



CHINA'S LEADERSHIP CHANGES: SOME IMPLICATIONS

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Two months after the 18th Party Congress, the contours of the leadership and their policy trends are beginning to be identifiable. This, of course must be viewed in the context of the complexities of the People's Republic of China, and the broader politico-economic situation confronting it. Western commentaries are essentially focused on the question whether and to what extent PRC would introduce reforms – both political as well as economic? The latter has been going on since the modernization started more than four decades ago though political reforms are a pre-condition to full economic reforms defined in the West as free market economy. But even in a hybrid economy where rule of law is applied, if at all, rather arbitrarily, Chinese economy – better described as “opportunistic” economy – has been growing at double digit rates for more than three decades making its GDP today the second largest in the world, next only to the United States. But the global economic melt down since 2008 may have affected China more than generally perceived. With rampant corruption and a demographic challenge looming on the horizon, restoring economic health appears to be the predominant priority for the new leadership rather than political reforms toward democracy *et al.*

What strikes the observer of leadership changes is that contrary to the previous practices, the new leadership headed by Secretary General Xi Jinping has reduced the size of the Chinese Communist Party (CCP) Politburo Standing Committee from nine members to seven thus making the apex ruling group smaller, tighter and possibly more cohesive. One member dropped is the Political-Legal Committee Secretary presiding over a massive US\$ 110 billion (more than the PLA budget) internal security budget, and the new incumbent will at best be only a Politburo member. At the same time, the outgoing president Hu Jintao, will not stay on for a year or two as the CMC (Central Military Commission) chairman (a practice since Deng Xiaoping retirement) leaving

the slate clear for the new CMC and Xi Jinping. At the same time it appears that changes in ministerial structures (reducing the 44 ministerial positions to 24 odd) also include placing the Ministry of State Security – the civilian internal and external intelligence services – under the State Council. This could have a significant effect on China's intelligence apparatus in future.

Demographic Challenge and Economic Growth Rate

The demographic challenge is no doubt a long term phenomenon, but, according to some experts, its impact is already beginning to tell. China's “One-Child Policy” which prevented 400 million births reducing the population growth, is now starting an *irreversible trend* of reducing the working age proportion in the population while a bulge in old-age group is beginning to grow.¹ Glen Goddard compares the nearly identical Japanese demographics of 1990 (and 2010) to the Chinese population bulge in 2010 (and 2050) to emphasise the importance the Japanese experience of a stagnant economic growth (now hovering around zero since 1990) after its spectacular growth from 1960 to 1990.² The downward trend coincides with the drop-off of in the working age population which is a likely factor in the economic decline due to a lower-wage, young population transforming to a higher wage mature population and finally to a no-wage-higher-cost elderly population.

If this is compared with China's double-digit growth from 1980 to 2000 and reducing to less than 10 percent after 2008 and if we factor in the likely drop in its working population starting 2015, the similarities of the trend lines are apparent. A closer look at economic growth data provides an even more sombre picture. After the 2008 economic melt down most countries had to inject stimulus into economies. According to a Heritage Foundation study, China created its own stimulus package during the same period injecting nearly US\$ 400 billion into the

economy, and State banks created \$1.4 trillion in new loans.³ This was no doubt done to create more jobs at the risk of increasing inflation which hit 6.9 percent in end 2009 reducing to 3.6 percent in early 2012. With the growth slowing down to 7.5 percent, this implies real GDP growth of a mere 3.9 percent, far below the average for the previous three decades.

The demographic changes would lead from now on to dwindling pool of younger persons though better educated than those after the Cultural Revolution's purges. The majority of the more capable youth are likely to seek jobs in the lucrative private industry instead of the military. This is why Beijing had doubled the salary of new recruits in 2009 to US\$ 133 per month in order to make the military service attractive, at least for conscripts. According to *The Economist*, even in the private industry sector, wages were going up at an average of 12-14 percent per year in dollar terms in manufacturing sectors in Shanghai and Guangdong during the last decade.⁴ As the labour market tightens due to demographic deficit while overall population keeps increasing, the wages are only going to increase at a faster rate. As workers wages increase in the coming decades, they will eventually price themselves out. China's options for the future are to start organising manufacturing where labour costs are low and China could still gain by increasing low-cost manufacturing.

Only India offers such an advantage especially at a large scale before China's high labour costs start to negatively impact on its exports to US and Europe.

China will still require large numbers of unskilled labour, of which it still has in a couple of hundred millions to meet domestic needs. But this category would be progressively less capable due to ageing, yet requiring support from the family and/or state. Add other malaise like corruption at high levels (Xin Jiping's first public statement highlighted this even in PLA), ostentatious expenditure by senior leaders, costs of extensive VIP security and other non-productive elements of economy like the "gray" (means black) money in the economy, the challenge for the new leadership are fairly clear. The former General Secretary Hu Jintao had referred to curbing corruption as "a matter of life and death for the party and state." Xi Jiping set a personal example to highlight the new austerity measures by going round with his colleagues and staff during his southern visit in mini-buses and with virtually no security staff. But little progress is seen even regarding the relatively limited objective of building viable institutions

to curb corruption; Beijing seems to be content with the symbolism of Bo Xilai, the former Politburo member and tipped to head the new government being put on trial for corruption. It is almost certain that he will be convicted and punished so that the new government can put substance in its claim to eradicate corruption, especially graft at high levels.

Geostrategic Challenges

One of the most important challenges in foreign policy that the new leadership faces is what role China should play on the global stage as its power and influence continue to grow? The then-Deputy Secretary of State Robert Zoellick's famous speech in September 2005 about China as a "responsible stakeholder" in the global arena has been triggering significant responses in China. However, most of them are happy about the recognition of China as a great power, but tend to rely heavily on what has been termed as the "Developing country reality." Beijing's September white paper *China's Peaceful Development* argues that China is actually living up to its international

responsibility and argues that the level of responsibility requires careful and accurate assessment. The nature and extent of its responsibility is limited by China's domestic challenges and its current stage of development. It specifically defines that by emphasising that "For China, the most populous developing

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country, to run itself is the most important fulfilment of its international responsibility." Indian strategists, foreign policy experts, and media should pay close attention to the formulations which also suggests China's willingness to bear greater international responsibility in consonance with its growing power.

The years before and since 2008 have not only been difficult for economic growth, but there are fundamental changes taking place in geo-strategic environment in Asia that affect the sole super power as well as the second (China) and the third (India). One is the US plans for re-balancing its strategic posture based on a military strategy of "Air-Sea Battle." While these are yet to be adequately defined and understood, it is clear that they aim to confront China on both the Pacific front as well as the Western side where the US aims to withdraw from Afghanistan by end 2014, but will clearly leave behind a force of up to 20,000 troops, some for security of the regime, some for training Afghan forces, and a significant element of airpower (UAVs, especially armed UAVs, etc.) besides the combat air power deployed on aircraft carriers

in the Arabian Sea. A smaller proportion of NATO forces are also likely to remain for training purposes. China has already made its intentions (to play an active role in sync with Pakistan) clear by the proposal to invest in mining in Afghanistan.

US military has already negotiated basing rights in north Australia and is negotiating return to Philippines bases. The central objective of US strategy appears to be to send a clear signal to China on one side that it would not allow it a free run in its own neighbourhood, and US allies and friends in the region that it remains committed to support them in all aspects. On the other hand China has been furiously modernising its military forces and aims to equal the military power of the United States in the coming decades. The last may not be easy to achieve in the foreseeable time-frame. But China has focussed on asymmetric capabilities like ASAT, cyber warfare, MaRV (Manoeuvrable Re-entry Vehicles on ballistic missiles), MIRVs and highly accurate IRBMs usable with conventional warheads (also termed "Carrier Killers") in strategy known as anti-access and air defence (A2/AD) to target US aircraft carrier battle groups coming too close to intervene or impact on Chinese interests and capabilities.⁵ In a slightly longer term the US is seriously pursuing its Prompt Global Strike strategy to be able to hit a target accurately anywhere on the globe in less than one hour.

China's Military Forces

As noted earlier, China has been rapidly modernising its military to be able to fight and win a local border war with high-technological informationisation. Its *White Paper on National Defence 2004* had clearly indicated its military strategy as follows:⁶

"While continuing to attach importance to the building of the Army, the PLA gives priority to the building of the Navy, Air Force and Second Artillery Force to seek balanced development of the combat force structure, *in order to strengthen the capabilities for winning both command of the sea and command of the air, and conducting strategic counter-strikes.*" (Emphasis added)

The CMC (Central Military Commission) is the "supreme command" which takes decisions on peace and war and the development of the military for future operational tasks according to the objectives laid down. The CMC, functioning directly under the chairmanship of General

Secretary (Xi Jinping now) has two military officers as vice-chairmen. Overall the CMC functions as a collegiate body in matters military including the nuclear forces.

The CMC is theoretically elected by the approximately 200 members of the CCP's Central Committee; but in practice the outgoing CMC and the top party leaders have a major say in the process. The composition of the CMC and supporting senior posts are outlined at Table 1. The continuing domination of the ground forces among the military services is apparent although the Air Force and the Navy have managed to occupy some crucial positions. For example, General Xu Quilang, and the first air force officer to be appointed to CMC and now was the first Vice Chairman who also wears his Air Force uniform in CMC. But the Army applied its own pressures and ensured

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that Army General Fan Changlong was promoted by skipping two steps in the criteria as the senior of the two vice chairmen. As may be seen from the top level posts in PLA, the Army still maintains its dominant position although it is not certain that this will not change even if slowly. All the seven Military Regional Commanders belong to the ground forces though it is believed that the Air Force commander in the Military Region exercises a fair

amount of autonomy in deciding air force matters. Interestingly, the new CMC vice chairmen and members assumed their positions during the last session of 17th Party Congress in October 2012 rather than the first session of the 18th Party Congress in November.

Conclusion

Less than a month into his new job as the leader of the second most powerful country, Xin Jiping ushered in a new "hands on" leadership style that has taken China by surprise and its neighbours with some concerns.⁷ He exhorted the Chinese to pursue a "Great China Dream" and "national rejuvenation" and seemed positioned to break with the past decade of stagnation during which the Chinese economy slowed down and people's protests increased, not to talk of rampant corruption. The government is about to be restructured down to 24 ministries from the current 44. Correcting this as early as possible would be good for Asia and the world. But concerns are already growing about the possibility of an increasingly nationalistic and aggressive foreign policy. There is little doubt that we will be living in interesting times sooner rather than later.

Table1: Personnel Appointments in PLA Institutions
(by Service and Branch -)

Organisation	PLA Army	PLA Navy	PLA Air Force	Second Artillery
CMC (10+Xi Jiping)	6	1	2	1
General Staff Department Deputies (Varies between 4-6)	4	1	--	--
General Political Department Deputies (usually 4, Current 3)	3	-	-	-
General Logistics Department Deputies (3)	3	-	-	-
General Armament Department Deputies (5)	5	-	-	-
Minister of Defence	1	-	-	-
Academy of Military Sciences Commandant and Political Commissar (2)	1	-	1	-
National Defence University Commandant and Political Commissar (2)	1	-	1	-
Military Region Commanders (7)	7	-	-	-

Source: Cristina Garafola, "PLA Succession: Trends and Surprises," *China Brief*, Jamestown Foundation, Vol. XII, Issue 24, December 14, 2012, p. 15.

Notes

¹ This is where India stands to gain in the coming decades provided it can educate its millions to being citizens of the third major power after the US and PRC in material terms.

² Glenn A. Goddard, "Chinese Algebra: Understanding the Coming Changes of the Modern Chinese State," *Parameters*, Summer 2012, pp. 16-27.

³ Derek Scissors, "China's Economy: Something is Not Right in Beijing" The Heritage Foundation, Washington DC, *Web Memo No. 2775*, January 25, 2010.

⁴ "The End of Cheap China," *The Economist*, March 10, 2012.

⁵ For an examination of these strategies and capabilities see Jasjit Singh, "China's New Missiles Pose Unbeatable Threats" in *Defence and Diplomacy*, July-September 2012, Vol.1, No. 4, pp. 1-12.

⁶ White Paper on *China's National Defence 2004*, "Strengthening the Navy, Air Force and Second Artillery Forces" in chapter III: Revolution in Military Affairs and Chinese Characteristics. *China Daily*, December 28, 2004.

⁷ Melinda Liu, "China's Great Dream," *Newsweek*, at <http://www.thedailybeast.com/newsweek/2012/12/30/china-s-great-dream.html>



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