

Elizabeth Economy on Xi Jinping's Third Revolution and the Future of U.S.-China Relations

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Transcript

Jean Oi: Good afternoon, everyone. My name is Jean Oi, I'm the director of the Stanford China Program, and I'd like to welcome you to the 2019 colloquia series. The title that we've put on this is rather provocative. We're calling it "A New Cold War? Sharp Power, Strategic Competition, and the Future of US-China Relations."

Given what's going on in the world, and I'm sure you are all aware, trade conflict has exploded and, if I'm not mistaken, Liu He and the Chinese delegation are in Washington starting today having the negotiations. The media has been rife with stories about China's unfair trade practices, cyber threat, cyber theft, IP theft, and all of the stuff with the CEO, the financial officer of Huawei. Tied up with that are questions about who's going to take the lead in AI going forward, and there are also questions about the implications of Beijing's global ambitions with regards to the Belt and Road Initiative.

With all of these issues really around us, and clearly I think our US policy has sharply veered away from constructive engagement to strategic competition, the China program has decided that for this colloquia series, we are going to bring in leading experts to explore the current state of our bilateral relationship, its potential future, and for the world order.

Today I'm very pleased to introduce Elizabeth Economy, who's going to kick off the series for us. Dr. Economy is the C.V. Starr Fellow and director for Asian studies at the Council on Foreign Relations. We want to thank the Hoover Institution because we have her for the winter and hopefully spring quarters. She's here as a distinguished visiting fellow at the Hoover Institution. Dr. Economy is an acclaimed author and expert on Chinese foreign policy as well as domestic politics. She got her BA out of Swarthmore, an MA from Stanford University, and of course she has her PhD from the University of Michigan, one of many of Michel Oksenberg's students, and I'm happy to say I'm one as well.

You have probably read her articles in *Foreign Affairs*, *Foreign Policy*, *New York Times*, and *Washington Post*. In addition, she has three books. The first one, which I believe was based on her dissertation, was called *The River Runs Black: The Environmental Challenge to China's Future*. She also has another volume that she did with Michael Levi called *By All Means Necessary: How China's Resource Quest is Changing the World*. Most recently, she just published with Oxford Press *The Third Revolution: Xi Jinping and the New Chinese State*. This book has just been shortlisted for the Lionel Gelber Prize, which is a literary award for the world's best non-fiction book in English on foreign affairs. In June 2018, *Politico Magazine*

named her as one of the ten names that matter on China policy. With that, I'm delighted that she's going to speak to us in part about her book, but also about the future of US-China relations. Please help me welcome Liz Economy.

Elizabeth Economy: Thanks so much, Jean, for truly that lovely introduction. It's really a great pleasure to be here. I will say that on the *Politico* list I was sandwiched between Henry Kissinger and Peter Navarro, neither of whose views on China I particularly subscribe to. But in any case, it really is great to be here and have the opportunity to speak with such a really expert and distinguished group to share my thoughts on China, but also to hear your views.

I thought what I'd do is begin by talking about how I see Xi Jinping transforming Chinese domestic and foreign policy in large part because I agree with one of the preeminent Chinese scholars, Wang Jisi, who has said just about six months ago that the reason that US policy has changed is because China's policy has changed. I think that's just something important to bear in mind.

Let me begin by taking you back, but not too far back, just to October of 2017 and the 19th Party Congress when Xi Jinping was reelected as General Secretary of the Communist Party for his second five-year term. In his acceptance speech, which ran about three and a half hours, about halfway through he uttered the phrase: "China has stood up, grown rich, become strong," and then a little bit later he said, "and is moving towards center stage." That phrase, better than almost anything else that I've encountered, really encapsulates China's political development and ambitions as well as how Xi Jinping views his own tenure within the context of contemporary Chinese political history.

The way that I have come to understand this is in a set of three revolutions. The first revolution is China standing up, and this is, of course, Mao Zedong in 1949. Fast forward thirty years and you have what Deng Xiaoping himself termed the second revolution in 1979. This is China becoming rich. This is Deng Xiaoping introducing the market into the Chinese economy, allowing civil society to blossom, welcoming foreign influence, both in terms of foreign capital but also foreign ideas. Deng often said that China had a lot to learn from the outside world. He also moved away from the one-man authoritarian rule of Mao Zedong to a far more consensus or collective-based decision-making process. He very famously said that China should maintain a low-profile foreign policy, not be distracted by external events and challenges, but to focus on improving the living standards of the Chinese people.

Then in 2012, just a bit more than thirty years again, we have the advent of Xi Jinping, and this is the period of China growing strong and moving toward center stage, or Xi Jinping's "Great Rejuvenation of the Chinese Nation." I argue that in the process of moving to realize this, Xi Jinping has really upended much of Deng Xiaoping's second revolution and has put in motion four significant strategic shifts in Chinese domestic and foreign policy.

The First Shift: One-Man Rule The first big shift under Xi Jinping is the shift away from Deng's consensus and collective-based decision process back toward a more single-man authoritarian rule. How has he done this? Well, first he has amassed an enormous amount of institutional power in his own hands. He sits on top of at least eight of the most important

commissions and committees that oversee broad swaths of Chinese domestic and foreign policy, economic reform, and national security.

He also, of course, has launched a very significant anti-corruption campaign. There's nothing new about anti-corruption campaigns in China; they are really a staple of Chinese political life. But what has distinguished Xi's anti-corruption campaign is both the duration of it—it's now in its sixth year—but also its robustness. Every year more Chinese officials have been detained and punished than the year before. In 2018, some 620,000 Chinese officials were detained or in some form punished. We're now over two million Chinese officials who have been caught up in this anti-corruption net.

Is the anti-corruption campaign real or is it simply a function of Xi Jinping's effort to eliminate his political enemies? The answer, of course, is it's both. A study by a professor at Harvard found that at the level of vice minister and above, roughly 40% of the officials who were targeted were in some way connected to factions that were viewed as competitive to Xi Jinping. I don't think this is something that he's manufactured as a mechanism to just eliminate his enemies. It's real, but that's not to say that he hasn't used it, because there is no actual rhyme or reason or method that we can determine for why certain officials are targeted and others are not.

The third element of Xi's institutional power grab was his undermining of what had become some formalized and not quite formalized norms of political succession. We saw at the 19th Party Congress that he failed to signal a successor for 2022. Then, in the spring of 2018, he managed to get the two-term limit on the presidency eliminated. Many people in China, especially among the political and entrepreneurial class, were extremely unhappy with this move because they were proud of the fact that there was some mechanism for an orderly political succession process, and Xi Jinping has now removed that.

The Second Shift: Party Reassertion and Surveillance The second shift is what I would call a reassertion of the Chinese Communist Party deeply back into the everyday political and economic lives of the Chinese people. One of the hallmarks of the Deng era was an effort to some extent to withdraw the party. With Xi Jinping, we've seen a much heavier hand of the party, a much more repressive political system coming into play.

Some of the examples of that certainly would be the massive surveillance system that is being put in place in China, roughly 200 million cameras that are capable of facial recognition. Now they're doing recognition of one's gait—how you walk, your body shape, and how you move—and voice recognition. If you want to understand the extent to which this fusion of technology and political repression might be taken, you look to Xinjiang and what's going on there. It's really extraordinary, taking people's phones away and putting apps on them so that everything they do is sent to a remote server, putting QR codes outside of people's homes so that an official can come by and know exactly who's supposed to be in the house. It is, I think, a true police state. Reports are that as many as 10% of the adult population of Uyghurs in Xinjiang are in these re-education camps.

Another big initiative is the social credit system. It's an innovative marriage of technology and more traditional mechanisms for trying to develop a system of social trustworthiness. Everybody

will have a social credit score determined by a set of metrics. By 2020, there's going to be a national program. Things they are looking at include everything from jaywalking to participating in a protest, or even if a friend of yours participates in a protest. The score is then going to be used to punish and reward. Punishment, for example, for not repaying debts can include not being allowed to board a high-speed rail or a plane.

When I was doing research in the summer of 2017, I randomly interviewed fifteen young Chinese people and asked them what they thought of the system. Most were actually quite favorably inclined. One person said, "There's not a lot of trust among Chinese citizens outside of the family. And so this is a good way of knowing whom you can trust." It served to remind me that political culture plays an important role and we shouldn't be too quick to assign our own political values and understandings to China.

Finally, on the economic front, Xi Jinping has moved to enhance the role of party committees not only in state-owned enterprises but also in private enterprises and joint ventures. Xi had the notion that these party committees would become far more actively involved in the actual governance of firms and making investment decisions. The head of the China operations of a major German multinational told me that the party committee had come to him and said they wanted the firm to invest in a certain city for economic reasons to help develop that location. This sense that somehow the party is going to become more involved in the actual decision making, the investment decisions of firms, I think is something quite new and of great concern to the international community.

The Third Shift: The Virtual Wall The third is what I call a creation of a "virtual wall" of restrictions and regulations that allows Xi Jinping and the rest of the Chinese leadership to control more closely what comes into the country and what goes out. The law on the management of foreign NGOs, which came into force in January of 2017, moved the management of foreign NGOs from the Ministry of Civil Society to the Ministry of Public Security. This gives you a sense for the shift in how these NGOs were being viewed. The number of formally registered NGOs in China has dropped to somewhere between four and five hundred at this point.

Another way to look at this effort to control what comes in and goes out is something like the "Made in China 2025" program. This is the government's effort to ensure that Chinese companies control up to about 80% of the Chinese domestic market in manufacturing and technology, everything from new materials to electric vehicles, AI, and medical devices. They are not making progress toward making a level playing field, but in fact moving in the opposite direction and making it more difficult for foreign firms to compete.

The Fourth Shift: Ambitious Foreign Policy Finally, the fourth shift is from Deng Xiaoping's low-profile foreign policy to a far more ambitious foreign policy. The first area is in terms of moving from sovereignty around Chinese interests to realizing them. This includes the South China Sea, Taiwan, and Hong Kong. Xi Jinping has said that an essential element of the great rejuvenation is the unification of China. China has made progress in terms of militarizing seven artificial features in the South China Sea, despite the fact that he promised President Obama that

he wouldn't do that. With regards to Taiwan, Xi has put in motion highly coercive measures to try to limit Taiwan's international space.

The second area is China's Belt and Road Initiative (BRI). Xi Jinping first laid out the Belt and Road in 2013 as an effort to export Chinese overcapacity and to connect China to some sixty-odd countries. Since then it has evolved to include a "Polar Belt" and a "Digital Belt and Road" involving fiber optic cables and satellite systems. There is an element of security that accompanies the Belt and Road. China has established its first military logistics base in Djibouti. At a conference in Beijing a week and a half ago, I asked senior military scholars if they expected more bases. One said, "Yes, there will be hundreds." The idea that China needs the military capacity to protect its people who are living overseas and its supply chains is part of the "Great Rejuvenation."

There's also a debate about whether or not China is exporting its political model. I fall on the side that says it's exporting elements of its political model. Countries in Africa, Peru, and Bolivia are adopting things like the Chinese surveillance system. Xi Jinping has said that China offers an alternative for other countries that includes an emphasis on infrastructure, sovereignty, and political stability.

The last element of Xi's ambitious foreign policy is an effort to become more active in reforming the norms and institutions around global governance. In 2014, Xi said China should not only help to write the rules of the game but should also help to construct the "playgrounds on which the games are played." He is pushing very hard to have institutions and norms reflect Chinese values and principles more closely. One thing Xi Jinping has touted is the idea of a "community of shared destiny." What it means is the end of the US-led alliance system. If you go to any conference on Chinese security in China, there will always be a push by Chinese scholars who say there is no more need for US alliances, calling it a relic of the Cold War.

The tagline for the changes that I see under Xi Jinping is really a China that is far more authoritarian and repressive at home but much more ambitious and expansive abroad.

US Policy: The Four C's When I think about US policy, I tend to think in terms about four C's: we should Cooperate, we should Coordinate, we should Counter, and we should Compete.

Cooperate: This is an area where the Trump administration has fallen very short. No matter that we have many issues on which we disagree with China, I think in order to keep the relationship from fraying beyond repair, we should always have at least one significant issue that we're working on together, like climate change under the Obama administration. We don't have anything like that underway today. It could be something on infrastructure standards, drug trafficking, the refugee crisis, or public health.

Coordinate: This means coordination with our allies. Here the Trump administration was very slow to get off the ground because it was also challenging all of its allies with steel and aluminum tariffs. In the past year or so, we've begun to work more closely with our allies. There is an enormous amount of energy out of the National Security Council and the Defense

Department working on areas of cooperation. We've begun to coordinate on security issues, trade issues, and infrastructure.

Counter: The end of constructive engagement seems to have come to an end, and I think that's right. A new Chinese government necessitates a new US policy and a new US response. We can't allow it to continue to have intellectual property theft on the scale that it has or to not open its markets. As long as we believed it was moving in the right direction, there was a lot of room in the US government to forgive. The Xi government has put that notion to an end. We need to push back in the South China Sea and on trade.

Compete: This is where we want to end up. We focus on making ourselves stronger and more resilient at home by investing in our education and our research and development. The hope is that China becomes another Germany or another Japan—a normal country with which we do business and with which we compete. We're not there; this is a very difficult transition period. But hopefully, we'll come out in a positive way at the other end. I'll stop there and welcome all your comments.

Katina: Thank you. This is really interesting. I have two questions. The first one is to what extent do you think this is a factor of Chinese power growth or to what extent is this actually Xi Jinping? And the second question is on the foreign policy front, what kind of policy suggestions do you have for the current US government in regard to pushing back against China?

Elizabeth Economy: I see it very much as a function of Xi Jinping. That's not to say that some of the trends weren't already in motion. But overall, back in 2010 or 2011, you would see such a vibrant political space on the internet. People were mobilizing for social protest and billionaires were holding polls on the internet. I trained as a Soviet person in part in Kremlinology, and so I am someone who believes that leaders matter very much. I think a different constellation of leaders could have produced a very different outcome for China today.

In terms of recommendations, one thing is we need to have the government speak with one voice and we need to be honest and fair about what it is that we're asking China to do and not change the goalposts. The biggest area for me would probably be finding an area of cooperation. I would like to see the Chinese propose some kind of issue that we could work on together because I'm not confident it's going to come from our administration.

Colin Kahl: I wanted to ask you a very specific question about how you would propose that the US respond to what we might call the techno-authoritarian challenge that China represents. They have an incentive and opportunity to weaponize those technologies against us. We know the Chinese are doing a little bit of this in places like Australia. How should we respond to that challenge?

Elizabeth Economy: In terms of what we do about China within China, I think that's a human rights question and a sovereignty question. When it's especially egregious as it is in Xinjiang, we should take action, such as using the Magnitsky Act to deny visas to officials responsible for pushing this kind of policy. I think launching very public campaigns to embarrass China is also very important.

In terms of China on the global stage, we have to be out there ourselves. You have to present an alternative to the Belt and Road Initiative. We need to be out there both technologically but also in terms of capacity building. In terms of the United States and our own defenses, lessons learned from Russia should make us stronger in identifying and responding to a similar threat from China. The greatest thing that we can bring to the table is really transparency. Be transparent about where funding for think tanks is coming from. Transparency is the most important thing, but we need to remain aware of and push back against them without closing everything down here.

Question: Domestically, is China brittle or resilient?

Elizabeth Economy: I think there's a great deal of brittleness in Chinese society. This summer, there were a lot of reports of great unhappiness with Xi's leadership. There are retired party elders who were apparently responsible for criticizing Xi Jinping's two-term limit and the anti-corruption campaign. Liberal intellectuals and entrepreneurs are unhappy with the constraints. There are broad movements—the feminist movement, the LGBTQ movement, the environmental movement—all of which provide stresses for the regime.

I think the advent of robotics and technology is also going to have significant implications for workplace discontent. We saw a massive nationwide trucker strike because an app forced them to compete in real time for the lowest bid. You've got labor protests, pensioners, and retired military officials who are protesting. China had the lowest birth rate since 1961 last year; to me, that is a signal of a lack of confidence that the country is moving in the right direction. I see them as, if not brittle, at least under enormous stress.

Sophomore Student: My first question would be what does the Chinese development model imply about the western world in terms of infrastructure development? The second one is regarding civil societies. How do civil societies organize under the constraint given today and how does technology play a role?

Elizabeth Economy: In terms of the competition between development models, it depends very much on the leadership in any country. Within China, there is a lot of call to change China's own overseas assistance programs. There are motivations for China to improve its practices independent of the kind of pressure that the United States might bring to bear.

In terms of the prospects for Chinese civil society, technology helps in different ways. Communications through the internet allow for sharing information, and in the environmental realm, people have handheld monitors for air quality. Technology can support the work of activists in China in terms of both communication and what they want to accomplish.

Frank Fukuyama: If you're really going to counter them militarily you're going to have to make massive investments in American defense spending. Is that worth doing? Or does there come a point where we say it's just not worth it to us and we have to concede a sphere of influence?

Elizabeth Economy: I think there's a middle ground between doubling our own defense spending and ceding to China. That involves ensuring that other actors in the region are

developing their defense capabilities and bringing more countries like the UK and France into the game to defend principles like freedom of navigation. I am not prepared to cede a sphere of influence to China, but it's going to have to come from an increased engagement from the players in the region as well as some others.

Question: Is it realistically possible for China to become like Germany or Japan? And secondly, how do you evaluate the increasing mistrust and sentiment between the two countries?

Elizabeth Economy: In terms of mistrust, I think both sides are to blame. Xi Jinping has put a target on the backs of Chinese students and nationals abroad by saying all Chinese need to be working in service of China. Until that stops, there will be growing suspicion. In terms of technology and investments, talk to any number of US firms and they'll say they face 10,000 cyber attacks on their firm to gain information about an impending deal. There is a reality to the situation that needs to be addressed on the Chinese side. Regarding your first question, it would probably take two different governments in the United States and China than the ones we have today.

Question: What is the competition that we're in? Is it for technological supremacy or something else?

Elizabeth Economy: No, I don't think it's for technological supremacy. From the US perspective, they want that competition to be on a level playing field. I think on the political front, we are seeing the idea that China has a different model that includes a different set of values regarding internet sovereignty and human rights. We need to push back. We want the liberal international order to be maintained—open markets, freedom of navigation, free trade, and human rights. We don't feel confident that China shares our values. It's really about the nature of the order in which countries will continue to develop and thrive.

Question: Can you give more comments on the "debt trap" scheme and how other developing countries should play under this new game?

Elizabeth Economy: I don't think that China is going out with the intention of trapping these countries into debt. Many economists in China really don't think that what China is doing is economically sustainable or good for China. There's a lot of debate within China about how this Belt and Road is being prosecuted. The Belt and Road is not all centrally directed from Beijing; there are SOEs and provinces out there doing projects. The IMF is now doing a training program with Chinese officials on how to be more sustainable in their lending practices.

Don Emmerson: If mistrust is inherent in a China model where the party penetrates the private sector, that is truly fundamental. Do you think this is something that Xi Jinping could give way on?

Elizabeth Economy: I think it's not fundamental to the China model. Ten years ago, there was a new generation of Chinese businessmen who wanted to be seen as making economically rational decisions and not directed by the Communist Party. I think Xi Jinping has taken that away from them. But I don't see that as something that has to be, because reform economists in China argue

for the development of the market. I see Xi's hand in this as quite central to the direction in which China is moving right now.