



AIIAV STUDY TOUR TO CHINA 5-19 MAY 2012

REPORT

Introduction

This year's study tour to China visited Beijing (5-10 May), Pingyao (10-13 May), Nanjing (13 -15 May) and Shanghai (15 – 19 May). There were 25 members - overwhelmingly from the Victorian branch; the President of the NSW Branch, Colin Chapman and his wife Susan Grice, added lustre to the group. Some of the group added additional travel to the tour itinerary.

In leading the tour I was very ably assisted by Zara Kimpton as deputy, who made a major contribution to the compilation of this report. My thanks go out to her and to the contingent for contributing to the overall success of the tour and to a number of the group for contributing elements to this report. We are grateful for assistance received from the Ambassador in Beijing, Ms Frances Adamson and the Consul-General in Shanghai Ms Alice Cawte and members of their staff.

I think that, for everybody, the tour was an eye opener even for those who had previously visited China. The scale and pace of the changes that have taken place over the last twenty years, since Deng Xiao Ping's clarion call in 1992 to accelerate the reform process, have been awe-inspiring. Of the cities we visited, Beijing and Shanghai have been transformed – the former assisted by the Olympics and the latter by the city's success as a manufacturing, trading and financial centre. In 20 years the area of Pudong across the river from Shanghai has arisen from rice paddies like a neo-Manhattan on the east bank of the Huangpu River.

None of us went to China experts and none of us came back experts. The country is too big and complex to yield more than fleeting familiarity to participants on a two-week four-city tour, however good the tour's briefing program or however keen the participants' thirst for knowledge.

What follows then is a series of observations based on what we saw and what we were told together with the fruits of some reading both before and after our tour. It does not pretend to be a comprehensive examination of contemporary China. It is selective in what it covers and what it omits. It should be seen as a conversation starter for the report night at AIIAV on 5 July 2012.

Leslie Rowe
China Tour Leader

China: The Party, the State and Administration.

“China’s post-Maoist governing model, launched by Deng Xiaoping in the late 70s, has endured many attempts to explain it. Is it benevolent, Singapore-style autocracy? A capitalist development state as many described Japan? Neo-Confucianism mixed with market economics? A slow motion version of post Soviet Russia, in which the elite grabbed public assets for private gain? Robber-baron socialism? Or is it something difficult altogether, an entirely new model, a “Beijing Consensus”, according to the fashionable phrase, built around practical, problem-solving policies and technological innovation? Few described the model as communist any more, often not even the ruling Chinese Communist Party itself.”

Richard McGregor”, *The Party: The Secret World of China’s Communist Rulers*”, (Penguin 2010 pxviii)

For the first-time visitor to China or to those who have not witnessed the changes of the last twenty years in the country, modern China – or at least the China of the bustling modern cities - shows every indication of being a thrusting capitalist society. Tourists enter the country through modern efficient airports, travel on freeways or bullet trains or state of the art subway systems and stay in hotels of a quality inconceivable a generation ago. Interestingly many of the best modern buildings were designed by western architects. The serried ranks of bicycling Mao-suited masses have given way to people dressed as they would be in western cities, the bicycles to cars and roads to freeways; drab markets and Friendship Stores have given way to shopping malls including high-end boutiques stocking luxury brands.

A new generation has appeared in the last ten years which has a relatively high level of disposable income, is tech and media savvy, uses the internet, shops on line, avidly uses Weibo – the Chinese equivalent of Facebook which boasts some 300 million users – and travels and studies abroad.

Chairman Mao looks down on Tiananmen Square – his portrait replaced annually to ensure an air of freshness and vitality - but what he looks down upon is a very different country from that which he ruled. The slogans and statues of the Maoist past are fewer. Most tourists can’t read or understand Chinese (and so can’t understand any messages that might be displayed) but our guides who spoke openly on many subjects did not act as cheerleaders for the regime as their predecessors would have.

The quote from Richard McGregor at the head of this section highlights the difficulty of defining precisely what sort of state China is. Yet one of its characteristics, on even a cursory examination of government in China, is

the centrality of the Party and the extent to which it controls most aspects of the lives of the Chinese people.

The political system in China is composed of three parts – the Party, the army and the state, with the Party supreme, ruling over the other two parts.

Following the defeat of Chiang Kai-shek's nationalist forces in 1949 and their retreat to Taiwan, the Communist Party under Mao's leadership set about entrenching the Communist Party. The foundations that were established at the time remain central to its continuing authority and the nature of the state it oversees. The Communist Party claims legitimacy as the saviour of the nation from chaos and great uncertainty. It follows from this that China will fight to defend all its historical territory including Taiwan, Tibet and its claims in the South China Sea and it will resist interference in its internal affairs.

Central to this was the establishment of the People's Liberation Army (PLA) as the Party's army (and not the state's). Mao famously observed "Power comes from the barrel of a gun *but the Party controls the gun.*"

China is a large and complex country to govern; with separate administrations at the local, provincial and national level. Overlaying all of this is the Party, which tracks the government structures and imposes ideological authority. Membership of the party totals around 80 million people.

One of our interlocutors observed that "China is a country of many countries". This is a vivid description of a country of 1.34 billion people settled in 31 provinces each roughly the size and complexity of France. It is multi-ethnic. Around 95% of its population is of Han ethnicity but the remaining 5% of the population occupies much more than 5% of the land of China. Important ethnic minorities are concentrated in regions on the extremities of the land borders of China – Tibet, Xinjiang, Inner Mongolia and Manchuria - which provide a buffer against foreign incursion. These regions are also rich in resources and agricultural and pastoral production. This diversity highlights the Party's core concern to preserve unity and stability.

The main Party administrative bodies are:

The Central Committee of the CPC (371 members)

The Politburo consists of 25 people of whom 9 are members of its Standing Committee. In practice the members of the Standing Committee are responsible for directing all the Party's central departments.

At present these 9 are ranked:

- 1) Hu Jintao - General Secretary of the Central Committee, who is also the Head of the Central Military Commission
- 2) Wu Bangguo – the Chairman of the Standing Committee – he is not so well known internationally but ranks above Premier Wen.
- 3) Wen Jiabao – Premier and Party Secretary of the State Council Party committee, which is of major significance as it is responsible for personnel appointments throughout the government and bureaucracy.
- 4) Jia Qinglin – Chairman of CPPCC – the Consultative Congress. This is a prestigious body consisting of over 1000 members, some of whom are extremely rich; it acts as a sounding board for the Party to gauge the currents of public opinion and is an opportunity to test ideas. Policy statements emanate from the CPPCC.
- 5) Li Changchun –the propaganda chief, responsible for all media and internet censorship.
- 6) Xi Jinping – current Vice President and head of the General Secretariat and Vice Chairman of the Central Military Commission who is likely to become General Secretary in October.
- 7) Li Keqiang – is favoured to become Premier in October.
- 8) He Guoqiang - Secretary of the Central Discipline Inspection Commission
- 9) Zhou Yongkang - Secretary of the Politburo and Legal Affairs committee.

The Party has a web of committees spread at all levels of government down to village level and spread throughout the whole country. See the accompanying organisation chart of the Party (from Richard McGregor op cit).

2012 is a very important year as the quinquennial Party National Congress will be held in October to select the new president and premier, the Standing Committee and Politburo. This is almost certain to result in a once-in-a-decade leadership transition given that seven of the Politburo members are over the retiring age of 68. In addition to changes in the Politburo, millions of party members are in the process of being reshuffled at all levels of the Party throughout the country.

Two preliminary meetings were held in March 2012 in Beijing – “the two meetings” - those of the National People’s Congress and the annual Chinese People’s Political Consultative Conference (CPPCC) - to pave the way for the deliberations in October. Two thirds of the membership of 3000 of the National People’s Congress are members of the Party and its traditional function has been to ratify policy and personnel decisions already made by the Party and Politburo. Candidates for preferment are not expected to campaign openly for promotion nor to draw attention to themselves or canvass policies. The maintenance of Party unity is paramount.

The CPPCC is an advisory body of prominent people from all walks of life which acts as a sounding board for issues of public concern. Discussions at the March meetings were predictably stage-managed though there were nonetheless calls for reform including economic reform in the run-up and on the sidelines of the meetings. The People's Daily for example argued that "although reform is risky, with no reform the party will be in danger".

Traditionally the deliberations in the National People's Congress are held in camera and appointments to the Standing Committee announced at the end of an apparently seamless process at the October meeting of the National Party Congress. It is widely expected, for example, that President Hu Jintao will hand over to a new team headed by Vice-President Xi Jinping with Li Keqiang replacing Wen Jiabao as premier.

This will be followed by the National People's Congress in March 2013 electing the Chairman to the role of head of state. The President then appoints, and the National People's Congress confirms, the State Council or Cabinet including the President and the Vice Presidents. This is essentially China's central government, the role of which is to turn the political directives and priorities of the Party into concrete policies and regulations, and to administer them. It is served by a national civil service and a range of ministries and agencies.

Bo Xilai

This year the orderly processes at the March meeting of the National People's Congress (so important to the regime as a demonstration of party unity and stability) were thrown into confusion as a result of the public condemnation by Wen Jiabao of one of the Politburo's rising stars – the Party Chief of Chongqing, Bo Xilai. Bo was one of the Party's princelings (a term used to denote the sons and daughters of the founding fathers of the PRC, many of whom have been appointed to high office in the Party, government and the State-Owned Enterprises- SOEs).

Bo had a range of senior jobs in his ascent and had gained a considerable public following through very effective public self promotion and for his role in developing the Chongqing region, which had seen considerable growth during his stewardship. He was a populist who spearheaded some very public anti-corruption and anti-Mafia campaigns, argued for greater wealth distribution, greater state involvement in all facets of society and gave his endorsement to some elements of the Cultural Revolution – such as patriotic songs of the era.

Bo's downfall followed the attempt by the Chongqing police chief to seek asylum in the United States consulate in Chongqing, taking with him

documents which incriminated Bo and his wife in a web of corruption and the possible murder of a British businessman.

Wen's condemnation and the subsequent sacking of Bo could have been motivated by the scandal surrounding Bo, or by personality or ideological differences or a combination of the three. In condemning Bo, Wen denounced attempts to draw back from economic reform and greater openness in favour of a return to the destructive events of the Cultural revolution – a direct swipe at Bo's ideological supporters on the left of the Party.

The condemnation of Bo is probably the most dramatic exposure of political schisms in the Party for nearly thirty years and it points to a period of intense and possibly overt ideological contestation in the run-up to the October Party congress.

The Chen Guangchen Affair

The saga of the blind human rights activist, Chen Guangchen, who escaped from house arrest in his home village in Shandong province and sought refuge in the American embassy, was playing out while we were in Beijing.

It highlighted many features of China's approach to human rights and legal practice. Because it coincided with the visit of the US Secretary of State Hilary Clinton and a large US delegation for scheduled talks, it also spotlighted the two sides' pragmatism in finding a face-saving way out of what had become an international cause celebre.

Chen came to prominence in the 1990s through his advocacy of the rights of the disabled and later for exposing the policies of provincial authorities in Linin district in his home region, in forcing women to have compulsory sterilisation and abortions. As a result of his campaign, he was convicted on trumped up charges and imprisoned and subsequently held under house arrest after he refused to cease his activities. During this period he was seriously beaten and, soon after, in April 2012, undertook a daring escape from his house, involving scaling the high walls of the compound and making his way to a pre-arranged rendezvous with activists who took him to a series of safe houses in Beijing. When this was no longer a safe option he eventually sought safety in the US Embassy which was granted in the run-up to Clinton's arrival.

The Chinese response was to round up people suspected of having facilitated his escape, place a media ban on him and close down websites attempting to disseminate news. BBC news reports shown in our hotel were closed down when stories relating to him were shown.

He originally sought guarantees from the Chinese authorities that, in return for leaving the embassy voluntarily, he would be given hospital treatment, would be allowed to live a normal life and that his supporters would not be persecuted. After lengthy negotiations he was eventually allowed to proceed with his family to the United States to study law.

The Five-year Plan

China's 12th Five-Year Plan for National Economic and Social Development (2011-2015) (FYP) was adopted in 2011. The FYP sets out the framework for the economic and development priorities for the period.

The current FYP changed the emphasis of China's economic strategy away from a 'growth at all costs' approach to one which gives more emphasis to spreading the benefits of economic growth more widely. It is interesting in that it addresses a number of concerns of economic policy that are increasingly voiced in China - a major issue being the increasing gap between the haves and the have-nots. There are very great disparities in wages and living conditions between the rural and urban populations and between workers in the urban areas - particularly migrant labour from the rural areas permitted to work in urban areas - either legally or illegally. The latter group is denied authorisation permitting the right of residence. 253 million rural migrants are now living in Chinese cities with little or no access to public services, which they can only access in the villages where they are registered under the "hukou", or household registration system.

The FYP's guiding principles commit the government to focus on "inclusive growth", which means ensuring the benefits of economic growth are spread to a greater proportion of the Chinese citizenry. The plan also places a strong emphasis on environmental protection and in combatting the problems of pollution in many parts of the country.

The FYP foresees a notional GDP growth rate target of 7 percent which, given uncertainty in the international economy, seems increasingly contestable, and seeks to address the problem caused by the high rate of domestic savings over investment by promoting consumption over investments and exports.

The high savings rates in China are at least partly caused by the fears of the ageing population over their welfare and health care in years to come. The FYP aims to close the income gap through minimum wage hikes and increased social safety nets and a significant increase in health care funding.

Demographics

China's population is approximately 1.37 billion people and this figure is expected to peak in 2026. Its birth-rate is 30% below the replacement rate.

For the first time in its history China is now a predominantly urban country with an urbanisation rate of more than 51%, due to the dramatic increase in migration from rural areas over the last thirty years. This is well below that of the West (around 70/75%) and therefore assuming these rates converge over the next three decades, around 250 million people will be looking for new homes in cities. The Chinese work force - those aged 15 to 64 - is peaking as the work force ages and its population aged over 65 will more than double over the next 20 years from 115 - 240 million. By 2050 some 30% of the population will be over 60 years of age.

The one-child policy

After 1949 Mao Tse-tung followed Soviet policies which supported large families as a way of shoring up national power. Partly as a result of a high fertility rate, reductions in infant mortality and greater life expectancy, China's population increased from 540 million in 1949 to 940 million in 1976. In order to curb future increases in population and resource utilisation, the Chinese Government in 1978 introduced the one-child policy which was intended to be a one-generation policy; recent official statements suggest that the policy will be in place for at least another 3-6 years.

It has no doubt had an effect on curbing the rate of population increase but has been criticised on human rights grounds internationally as well as in China and has had some major social and economic implications. The actions of authorities forcing abortions, particularly late-term abortions, has been particularly damaging for the Chinese Government abroad.

Some 36% of families are restricted to having one child. The policy applies particularly to people of Han ethnicity and it restricts married urban dwellers to having only one child unless the child is seriously ill or impaired. Exceptions include ethnic minorities for whom there are limited restrictions; families in rural areas can have a second child where the first is a girl; married couples, where each partner is from a one-child family can also have a second.

Chinese families proceeding with a second child where this is not permitted are routinely fined and, if they cannot pay the fine, the child is prevented from accessing free government services such as health and education.

At least part of the high savings rates of the Chinese is linked directly to people saving for their old age. The traditional pattern of children caring for their parents will place increasing burdens on the young where one child will have to look after two parents and four grandparents.

Bilateral relations

This year marks the 40th anniversary of the establishment of diplomatic relations. The relationship with China is now one of Australia's most important and busiest but it is complex and sometimes difficult to manage. The importance of the relationship is reflected in the scale of our official representation where we have diplomatic or consular representation in Beijing, Shanghai, Guangzhou, Hong Kong and the government has announced its intention to open a Consulate in Chengdu. In addition, Austrade has nine sub posts in second tier cities. Most Australian states also have offices in the country.

China is our largest source of students and is soon to be our largest source of tourists. There are estimated to be more than 100,000 alumni of Australian universities who have now returned to China.

We are China's 7th largest trading partner and China is our largest. Two-way trade totalled \$120 billion in 2011 - the largest contributors to that were iron ore and coal though services contributed \$6 billion. Australia had a trade surplus of \$30 billion.

Chinese investors remain keen to invest and projects worth over \$70 billion were approved over the last four years by the Foreign Investment Review Board (FIRB). Chinese investment in Australian urban and rural land and resources is a subject of some sensitivity in Australia, particularly where intending purchasers are State-Owned enterprises. Chinese investment levels should, however, be put into perspective – China's share of Australia's total stock of foreign investment was approximately 1% at the end of 2010 whereas, according to the FIRB, the United States and the UK accounted for 23% and 14% respectively at the end of 2009. Greater awareness of these facts and of the FIRB's role would blunt ill-informed criticism.

While we were in China the Foreign Minister Senator Carr made his inaugural visit as Minister, and the Defence Minister visited soon after for the inaugural Australia-China Defence Ministers' Dialogue. We were given some articles by China Policy (see Annex) canvassing the implications for Australia of China's military rise and the implications for us of the state of the US-China defence and strategic relationship as well as the impact on our relationship with China of our alliance with the US.

The tourist experience

From what we were able to observe, China is a country which has made great strides in catering to international tourists. Our hotels were of high standard and our guides excellent – knowledgeable and helpful and all with very good English. One thing which was striking was the poor standard of English in service industries in the places we visited in spite of being told that there was a widespread push to expand English teaching throughout the country.

A particular highlight of our tourist experiences was the time spent in Pingyao and surrounding areas. Pingyao in its present form is a largely medieval city in which modern banking evolved in China. It was spared destruction during the Cultural Revolution. The massive city walls, whose origins date back to the 14th Century (Ming Dynasty), were in an excellent state of repair having been restored recently leaving some damage inflicted by Japanese forces in WW II. UNESCO proclaimed Pingyao a World Heritage Site in 1997.