

The Battle for *China's Soul*

*The new politics of
rock, paper, scissors.*

BY WILLIAM H. OVERHOLT

Behind the headlines of Chinese succession struggles is a battle for the soul of China. Each headline name symbolizes a proffered solution to huge dilemmas, with each solution typically supported by overlapping populations comparable in size to that of the United States.

Zhu Rongji, China's previous prime minister, led a desperate effort to avoid banking system collapse and to raise urban living standards through globalization and markets. He unloaded most of the state enterprises, reformed China's banks, promoted competition, and joined the World Trade Organization, succeeding beyond anything that seemed possible in 1994. Growth continued at 10 percent, the financial system stabilized, and China's formerly inefficient industries consolidated and became internationally competitive. But the social cost of his decade included 25 million lost manufacturing jobs, 50 million lost state enterprise jobs, a halving of employment in the upper levels of Chinese government, ruthless consolidation of (for instance) China's 128 small car companies, and rising social inequality. By 2002 people were getting angry; Chinese society just couldn't stand more stress.

In came Hu Jintao, promising a "harmonious society"—a phrase with many meanings but operationally "no more stressful Zhu Rongji market reforms." Hu addressed the poverty of China's interior with a vast transfer of funds and leadership talent to that region, focused on Sichuan and Chongqing, an effort that, amazingly, delivered growth rates there above 15 percent.

But the reform hiatus put China's dynamism at risk. The old drivers of rapid growth—cheap exports and infrastructure construction—are weakening fast. Hu coddled the state enterprises and almost doubled the size of the Party and government. A society that had recoiled from excessive mobility and stress under Zhu now found itself frustrated by a red ceiling: a wealthy, arrogant, politically connected elite monopolized opportunities. Banks gave low-interest loans to state enterprises and starved everyone else. Good jobs went only to the politically well-connected. In contrast with three decades when the roles of the offspring of the great revolutionary leaders ("princelings") were sharply constrained, beginning at the end of 2012 all of China's governing bodies—notably the top leader, the Politburo Standing Committee, the Politburo, and the Central Committee, as well as to a lesser extent the congress and the military—will be dominated by princelings. Throughout China, riots have erupted as the Party-business elite expropriated the land of farmers and urban apartment dwellers to build factories and shopping malls. Now Chinese society is frustrated primarily by the new elitism, the lack of reform.

Bo Xilai, who ran Chongqing, the world's largest city with 32 million people, caught the new popular mood. He channeled the flood of money for interior development well. Chongqing became

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Wang Yang



Li Yuanchao

Up and Comers

The other response to the reform hiatus and the red ceiling comes from two new senior leaders, Wang Yang and Li Yuanchao. Wang has promoted economic reform and political accommodation in a province, Guangdong, with a critical mass of cosmopolitan entrepreneurs. Li, currently the manager of 70 million government and Party employees, has refined a meritocratic management system that governs China like General Electric.

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a modern, attractive, exciting metropolis where the traffic flowed smoothly and innumerable new trees shaded the city green. Bo addressed the frustrations of those constrained by the red ceiling: He provided residence permits to urban migrants, giving them access to education and health care, and built low-cost housing for them. This inspired everyone from those urban migrants to college students who, lacking connections, found that hard work no longer assured good jobs. He struck at the corrupt elite by jailing and executing gang members and corrupt officials without regard for the new rule by law that the central government was promoting. He encouraged singing revolutionary songs not to revive the Cultural Revolution but to revive the spirit of universal fairness and opportunity that inspired the 1949 revolution. Those efforts made him China's most popular politician.

But Bo's model was fatally flawed. Economically, it relied on transfers and re-zoning land—both unsustainable. His lawless "cleanup of corruption" frightened business so much that capital fled and left him more than ¥1 trillion short of what his budget required. Aside from personal flaws, his policies threatened three decades of effort to turn China into an orderly community, managed by law, attractive to investors, and relatively unblemished by arbitrary political decisions. But the social forces and proffered solutions that he represented will outlive his personal career.

The other response to the reform hiatus and the red ceiling comes from two new senior leaders, Wang Yang and Li Yuanchao. Wang has promoted economic reform and political accommodation in a province, Guangdong, with a critical mass of cosmopolitan entrepreneurs. Li, currently the manager of 70 million government and Party employees, has refined a meritocratic management system that governs China like General Electric. Every mayor and governor gets quantitative goals to achieve and gets promoted to an increasing variety of challenges as long as he (or increasingly she) achieves the targets. Over time, that should weaken the red ceiling. And Li has sponsored a theory of China's attaining world leadership through globalization of talent—attracting the best talent from all over the world regardless of citizenship. Wang and Li both recognize that their reformist economic visions require political reform, too. The world's greatest talent will only flock to China if they can make and keep their money and if they feel comfortable politically. This vision of market and political reform inspires youth, entrepreneurs, the educated middle class, and much of academia, and it offers the best hope for China to break the red ceiling and co-opt Maoist reaction.

But their inspiring reforms threaten the newly expanded power of the huge state enterprises, the 70 million-strong Party-government bureaucracy, and the military. The new thrust of globalization, if it occurs, will stimulate a nationalist reaction.

So the game of rock-paper-scissors continues. Each tendency inspires hundreds of millions of people, regardless of the fate of particular leaders. The game can immobilize China, or it can inspire creative forward movement.

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It is the job of China's new top leader, Xi Jinping, to orchestrate the game in such a way that no tendency is completely alienated but the country somehow moves forward. This is the world's most difficult task, but it is not impossible. Hu Jintao's predecessor, President Jiang Zemin, managed to keep Zhu Rongji, one of history's great reformers, and Li Peng, who represented reactionary state enterprise and Party interests, in the same harness while decisively moving China forward. Xi's task will be eased by the fact that Li Yuanchao and one other new top leader bridge the factions. But we still have no idea what Xi intends to achieve when he takes power later this year. And it is unclear whether he will have the power to implement his wishes. ◆