

**“CHINA’S TRANSITION AT A TURNING POINT:
CRISES, CHALLENGES, AND OPPORTUNITIES”**

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WELCOME AND INTRODUCTION:

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“CHINA’S DOMESTIC POLITICAL SCENE”

SESSION CHAIR:

DR. MICHAEL SWAINE,
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SPEAKERS:

PROFESSOR DAVID M. LAMPTON,
JOHNS HOPKINS UNIVERSITY-- SCHOOL OF ADVANCED
INTERNATIONAL STUDIES
“CHINA’S NEW ELITE POLITICS:
THE IMPACT OF LEADERSHIP CHANGE”

MS. SUSAN V. LAWRENCE,
THE FAR EASTERN ECONOMIC REVIEW,
“CRONY CAPITALISM, CHINESE STYLE:
THE EMERGING COALITION OF POWER AND MONEY”

DR. MINXIN PEI,
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE,
“DETERIORATING LOCAL GOVERNANCE:
IS IT A CAUSE FOR WORRY?”

GEORGE PERKOVICH: My name is George Perkovich. I'm the vice president for Studies here at the Carnegie Endowment, and I want to welcome all of you and thank you for finding your way here. Before I begin the formal introduction I want to tell a little story that's appropriate in kind of an indirect reference to why we're here and not where originally we were supposed to be, in the Senate.

Many years ago I worked in the Senate for a chairman of a committee then, and I remember my son was very young at the time, and so sometimes we would be working at 7:00, 8:00 at night and a phone would ring and my wife, very reasonably, would be saying, "When are you going to be home?" And I'd say, "I really don't know. We're here, the Senate's in session, I don't know when I'm going to be home." She says, "What do you mean you don't know when you're going to be home?" I said, "Well, it doesn't work like that. You just never know. Senator Helms is on the floor, he's mad at an artist, he's got the whole Senate basically tied down here." She said, "This is the most ridiculous thing I've ever heard." I say, "I'm sorry, I don't know what to say, but I've got to stay here." She'd hang up.

In one of my similar episodes happening, I'm sitting in the senator's office. He's a chairman of a committee. It's about 8:00 at night. His phone rings and I hear him and he goes, "I don't know, Honey. I don't know." (Laughter.) "I can't control it; I don't know. Helms is on the floor, I'm watching him on TV, I don't know when it's going to – no, I understand. I said – I know I said – I'm sorry; I can't help it. I don't know when I'll be home."

All right, so yesterday we were all set to go in the Senate and the combination of a hurricane and a very important event, a national security challenge for the United States and Iraq, preempted us in the form of the Armed Services Committee and an appropriations committee. And so I want to thank all of our staff at the council and at Carnegie for making the adaptation on the fly last night, and then especially all of you for somehow figuring it out. And I think despite the change we'll have a fine, fine conference.

Let me then formally welcome you on behalf of Jessica Mathews, the president of the Endowment, and Richard Haass, the president of the Council.

This conference is a cooperative effort between our two institutions and represents our aim to try to give a refreshing review of some of the key trends in China's domestic developments and foreign policy. Although the United States especially is focused on Iraq right now and the war on terrorism, Washington's relationship with Beijing remains at least one of the most important relationships that we have today. For the moment, this relationship is friendly, stable, and cooperative. The United States and

China have worked very hard to keep it that way and to highlight the positive aspects of their mutual ties, despite many potential moments of shifting course to focus on more negative and unsolved difficulties they face.

Yet whether our relations -- whether U.S.-Chinese relations will continue to develop in a healthy, stable, and cooperative vein remains very uncertain. And one of the greatest causes of this uncertainty is China's own domestic development; China's course in dealing with the difficulties that confront it. How China evolves, both economically and politically, will critically influence Washington's policy toward Beijing. Clearly China has made enormous progress in the last 25 years, but the country still faces very difficult challenges ahead, and we cannot take for granted the Chinese government's capacity to smoothly deal with these enormous challenges that it faces.

So we're gathered here today to hear from a group of leading experts on China, and to hear from them their assessments on China's political development, economic reform, social trends, and foreign policy. Among the topics they will cover today are pressing short-term issues such as the ongoing leadership transition, the challenges posed by China's manufacturing industry to U.S. manufacturing, as we've been hearing about in the last couple of weeks as kind of a high issue in U.S. policy, and also, very importantly, Beijing's role in helping to resolve the North Korean proliferation and security challenge.

Our speakers will address long-term problems facing China as well, such as rising inequality, deteriorating local governance, and environmental degradation. They will share with us their observations and insights that will help us look beyond the headlines and understand the underlying forces that are at work in China. So we hope that this discussion will be informative and helpful to the Washington policy community and help us move forward as a community in shaping policies that will best lead to an ongoing cooperative relationship with a China that is hopefully in a mood to be cooperative with us as well.

Cooperation is the theme there, and so let me close by saying that Carnegie and the Council appreciate the cooperative relationship we struck in this undertaking. This is the first time that we've worked together on a high-profile China event. We want to continue that. And we're especially thankful to Liz Economy of the Council for her great work in pulling this together, and then my colleague, Minxin Pei, also for their combined leadership. And we are extremely grateful to the speakers for having joined us. And despite the ultimate outcome, we're thankful to the staff of Senator Biden, my old boss in that story -- (laughter) -- for having arranged a room and having fought hard for us, but then having been defeated by the always more resourceful Armed Services Committee. (Laughter.)

Thank you.

MICHAEL SWAINE: Well, we'll start the first panel now. My name is Michael Swaine. I'm the co-director of the China Program here at the Carnegie Endowment, and

I have the great enjoyment of chairing this first panel, which is “China’s Domestic Political Scene.” And to cover this expansive and complex topic, we have, I think, three excellent speakers today. The first is Professor David (Mike) Lampton of Johns Hopkins University. The second is Susan Lawrence, now with the Far Eastern Economic Review. And the third is my colleague Dr. Minxin Pei of the Carnegie Endowment for International Peace, also co-director of the China Program. Let me just briefly introduce each of these three speakers and then we’ll start with Mike Lampton.

Professor Lampton is a George and Sadie Hyman professor of China Studies and director of China Studies at the Paul Nitze School of Advanced International Studies at Johns Hopkins University. I think he’s well known to all of us here in the Washington policy community and beyond. He has, for many, many years, written and spoken with great eloquence and great intelligence on U.S.-China relations, U.S. policy toward China, Chinese domestic developments, et cetera. He’s the author of numerous books and articles far too numerous for me to relate here. I would just simply mention the two most recent ones, which many of you are probably familiar with: “Same Bed, Different Dreams,” a very detailed and insightful history of U.S.-China relations, and also the editor of a volume, entitled “The Making of Chinese Foreign and Security Policy in the Era of Reform” which I had the privilege of being involved in, published by Stanford University Press. And Mike will speak on “China’s New Elite Politics: The Impact of Leadership Change.”

The second speaker will be Susan Lawrence, as I say, of the Far Eastern Economic Review, newly appointed Washington correspondent for that journal. And before moving to Washington, she served as a staff correspondent for the Review and the Wall Street Journal in Beijing. Susan has lived in Beijing for 13 of the last 18 years, studied history at Beijing University in the mid-1980s, and served as Beijing bureau chief for U.S. News and World Report in the early and mid-1990s. Many of us know Susan very well. She is highly regarded as a very insightful observer of the China scene with enormous connections, networks, throughout China. So her remarks I think will be very interesting on “Crony Capitalism Chinese Style: the Emerging Coalition of Power and Money.”

As you can see, we’re sort of moving down the hierarchy here. Mike’s going to cover the elite; Susan is going to cover sort of mid-range intersection between bureaucracy and politics and economics in China; and then my colleague, Minxin Pei, last but certainly not least, is covering the local governance issue – “Deteriorating Local Governance: Is it a Cause for Worry?” Minxin is senior associate and, as I’ve said, co-director the China Program here at Carnegie. His main interest is the development of democratic political systems, the politics of economic reform, the growth of civil society and legal institutions. Here at Carnegie his primary research focus is on the interaction of economic and political reform in China. Minxin is currently completing a book entitled “China’s Trapped Transition: The Limits of Developmental Autocracy.” So he is also extremely well suited to speak on this issue.

So we'll start with Mike Lampton. Each speaker, please take about 15 minutes. We're running a little bit late, but I don't think you should be penalized because of that so take about 15 minutes each, and then hopefully we'll have up to about 30 minutes or so for question and answer.

DAVID M. LAMPTON: Thank you very much. It's good to be here. Can people in the rear hear? I'll try not to over-modulate for people up here, but I want to make sure people in the back can hear. I do want to thank the Endowment and the Council on Foreign Relations, in particular Liz Economy and Minxin, for their hard work that was made much harder by the last minute venue change. So thank you and thank all of you for finding your way here.

I've been asked to talk about the elite transition in China and its impact on policy, and I've often found it useful to recall what we were saying maybe seven months ago. What was the conventional wisdom seven months ago? And my point isn't that that conventional wisdom was entirely wrong at the time or wasn't the most reasonable understanding we could have had, but I think it provides a benchmark against which to now look at, with more information, what we may think now.

In looking back, what were we saying after the 16th Party Congress and the 10th National People's Congress last March? I was reading through the mass media of that period and came to the New York Times and an article by Joe Kahn that I think adequately summarized what was generally thought to be the case with respect to the new Chinese leadership. I'll read you the paragraph and then I want to contrast that with what I think the situation appears to be now.

Joe said, "Their caution" – meaning Hu Jintao and Wen Jiabao -- "reflects pressure from senior party officials to do no more than tinker with the mix of repressive political control and increasingly liberal economics that has transformed China. It is also an indication that while the two men hold the most powerful titles, they do not yet run the country. Mr. Jiang, 76, remains the civilian head of the military, and through his network of supporters in the government, seems likely to exert considerable influence as well."

I think the point was that this was, at best, only the beginning of a transition and one in which the old power structure was going to exert considerable influence for a considerable period of time.

Now, at the end of my brief remarks I'll certainly throw in all the caveats, all the unknowables, all the things that have to make what anybody says at this point tentative, but let me make three – really four broad generalizations that I think contrast to a considerable extent with the description that I just read, and I probably would have shared in March.

The first generalization I would make is that the Hu Jintao-Wen Jiabao leadership has consolidated its authority more rapidly and more thoroughly- that doesn't mean completely- than certainly was implied above.

The second generalization I would make is that the Hu and Wen leadership has established an identity, a sort of bumper sticker. It has differentiated itself to some considerable extent from the preceding leadership, and I think at least in the short run it has boosted marginally its legitimacy. But I wouldn't want to overplay that last clause there.

Thirdly, while many people – and I would include myself – had high hopes in the first half of this year for, let us say, significant structural political reform, we haven't seen that yet. Nonetheless, there are some hopeful policy straws in the wind that are worth identifying, not because they'll necessarily come to fruition, but because I think they're the things to watch and to see if there is going to be fundamental, enduring institutional and political system change.

I will take the liberty of making a fourth generalization, though it really is not in my mandate. It has to do with the foreign policy area, and I expect later on people will talk in detail about that. I have been struck by the degree to which there has been some foreign policy related innovation by the new leadership, and I would cite how the regime handled the situation in Hong Kong with Article 23. They got off on the wrong foot with Article 23 and then quickly reversed course when they saw the costs. Hu meeting with the G-8 at Evian, France I think was an interesting departure from the past as well. And certainly, when a group and I met with Jiang Zemin in November last year, the elite had a sort of hands-off approach to the North Korean nuclear problem as opposed to their currently more innovative, let's say, interventionist approach now. I think that is interesting.

So there have been some foreign policy developments that have been significant and associated with the new leaders. But, my mandate is domestic politics. So, if I had to write a bumper sticker for my view it would be: The transition is not complete; it could go in multiple directions; but, so far so good.

Now let me put a little flesh on each of those three domestic politics generalizations. I said that I thought that the Hu and Wen leadership had consolidated its power more rapidly and thoroughly than we probably would have expected seven months ago. Well, what evidence do I have to support that generalization?

The first thing that I would cite – it gets in some sense to be inside baseball in Beijing bureaucratic politics – is the control of what I would call key gateway committees in the policymaking structure in China. These are called leading small groups, and it was not a foregone conclusion seven months ago who was going to be in charge of those key groups. Today we know that Hu Jintao is in charge of two of the key committees having to do with external policy. With respect to foreign policy, you might have expected Jiang Zemin to have kept control or you might have expected there to have been a longer period of ambiguity as to who was in charge. Nonetheless, Hu's the chair of the Leading Small Group on Foreign Affairs and the Taiwan Leading Small Group. Also, there are

reports – I haven't confirmed them to my satisfaction – that Hu's also in charge of the Leading Small Group on Economics and Finance.

So, my view is that if you have got the key interdepartmental gateway committees that deal with money and foreign policy under your control, you, in the Chinese power structure, have moved considerably down the road to exercising real, as opposed to sort of fig leaf, power.

A second area of evidence I would cite as showing Hu and Wen moving along to consolidate their positions more rapidly than we might have anticipated comes from a look at the mass media. Look at the numbers of pictures you see of Hu Jintao and Wen Jiabao and the relative paucity of pictures you see of Jiang Zemin. You just visually get the image that Jiang is receding toward the sidelines. I certainly don't want to say he's irrelevant – I don't think we have enough evidence to say that by any means – but the general appearance of things, just visually in the mass media, conveys a Jiang Zemin that is not fully engaged and involved.

I would say that another indicator in any political system that people are consolidating power is, do they have the nerve and the capacity to take on key constituencies that you might think a more cautious leadership would be reticent to confront? Once again, there are some straws in the wind, certainly with respect to the SARS episode. I think you have to say that the leadership, by firing the minister of Public Health – the minister of Public Health used to be the physician for Jiang Zemin – and firing the mayor of Beijing, was taking on a bureaucracy and a territorial administration that a weak leadership might not have been able to confront.

When the PLA Navy had the submarine disaster in the spring of this year, the new leadership fired two senior naval officers in connection with that. It takes some position in the system to be able to do this. And, while I think it is more questionable how to interpret this, I at least find it interesting that the defense budget of China in the last National People's Congress session was kept to a single digit increase for the first time in a very long time. What that reflects and whether that's an indication of Hu's and Wen's authority remains to be seen. It's also interesting that in an area Jiang Zemin attached great importance to -- getting his ideological contribution of the "Three Represents" written into the Party documents and constitution – that did not occur. Maybe in the next set of Party meetings, the Third Plenum, that is coming up in October that will occur.

But in any case, I think these key indicators in the mass media, in the ideological realm, in the budgetary realm, and the foreign policy realm at least point in the direction of a leadership that isn't nearly as reticent as we might have thought before. Obviously, we have to keep monitoring things, and all of this is subject to multiple interpretations, but all of the weather vanes seem to be pointing in the same direction, from my point of view.

The second generalization that I made was that the new leadership has established its brand name, its identity, its bumper sticker. I have always highly regarded and paid

great attention to Cheng Li's work on the Chinese leadership; I really admire it. And, if I were to sort of twist Cheng Li's findings to my rhetorical style, I would say the new leadership has a platform, and that platform I think has three elements that are widely recognized in the Chinese leadership and in Chinese society. Whether the new leaders achieve the elements of this platform on the ground in real policy is entirely another question. But the first job is to establish your identity and what your broad goals are, and I think the new leaders have made their broad goals fairly clear. This leadership stands for more balanced economic and social development. Of course, what "balanced" means is open to all sorts of interpretation.

I think they also are perceived as standing for something we might call more procedural justice. And, the new leaders are perceived as standing for something we might call more transparency and greater accountability on the part of officials.

Now, just to say you have an identity and a bumper sticker and a platform doesn't answer the primary question, and that is, are they going to be capable of delivering on the implications of each of these broad commitments? I haven't any confidence at all that they will be able to do so, but they've taken the first step. They stand for something that is widely recognized, and generally applauded.

Third, there are some straws in the wind, policy straws in the wind, that are at least pointing to an intention to put some flesh on the bones of those promises. If I were looking at the balanced development commitment, for example, I would look at what they're doing in not only the Western Development Campaign, but the emphasis they're putting on the development of Chongqing and inner cities in China. We'll see what all that means and what it translates into, but at least there's the beginning of what may develop into what we could recognize as performance.

If we look at the whole issue of peasant burdens – there are many ways we could look at that, but certainly the biggest burden has been the enormous number of cadres that the peasants have to pay for at the bottom level, particularly at the township level of government in China. And the reduction and perhaps abolition of the township, if it comes to pass, is going to represent a significant move to at least create the possibility, if not the reality, of reducing peasant burdens.

If you look at the unbalanced development commitment from another angle, in the past so many state financial resources and lending has gone to the state sector, for very obvious reasons. Now, at least there's talk about redirecting capital flows toward the private sector. Once again, we'll have to see if this is translated into reality.

There also is more emphasis now on government as a service provider: health and education. We'll see once again whether the budget, particularly in the next National People's Congress, reflects that commitment to better health and education for everyone.

If we look at procedural justice, there are some very interesting things going on. Whether they translate into changing the character of the system, we'll see. There was

the whole issue of the treatment of vagrants in China and a notion that people who go into the cities ought to be treated with more procedural justice and not incarcerated or necessarily deported back to their previous locales.

It was interesting that when Hu Jintao took over one of the first things he began to talk about was rule of law and the idea that the government, the Communist Party, and the military ought to be subject to law. Now we'll see once again – and this isn't the first time that's ever been said in China. But, continued reiteration of that concept I think is potentially important.

Another thing that's going on is the development of a licensing law. One of the areas where there's lots of corruption in China is every time you want to do something, set up a business and so on, you have to encounter somebody with the chop and the approval and the license, for which they often illegally charge. There seems to be an effort underway to regularize – legalize that procedure to some extent.

For people who travel in China, it's becoming easier to get passports. We'll see what happens, but certainly the fact that the government is making travel abroad easier and not so evidently a part of the control mechanism is positive.

Also, there's talk in the penal system about moving from incarceration and administrative detention to work release programs. There's more emphasis on legal aid and so on. All of these are what I would call straws in the wind, not necessarily destined to become a reality.

They're talking about courts, lower courts, setting precedents for decisions by upper courts; they're talking about courts being able to rule on constitutionality. Once again, this is a very nascent process, but the point is this pot is boiling. Whether somebody will turn up the temperature, or turn the temperature down, I don't know.

With respect to greater transparency and accountability, I've implied already what I would use as evidence in that direction. Certainly they fired the Mayor of Beijing and the Minister of Public Health. I don't think the current leadership can be entirely blameless in the initial handling of SARS before they reversed course, but at least they reversed course and at least they held somebody accountable. The same might be said about the submarine incident. The initial impulse to keep quiet was there, but once again they opened up and held at least a couple of people accountable.

It's interesting that the Politburo meetings are announced and the agenda, at least in outline, is made public. The new leadership has asked, or at least publicly suggested, that the press pay more attention to issues and less to personalities in news coverage.

So the long and the short of it is that I believe that the new leadership has consolidated its position more rapidly than many of us, and certainly I, would have predicted seven months ago. This leadership has established an identity and I think there are some hopeful signs in the policy direction, but no certainty.

I want to conclude by saying that, of course, there are lots of caveats that one should underscore. For the sake of clarity, I have not injected those all the way along, but let me just tick them off. One is that we're very early in this process of transition still. Second, a lot of what I was talking about could easily be as much symbolism as it is substance. And, we are going to have to see how much of this becomes substance. Third, the whole thing could break down over implementation and financing. Even with the best of intentions on the part of the elite, the connection between what Beijing does and what happens on the ground, is really pretty tenuous. And finally, just the fact that this leadership has such a broad-ranging agenda subjects them to the danger that if they are not able to deliver on some significant fraction of their promises, that's going to become a problem of dashed popular expectations for the regime.

I will end by saying two things: So far, so good. And secondly, I'm encouraged that the regime, even when it begins to move in the wrong direction – as it did with respect to Article 23 in Hong Kong, SARS, and covering up on the submarine disaster – it seems to quickly right itself. At least the feedback loop is working. At least they're listening to the reactions of the system and adjusting policy. I find that comforting.

Thank you.

MR. SWAINE: Thank you very much, Mike. And now we'll turn to Susan Lawrence.

Susan – “Crony Capitalism.”

SUSAN LAWRENCE: Taking that title, “Crony Capitalism,” I think actually at some point this title had a question mark, “Crony Capitalism Chinese Style” – question mark – “The Emerging Coalition of Power and Money,” and it seems to me now we've moved to a colon. (Laughter.) I maybe want to move back to a question mark because I do think what's going on in China is fundamentally different from the kind of crony capitalism that we've got used to seeing in other parts of Asia. In the Asian context, the term “crony capitalism” conjures up images of Suharto's Indonesia, Ferdinand Marcos's the Philippines. In those places we saw personal patronage as a way of life, operated through networks of very personal relationships that were based on a shared history or blood ties, and in those countries, generally there was very much an aim on the part of the government to enrich an individual or a family or a dynastic regime.

The epitome of that, probably, in the Indonesian case, would have been the monopoly that Suharto bestowed on his son, Tommy, to run the clove business, the government contracts and licenses that Suharto gave to the man who used to supply his guerilla fighters during the revolutionary war in the late '40s, Liem Sioe Liong, Indonesia's richest man. That sort of set of relationships, that kind of mode of operation isn't really quite what we're seeing in China these days, though we are seeing the beginning of a coalition, yes, between people with a lot of money and politicians. We're seeing rich individuals beginning to have political clout.

What's produced this situation in China now You'll see in the handout that I've produced a sort of chronology of crony capitalism, which should be probably in quote marks or something, showing how this has all unfolded in China, but basically there are a couple of key moments. One was 1997, with the 15th Party Congress, at which Jiang Zemin, then-Communist Party general secretary, came up with a rather neat way of opening the way to the privatization of a large part of the state sector.

A lot of what Jiang did in 13 years of power was in fact to rewrite ideology to squeeze out Marxism. He had to do it in ways that were very obscure so that most people didn't realize quite what he was up to. That 1997 decision was couched in language which ensured that most people reading it wouldn't understand what on earth it was about, but the result was a redefinition of what state ownership means. He said that state ownership doesn't mean that the state has to control all the shares in an enterprise; state ownership can mean the state only controls a small number of shares in some enterprises. So in other words, he opened the way to massive privatization.

In that process, an awful lot of state enterprise party secretaries and other top managers became part of the privatization process, by buying out some of the enterprises they had been running, often through very cushy deals, and ending up as multimillionaires, , sometimes worth hundreds of millions of dollars overnight. So that was one way that Chinasuddenly produced people who originally had political clout, from having been named the heads of state enterprises, who then also gained enormous wealth and continued to hold that political clout. So that's one group to whom the term crony capitalists might be applied.

A classic example of this phenomenon might be the Holley Group of Hangzhou, which has become quite active in the United States. They've bought up a few companies here in the U.S.; they have a NASDAQ-listed company. They're a big producer of electrical meters, the things that people have in their houses that the electric company can tell how much electricity you're using. The party secretary of the business was basically given the go-ahead by the local government to do a management buyout. . He and his management team were able to borrow money from a local bank to pay for the shares in the company that they bought They then issued themselves dividends to pay back the bank. So he is worth something like \$300 million now on the basis of having put up no money of his own. He is an example of someone who has both political clout and wealth through slightly funny means.

This kind of result wasn't quite what the party had envisioned, and it's one reason whythe party early this year called a halt to all management buyouts. The party realized that the whole process was producing some problematic outcomes.

The second major party decision responsible for today's emerging coalition of power and moneyis the effort by Jiang Zemin, starting in 2000, to redefine the party's role; to redefine who the party represents and what its ultimate aims should be. He decided that the party was going to have trouble surviving into the 21st century if it

continued to align its interests, at least ideologically, rhetorically, with blue-collar state sector workers and farmers. So he came up with this construct, the Three Represents, which is another ideology that is maddeningly difficult to make any sense of. But if you do sit down and parse the words and have people in the party explain them to you, it starts becoming clear that it's a really very, very fundamental reworking of what the party is all about. And it's replacing Marxism. Basically it's a successful attempt to eliminate Marxist considerations from everything the party does.

Jiang has done that by saying that the Three Represents is a summation of Marxism and Leninism and Mao Zedong thought, and a continuation of all of these things. In other words, it is replacing all of those things. This ideology that Jiang began working on in 2000, came to its real fruition at the Party Congress last year. It basically said that the party needed to align itself with broader groups in society. It should still represent workers, but it should also represent the rest of Chinese society. The key change was that it was no longer just representing workers.

In particular, this new ideology says that the party needs to align itself with dynamic parts of the economy, particularly extremely successful private companies headed by extremely wealthy people. Because of the nature of the regime, the party needed an ideological justification for this. This is, again, different from authoritarian regimes in Southeast Asia, which never had to come up with a sort of carefully worked out philosophy to justify what they were doing.

The result of this reworking of the Communist Party's role and mission is that you now have governments all over China under orders to reach out very actively to the private sector, to bring particularly successful private sector entrepreneurs – in other words, the wealthiest members of local societies – into government advisory roles, to be holding meetings with them, giving them a chance to weigh in on all sorts of policies that local governments are making. They're recruiting entrepreneurs now into local People's Congresses, and into local Chinese People's Political Consultative Conference bodies, which are formal government advisory groups.

Two tycoons have now been named to vice governor rank positions in China. They're in these government advisory roles, but they have official ranks and have all the benefits that go with official ranks. They are provided with government cars and are able to speak to any of the sub-senior government leaders at their whim.

A positive thing about all this from an economic perspective, is that it is countering long-standing official discrimination against the private sector. For many, many years, local governments have very much favored state-owned enterprises, and state-owned enterprise managers, over private sector people. This official shift, to basically saying that private sector people, tycoons, are not ideologically suspect, is important for ensuring that there is fairer competition, that there's a fairer playing field for business.

There are a lot of downsides, too, though. A lot of people in the party particularly worry that while this policy is giving tycoons, successful businesspeople, more of a voice in policy, it's not, at the same time, doing the same for workers. You've created a mechanism, a channel for the business community, the private business community now to voice its concerns, but workers are still not allowed to form their own trade unions. They are all forced to belong to Communist Party controlled unions, which have, in the past certainly, very much favored the interests of managers' over workers' rights.

There's a concern that the new voice being given to private entrepreneurs is going to create a potentially dangerous imbalance. You could have resentments boiling up from workers who feel that they've already got a pretty raw deal, and now the party is going out of its way to push them aside even though they are the people the party was originally meant to be representing.

There's talk of reform of the trade unions, to try and give workers some greater ability to push back against businesspeople in these sort of situations, but it's not really clear how far that can go in a situation in which the unions are controlled by the party and the party does very much see its long-term interests being aligned with successful big business.

There are a few things that ameliorate those concerns. One is just that this process is still in its very early stages. There are still a lot of people in the party who are uncomfortable with the idea that the traditional constituency of the party – the workers and farmers – are being pushed aside, and the idea that the party should align itself with private tycoons who, traditionally, in party ideology, would have been considered exploiters. Because of those kind of doubts, we've seen remarkably few tycoons admitted to the Communist Party since this whole policy took effect.

Jiang Zemin first threw out the idea in July 2001 that private bosses – that tycoons - ought to be allowed to join the party, but it's very hard to think of any high-profile examples of people who have actually been admitted. I've mentioned two tycoons who have been named to vice governor rank positions. One of them, Yin Ming Shan, who's a motorcycle tycoon out in Chongqing, applied to join the party in July 2001 and still has not been admitted. He told me just a couple of weeks ago that the party had basically said to him that they thought it was more useful for him not to be in the party – (laughter) – and they appreciated his efforts but they didn't feel it was right for him to join.

So I think that's a symptom of the doubts that people have. And you'll see, just from that handout, that the number of private sector delegates to People's Congresses and other kinds of official groups is still in absolute terms, very small compared to the total membership of these organizations. There were 55 private entrepreneurs among 3,000 deputies to the National People's Congress this March. That is a tiny, tiny percentage, so we're still very early in this process.

The other thing quite important to keep in mind here is that China has an economic policy, a quite firm economic policy these days, which is very much committed

to the idea of competition, of breaking down monopolies, of trying to remove the kinds of crony deals that have existed in the past. China, philosophically, is strikingly committed to this stuff. WTO membership has very much reinforced those kinds of principles. And so I think that that also is something that will probably militate against crony capitalism taking hold in quite the same way that it has in Southeast Asia.

In terms of whether this is going to create tensions in Chinese society that might boil over, I think the positive thing – if you see these things not boiling over as being positive – is that Hu Jintao is now in charge of the Communist Party and has much stronger PR skills than Jiang Zemin had. He's very, very attuned to the dangers of making the party look like a party of fat cats and not of the peasantry and workers. I personally don't think that he, in fact, has serious problems with the Jiang Zemin agenda, but I think that he sees it as having public relations problems and so he has very much emphasized, since he came to power, that he is a man of the people and he very much supports the downtrodden and so on. That spin may help defuse some popular resentments. But at the same time, it's quite notable that in July this year, the Communist Party Youth League Central Committee, with which Hu Jintao is very closely associated, for the first time named a very rich tycoon to an alternate position on its central committee. Lu Weiding, son of China's second-richest man, just joined the Central Committee of the Communist Youth League. That's quite a big deal in the message it sends.

I will stop there.

MR. SWAINE: Great. Thank you, Susan. Before going on to Minxin, I just want to say there are five – I see we have people along the sides and in the back here. We have at least – can you see over there?

MR. : Ten seats.

MR. SWAINE: How many?

MR. : Ten.

MR. SWAINE: Ten. We have 10 seats up here, so if you're tired of standing in the back, please do come up and be seated over here.

All right. Well, thank you, Susan.

Now we turn to Minxin. And I notice that his title does have a question mark in it -- "Deteriorating Local Governance: Is it a Cause for Worry?"

Minxin.

MINXIN PEI: Well, I think it may be a rhetorical question mark. (Laughter.) You know the answer already, at least I think the way I present it.

The issue of local governance I think does not figure prominently when we think of China, because when we think of China nowadays, our image of China is more likely to be that of booming cities -- the skyscrapers of Shanghai, the changing skylines of Beijing -- and the Chinese economic juggernaut. We don't think about this vast area in China -- I brought my office map of China to the event so you can see there is really a midsection of China -- which, in my own studies, I find has lots and lots of problems of local governance.

I think that just as China is diverging internally economically, the political development in China is also diverging from region to region. In this presentation I wanted to highlight the problem areas in China, mainly agrarian provinces where local governance is deteriorating rapidly, and say something about what it may mean for stability in general.

There are three trends, as I see it, that indicate a deterioration in local governance. The first is deteriorating local public finance. Part of that is definitely a structural problem. China's taxation system is set up in such a way that local governments have very limited revenues to fund local services. County and township government collectively take about 20 percent of total government revenues, although these two levels of governments provide the bulk of public services, especially education. The central government provides almost no money for public education. The percentage is ridiculous, something like 1 percent for primary or secondary education. And that kind of public finance structure really squeezes local governments and limits their ability to fund public services. At the same time, the money collected is used mostly to maintain a very large bureaucracy. So that's just one cause of deteriorating local public finance.

The other cause is policy. The 1994 tax reform -- now in retrospect almost 10 years after it was implemented -- is a watershed moment in local public finance because before 1994, local public finance was squeezed but was not in crisis, but after 1994, all of a sudden, just across this vast rural -- those rural regions, local public finance began to deteriorate very, very rapidly. As a result, a huge amount of debt has built up in local governments. The figure provided by the Ministry of Agriculture showed that as of the year 2000, the total amount of debt owed by township and village governments was equal to about 30 percent of agricultural GDP. Because these are agrarian regions we have to use agrarian GDP as a measurement, and the growth rate is very high; it's about 10 to 15 percent growth rate every year. So today we're talking about a debt buildup equivalent to 40 percent of agricultural GDP, although it's not at a crisis level yet, but if the trend continues it's going to get there very quickly.

The biggest cause of this rapid buildup is failed government investment in rural enterprises. One of the agricultural miracles in China is the development of industry in the countryside, but the truth is a large number, if not the majority, of those firms, especially in the central regions of China, actually don't do well, and as a result, investments in them go sour. And after those investments became bad, the rural

governments themselves were responsible for the debt. About 40 percent of the debt buildup was attributed to that.

And so, the two causes – structural problem and this policy shift in the mid-1990s and then the resulting buildup – created a vicious cycle. That is, local officials pressed by short revenues had to increase their collection efforts to collect taxes. And then that exacerbates the tensions between local governments and the peasantry, and now, as a result, I think rural tensions are very high.

Normally I don't read from the Chinese press, but there were several anecdotes that I find personally very, very shocking. They give you a glimpse of the level of tension in rural China as a result of this fiscal problem. And this is from Hunan. Hunan appears to be one of the provinces with the most problems.

“Around New Year's Day in 1999, 46 peasant leaders in Daolin Township in Hunan's Nincha (ph) County, met and decided to hold a rally of 10,000 people in front of the township government to demand a cut in taxes. On January 8th, the provincial and municipal authorities mobilized a large police force and blocked the highway leading to the township government complex. The rural residents from all over the township kept coming. At one point, the crowd exceeded 5,000 people. A small number rushed the police line. The police were forced to fire tear gas canisters. This led to one of the unprecedented violent clashes in Hunan's history.”

What's notable is that peasant resistance in China – in some parts of China, is now becoming more organized. This is, again, a very new trend. One of the leading Chinese journals called Strategy and Management, the third issue this year there's a wonderful story by somebody I knew who wrote a research article on organized peasant resistance in rural China. When I spoke to him about two months ago, he said the top leaders – he did not identify who they were – read this and was so concerned that he was calling – (unintelligible) – to tell them the truth.

And there's another sort of shocking episode that I wanted to sort of recite to show the kind of violence in rural China. “In the wee hours of November 7th, 1998” – I did not make these up; they were from official publications – “a team of more than 30 policemen, tax collectors, and township officials conducted a raid of Guayingya (ph) Village in a Hunan township. Their objective was to arrest a local resident who had led a tax resistance movement. But before the team could leave the village, they were surrounded by angry farmers. In a violent confrontation, 15 police officers and cadres were injured. In addition, 10 of them were stripped naked. Only after the peasant leader who was arrested and spirited out of the village that night was released did the farmers let hungry and tired police officers and cadres go home.”

In other words, these are just a glimpse of the kind of tensions in China.

The second local trend, as I see it, is of official collusion in local governments. That's because over the years, local party bosses assume enormous power in appointing

officials. So they basically could develop a patronage system that would serve their individual needs rather than the needs of the public. And because of time constraint I'm not going to go into the details.

And the third trend that is really very worrisome for observers like me is the emergence of what I would call local mafia states. I've done some research just focusing on published cases of local governments who are controlled by criminal elements, or local governments who had deep ties to local criminal elements. And before I go into detail, I want to quote you the words – the description of this problem by the head of the task force of the Chinese Ministry of Public Security. This is the Chinese FBI. This is what he said:

“In some areas, local government organizations were weak and in disarray and society was out of control. This provided opportunities for evil forces to breed and spread in rural townships. The local governments in these townships were in a state of collapse. Some of them degenerated to such an extent that they allowed evil forces to run amok within their jurisdictions, control the governments, illegally interfere in local administrative affairs, and take over law and order. These jurisdictions became lawless fortresses.”

I was able to identify 55 cases – these were all reported in the Chinese official media – and I think there were basically two types of local mafia states. The first is what I would call “soft” mafia states. I mean, these were basically patronage systems that were controlled by individual local officials who collectively engaged in bribe-taking, smuggling, selling government offices. They don't use violence, but in other words, local governments have effectively been privatized in those jurisdictions.

The other kind is much more disturbing, and I found about half of the cases reported by the Chinese official press would be called “hard” mafia states. They have four characteristics. The first one is violence and criminality because in all of those cases, there were clear criminal involvement and the use of violence in them. The second one is the involvement of top party officials in those cases. Nearly all the party – local party bosses or mayors were implicated in those cases. The third one is that these criminal networks could actually survive for fairly long periods of time, typically about four to 12 years, before they were uncovered and uprooted. And finally there's this nexus of what I call power, money, and criminality, because local criminals would use bribes to buy political influence and then those local party bosses then would use the money they collected from criminal elements to buy their offices; to buy additional power, and then they would use their power to reward local criminal elements in real estate deals, businesses, and local criminal elements would control local businesses, transportation, the wet market, construction firms. So it's really an enmeshment of interests and criminal activities.

And finally, can these trends be reversed? I think the central government is worried about this, they are aware of this, so at present they are doing one thing, which is to try to do something to improve the local public financing in rural areas. And the most

important policy initiative is what's called tax replacing fee reform, that the government would no longer collect fees from the peasants but will use taxes -- will consolidate all kinds of revenues into one tax -- simplification of the tax system.

The problem with this reform is that it's going to be very, very costly in financial terms because the shortfalls will have to be made up by central revenue, and right now China does not have a system to transfer revenue from rich coastal areas to central agrarian areas. So unless they do something on that front, I do not think the reform will be sustainable. The second one is they've got to fire a lot of people. They've got to cut down the size of the township government by -- probably eliminate this layer of government altogether; if not, reduce it by 50 percent, and that's going to be politically very difficult.

The other reform which can be done but is not being done is increase local democracy; institute township elections, for example. But at the moment, I think that potential leaders are very risk-averse on that front because their power is not yet fully consolidated so they would like to wait and see.

I'll just stop here.

MR. SWAINE: Excellent. Thank you, Minxin -- and all three to be commended for staying within their 15 minutes. Quite unusual in these sorts of panels, which means we have a significant amount, I believe, of time left for question and answer. Even though we're running a little bit late, I think we can still go for close to at least the 30 minutes that we originally had scheduled. No? John's shaking his head. Should we do 20? All right, let's do 20 minutes then. And please, when you ask a question, try and keep it relatively brief, and please state your affiliation.

Back there.

Q: Alexander Liss, Center for International Private Enterprise. I was just wondering if one of you would like to address the recent "three unmentionables" crackdown that's been going on, and advocates of constitutional reform have been under political surveillance since the summer. Is this something to be worried about in the long term or is it just a flash in the pan and it's going to go away once the attention dies down? What do you think? Thank you.

MR. SWAINE: Who wants to handle that?

MS. LAWRENCE: Sure -- well, maybe Michael wants to say something.

Yes, the three don't-bring-them-ups policy is the latest in a long line of pronouncements from the party telling people what they shouldn't talk about. This one is slightly unusual because generally we get pronouncements from the propaganda department telling the media about subjects that they are not allowed to cover. And in fact, the propaganda department told the media some while earlier that they must stop

writing about constitutional reform and political reform. But this pronouncement then came later from the General Office of the Central Committee, basically telling all academics, and others who might comment in public about these issues, that they too are now forbidden to talk about these issues.

In China there tends to be an awful lot of talk; a lot of people are actually talking much more freely than they ever used to, but what actually can get reported tends to be much more closely controlled. Now we're being told that even talk is not allowed on these topics.

I see this as very much part of what Hu Jintao is about. I mean, I think Hu Jintao, on the one hand, yes, has been pushing forward some very populist policies, and some quite important policies, like getting rid of these rules which allowed for random detentions of migrant workers in the cities. There's talk, too, that they might actually get rid of reform through education, which is a horrible category of punishments which requires no kind of judicial procedure. On the other hand, Hu Jintao, though, is very, very keen not to allow social tensions to well up, and the way he's dealing with that is to try to control public discourse on sensitive subjects.

In terms of what impact it might have on constitutional reform, I see him continuing to clamp down on public discussion of this. I do see him, though, on the other hand, actually still quite committed to making constitutional reform happen. One of the most sensitive reforms is a plan to amend the constitution next March to allow for protection of private property. Right now the Chinese constitution only protects public property; it doesn't protect private property or it only protects it in very limited forms. This is very controversial; again. A lot of people feel that it's going to protect fat cats who got wealthy through illegitimate means and so therefore oppose private property protections. I think Hu Jintao is quite committed to making that happen because Jiang Zemin promised that there would be protections for private property. Hu Jintao is going to have to follow through with that but he doesn't want to talk about the fact that he is doing it.

MR. LAMPTON: I might just add – and I would agree with everything that was just said – there was an interesting article in the Wall Street Journal this morning by Kathy Chen on exactly the topic of your question, and if people are interested, that's certainly an interesting, and to my way of thinking, accurate article.

What's interesting -- as Susan suggested, the directive on the three unmentionables was issued actually in August, and what the article describes is how the three unmentionables kept getting mentioned on websites. So there's kind of that breakdown between central expression of policy desire and what actually goes on. I think the article's interesting in that regard.

The three unmentionables, just for those that aren't into Chinese policy numerology, is no talk about constitutional change, political reform, or past verdicts on controversial subjects such as Tiananmen and so forth.

But in any case, I think what always strikes me is the great gap between what central policy is and what happens at the bottom level, and I think this is another example of that.

MR. SWAINE: Great. Over here?

Q: David Gries, Asian Strategies Group, China vitae. The question is about townships. All three of you have mentioned the possible erosion of this level of government. What would the implications be, first, for party control, particularly in agricultural areas; second, for government control; and third, for issues of corruption and collusion, let's say, at that level?

MR. PEI: I think the talk of removing – abolishing townships emerged about a year and a half ago. I don't think it's going to happen because right now, if you remove townships, you have no way of governing the countryside -- the township is the critical link – unless you want to reinvent how rural China is governed. So I really don't see a lot of sort of drastic changes on that front. They may reduce the size of the bureaucracy, that's for sure, but that will help, but to take it out altogether will be impossible.

MR. SWAINE: Yes, right there. Ed? Eric, I mean.

Q: Eric McVadon, a consultant on East Asia security policy. I wonder if Susan and Minxin would comment on Mike Lampton's statement about Jiang Zemin getting less notice in the press, in the Chinese media, than Hu Jintao and Wen Jiabao. Have you noticed that, and maybe the implications?

MS. LAWRENCE: Sure, he does get less coverage. I think that's intentional. I think he was quite stung by particularly, perhaps, the international comment about his staying on as head of the military; the sense that he wasn't giving up his job, he wasn't stepping into retirement as he should be. He's been quite careful since November to try and keep a generally low profile and not be seen to be somehow trying to upstage Hu Jintao and Wen Jiabao.

I don't know that I would read all that much, though, into the press coverage of Jiang, in terms of his actual influence. I personally actually think that Hu Jintao and Wen Jiabao are being somewhat oddly incautious in the way that they're handling Jiang. It seems to me that Jiang is still in a position of serious power, still has an awful lot of his protégées all over the system. Yes, Hu Jintao is continuing to follow Jiang's agenda, and that must mollify Jiang to some extent, but Jiang is also a very – he's a vain man, he can be quite mercurial in his – well, he can throw temper tantrums, basically – (chuckles) – and I sort of think that he's being pushed quite hard at the moment, in the way that Hu Jintao and Wen Jiabao are portraying things as if a lot of these new initiatives are really new initiatives and not things that Jiang actually put in place, when in fact an awful lot of them are things that Jiang put in place.

So I'm sort of waiting for some kind of a reaction from Jiang, and I can't say that it will definitely happen, but I think there's a decent likelihood that there could be some backlash.

MR. SWAINE: Minxin, do you –

MR. PEI: Very quickly, but Jiang does make his appearance strategically at regular intervals. If he's not in the press for a month, he's in trouble. So he will make sure that every month is some kind of foreign dignitary who will visit China. So a best control experiment is to sort of stop all foreign dignitaries from going to China for three months and see what he does. (Laughter.)

MR. LAMPTON: I agree that all of these, what I called straws in the wind, are subject to multiple interpretations. I'd just share with you that when I was with a group that met with Jiang as we were leaving the room in November – and it was right after the 16th Party Congress – and he said, “I want to assure you that I'm not going to interfere with the young people that are moving in.” I always wondered what he actually meant by that statement. (Laughter.)

MR. SWAINE: Thanks. Over here in the –

MS. : (Off mike.)

MR. SWAINE: No, there's one right here.

Q: Hi, I'm Stephanie Kleine-Ahlbrandt from the Office of the High Commissioner for Human Rights, the United Nations in Geneva, and we have a large program of technical cooperation with China. There were a lot of mentions this morning specifically of transparency, accountability, rule of law. I wonder if you could speak a bit more specifically to the human rights subject. There have been lately new regulations coming out on prevention of torture. There has been talk of prison reform -- widespread prison reform; there has been talk that reform of re-education-through-labor and the NPC is being discussed again. We've been working with the Chinese on that for several years. It's been stopped since Falun Gong and Jiang Zemin.

There was of course the announcement in December that the rapporteurs, the three special rapporteurs of the Commission on Human Rights, would be able to visit. We had a visit last week, up until the end of last week, of the special rapporteur and the right to education. She's writing up her report now. Could you speak a bit more specifically as to what you see in terms of the transition and the treatment of these issues? Thank you.

MR. LAMPTON: I have one strong impression in this regard, and that is if you talk to people within the U.S. government, the repetitive analysis is that in 2002-'03 we saw a lot of prisoner releases and positive response to U.S. concerns in this area, but this year there's been much less movement on the ground with respect to issues that we keep

raising, and therefore it's at least my impression that the U.S. government is thinking about Geneva and the recurrent resolution opportunity there.

So my sense is that the people who monitor this for the U.S. government are much less, say, optimistic this year than they would have been last year.

MS. LAWRENCE: Something that I do think that Hu and Wen are distinguishing themselves on is trying to put forward this idea of themselves as – we were talking about this earlier – but as caring communists. (Laughter.) This is their bumper sticker: they are caring communists. And they've actually got themselves an awful lot of very good PR within China by working to make the system feel less repressive. They aren't talking about giving significant political rights in a Western sense to the population, but what they are talking about is just removing a lot of the things that used to drive people crazy.

I did a recent story on the fact that finally, as of October 1st, when you get married you no longer have to produce a letter from your employer saying that you're allowed to get married. It's extraordinary that we're in 2003 and in China you still have to have a letter from your employer or the person who holds your political dossier before you can get married. So they're getting rid of that. They're making it easier to get passports, too.

More significant things are, the talk of reforming the reform-through-education system, trying to make the system somehow more regularized, more predictable, less sort of whimsical I suppose on the part of individual officials. And it is significant. It does matter. It definitely does affect the public's perception of the party. I think these are all very, very popular moves that they're taking. My only caveat is just to say that I don't think that this affects at all the party's determination to stay in power and not to share that power with any other parties. I don't see any move on that, but I do seem them trying to make the experience of living in China for Chinese citizens to be a less fraught one.

MR. SWAINE: Thank you.

Ken Lieberthal.

Q: Ken Lieberthal, University of Michigan.

Mike, I really enjoyed your presentation. You put in, I think, the appropriate set of caveats at the end of it, but I still want to stress an aspect that I thought still needs highlighting at the end of your presentation -- I don't think you'd disagree with this -- and that is that the political succession is still very much in progress, and at the top of the system I don't think a new leadership collective has gelled yet. We face a situation where there are at least five members of the standing committee of the Politburo that are clearly Jiang Zemin protégées. My own sense is the Hu Jintao, Wen Jiabao were seeking to build bridges to them and, in a sense, SARS upset that and increased the difficulties of doing that at the top.

SARS is now behind us, hopefully for the long term. I think this effort is now again underway, but I think that whole process has been set back a bit. That's significant, because in China, as we all know, at the top of the system there's not a sense of real cohesion. It has all kinds of consequences going down through the system – bureaucratic obfuscation and delay and difficulty in pushing through tough issues. And when we take up later today things like WTO implementation, I think this becomes an important dimension of the system or the current situation to keep in place.

Do you want to comment on that? By all means, do.

MR. LAMPTON: Well, first of all, I agree. Secondly, I would just add within that framework that it's quite clear that Jiang Zemin got placed on the Standing Committee of the Politburo substantial numbers of people who owed him quite a lot and presumably would be responsive to his wishes to a considerable extent.

We would almost have to go individual by individual, but I would say in general, among those Jiang protégées at the top are people that are widely perceived in China not to be overly, let us say, capable and competent. In other words, I'm not sure the allies of Jiang are widely perceived to be the most competent people. So just counting heads as opposed to sort of clout is not adequate – and many of those Jiang protégées have been, it seems to me, not terribly visible in the last few months.

That's the first thing. And then some of Jiang's protégées seem to me quite willing to sign on to Hu Jintao the more he looks like he's going to be there to stay and be effective. So there's the combination of incompetents that aren't taken so seriously plus opportunists that are going to go with the winner.

And then the person who is most often talked about is Zeng Qinghong. I think that there is a competition between Hu and Zeng maybe at the power level, but at the policy level, I'm not convinced there is a wide gap between the two. Therefore, I think the power struggle isn't going to be ignited by policy difference, perhaps.

So I guess I would say that we need to stay tuned on it. Certainly Jiang isn't as far removed from power as the paucity of pictures in the media might suggest, but I think it's possible to also, by counting the presumed allies of Jiang, underestimate what Wen and Hu have achieved. I don't know if that's responsive, but that's sort of my feeling.

MR. SWAINE: Thank you, Mike.

I think we really have time for just one more question. I'd like to get somebody from the back. Yes, the gentleman with his hand up in the back there.

Q: Hi, I'm Alan Tonelson with the U.S. Business and Industry Council. It's a question mainly for Susan Lawrence.

At one point you'd said that you expected that China's membership in the World Trade Organization might be a force for breaking apart these growing crony capitalist networks, and at the same time, all of the Asian crony capitalist systems, including the largest one, Japan's, grew up while these countries were all members of the World Trade Organization and the GATT system before them, and as they in fact increased their own integration into world trade and world investment systems. So I'm wondering why you expect or possibly anticipate that China's experience might be significantly different.

MS. LAWRENCE: The big difference is, as you say, they grew up as members of the WTO. China didn't. China has had to make a conscious decision to join the WTO and to change all its systems overnight. It also had to make a lot more commitments because it was joining new. It had to commit to change almost everything about its economy to join the WTO, whereas other countries that joined a lot earlier didn't go through that kind of a process.

It's hard to exaggerate, really, the impact of WTO on economic culture in China. I think clearly the leadership is using the WTO to try to remake the way that China approaches economic decisions, and sometimes there are things that maybe they could get away with not doing, as members of the WTO, but the government's saying to – I don't know, to farmers and to failing industries, and to everyone else, that we have to do these things because now we're a member of the WTO and the WTO says we've got to. They're using it as a stick against entrenched bureaucracies within their own country.

For a number of years now Chinese officials have been developing this really very strong ethos of, 'competition is good; the market is good,' often to the point where it actually is bad for social justice in many ways. For example, workers' rights have very much suffered in this whole course of Chinese development, but it's this mantra that we've got to have competition, we've got to follow the market, the planned economy is bad, subsidies are bad, and transparency is good. This is something that is just drilled into people over and over again.

You have people from the central bureaucracies, some of the central economic departments, who are out there on the road – I've actually followed a couple of them about – doing stump speeches all across the country, saying, okay, everybody, pull up your socks, we're now in the WTO; it's a whole new era; massive competition is bearing down on us; we've got to change the way we think about absolutely everything; none of the old rules apply; we can't have the same kind of sort of corruption that used to flourish, we can't have sort of sweetheart deals, because if we do, our whole country is going to collapse in the face of this competition from abroad.

So I guess that's why I feel it's different.

MR. SWAINE: Well, with that I'm afraid we'll have to conclude, with that enticing remark, this first panel. Please join me in thanking all three of the panelists.

(Applause.)

We've truncated the break because we're running a little bit late. Please – 10 minutes coffee break, and try and make it back to your seats in 10 minutes.

Thank you.

(End of panel.)