

Leadership Transition and the “Top-Level Design” of Economic Reform

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As China’s 18th Party Congress looms, it is clear that we are now in the thick of transition. Spectacular news of the Wang Lijun affair and Bo Xilai’s purge is appearing on front pages around the world. The impending transition creates uncertainty about China’s future, but it also opens up new possibilities. Already, the discussion of economic policies in China reflects the greater range of options made possible by the impending leadership change. For several years, economic reforms in China have essentially been dead in the water. Recently, the need for a more forceful push on economic reform has been acknowledged publicly in ways that would scarcely have been possible a few years earlier. Inevitably, the fall of Bo Xilai opens up further new possibilities. The ambitious Bo had staked his future on a package of economic policies—often called “leftist”—that were inimical to healthy economic reforms. His fall inevitably involves the repudiation of at least some elements of this package, providing an opportunity for rethinking and rejuvenation of the reformist agenda. As a result, we see a renewed sense of possibility in current Chinese discussions about economic policy.

This piece traces some of the key personalities and events involved in this opening policy space. It examines some of the signals that Xi Jinping, the presumptive next top leader, has sent in the policy realm. The transition of top leadership always creates an opportunity for policy change, and an impetus to change. New leaders inevitably seek to stamp their mark on a new package of policies, differentiating themselves from their predecessors (even as they proclaim continuity). We can already see Xi Jinping initiating a process of this sort, though it is far too early to make any judgments about how it will work out. At the same time, the power transition is not just occurring at the apex of political power, but throughout every level of the political hierarchy. The year 2012 will bring the first transition taking place under the impact of what we might call “the new rules” that govern turnover. That is, a broad set of term limits, age limits, and qualification requirements are now provisionally in place. To a large extent, virtually everybody in China accepts that these new rules will be followed. These rules imply that there will be massive turnover at all levels of the political system. This piece examines a few of the interactions already beginning to take shape between new policy agendas, on the one hand, and the coming widespread turnover of policy-makers and technocrats, on the other. We will start at the top, using this approach to describe in detail some events that shed light on the transition process.

Heir Apparent Xi Jinping

Xi Jinping has been selected as the next top leader, and although the process of this selection remains murky and mysterious, his accession to the top leadership position in fall 2012 is now universally accepted. Indeed, remarkably, Xi Jinping is already beginning to act like the top leader. Although scrupulously polite and respectful to current top leader Hu Jintao, Xi Jinping is beginning to ceremonially step into top roles. This was already obvious in Xi's visit to the United States in February. More recently, it was evident in the authoritative article Xi published simultaneous with Bo Xilai's fall, in which he stressed the need for "Party purity," which he defined as the absence of individual interests among party members. Purity, in this definition, means submission to Party consensus and Party rules, in order to be a pure conduit of the public interest.¹ Based on a talk Xi Jinping gave at the Central Party School on March 1, 2012, this has already become the object of a nationwide "study" movement. The study movement is designed to roll out between March and June, and is obviously intended to blunt the impact of the Bo Xilai event, and provide Party members guidance on how to handle and explain the purge.² In this symbolic sense, then, Xi Jinping is already the leader.

Yet even before this, Xi Jinping had begun to prepare for his administration. In the "Party Suggestions" for the 12th Five-Year Plan, published last fall, there is a line that suggests the need to accelerate economic reform and draw up a comprehensive reform program. "It is necessary to comprehensively move reform forward in every sector, with greater determination and courage; pay even more attention to a top-level design for reform and a long-range plan for reform" (必须以更大决心和勇气全面推进各领域改革。更加重视改革顶层设计和总体规划).³ In and of itself, it's not a terribly portentous statement, since Chinese long-run plans typically include some kind of endorsement of further economic reform (and not much necessarily follows from such declarations). But in this case, when the "Suggestions" were transmitted top-down to Party members at various levels of the hierarchy, the sentence was accompanied by a word of explanation: This idea was brought up in discussion by Comrade Xi Jinping, so it was written into the "Suggestions." This marks an initial, modest attempt by Xi Jinping to potentially identify his administration with a greater reform effort.

The sentence also includes a striking term: "top-level design" (顶层设计). The phrase comes from scientific arenas like systems engineering, integrated circuit design, and telecom networks theory, where the top-level design indicates the master design into which the more detailed sub-designs are integrated. It possesses the nice property of suggesting an overarching conception of future reforms, without falling prey to the hubris of grand plans or long-run programs. It is also a distinctive enough term in Chinese (or English) that it can serve as an easily transmissible "meme" readily propagating Xi Jinping's desire to have a reform document. It is also a term that most insiders associate with the well-known economist and policy adviser Liu He (刘鹤).⁴ After a long career in the Planning Commission system, where he helped draft industrial policy documents (including those covering electronics), Liu He was transferred in 1998 to the State Information Center, where he became executive vice-head, and was in charge of e-governance. Liu He has been an important player in economic policy overall since he

was appointed vice-head of the office of the Finance and Economics Leading Small Group (LSG) in March 2003.⁵ As a Party entity, the LSG is a key body for drafting overall programmatic documents (such as the Party Suggestions for the 12th Five-Year Plan). Liu He's strong background in the information sector makes him the natural source of the "top-level design" formulation.

Providing Top-Level Designs

In fact, there are currently three groups tasked with providing input into an economic reform "top-level design." The first of these has already received significant publicity. A joint project of the World Bank and the State Council Development Research Center (DRC), this is the "China 2030" project that delivered its results at the Diaoyutai Guest House in Beijing on February 27. The output was a thick report that projected the development of the Chinese economy to the year 2030. Rich in content, the report was particularly newsworthy for two items. First, it projected that China had the potential to enter the ranks of the high-income countries by 2030, even after taking into account some inevitable growth slowdown due to the maturing of the economy. Second, the report declared unambiguously that if China did not make essential economic reforms, it would not make it into high-income status, and might instead face serious economic difficulties and perhaps even crisis. Among the reforms indicated, the most prominent was to resume the stalled process of state enterprise reform, including reducing the monopoly privileges of state firms.⁶ It was an effective one-two punch: the projection of high income status was sure to attract the attention of China's top leaders; and the unambiguous policy advice broke with a decade in which the Bank's policy recommendations to China had been understated, to say the least.⁷

Even before the World Bank-DRC report was presented, it was the subject of a front-page article in the American edition of the *Wall Street Journal*.⁸ The day after the report was formally presented, retiring World Bank president Robert Zoellick held a press conference in Beijing that was disrupted by an "independent scholar," Du Jianguo (杜建国), who claimed that the report was a "con" that the World Bank had been put up to by Western banks and corporations who feared the competition coming from Chinese state firms, now that they had reached large scale.⁹ This guerilla action managed to set the terms for the story in the Chinese media, much of which was negative toward the World Bank and its report.¹⁰ The commentary generally focused on the report's attack on state ownership, often linking this to the World Bank's past record supporting simplistic free market nostrums.¹¹ However, these responses were typically more responses to the initial news coverage, rather than to the report itself, which few of the commentators had read. Rushed into production in order to meet deadlines and be in time to have an impact on Chinese reform strategizing, the report was issued in English, but not in Chinese. Those who actually read the 400-plus page document noted that it was a thorough, reasoned piece that held far more analysis and projection than recommendations.¹²

In fact, the World Bank report is just one of three projects moving forward. A second report is under way from the Cairncross Foundation, which has commissioned a group of internationally renowned economists led by Edwin Lim (林重庚), who headed

the World Bank's efforts in Beijing in the 1980s. Nobel laureate Michael Spence and UC Berkeley growth theorist Paul Romer are members of this group, which had already submitted a series of position papers as inputs into the 12th Five-Year Plan process.¹³ Finally, a third group has been constituted under the auspices of the 50 Economists Forum, a grouping of distinguished—predominantly reformist—Chinese economists. While the 50 Economists Forum is unambiguously a group undertaking, one of its leading spirits is none other than . . . Liu He. Thus, the three projects can all be seen as part of a coordinated effort to create a program Liu He can then present to Xi Jinping. In fact, this story can shed more light on Beijing policy-making, but before we elaborate, it is essential to introduce another systemic element of the impending leadership turnover.

Age Limits

Chinese policy-makers now operate under a comprehensive set of age limits. Most China-watchers became aware of the importance of those age limits during the 16th Party Congress, and again at the 17th Party Congress. The outcomes at those congresses followed a clear norm under which all Politburo members aged 68 at the time of selection were to step down. Assuming that the top leaders served five-year terms, this norm imposed on them an implicit age limit of 72 at the end of their term. In fact, by the time these norms were developed for the top leaders, a complete set of age limits had also been put in place for officials at lower levels. Those limits had been incorporated into explicit legislation for government employees, and were understood to apply to Party positions as well. The rule is as follows: Ministers must retire at 65; CEOs of ministerial-level corporations must retire at 63; vice-ministers and below must retire at 60, which is the normal retirement age for state workers. Above the ministerial level—national leaders, such as state councilors—may serve a few years beyond age 65, but of course at a maximum, would be subject to the rule that they could not start a new term at age 68.

There has always been a question, however, about how credible those limits would be in the case of important and capable people, particularly since articulation and implementation of the rules has been slow, gradual, and in some cases not fully explicit. In the last few years, it has become clear that the rules will be respected, and that there will be very limited exceptions. The rules have held, and mandatory retirement now prevails. This has a clear and immediate impact on the distribution of authority in economic policy-making. Retirements are handled in a “Chinese way,” which is to say that people do not automatically “become retired” on their birthdays. Instead, officials are given the opportunity to announce their own retirements, but are expected to do so around the time of, or reasonably promptly after, the relevant birthday. This means there may be some behind-the-scenes negotiations as individuals seek a soft landing, some kind of appropriate post-retirement position from which they may gain continued respect and benefits, and exercise continued influence. This has made for a less abrupt transition as the retirement rules phased in universally.

One of the bigger tests of the rules came in the case of Zhang Guobao, vice-head of the National Reform and Development Commission (NDRC) and head of the National Energy Bureau. Zhang Guobao has been in charge of energy policy in China for over a

decade. He is smart, capable, and utterly hands-on: China's "energy czar." He has dealt with many foreign officials and businessmen, and those who know him generally find him to be capable, straightforward and easy to work with. Zhang Guobao was born November 19, 1944 and has full ministerial rank (as do three other leaders in the NDRC). Therefore, he should have retired around November 19, 2009. Zhang Guobao was not eager to retire, and many in the top leadership were highly conscious of his skills and experience. In the event, it was not until January 7, 2011, that Zhang finally announced his retirement, appropriately enough at the National Energy Conference.¹⁴ By rights, Zhang should have retired a year earlier, in January 2010, a few months after his 65th birthday. Despite the delay, the crucial fact is that a strong, capable technocrat, still at the peak of his abilities, did ultimately retire in line with the new rules that govern careers.

Zhang Guobao can serve as a representative of a significant group of economic technocrats that is now retiring. In essence, a generation of managers is now stepping down, a group of individuals who went to university during the 1960s, worked through the Cultural Revolution, and then assumed leadership roles during the 1990s. For example, others prominent in this group of recent retirees—discussed in previous *China Leadership Monitor* reports—have been Li Rongrong, head of the State Asset Supervision and Administration Commission (born in 1944, retired in 2010¹⁵) and Liu Mingkang, head of the China Bank Regulatory Commission (born in 1946, retired in 2011).¹⁶ This turnover in economic management agencies is part of the generational turnover occurring in Chinese society overall.

LSG/ DRC/ SASAC

With this background in mind, we can return to discussing the characters and organizations involved in the search for a "top-level design" for renewed economic reform. For almost a decade, Liu He has been vice-head of the office of the Communist Party Finance and Economics LSG, which means he has vice-ministerial rank, and with all else held constant would retire after January 2012 when he turned 60. However, his immediate superior, Zhu Zhixin, head of the LSG office, is not going anywhere. Zhu is a Central Committee member, concurrently a vice-director of the NDRC and, at 63, still a couple of years from retirement. Thus, for Liu He to play a continuing influential role, a new position had to be found for him, and he was appointed the party secretary of the State Council Development Research Center (DRC).

This move requires a little explanation. Conveniently, the former head of the DRC, Zhang Yutai, had himself turned 65 in September 2010, and had recently ceded the top job there to Li Wei (李伟). In the DRC, in contrast to the case in, for example, a local government, party secretary is the Number 2 job, after director. However, as in all China organizations, the party secretary has the same full rank as the director (in this case, minister). Thus, when Li Wei moved up from party secretary to director of DRC in April 2011, a job slot with full ministerial rank was opened up, and Liu He was appointed to this position. In this way, Liu He achieved full ministerial rank, and he can continue to play an influential policy role for another five years.

This shift also implies that DRC now has two strong reformers in its top two positions. Li Wei, the director, had moved up through Shanghai city government as a generalist and personnel specialist. He became close to Zhu Rongji, and moved to Beijing with Zhu in 1991. When Zhu Rongji was promoted from vice- to full- premier in 1998, Li Wei was named to head the premier's office. In 2005, Li Wei was appointed a vice-head of SASAC, where he would have been an obvious choice to succeed founding director Li Rongrong. Instead, when Li Rongrong retired in 2010, his place was taken by Wang Yong (王勇). Wang Yong was brought in from the State Quality Inspection Bureau, where he had been busy cleaning things up in the wake of the Mengniu poison milk powder scandal since his appointment in 2008. Before that, however, Wang Yong had had a long career in the military-industrial complex, moving into personnel work, and from there, quite naturally into SASAC when it was set up in 2003. Working at SASAC through 2008, Wang Yong is certainly a SASAC insider, and well qualified by experience for the directorship. Moreover, even before Wang Yong had been sent to the State Quality Inspection Bureau for urgent crisis management, he had been promoted out of SASAC to be vice secretary-general of the State Council, and also became a member of the State Discipline Inspection Commission at that time. Wen Jiabao clearly valued Wang Yong's talents as a manager and trouble-shooter, and Wen was considered instrumental in having Wang Yong take over SASAC.

The ultimate outcome of these personnel movements, then, is a SASAC that is effectively much less committed to state enterprise reform than before, and a DRC that feels that it has the expertise and authority to comment on state enterprise issues. SASAC is now directed by someone from the military-industrial complex, where reforms lag well behind other state enterprises. Since taking over, Wang Yong has put his strongest emphasis on growing large SOEs, moving as many state firms as possible into the Global Fortune 500, and vindicating the role of state enterprises in the economy. To be sure, Wang Yong has not completely abandoned the reformist agenda, since he continues to call for reorganizing firms so that all their assets are incorporated into listed companies (getting rid of bureaucratic middle-level conglomerates with legacy assets). Furthermore, it is arguable that SASAC was already losing reform momentum under Li Rongrong, who from 2006 seems to have shifted his position on the role of state enterprises in the economy. Overall, though, Wang Yong's directorship has cemented SASAC's position as a bureaucratic force with an interest in preserving the status quo.

The DRC, by contrast, has itself become re-energized and is now deeply involved in searching for a reinvigoration of the reform agenda. With Li Wei, a clear "follower" of Zhu Rongji, in the number one position, and Liu He in the number two position, DRC now has two strong leaders. Indeed, it is widely acknowledged within the World Bank that the initiative for the China 2030 report came not from the World Bank itself, but from the DRC. While the World Bank provided much of the analytic underpinning of the report, each of the key chapters, or background reports, was written by a joint DRC-World Bank team. The World Bank discarded the reticence that has marked its recent analytic work on China precisely because the DRC asked it to take a more proactive position and urged it to take advantage of the current period of potential policy openness to make a contribution.

In these circumstances, it is not surprising to find that SASAC received the DRC-World Bank report with open hostility. When the Ministry of Finance (the World Bank's formal counter-party) circulated initial drafts of the report, SASAC objected violently to the characterizations of state firms.¹⁷ The Ministries of Health and Education praised the proposals in the report. However, SASAC claimed that the report violated constitutional provisions on ownership and, demanding a debate, charged that it might be an attempt to overturn the socialist system. In fact, face-to-face discussions between SASAC officials and DRC economists were arranged, and some sections of the report were cut.¹⁸ When the World Bank and DRC presented the report at Diaoyutai, SASAC representatives were conspicuously absent. Today, SASAC hosts on its website a series of tendentious articles denigrating unnamed critics of state ownership. The intellectual quality of these articles is remarkably low, and the ideological content surprisingly high.¹⁹ SASAC has clearly nailed its colors to the mast of ideological orthodoxy and preservation of the status quo. Moreover, SASAC is clearly fighting back against something they perceive to be a serious challenge. In this fight, they have the support of the propaganda organs, which are providing a steady stream of articles to various media outlets that are then posted to populate this little section of the SASAC website. Maneuvering to set the agenda for the new administration is well under way.

Conclusion

Will new leaders give the economy the decisive push it needs to make substantive moves toward a more open and sophisticated economy? Will China take the steps necessary to bring its increasingly middle-class population the economic system they need and demand? It is far too early to provide any definitive answers to these big questions, but in the past few months the possibility of such improvement has increased dramatically. The renewed discussion and sense of possibilities has also elicited opposition, and perhaps alarm, from some defenders of the status quo.

This renewed debate will not be settled soon. Top leaders today are doubtless preoccupied with the need to fully resolve the Bo Xilai situation and present a picture of consensus and unity well before the Party Congress. Indeed, the economic issues will likely only gradually head toward a kind of resolution in the fall of 2013. That is when the 18th Central Committee is scheduled to hold its Third Plenum. Traditionally, the Third Plenum has been the venue at which a new administration, having consolidated its power and worked out its program, presents an ambitious new set of economic policy documents. We can be sure that Xi Jinping is very aware of this precedent, and would like nothing better than to have a dramatic and compelling program ready for *his* Third Plenum.

Notes

¹ Xi Jinping (习近平), “扎实做好保持党的纯洁性各项工作” (Realistically and effectively do every aspect of the work of maintaining party purity), *Qiushi* (求是), No. 6, 2012. Accessed at http://news.xinhuanet.com/politics/2012-03/16/c_111660308.htm.

² For example, see Lu Juntian and Li Xiaodong (吕俊田 李晓东), “The party committee of the rural credit cooperative of Hequ County (Shanxi) convened a large mobilization meeting for the educational movement studying the need to maintain the purity of party members” (河曲联社党委召开保持共产党员纯洁性学习教育活动动员大会), March 17, 2012, accessed at http://news.xinhuanet.com/politics/2012/03/17/article_119045.html; Shanxi Organization Department document, “To maintain purity, you need to remember the ‘Three Character slogan’” (保持纯洁性 须念好“三字诀”) *Shanxi Daily*, March 17, 2012, accessed at <http://cpc.people.com.cn/GB/64093/64099/17413940.html>.

³ Introductory paragraph to large section X (out of XII), which is entitled “Accelerate the pace of reform and tackle difficult issues; Complete the Socialist Market System.” Chinese Communist Party Central Committee, October 18, 2010 [Fifth Plenum of the 17th Party Central Committee], “Party Center suggestions on drawing up the 12th Five-Year Plan for National Social and Economic Development (中共中央关于制定国民经济和社会发展第十二个五年规划的建议), accessed at http://news.xinhuanet.com/politics/2010-10/27/c_12708501.htm.

⁴ Michael Forsythe and Dune Lawrence (Bloomberg), “Liu He as China’s Larry Summers Makes Politburo Appreciate U.S.,” Bloomberg News, September 24, 2009, accessed at <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aKp9wybwC4HM>.

⁵ “Liu He,” entry in Baidu Encyclopedia, last accessed on March 24, 2012, <http://baike.baidu.com/view/402331.htm>. The State Information Center is sometimes translated as State Council Information Office.

⁶ World Bank and Development Research Center, *China 2030: Building a Modern, Harmonious and Creative High-Income Society*. February 2012. Complete report accessible at <http://www.worldbank.org/en/news/2012/02/27/china-2030-executive-summary>.

⁷ In 2010, the World Bank cutoff for high-income countries was \$12,276 per capita gross national income (roughly equal to gross national product), measured at smoothed-out current exchange rates (not at purchasing power parities). This is about the current level of Turkey, and still far below the per capita levels of the U.S. (around \$50,000) or the larger European countries (above \$40,000). It is, however, significantly above the level of today’s Brazil or Mexico. See <http://data.worldbank.org/data-catalog>.

⁸ Bob Davis, “New Push for Reform in China: Influential Report to Warn of Economic Crisis Unless State-Run Firms Are Scaled Back,” *Wall Street Journal*, February 23, 2012, p. A1, accessed at <http://online.wsj.com/article/SB10001424052970204778604577238901231511224.html?KEYWORDS=%22World+Bank%22+%22China+2030%22>. See also Jamil Anderlini, “World Bank warns China on growth fears,” *Financial Times*, February 27, 2012, accessed at <http://www.ft.com/intl/cms/s/0/88141132-6140-11e1-a738-00144feabdc0.html-axzz1q6aLl5wA>.

⁹ It’s on film: “中国学者抗议世行报告 声称银行不应私有化” (Chinese scholar resists World Bank report, claiming banks should not be privatized), February 29, 2012, at <http://finance.ifeng.com/news/hqcj/20120229/5677667.shtml>. Note that this source gives the scholar’s name as Du Jianhua (杜建华).

¹⁰ For a convenient summary, see Tian Daxiao (田大校), “世行报告《中国2030年》在国内引强烈反应” (The World Bank “China 2030” reports elicits a fierce reaction in China), March 1, 2012, at <http://www.chinaelections.org/newsinfo.asp?newsid=223943>.

¹¹ Li Beifang (李北方), “世界银行中国报告引多方争议” (The World Bank’s China Report elicits many-sided debate), *Southern Window* (南风窗), March 16, 2012, accessed at <http://news.sina.com.cn/c/sd/2012-03-16/143124126499.shtml>.

¹² Tang Xuepeng (唐学鹏), “世行报告是毒药吗?” (Is the World Bank report really some kind of poison prescription?), *Twenty-first century economic herald* (21世纪经济报道), March 3, 2012, accessed at <http://www.21cbh.com/HTML/2012-3-3/3MMDM2XzQwNjQ3Mg.html>.

¹³ Available at <http://cairncrossfund.org/en-17-new%20Announcement.htm>.

¹⁴ Ding Huayi (丁华艳), “能源局张国宝卸任: 有许多事还来不及做” (Head of the Energy Office Zhang Guobao steps down; so many things still need to be done), *Xinlang Caijing* (新浪财经), January 13, 2011, accessed at <http://finance.sina.com.cn/leadership/crz/20110113/09349246898.shtml>.

¹⁵ See full personal chronology at <http://baike.baidu.com/view/99585.htm>.

¹⁶ Barry Naughton, “Macroeconomic Policy to the Forefront: The Changing of the Guard,” *China Leadership Monitor*, no. 36.

¹⁷ Wei Xuan (炜玄), “世行要求打破国企垄断 国资委强烈反对” (The World Bank advocates breaking down the monopoly of state firms; SASAC is violently opposed). *Twenty-first Century Economic Herald*, February 29, 2012, accessed at <http://finance.ifeng.com/news/hqcj/20120229/5679268.shtml>.

¹⁸ Ibid.

¹⁹ SASAC now has a section we might call “Field of Vision” (关注与视野) on its front page, <http://www.sasac.gov.cn/n1180/index.html>. In a recent check, it featured Jin Lilun (金里伦), “国有经济‘完全退出’不可行” (It is impossible for the state-run economy to “completely exit”), from *Economics Daily* (经济日报), March 24, 2012; at <http://www.sasac.gov.cn/n1180/n1271/n20515/n2697206/14367541.html>; and Liang Jun (梁军): “关于国企改革重大理论问题的思考 (上)” (A reflection on important theoretical questions of State Enterprise Reform, First Part), *Southern Daily* (南方日报), March 27, 2012, at <http://www.sasac.gov.cn/n1180/n1271/n20515/n2697206/14370922.html>.