.

67 Xinhua (16 March 2015) http://news.xinhuanet.com/chanye/2015-03-16/c_1114650456.htm.

would be launched soon and 20 related to the MSR. There were additionally nearly 200 international cooperation projects that local governments and enterprises were undertaking, covering infrastructure, trade, industrial investment, energy and resources, finance, ecologic and environment protection, and ocean economics.[68]

The Action Plan soon became fully integrated into China's economic planning process. A year later in March 2016, the Chinese government produced the 13th Five Year Social and Economic Development Program, which devoted a whole chapter to the B&R. This has sealed the B&R as China's most important international economic policy in framing China's economic opening.[69]

4.6. The institutional arrangements and implementation processes

What were the institutional arrangements made that led and supported B&R policy making and implementation?

4.6.1 Leading bodies in the B&R policy making and implementation

The CLG for Advancing the Development of One Belt One Road (CLGB&R) and its supporting Office (B&R Office) have played key roles in leading and coordinating the implementation of the B&R.

The CLGB&R was formed in late 2014, following the decision made at the 8th CLGFEA meeting. The formation of this high level leading group signalled the start of the implementation stage of the B&R.

The head of the CLG was Zhang Gaoli, a Politburo Standing Committee (*PSC*) member and executive Vice-Premier. Deputies included Wang Huning, Wang Yang, Yang Jing and Yang Jiechi (State Councillor on Foreign Affairs).

Wang Huning, mentioned earlier, is Xi's top aide on domestic and international affairs. Wang Yang is a Politburo member and a Vice Premier responsible for economic, trade, agricultural, poverty reduction and foreign economic policy. Yang Jing is the head of the Secretariat to the State Council, responsible for coordinating inter-ministerial and central-provincial relations. Yang Jiechi is the State Counsellor on foreign affairs policy. Their respective responsibilities covered all aspects of the B&R. In terms of the relationship between the CLGB&R and other top CLGs, since all five leaders of the CLGB&R served in the CLGFEA and CLG on Comprehensively Deepening Reform (CLGCLG), both of which are under the leadership of President Xi, the CLGB&R likely reports its work to the CLGFEA and CLGCDR, and therefore to President Xi.

Zhang chaired the CLGB&R meeting on 1 February 2015. It discussed the work of developing transport routes across land and seas; economic, trade and industrial parks; international economic cooperation corridors; trade and investment facilitation; financial cooperation; and the development of financial channels.

Supporting the CLGB&R was an office set up within the NDRC to run its daily work. The head of the office was first Xu Shaoshi, the then Chairman of the NDRC. Xu was also a member of the CLGFEA and CLGCDR. The office had two deputies, He Lifeng and Wang Xiaotao, both of whom are NDRC Deputy Chairpersons. He Lifeng was promoted to be the Chairman of the NDRC in late February 2017 and automatically became the head of the office. The office has four units, covering general affairs, SREB,

68 Sina (29 May 2015), 一带一路项目清单浮出 国家层面项目超 900, http://finance.sina.com.cn/china/20150529/052922295880.shtml.

69 14 April 2015, 一带一路”战略全国覆盖, http://m.21jingji.com/article/20150414/43f804328ef574b4dd354bfd5415ab95.html.

MSR, and foreign cooperation. It appears that the B&R office is a reincarnation of the leading small group working on the drafting of the B&R policy touched upon earlier.

The sheer scale of the whole B&R program required mobilising resources at all levels of the Chinese system, from ministries to provinces, cities and local governments. It involves public and private sector actors across a whole range of industries and financial institutions to participate in the B&R projects.

How did the Chinese system organise itself and mobilise resources to proceed with the B&R initiative after the implementation phase started since 2015?

4.6.2 Mobilising the whole system

The whole Party state system has been mobilised to support the B&R, with the B&R Office sitting at the coordinator's seat.

First, the Central Organisation Department, NDRC, MFA, MofCOM worked with the State Administration College in developing training programs to prepare provincial and ministerial officials to take on the planning and leadership roles for B&R-related work. This was needed as the system was well prepared for the B&R in terms of building understanding of the policy, and the tasks and technicalities of project design.

Second, specific policies were designed to give effect to the Action Plan. For example, the B&R Office released an Action Plan for Harmonisation of Standards along the Belt and Road (2015-2017) released on 22 October 2015. That plan looks for cooperation on the standardisation and recognition of standards over a number of infrastructure sectors with B&R countries.[70] China was to invite some countries[71] to undertake studies for joint development of international standards and improving the internationalisation of those standards.[72]

Third, each province was required to complete provincial B&R plans by October 2015, whether or not it was one of the 18 provinces mentioned in the Plan.[73] The B&R Office was directly involved in helping provinces develop provincial plan.

Guangdong was the first province to have completed a provincial plan. Released in May 2015,[74] the provincial plan contained a list of 68 projects with an investment value totalling US$55.4 billion, covering infrastructure, energy and resources, agriculture, fishery, manufacturing and service sectors.

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70 These sectors include power, railway, marine, aviation and aerospace industries, as well as in the emerging industries of energy conservation and environmental protection, new-generation information technology, smart transportation, high-end equipment manufacturing, biotechnology, new energy sources and new materials.

71 Countries mentioned include: Mongolia, Russia, Kazakhstan, Vietnam, Cambodia, Thailand, Malaysia, Singapore, Indonesia, India, Egypt and Sudan, as well as with members of the Gulf Cooperation Council (such as Saudi Arabia).

72 http://www.sdpc.gov.cn/gzdt/201510/t20151022_755473.html. http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/Action-Plan-for-Harmonisation-of-Standards-Along-the-Belt-and-Road-2015-2017/obor/en/1/1X000000/1X0A443L.htm.

73 China has a total of 34 provincial level administrations (including provinces, cities and regions). Of which, 18 of them were mentioned in the Plan, including: Xinjiang, Shaanxi, Gangsu, NIngxia, Qinghai, Inner Mongolia, Heilongjiang, Jilin, Liaoning, Guangxi, Yunnan, Tibet, Shanghai, Fujian, Guangdong, Zhejiang, Hainan, and Chongqing.

74 http://www.scio.gov.cn/ztk/wh/slxy/31213/Document/1435194/1435194.htm.

In developing provincial plans, provinces were urged to take full account of local conditions and advantages and link them to the national plan.[75] For instance, Xinjiang should take advantage of its position as neighbouring Central Asian countries to develop infrastructure connectivity through the Silk Road Economic Belt. Fujian as a coastal province with close links to overseas markets should be focused on developing links to the 21st Century Maritime Silk Road.

Quanzhou city of Fujian province produced the *Quanzhou City 21th Maritime Silk Road Plan*, in which 180 projects are listed, over 50 of which are infrastructure-related. Its investment projects would reach not only the B&R countries but virtually every continent of the world. They were focused on petrochemicals, marine equipment, marine biomedicine, coastal tourism, financial insurance, commercial services, and shipping services. The list produced by Xiamen city in Fujian province included 41 projects, focusing on infrastructure, trade financing, two-way investment, ocean science cooperation, tourism and people-to-people exchange. Xiamen also planned to concentrate on cooperation with Malaysia, Singapore, Indonesia, Thailand, the Philippines, Vietnam, India, Iran and Sri Lanka.[76]

A pattern which emerged from the provincial plans was to start with infrastructure connectivity. It would gradually build industrial parks along infrastructure 'routes' and then connect them to establish regional value chains and eventually develop close inter-industrial and intra-industrial division of labour and economic cooperation with regional countries.

Some industrial parks were reportedly already being built along economic corridors connecting China with Southeast Asia. They include the China-Malaysia Qinzhou Industrial Park, China-Malaysia Kuantan Industrial Park, Indonesia-China Integrated Industrial Parks, and Singapore Jurong Industrial Park, along the China-Singapore (Indochina Peninsula) Economic Corridor. While this could be seen as rebadging them under the umbrella of the B&R, this rephrasing or repackaging also provided a new perspective in understanding the characteristics of China's international economic cooperation.

4.6.3 Financial institutions and the corporate sector

Around this time, China was also getting its financial system ready for the B&R. The State Council Executive Meeting on 24 December 2014 outlined an overall framework for China's financial system supporting overseas financing and investment. The China Banking Regulatory Commission was developing guidelines on how China's banking and financial institutions should be prepared to finance B&R projects. Since the start of 2015, major Chinese policy and commercial banks have geared up to finance railway, road, airport, port and other infrastructure projects in B&R countries.

Policy banks were the first movers, with the Silk Road Fund established by an initial capital injection of US$40 billion from the State Administration of Foreign Exchange (65 per cent), China Investment Corporation (15 per cent), China EximBank (15 per cent) and China Development Bank (5 per cent). The SRF would mainly invest in infrastructure, energy, steel, electricity and telecommunication projects along B&R countries.

This business model takes into account the fact that many B&R countries have high political, policy and financial risk. That would make it hard for investment projects to attract commercial loans in the first instance. Through proper assessment of risks, the SRF could get involved in providing initial financing to start the projects. If needed, then the China EximBank and the CDB could provide subsequent loans and with the prospect of eventually attracting commercial loans when projects became more viable.

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75 王尔德，21 世纪经济报道 (14 April 2015) http://m.21jingji.com/article/20150414/43f804328ef574b4dd354bfd5415ab95.html.

76 http://finance.sina.com.cn/china/20150529/052922295880.shtml.

China's five large commercial banks – the Industrial and Commercial Bank of China, The Commercial Bank of China, the Construction Bank of China, The Agricultural Bank of China, and the Bank of China – have been preparing strategic plans to seek opportunities from the B&R initiative. They have already started lending to B&R projects, and will take the opportunity of the B&R to develop financing channels and service networks in the B&R markets as well as supporting Chinese enterprises in outbound investment.

4.6.4 International production capacity cooperation

As of 2015, B&R projects were largely concentrated in Kazakhstan, Kyrgyzstan, Tajikistan and Pakistan, all of which border Xinjiang. Overall, Kazakhstan was ahead of other countries in cooperation with China in developing B&R projects, with production capacity cooperation a key component.

As early as 1992, Kazakhstan officially opened a railway transport link with China. It also helped build China's first transnational oil pipeline. Three of the four China-Central Asia gas pipelines pass through Kazakhstan. In the 1990s, Lianyungang, a port city in eastern China facing the Pacific, began serving Kazakhstan as a logistics base and transport terminal to world markets. Prior to the B&R initiative, Kazakhstan and China had already cooperated in the fields of infrastructure, energy, finance and high-tech industries.

During his visit to Kazakhstan in December 2014, Premier Li and Kazakhstan Prime Minister Karim Massimov reached a preliminary agreement on a capacity cooperation framework agreement worth US$18 billion, covering over ten areas including infrastructure, roads and housing. During the visit of Prime Minister Massimov to China to attend the Boao Forum in March 2015, another agreement of US$23.6 billion was signed covering steel, non-ferrous metals, sheet glass, oil refining, hydropower and automobiles.[77] Further discussion between the two governments covered cooperation in rail, nuclear, energy, agriculture and cultural exchanges.

Kazakhstan was but one of around 60 countries for which the B&R had injected impetus to their economic relationships with China. A recent B&R cooperation agreement signed by China was with the Czech Republic on 5 November 2016. It was set up to develop the New Eurasia Land Bridge Economic Corridor. There were 19 areas of cooperation set out under this agreement.[78]

Chinese officials revealed that as of September 2016, there were over 1,400 major projects in the B&R pipeline. Over 100 countries, regions and international organisations showed interest in participating in cooperation with China through the B&R. China has signed MOUs for B&R cooperation with over 30 countries, and is pursuing international production capacity cooperation with over 20 countries. Chinese investment in B&R countries cumulatively reached US$51 billion by June 2016, which was 12 per cent of China's total overseas investment. New engineering contracts with B&R countries reached 12,500, at a total contract value of US$270 billion.[79] This indicates that B&R has helped develop new projects while also rebadged many projects that already existed prior to its launch.

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77 Xinhua (27 March 2015), 'China, Kazakhstan sign 33 deals worth of 23.6 billion U.S. dollars'. http://news.xinhuanet.com/english/2015-03/27/c_134104187.htm. 杨芳 (13 December 2015) 解密"国际产能合作"的来龙去脉, http://politics.people.com.cn/n1/2015/1213/c1001-27922214.html.

78 They include basic infrastructure, investment, industry and trade, energy and resources, sci-tech R&D, finance, transportation and distribution, healthcare, civil aviation, standardisation and certification, agriculture, culture, tourism, sports, education, environment, local cooperation, online Belt and Road, and think tank communication.

79 NDRC (12 September 2016), http://xbkfs.ndrc.gov.cn/ydyl/201609/t20160912_818224.html.

4.7. Risk, risk management and a 'mid-term review' of progress

The headlong push by Chinese leaders for implementing the B&R strategy was not without risks, the response to which will influence the way that the B&R will be pursued.

First is the tendency of Chinese policy makers to treat every problem that exists in Belt and Road countries — including their relationships with China — as having a solution through economic development. While economic development can alleviate poverty and provide a base for better health and education, the real development constraints often lie in political instability, poor governance, the lack of rule of law, underdeveloped infrastructure, and institutions. These factors create an investment climate that provides little incentive for investment in physical capital and new technologies. There has been a growing recognition in China's policy community of this risk, and that recognition will influence future work on the B&R.

The second risk relates to moral hazard. The B&R has largely been a state-led and top-down decision-making process. With strong endorsement and drive from President Xi, the whole Chinese system has moved behind the initiative. In as short period as little more than a year, policy makers in China had already produced the B&R Action Plan, which is comprehensive, complex and detailed. Provincial plans and action have also followed. However, the extent to which the elements included in these plans are actionable needs to be put to test. Implementing a policy and turning it into investable projects is not easy, let alone making sure the projects commercially successful. Yet strong backing from the top leaders means that in China's system, local governments and state-owned enterprises have seen it as a political imperative to jump on the B&R bandwagon. The launch of B&R projects has become a political duty rather than based on a business proposition. If a loss were to occur, who would pick up the bill?

Third, China's policy community has insufficient local knowledge of the societies in Central, West and South Asia, although it has been heavily relied upon in providing policy advice. This has inevitably affected the quality of policy input and therefore the quality of the government's policy. Chinese universities and research institutes have neglected this vast region over the past 40 years, as most academic and policy interest has been focused on advanced economies. China's corporate sector tends to have more first-hand knowledge and business experience in the region, but that is often disconnected from China's policy community. Chinese leaders have begun calling upon the development of policy think tanks to assist and, since 2013, the state has provided large amount of resources in supporting policy oriented research. But the stock of knowledge is years behind and needs much time to build. Acknowledging this reality, there have been growing calls to make the B&R more pragmatic and a long term national strategy, rather than just focused on the next five years.

Fourth, risks are also associated with China's unique institutional settings or its state capacity for which there is little match in other countries. Bureaucrats in China have been trained in making plans and assisting business deals, the combined legacy of China's central planning history and policy implementation experience during the reform era. Governments in most regional countries, except perhaps a few former centrally planned economies, have no such capacity or background. The top-down decision making style involving the B&R could work well with foreign governments in signing agreements for cooperation. But this may not be reflected in the implementation stage. The top down decision making process also has greater difficulty in involving private businesses, despite being able to mobilise China's state-owned enterprises to participate.

Lastly, suspicion has remained among China's Asian neighbours and abroad (such as in the United States) that the B&R might serve China's geopolitical interest at the expense of their own influence and independence. The B&R has particular foreign policy implications for key regional players, including Russia, India, and Japan. Despite cooperating with China, Russia remains concerned about the B&R translating into increased Chinese influence in Central Asia. India has been worried by Chinese

investments in Sri Lanka, which India views as part of its backyard, and in Pakistan, which has been India's archrival in the Indian subcontinent.

Chinese leaders need to be skilful in managing relations with these major regional players to avoid heightening of regional geopolitical tensions. China has so far adopted the approach of making the B&R an open and inclusive processes but that does not change the fact that the B&R remains China-led and largely bilateral.

An important further step would be to multilateralise B&R projects. China has attempted this approach through involving multilateral lenders, such as the AIIB, ADB and World Bank in investment financing. At the firm level, Chinese companies have begun forming partnerships with companies from third countries to undertake joint investment in B&R countries. For example, that kind of partnership has been formed between Chinese firms with abundant capital and European companies that have rich experience, advanced technology and local networks for operating in Central Asia, the Middle East and North Africa. This has helped make good use of each partner's different strengths while reducing their collective risks.[80]

Chinese policy makers have gradually come to terms with the risks associated with B&R over the past three years. The evolution of the emphasis in China's B&R policy reflects adjustments made to these internal and external concerns. This includes the effort of building an open and inclusive platform and making the development of B&R projects consultative and mutually beneficial processes. The goal set for the B&R has become more realistic and pragmatic, and the assessment of projects more evidence-based.

Chinese leaders held a 'mid-term' review of the policy at a Belt and Road Forum on 17 August 2016. At the Forum, President Xi Jinping raised concerns about, and requirements for, better policy coordination. They include making B&R projects beneficial to local people, developing better plans for project implementation, and encouraging B&R countries to invest in China. He also encouraged taking a more pragmatic approach including the use of pilot projects, and progressing projects that can deliver quick benefits, establishing multilateral open financial platforms. He also stressed control of financial risks, strengthening security and risk assessment, and strengthening academic research.

On 14-15 May 2017, China also convened the Belt and Road Summit in Beijing in which President Xi Jinping welcomed leaders from 29 countries and delegates from 110 countries that discussed issues for progressing the Belt and Road Forum.

4.8. Conclusion

This Chapter tells the story of how China's B&R policy has evolved to its current shape. It was initially an idea advanced by General Secretary Xi. It was then turned into a conceptual framework in late 2013 and a policy framework in late 2014 and early 2015. It has guided the development of China's international economic relations as well as the implementation of B&R projects. Over the past three years, these different phases of policy development have been distinctive. Ignoring this policy evolution could lead observers to misread, oversimplify and provide outdated assessments of the B&R policy.

The story of the evolution of B&R has revealed a distinctive policy making process. It began ideas formed and shaped through debates in the policy community and the leaders' contemplation on the challenges facing the Chinese party state and China. Once these ideas were crystalised into policy proposals, Chinese leaders first formed a leading group in late 2013 at working levels within the NDRC

80 FT 中文网（26 May2016）中国推动外国投资者参与“一带一路 http://www.ftchinese.com/story/001067730.

to guide drafting of the policy. China's expert policy community was involved in providing input, amid a consultation process involving domestic and international stakeholders. Then, in late 2014, following the sanctioning of the policy by the CLGFEA, a top-level leading group was formed to lead the policy making process and the B&R Office was created to coordinate the process. That CLG in charge of the B&R directly reports to the CLGFEA and Xi. It also leads the implementation phase of the B&R, which is supported by the coordinating work undertaken by an office established within the NDRC. Finally, the start of the implementation phase in early 2015 drew in local governments, financial institutions and the corporate sector.

Crucially, the B&R is still an evolving process. It is still early days — or years — given that the B&R is promoted as a very long term project. This indicates a continuing evolving nature of this major economic policy and the role that policy making will continue to play in shaping the path of its evolution.

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CONCLUDING REMARKS

The report has discussed Chinese political development, key economic policy makers and policy making processes under the leadership of Xi Jinping. At the risk of oversimplification, its main themes can be summarised as follows:

In China's party state structure, the Party leads the state machinery through its decisions on policy and personnel. Party leaders take key positions in the government, which pursues policy through budgets, legislation and implementation. This system has continued to evolve including, since the late 1970s, the development of collective leadership that uses rules and procedures to institutionalise policy making and leadership promotion, succession and retirement.

Since late 2012, the decision making power of the Party has been strengthened and centralised under the leadership of Xi Jinping. This has been accomplished with a more visible and public role for the Central Leading Groups in decision making and in policy coordination and implementation.

Under Xi's direct leadership, the Central Leading Group on Financial and Economic Affairs (CLGFEA), together with the Central Leading Group on Comprehensively Deepening Reform (CLGCDR), has emerged as China's most important economic policy making body. It acts as the lead economic policy maker in the role that the State Council was previously perceived to have played.

The Central Financial Office (CFO) that supports the CLGFEA, as well as the CLGCDR, has served as the linchpin of China's policy making system and its key advisers provide Xi with economic policy advice. It also helps coordinate the implementation of policy across China's economic bureaucracy, a role the State Council continues to play.

The Belt and Road Initiative, which has been China's most important national strategy for development and international relations in recent times, provides an example that illuminates policy making and policy implementation under Xi Jinping.

Policy making on the Belt and Road Initiative is the combination of a 'top-down, inside-out' and a 'bottom-up, outside-in' process, in which Xi and his aides first formed policy ideas based on information about China's perceived challenges and then tested these ideas with China's policy community as well as sought feedback from domestic and international stakeholders. This process tends to be ongoing until the finalisation of policy.

The development of the policy requires endorsement at key Party meetings and the formation of leading small groups at ministerial and leadership levels to lead and coordinate policy development.

Policy implementation involves a process of the coordination of multiple players across different levels of government as well as a myriad business and financial institutions. Given China's economic size, multi-layered administrative system and geographic diversity, policy implementation tends to be complex and difficult, highlighting the importance of the central role of the leading groups as well as their difficult tasks in coordination. Policy tends to continue to evolve even during the implementation phase as new and unexpected issues emerge and need to be dealt with.

The context of China's changing political system and policy making processes needs to be taken into account when Australia engages with China. This includes considering how Australian policy makers could take into account of, and bridge, the system differences between the Australian and Chinese systems and develop a strategy that helps Australia effectively engage with China.

APPENDIX

China's Innermost Power Nucleus: The Politburo, the Politburo Standing Committee, and the Central Committee

The Communist Party of China (CPC) has a concentric power structure, with the Politburo Standing Committee led by the General Secretary sitting at the very core, which is part of a larger circle of the Politburo. The Politburo and its Standing Committee sit on top of the much bigger Central Committee.[81]

Since the 1980s, Party delegates from around the country gathered at a national congress in Beijing every five years, to elect a new Central Committee, which will be led by its Politburo and its Standing Committee.[82]

The Party leaders produced at the 19th CPC national congress

The 19th CPC national congress that took place in 18-24 October 2017 produced a new Central Committee with 204 full members and 172 alternate members. These members are the heads of provinces, central ministries, major military units, central government-controlled state-owned enterprises and financial institutions. The Central Committee of the 18th National Congress produced in late 2012 had 205 full members and 161 alternate members. Members for the Politburo and its Standing Committee are elected from the Central Committee.

The 19th Central Committee elected 25 Politburo members, of who seven are Standing Committee members, same as in the 18th Central Committee. They are China's top leaders, each taking at least one key party or state leadership position.

The election of the new Party leadership at the 19th CPC national congress saw a high turnover rate of leaders from the 18th Central Committee. Five of the seven PSC members, 15 of the 18 non-PSC Politburo members, and 62 per cent of the Central Committee members were newly elected.

The Politburo Standing Committee members of the 19th Central Committee include: Xi Jinping (serving as the CPC General Secretary since 2012), Li Keqiang (Premier since 2013); Li Zhanshu (head of the CPC General Office – likely to head the National People's Congress); Wang Yang (one of China's four Vice Premiers – likely to head the Chinese People's Political Consultative Conference); Wang Huning (Director of the Policy Research Office and the Secretary of the Secretariat at the CPC Central Committee from 2007 to 2012 – to head Party affairs); Zhao Leji (the Party's personnel chief and to lead the Central Commission for Discipline Inspection); and Han Zheng (Party Secretary for Shanghai until the 19th Party Congress and likely to be the Executive Vice Premier).

Except Xi and Li Keqiang, all other five members only served at the Politburo of the 18th Central Committee. Their assignments to new official positions may not be officially announced until March 2018 when state positions arising from the Party's leadership reshuffle are confirmed at the National People's Congress.

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81 The Central Committee also has a Central Military Commission and a Central Commission for Discipline Inspection. A permanent Secretariat is set up to serve the Central Committee, the Politburo and its Standing Committee.

82 This description masks the fact that leadership election has been a top-down, managed process, with its outcome reflecting the preferences and interests of the current and retired top leaders. It is therefore the outcome of behind-the-scenes horse-trading within the party, rather than that of an open election.

Party leaders produced at the 18th CPC national congress

The Politburo Standing Committee members of the 18th Central Committee were (including their official positions):

- Xi Jinping - the CPC general secretary, State President, and Central Military Commission chairman,
- Li Keqiang - the State Council Premier,
- Zhang Dejiang - The National People's Congress Chairman,
- Yu Zhengsheng - the Chinese People's Political Consultative Conference Chairman,
- Liu Yunshan – in charge of the Party affairs (including propaganda and Central Committee Secretariat),
- Wang Qishan - CPC Central Commission for Discipline Inspection Chairman, and
- Zhang Gaoli - Executive Vice Premier on economic affairs.

The remaining Politburo members of the 18th Central Committee include:

- Vice premiers (Liu Yandong, Wang Yang and Ma Kai),
- Provincial party secretaries (Guo Jinlong[83] - Beijing, Han Zhen - Shanghai, Hu Chunhua - Guangdong, Sun Zhengcai[84] - Chongqing and Zhang Chunxian - Xinjiang[85]),
- Military officials (Fan Changlong and Xu Qiliang),
- Heads of Central Committee organisations (Li Zhanshu - Central General Office, Zhao Liji - Central Organisation Department, Liu Baoqi - Central Publicity Department, Sun Chunlan - Central United front department, Meng Jianzhu - Central Political and Legal Commission, and Wang Huning - Central Policy Research Office),
- Vice president (Li Yuanchao), and
- Vice chairman of the national people's congress (and also for the workers union) - Li Jianguo.

Since the start of the 18th Central Committee, the Politburo has met monthly and has also undertaken group studies eight to 10 times a year, while its standing committee has met almost weekly.

Key features of the Politburo and its Standing Committee of the 18th CPC Central Committee

- The Politburo Standing Committee is the innermost power nucleus, with all members taking different top positions of China's most important political institutions: the CPC General Secretary, the Central Military Commission Chairman, the State Council Premier, the National People's Congress (NPC) Chairman, the Chinese People's Political Consultative Conference

83 Guo Jinlong was replaced by Cai Qi as the party secretary of Beijing on 27 May 2017.

84 Sun Zhengcai was announced to be under party investigation on 24 July 2017, for 'grave violation of discipline'. Chen Min'er was shifted from the Party Secretary of Huizhou province to be the Party Secretary of Chongqing.

85 Zhang Chunxian was no longer the Party Secretary of Xinjiang from August 2016. That position was taken by Chen Quanguo, who was not the Politburo member of the 18th Central Committee.

(CPCCC) Chairman, the Propaganda head, the Party's Central Commission for Discipline Inspection Chairman and the Executive Vice Premier on the economy.

- The government has a strong representation within the Politburo and its Standing Committee including the Premier and all four Vice Premiers from the State Council.
- The economy has a strong representation, with Xi taking lead, supported by the Premier (Li Keqiang) and three Vice Premiers (Zhang Gaoli, Wang Yang and Ma Kai).
- The Politburo members (non-Politburo Standing Committee members) are heavily represented by local Party bosses (five members) and heads of the CPCCC organisations (six members).
- The Politburo and its Standing Committee include no single ministerial level official, such as the Chairman of the NDRC, the Governor of the PBC or the Minister of Finance.
- There are other features, including People's Liberation Army officials having no representatives at the PSC and only two representatives at the Politburo; as well as that the representation of the Political and Legal Commission being downgraded from the PSC in the 17th Central Committee to the Politburo in the 18th Central Committee.

ACKNOWLEDGEMENTS

This report could not have been produced without the generous support of the Australian Treasury.

While it may not be possible to list all the names of people from whom I have received assistance during the period this report was prepared, I would especially like to thank the following people for their assistance.

My deepest gratitude goes to Professor Peter Drysdale for hosting my work at the East Asian Bureau of Economic Research (EABER) at the Crawford School of Public Policy of the Australian National University. I thank him for his generosity in providing time and comments on different versions of this report. I would also like to thank Professor Allan Gyngell for advising the study and for his strong support. I thank Dr Ian Watt for providing invaluable advice on the direction and scope of this study.

I would particularly like to thank my academic colleagues at the ANU, particularly Dr Shiro Armstrong, Associate Professor Ligang Song, Professor Richard Rigby, Dr Amy King, Dr Paul Hubbard and Dr Ryan Manuel, for their valuable contribution to my presentations and draft papers that feed into this report.

I would also like to thank colleagues at the EABER for their assistance to my research. I would like to express my appreciation to Sam Hardwick for editing different versions of my draft papers and providing suggestions. My thanks also go to Rosemary Tran and Hitonaru Fukui for arranging logistics and to Neil Thomas and Nathan Atrill for their support.

I would like to extend my deep thanks to colleagues of Commonwealth government agencies for their support and comment. I would like to thank HK Yu for her support in getting the study started. I thank Graham Fletcher, John Garnaut, Joanne Frederiksen, James Walsh, Guy Humphrey, Jonathan Olrick and Alexander Storrie for participating in my presentations and providing valuable comment. I would also wish to thank Jason McDonald for organising a roundtable at the Department of Prime Minister & Cabinet for sharing my research on the subject.

I would like to acknowledge the benefit gained from my discussions with Rowan Callick and Stephen Joske on China's economic policy and politics.

I would like to express my gratitude to Dr David Dollar (Brookings Institution), Dr Nick Lardy (Peterson Institution for International Economics), Dr Scott Kennedy (Center for Strategic and International Studies), Professor Andrew Nathan (Columbia University), Professor Joseph Fewsmith (Boston University and Harvard University) and Professor James Hsiung (New York University), for their generosity for sharing with me their insights of China's development, politics and economic policy making.

Last but not least, I would like to thank my family, Hongyan, Taiyang and Tairon, for their support so that I could concentrate my time and effort in accomplishing this very time intensive exercise.