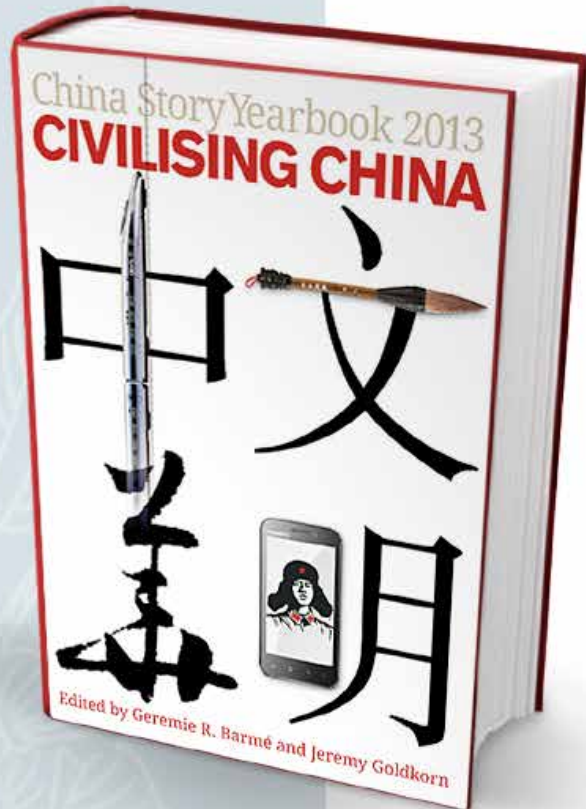


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CHAPTER 2

REVOLUTION TO RICHES

Jane Golley

Excerpt from

CHINA STORY YEARBOOK 2013

CIVILISING CHINA

文明中华

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The China Story
中国的故事

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As China becomes wealthier and more confident on the global stage, it also expects to be respected and accommodated as a major global force — and as a formidable civilisation. Through a survey and analysis of China's regional posture, urban change, social activism and law, mores, the Internet, history and thought — in which the concept of 'civilising' plays a prominent role — *China Story Yearbook 2013* offers insights into the country today and its dreams for the future.



Chinese football fans, Guiyang, June 2011.
Source: ImagineChina

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Photo: Steve Jurvetson

perceive recent decisions by the Board and the Australian government, under the Labor Party from 2007, as singling out Chinese investment for tougher-than-normal scrutiny, and lacking in transparency about which national interests are being protected and from what. Together with the results of the Lowy survey, this not surprisingly offends would-be Chinese investors who, according to Li Ruogu, Chairman of China's state-owned Export-Import Bank, are investing overseas on a purely commercial basis, rather than with any political, strategic or intelligence goals in mind. At the Boao Forum for Asia in April 2013, he noted that Chinese are becoming increasingly cautious about investing in Australia, and this may reduce inflows in the years ahead. As The Australian National University's Luke Hurst and Peking University's Bijun Wang put it in their jointly authored article 'Australia's dumb luck and Chinese investment' published in *East Asia Forum*: 'Australian policy naivety combined with a touch of xenophobia have undoubtedly played a role in choking back the growth and market access that sustained ODI would have otherwise brought'.

There is nothing civilised about xenophobia. Eric Anderson is even more explicit in his 2013 book titled *Sinophobia: the Huawei story*, in which he traces American suspicions of Huawei Technologies to a deep-rooted mistrust of anything Chinese. Huawei is a privately owned Chinese company that recently overtook Ericsson to become the largest telecommunications

equipment company in the world. Huawei hit the headlines in Australia and the US in 2012 when the Australian government rejected the company's proposed entry into the National Broadband Network on 'national security' grounds, and the US Congress released a report claiming that the use of Huawei's networking equipment in the US could pose a 'security risk' and should therefore be avoided. In response, the chairman of Huawei Australia, John Lord, accused both countries of 'raising protectionist walls against a privately owned company', arguing that 'in a globalised world with a global

Rebalancing the Economy

In his final speech as Premier in March 2013, Wen Jiabao stressed that China's economy urgently needed to shift from an 'unstable, unbalanced, unco-ordinated, and ultimately unsustainable' growth model towards a more sustainable, balanced structure. The issue of how to 'rebalance' the Chinese economy has dominated central government policy rhetoric for nearly a decade. The key lies in shifting away from exports and investment towards domestic consumption as a key driver of growth. But 'rebalancing' also entails prioritising the development of less energy-intensive industries such as high-end manufacturing and service sectors, implementing market reforms to remove the distortions that have hitherto favoured producers at the expense of consumers and introducing measures to ensure a more equitable distribution of income.

Yiping Huang, of Peking University, argues that this rebalancing is already underway. Huang cites as evidence the rising share of consumption in China's GDP, the dramatic fall in its current account surplus (from 10.8 percent of GDP in 2007 to 2.6 in 2012) and improvement in the official Gini coefficient. While some question the accuracy of official Gini coefficients and raise the likelihood of other, significant measurement errors in Chinese national accounts data, no-one disputes that China will require significant reforms to facilitate further rebalancing, or that it is an issue that will dominate economic policy-making in the year ahead, and beyond.



Container ship Xin Mei Zhou of the Shanghai-based China Shipping Line.
Photo: Michael R. Perry

Huang Nubo Tries to Buy Iceland

In 2011, *Forbes* listed Huang Nubo, the real estate mogul, founder and chairman of Beijing Zhongkun Investment Group, as a billionaire with a fortune of 6.52 billion yuan (US\$1.05 billion). Huang fancies himself a poet (writing under the pen-name Luo Ying, he has published a collection of poetry on mountain climbing), and also dabbles in philanthropy (donating money to Peking University for educational causes) as well as polar expeditions. In the 1980s, before moving into business, Huang occupied a number of government positions, including in the Party's Propaganda Department.

In August 2011, Huang ignited a furore when he offered US\$8.8 million to buy 300 square kilometres of land in Grímsstaðir á Fjöllum in remote northwestern Iceland. As he explained in an interview with the *China Daily*, his interest in Iceland stemmed from the time he had an Icelandic roommate at Peking University, the translator Hjorleifur Sveinbjornsson. Huang's stated goal was to build a resort, golf course and hotel, with an emphasis on nature conservation and environmental tourism.

Some observers in Iceland immediately raised a red flag at the long-term implications of Icelandic territory passing into Chinese hands, potentially giving China access to deep-sea ports and Arctic oil reserves. The Icelandic Interior Minister Ogmundur Jonasson wrote on his website that the deal should be 'discussed and not swallowed without chewing'.

In early November 2011, Huang told the *China Daily* that he believed he had an eighty per cent chance of gaining approval for the deal from the Icelandic authorities. But on November 25 2011, the Icelandic government rejected the proposal, stating it would be incompatible with the country's laws, noting that such a deal was unprecedented in the country's history. In response, Huang accused the Icelandic authorities of prejudice against Chinese investors and of perpetuating an 'unjust and parochial' environment for private Chinese enterprises abroad.



Huang Nubo.
Source: Baidu Baike

The media story died down. Then, in May 2012, Huang announced that 'after months of waiting', the Icelandic government had agreed to a rental lease on the land he had previously offered to buy outright. The project would go ahead after all. The lease was initially reported to be for forty years with an option for an extension of another forty. In July 2012, Huang revealed to the Chinese media that in addition to the luxury hotel and golf course, he now also planned to build one hundred villas 'mostly for wealthy Chinese' and to transform most of the rest of the land into a mountain park. These new details elicited strong criticism from Jonasson, who warned of the investment's negative environmental impact. In October, Huang told the *China Daily* that he was about to sign a deal worth US\$6 million with a ninety-nine-year lease on the land.

Yet Huang was foiled again. In December 2012, the Iceland state radio station RUV announced that the cabinet was unable to make a final decision on Huang's application due to a lack of information. Huang was required to reapply. Huang told Bloomberg News that he was 'angry and annoyed at how bad the investment environment in Iceland is'. Yet he maintained that he was not ready to give up.

In March 2013, Jonasson presented a new bill to the Icelandic government banning foreign citizens from owning properties in Iceland unless they have a legal domicile in the country. On 22 March, the *New York Times* published a long article on how Huang Nubo's proposed investment left many Icelanders 'baffled', especially his plan to build a golf course in a barren snow-swept wasteland. The far-fetched nature of the proposed investment raised suspicions that there was some ulterior motive on the Chinese side, for example an unspoken hope to gain a military foothold in the Arctic.

By then, it appeared as if Huang's patience (and luck) was running out. After waiting nearly two years, Huang told the *China Daily*, he was looking forward to a breakthrough in April. Failing this, he said, he might abandon the deal at the end of May. The end of May came and went; at the time of publication, there has been no clear denouement to the saga.

supply chain, the only viable solution to cyber security problems is collaboration between governments, technology vendors and operators'. In October 2012, a White House ordered classified inquiry into the security risks posed by foreign telecommunications suppliers to the US found no clear evidence to incriminate Huawei in anyway. In spite of this finding, suspicions have remained.

While I believe that John Lord is right, it is difficult to accept that the Chinese party-state has absolutely no influence on the operations of Huawei. The company, although ostensibly privately owned, has received tens of billions of dollars in lines of credit from the CDB during the last decade, and it maintains both personal and business connections with the government in ways that most outsiders simply don't understand, in good part because the links are neither entirely declared nor transparent. This is not to say that the Chinese state would encourage these firms to engage in cyber warfare, but rather that it is hard to prove that it could *not*. That said, numerous other countries, including Britain, Canada and New Zealand, have not demanded

this proof from Huawei, and the company has recently announced that it will no longer battle for the US market, focusing instead on the places where it has been made to feel welcome. Will Americans and Australians change their minds about Chinese investment when the economic consequences of its decline in their capital-hungry economies start to show?

Or are some of their suspicions well founded? The inextricable links between China's state and market are epitomised by the operations of the CDB. In their 2012 book on 'the world's most powerful bank', Henry Sander-son and Michael Forsythe explain how the wholly state-owned CDB finances its loans through bond sales, which are categorised as 'zero risk' because of their state backing, including a capital injection of US\$20 billion in 2007. This enables the bank to provide finance in quantities that no other banks can match, including more than US\$40 billion to Venezuela since 2008 and more than US\$90 billion to China's leading clean energy and telecommunication companies, of which the biggest recipient is Huawei Technologies. The book portrays CDB's Chairman Chen Yuan (the son of one of the 'Eight Immor-

tals' of the Party, Chen Yun) as a brilliant global banker who pioneered the system of local-government financing for domestic infrastructure projects, creating in the process an institution that is currently larger than the World Bank. They credit the CDB with financing a wide range of successful development projects at home and abroad using a range of innovative financial techniques. They conclude:

CDB is an extension of the Chinese state and the Communist Party, but it's also the reflection of one man. Through the power and connections of Chen Yuan, CDB has managed to preserve enough independence from the government to make investment decisions and function at times as a commercially driven institution. But since it is owned by the Chinese state and in turn the Party, and has its capital provided cheaply by them, there is no doubt that China's government will have a say in its future.

As Chen Yuan prepares to leave the CDB and head up the new BRICS (Brazil, Russia, India, China, South Africa) Development Bank announced in March 2013 and designed to fund infrastructure in emerging markets across the globe, this conclusion, if valid, has critical implications for global economic development in the future.

Murky links exist between political power and wealth everywhere in the world, not just in China — read David Uren's 2012 book *The Kingdom and the Quarry: China, Australia, Fear and Greed* to see it at work in Australia, and see the Information Window on Huawei in this chapter for just two examples. What is unique to China is the accumulation of such extreme wealth in the intricate web of a one-party state, which is well on its way to governing the largest economy in the world. Alleviating the fear this generates requires better communication and greater transparency from the Chinese side about how their system works, and greater efforts to understand the nature of that system by everyone else.

Income Inequality

In January 2013, the Chinese National Bureau of Statistics released China's Gini coefficients dating back to 2003. The coefficient had risen steadily to a peak of 0.491 in 2008, falling since then to 0.474 in 2012. (The index lies between 0, representing perfect equality, and 1, representing perfect inequality.) Despite the recent improvement, Ma Jiantang, the head of the Bureau, emphasised that China urgently needed to 'speed up reform of the income distribution system to narrow the poor-rich gap'. The official Gini coefficient may substantially underestimate this gap: one Chinese academic study revealed a Gini coefficient of 0.61 for China in 2010, which would rank China among the most unequal countries in the world, behind a handful of African nations. Even the official estimate of 0.474, which places China roughly on a par with the US (which had a Gini of 0.45 in 2011), is well above the generally acceptable range of 0.3 to 0.4. The American leaders can use capitalism as an excuse. The Chinese leaders cannot.



From the series 'Great Mall of China' 中华商城.
Photo: Adrian Suddenly Gordon

In February 2013, the State Council released a thirty-five-point plan for ‘deepening the reform of the income distribution system’, which is an essential component of the overarching goal to ‘rebalance’ the economy. The plan included:

- interest rate liberalisation (to provide household savers with higher returns and increase competitiveness in the banking sector)
- increasing the dividend payments of state-owned enterprises (to raise revenue for pensions and health insurance)
- limitations on the income of government officials
- removal of restrictions on rural-to-urban migration to promote urbanisation
- higher spending on education and housing
- measures to protect the rights of rural land owners.

Bath Time: Clamping Down on Corruption

As we have noted elsewhere in this *Yearbook*, one of the first policy initiatives that Xi Jinping introduced was a comprehensive austerity drive to curtail party cadres’ more conspicuous indulgences. In December 2012, the Party’s Central Committee explicitly prohibited the use of ostentatious welcome banners, red carpets, floral arrangements and grand receptions on official occasions. The document contained a wide range of instructions and interdictions aimed at reducing inefficiency, formalism and extravagance. Party leaders were instructed to avoid long speeches and ‘empty talk’, not to attend ribbon-cutting or cornerstone-laying ceremonies and to shun unnecessary expenses.

In January 2013, Xinhua reported that ‘more than twenty provinces have issued detailed regulations to build cleaner governments’. On 31 January, the *Nanyang Evening Post* of Henan province reported that the Discipline Inspection Committee of Nanyang had launched a special new operation to ‘strictly investigate the use of public funds for eating and drinking’. The Committee had dispatched teams to hotels in the city to identify officials gorging themselves at the public trough. It called on city residents to denounce any government officials violating the rules on feasting, termed ‘big eating and drinking’ (*da chi da he* 大吃大喝). The head of the operation explained that his team would not rest until frugality was achieved and waste and extravagance obliterated. The newspaper quoted waiters who remarked on how much emptier and quieter the city’s restaurants had become in the wake of the new campaign.

Despite such campaigns, Xinhua reported in January 2013 in an English-language dispatch that there are still ‘a cohort of pussyfooters who rack their brains to keep their corrupt work-

There are signs that this plan will translate into direct action. In early 2013, the Ministry of Finance set targets for central government departments to reduce spending on receptions, vehicles and overseas trips (the ‘three public consumptions’, *sangong xiaofei* 三公消费). Whether those targets are reached obviously remains to be seen. The State Council, meanwhile, stated that the dividend payments of SOEs will be raised by five percentage points from the currently low range of five to fifteen percent. Notably, following this announcement, a number of public news outlets including the *Global Times* acknowledged that most of the dividends to date had been funnelled back into SOEs in order to support their development. The *China Daily* pointed out that: ‘Raising dividend payouts will therefore be meaningless if the money continues to be earmarked for the well-being of the country’s SOEs themselves, not the general public’. Allowing these kinds of criticism to appear in the tightly controlled public press may indicate that real changes are underway. Or it may

ing practices and lifestyles while maintaining good reputation’. Quoting anonymous hotel employees, the Xinhua article related that officials are still enjoying lavish banquets. They have simply moved them to secret locations and split into smaller groups. Xinhua’s secret sources also revealed that the saying ‘to eat quietly, to take gently and to play secretly’ (*qiaoqiaode chi, qingqingde na, toutoude wan* 悄悄地吃、轻轻地拿、偷偷地玩) had entered into common usage among officials as a code for discreet corruption.

In May, the Party’s Central Commission for Discipline Inspection, headed by Wang Qishan, ordered all officials and employees working in disciplinary and supervisory departments to discard all VIP membership cards by 20 June. Such cards give members access to a range of private venues for the discussion of illicit deals as well as services from dining to prostitution.

In June, Xi continued his austerity drive by announcing a ‘thorough cleanup’ of undesirable practices among party members. Stressing that public support is a matter of life and death for the Party, Xi’s new campaign targeted ‘formalism’ (*xingshizhuyi* 形式主义), ‘bureaucracy’ (*guanliao zhuyi* 官僚主义), ‘hedonism’ (*xianle zhuyi* 享乐主义) and ‘extravagance’ (*shemi zhi feng* 奢靡之风). In his own words, Xi wanted the campaign to focus on ‘self-purification, self-perfection, self-renewal and self-progression’, and urged party members to ‘look at themselves in the mirror, groom themselves, take a bath and cure what ails them’ (*zhao jingzi, zheng yiguan, xixi zao, zhizhi bing* 照镜子、正衣冠、洗洗澡、治治病). The new campaign uses the Maoist rhetoric of the Mass Line (drawing on the notion that wisdom resides in the people at large); the *People’s Daily* even launched a related website called Mass Line Net (*Qunzhong luxian wang* 群众路线网).

not. In an April 2013 article in *Foreign Affairs*, Evan Feigenbaum and Damien Ma describe the ‘growing chorus of pessimists’ who doubt that the new leaders have the vision and political will to implement crucial economic reforms. Among these pessimists are the ‘political doubters’, who question

... the new leadership’s resolve to overcome powerful vested interests that will resist reforms, especially among China’s state-owned enterprises. These powerful corporate players, this argument goes, will obstruct the leadership’s well-intentioned goal of boosting household incomes, defeating efforts to force state firms to pay more dividends that can be redistributed into social welfare programs.

Feigenbaum and Ma are themselves more optimistic about the prospects for reform. They note that Xi Jinping and Li Keqiang have already succeeded in diagnosing the major economic problems and prescribing many of the right solutions. And while translating words into action will be difficult, Li Keqiang himself has said: ‘It’s useless screaming about reform until you’re hoarse. Let’s just do something about it.’

It is too early to say whether Li Keqiang will be constrained by the iron triangle of state–party–business interests, which Brødsgaard refers to as the ‘heart of the beast’. But, on paper, at least, he does seem like the right man for the job. Li Keqiang has little personal wealth, an academic wife, a family with few connections to business and a PhD in economics from Peking University on China’s rural–urban disparities. With this background he can credibly state, with a nod to Confucian values, that: ‘Clean government should start with oneself. Only if one is upright himself should he ask others to be upright.’



Cranes meet tower.
Photo: Hsing Wei

Concluding Thoughts

There are differing perceptions about the health of China’s economic system and an equally glaring gap in opinions about whether the Chinese Communist Party is capable of reforming and developing that system in the years ahead. A pair of *Foreign Affairs* articles published in early 2013 epitomises the differences. In one, Eric X. Li, a venture capitalist in Shanghai with close links to Hu Jintao, claims: ‘The country’s leaders will consolidate the one-party model and, in the process, challenge the West’s conventional wisdom about political development and the inevitable march toward electoral democracy’. Li depicts a highly meritocratic and innovative state that enjoys widespread popular legitimacy, and that is extremely capable of tackling the long list of challenges that China faces. It would be hard for the Publicity (that is, Propaganda) Department to improve on Li’s glowing assessment, though it was not without critics.



Eric X. Li, a venture capitalist in Shanghai.
Source: ImagineChina

KEY WORDS AND PHRASES**Xi Jinping's Eight Musts**

We must persist in:

- maintaining the dominant role of the people
- liberating and developing social productive forces
- advancing reform and opening-up
- safeguarding social fairness and justice
- marching on the path of becoming well-to-do together
- stimulating social harmony
- peaceful development
- supporting the leadership of the Party.

The Five Cardinal Principles

The Four Cardinal Principles,
which are to be upheld:

- the socialist path
- the people's democratic dictatorship
- the leadership of the Communist Party
- Marxism–Leninism and Mao Zedong Thought.

The Eight Musts have been added to this list to create the Five Cardinal Principles.

Creating an Environmentally Friendly Culture (*shengtai wenming jianshe* 生态文明建设)

Wen Jiabao, in his outgoing speech as Premier in early March, described significant progress in 'constructing a civilised ecology', or 'creating an environmental-friendly culture'. A 'civilised ecology' must at the very least be one in which its citizens can safely breathe the air. As we have noted elsewhere in this volume, the government has a tough job ahead:

- China is home to sixteen of the top twenty most polluted cities in the world
- Just one percent of urban Chinese breathe air that is considered safe by European Union standards
- In January 2013, Beijing's air quality was described as 'hazardous', with PM2.5 readings reaching over forty times those considered safe by the World Health Organisation
- According to the Global Burden of Disease Study, air pollution in China contributed to 1.2 million premature deaths in 2010, accounting for nearly forty percent of the world's total and making 'smog' the fourth highest risk factor for deaths in China (following dietary risks, high blood pressure and smoking).



Street cleaners on the move.
Photo: Hsing Wei

Yasheng Huang was one of those critics. In his article 'Democratise or Die: Why China's communists face reform or revolution', Huang debunks many of Li's arguments, arguing that democratisation is the only option for China, and that an increasing number of Chinese elites believe that the status quo is no longer viable. Despite the huge economic and social gains of the past few decades, the system 'has also proven ineffective at creating inclusive growth, reducing income inequality, culling graft, and containing environmental damage. It is now time to give democracy a try.'

Xi Jinping disagrees. In January 2013, the *People's Daily* and other major public news outlets introduced Xi Jinping's 'Eight Musts' (*bage bixu* 八个必须), part of his 'new political programme'. These have been added to Deng Xiaoping's Four Cardinal Principles to become the Five Cardinal Principles (*wuge jiben yuanzi* 五个基本原子) for Socialism with Chinese Characteristics, and it is worth noting that one them — that of 'persisting in the leadership of the Party' appears twice. The emphasis on fairness, justice, social harmony and peaceful development in the remaining 'Musts' are admirable. Regardless of the name given to the system, concrete measures to deliver on these Musts would certainly signal a move to a more civilised state and economy.

