

**COMPETITION FOR POWER AND THE CHALLENGES
OF REFORM IN POST-DENG CHINA**

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Dr. Susan Shirk delivered the 1995/96 Dorothy and David Lam Lecture at the University of Victoria on February 1, 1996. She is the Director of the University of California's Institute on Global Conflict and Cooperation and Professor, UC San Diego Graduate School of International Relations and Pacific Studies. The paper is an edited transcript of Dr. Shirk's Lam Lecture followed by audience questions and Dr. Shirk's responses.

COMPETITION FOR POWER AND THE CHALLENGES OF REFORM IN POST-DENG CHINA

I want to talk tonight about the drama that is unfolding in China at this moment. China's leader Deng Xiaoping is 91 years old, gravely ill, and near death. When Deng dies, almost all the founding generation of the Chinese communist generation - the generation of revolutionaries who survived the Long March and defeated the Japanese and the Chinese Nationalists, the generation of Mao Zedong - will have left the political stage. Who will be the future leaders of China and in what direction will they take the country? The stakes are high not only for the 1.2 billion people in China, but for the rest of the world as well. China's economy, now growing at an average of over 9 percent annually, is becoming one of the largest economies in the world, and its political and military influence is growing accordingly. China's internal development and its external behaviour will be felt by all of us.

Deng Xiaoping has anointed as his successor Jiang Zemin, who has held the top position in the Communist Party, the general secretary position, since 1989. Although Jiang Zemin will be no pushover - he has used the general secretary position to place many of his supporters in influential roles - he will be challenged by at least one or two rival leaders.

The competition has already begun. Today the contest for power in the post-Deng regime dominates Chinese politics and policy-making.

Because communist leaders have no fixed terms of office, the campaign for power never ends. It becomes especially hot and heavy, however, when the incumbent leader is very old - as was the case in the last years of Mao's reign and the two decades of Deng's reign.

Ever since Deng Xiaoping assumed the role of pre-eminent leader and launched an ambitious program of economic reform in 1978, other Communist Party leaders, anticipating that his reign would be short, have been jockeying for power. By and large, they emulated the politically successful formula that Deng Xiaoping had pioneered: market reforms characterized by economic and financial decentralization, while maintaining Communist Party authoritarian rule. In a word, economic reform without political reform.

China-watchers - and Soviet-watchers in the past - have always been fascinated by the mysteries of power struggle among the top communist leaders. They pore over newspaper articles from the Communist Party controlled press and photographs of gatherings of leaders to figure out the pecking order among the leaders and how it may be shifting.

Because Chinese politics is a closed process, however, hidden from Chinese citizens as well as foreign analysts, it is difficult to know what the rules of game are: Who decides who the leaders will be, and on what basis? And how does the competition for power influence the policy-making process?

My research suggests that although a small number of revolutionary elders from the Long March generation still exercise informal political influence, the selection of top Communist Party leaders and the policy-making process are becoming more regularized and institutionalized. The two-hundred member Party Central Committee, which holds constitutional authority to choose the top leaders of the party (I refer to the CCP general secretary, the Politburo, and the Standing Committee of the Politburo) is becoming the main political arena. Chinese political leaders do not have to stand for election; they do not appeal for votes from a citizen electorate. They do, however, have to win the support of the officials who sit in the Central Committee, constituting what I call the selectorate.

Who are the officials in the Central Committee and what kinds of interests do they represent? There are three main blocs within the Central Committee: the leaders of China's thirty provinces, the heads of national government ministries and party departments in Beijing, and the top officers of the military.

Aspiring leaders bid for support from the officials within the Central Committee by offering attractive policies that benefit particular provinces, ministries, or the military. The Chinese market reforms were politically successful because ambitious leaders used the reforms to decentralize authority and funds to provinces and ministries who were well-represented in the Central Committee. Because the largest bloc within the Central Committee consisted of provincial officials, the economic reforms targeted benefits to provincial governments, particularly in the more advanced coastal regions. The prime example of this favoured treatment was Guangdong Province which was allowed to keep

all the taxes it collected, instead of sending the funds to Beijing, and which was given three of the four Special Economic Zones permitted to offer preferential terms to attract foreign investors.

The economic reforms have reached the stage, however, where such giveaways will be hard to sustain, even though the leaders hoping to succeed Deng Xiaoping will certainly want to do so.

A number of very tough policy challenges confront China's leaders just at a time when their political ambitions will colour every policy choice they make. From now until Deng's death, and for the two or three years following Deng's death, the power struggle will dominate policy-making. Allow me briefly to touch upon three of the most knotty economic reform issues that could make or break the political careers of the post-Deng leaders.

A. Fiscal Relations Between the Central Government and the Provinces:

The set of issues that best illustrates the cross pressures facing the next generation of leaders are the financial ones. Almost two decades of financial decentralization have left the central government extremely poor. Central government fiscal revenues constitute only 6.5% of China's GDP, one of the lowest proportions in the world – a strange situation for a socialist government to be in – especially one that has massive and expensive infrastructure needs. Projects like the Three Gorges Dam on the Yangtze River cost billions of dollars.

The Chinese military, which is not only well represented in the Central Committee but also holds a veto over all leadership selection decisions (Mao said that power grows out of the barrel of a gun, and this is certainly true in authoritarian regimes where militaries often intervene in power struggles), is demanding that the central government give it funds to modernize its backward equipment. Failure to recentralize funds and having to deny the army could be politically dangerous for aspiring leaders.

Another source of demand for funds is the poor inland provinces that got the short end of the stick during the reform era. The governors and party secretaries from the poor inland provinces are beginning to mobilize politically to demand better treatment. Their influence is increasing in the Central Committee and the National People's Congress. They demand an end to the cushy deals for the Special Economic Zones on the coast so that all regions can compete on an equal basis for foreign investment. They also demand the lion's share of the central government's meagre investment funds. Their arguments carry weight with the politicians in Beijing who are well aware that the regional income gap has widened greatly since 1992 and that protests by hard-pressed farmers have become a frequent occurrence in inland areas. Threats of peasant rebellion in Guizhou or Sichuan certainly get the attention of leaders in Beijing.

Balancing the interests of inland and coastal provinces has become a tricky business for central politicians. Taking funds back from the influential coastal provinces could be political suicide. Guangdong politicians are fighting a no-holds-barred battle to retain the preferential tax rates and other financial treatment for the Special Economic Zones. They argue that because Deng Xiaoping was the founder of the Special Economic Zones, anyone who suggests removing the Zones' special advantages is anti-Deng. They also have mobilized the support of the foreign corporations who have invested in the Zones. Pushing on the other side are not only the inland provinces, but also the World Trade Organization, which China is eager to join. Special treatment for particular regions is condemned as a government trade subsidy by the WTO.

So far, Jiang Zemin and other possible successors have tried to straddle the Special Economic Zones and regional equity issues to try to keep everyone happy. They have adjusted some of the financial arrangements for the SEZ's, while compromising on others; one day they make speeches that the policies toward the SEZ's will remain "basically unchanged," while the next day they promise the inland areas real changes.

B. The Persistent Inefficiency of State Enterprises:

Most of the dynamic growth achieved by Chinese industry under the market reforms has come from newly established private and collective firms and joint ventures. Most state-run factories continue to be inefficient dinosaurs whose financial losses are an enormous burden to the government. What can be done? Is privatization the answer?

In this environment, no Chinese leader has dared come out in support of privatization. Privatization is opposed not only by the conservative elements within the Communist Party who have ideological objections, but also by the industrial ministers who want to maintain their control over those state firms. For their part, provincial officials worry that the laid-off workers will become their financial and social responsibility.

One approach being discussed is corporatization, in which provincial and city governments would be made majority shareholders of local state firms. This idea may be embraced by some post-Deng leaders who could see it as a way to win support from the provincial leaders who carry a lot of weight in the Central Committee.

C. Official Corruption:

Corruption has become a massive problem in China's current economic environment. The hybrid mixture of plan and market offers officials abundant opportunities to reap private gain from their administrative authority, and the legal definitions of corrupt behaviour are ambiguous.

Corruption is so widespread that almost every official is vulnerable to charges of corruption. As a result, campaigns against corruption have replaced ideological campaigns as the preferred weapon of elite power struggles. Politicians attack rival factions by accusing them of corruption, and protect their own followers from similar accusations. Communist Party General Secretary Jiang Zemin last summer had Beijing Party Secretary and Mayor Chen Xitong and other high level city officials arrested for corruption. The arrests were a bold move on Jiang's part

in the leadership succession game. Interestingly, other Chinese leaders closed ranks to check Jiang from taking this campaign any further; they made a new rule that the collective leadership bodies of the CCP - presumably the Politburo - would from now on have to approve opening corruption cases against officials of bureau-level or above. This rule reflects the collective interest of all contending leaders to prevent internecine corruption battles from destroying Communist Party rule from within.

I have argued today that the competition for power makes it hard for Chinese leaders to tackle the very tough problems that have reared their heads at this stage of the economic reform, namely the centre's financial incapacity and regional inequalities, the losses and inefficiency of state factories, and widespread official corruption. Cross-pressured by the demands of coastal and inland provinces, central ministries, and the military – and unwilling, so long as Deng Xiaoping is still alive, to deviate radically from his legacy of economic reform without political reform – ambitious politicians try to straddle the issues and avoid making enemies. Immobilism in policy-making is the most likely result.

Immobilism is not the only possibility for China's future, however. There are other possible scenarios. After Deng, China's pre-eminent leader, has died, one of the contenders may bid for power by proposing some dramatic policy innovations, much as Deng Xiaoping himself did when he put forth his market reform proposals in December 1978. Two types of radical departures, taking China in two opposite directions, could be proposed.

A reform-minded leader like Qiao Shi, presently chair of the Standing Committee of the National People's Congress, China's so-called Parliament, might push a political reform platform. He would say that the best way of resolving the dilemmas of central-provincial fiscal relations is a federal constitution; that only privatization can make state enterprises efficient; and that corruption will bring down the Communist Party unless it is rooted out by strengthening China's Parliament (the National People's Congress) and legal system. To win with such a platform, a politician like Qiao Shi would have to build a new type of coalition within the CCP Central Committee or even shift the arena for leadership

selection from the Party to the government.

A much less hopeful possibility is the emergence of a military figure, or a civilian politician backed by all or part of the military, who puts forward a conservative backlash platform. Exploiting elite and popular fears of national disintegration and chaos, he would promise the inland provinces and the army that the centre would reassert financial control and narrow regional gaps; assure central ministries and party ideologues that he would preserve state enterprises; and revive Maoist-style ideological campaigns to try to tackle corruption.

Most China-watchers predict continued immobilism with a small probability of a conservative reactionary regime taking over. My own instincts tell me that the political reform platform is just as likely to find support within the Chinese selectorate which has a large component of provincial officials. For one thing, it would almost overnight ease much of the tension that has plagued relations between China and the United States since 1989 and would bring China new infusions of foreign investment.

To those of you who came here tonight expecting that I would predict with a high degree of certainty who will succeed Deng Xiaoping and in what direction he will take China, I apologize. We scholars have shed a few rays of light on leadership competition and policy-making in China, but much of it remains a black box. What I hope you remember from my talk, however, is to keep your eye on the Central Committee selectorate and look for some new policy ideas to appear after Deng Xiaoping passes away.

Questions and Answers:

(1) *How long do you expect it will take for a new leader to emerge?*

What I expect to happen is that, one, when Deng Xiaoping dies the first thing that you will hear is that everyone has rallied around Jiang Zemin – they are all completely unified, and that Jiang Zemin is the next leader of China. And then, backstage, behind the closed doors, there will be intense competition underway. Within about six months or a year, start looking for some new ideas, in the Chinese media and the speeches of people like Qiao Shi, Li Ruihuan, Zhu Rongji, and Li

Peng. There will be the more reform-minded ones and there will be the more conservative backlash variety, as well. Jiang Zemin will be the leader of China when Deng Xiaoping dies, but he will be challenged, undoubtedly, because there is no way to have stable, collective leadership in this kind of regime. The question is how long it will take for a new leader to emerge; it might not happen. Jiang Zemin might be able to fight off the challenge. He will be a serious contender, but there will be heavy campaigns going on for, I would say, at least, two or three years after Deng Xiaoping's death.

- (2) *You were saying that there is the possibility of a leader being chosen who supports the rule of law as that is understood in the western world. I was just wondering if you can identify any senior Chinese leaders who lean in this direction?*

Well, those of us who read these speeches very carefully have seen hints of such a viewpoint in the speeches of Qiao Shi. He has the standing that he heads the National People's Congress and previously was the head of the internal security apparatus, the Chinese top policeman – which is pretty good support actually. At least you're sure those people are not going to ally with someone else. And Li Ruihuan is also a member of the Standing Committee of the Politburo. He is the former mayor and party secretary of the city of Tianjin. I don't think that he, himself, could become China's pre-eminent leader because he's a construction worker who never went to university and his lack of higher education, I think, from the standpoint of many people in China, would disqualify him for the number one position of China at this stage in history. But I can see that Li Ruihuan might ally with Qiao Shi, so those are two people. Li Ruihuan made some very interesting statements about the rule of law in Hong Kong that were very encouraging that he understood the importance of rule of law as the foundation for a market economy.

- (3) *If a more conservative group or the military takes over in Beijing, what implications will that have for the reintegration of Hong Kong?*

Obviously, it is not a good thing in the sense that they would favour more nationalistic policies that would want to demonstrate the strength of the regime, perhaps thumbing its nose at western business. But I think actually who wins the power struggle in Beijing is not the most important thing for the future of Hong Kong. I think the future of Hong Kong will be determined not so much by national policies in Beijing, as by the behavior of the multitude of mainland-based businesses that want to gain advantage in the economic environment in Hong Kong. They will want to tilt the playing field to that attack. And so I think it is less important who wins the power struggle in Beijing than how all these different businesses behave in Hong Kong.

- (4) *As the economic well-being of the Chinese people improves, will it undermine the stability and power of the Communist Party, unless they bring back repression?*

The question, of course, is with economic development in China, won't the hold of the communist party weaken? And, of course, the argument is that China is not exempt from the pattern which has always prevailed in world history. As people become more affluent, a middle class develops – more urbanized, more educated, more accustomed to economic freedom – then they start to demand political freedom and democracy. I think that China will not be exempt from those kinds of social demands. However, I am struck by the fact that social demands have been fairly feeble so far, even within an economy in which more than 50% of the industrial output is now produced by non-state firms. These non-state businesses are what I call niche capitalism. They are fitting themselves in and around the planned economy and there is a lot of collusion between government and party officials and these business people. Consequently, the business people are not leading the movement to challenge the political regime the way you might predict they would. But, in my view, that means that the pattern is delayed but not reversed.

- (5) *Could you comment on what role the People's Liberation Army might play in the post-Deng period?*

This is a very, very important and difficult aspect of Chinese politics. First of all, I think the main point is that the Chinese military in the past has actually not entered into domestic politics that much. And the one time that it did really play a very prominent role, right after the cultural revolution to try to restore order, it withdrew from domestic politics very quickly. And I think the sense of professionalism within the Chinese military has grown and that's very positive. It's a good reason, actually, to increase the defense budgets, to have military academies, and provide high-tech equipment. This increases their sense of commitment to the professional mission and makes them less interested in dabbling in power struggles with domestic politics. There is evidence now that the military, especially from last year, is planning a more influential role in foreign policy towards the United States and in policies towards Taiwan. However, people who know the Chinese military well say that there are all shades of opinions – it is by no means a monolithic organization. So, I don't think that we should assume that the military is necessarily just a conservative force. For example, in the Soviet Union, the military actually supported Gorbachev. And so I don't think it's impossible that a leader who proposed a modest, gradual, political reform agenda would get support from at least some parts of the military. In other words, I don't think we should assume that the military are in the conservative camp.

- (6) *When Deng dies, will the Politburo or the Standing Committee of the Politburo or the Central Committee or whatever, divide into three parties or camps – supporting Jiang Zemin, Li Peng, and Qiao Shi?*

I don't think so. I don't think that Li Peng will be a major contender for power. I think Li Peng is not only very controversial because of his role in Tiananmen, but members of the Chinese white-collar class have a very low opinion of his abilities. I see Jiang Zemin and Li Peng as a partnership similar to Brezhnev-Kosygin. And Zhu Rongji could cooperate with them, too. Again, this might not be a stable arrangement because it is very difficult to sustain that kind of collective leadership. Maybe it's just wishful thinking, but I do think that Qiao Shi will be a

serious contender but not Li Peng.

- (7) *Do you think that it is a good thing that the PLA is so much involved in business, keeping them busy right now?*

I think that it is a terrible thing that the PLA is involved in business. This business has a tremendously corrupting influence, although not for the bulk of the PLA. However, remember that Beijing ran out of money, and they basically told the army, just as they told the universities, and the research institutes and every other type of unit in China, we are going to cut your budget. You go out and raise the rest of the money yourself. And that might have been necessary because of the fiscal problems, but it definitely diverts attention and perverts the whole nature of these organizations when they have to raise their own money. People think that the Chinese military modernization program is being financed by arms sales and the production of civilian products by military industries. In fact, the careful research I've seen on this lately suggested that very little of their business earnings go into procurement and R and D. Military decision-makers don't want to spend money on that; they want to spend money on their own welfare, or to reinvest it in businesses. And I think it reduces the discipline, and the professionalism in the military, and I think that many people in the military agree with that analysis. So, I think part of the gradual political reform could involve an effort to get the military out of its debt.

- (8) *You referred to Li Ruihuan's comments about the rule of law or the need for the rule of law in Hong Kong. If he were to become aligned with someone like Qiao Shi, his beliefs would be important. Do you really think he meant what he said or do you think he was trying to please people in Hong Kong?*

Actually, I believe he meant what he said because there was some political risk in this environment in saying it, and therefore I don't believe it was something that was part of the official mind because I see no discussion by the people in charge of Hong Kong policy in Beijing that sounds anything like that. So I don't feel that it was part of just some effort to ease the fears of people in Hong Kong, I think that

it was a warning. Actually, do you know what he said? It was interesting. Where he talks about the teapot. And I think it was a warning to his colleagues in Beijing as much as it was something intended to play to the Hong Kong audience that they should understand that the market economy of Hong Kong depends on the credibility of the legal system.

(9) *Is the Three Gorges Dam project at a standstill?*

The project is not at a standstill; it is moving forward. With foreign loans, the Central Government has been able to put together a financing package for this stage. Whether or not they are going to be able to actually finish it is another story. It's a considerable strain for the central government and of course, increases the debt. China is acquiring quite a substantial amount of debt, international debt, as well as domestic debt. The way they balance the budget is basically by internal borrowing. That's not necessarily bad, but if you look at the figures, it is really quite substantial. Of course they have huge foreign exchange reserves too because they export a lot, so it's not really a dangerous situation yet.

(10) *Do you see any particular issue that might serve as the catalyst for political reform other than Deng's death?*

I think it's corruption. I think there are many people in the top party leadership who lie awake at night worrying that the Chinese Communist Party has become the Kuomintang. They are very aware of how the Kuomintang lost power and were defeated in China. There was basically a combination of inflation and corruption. What do we see in China today? Inflation and corruption. So I think that they feel that their hold on power is very very fragile. That means that it is possible that someone could come forward with a platform of gradual political and legal reform as a strategy for the survival of the Communist Party. Now I know that is counter-intuitive – this is going to threaten Communist Party rule, but I think that, given the dynamism of the economy, it's not possible that the Communist Party could transform itself. And, for example, become a party that wins elections. This

is what happened to the Kuomintang in Taiwan of course. The Kuomintang which also was a Leninist party like the Chinese Communist Party in Taiwan, ruled through authoritarian rule and tight party control of the government. Starting in the fifties, it introduced local elections. And this meant that people within the party gradually gained confidence that the party could win elections. You also had election specialists who, of course, wanted more elections and so gradually the Kuomintang transformed itself from an authoritarian Leninist party to a competitive party, in a democratic context. And I think that there are many people now really unhappy that the Kuomintang looks like it is splitting apart, because I see the reporting on this in China and I think that it will actually harm the cause of democratic reform. Because there were people saying "Hey, you know, if the Kuomintang can do it, we could do it too". If the Kuomintang starts splintering, it's not such a good model anymore.

- (11) *What is the situation of the resource supply in China relative to the possibly growing population and possibly growing demands of a growing population?*

We need to talk primarily about the two types of resources – energy resources and food. And in both areas, China is challenged very, very seriously. You may have been following the discussion among foreign and Chinese experts on food production in China. Lester Brown¹ said that due to the shortage of arable land and the population growth, China will run out of food and will have to import massive amounts of food, sending shock waves to all the agricultural commodity markets of the world. The demand to feed China will pull all those markets completely out of shape. Many people, including Professor Smil² of Manitoba, have criticized the Lester Brown view and say that, in fact, there is a lot more productivity that China

¹ *Who Will Feed China? Wake Up Call for a Small Planet*, Lester R. Brown, N.Y.: WW Norton, 1995.

² Vaclav Smil, in "Who Will Feed China?", *China Quarterly*, Issue 143, September 1995.

could achieve from its existing arable land by improving storage and transportation – on the distribution side as much as on the production side. So there is a big debate among the experts about how serious the food shortages will be. However, I think everyone will agree that China is going to be importing food. And if China is importing food, there are two big implications. First, it will have to export something. It is going to have to produce manufactured goods that people want to buy in order to get the money to import the food. And that creates a certain pressure on Chinese industry, which is not all bad. Second, if China is going to import food, it does not want to have bad relations with the countries that export food, which are, for example, Canada, the United States, Australia, Argentina. So I think it is good for Chinese foreign policy if there are food imports since these relationships have to be cooperative; China can't be too independent or too troublesome. The energy side is also complicated – China will need to develop nuclear power plants. China will continue to import oil, and it will be a struggle to keep up with its energy needs, and expensive.

(12) *Is the recent sabre rattling towards Taiwan part of the power struggle?*

Absolutely. I considered trying to discuss that in my talk but decided I was already covering too much. A tough position against Taiwan is definitely partly motivated by the competition for power, because, how do leaders in all countries show that they are strong leaders? Foreign policy. Of course, in China, Taiwan policy is not considered foreign policy, but it is an issue that is felt very intensely by people in China. Chinese nationalism is on the rise because, after 150 years of weakness, China is growing strong again. And, issues like Taiwan and relations with the United States are the perfect foil for that strong nationalistic positioning that contenders for power have to take. Now, that's the down side. Again, there's a positive possibility here. If a leader in China were to resolve the Taiwan problem peacefully through statesmanship by sitting down at the table and having a really high level negotiation, coming out with some kind of loose confederation that everyone would call reunification, because, of course, reunification is just a label

you could put on any resolution of this problem practically, then that person is going to have charisma coming out of his ears. In other words, a positive act of international statesmanship can be as positive for a politician as a negative posture. And certainly anyone who launches a military attack on Taiwan could be humiliated militarily by Taiwan and the United States. Now it is contributing to the sabre rattling and the taking of tough positions, but ultimately, it could contribute to some positive acts of statesmanship. Incidentally, Jiang Zemin made a speech a year ago with some new positive initiatives towards Taiwan that surprised me because it's exactly what I would have expected Jiang Zemin or some other politician to do after Deng Xiaoping died. In other words, it was a real policy innovation in a positive way. And it was, frankly, most unfortunate that Lee Teng-hui came to the United States soon after that, making it look like Jiang Zemin's soft policy on Taiwan had been a failure. It humiliated Jiang and it humiliated the Foreign Ministry, while strengthening the hand of the hard-liners in Taiwan policy. But it's possible given the tense situation between Beijing and Taipei now, that after Deng dies an aspiring leader might take some positive act of statesmanship as a strategy.

(13) *What are your thoughts on the future relationship between China and Russia?*

Currently, relations are extremely harmonious. I think it is a good thing. There's been a negotiation about the border, and confidence-building between the two sides. They've formulated an agreement that Yeltsin was meant to sign when he visited Beijing, but then he went into the hospital because of his heart. Relations at the level of the national governments are very positive, with a lot of border trade. There are, however, potential sources of difficulty, but again, mostly between local governments in the Russian Far East. The eastern part of Russia has very sparse population and Chinese are settling there, engaging in all sorts of commercial and business activities. Now we, in Canada and the United States, think that that is a great thing, and in fact, it's a good stimulus for the Russian economy. But, it makes many Russians very nervous, so there are all sorts of tensions, mainly at the level of local government, over Chinese immigration to Russia. And that's going to be

a continuing source of problems.