

Signaling Change: New Leaders Begin the Search for Economic Reform

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Xi Jinping and Li Keqiang are now the two top leaders in China. Both have moved quickly to break with the Hu-Wen Administration and signal their support for dramatic new economic reforms. The structure of the new Politburo Standing Committee appears to support their aspirations. Neither Xi nor Li has yet committed to specific reform measures, and the obstacles to reform are formidable. However, both Xi and Li have committed to a process that will lead to the creation of a reform program by late 2013.

From the standpoint of economic reform policy, the outcome of the 18th Party Congress was clear and unambiguous. The two top leaders, Xi Jinping and Li Keqiang, emerged from the Congress with a substantial degree of room to maneuver. Both leaders quickly displayed their willingness to break with what had become business as usual under Hu Jintao and Wen Jiabao. Xi and Li, each in his own way, moved quickly to express their intention to support a revitalized program of economic reform. Xi Jinping has received most of the attention, which is certainly appropriate. Xi has brought a more direct and personal style to the top job, a refreshing change of pace that has generally been welcomed both in China and abroad, and has shown that he intends to keep an eye on economics. Li Keqiang has also begun to signal his intentions. Although Li's approach is more understated—in part because he will not actually step in as Premier until the March National People's Congress meetings—his comments merit close attention. In this piece, I examine the signals that both Xi and Li are sending; the nature of the power they have to follow up on those signals; and the limitations in what we have seen so far. I predicted in earlier issues of *China Leadership Monitor* that Xi, having indicated his desire for more intensive reforms and a “top level design” for reform, would move quickly to establish momentum for the economic reform process after his assumption of power. In fact, this is exactly what has happened.¹

Xi Jinping's Signals on Economic Reform

While it should not be confused with actual policy-making, the signaling process is extremely important. This can be seen in an analysis of the signals that Hu Jintao sent exactly ten years ago, when he took over the top leadership position in December 2002, and the signals Xi Jinping is sending today. In his first trip out of Beijing, Hu took the entire Party Secretariat to visit Xibaipo (西柏坡) in Hebei, the last headquarters of the Communist Party in 1949 before they seized power in Beijing. Hu read large portions of Mao Zedong's speech in Xibaipo, stressing the need to maintain the Party's style of honesty and plain living in the face of the arduous challenges to come after the seizure of power.² In retrospect, we can see that Hu's signal in 2002 was an excellent guide to at

least one strand of the policy direction he was to take over the next ten years: the re-emphasis on Communist Party history and continuity, and the re-assertion of ideological orthodoxy. Indeed, to a certain extent, the speech heralded a shift to the left in overall government policy, which entailed an emphasis on redistributive social policy, government guidance of the economy, and what turned eventually into an across-the-board stagnation of the market reform process. Although outside observers harbored hopes that Hu Jintao was a closet reformer, he clearly signaled that he was not.

In the aftermath of the 18th Party Congress, Xi Jinping has sent signals that are almost completely opposite to those sent by Hu Jintao in 2002. During his first public trip out of Beijing, from December 7 through 11, Xi visited the Shenzhen and Zhuhai Special Economic Zones and the cities of Foshan and Guangzhou, in Guangdong.³ The broad symbolism of the trip was impossible to miss: Xi essentially recapitulated Deng Xiaoping's famous "Southern Tour" of 1992, which kicked off the intense and ultimately successful round of economic reforms that transformed China during the 1990s. Xi laid a wreath in front of Deng Xiaoping's statue in a park in Shenzhen and planted a tree nearby, all the while accompanied by retired officials who had also accompanied Deng. Deng's Southern Tour marked an end to the 1989-1991 retreat from economic reform that occurred during the post-Tiananmen Leftist reaction. Implicitly, Xi would also mark an end to a decade of reform stagnation. Newsstands in Beijing displayed magazine covers highlighting the significance and parallelism of the trips, including at least one Photoshopped cover showing Xi and Deng striding firmly towards each other. Just in case anybody missed the Dengist associations, Xi visited the village Deng Xiaoping had visited in 1984 when he reaffirmed the Shenzhen experience and pointedly dropped in on a wealthy private business.⁴

In fact, the symbolism of Xi's trip to Shenzhen extends well beyond the mere recapitulation of a dramatic episode from China's Dengist past. Deng's Southern Tour was already being discussed—it occurred exactly 20 years ago this spring—and its significance was being reconsidered. Hu Shuli has recently published a long and detailed account of the events around the 1992 Southern Tour, with the telling title "How were reforms restarted?"⁵ The essential intent of this piece was to see what lessons can be learned from a careful reconsideration of a period in China's recent past that has direct bearing on the present. An important pro-reform article was contributed by Zhou Ruijin, who as the main Shanghai author behind the pseudonym Huang Fuping, played an important role in forcing Deng's hand in 1991-92 by enthusiastically propagating remarks that Deng had made in small meetings.⁶ In the current article, Zhou emphasizes the pro-reform significance of Xi's trip, and even argues that the wording of the 18th Party Congress Communiqué breaks new ideological ground.⁷

More important from the standpoint of signaling, the Guangdong trip develops and reinforces the signals Xi began during the 18th Congress. The remark that Xi reiterates most often is that "empty talk endangers the nation; only hard work achieves national revival (空谈误国, 实干兴邦)." This remark is implicitly critical of Hu Jintao and his administration, and perhaps for this reason is officially translated as "Empty talk is useless, only hard work can achieve the revival of a nation" which sounds smoother but

has less bite than the literal translation. Xi made this comment at the 18th Party Congress, during his meeting with the Shanghai delegation, and repeated it when he took the new Standing Committee on an outing to see the exhibit on national revival at the National History Museum on November 30. But it turns out that the line itself is a quote from Deng Xiaoping, made on his Southern Tour, as Xi noted when he repeated the slogan in Guangdong.⁸ Deng used it in the context of his consistent view that theoretical discussions and disputes over principles should be minimized. Deng's comment was subsequently erected on a welcoming billboard at the Shekou Industrial Zone, the pioneering district of the whole Shenzhen Special Economic Zone.⁹ Xi has now more or less adopted Deng's phrase as the signifier of his own personal brand.

The Guangdong trip also served as an occasion for Xi Jinping to demonstrate that he would follow the principles of "plain living" that he laid out earlier in the month. At the first publicized Politburo meeting after the 18th Congress, on December 4, Xi laid out "Eight Regulations" for the behavior of Party officials, explicitly beginning with Politburo members themselves. The striking thing about these regulations is how concrete they are: even in summary they include such things as: roads should not be closed to the public for the convenience of official limousines during meetings; officials should not stay in luxury hotels; delegations should not see people off at airports, etc., etc. Because the regulations are concrete and related activity is apparent to the public, it is easy for outsiders to monitor whether the new standards are being followed.¹⁰ Of course, Xi's behavior in Guangdong fit with the new rules, giving the official media a chance to comment on the modest vehicles used, the lack of excess ceremony, and so forth. There was also a striking photo of Xi sitting in a farmhouse with traditional Chinese religious pictures on the wall.¹¹ All of this clearly fit the image Xi was trying to project.

Xi's signals during the first two months of his administration have been both well orchestrated and well executed. Xi has signaled a new policy direction; he has clearly differentiated himself from the Hu-Wen administration, and indeed implicitly leveled rather severe criticism at the Hu-Wen era. Moreover, the direction of change is unambiguous: more economic reform, more practical measures, and less bureaucratic pomp and ceremony. Finally, Xi has managed to do this while taking steps to build his own personal credibility and the credibility of his commitment to reform and change. The signals are clear, and were successfully transmitted.

Xi's Signals: Caveats and Qualifications

At the same time, it is important to look at the limitations apparent in what we have seen in the first two months of the Xi administration. Xi had plenty of time to think about his first couple of months, and all of this was doubtless well thought out for maximum impact. Moreover, these are signals, not policy. In the speeches Xi has given, there is nothing to suggest that the new administration has "hit the ground running" in terms of actual policy formulation. Quite the contrary: Xi was apparently quite careful not to commit himself to anything specific in the area of economic reform (or for that matter, in most policy areas). Moreover, his message was carefully balanced, including both economic reform messages and nationalist appeals. Xi's nationalism includes a commitment to a strong defense posture that is more explicit than previous leaders'

declarations. At the Guangzhou Military Region Xi said, “to achieve the great rejuvenation of the Chinese nation, we must fully achieve both a rich country and a strong army, and we must strive to build and consolidate our national defense and a strong army.”¹² These positions seem calculated to give him maximum appeal and maximum flexibility. Not having committed himself to anything except intentions, he retains extensive room to maneuver.

In addition, Xi Jinping is clearly not an economics specialist. He has plenty of experience dealing with businesses in developed coastal provinces such as Fujian and Zhejiang. But Xi was never deeply engaged in economic policy in his previous postings, nor did he carefully follow the details of economic work. Thus, Xi’s engagement with economic policy today will depend on his advisers: so far, he has chosen to rely heavily on Liu He in the economic arena, and has chosen smart and capable younger advisers for his personal support team.¹³ Xi brought with him to Guangdong a full team that might even be termed a brain trust: Wang Huning (Politburo member and head of the Central Policy Office); Li Zhanshu (Politburo member and head of the Party Secretariat Office); Zhu Zhixin (office head of the Finance and Economics Leadership Small Group); and Liu He.¹⁴ These people are working on an approach to a renewal of economic reform: they don’t have one in hand. Still, there is no reason to doubt the seriousness of their commitment.

With all the attention to the parallels to Deng Xiaoping, it was easy to miss the fact that Guangdong and Shenzhen have a much more personal connection to Xi. Xi’s father, Xi Zhongxun, was a top leader in Guangdong between 1978 and November 1980, and had as much personal involvement in the establishment of the Shenzhen Special Economic Zone as anyone. Moreover, Xi Zhongxun and Qi Xin, Xi Jinping’s mother, left Beijing in 1990, and stayed in Shenzhen, never returning to Beijing for anything more than brief visits. One reason for this choice was clear enough: Xi Zhongxun had openly opposed Deng’s moves to strip Hu Yaobang of power at the beginning of 1987, and had sympathized with Zhao Ziyang with regards to the student protests at Tiananmen. In fact, Xi Jinping apparently went to visit his mother while in Shenzhen, but this was only briefly reported and quickly deleted by the official media.¹⁵ As far as sending signals is concerned, Xi prefers to be sending Dengist signals at this time.

Li Keqiang’s Speech

Since Xi Jinping has clearly signaled his direction, but not tipped his hand in terms of specifics, what about Li Keqiang? As it happens, less than a week after the 18th Party Congress concluded, Li gave a talk that signaled with unusual clarity his approach to problems of economic reform. Surprisingly, given the intensive and widespread speculation about the new leadership, this speech has received relatively little attention, even though it was extremely informative and straightforward. One official media source—being a little over the top, to be sure—said that “if you had to use one word to summarize Li Keqiang’s talk today, that word would be ‘reform,’ and if you had to use two words, they would be ‘reform, reform,’” and three words would summarize it as ‘reform, reform, reform.’”¹⁶ Looking beyond the hyperbole, a close examination of Li’s remarks indicates that such optimism about Li’s intentions is not unreasonable.

On November 21, Li Keqiang addressed a meeting of representatives of the eleven national “Pilot Comprehensive Reform Zones.” In the choice of venue and in his remarks themselves, Li gave a ringing endorsement of renewed market-oriented reforms. He started out with a pungent remark: “Reform is like a boat beating against the current; if you don’t move forward, you will slip backwards.” The clear implication here is that China has been slipping backwards. With this statement Li draws a distinction between himself and Wen Jiabao’s administration, of which he himself was a member. In this speech, Li argues that China can reap a “dividend” from economic reform that will replace the “demographic dividend” that China is losing as a result of population aging. He goes on to say “Economic system reform up until today has run into many knotty problems and has many loose ends; if we try to do everything at once, we will only achieve half as much with twice the effort. But if we can find a break-through point where a single action can trigger a systemic shift, then we can achieve twice as much with half the effort.... This break-through point will also follow a certain pattern.... which is to give to the market and to society all those things where the market and society should play a role.”

These are casual remarks, but they reflect thoughtful consideration. Li Keqiang talks about the need to take vested interests into consideration and find ways to reduce the opposition of interest groups. In order to do so, “we have to be good at increasing benefits, and adjust people’s expectations about future benefits, while at the same time steadily and reliably adjusting the existing distribution of benefits...we need to emphasize fair rights, fair opportunities, fair rules, in order to allow everybody to benefit from their own effort.” The venue was a meeting of a heterogeneous group of “experimental districts” each selected for a different reason, beginning with Shanghai’s Pudong District, designed in 2005.¹⁷ Perhaps because of the venue, Li Keqiang pointed out that while a “top level design” for reform is essential, it is not enough. China also requires local-level experimentation to pilot new ideas and to make and correct mistakes, to “clear away the thorns.”

In terms of a commitment to economic reform, Li Keqiang in this speech was clearly making the right noises; far more important is the fact that he actually said the right things. He was not just signaling renewed reforms, he was also communicating the fact that he was prepared to grapple with the substantive issues of crafting, negotiating, and passing a viable reform program. This is essential, because ultimately Xi Jinping will pass the baton to Li Keqiang to actually implement any reform program. That baton has not yet been passed, and perhaps cannot until Li becomes Premier next spring. The process has begun, and both key top leaders have signaled their intention to move toward dramatic market-oriented reforms. Can they deliver?

The New Standing Committee

The Politburo Standing Committee (PBSC) that emerged from the 18th Party Congress will ultimately pass on all major policy initiatives. Commentary on the new PBSC has been dominated by two points. First, the shrinkage of the Standing Committee from nine to seven members will make decision-making a little less cumbersome, and potentially “streamline” the process.¹⁸ Second, a large majority of the new PBSC members have

strong factional ties to Jiang Zemin. Meanwhile, prominent reformers Wang Yang and Li Yuanchao did not make it into the PBSC, which is definitely disappointing. Overall, the personnel selection process reflects caution and has resulted in the selection of a rather dull set of characters. Is this outcome actually negative for economic reform? In fact, it may not be.

In the last issue of *China Leadership Monitor*, I sketched out a scenario that would be conducive to economic reform: the PBSC would shrink to seven, and an “economics slot” would be reinstated. Instead of having one out of nine Standing Committee members running the economy (as has been the case recently), we would then have two out of seven. In fact, this has occurred, but it did not happen in the way that I and others envisaged. Writing a few months ago, I assumed that such a PBSC configuration would include the elevation of Wang Qishan to the restored economic policy-making position. This did not occur, and Wang Qishan was instead designated to head the important Central Discipline Commission. According to many accounts, one of the factors that led to Wang Qishan being named to the Discipline Commission was Li Keqiang’s desire not to be overshadowed in economic policy-making. Wang Qishan is both a strong personality and an accomplished, self-confident economist. Li Keqiang wanted to be the clear leader in the State Council, and got his way. Li’s position is somewhat anomalous. It has been widely reported that Hu Jintao would have preferred Li as top leader, and promoted him in preference to Xi Jinping. However, Hu Jintao is widely seen to have been the big loser in the succession arrangements, and now Li Keqiang is the only member of the PBSC who has an unambiguous background in Hu Jintao’s “Youth League” faction. That might imply that Li’s position is weak. Yet that does not seem to be the case. In a sense, Hu Jintao seems to have concentrated his patronage on Li, ensuring that he would get the working conditions he needed. In similar fashion, Hu’s “full retirement”—his immediate retirement from the Military Commission in favor of Xi Jinping—also contributes to an effective and complete handover of power to Xi. Put together, Hu’s actions have contributed to a situation in which Xi and Li together have relatively more decision-making authority and room to maneuver than Hu himself and Wen Jiabao had. Hu directly or indirectly contributed to the shrinkage of the PBSC; the concentration of economic authority in the hands of Li; and the full transfer of political authority to Xi.¹⁹ It is also rumored in Beijing that Li will assume other important jobs in the new administration.

Both Xi Jinping and Li Keqiang have a fairly high degree of legitimacy, insofar as it is proper to talk of legitimacy in a self-propagating system without external accountability. Both were thoroughly vetted, and placed on the successor track for a full five years; both were considered to be qualified for the top job. If models of Chinese politics based on two main factions are correct—that is, Li Cheng’s Coastal vs. Inland, or Princelings vs. Youth League, or Jiang Zemin vs. Hu Jintao—then these two leaders each represent one of the two main factions. These factional models are appealing precisely because they simplify the situation, but they sometimes lose too much of the complexity, or are just plain wrong.²⁰ In any case, these factional models really aren’t very helpful in predicting policy outcomes with respect to economic reform, because it is not at all clear which faction has the stronger commitment to economic reform. Jiang Zemin led China through

a period of productive economic reforms that moved China dramatically forward in the economic realm, so it makes no sense to associate Jiang's faction with hostility to economic reform. By contrast, China's move to the market stalled out under Hu Jintao and Wen Jiabao, even though Wen Jiabao is often considered the most "reformist" among China's current politicians. In any case, today the two top politicians from the two different factions are united in their clear commitment to revitalize and restart market-oriented economic reforms. What about the other members of the top leadership body?

The Three Regional Leaders on the PBSC

The new PBSC is a peculiar body. It has three members who are provincial party bosses. This is true in the immediate practical sense: Zhang Gaoli is Tianjin First Party Secretary; Zhang Dejiang is Chongqing First Party Secretary; and Yu Zhengsheng is Shanghai First Party Secretary. Three out of the four total Party bosses of the Municipalities directly subordinate to the center have stepped up into the PBSC. This would be a remarkable outcome, except that it is largely accidental. Since Bo Xilai imploded, and the leaders running the transition decided to exclude Wang Yang (perhaps to balance out Bo's absence), these three Party bosses were all that were left. Between the three of them, they have headed eight of China's 31 province-level units. Moreover, all three are old enough (over 63) that they are limited to a single term on the PBSC (Yu Zhengsheng is 67, while Zhang Gaoli and Zhang Dejiang turned 66 in November).

None of the three has ever been accused of having a vision, or being a closet idealist. All three have careers as competent, practical politicians, running local satraps and balancing interests. They are typical pols, like the big city Democratic Party bosses of American cities fifty years ago; Mayor Daley (the first) redux. Of the three, Yu Zhengsheng probably has the best claim on some kind of personal accomplishment. After starting his career in the electronics industry, Yu moved to Shandong to head the city of Yantai, and then on Qingdao, which thrived during the 1990s while he was boss. Yu then did a stint as Minister of Construction, from 1997 through 2001, which was just when housing privatization was rolled out nationwide. Hardly a perfect process, it was at least a bold step towards marketization. In Hubei from 2001 to 2007, Yu compiled a decent record, and while not particularly popular as boss in Shanghai since 2007, he has at least performed adequately in that difficult job. At a time when the term "princeling" can sometimes be applied indiscriminately, Yu is the real deal. His extended family first came to prominence at the end of the Qing dynasty. Yu's father—who went by the pseudonym Huang Jing—was a prominent Communist Party leader in the 1950s, and his mother was on the Beijing municipal Party Committee in the 1960s. Yu Zhengsheng was particularly close to Deng Xiaoping's son Deng Pufang in the 1980s.²¹ However, the family ties go well beyond this. Yu Zhengsheng's great-uncle—his father's uncle on his father's side—was Yu Dawei, Minister of Defense in the Republic of China on Taiwan from 1954 to 1964.²² Yu's family ties became a huge burden to him when his elder brother, Yu Qiangsheng, defected to the United States from the Beijing security apparatus during the mid-1980s. Many assumed this ended Yu's chances of a top leadership position, and perhaps it did—until last month.

Zhang Gaoli is from Pujiang in Fujian, which means that he speaks the same Minnan dialect that is spoken in Taiwan. Zhang's career brought him through the petroleum Ministry, into the Guangdong provincial planning apparatus, and then to First Party Secretary of Shenzhen. He has worked hard to please his superiors at every job he has had, and has generally succeeded in doing so. As Shenzhen boss, he coordinated with Guangdong Party boss Li Changchun, a once-promising provincial party boss and strong Jiang Zemin supporter who ended up wreaking havoc on China as head of a strengthened Propaganda department. While in Shenzhen, Zhang Gaoli presided over the marriage of his daughter to the son of wealthy Hong Kong businessman Lee Yin-ye (李賢義), the founder of Xinyi Glass. Lee happens to come from an area of Fujian that adjoins Pujiang, and has extensive business interests in Shenzhen.²³ Zhang Gaoli was moved to Shandong in 2001, where he seems to have presided over a general deterioration in political and ethical standards, punctuated by the jailing of Chen Guangcheng (the blind activist who fled to the U.S. embassy in 2011). Zhang moved to be head of Tianjin in 2007, where he primarily presided over the expenditure of an enormous amount of money in the construction of the Binhai special zone. The opportunity to spend so much money was clearly not created by Zhang himself, but rather was a central government policy generally credited to Wen Jiabao (a Tianjin native). Zhang did, however, seize the opportunity and enthusiastically spent the money. It is reasonable to associate Zhang with Jiang Zemin. In any case, the dominant motif of Zhang Gaoli's career seems to be opportunism. He has performed well enough to please his superiors in every job, has taken care of himself, and squeezed into the PBSC at the last minute.

Zhang Dejiang is the character in the middle of these three. Like the other two, he is a party boss, having served as head of Jilin, Zhejiang, Guangdong, and Chongqing (in the wake of Bo Xilai). Zhang has been lucky: he presided over Guangdong from 2002 through 2007 during a period when a good economic base and a robust global economy pushed the province's GDP past that of Taiwan. He was Vice-Premier in charge of industry and telecom at a time (2008 to 2012) when the money available for that post was exploding. Zhang has a reputation as a utility hitter and crisis manager.

What impact will these three have? First, these three are not likely to play a strong role constraining Xi Jinping and Li Keqiang. If the two top leaders are able to agree on an activist program of any kind, whether market-oriented economic reform or something else, they will almost certainly be able to develop enough of a bandwagon to bring along the three regional bosses. All three are noted for being followers, rather than leaders. Moreover, each of the three will be "termed out" at the end of their five years. Finally, the roles designated for two of the three will reinforce a secondary position: Yu Zhengsheng is expected to head the China People's Political Consultative Congress (CPPCC), while Zhang Dejiang is expected to head the National People's Congress (NPC). It is indeed possible that the NPC will take a stronger role in the next few years, but if so that will likely be accompanied by an infusion of retired, but young and capable, economic bureaucrats to the key NPC committees.

A great deal will depend on how effectively top politicians work together in the State Council. Expectations in Beijing are for Zhang Gaoli to take over as Executive Vice-

Premier when the new government is formed in March, thus stepping into the position that Li Keqiang currently holds, but without the possibility of being a successor Premier. Zhang Gaoli will certainly focus primarily on economic issues, but is hardly the strong pro-reform voice that, for instance, Wang Qishan would have been. Since Xi Jinping's trip to Guangdong, it is widely expected that Wang Yang will also become a Vice-Premier, with primary responsibility for economic reform policy. Wang Yang was at Xi Jinping's side throughout Xi's trip. As soon as Xi left, the formal end of Wang Yang's tenure in Guangdong was announced, and he revealed that he would move to Beijing. Clearly, this timing was intentionally arranged to give Wang Yang additional visibility, while also giving Xi an appropriately experienced local guide. If this is in fact the configuration of the State Council that emerges in March—which is not yet certain—then there will be plenty of top leadership attention given to economic affairs. The remaining question will be how effectively these leaders will work together: Li Keqiang, Zhang Gaoli, and Wang Yang at the State Council; Wang Qishan at the Central Disciplinary Commission, but with his own strong ideas about economics; and Xi presiding over the whole process. At a minimum, the concentration of leadership talent shows the priority the top leadership is now giving to economic reform and the economy in general.

Conclusion

After several years in which it has been difficult to conceive of substantial improvements in the Chinese economic system, today Xi Jinping and Li Keqiang have the potential to create forward movement and institute significant change in the Chinese economic system, and perhaps even some aspects of the political system. They have clearly signaled their intention to reboot economic reforms, and the configuration of attitudes and political power at the top of the Chinese system provides potential support for substantive action.

It is impossible to say, at this point, whether Xi and Li will use the opportunity that they have effectively. We do not, and perhaps cannot, know their true intentions and ultimate objectives. They have not committed themselves to any specific measures or particular approaches. We do not know how they will handle the tradeoffs among technically difficult reform measures, some of which are unpopular and some highly popular. We do not know how they will handle the tradeoff between system reform and other aspects of economic policy, particularly macroeconomic and growth policy. We do not know how they will handle the political tasks of coalition-building, balancing against interest groups that will fight hard to block specific reforms. We do not know how Xi will choose to balance the “rich country” and “strong army” sides of his leadership mission.

Xi and Li have, however, committed themselves to a process, and a type of outcome. That is to say that they have committed themselves to a process of defining a comprehensive economic reform program, and they have laid out some broad principles for the kind of reform program that is being sought. This is quite explicit in the declaration of the Central Economic Work Conference that convened December 15-16. The conference laid out six primary economic tasks for 2013, the sixth of which was to “comprehensively deepen” economic reform, and more specifically to “study in depth a top level design and an overall long-term plan....and clearly provide an overall program,

a road-map, and a time-table.”²⁴ This is different from a signal: this is the initiation of a process. Since the completion of the process is a primary task for 2013, we should expect it to be completed by the 3rd Plenum in October or November 2013.

***This process will take time, but they need time. We should not expect dramatic system reform moves in the next few months. There is no consensus in Beijing on the shape of a revived economic reform program. There are plenty of ideas; there is plenty of overlap among the ideas; and there is lots of common ground about the direction the economic system needs to go. Most economists in Beijing can give you a list of a dozen or more measures that should be taken, and there would already be significant overlap among such lists.²⁵ Now that the discussion has opened up, and the possibilities seem more realistic, new types of input are also emerging, and there is more scope for experimentation, as well. For this reason—and perhaps to accommodate Li Keqiang’s ideas as well—the Economic Work Conference also called for “simultaneously pushing forward gradualism and break-through measures; encouraging bold experimentation and opening-up; and allowing people to cross the river by groping for stepping stones.” Most importantly, we will see a year-long process of consensus-building. Various groups will compete to advance their reform agendas and proposals. This process will ultimately be structured by the top leadership,²⁶ but the structure is not yet in place. Over the next few months, and certainly by the time the new government is set in place in March 2013, we will see a new, or existing but reformulated, organization, along with a handful of key individuals, designated to formally oversee the drafting and consensus-building process. This will be followed by extensive consultation, by multiple debates, and by repeated drafts of an overall program. We have seen this process at work in China before, and we know that it can on occasion achieve a successful outcome, and sometimes a dramatically successful one. China’s renewed economic reform process faces enormous challenges and substantial pitfalls, and it has just begun, so we cannot presume it will succeed. However, failing to undertake or carry through the process would be even more dangerous and damaging to China’s interests, and would hardly be compatible with the “national revival” that Xi Jinping so obviously sees as his historical mission. Therefore, we should take the gathering reform process extremely seriously, and it is not irrational to have some hope for a dramatic and successful outcome.

Notes

¹ See Barry Naughton, “Leadership transition and the “top-level design” of economic reform,” *China Leadership Monitor*, No. 37 (Spring 2012). And “The political consequences of economic challenges,” *China Leadership Monitor*, No. 39 (Fall 2012). Accessed at <http://www.hoover.org/publications/china-leadership-monitor/by-date>.

² Hu Jintao Xibaipo Speech, December 6, 2002 available at http://news.xinhuanet.com/ziliao/2003-01/02/content_731349.htm. I described Hu’s visit to Xibaipo in Barry Naughton, “China’s left tilt: pendulum swing or mid-course correction?” in Cheng Li, ed., *China’s Changing Political Landscape: Prospects for Democracy*. Washington, DC: Brookings Institution Press, 2008. P. 142.

³ Wang Su (汪苏). “Xi Jinping’s schedule in his southern tour 习近平“南方之行”日程,” *Caixin*, December 13, 2012, accessed at <http://china.caixin.com/2012-12-13/100472144.html>

⁴ Central Television, “Xi Jinping visits Luohu in Shenzhen: Keep going along Deng Xiaoping’s path 习近平探访深圳罗湖：沿邓小平的路走下去,” December 10, 2012, accessed at <http://news.163.com/12/1210/03/8IB6M6CD0001124J.html>

⁵ Hu Shuli, Huo Kan and Yang Zheyu (胡舒立 霍侃 杨哲宇), “How were reforms restarted? The provenance of the socialist market economic system 改革是怎样重启的——社会主义市场经济体制的由来,” *China Reform* 中国改革, December 2012, accessed at <http://magazine.caixin.com/2012-11-29/100466603.html>

⁶ Zhou Ruijin 周瑞金 “The new ‘Talks on the Southern Tour’ open up a new prospect for reform, 新“南方谈话”开拓改革开放新局面,” *Caijing* (财经) December 16, 2012, accessed at <http://magazine.caijing.com.cn/2012-12-16/112367457.html>

⁷ Needless to say, not everyone agrees with Zhou Ruijin’s interpretation of the Party Communique, and it provoked a typically rabid counter-reaction from some left-wing websites. For example, see Zhong Cheng, 仲呈 “Is Huang Fuping trying to set up Xi Jinping?—How Huang Fuping distorts the meaning of the 18th Congress Communique 皇甫平又要陷害习近平?—皇甫平如何曲解十八大报告,” December 18, 2012 on the Red Song Club (红歌会网) accessed at <http://www.szhgh.com/html/69/n-17469.html>

⁸ Hu Jian 胡键, “Xi Jinping tours Guangdong, a veritable record: Write the “China dream” by advancing reform and opening 习近平考察广东纪实：在改革开放前沿起笔“中国梦”(four linked articles).” *Nanfang Daily*, December 13, 2012, accessed at <http://news.sohu.com/20121213/n360279611.shtml>; In fact, Xi had used this slogan in his March 2011 article in Study Times (学习时报), “The key is implementation 关键在于落实.” Xu Shiping (徐世平), “Empty talk leads to national collapse and idle chatter leads to national collapse 空谈误国与清谈误国,” December 2, 2012, Eastern Weekly Web 东方网, accessed at <http://news.163.com/12/1202/09/8HN73SN800014AEE.html>;

⁹ As such, it was the successor to an even more controversial billboard in Shekou that read “Time is money, efficiency is life.” Yu Changmin (余昌民), “What is the origin of the phrase ‘empty talks endanger the nation; only hard work achieves national revival (reference material) 空谈误国 实干兴邦’的由来(资料).” Southern Metropolis Network (南都网), November 29, 2012. Accessed at http://news.ifeng.com/mainland/detail_2012_11/29/19680620_0.shtml

¹⁰ Xinhua News Agency, “The Politburo held a meeting; it approved measures on improving work style and closely allying with the masses; and it analyzed 2013 economic work; General Secretary Xi Jinping presided 中共中央政治局召开会议 审议关于改进工作作风、密切联系群众的有关规定分析研究2013年经济工作 中共中央总书记习近平主持会议,” December 4, 2012, accessed at http://news.xinhuanet.com/politics/2012-12/04/c_113906913.htm. The eight measures also include a number of measures enjoying politicians to give shorter, more impromptu speeches, and not to publish articles or attend events on their own personal account.

¹¹ Photo at <http://politics.people.com.cn/n/2012/1211/c133637-19865390-14.html>

¹² Wang Hongshan and Liu Shengdong (王洪山、刘声东), “Xi Jinping visits the Guangzhou Military Region and advocates maintaining the integration of rich country and strong army 习近平在广州战区考察时强调坚持富国和强军相统一,” *People’s Daily* 人民日报, December 13, 2012, accessed at <http://politics.people.com.cn/n/2012/1213/c1024-19879646.html>

¹³ On Liu He, see my “Leadership transition,” CLM No. 37, and the sources cited there. Duowei News, “Xi Jinping reveals his brain trust: a prodigy combined with an old soldier 习近平两大文胆曝光 “神童”搭配“老兵” November 26, 2012, accessed at <http://18.dwnews.com/news/2012-11-26/58982029.html>. The “old soldier” discussed in this short piece is Liu He (刘鹤); while the “prodigy” is Li Shulei (李书磊), Xi’s political secretary. Xi’s general personal secretary, Shi Zhihong (施志宏), is also considered to be exceptionally capable.

¹⁴ Hu Jian, *op. cit.*, end of article. Liu He is currently vice-office head of the Finance and Economics Leadership Small Group and Party Secretary of the State Council Development Research Center. In addition, Commerce Vice-Minister and head of International Negotiation Section Gao Hucheng accompanied the team.

¹⁵ Xi Zhongxun Chronology, at <http://www.crt.com.cn/news2007/News/spnb/2006-10/16/10162175.html>; Dong Fang (东方), “What signal is Xi Jinping sending when he visits his mother in Shenzhen? 习近平深圳探母释出什么信号?” December 12, 2012, accessed at <http://www.voachinese.com/content/xi-jinping-shenzhen-20121212/1563516.html>; Wang Jianjun (王建军). Blog post. “Xi Zhongxun and Xi

Jinping both have deep roots in Shenzhen 习仲勋和习近平的深圳缘”, December 10, 2012, accessed at <http://blog.ifeng.com/article/21777641.html>

¹⁶ Du Yongtao, Fu Yingnan, Wei Xi and Liu Yang (杜涌涛、付雁南、魏晞、刘阳), “Li Keqiang emphasizes that the biggest dividend that China enjoys is the reform dividend 李克强强调：改革是中国最大的红利,”

People’s Daily Online 人民网, November 22, 2012, accessed at <http://finance.people.com.cn/n/2012/1122/c1004-19667962.html>. Li Keqiang’s remarks are partially reported in the preceding source and in Xinhua News Agency, “Reform is like a boat beating against the current; if you don’t move forward you will slip backward 改革如逆水行舟不进则退,” November 23, 2012, accessed at http://whb.news365.com.cn/yw/201211/t20121123_796468.html.

¹⁷ Liu Zheng and Ji Ming (刘铮、季明), “An overall account of comprehensive reform pilots: providing lessons from experience for the whole country 综合配套改革试点进展综述：为全国提供经验借鉴” Xinhua (新华社) June 10, 2011, accessed at http://www.gov.cn/jrzq/2011-06/10/content_1881456.htm

¹⁸ William Overholt says, “In Chinese terms this leadership is centrist and stripped down to get things moving.” In “China’s new leaders: conservative immobility or streamlined decisions?” *pacnet* #78 wednesday, nov. 28, 2012.

¹⁹ Perhaps even Hu Jintao is tired of the Hu era. If it is true that the nine-person PBSC left decision-making tied in knots, and if, as some argue, Hu was frequently outmaneuvered by a Jiang Zemin group, nobody would be more frustrated than Hu himself.

²⁰ In the “wrong” category I would put Bruce Gilley’s imaginative attempt to divide the new Standing Committee 5-2, with the majority consisting of Leninist Nationalists and Li Keqiang and Liu Yunshan making up a “Marxist Romantic” minority. To be fair, Gilley is more interested in characterizing the views of the majority than he is describing a factional system. Bruce Gilley, “China’s new leaders to strengthen the party-state,” *China Brief* [Jamestown Foundation] Volume: 12 Issue: 23, November 30, 2012, accessed at

[http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews\[tt_news\]=40181&tx_ttnews\[backPid\]=25&cHash=0ea84ec6648c18f0877e130138e13364&utm](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=40181&tx_ttnews[backPid]=25&cHash=0ea84ec6648c18f0877e130138e13364&utm)

²¹ Yifeng News, “Yu Zhengsheng (俞正声),” No date. Accessed at <http://news.ifeng.com/mainland/special/zhonggong18da/changwei/yuzhengsheng.shtml>. This source also reports on the relatively frank and candid appraisal of Mao and the Cultural Revolution that Yu made at Shanghai Jiaotong University last year.

²² In fact, Yu Dawei’s son married Jiang Jingguo’s daughter, so the family ties are even more complex. The marriage came relatively late in life, however, and was clearly not part of dynastic strategies. However, the result was that Yu Zhengsheng has a third cousin, Yu Zusheng, who is Jiang Jingguo’s grandson. See the various articles in Chinese Wikipedia to trace the connections. Chinese Wikipedia:

<http://zh.wikipedia.org/zh-hant/俞正聲>

²³ Lee is also a business associate of Lee Ka-shing (no relation), sometimes called the world’s richest man.

²⁴ Xinhua News Agency, “The Central Economic Work Conference has been carried out; Xi Jinping, Wen Jiabao, and Li Keqiang made important speeches 中央经济工作会议举行 习近平温家宝李克强作重要讲话,” December 16, 2012, accessed at http://news.xinhuanet.com/fortune/2012-12/16/c_114044452.htm

²⁵ For one such list, from one of China’s most important policy intellectuals, see Qin Xiao (秦晓), “Bring the reform consensus into focus; restart the reform process: the choice of reforms at the crossroads 凝聚改革共识 启动改革议程——“十字路口”的改革抉择,” December 24, 2012. Accessed at http://www.21ccom.net/articles/zgyj/gcxc/article_2012122473600.html

²⁶ Indeed, one of the “messages” of the Hu Shuli piece on the 1991-92 reform process revival, cited in endnote 5 above, is that Jiang Zemin played a key role in orchestrating this process and bringing it to a conclusion.