ELIZABETH C. ECONOMY

THE THIRD REVOLUTION

XI JINPING AND THE NEW CHINESE STATE

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Elizabeth Economy

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For David, Alexander, Nicholas, and Eleni

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Map of China and Its Provinces
Credit: mapsopensource.com

PREFACE

China's rise on the global stage has been accompanied by an explosion of facts and information about the country. We can read about China's aging population, its stock market gyrations, and its investments in Africa. We can use websites to track the air quality in Chinese cities, to monitor China's actions in the South China Sea, or to check on the number of Chinese officials arrested on a particular day.

In many respects, this information does what it is supposed to do: keep us informed about one of the world's most important powers. From the boom and bust in global commodities to the warming of the earth's atmosphere, Chinese leaders' political and economic choices matter not only for China but also for the rest of the world; and we can access all of this information with a few strokes on our keyboards.

Yet all these data also have the potential to overload our circuits. The information we receive is often contradictory. We read one day that the Chinese government is advancing the rule of law and hear the next that it has arrested over two hundred lawyers and activists without due process. Information is often incomplete or inaccurate. In the fall of 2015, Chinese officials acknowledged that during 2000–2013, they had underestimated the country's consumption of coal by as much as 17 percent; as a result, more than a decade of reported improvements in

energy efficiency and greenhouse gas emissions were called into question. We are confused by dramatic but often misleading headlines that trumpet China's every accomplishment. More Americans believe (incorrectly), for example, that China, not the United States, is the world's largest economic power. It is a country that often confounds us with contradictions.

The challenge of making sense of China has been compounded in recent years by the emergence of Xi Jinping as Chinese Communist Party general secretary (2012) and president (2013). Under his leadership, significant new laws and regulations have been drafted, revised, and promulgated at an astonishing rate, in many instances challenging long-held understandings of the country's overall political and economic trajectory. While previous Chinese leaders recognized nongovernmental organizations from abroad as an essential element of China's economic and social development, for example, the Xi-led government drafted and passed a law to constrain the activities of these groups, some of which Chinese officials refer to as "hostile foreign forces." In addition, contradictions within and among Xi's initiatives leave observers clamoring for clarity. One of the great paradoxes of China today, for example, is Xi Jinping's effort to position himself as a champion of globalization, while at the same time restricting the free flow of capital, information, and goods between China and the rest of the world. Despite his almost five years in office, questions abound as to Xi's true intentions: Is he a liberal reformer masquerading as a conservative nationalist until he can more fully consolidate power? Or are his more liberal reform utterances merely a smokescreen for a radical reversal of China's policy of reform and opening up? How different is a Xi-led China from those that preceded it?

I undertook this study to try to answer these questions for myself and to help others make sense of the seeming inconsistencies and ambiguities in Chinese policy today. Sifting through all of the fast-changing, contradictory, and occasionally misleading information that is available on China to understand the country's underlying trends is essential. Businesses make critical investment decisions based on assessments of China's economic reform initiatives. Decisions by foundations and universities over whether to put down long-term stakes in China rely on an accurate understanding of the country's political

evolution. Negotiations over global climate change hinge on a correct distillation of past, current, and future levels of Chinese coal consumption. And countries' security policies must reflect a clear-eyed view of how Chinese leaders' words accord with their actions in areas such as the South China Sea and North Korea.

As much as possible, I attempt to assess the relative success or shortcomings of the Chinese leadership's initiatives on their own merits. In other words, I ask, what is the Chinese leadership seeking to accomplish with its policy reforms and what has it accomplished? I begin with Xi Jinping himself and lay out his vision for China and its historical antecedents. I then dive into six areas the Xi government has identified as top reform priorities—politics, the Internet, innovation, the economy, the environment, and foreign policy. In some cases, there are competing interests and initiatives to tease out. Nonetheless, taken together, these separate reform efforts provide a more comprehensive picture of the arc of Chinese reform over the past five years and its implications for the rest of the world. I conclude the book with a set of recommendations for how the United States and other countries can best take advantage of the transformation underway to achieve their own policy objectives.

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Elizabeth C. Economy
New York City

THE THIRD REVOLUTION

I

Introduction

IN MID-NOVEMBER 2012, THE World Economic Forum hosted a breakfast in Dubai for several dozen prominent Chinese scholars, businesspeople, and government officials.[1] The Chinese had traveled there to discuss pressing global matters with their counterparts from around the world. I was one of a few non-Chinese citizens at the breakfast and soon noticed that the attention of most of the participants was not on climate change or youth unemployment but instead on the dramatic news from home. After months of suspense, the Chinese Communist Party (CCP) had just revealed the membership of the Politburo Standing Committee (PBSC)—the seven men selected to lead the country for the next five years.

Strikingly, most of the Chinese at the breakfast could say little about the new leaders. In contrast to the American and other democratic political systems, which are designed to strip bare the political and personal inclinations of public officials, the selection of Chinese leadership takes place almost entirely behind closed doors. It combines a bargaining and bartering process among former top leaders with a popularity contest among the two hundred or so members of the Communist Party who comprise the powerful Central Committee.

The run-up to this particular selection process had been particularly fraught. It was the first time in two-and-a-half decades that the general secretary of the CCP had not been hand-picked by Deng Xiaoping, the transformative leader of the country from the late 1970s until his death in 1997. Deng had led China out of the turmoil of the Cultural

Revolution and set the country on its historic path of economic reform and opening up. Since the mid-1980s, he had anointed each of the CCP's previous four general secretaries: Hu Yaobang, Zhao Ziyang, Jiang Zemin, and finally Hu Jintao. Without Deng's imprimatur, the selection process appeared not only opaque but also at times chaotic. One top contender, Bo Xilai, the charismatic head of Chongqing and son of one of China's original revolutionary leaders, Bo Yibo, had fallen in scandal during spring 2012, eventually landing under arrest for corruption. Xi Jinping, the heir-designate and eventual winner in the political sweepstakes, had disappeared for a period of two weeks in September, giving rise to a raft of rumors concerning his fate. Until the group of seven men walked onto a stage in the Great Hall of the People in Beijing shortly before noon on November 15, 2012, the Chinese people could not state with complete certainty who would be leading their country.

When I asked the Chinese at my table what they made of the new PBSC members, they pointed out that, overall, they appeared to represent the older, more conservative element within the party. Sixty-six-year-old former Guangdong Party Secretary Zhang Dejiang, for example, possessed a degree in economics from North Korea's Kim Il-Sung University and was known above all for his poor handling of the early 1990s SARS epidemic and his repressive approach to the media. In contrast, fifty-seven-year-old Wang Yang, Zhang's dynamic and reform-oriented successor in Guangdong, was left waiting in the wings. (He was selected for the still prestigious, but less powerful, Politburo.) Beyond such generalities, however, my Chinese colleagues could say little. Indeed, Xi Jinping, who at fifty-nine years of age now stood at the apex of the Communist Party as general secretary and would just four months later become president of the country and head of the military, was largely an unknown quantity. Despite three decades of government service, Xi's accomplishments, temperament, and leadership qualities remained a question mark.

The Xi Vision

The new general secretary did not leave the Chinese people or the rest of the world wondering for long. Speaking at a press conference shortly

after the new leaders made their appearance at the Great Hall of the People, Xi outlined his priorities. He spoke of the need to address the endemic corruption that plagued the Communist Party and to ensure that the party served the people. Fighting corruption would soon become the signature issue of his first years in office.

The essence of Xi Jinping's vision, however, was his call for the great revival or rejuvenation of the Chinese nation. Reflecting on China's five thousand years of history, Xi referenced the country's "indelible contribution" to world civilization.[2] At the same time, he acknowledged that efforts by successive Chinese leaders to realize the great revival of the Chinese nation had "failed one time after another."[3] The rejuvenation narrative is a well-understood and powerful one in China. It evokes memories of the country as the Middle Kingdom demanding tribute from the rest of the world; China as a source of innovation, creating paper, gunpowder, printing, and the compass; and China as an expansive, outward-facing power, with Ming dynasty Admiral Zheng He commanding a naval fleet of more than three hundred ships and sailing throughout Asia to the Horn of Africa and the Red Sea. Left out of the rejuvenation narrative, but etched deeply into the minds of many Chinese, are those periods of Chinese history that evoke shame, such as the one hundred years of humiliation (1849–1949), when China was occupied and invaded by foreign powers, or the periods that remain the black holes of contemporary Chinese history, in which the Chinese people suffered at the hands of their own government, such as the Great Leap Forward, the Cultural Revolution, and the Tiananmen Square massacre.

During his tour of "The Road toward Renewal" exhibition at the National Museum of China just two weeks later, Xi again underscored the theme of China's rejuvenation, calling it "the greatest dream for the Chinese nation in modern history."[4] The site of Xi's speech at the National Museum was not accidental. While much of Chinese history is marked by revolutions, political and social upheaval, and discontinuities in leadership and political ideologies, the museum celebrates the ideal of continuity in Chinese history. Quoting from both Mao and ancient Chinese poets, Xi used the museum as a backdrop to make clear the linkages between an imperial China and a China led by the Communist Party.

In the following months, Xi elaborated further on his vision for the country. He equated his call for rejuvenation with the "Chinese Dream" (*Zhongguo meng*,中国梦). For Xi, the Chinese Dream was premised on the attainment of a number of concrete objectives: China should double its per-capita GDP from 2010 to 2020; it should have a military "capable of fighting and winning wars"; and it should meet the social welfare needs of the people. There also should be no doubt concerning the country's ideological future: Xi declared, "The selection of path is a life-or-death issue for the future of the CPC. We should unswervingly uphold socialism with Chinese characteristics . . . the superiority of our system will be fully demonstrated through a brighter future."[5] To this end, a robust Communist Party at the forefront of the political system was of paramount importance. Xi was also careful to distinguish the Chinese Dream, rooted in collective values, from the more individualistic American Dream, noting that the great rejuvenation of the Chinese nation "is a dream of the whole nation, as well as of every individual," and that "only when the country does well, and the nation does well, can every person do well."[6]

Not all Chinese shared Xi Jinping's particular understanding of the Chinese Dream. Some argued that the Chinese Dream was a dream of political reform or constitutionalism, in which the Communist Party would not be above the law but instead would be bound by it. Others said that it was a dream to better Chinese society through improvements in food safety or the quality of the environment. And still others, drawing on the American Dream, called for individual dreams and pursuits to be respected. Over the course of his first year in office, Xi began to incorporate some of these other elements, such as opportunities for better education, higher income, and a cleaner environment, into his dream narrative.[7] Yet it remained at heart a call for a CCP-led China to reclaim the country's ancient greatness.

Xi is not the first modern Chinese leader to use the theme of rejuvenation to remind the Chinese people of past glories in an effort to bind them to modern China. Deng Xiaoping talked about the "invigoration of China,"[8] and his successors Jiang Zemin and Hu Jintao both called for the "great rejuvenation of the Chinese nation."[9] Over the course of more than three decades as China experienced a dizzying period of economic and political reform and opening up to the outside world, all of

China's modern leaders sought to build a China that could reclaim its place as a global power.

Yet in seeking to realize this common vision, Xi and the rest of the Chinese leadership have parted ways with their predecessors. They have elected a way forward that largely rejects the previous path of reform and opening up: instead there is reform without opening up. In a number of respects, the leadership has embraced a process of institutional change that seeks to reverse many of the political, social, and economic changes that emerged from thirty years of liberalizing reform. The Chinese leaders have also shed the low-profile foreign policy advanced by Deng Xiaoping in favor of bold initiatives to reshape the global order.

These dramatic shifts reflect in large measure a belief on the part of Xi Jinping that China at the time of his ascension was at an inflection point. The post-Mao era of reform and opening up had yielded significant gains: double-digit growth for more than two decades, and international admiration for China's economic and other achievements. Yet as Xi rose up through the party ranks, he also had a front-row seat to the mounting challenges facing the country: the Communist Party had become corrupted and devoid of an ideological center, the provision of public goods had fallen dramatically behind society's needs, and even the economy needed a new infusion of reform. In the eyes of Xi, nothing less than dramatic, revolutionary change could save the party and the state and propel China forward to realize its full potential as a great power.

Xi's Inheritance

By the time of Mao's death in 1976, the Chinese leadership had just begun the process of recovery from the political strife, social upheaval, and economic impoverishment that marked much of his quarter-century tenure. Xi Jinping himself had experienced some of the worst of Mao's excesses. In the early 1960s, his father, a leading revolutionary figure and former vice-premier of the government, was branded a traitor and jailed for his bourgeois background. Soon after, fifteen-year-old Xi was "sent down" to a remote village where he labored for several years on an agricultural commune. Rather than feel bitter toward the

Communist Party for his family's difficulties, Xi became determined to join the party, applying for membership multiple times before finally being accepted in 1974. And in 1975, when Premier Zhou Enlai set out the Four Modernizations (agriculture, industry, science and technology, and military) to begin the process of revitalizing China's economy and society, Xi Jinping began his own journey alongside that of the country. He returned to Beijing that same year as a worker-peasant-soldier student to study chemical engineering at Tsinghua University, one of China's most prestigious academic institutions. Xi's university education during this time, however, was still shaped by Mao's revolutionary impulses, with significant periods of time devoted to learning from farmers and the People's Liberation Army, as well as studying Marxism-Leninism. (Only in 1977, with the reintroduction of exams for university entrance, did academics begin to reclaim a more dominant place in Chinese university life.)

The deaths of Mao Zedong and Zhou Enlai in 1976 were followed by a brief and bloodless power struggle that resulted, by 1978, in the ascension to power of Deng Xiaoping. Deng and his supporters cemented the Four Modernizations as the direction of the country and initiated a wholesale reform of the country's economic and political system—a transformative process that Deng would later call "China's Second Revolution." In the early 1980s, the Chinese leadership began to relax the tight state control that, in one way or another, had defined China's economic and political system since the 1950s. In the economic realm, this signaled the beginning of a transition from a command to a more market-driven economy. Deng devolved significant economic authority to provincial and local officials, removing political constraints on their economic activities and diminishing Beijing's ability to influence the development and outcome of these activities. China also invited participation from the international community in China's economic development through foreign direct investment and trade. By 1984, the government had opened up fourteen port cities along China's coast to foreign investment in special economic zones. In the mid-to-late 1990s, the state began in earnest to dismantle many of the state-owned enterprises, which had been the foundation of the urban economy, to encourage the expansion of private and cooperative ventures, and to energize the rural

economy through the development of smaller scale township and village enterprises. The result was dramatic: average growth rates that exceeded 8 percent annually for more than two decades—elevating hundreds of millions of Chinese out of poverty, and earning China significant respect internationally.

Jiang Zemin, who assumed the position of general secretary of the Communist Party in 1989 and president of the country in 1993,[10] further elevated the role of the private sector in the Chinese political system, actively welcoming successful businesspeople into the party for the first time. China's turn outward to the rest of the world also expanded. China joined the World Trade Organization in 2001, and Jiang, along with Premier Zhu Rongji, encouraged the country's state-owned enterprises and other economic actors to "go out" in search of natural resources to fuel China's continued economic growth. Hundreds of thousands of Chinese relocated throughout the world for work and study. By 2008, China's reputation as an economic heavyweight was established and further burnished by its strong standing in the midst of the global financial crisis.

Changes in the economic realm were matched by reforms in the political sphere. A collective leadership and more institutionalized succession process replaced the highly personalized nature of governance at the top of the political system; significant political authority was devolved from central to local officials; and China embraced assistance, policy advice, and financial support from the international community. Moreover, as the government retreated from the market, it also retreated from its traditional role as social welfare provider, encouraging private, nonstate actors to fill the gap in areas such as education, medical care, and environmental protection; in the mid-1990s, Beijing allowed the establishment of formally approved and registered nongovernmental organizations (NGOs), enabling the rapid development of civil society. The advent of the Internet also elevated the role of civil society in Chinese governance. Despite maintaining controls over certain types of political content, by the mid-to-late 2000s, the web had become a virtual political space, with greater transparency, political accountability, and rule of law (in which Chinese citizens used the Internet to investigate crimes, seek justice for victims, and even push to overturn wrongful convictions) than existed in the real political system.

The era of President Hu Jintao and Premier Wen Jiabao (2002–2012) also marked the beginning of a more concerted public diplomacy effort. The leadership proclaimed China's "win-win" philosophy and worked hard to reassure Beijing's neighbors and the rest of the world that China's rise would be peaceful and, as its fortunes grew, so too would those of its partners. In summer 2008, Beijing hosted a world-class Olympic Games that earned accolades internationally and cemented the reputation inside Chinese political circles of the senior official who oversaw preparations for the games, new Politburo member and rising political star Xi Jinping.

The continued strength of the Chinese economy throughout the global financial crisis also introduced a new element into the country's foreign policy. Increasingly there were calls within China for the country to assume its rightful place on the global stage as a world leader, capable of shaping international norms and institutions. As the United States struggled to climb out of economic recession, senior Chinese economic, military, and foreign policy officials argued that the decline of the United States and the rise of China—long predicted to occur at some time during the twenty-first century—had begun. China's military, the beneficiary of double-digit budget increases for more than a decade, started to grow its ambitions alongside its capabilities. By the late 2000s, the Chinese leadership had progressed from rhetorically staking its claims to maritime sovereignty in the East and South China Seas to using its military prowess to realize them. Sitting at the helm of a small group of senior officials overseeing these moves in the South China Sea was Xi Jinping.

China's economic and foreign policy triumphs notwithstanding, by the time of Xi's ascension to power, there was also a growing sense within the country that significant contradictions had emerged in the political and economic life of China. The Communist Party had lost its ideological rationale and, for many of its more than 80 million members, the party served as little more than a stepping-stone for personal political and economic advancement. Corruption—an issue that Xi put front and center as he moved up the party ranks—was endemic throughout the party and the economy. And while three decades of "go-go" economic growth had brought significant economic benefits to the Chinese people, Beijing had failed to attend to the need for public

goods such as environmental protection and healthcare. The social welfare net, dismantled along with many of the state-owned enterprises, had not been fully replaced, and, critically, distribution of social welfare benefits had not kept up with changing work patterns: more than 200 million migrant workers, who toiled in the city's factories or construction sites, could not legally live, receive medical care, or educate their children in the cities in which they worked. The number of popular protests in the country rose to more than 180,000 by 2010. Even the Chinese economy, while still posting growth rates well beyond those of any other country, began to slow. A few outlier economists in China and the West sounded alarm bells about structural weaknesses. Investment-led growth was taking its toll, contributing to skyrocketing levels of public and corporate debt. And for all its impressive economic gains in low-cost manufacturing, China had little to show in the way of innovation or the development of the service sector, the markers of the world's advanced economies. By the time of Xi's ascension to the top job, despite a number of noteworthy economic and foreign policy achievements, the Hu Jintao era had become known as the "lost decade." Xi Jinping took power determined to change China's course.

Charting a New Course

In a 2000 interview in the Chinese journal *Zhonghua Ernu*, Xi Jinping then governor of Fujian Province, shared his perspective on leadership. A new leader, he stated, needed to "continue working on the foundations" laid by his predecessor but at the same time "come in with his own plans and set an agenda during the first year." He likened leadership to a relay race, in which a successor has to "receive the baton properly" and then "run it past the line."[11] More than a decade later at his first press conference in 2012, Xi reiterated the baton analogy, stating that the responsibility of the party leadership is to "take over the relay baton passed on to us by history" to achieve the "great renewal of the Chinese nation."[12]

In receiving the baton, however, Xi and his team have set out to run the race differently from their predecessors—with a distinctive new strategy and at an accelerated pace. They have moved away from a collective leadership to elevate Xi as the preeminent leader, deepened

the role of the Communist Party and state in society and in the economy, and sought to elevate China's role in world affairs. Not everything is new. Some of the initiatives, such as the heightened attention to corruption within the Communist Party and more assertive behavior in the South and East China Seas, reflect impulses and tendencies that emerged during the latter stages of Hu's tenure (2007–2012) or even before. Yet Xi and the rest of the Chinese leadership have amplified these efforts in ways that have transformed China's domestic political landscape and its role on the regional and global stage. (While provocative actions by China and other claimants in the South China Sea were commonplace, for example, Beijing's massive land reclamation and militarization of the islands in the South China Sea did not begin until 2014.) In describing China today, dean of Peking University's School of International Relations, Jia Qingguo, suggested to me that Xi Jinping had ushered in the third, thirty years of contemporary Chinese history—crystallizing my sense that Deng's "second revolution" had drawn to a close. Xi Jinping's "third revolution" was underway.

The Revolution Has Begun

The ultimate objective of Xi's revolution is his Chinese Dream—the rejuvenation of the great Chinese nation. As noted earlier, however, Xi's predecessors shared this goal as well. What makes Xi's revolution distinctive is the strategy he has pursued: the dramatic centralization of authority under his personal leadership; the intensified penetration of society by the state; the creation of a virtual wall of regulations and restrictions that more tightly controls the flow of ideas, culture, and capital into and out of the country; and the significant projection of Chinese power. It represents a reassertion of the state in Chinese political and economic life at home, and a more ambitious and expansive role for China abroad.

Over the course of Xi Jinping's tenure as CCP general secretary and president, he has accrued progressively more institutional and personal power. Unlike his immediate predecessors, he has assumed control of all the most important leading committees and commissions that oversee government policy; demanded pledges of personal loyalty from military and party leaders; eliminated political rivals through a sweeping

anticorruption campaign; and adopted the moniker of "core" leader, which signifies his ultimate authority within a traditionally collective leadership. By many accounts, Xi is the most powerful leader since Mao Zedong.

Xi and the rest of the Chinese leadership have also expanded the role of the state in society and increased the power of the organs of party and state control. Writing in 2000 about the transition from Mao Zedong to Deng Xiaoping, China scholar David Shambaugh noted, "If one of the hallmarks of the Maoist state was the penetration of society, then the Dengist state was noticeable for its withdrawal. The organizational mechanisms of state penetration and manipulation were substantially reduced or dismantled altogether."[13] The current Chinese leadership, however, has launched an aggressive set of reforms that augments rather than diminishes the party's role in political, social, and economic life. For example, while the government welcomes NGOs that help fulfill the objectives of the Communist Party, advocates for change or those who seek a greater voice in political life, such as women, labor, or legal rights activists, increasingly risk detention and prison. Moreover, while promising a continued opening up of China's market, the Chinese leadership has nonetheless moved to support and strengthen the role of the party and state in the economy.

This enhanced party control also extends to efforts to protect China's society and the economy from foreign competition and influence. Xi Jinping has increasingly constrained the avenues and opportunities by which foreign ideas, culture, and, in some cases, capital can enter the country by building a virtual wall of regulatory, legal, and technological impediments. Yet the wall is selectively permeable. While progressively less is permitted in, more goes out. Xi has pushed, for example, to enhance significantly the flow of ideas and influences from China to the outside world, through the Chinese media, Confucius Institutes (Chinese government–sponsored language and cultural centers), and think tanks. Similarly, the Xi government encourages capital targeted at specific sectors or countries to flow out of China (although at times restricting the flow of capital to other sectors or countries).

And finally, Xi Jinping's call for the rejuvenation of the great Chinese nation has accelerated the nascent shift begun during Hu Jintao's tenure to move away from a commitment to maintaining a low profile

in international affairs to one that actively seeks to shape global norms and institutions. He has established China's first overseas military logistics base; taken a significant stake in strategic ports in Europe and Asia; championed China as a leader in addressing global challenges, such as climate change; and proposed a number of new trade and security institutions. Xi seeks to project power in dramatic new ways and reassert the centrality of China on the global stage.

Many elements of these reforms—the strong drive of the current Communist Party leadership to control the flow of information or to exert control over economic actors, for example—and Beijing's efforts to be more proactive internationally are hallmarks of various periods throughout Chinese history. Nonetheless, they run counter to *recent* Chinese history. Xi seeks his own model of politics and foreign policy: a uniquely Chinese model that he believes will deliver his Chinese Dream and perhaps become a standard bearer for other countries disenchanted with the American and European models of liberal democracy.

The Third Revolution Takes Hold

To understand the nature and magnitude of the People's Republic of China (PRC)'s third revolution, I took a journey through scores of Xi Jinping's speeches and commentaries to understand how he prioritized his agenda for change. The next six chapters, outlined below, reflect the range of his reform priorities, beginning with the political and cyber arenas, continuing to a set of economic concerns—innovation, state-owned enterprises, and the environment—and concluding with a broad look at Xi's foreign and security policies. Each chapter explores how the Chinese leadership has moved forward to advance its objectives, as well as the intended and unintended consequences of its new approach. The final chapter lays out a set of recommendations for the United States and the international community to cooperate or coordinate with and—when necessary—confront this transforming and transformative power.

Chapters 2 and 3 explore the centralization of power and the growing presence of the Communist Party in political life. Chapter 2 focuses on the real-world applications of Xi Jinping's transformation of political institutions and processes—the elevation of his personal power,

the use of mass campaigns, and the adoption of legal reforms, among others. Chapter 3, in turn, looks at the parallel world of state–society relations in the context of the Internet. Over the course of the 2000s, the Internet became a virtual political world, offering the opportunity for the blossoming of civil society, wider political commentary, and enhanced transparency and accountability within the political system. The current Chinese leadership, however, has used new technological advances, pressure on Internet companies, and a cyber-army to control content—both generated domestically and produced outside China. These measures, along with new Internet regulations, have sharply diminished the vibrancy of China's Internet as a political space.

Chapters 4, 5, and 6 explore three areas at the heart of Xi's drive to modernize the economy—state-owned enterprises, innovation, and air quality. In the economic arena, the Xi-led government earned plaudits internationally for the bold and extensive reform agenda it outlined in November 2013 at the Third Plenum of the 18th Party Congress. While publicly advocating greater market reform and integration with the international economy, the Xi-led government is nonetheless maintaining and even enhancing the role of the party in the economy. It is intervening aggressively to protect the economy from the vicissitudes of the market, shielding it from foreign competition, and more actively intervening in economic decision-making at the firm level. Chapter 4 looks explicitly at the fate of state-owned enterprise (SOE) reform and reveals that far from reducing the role of SOEs in the economy and the party's role in SOEs, the state has elevated their importance as national champions and intensified the role of the party in SOE decision-making.

Innovation, a top priority for the Chinese government, reflects a more mixed reform picture with both state and market forces playing important roles. Chapter 5 explores the Chinese government's efforts to support the development of an indigenous electric car market and finds that despite calls for greater competition, the government continues to protect the industry from foreign competition and to prevent the market from determining winners and losers through initiatives such as Made in China 2025. While political and economic support for targeted strategic industries, such as electric cars, provides valuable time for nascent industries to develop and capture market share, it also puts at risk the economic efficiencies and drive to innovate that emerge from

true competition. Even in China's booming start-up technology sector, intervention by local governments threatens to keep weak actors alive while crowding out investment opportunities for potentially stronger technologies.

Growing societal pressure has vaulted environmental protection to the top of the Chinese leadership's agenda. Chapter 6 looks at China's economic reform effort through the lens of the leadership's efforts to reconcile its desire for continued rapid economic development with the popular demand for clean air and improved public health. The leadership has adopted a multifaceted program including traditional top-down campaigns to control pollution, institutional reform within the legal and environmental systems, and controlled access for civil society through participation in environmental NGOs or other forms of popular activism. The result has been a mix of success and failure, with success for some parts of the country earned on the backs of others. Ultimately, the government's efforts are hindered in significant measure by a continued priority on economic growth, poor implementation of top-down initiatives, and the relaxation of environmental regulations to accommodate the competing priority of economic development.

Chapter 7 assesses both the form and substance of China's growing international political, economic, and security presence, exploring the new initiatives and institutions put forth by the Chinese leadership to help transform the country into a global leader. Even as it has worked to seal off China's borders from foreign ideas and competition, it has sought to project Chinese power internationally and to assert itself as a champion of globalization. It has launched the grand-scale Belt and Road Initiative (BRI), which, if successful, will link countries in every region of the world through infrastructure, digital communications, finance, and culture. In the process, it has the potential to transform not only trade and investment relations but also international relations more broadly. It has also promoted a "go out" strategy for Chinese media, think tanks, and overseas language and cultural institutions to enhance Chinese soft power. Ultimately, chapter 7 finds that while the Chinese leadership has adopted policies and established institutions that have the potential to transform China into a global leader, the content of these initiatives lags behind. Moreover, Xi Jinping's efforts to seal off China's borders from foreign ideas and economic competition

have engendered criticism in the international community and further undermined the country's ability to lay claim to global leadership.

The final chapter explores several implications of Xi Jinping's reform efforts for the United States. It proposes recommendations for how the United States can best advance its interests in the era of Xi Jinping's China, including strengthening the economic and political pillars of U.S. policy toward Asia, leveraging Xi Jinping's ambition, adopting standards of reciprocity, coordinating policies with allies, and ensuring China lives up to its stated commitments to international leadership, among others.

Broader Lessons of the Third Revolution

Taken together, these chapters provide a deeper understanding of how Xi's model is taking root and transforming Chinese political and economic life. They also offer several broader insights into the changes underway and their implications for the rest of the world.

First, the Xi-led leadership is playing a long game. The government's preference for control rather than competition—both in the economic and political realms—often yields policy outcomes that appear suboptimal in the near term but have longer strategic value. By enhancing the role of the state and diminishing the role of the market in the political and economic system, as well as by seeking to limit the influence of foreign ideas and economic competition, the leadership has deprived itself of important feedback mechanisms from the market, civil society, and international actors. Xi's centralization of power and anticorruption campaign, for example, while affording him greater personal decision-making authority, have actually contributed to slower decision-making at the top, increasing paralysis at local levels of governance, and lower rates of economic growth. Yet, Chinese leaders tolerate the inefficiencies generated by nonmarket activity—such as a slow-processing Internet or money-losing SOEs—not only because they generally contribute to their political power but also because they afford them the luxury of longer-term strategic investments. Thus, the government encourages SOEs to undertake investments in high-risk economies (that no other country or multinational would support) in support of its BRI. Decisions that may

appear irrational in the context of liberal political systems and market-based economies in the near term thus often possess a longer-term strategic logic within China.

Second, Xi's centralization of power and growing control over information mean it is difficult to assess the degree of real consensus within China over the leaders' policy direction. While less robust than during previous times, wide-ranging debate within the Chinese scholarly and official circles over the merits of many of the regime's current policies continues. A significant drop in the amount of foreign direct investment flowing into the country—attributed by a number of Chinese scholars at least in part to the anticorruption campaign—for example, has contributed to consternation in policymaking circles and calls for change in the nature of the anticorruption drive. The growing penetration of the state in economic and political life has raised concerns among many of China's wealthiest and most talented, prompting them to seek refuge for their capital and families abroad. Even Xi's signature BRI has produced critical commentary from Chinese scholars and business leaders, who are concerned about the lack of economic rationale for many of the proposed investments. More dramatically, there are indications of dissent within the top echelons of the Communist Party. In the lead-up to the 19th Party Congress in October 2017, at which Xi Jinping was formally re-selected as CCP general secretary, rising political star Sun Zhengcai was purged on grounds of corruption and then accused of plotting against Xi personally. It is also plausible that the bold—or in some cases extreme—nature of Xi's initiatives may over time produce an equally strong opposition coalition within China calling for a moderation of his policies.

Third, Xi's ambition for China to reclaim its greatness on the global stage offers both new opportunities for collaboration and new challenges for the outside world. In some cases, Chinese interests and those of the rest of the world largely overlap. Thus, a number of China's initiatives, such as the BRI and Asian Infrastructure Investment Bank, offer important opportunities for Chinese businesses, while providing significant new public goods for the rest of the world. Moreover, there is a clear opportunity for actors in and outside China to leverage Xi's ambition for greater Chinese leadership to do more than it might otherwise. On issues as wide-ranging as Ebola, climate change, and

proliferation, Xi Jinping's desire for China to be a leader in a globalized world has required the country to undertake a greater degree of political and often financial commitment than it has previously assumed. In other words, the rest of the world can challenge China to match its rhetorical commitment to globalization and international leadership with its actions on the ground.

At the same time, a more ambitious China is also producing greater potential for conflict in areas such as operations in the South China Sea or over the sovereignty of Taiwan. As China proposes and establishes new international institutions and plays a larger role in established organizations, how it will exercise its growing influence also becomes a question of central importance. Thus far, the results are mixed: in some cases, China appears to uphold traditional norms, while in others it seeks to pervert or even break with established precedent to realize its own advantage.

Finally, the greatest emerging challenge—and the one least well understood—exists at the intersection of China's dual-reform trajectories. China is an illiberal state seeking leadership in a liberal world order. The importance of China's domestic political and economic system for the rest of the world has never been greater. At one time, the international community might have viewed Chinese human rights practices as a primarily domestic political issue—albeit one that many observers cared deeply about; now, however, issues of Chinese governance are front and center in the country's foreign policy. China exports not only its labor and environmental practices through investment but also its political values through a growing foreign media presence, Confucius Institutes, and—in some cases—government-affiliated student organizations. Yet China sharply constrains opportunities for foreign cultural, media, and civil society actors to engage with Chinese citizens. With its growing economic and political power, China increasingly takes advantage of the political and economic openness of other countries while not providing these countries with the same opportunities to engage within China. Even as its SOEs take majority stakes in mines, ports, oil fields, and electric grids across the world, it prohibits other countries' multinationals from doing the same in China. Addressing this particular challenge requires understanding the new China model within the

context of a globalized world. It is a combination that provides China with new levers of influence and power that others will have to learn to exploit and counter in order to protect and advance their own interests.

Will Xi Succeed?

Does Xi's third revolution have staying power? There is no compelling evidence that Xi's revolution is in danger of being reversed, and the outcomes of the 19th Party Congress suggest that his consolidation of power and mandate for change have only been strengthened. Xi's theoretical contribution to the socialist canon—"Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era"—was enshrined in the Constitution in a manner previously granted only to Mao Zedong; both Xi's name and the word "thought" were attached to his ideas. Xi also avoided naming his successor as general secretary; this marked a break in a twenty-five-year CCP tradition and was widely interpreted as leaving open the possibility that Xi would be reselected as general secretary in 2022. Finally, Xi filled the top positions in the Communist Party—the PBSC and the Politburo—with his supporters. By one count, as many as four of the seven members of the PBSC, not including Xi Jinping himself, and eighteen of the twenty-five Politburo members are allies of Xi.[14]

An air of triumphalism also permeated Xi's three-and-a-half-hour Party Congress speech as he reported on the accomplishments of the previous five years, noting that China was at a "new historic juncture." He asserted that China has "stood up, grown rich, and is becoming strong." For the first time, Xi also raised the prospect that China could serve as a model of development for other countries by utilizing "Chinese wisdom" and a "Chinese approach to solving problems."[15]

In fact, Xi has made significant progress toward achieving his Chinese Dream: doubling incomes by 2020 and recapturing China's historic centrality and greatness in the international system. And the priorities he has laid out for his next five-year term are overwhelmingly the same he has pursued to date: fighting corruption, addressing environmental challenges, pressing forward on economic reform and growth, and ensuring that the party and its ideals are fully and deeply embedded in Chinese political and economic life.

Nonetheless, as the next chapters illuminate, all of his reform priorities face significant and, in some cases, growing contradictions. We should be alert to the potential of discontent coalescing into a significant political challenge. Certainly, comparative history is not on Xi Jinping's side. Despite a rollback of democracy in some parts of the world, all the major economies of the world—save China—are democracies.

The primary message of this book, however, is that we must deal with China as it is today. The strategic direction of Xi's leadership is evident and is exerting a profound impact on Chinese political and economic life and on the country's international presence. Much of the world remains ill-prepared to understand and navigate these changes.

2

Heart of Darkness

IN JANUARY 2013, GUANGDONG Province propaganda head Tuo Zhen took his censor's pen to the annual New Year's editorial of *Southern Weekend* (*Nanfang Zhoumo,* 南方周末). The newspaper is renowned as one of the two or three most investigative and forward leaning in the country,[1] and the editorial, "China's Dream, the Dream of Constitutionalism" (*Zhongguo meng, xianzheng meng,* 中国梦, 宪政梦) was a clever play off of the new CCP General Secretary Xi Jinping's Chinese Dream narrative. Instead of calling for a robust Communist Party at the forefront of the political system, however, it advocated political reform and constitutionalism. There was little chance that Tuo would approve such a title. Although he had been an award-winning journalist in his earlier years, he had long traded in his investigative eye in favor of a political career. He had risen through the ranks first of the *Economic Daily* (*Jingji Ribao,* 经济日报) and later of the state-run Xinhua news service before assuming the position in Guangdong, earning a reputation for toeing the party line along the way.[2] In fact, by the time the editorial reached Tuo's desk, the title of the piece had already undergone a significant edit: *Southern Weekend*'s editor had preemptively softened the title to read "Dreams Are Our Promise of What Ought to Be Done" (*Mengxiang shi women duiying ran zhi shi de chengnuo,*梦想是我们对应然之事的承诺).[3] But Tuo, reflecting the new mood in Beijing, changed the title yet again to "We Are Closer Than Ever Before to Our Dreams" (*Women bi renhe shihou dou geng*