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Editor-in-Chief
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Is China Spoiling the Rules-Based Liberal International Order? Examining China's Rising Institutional Power in a Multiplex World Through Competing Theories

YOUCHEER KIM

Driven by structural theories of international relations, some scholars have described China as either spoiling or shirking the rules-based liberal international order (RBLIO). The convergence of the relative US decline since the Global Financial Crisis of 2008 and China's assertive diplomacy has aggravated this anxiety. This paper examines the theoretical and empirical validity of this argument by utilizing competing theories of social constructivism and issue–path dependence. Specifically, this paper conducts a brief empirical analysis of China's stances on four core issues of global governance, including (1) voting patterns in the United Nations General Assembly, (2) trade and the World Trade Organization (WTO), (3) South China Sea disputes and the Permanent Court of Arbitration (PCA), and (4) the Asian Infrastructure Investment Bank (AIIB). The results indicate that China has been passive toward the restructuring of legal norms, merely invoking them when a specific dispute arises. Concurrently, China occasionally pursues an alternative institutional platform if the functional concentration of a target institution is diffused and fragmented. In short, the empirical analysis demonstrates the salience of claims for China's issue–path dependence. The paper concludes with theoretical and policy implications, concluding that as China holds no predetermined, concrete stance on all components of the rules-based liberal international order, disintegrating the country from it could be a fatal mistake.

KEYWORDS: Rising China; rules-based liberal international order (RBLIO); issue variance; AIIB.

* * *

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"Rising China" has nearly become a banal phrase in contemporary international relations (IR) studies. For the last two decades, thousands of scholarly works have illuminated many dimensions of China's rising national power and its implications for the dynamics of international relations (Beckley, 2011; Christensen, 2015). Most of them, however, have disproportionately focused on material forms of power — mainly military and economic — although a few works have elaborated on more sophisticated and intangible forms such as soft power (King, 2013). Considering the multidimensional nature of power as a concept, one exemplary work succinctly summarizes the existing analyses of China's rise, roughly classifying them into three conventional forms of power: military, money, and mind (Lampton, 2008).

One frequently underemphasized form of power in the context of a rising China, even in the convenient conceptual toolbox of power, is "institutional power" — a unique way of wielding and perpetuating power dominance. A state that is a leader in institutional creation and enjoys institutional power can influence the preferences, goals, and behaviors of other states while promoting its own interests through these institutions. Many international institutions, whether formal or informal, thus dispose state actions "in the directions that advantage some while disadvantaging others" (Barnett & Duvall, 2005). Although international institutions are the result of cooperation among states, their benefits are conferred asymmetrically, as a state with high institutional power becomes privileged while a state without it reluctantly accepts some features and products of institutions (Mastanduno, 2009). Since the US emerged as the *hegemon* by building the Bretton Woods System and embedding its liberal values into international society, it has enjoyed dominant institutional powers while paying the entailing costs — including material resources — to sustain institutions and narrow policy leverage by restraining the outright perpetration of physical force. Overall, competition among states in many cases of international institution development does not significantly differ from that which Thucydides observed in the Peloponnesian War: "the strong do what they can and the weak suffer what they must" (Debnar, 2017). Specifically, the case of International Monetary Fund (IMF) has been widely cited as a prime example of America's asymmetrical institutional power in the operation of the rules-based liberal international order (RBLIO). Using the "conditionality" of relief programs, the US has allegedly pushed the expansion of market principles in troubled economies. As a dominant broker inside the IMF, the US has influenced the institution to impose lenient conditionalities on like-minded countries while micro-managing the level of conditionalities on countries with idiosyncratic preferences (Dreher & Jensen, 2007).

Considering the concurrence of China's development and concerns over the relative decline of the US material power, many IR scholars have attempted to elucidate China's stance on RBLIO. They often focus on the research question "Will China overthrow the existing order or become a part of it?" (Ikenberry, 2008, 2011b). Previous literature tends to project contrasting conclusions driven from competing theoretical traditions that can be roughly divided into either realist or liberal-constructivist camps. On the basis of the tenets of structural realism and the long-cycle theory, some IR scholars claim that China is destined to *delegitimize* the contemporary liberal international order in the short term and will attempt to replace it in the long term (Schweller & Pu, 2011). On the other hand, liberal-constructivist theorists emphasize the resilience of liberal institutions, positing the ones that are "easy to join and hard to overturn" and highlighting the long socialization process that China has embraced (Deudney & Ikenberry, 2009). As China has deeply integrated into an unshakable rules-based international order, liberals and neo-liberal institutionalists believe that its incentives lie in maintaining the stability and continuity of the liberal order rather than drastically modifying it. In a similar vein, constructivists have proposed the notion of a socialized China that fervently embraces transitional rules and norms, particularly the ones related to capitalism (Kent, 1999, 2002, 2010).

In addition, issue dependence and path dependence may also be relevant competing theories in predicting China's stance on RBLIO. This perspective posits that the characteristics of target institutions and the existence of alternative options are the main explanatory variables for predicting the behavior patterns of actors (Lipscy, 2015, 2017). If the institutional setting is foundational to the practices of international relations with strong path dependence, a rising power is not likely to modify the institutional features and mode of operation in its favor. On the other hand, if the function of an institution is more diffused, a rising power may proactively attempt to readjust institutional arrangements to reflect its enhanced share in the reality of international relations.

The question of China's stance on RBLIO and the competing explanations have become even more salient in the Xi Jinping era. Many policy makers and scholars believe that President Xi's foreign policy has been more proactive and dynamic than his predecessors. Under his leadership, China embarked on the ambitious One Belt One Road Initiative (OBORI) and launched such proactive diplomatic concepts as a "New Type of Great Power Relations" (新型大國關係; *xinxing daguo guanxi*). While some analysts emphasize these actions as part of China's clear intentions to challenge the hegemony of the US order, others take it merely as aspirational rhetoric (Ferdinand, 2016). One consensus among scholars with competing interpretations is that

China's stance on RBLIO should be assessed by looking into its actions with concrete policy examples.

Against this theoretical and empirical backdrop, this paper conducts an empirical case analysis of China's stance on four global governance issues: voting patterns in the United Nations General Assembly, World Trade Organization (WTO) governance, compliance with decisions of the Permanent Court of Arbitration (PCA) on the South China Sea, and the power dynamics of the Asian Infrastructure Investment Bank (AIIB). These issues roughly capture all critical dimensions of RBLIO that have been discussed in the existing literature regarding the ramifications of China's rise, though as an overview of the issues, it cannot be comprehensive. The result of the empirical analysis reveals that neither realist nor liberal-constructivist theories can substantially explain China's stance on RBLIO. While China has begun to actively invoke existing rules and norms to maximize its leverage in specific pending WTO cases, it is still reluctant to lead in implementing structural changes in rule-making avenues. Furthermore, China's voting patterns in the UN General Assembly and critical cases of compliance with PCA arbitration demonstrate continuity with the past rather than a departure from it.

Following the empirical analysis, the remaining part of this paper is divided into four sections. First, the paper critically reviews the extant theories of structural realism and liberal constructivism. An empirical analysis of four core issues of global governance follows, and the results are evaluated. Finally, the paper provides summary of theoretical and policy implications. The findings are consistent with claims for China's issue–path dependence, and the paper further argues that China's stance on RBLIO is currently in development and cannot be presumed.

Three Competing Perspectives on the Impact of a Rising China on RBLIO

Delegitimization and Spoiler Tactics: The Claims of Structural Realists

Some scholars have logically extended neo-realist assumptions to warn of the negative implications of a rising China on RBLIO. They tend to claim that as it cherishes both the tangible and intangible benefits of institutional power, China can more assertively transform the US-led contemporary liberal international order and thereby incite its destabilization. Borrowing theoretical frameworks from strands of neo-realist theories, they argue that a rising power that envies the privileged position of the hegemon and is deeply dissatisfied with the *status quo* will typically challenge the international order constructed by the hegemon. This provocative claim of *delegitimization* has been the most recent and sophisticated one in contemporary discourse.

On the basis of the long-cycle theory and power transition theory, Schweller and Pu (2011) claim that the rising challenger *must* inevitably delegitimize the hegemon's global authority and order by dramatizing intrinsic problems in the international order and undermining or delegitimizing its legal dimension. Specifically, the *delegitimization* strategy refers to "cost-imposing strategies by engaging in diplomatic friction or foot-dragging," which assumes partial and temporary acceptance of the legitimacy of the hegemon to take advantage of opportunities and authorized channels within the order. In their analysis, China is more likely to be a spoiler or shirker rather than a strong supporter of the liberal transnational order. When it comes to specific tactics, Schweller and Pu (2011) predict that China will (1) denounce US unilateralism and promote the concept of multilateralism, (2) participate in and develop new international organizations, (3) pursue a proactive "soft-power" diplomacy in the developing world, (4) vote against the US in international institutions, and (5) set specific agendas within international and regional organizations. Most of the suggested tactics are highly relevant to the governance of international institutions, and a sophisticated empirical analysis of China's diplomatic orientation may prove or disprove these claims.

The Social-Constructivist Claim: China as a Follower of RBLIO

Analogous to individuals in a domestic society who experience "socialization," states are socialized in the process of interacting with other states. Socialization may be defined as "the process whereby an individual learns to adjust to a group (or society) and behave in a manner approved by the group (or society)." According to most social scientists, socialization essentially represents "the whole process of learning throughout the life course and is a central influence on the behavior, beliefs, and actions of adults as well as of children" (Encyclopaedia Britannica, 2015). During socialization, individuals and states are expected to follow and internalize shared rules and norms established within a community. As members of the state community who enjoy unlimited civil rights, individuals uphold criminal statutes and basic civil law duties as the minimal expectations of the state apparatus and their fellow citizens. For individuals to remain members of their community, they experience a "legal socialization" which can be defined as "the process through which individuals acquire attitudes and beliefs about the law, legal authorities, and legal institutions" (Piquero, Fagan, Mulvey, Steinberg, & Odgers, 2005). The legal socialization process, as many empirical researches have demonstrated, can significantly affect perceptual schema, the level of an individual's integration into society, and critical features of behavior patterns such as juvenile delinquency and criminal tendencies.

According to the analytical frameworks of both international lawyers and IR scholars, legal socialization may substantially impact the behavior patterns, relations, and characteristics of interaction of sovereign states in a global society. Among many strands of IR theorists, constructivist IR theorists claim that international laws and organizations "socialize" sovereign states. International law plays a constitutive role in the international order by "supporting [the] structure of expectations without which the intercourse of states would surely suffer an early collapse. . . and by facilitating regular, continuous, and generally orderly international relationships" (Wilson, 2009). Due to the constitutive effects of multilateral treaties and international organizations, many constructivist IR scholars expect the behavioral changes of state actors to be an outcome of socialization. For instance, members of the UN are expected not to pose a military threat to other countries, as this is prohibited by Article 2(4) of the Charter. In a similar way, all members of the WTO are forbidden from providing privileged market access to a select few countries, as this violates the Most-Favored-Nations principle. Likewise, membership in multilateral treaties and international organizations is expected to bring about certain behavioral changes in state actors, even if it is sometimes merely aspirational.

The existing literature illustrates mainly three roots of specific causal mechanisms for the effects of socialization. One is illustrated by the existence of an epistemic community, or "a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area." Such a community can promote socialization and behavioral convergence between states (Haas, 1992). International lawyers, judges, entrepreneurs, policy makers, and non-governmental organizations (NGOs) are the typical actors behind the socialization process. As many dimensions of state functions and international relations are *legalized*, the interpretive power of the epistemic community and intricate networks among actors become substantially aggrandized. In WTO governance, members of the legal epistemic community tend to promote the rules of the organization in many policy decisions and as a focal point in negotiations with other countries.

Another important mechanism that facilitates socialization is "acculturation," which refers to "the general process of adopting the beliefs and behavioral patterns of the surrounding culture" (Goodman & Jinks, 2013). The acculturation process is typically initiated and facilitated through the "social-psychological costs of non-conformity" or "group pressure" of the actors. In many critical domestic policy areas that include but are not limited to the environment, education, food safety, human rights, and banking regulations, states attempt to conform to the institutions and policies of other countries as a result of domestic and international pressures. Thus, the

organizational structure of administrative apparatuses and policies appears similar across different countries. This emulating process is also labeled as "institutional isomorphism."

The concept of "legal embeddedness" explains a more functional socialization mechanism charted by the international order. As long as they are signed by heads of state and ratified by legislative bodies, all treaties and customary international law constitute a part of the supreme law of the land. Because of the incorporation process, bodies of international law are not merely "soft" law existing outside the core decision-making processes, but are rather sources of law that are discussed, deliberated, and cited in courtrooms and other venues of important decision-making. Components of the international legal order are not "just debated and interpreted, but ultimately internalized by domestic legal systems" (Koh, 1996). Some quantitative testing also demonstrates the salience of crucial elements of the international order such as the socialization effects of international organizations (Bearce & Bondanella, 2007).

China's stance on the international legal order is framed by some IR scholars as a good illustration of how international legal norms can socialize an originally pariah state. To this group of scholars, China was actually the least likely case of socialization because of a self-oriented historical legacy in which it has posited itself as the center of world and others as barbarians, lacked a tradition of the rule of law, and demonstrated its capability to ignore international rules (Goodman & Jinks, 2013; Kent, 2002, 2010). However, they view that as it was invited and integrated into organizations such as the UN, IMF, World Bank, and WTO, China came to internalize the liberal international order. As these rules are deeply embedded in the domestic governance structure of China, these scholars believe that China is playing a "game" under rules set by the global community as it pursues similar goals such as modernization and economic growth (Steinfeld, 2012).

The Issue Dependence of China's Choice for Contestation and the Path Dependence in RBLIO

Contrary to the consistent behavior patterns projected by either structural realism or social constructivism, some IR scholars have expounded on the inconsistent and fragmented behavior of state actors in the institutional arrangements in RBLIO. This perspective supposes that a state's institutional features and propensity for competition are the driving forces for its particular stance. In other words, "the institutional setting" is a key variable for this theoretical perspective if "a change in the distribution of capabilities" or "socialization effects" are game changers for realist institutionalism

and constructivism, respectively. As the institutional setting differs from one issue to another, there can hardly be a universal, dominant, and consistent set of policy choices for rising states toward international institutions. Consistent with rational-choice theory, all state actors pursue a utility-maximizing strategy within a unique institutional setting.

The critical point of this perspective is that such institutional settings are heterogeneous, and so are the stances of state actors toward them. Analogous to various market types, political institutions in different areas unconsciously compete with alternative platforms for salience and longevity. As the propensity for competition among institutions differs from one policy area to another, a state actor adopts a contrasting policy stance between unwavering support and none at all. As an illustration, many state actors are less likely to build an alternative institution to the UN, as the function of comprehensive legitimization is highly concentrated within it and there is no viable competitive institutional platform. Under this specific institutional setting, an attempt to overthrow the existing institution or spoil it will be counter-effective at best. Therefore, even rising states may wish to stay in existing institutions and even actively utilize them if such institutions possess a high level of functional concentration. Furthermore, invoking rules enshrined in such organizations can enhance the negotiating leverage of participating countries. On the other hand, states might pursue participation in an alternative institution if the propensity for competition is fierce and the practical demand for alternative institutional platforms is high (Lipscy, 2015, 2017).

In the context of China's rising institutional power, the extended explanation of issue dependence tends to point to an idiosyncratic stance on the main dimensions of RBLIO. In such policy areas where the existing components of RBLIO are less entrenched, China is more likely to strategically frame and invoke the existing institutions rather than drastically modifying them or building alternative ones. Unlike the structural realist's *delegitimization* argument, strategic framing is not a unique strategy that pertains only to a powerful and rising power such as China. Even Libya under the Gaddafi regime actively utilized the International Court of Justice (ICJ) to resist some consecutive UN Security Council resolutions that demanded the extradition of terrorists who were allegedly involved in the bombing of civil aircraft in the Lockerbie case. During the ICJ litigation case, the Gaddafi regime pinpointed the inconsistencies of the Council resolutions within the Montreal Convention, which stipulates that a state must "prosecute or extradite" a suspect. As these inconsistencies were conspicuous to many prominent international lawyers and the diplomatic community, the US and UK faced a legitimacy crisis and substantially lost their bargaining power in negotiations with the Gaddafi regime (Hurd, 2005). Even if this case demonstrates the

Gaddafi regime's shrewd understanding and adoption of the procedural aspects of public international law, few might argue that adjudication *per se* was evidence of Gaddafi regime's socialization or internationalization of substantive laws in the international community.

In the realm of WTO governance, many developing countries upon reaching a certain threshold of legal capacity have actively begun to legally challenge highly industrialized Western countries to protect their interests. This abrupt policy transition to active litigation has been labeled as "aggressive legalism," which can be defined as "a conscious strategy of utilizing a substantive set of international legal rules and making them to serve as both 'shield' and 'sword' in trade disputes among sovereign states" (Pekkanen, 2001). The "shield" is notable when international legal rules provide justification for a sovereign country's domestic measures, whereas the "sword" is conspicuous when a sovereign country challenges another's policies, either in negotiations or through the WTO litigation process.

In East Asia, Japan was the first to adopt an aggressive legal strategy and South Korea followed suit. Though suffering from unilateral American retaliatory trade policies such as the notorious "Section 301 of the U.S. Trade Act of 1974," the two countries were reluctant to take legal action because of a trade surplus and their reliance on the US for security. A series of litigation cases by South Korea and Japan in the last decade has demonstrated that the WTO system has become significantly legalized and a confrontation in the Dispute-Settlement Body (DSB) does not denigrate cooperation in other areas. Considering the limited capabilities of these countries and their security dependence on the US, their actions can hardly be understood as delegitimizing either US policies or the liberal international order. Irrespective of a systemic transition or a political necessity of balancing against the US, these countries have actively sued the country and won many cases. If so, similar behavior patterns in many *judicialized* international organizations or critical policy-making areas where China has demanded legal framing should not be hastily characterized as compelling evidence in support of the delegitimization argument. At the same time, merely framing and citing legal norms to justify its policy stances can hardly be compelling evidence of socialization. Without a deep level of internalization shown in the form of legal *embeddedness*, one can hardly expect the form of socialization that entails a transformation of identity and a change in behavior.

In the context of the four global governance issues illustrated below, China has begun to occasionally pursue alternative institutional arrangements when faced with both a high propensity for institutional competition and demand from other states. In the context of global rule-making and norm-building, China has been reluctant to

embrace a leading role but has made the exception of pushing the growth of AIIB as a hedging strategy against risks and uncertainties in the existing global and regional platforms. Otherwise, China is likely to invoke the existing principles in RBLIO. Both policy stances, however, are not necessarily unique to China and have limited geopolitical implications in issue- and path-dependence theory.

From the Unfalsifiable Claim of China as a Spoiler to the Testing of Competing Theories

A Summary of Three Theory-Driven Arguments and Issues of Competing Perspectives

The main features of competing theories on China's institutional power are summarized in Table 1. Under structural/realist institutionalism, China's spoiling strategy is driven by its deep grudges. Realist theory assumes the interaction between the structural *stimuli* and the profit-seeking responses of the actors by changes in the rules of the "game"; thus, the spoiling tactics should be consistently confirmed across a variety of issue areas. Similarly, liberal/constructivist theories are also blind to the issue dynamic and pinpoint the distribution of collective identity as a key variable that promotes the convergence of China's behavioral patterns with major Western countries. The issue- and path-dependence perspective alone predicts the fragmented features of China's stance toward RBLIO by focusing on the relative autonomous institutions and path dependence.

Both fundamentally deductive and system-oriented, the provocative delegitimization argument invites some conceptual confusion and misguided convictions about China's stance toward the liberal international order. Though parsimonious in nature, the argument's most conspicuous theoretical problem is it can hardly be falsifiable. For this claim to be accepted, the definition of core concepts and the

Table 1.
Summary of Competing Theories on China's Institutional Power

Theories Dimensions	Realist (Structural) Institutionalism	Social Constructivism	Issue/Path Dependence
Optimizing Tactics of States	Establishing game rules in its own terms	Learning/ Acculturalization	Strategic framing
Prediction of China's RBLIO	Delegitimization/ Spoiler	Bandwagoning/Convergence of behavior patterns	Issue variance

relationship among operationalized concepts must be expounded. At the same time, murky and abstract concepts in the theory's analytical framework make it difficult to verify. The core explanatory variable is the "change of polarity" and the dependent variable described as the "specific dimension of order." The dependent variable must be further developed in order to constitute a theoretical claim.

Aside from the positivist's yardstick of "falsifiability," defining *Pax Americana* as the concept of order or even a dominant form of it is controversial at best. Even though the US wields dominant institutional power and has contributed to the development of RBLIO, the RBLIO and American dominance are not one and the same. Order, in Hedley Bull's classical definition, can be defined as "a pattern of activity that advances a goal." Order is geared toward providing basic stability in an anarchical international society, and the main goals in the international order are defined as: (i) goals of all social life (security, agreement, and property), (ii) preservation of the state system of states, (iii) maintaining the independence of separate units, and (iv) preserving peace (Bull, Hurrell, & Hoffman, 2012). Therefore, one of the fundamental issues in RBLIO is how to tame a hegemon like the US, making the country a supporter rather than a destroyer of it. From the perspective of US leadership, the post-World War II settlement was completed by the constitutional logic of self-restraint (Ikenberry, 2000, 2011a).

Although hegemonic powers play a critical role in the institutional-building process and constrain themselves to established rules in order to perpetuate their power by enhancing their legitimacy, enshrined rules frequently conflict with the interests of the hegemon. In other words, even hegemonic power does not monopolize the rules, decision-making procedures, and implementation of RBLIO. During the US invasion of Iraq, the fierce criticism from other countries and its allies as well as other diplomatic hassles rested fundamentally upon the UN Charter. The US has also lost several cases in the WTO according to its statutes, statutes which had been built through its leadership. In this process, any country including China or other rising powers could take actions similar to one of the five tactics illustrated by *delegitimization* theory with legitimate concerns, following and utilizing the game rules stipulated in the main components of the international legal order. In this regard, even actions taken by rising powers under the current legal order can be labeled empirical evidence of *delegitimization*.

Furthermore, as *delegitimization* theory does not project either competing theories or substantial pieces of empirical evidence, the argument is simply not compelling. Schweller & Pu (2011) take a deterministic view by claiming, "Prior to military confrontation or even the threat of such conflict, we argue that the rising

challenger must delegitimize the hegemon's global authority and order." Though the article can be taken as a purely theoretical paper with pioneering ideas, at least identifying the main competing theories is necessary to compel its theoretical salience. To ultimately prove or disprove its validity, the theory should be tested alongside other competing ones. Throughout the history of IR, many strands of IR theories have proposed contrasting epistemological frameworks and explanations for international institutions. In the heyday of the so-called "neo–neo debate," groups of IR scholars debated over the core issue of the nature and role of international institutions. Focusing on the importance of how the "international system" defined the way in which units are allocated, neo-realist IR scholars expressed an almost deterministic view of the impact of anarchical international systems on security competition among states.

To neo-realist theorists, tangible material sources of national power and military capabilities in particular were critical components that determined the features of international system (Waltz, 2010). As a logical consequence, neo-realists either neglected the salience of international institutions or treated them as mere *epiphenomena* of great power politics at the early era of theoretical founding. From the perspective of traditional realist IR scholars, bodies of international law were too decentralized, their interpretations too arbitrary, and the enforcement mechanisms too weak (Morgenthau, Thompson, & Clinton, 2005). However, some fundamental changes in international relations were notably clear even to realist theorists, making the reformulation of their views on the rules of international relations nearly inevitable. Many international organizations have been highly legalized and exhibit high levels of obligation, precision, and delegation. In fact, "legalization" has become a buzzword describing the characteristics of international relations in the post-Cold War era. While international law had once been labeled as the *epiphenomenon* of great powers and neglected by IR scholars, it is now regulating many issues in global governance that include security, trade, the environment, human rights, and transnational crime (Goldstein, Kahler, Keohane, & Slaughter, 2001).

In conjunction with such dramatic changes, contemporary realists have attempted to answer the rationale and results of legalization with an analytical focus on realist variables — the distribution of capabilities, power transition, and the security dilemma — rather than simply turning a blind eye toward legalization. To them, a great power by manipulating international institutions "guides, steers, and constrains the actions (or non-actions) and conditions of existence of others" (Barnett & Duvall, 2005). They have also empirically demonstrated that the General Agreement on Tariffs and Trade (GATT) system has conferred more benefits in the form of economic growth to industrialized Western countries than to underdeveloped or developing countries (Gowa & Kim, 2005). Likewise, international institutions are a locus of power politics,

and great powers enjoy asymmetrical relative gains from their dominance in spaces of institutional power. Likewise, the structural realist perspective on institutionalism is one of its competing theories that provides different explanations and insights on China's rise and its impact on RBLIO.

Though many other IR theories have provided useful insight for the development, operation, and reconstruction of the international order and institutions in general, not all can posit a tailored and compelling explanation of China's rise and its impact on RBLIO. As the broad IR "paradigm" is oriented toward explaining and predicting all dimensions of state behavior in a comprehensive and generalizable manner, it frequently fails to consider the context of the contested order brought about by China's rise. In the context of institution-building, for instance, the rational choice model and neo-liberal institutionalism emphasize that utility-maximizing behavior is omnipresent in every rational actor. If China and other stakeholders find that the construction and operation of international institutions serves their immediate interests by casting a long shadow over the future, the rational choice model or neo-liberal institutionalism may predict the emergence of cooperative institution-building. While such actor-driven micro-theories may provide general guidance with regard to China's stances on specific RBLIO dimensions, deriving a consistent explanation and prediction is practically impossible since the incentive structure of a certain institutional setting is usually not measurable or unchanging.

The Main Components of RBLIO and Issue Selection

Four major components of RBLIO were selected to empirically test competing theories of China's behavioral patterns: voting patterns in the UN General Assembly, the WTO, PCA arbitration compliance, and the AIIB. Each target institution represents different institutional collective decision-making, trade issues, territorial settlement, and finance sectors. Each of these issue areas has also been regarded as the foundation of contentions between major Western powers and China (Johnston, 2013). This comparative case study serves the analytical goal of evaluating the variance in behavior patterns across different issue areas.

Decoding China's Stance on Four Core Issues of RBLIO

Voting Patterns in the UN General Assembly: The Continuity and Path Dependence of Coalition Patterns

To visualize a general trend for China's stance toward UN governance, it can be useful to examine the country's voting patterns in the General Assembly. The "ideal point"

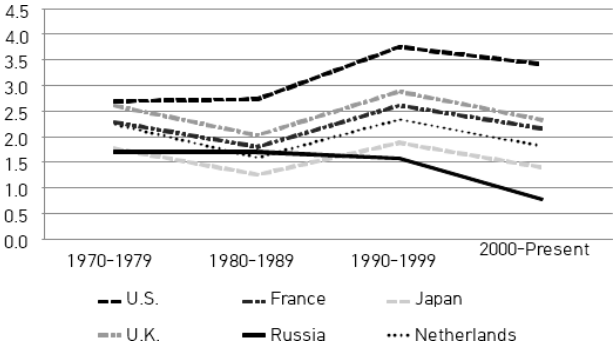

Figure 1. Convergence and divergence of China's ideal point with other main stakeholders in the international legal order.

index provides an objective piece of evidence for this evaluation. This dataset was created by roll-call votes in the UN and coded with the *S*-indicator, calculated as $1 - 2 \cdot (d)/d_{\max}$ in which d indicates the sum of metric distances between votes by dyad members in a given year, with $d_{\max}$ being the largest possible metric distance for those votes (Bailey, Strezhnev, & Voeten, 2015). Many previous studies have utilized the dataset to measure shared interests or the convergence of state identities. Even if a substantial gap between concept and measurement still exists as in many other forms of social science research, this is nonetheless a useful way to examine the impact of socialization on Chinese foreign policy-making.

In the ideal point distance index, 0 indicates a perfect match in UN General Assembly voting, and the sum of raw scores of the two states in a dyad indicates the distance of accumulated voting patterns between the two countries. Figure 1 displays trends in the *absidealdiff* index between China and other main stakeholders in RBLIO from the 1970s to the present, thereby showing the convergence or divergence of trends in China's voting patterns in the UN General Assembly.

Unlike the structural institutionalist's characterization of China as a spoiler, its voting patterns have in fact begun to gradually converge with that of leading RBLIO countries since its economic prowess improved substantially around the early 2000s. When the General Assembly was highly invested in human rights issues following the *Tiananmen Square* incident and the increase in UN agendas that involved international intervention, China's traditional doctrine of non-intervention in the domestic affairs of other states incited a perception and action gap among other stakeholder countries. After the early 2000s, however, China was able to cast more affirmative votes when more reduction agendas in the General Assembly began to address more developmental, environmental, and disaster reduction agendas.

Concurrently, trends in China's voting patterns do not fit into the claims of liberal constructivists. Even though China's voting patterns tend to incrementally converge with other countries, the speed and magnitude of this convergence have been most intense with Russia. In line with its geopolitical contention with the Soviet Union, China had frequently found itself at odds with its comrade in UN governance and the General Assembly during the Cold War era. As a result, common votes between the two communist countries remained below those with Japan and the Netherlands until the late 1990s. As mainstream liberal-constructive researchers have expected China's policies to converge with Western democratic countries as a result of its integration into global market capitalism, the incorporation of treaties, and dense networks of intergovernmental organizations (IGOs), the revival of its authoritarian ties in voting remains an enigma (Kent, 2002; Steinfeld, 2012).

The perspective of issue variance and path dependence, as partially illustrated above, explains China's voting patterns somewhat more effectively. China from its accession has emphasized neutrality, non-intervention in domestic affairs, and affinity with developing countries. Regarding the latter, the first Chinese delegate to the UN *Chiao Kuan-hua* proudly declared, "Like the overwhelming majority of the Asian, African, and Latin American countries, China belongs to the Third World" (Chai, 1979). Though some recent empirical studies claim that increasing trade between China and African–Latin American states has promoted a convergence of voting patterns, the affinity itself can hardly be considered new (Flores-Macías & Kreps, 2013). While recent empirical studies have tested the manipulative convergence by China based on recent data gathered in a limited timeframe, the longer trend shown in Figure 1 and early studies tends to demonstrate the salience of path dependence.

Global Trade and the WTO: Lingering Strategic Framing

The WTO has long been touted as a crown jewel of international organizations in terms of its high degree of legalization, which can be measured by three dimensions of obligation, precision, and delegation (Goldstein et al., 2001). The court-like characteristics of the DSB, consisting of the Panel and Appellate Body (AB) in particular, obligate sovereign states to abide by the WTO's specific interpretation of the rules. These highly legalized institutional characteristics and its relatively rigorous monitoring system establish the WTO as an ideal locus from which researchers can evaluate and judge a certain country's diplomatic orientation toward RBLIO.

As the WTO adjudication process has been initiated with a narrowly defined legal question and delivered by the autonomous Panel and AB, power asymmetry

is less substantial in the case adjudication process than in bilateral negotiations. Even a physically weaker party, if it provides compelling legal arguments, can maintain a more effective bargaining position than a stronger opponent (Davis & Bermeo, 2009). At least in theory, the WTO should be an attractive forum for developing countries.

Even if developing countries can expect a comparatively fair adjudication process, reaching such a stage is not always easy. Many empirical studies indicate that there are several barriers to developing countries gaining full access to the WTO. Many developing countries do not usually have the financial capacity to afford the costly adjudications and government officials who possess a shrewd understanding of WTO rules that are necessary to manage the whole process. If developing countries manage to overcome such barriers, however, they also tend to be repeat players in the WTO adjudication process, as are wealthy industrialized countries (Davis & Bermeo, 2009).

When it comes to trends in China's litigation cases, empirical evidence indicates that China has begun to adopt an "aggressive or assertive legalism." As of February 2, 2015, China has been engaged in 176 WTO cases — 12 cases as a complainant, 32 cases as a respondent, and 132 cases as a third party. These recent trends are highly noteworthy to the extent that only the US outnumbers China in the number of WTO adjudications in the period of 2007–2010 (Li, 2012). Typical targets of China's aggressive litigation cases are illustrated in Figure 2. They include safeguard measures, tariff measures, anti-dumping (AD), and subsidized countervailing duties (CVDs), which usually negatively affect Chinese exports. Considering that China's market shares are increasing in major economic powerhouses, the re-emergence of protectionism in those countries, and the longstanding discriminatory measures against Chinese products based on a non-market economy status, China's assertiveness in the WTO is not astonishing. The most startling aspect of the Chinese Government's aggressive legalism, however, is its glaring success. Out of eight delivered cases, the

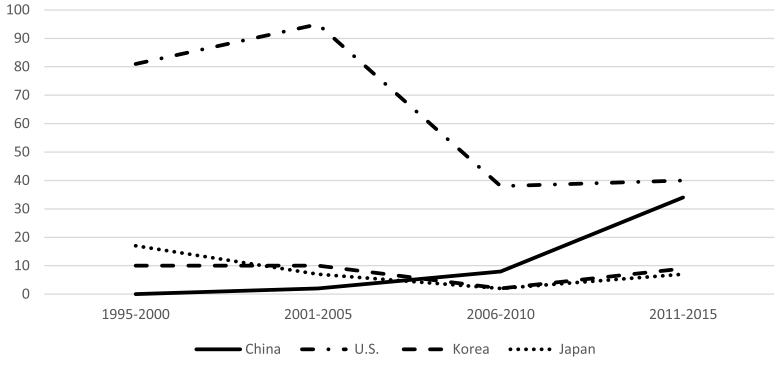

Figure 2. Dispute settlements: China and other WTO countries.

Chinese Government clearly won in six, obtained mixed results in the DS 379 case, and only failed in the DS 399 case.

Does China's assertive legalism demonstrate characteristics of either delegitimization or socialization? In other words, do China's attempts to reconstruct or destabilize WTO rules or its 15 years of experience in the WTO reflect the internalization of its norms? One simple answer to this question is that neither explanation fully captures China's stance toward WTO governance. Despite certain trends, China's assertive litigations fit more aptly into a strategic framing claim than either claims of *delegitimization* or socialization. China's relative apathy to building a coalition at the Ministerial Conference, which should be a locus of *delegitimization* and superficial *embeddedness*, rebuts both *delegitimization* and socialization claims.

First, other rising powers such as India and Brazil are more assertive than China in the WTO Ministerial Conference, and there is no convincing evidence of coalition formation among them. China tends to bandwagon with other rising powers rather than actively lead them. Its longstanding aloofness to the reform agenda in the Ministerial Conference has largely stemmed from an idiosyncratic trade structure that is not shared by other developing countries. China's exports and economic development have not depended upon agriculture, which has been a main reform agenda among other developing countries. China's apathy has led to other major powers pressuring it to take a more active role. EU Trade Commissioner Peter Mandelson commented:

> "I am aware that many in China feel that the country paid a high price in 2001 to get into the WTO…So although I recognize the particular status of China as a "recently acceded" WTO member, we are looking to you to contribute again. . . I am looking to China, as the greatest, most powerful and most rapidly advancing developing economy, to show leadership in the run up to our Ministerial meeting in Hong Kong in December this year (2005). . . you can contribute more than may at first sight appear necessary or reasonable. I should add that this is often the price for leadership." (Narlikar & Vickers, 2009, p. 125)

At the same time, a brief historical analysis of China's accession to the WTO can reveal the country's instrumental stance toward it, a stance which is in conflict with socialization claims. Previous studies have described this period as the one in which Jiang Zemin sought to stimulate internal growth and domestic reforms to suppress bureaucratic groups, farmers, and other reluctant domestic actors who were opposed to further economic liberalization (Feng, 2006). Jiang's bold liberalization drive stemmed from the Chinese Communist Party's (CCP) urgent desire to posit economic development and good governance as new sources of legitimacy to replace the fading loyalty to Maoism (Baden, 2011). In this political context, the Chinese Government had undertaken "WTO-plus obligations," demanding higher responsibilities in market economy conditions, foreign investment, and domestic governance. At the same time,

China accepted "WTO-minus provisions," permitting an importing member to lower WTO standards in applying trade remedies against Chinese products (Qin, 2007).

Likewise, while the Chinese Government has not necessarily taken a notably active spoiler role in the WTO, it has nevertheless avoided deep internalization. Rather, the country has tended to utilize highly legalized dispute settlements when they serve its narrowly defined mercantile interests. Thus, highly legalized and deeply entrenched dispute-settlement mechanisms of the WTO have affected China's behavior substantially than is typical when rising states move to challenge the existing RBLIO.

The Settlement of Territorial Disputes and Compliance with the Decision of the PCA: The Tragedy of Geopolitics and the Limitations of RBLIO

Concerning its diplomatic orientation toward disputed territories and more broadly toward the international order, some US-based think tanks, area specialists, and opinion leaders are anxious about China's "new assertiveness" on these issues. This group of experts shares a realist perspective, claiming that both the relative decline of US power in the wake of the Global Financial Crisis and China's emerging nationalism are crucial factors that have given rise to its new assertiveness (Yahuda, 2013). However, China has a greater likelihood than other states of becoming involved in territorial disputes, as it shares 22,000 km of borderlines and vast maritime areas with 14 neighboring countries. Fundamentally, China's staunch stance on its territorial integrity is not at all new. China has had 23 territorial disputes, and only six of these have developed into military disputes and did not reoccur after the 1990s. Furthermore, China has historically used military force in cases when its relative power and bargaining leverage have declined, and not at times when it enjoys improved capabilities and enhanced diplomatic leverage (Fravel, 2011).

Among the territorial and maritime disputes between China and neighboring countries, the Spratly Islands appear to be the most contentious area that has been brought to the PCA. In the disputed South China Sea, Vietnam effectively controls the most islets at 28 or 29, China controls 7–8, Taiwan controls 1–2, the Philippines controls 7–9, Malaysia controls 3–5, and Brunei controls 1 or 2 (Koo, 2016). China's legal claim over Spratly Islands in the South China Sea is based on four legal grounds: (1) Discovery, (2) Occupation, (3) Treaty, and (4) Estoppel. China claims that its historical title to the Spratly Islands dates back to 111 BCE when it was discovered by the Han Dynasty and used as a landmark for a voyage. China also claims that in later dynasties the Islands were used to harvest rare medical herbs and were inhabited by Chinese doctors. At the close of World War II, the Japanese Government surrendered all territories acquired through its military expansion to the Republic of China (ROC)

in the 1951 Treaty of San Francisco. China claims that when the People's Republic of China (PRC) replaced the ROC as the sole representative of China, the PRC gained full sovereignty over the Islands (Beller, 1994). To further consolidate its *de facto* control over some areas, China has also constructed artificial islands that have aggravated contentions with neighboring countries.

One conspicuous dynamic in the Spratly Islands is that all disputants have been quite assertive. China's reclamation activity in the disputed area garnered attention from both neighboring countries and the US as an offshore balancer. However, the Philippines and Vietnam also engaged in similar operations before China did. Vietnam and the Philippines also developed oil rigs through joint ventures with foreign companies, despite China's protestations. Furthermore, there is no clause in the UNCLOS (United Nations Convention on the Law of the Sea) which prohibits the construction of artificial islands. As such, sovereign countries are presumed to have the right to engage in operations that are not explicitly prohibited by either treaty or customary international law (Mrosovsky, 2008). The Philippines initiated arbitration proceedings on January 22, 2013, and the PCA finally delivered its verdict on July 12, 2016. Despite China's consistent objection to the Court's jurisdiction and non-presence, the PCA acknowledged the merits of almost all issues presented by the Philippines and accepted its claims (McDorman, 2016). In its position paper submitted to the court, the Chinese Government emphasized the limited scope of its agreement on the compulsory dispute-settlement procedures as follows:

> "As a State Party to the Convention, China has accepted the provisions of Part 2 of Part XV on compulsory dispute settlement procedures. But that acceptance does not mean that those procedures apply to disputes of territorial sovereignty, or disputes which China has agreed with other States Parties to settle by means of their own choice, or disputes already excluded by Article 297 and China's 2006 declaration filed under Article 298. With regards to the Philippines' claims for arbitration, China has never accepted any of the compulsory procedures of section 2 of Part XV." (Whomersley, 2016)

In its statement, the PCA denied the alleged implications of China's territorial claims and its historic rights within the nine-dash line. Simply, the Court confirmed that China's denying Philippines' access to the disputed area by way of its alleged historical title is not consistent with UNCLOS. Furthermore, the Court also found that its relentless construction of artificial islands and the attendant negative environmental impact also violated the spirit and substance of UNCLOS. Though the Chinese Government vehemently rebutted PCA's verdict, recent testimonies from Filipino fishermen reveal that they have recovered access to the disputed fishing zone (Ku & Mirasola, 2016). Although some evidence exists to the contrary, Chinese authorities have been generally prudent in the way they have directly challenged the PCA's decision.

China's stance on territorial arrangements in the South China Sea tends to exhibit continuity and prudence rather than provocation and assertiveness. Concurrently, the constructivist's socialization claim is not supported by China's reluctance to accept the decisions of the PCA. Throughout the legal process, China has consistently objected to the jurisdiction and merits of decisions against its pivotal interests. Most other great powers have a long record of non-compliance with the decisions of international courts: the US in the Nicaragua case, France in the Nuclear Test case, and Russia in the Georgia case. The claim that China's non-compliance is critical evidence of its desire to overthrow or undermine the RBLIO is therefore invalid. Territorial disputes and legal settlements are simply the weakest links in RBLIO. The existence of these under-institutionalized characteristics and the lack of a precedent of compliance are what have led China to boldly oppose the decisions of the PCA. In the end, this weak "institutional setting" has made China's behavior consistent with the issue/path-dependence claim.

Developmental Finance and the AIIB: Building an Alternative Institutional Platform from Demands and Benefits

Some IR scholars have pinpointed AIIB as a policy tool for China's financial dominance that will ultimately chip away the US dominance in the financial sector. Similar to realist institutionalism, a strand of IR scholars has claimed that China established the AIIB to reframe the global financial order in its favor. Disgruntled with Japan's dominance in the Asian Development Bank (ADB) and the slow institutional reform of the World Bank and IMF, China's "hegemonic identity" in East Asia has inspired it to build an alternative institutional platform (Albert, 2015; Hong, 2018). The concurrence of China's ambitious "Belt and Road Initiative" (BRI) with plans to establish the AIIB has deepened these suspicions. China's enshrined institutional power in the AIIB is demonstrated by the location of its headquarters in Beijing, its management by Chinese executives, and China's ownership of 27% of its shares. A cursory look at the motivations and functions of the institution serves to bolster the salience of the structural institutionalist claim.

Other evidence and analytic perspectives, however, reveal that the AIIB has a limited geopolitical and diplomatic reach. First, its institutional structure and management mimics the World Bank and other regional banks. Even the conditionality of loans that was a main source of US concern has adopted a similar safeguard system in three core areas: (1) environmental safeguards, (2) involuntary resettlement

safeguards, and (3) indigenous peoples' safeguards (Park, 2017). So long as these principles are observed, the AIIB is not likely to function as China's personal bank that will be selectively opened for compliant developing countries. Second, the AIIB is not likely to replace existing institutions due to its limited capital subscription. The AIIB's capital subscriptions of US$100 billion fell short of World Bank and ADB levels which remain at US$263 billion and US$147 billion, respectively. Finally, the list of AIIB members includes countries with a high level of security concerns — India, Indonesia, the Philippines, and Vietnam — making the notion that the AIIB is a tool for delegitimizing US dominance dubious at best.

Fundamentally, the planning and operation of the BRI has been motivated by the concurrence of an infrastructure gap indicated by the ADB and a long-term "going out" (走出去; *zouchuqu*) policy. In other words, the BRI can be interpreted as the outcome of China's continuous economic policies rather than a newly crafted geo-political strategy in the Xi Jinping era. A 2009 ADB report indicated that the Asian region requires approximately US$750 billion in annual financing for the development of its infrastructure (ADB, 2009). This was also the exact point when China's overseas direct investment (ODI) began to burgeon. As Table 2 illustrates, China's ODI reached US$27 billion in 2002 and skyrocketed more than 20-fold in 2009, reaching US$565 billion. It reached US$1.961 trillion in 2016, followed only by the US. Although this

Table 2.
China's Overseas Direct Investments 2002–2016

Year	Amount (Billion USD)	World ranking	Increase (%)
2002	27	26	—
2003	28.5	21	5.6
2004	55	20	93
2005	122.6	17	122.9
2006	211.6	13	43.8
2007	265.1	17	25.3
2008	559.1	12	110.3
2009	565.3	5	1.1
2010	688.1	5	21.7
2011	746.5	6	8.5
2012	878	3	17.6
2013	1,078.40	3	22.8
2014	1,231.20	3	14.2
2015	1,456.70	2	18.3
2016	1,961.50	2	34.7

skyrocketing ODI level is an internationally observed policy outcome, its origin dates back to policies in the late 1990s. Since 1997, Chinese authorities have encouraged state-owned enterprises to proactively engage in overseas investment to enhance their global competitiveness and acquire advanced technologies. While state-sponsored overseas investment into infrastructure was usually done bilaterally in this early period, the initiative to construct the AIIB opened a new multilateral platform (Yeo, 2018).

As the AIIB will soon reach the fifth anniversary of its foundation, a brief analysis of its portfolio may also reveal the bank's role in China's broader geopolitical strategy. The result reveals that the connection between the two is rather weak. Most AIIB-funded projects to date are partnerships with other MDBs (Multilateral Developmental Banks), and the majority of them are not BRI-related. A total of 38 projects were approved as of May 6, 2019, and many of them in target countries such as India, Turkey, and Egypt that were either non-interested or skeptical. In terms of value and share, BRI-related projects have taken only US$1.03 billion, a mere 29.7% of the total (Hameiri & Jones, 2018). Likewise, there is much evidence to indicate that the AIIB is not a means for China's spoiling tactics and realist institutionalism.

Summary and Conclusion

Contemporary studies on the nexus between China's rise and its impact on RBLIO demonstrate that its changing structure in the form of power distribution is a critical explanatory variable to understand the country's stance toward the future of the international order. While these arguments are based on structural IR theories, they exhibit weak empirical validity and are not consistent with the analysis of the four core global governance issues presented in this paper. Instead, China's stance on the primary dimensions of global governance has exhibited either continuity or incremental changes in procedural aspects within institutions. Such issues include but are not limited to UN General Assembly voting patterns, WTO governance, territorial arrangements and PCA agreements, and the establishment and management of the AIIB.

The results of the analysis (Table 3) indicate the salience of the issue-variance argument and path dependence in RBLIO. As China's voting patterns in the General Assembly illustrate, it does not attempt to either overthrow or spoil existing institutions when its legitimacy is firmly established and internalized in the practices of main stakeholder countries. In the institutional context of the WTO, China proactively

Table 3.
Summary of the Major Findings from the Comparative Case Analysis

Findings cases	Characteristic of institutions	The legitimacy of institutions	China's behavior patterns
Voting Patterns in the UN General Assembly	Diffused	High	Passive
Global Trade and the WTO	Legalized/Centralized	Divided/Contested	Instrumental/Prudent in the Institutional Reform
Territorial Disputes and the PCA	Diffused/Decentralized	Divided/Contested	Neglect/Confrontation
Development Finance and the AIIB	Diffused/Decentralized	Divided/Contested	Building an Alternative Platform

opposes other WTO members by invoking WTO rules and procedures. While such new practices of China might be best framed as "assertive legalism," they remain far from being spoiling tactics. At first glance, China's behavior in the settlement of disputes and its opposition to PCA arbitration appear to substantiate the spoiling tactic claim, but this assumption neglects the fact that all other P-5 members have a long record of opposing the decisions of authoritative international courts. Thus, China's stance on PCA arbitration can hardly be empirical evidence for "spoiling tactics." In the realm of development finance and the AIIB, China's increasing ODI and the construction of the AIIB as an alternative institutional platform may be the partial replacement of the dominant role of the World Bank or ADB. However, the nature of AIIB's operations and China's policy motivations are still far from spoiling tactics.

As the comparative case analysis in this paper has illuminated, China's behavior patterns toward the main components of RBLIO are highly issue-driven and path-dependent. As the RBLIO is "locked-in" in the practices and customs of international relations, it is not practical or feasible for a rising power to drastically modify or challenge it. Furthermore, the main components of RBLIO — UN governance, trade, the peaceful settlement of territorial disputes, and finance — have specific issue dynamics. China has attempted to invoke and promote rules when they serve its interests (Acharya, 2017). In some cases, China's practice of strategic framing has struck an effective balance with main stakeholder states.

Though more recent research has tended to focus on Premier Xi's proactive policy doctrines and statements, the rhetoric alone does not demonstrate the realist perspective. While China constructed the AIIB as an alternative institutional platform, the move was expected from the issue-dependence perspective, as the level of

concentration in developmental finance is fundamentally low. In other policy areas, China's stance has been eclectic and strongly affected by the institutional setting and path dependence. At the same time, the analysis of this paper cannot completely reject the realist claim, as Xi's vision will become more substantiated in the future. Still, the silence of realist theory on the question of "when" is a fundamental flaw. The realist perspective minimizes the policy space for China to be a responsible stakeholder in the developing international order when it points a finger at China as a disgruntled spoiler of the liberal international order. To avoid the enactment of a dangerous self-fulfilling prophesy, the issue warrants further studies into the many dimensions of the rules-based international order and China's orientation toward it.

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Introduction to the Special Issue — 40 Years of China's Reform

TSE-KANG LENG

China's reform policies since the Third Plenum of the 11th Chinese Communist Party (CCP) Congress have created a "new China" characterized by a more stable trajectory of development. The past 40 years have seen the accumulation of numerous lessons for Chinese decision makers in consolidating the party-state. For some perspectives, the trial-and-error process of "feeling the stones" has led China to cross the river with controllable costs. On the other hand, dilemmas of reform have created greater uncertainties, as China will become the world's number-one economy in the near future. Given its unique size and political–economic system, China's future path of development will no doubt cause anxieties around the globe.

This Special Issue of *Issues & Studies* will discuss the historical legacies as well as future prospects of China's reform. The four authors in this Issue all postulate that in order to understand China's reform and development, we must undergo twists and turns throughout the past four decades in the grand context of historical evolution. Among all the factors in creating a "Chinese model" of development, politics and political decisions serve as the determining factor in the Chinese party-state. Students of China's reform give equal weight to the importance of "local China" in understanding the dynamics in implementing China's reform. The "vicious cycle" of centralization and decentralization has been a core concern for scholars. Equally important is the issue of the state–society relationship in China. The Chinese experience demonstrates that the Western theory of the empowerment of civil society and the rise of civil society may not be applicable to China. The digital revolution is a double-

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edged sword for both the state and society. Whether the Chinese party-state will retain its "fragmentated authoritarianism" in interacting with the rise of the "netizen" stimulates academic discussions. Furthermore, the concentration of power of the party-state under Xi Jinping will cast a shadow over China's external relations. The doubts about "China threat" have become more like a reality than a figment of imagination. An assertive China will certainly create anxieties in the regional and global arenas, especially in Taiwan and the United States.

This Special Issue will cover the above-mentioned three "relationships": the central–local relationship, state–society relationship, and external relationship in China's reform era. These three relationships demonstrate the continuity and change of the Chinese system. They will also illuminate the impacts of power concentration and the advancement of technological development on the future models of China's development.

In his comprehensive account of 40 years of China's reform and opening, **Harry Harding** argues that China's success was a "political miracle" rather than an economic one. The Chinese reformers were successful in sustaining a new course in the face of severe domestic crises and resistance from domestic critics. Forty years of reform have created the "middle income trap" according to **Harding**. In order to escape from the trap, new policies such as the Belt and Road Initiative, deleveraging of the financial system, anti-corruption campaigns, and Made in China 2025 projects were introduced. In addition, the United States is enhancing its pressure on the rise of China. Considering both domestic and external pressures, **Harding** argues that political skills and political will are necessary to cope with this new situation. In order to maintain external support and domestic stability, in **Harding**'s point of view, political reform will be the key to solve economic puzzles in China in the future.

S. Philip Hsu explores the historical trajectory of China's central–local relationship and argues that instead of a return to decentralization, the mounting evidence indicates that the vicious cycle of decentralization and recentralization is unlikely to continue in China. While the rebalancing has not been immune to a structural inertia where various pathologies still arise, the center has chosen to make contingent and marginal adaptations to cope with these problems instead of shattering the current framework of rebalancing. Buttressed by the hard evidence of historical data, **Hsu** argues that the continuation of the broadly conceived decentralization–recentralization cycle after 1979 can be largely ascribed to the policy vision and grand design for national development conceived by the top leaders. However, he indicates that as the centrally initiated crackdown impinged upon the stabilization of provincial leaders after the 18th Party Congress, political institutionalization is at

stake. Furthermore, the sustainability of rebalancing is susceptible to some potential uncertainties.

Jean-Pierre Cabestan's paper puts China's digital governance in the broader context of the state–society relationship. Given the fact that Chinese society has undergone rapid transformation in the digital era, this paper argues that the CCP regime's multiple digitalized means of surveillance are forging Chinese citizens and netizens to interiorize the new rules of the game and behave in such a way that they will not be caught. Although China has equipped itself with new digital instruments such as the Great Firewall, big data, the social credit system, facial recognition, and so on, **Cabestan** asserts that "there is no such thing as a Perfect Digital Dictatorship." He argues that China's new systems of digital surveillance face two major limitations and weaknesses: no system of surveillance is fully reliable and operational; and some Chinese have begun to question and even challenge them. While China's digital dictatorship is likely to remain fragmented, **Cabestan** also warns that the digitalization of Chinese society compels us to remain vigilant and see that the newest technological treasures do not evolve into nightmares.

Last but not the least, Chinese foreign policy under Xi Jinping is a regional as well as a global concern. **Drew Thompson**'s paper traces back Chinese foreign policy principles since Deng's *Taoguang Yanghui* policy to the current dynamics of more assertive behaviors under Xi. **Thompson** argues that Xi has more resources at his disposal than his predecessors. He has created a political framework that enables the application of China's national power both at home and beyond China's borders to achieve his political and strategic national objectives. China is viewed by the US as wielding its power both at home and globally without constraint, and at the expense of others. In order to cope with the rise of Chinese comprehensive power, the best option for Taiwan, as **Thompson** argues, is to promote greater economic integration with democratic partners, and deepen the military relationship with the United States. On the other hand, political risks in China's domestic politics are on the rise. China's soft power has considerable limits and is unlikely to dramatically shift public opinion in Taiwan in favor of Beijing.

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Forty Years of Reform and Opening: From the "Economic Miracle" to the Middle-Income Trap*

HARRY HARDING

* * *

In 1978–79, China experienced two major turning points that had fundamental consequences for its future development. The Third Plenum of the Party's Central Committee endorsed the concept of "seeking truth from facts" and inaugurated the post-Mao era of "reform and opening." At almost exactly the same time, the United States and China established normal diplomatic relations, and moved quickly to the normalization of their economic relationship as well. The economic policies China implemented in the subsequent 40 years have achieved enormous success. China has achieved high and sustained rates of growth; it has lifted millions of its citizens out of poverty; China has become the world's largest trading economy and holds the world's largest pool of foreign exchange reserves. It is now the second largest source of outbound foreign direct investment, and may soon become the first, replacing the United States.

This has often been called an "economic miracle," but that term is not entirely accurate or appropriate. A standard definition of "miracle" is "an extraordinary and welcome event that is not explicable by natural or scientific laws and is therefore attributed to a divine agency."

*It was a keynote speech delivered at the Conference of Mainland China's Reform and Opening Up, 1978–2018: Prospect and Challenge, October 19, 2018.

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China's economic success has indeed been extraordinary and largely welcomed, but it need not be attributed to divine agency to explain it. The results are fully explicable by standard economic laws, including the benefits of allowing greater room for market forces and private ownership, mobilizing China's abundant supply of labor to produce for export, and encouraging incoming foreign investment to provide financial capital, more efficient production technology, brands, and marketing networks. As in many developing countries, these economic laws had previously been ignored or rejected in Maoist China, but under the reform and opening up they were enthusiastically embraced. China's performance therefore does not represent a defiance of "natural or scientific laws," but rather their acceptance.

Although China's success was not an economic miracle, it was in important ways a political one. It reflected not divine agency, but the impressive ability of Chinese leaders, especially Deng Xiaoping, to break away from past dogmas and adopt pragmatic, economically sound development policies. This unusually far-sighted and effective political leadership enabled China to escape the poverty trap far more quickly and far more successfully than the China that had been unable to do in the past and many other poor countries that have been unable to do to this day.

Of course, reform and opening up experienced serious ups and downs, in particular the Tiananmen Crisis of 1989. Again, what was extraordinary was Deng Xiaoping's decision to push the economic reform and open up further, despite opposition from those who believed it had already gone too far. This counterintuitive but wise judgment enabled China to achieve even greater economic benefits in the following years. The Chinese political miracle thus involved not only the ability to overcome decades of ideological indoctrination and political control but also the ability to sustain a new course in the face of a severe domestic crisis and resistance from domestic critics.

As a result of reform and opening up, China has achieved a per capita income of nearly $9,000, making it not just a middle-income country but an upper middle-income country. However, like many other emerging economies before it, China now faces the challenge of a middle-income trap. This is a syndrome with many elements, including slower growth and increasing inequality. The trap is caused by the diminishing returns to the strategies that had been so successful in earlier years. Labor-intensive growth is now being limited by a shrinking labor force and rising labor costs. Export-oriented growth is being hampered by sluggish growth and rising protection in China's major export markets and by the emergence of other low-cost middle-income economies, including in Asia, that are increasingly competitive with China. At the same time, the Chinese economy has become unbalanced, with low domestic

consumption, overreliance on exports, excessive investment, environmental problems, and corruption. Government loans to state-owned enterprises have created excess capacity and a worrying corporate debt problem. Household debt, especially in mortgages, is also on the rise, as is the indebtedness of local governments. Non-performing loans threaten the solvency of the financial system.

Chinese leaders are well aware of these problems, and have developed strategies for escaping the trap, once again based on sound economic logic. Those strategies include encouraging domestic consumption as an alternative source of growth, launching the Belt and Road Initiative (BRI) to export some of China's excess capacity, spurring growth in emerging economies, and ensuring Chinese access to those new markets. Beijing is also trying to deleverage the financial system to address the problem of excessive debt and, under Xi Jinping, has launched an anti-corruption campaign to deal with a problem that has both hampered effective public administration and aroused public resentment. In addition, the "Made in China 2025" program is intended to acquire or develop advanced technologies that can produce higher-value-added products and services for both export and domestic use. China has embarked on a new wave of reform and opening up, but this time "opening" refers more to opening the way to Chinese investment overseas — described as China's "going out" policy — than opening the door to greater access for goods and investments from abroad.

These strategies are encountering challenges both at home and abroad. There is considerable domestic resistance, particularly from state-owned enterprises and private entrepreneurs, to some of the supply-side structural reforms, particularly the restrictions on liquidity and the increase in administrative controls over the economy. There is certainly objection to opening the Chinese market more fully to foreign imports and investments. The anti-corruption measures are harming powerful vested interests, who are accusing Xi of selective enforcement to achieve political objectives. Both Chinese and foreign stakeholders are raising serious questions about the design, cost, and financing of some BRI projects.

Perhaps most importantly, the US concerns about the strategies by which China will develop more advanced technologies it seeks — particularly allegations of forced technology transfer, theft of advanced intellectual property, state subsidies of new industries, protection of "national champions," and the lack of reciprocity in China's trade and investment policies — are among the most important causes of the American "trade war" with China. Beijing has accused the US of denying its "right to develop" but in reality Washington has been unwilling to accept the strategies by which China is trying to achieve that goal, as well as challenging some of the purposes to which

China's increasing economic and military power is being put. Compared to the situation 40 years ago, therefore, criticism of this new wave of reform and opening up is coming as much from outside of China as from within.

Looking ahead, China will again need a high level of both political skill and political will, this time to escape, not from its poverty trap but from an emerging middle-income trap. It will need to develop and implement sound policies to address the major domestic symptoms of the trap, including rising housing prices, insolvent state enterprises, increasing inequality, and endemic corruption. Public demand for higher quality and more affordable education and healthcare, as well as for a cleaner environment, is rising, and this too requires effective policy responses.

Moreover, China must find ways of maintaining external support for its ambitious foreign economic policies. It needs not just vapid references to "win–win" economic relationships and platitudinous invocations of free-trade principles, but concrete measures to eliminate unfair trade and investment practices, provide greater protection of intellectual property rights, and give foreign firms greater access to the Chinese market. What is needed, in other words, are effective measures that can overcome the growing perception that China has become a free-rider on the open international economic order.

An even more difficult question is whether China will need further domestic political reform to navigate its way out of the middle-income trap. Political liberalization has been an important part of the strategies adopted by the surprisingly small number of countries that have successfully escaped the trap and attained high-income status. In many cases (notably South Korea and Taiwan), that reform has involved full political democratization, which has provided the way to manage the contradictions created by a rapidly changing society and allow for greater innovation and entrepreneurship. Only a handful of countries have been able to sustain their growth without fundamental political reform, largely through the export of natural resources, a strategy that China will not be able to adopt.

Chinese leaders are currently following a different path, in the belief that a combination of technocratic policy-making, meritocratic government, good economic performance, and measures to monitor the public mood is more suitable to China than democratization and can obviate the need for more liberal political reform. So far, China's political system has been more enduring and resilient than many observers once believed, but the sustainability of its current approach to political reform remains to be seen. Only the small city-states of Singapore and Hong Kong have been able to achieve high-income status without full democratization, and the durability of Hong Kong's political system comes under serious question given the growing demands for democracy.

In short, China's economic performance over the last 40 years has been extraordinary, and has been the result of the adoption and implementation of sound policies very much in keeping with established economic logic. If China experienced a miracle, it was therefore more political than economic. Looking ahead, to escape the middle-income trap China will once again need not just well-designed economic policies but also another period of skilled political leadership, this time directed at both the domestic and foreign constituencies who are skeptical about the measures it has chosen. The unresolved question is whether this will involve deeper political reform than China's current leadership is willing to adopt. On the basis of the experience of other countries caught in the middle-income trap, if China can reach and sustain high-income status without fuller democratization, relying instead on improving the authoritarian governance, that may constitute a different kind of political miracle.

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The Discontinuation of a Vicious Cycle? The Evolutionary Contour of China's Central–Local Relations, 1978–2018

S. Philip Hsu

As a retrospective exploration of China's central–local relations over the past four decades of the reform era, this paper argues that since the mid-1990s, relations have evolved with a growing likelihood to break away from the vicious cycle of decentralization and recentralization since 1949. China's post-reform era started in synchronization with a sweeping move toward decentralization, a trend which generated a myriad of systemic crises that threatened the legitimacy and survival of the regime. Thus, the mid-1990s saw a systematic rollback of decentralization. This rollback is to be understood as a comprehensive scheme of rebalancing rather than a mere replication of pre-reform recentralization. On the other hand, the rebalancing has still occurred in consistence with a cyclical pattern that had characterized the broadly conceived regularity of decentralization and recentralization. While the rebalancing has not been immune from various pathologies, the central state has selected to make contingent and marginal adaptations to cope with the problems instead of shattering the current framework of rebalancing and returning completely to decentralization. Instead of relying solely on original research, this paper will bolster its main argument by conducting a synthetic reasoning from a rich array of extant analyses to sketch out the contours of China's central–local relations in fiscal, investment, and personnel management policy areas during the past four decades.

Keywords: Central–local relations; vicious cycle of decentralization and recentralization; rebalancing; fiscal policy; investment policy; personnel management policy.

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Given the sheer size of China's territory and population as well as its immense diversity and complexity in terms of dialects, cultures, and customs, relations between central and local governments have been decisive in shaping China's political history since the Imperial era. From ancient China to the present, one critical issue has lain at the heart of China's central–local relations: the maintenance of a proper and sustainable equilibrium between the preservation of national integration and the penetration of the central government on the one hand, and the allowance for sufficient local autonomy and discretion for adaptations necessitated by highly diversified local conditions on the other (Chung, 2016). The changing relative power of central and local governments in China has historically brought about a major impact on the issue, with the transforming balance tilting in favor of either the center or localities in different periods throughout both the Imperial and Republican eras of China.

Confronting a lingering challenge to maintain the equilibrium after the inception of the People's Republic of China (PRC) in 1949, the Chinese Communist Party (CCP) had swung between decentralization and recentralization in the period before economic reforms were launched in 1978. In the early 1950s, Soviet-style central planning led to a heavy central authority over the pathways of development and the governance of provinces. Starting in 1957, Mao Zedong's call for grassroots development initiatives and other forces ushered in a wave of decentralization which took place all over the nation.[1] The movement was, however, soon displaced by a return to augmented central control in the early 1960s. A second wave of decentralization emerged in 1964 and remained essentially unaltered throughout the Cultural Revolution (Feltenstein & Iwata, 2005, p. 483). As many studies point out, this alternating pattern during the pre-reform era took place because of the constant tradeoff between the two approaches. On the one hand, decentralization had often led to weakened central control and produced a disunity that was prohibitively intense and warranted recentralization. On the other hand, recentralization was usually vulnerable to an egregious rigidity and the strangulation of constructive activism in localities, a condition calling for decentralization. In other words, a vicious cycle of decentralization and recentralization had been in place prior to 1978 (Lin, Liu, & Tao, 2013, D. Liu, 2003; Xu,

[1]The overwhelming majority of analyses in China studies consider 1958 to be the starting point of a centrally crafted initiative for decentralization. As M. Liu, Shih, and Zhang (2018, p. 387) has identified recently, the analyses included those conducted by Donnithorne & Lardy (1976), Oksenberg & Tong (1991), and Naughton (1987). While such a perspective is largely grounded in the realities of a broad array of policy areas, a handful of scholars offer an alternate view by focusing on what happened around 1958 in China's elite politics. Of these arguments, one of the earliest was given by Teiwes (1971) based on the central leadership's purge of many provincial leaders from 1957 to 1958, owing to their objections to the policy of agricultural collectivization. M. Liu et al. (2018) suggested that decentralization from 1958 to 1961 had failed because the CCP's Central Committee was then dominated by central but not local officials.

2007). In an important way, this cycle was remarkably similar to the dilemma of so-called "birdcage economics" that occurred both before and after 1978. This was a state in which Beijing swung back and forth between leaving the "bird" (the economy) free to fly the cage by loosening up on central economic planning, regulations, and market forces; and returning it to its cage by intensifying economic planning (Bachman, 1986, p. 297).

China's post-reform era had begun in sync with a sweeping movement toward decentralization, but was followed by a systematic rollback from 1994 to 1997. This paper argues that instead of a return to decentralization after that rollback as one may expect, mounting evidence indicates that the vicious cycle of decentralization and recentralization is unlikely to continue. As a conceptual clarification, the rollback of decentralization has differed markedly from pre-reform recentralization in that the pre-reform systemic rigidity against local initiatives and central planning had been phased out altogether by the mid-1990s. The retreat from further decentralization during the mid-1990s was thus more aptly understood as a comprehensive scheme of rebalancing. On the other hand, rebalancing still occurred in consistence with the cyclical pattern that had characterized the broadly conceived regularity of decentralization and recentralization.

By looking into changes in the realms of resource and governance policy in the past four decades that constitute two of the three major issue areas of China's central–local relations identified by Chung (1995, pp. 497–501), this paper sketches out the post-1978 evolutionary contours of the relations to date. The developments of fiscal and investment policies in the first realm and personnel management policy in the second both reveal that the rebalancing during the mid-1990s was a crucial watershed. In the preceding period where the center saw deep decentralization as indispensable for it to overcome the systemic rigidity inherited from its pre-reform period, it yielded major systemic risks and crises that came to threaten the survival of the party-state. By virtue of the center's orchestrated efforts to rebalance relations after the mid-1990s, major national exigencies had ceased to emerge. As a result, the overarching framework of rebalancing across various realms has not undergone any fundamental changes. While the rebalancing has not been immune to a structural inertia where various pathologies still arise, the center has chosen to make contingent and marginal adaptations to cope with these problems instead of shattering the current framework of rebalancing.

Whether or not China's decentralization–recentralization cycle will die out or revive has been quite under-researched in the extant literature.[2] Hence, the main

[2]It has to be clarified that whether the cycle endures is a rather different research question from the question of whether the central state or the provinces are more powerful — an issue already probed extensively in the field of China studies. For the latter, Donaldson (2017) has provided a recent and significant exploration.

argument and findings of this paper are not intended to build a dialog with scholarship on the cycle *per se*. Yet this paper may bear certain relevance to the theoretical debate on whether the Chinese party-state plays a benign or hampering role in China's overall transition and development in the reform era. The main arguments of two opposing perspectives in the debate — the one offered by D. Yang and the other proposed by Pei — both revolve around the impact of decentralization. The implications of this paper's findings for the theoretical debate will be expounded in the concluding section. As the scope of this paper spans across various issue areas and a relatively broad temporal domain, the major empirical referent will not be based on original research that is dependent on first-hand data. Rather, the findings in this paper are supported by the synthetic reasoning of rich empirical findings from extant academic analyses.

The Resource Policy Realm: Growing Decentralization versus Entrenched Rebalancing before and after the Mid-1990s

Decentralization in Fiscal and Investment Policies before the Mid-1990s

An exploration of China's fiscal and investment policy demonstrates that the mid-1990s was a critical watershed of central–provincial relations in the realm of resource policy. Prior to this, decentralization in both areas served as a critical policy instrument to induce local states to promote economic development. Afterward, however, the central state began to undertake strenuous efforts to take back the core elements of powers that had been devolved to provinces. It has since consolidated an overall framework for rebalancing. Meanwhile, the center has allowed for only selective and limited decentralization, as it wishes to avoid shattering the rebalancing and to keep the ramifications of this limited decentralization under control.

In the area of fiscal policy, China also sought to rid itself of the shackles of the planned economy (*jihua jingji*) that it had endured in the pre-reform period and to foster market-oriented economic reforms. To these ends, it sought to convert the fundamental incentives of subnational governments from an unadulterated conformity with central planning to the aggressive tapping of the market's momentum for local growth. It therefore enabled provinces to retain a greater share of local tax revenues through fiscal decentralization. The underlying logic was that local economic growth would lead to a greater amount of fiscal revenue in the hands of local governments. The first round of fiscal decentralization in 1980 was followed by a second in 1988, where Beijing significantly expanded both the provincial share of national revenues and the scope of localities benefiting from the devolution of resources (Oksenberg & Tong, 1991,

pp. 2–3). No less consequential than the central state's concessions in its fiscal claims was the permission of one-to-one bargaining over particular revenue-sharing formulae between provinces and the center. Central–provincial bargaining ran totally counter to previous norm defined by strict central domination over almost all aspects of socioeconomic development in all localities just a few years before 1980 (Lampton, 1992, pp. 37–39).

Indeed, if it were not for the dire need to remove this deep-rooted pre-reform rigidity and to incentivize provinces, fiscal decentralization during the 1980s would not have had to go so far as to breed major economic exigencies at the national level. Due to both the institutional rules and policy implementation of China's fiscal decentralization, the "two ratios" in the fiscal realm — the share of the total budgetary revenue for all levels of government in the nation's gross domestic product (GDP) in a year and the central government's share in the total budgetary revenue for all levels of government — had both declined from 1980 to 1993. The first ratio reflects the extent to which state capacity for supplying public goods and services kept in pace with economic growth, while the second ratio gauges the central state's capability to supply those public goods that fall uniquely within its turf, such as national defense, cross-regional infrastructures, and particularly macroeconomic stability (S. Wang, 1994, pp. 98–99; D. Yang, 1994, pp. 58–62). As shown in Table 1, the first ratio was 12.24% in 1993, indicating an apparent decay in comparison with the levels of 26.91% in 1977 and 27.96% in 1979. Similarly, salient diminution occurred in the second ratio when we contrast the level of 22.02% in 1993 with those of 35.8% in 1983, 33.5% in 1987, and 29.8% in 1991 (Zhang, 1999, p. 120). The deterioration of the first ratio could be imputed mainly to the disproportionate growth rate of tax collection that lagged behind the GDP growth rate. This discrepancy took place chiefly because subnational governments were motivated to under-collect taxes in their implementation of fiscal policy, thereby diverting revenues that would otherwise go into the central state's coffers in accordance with central–provincial revenue-sharing regimes. These diverted funds, kept by local enterprises, would eventually be placed by local governments into their treasury of extra-budgetary revenues (EBRs) in the jurisdictions where the enterprises were seated (Zhang, 1999, pp. 122–124). The second ratio fell for a more straightforward reason: the rules on central–provincial revenue sharing turned increasingly in favor of provinces during the 1980s, as mentioned above.

The declining two ratios were among the key factors leading to drastic macroeconomic fluctuations in the form of a cyclical boom and bust up until 1993. During the peak phases of 1985, 1988, and 1992, subnational governments poured their EBRs heavily into various types of fixed asset investment (FAI), thereby expanding aggregate demand in the nation and driving up inflation. The hikes in the consumer price index

Table 1.
Budgetary Revenues, Fiscal Transfers, and the Two Ratios in China, 1992–2016 (in Million RMB)

	National budgetary revenues (*A*)	Fiscal transfers from center to localities (*B*)	Fiscal transfers from localities to center (*C*)	Budgetary rev. of the center before transfers (*D*)	Budgetary rev. of localities before transfers (*E*)	(*A*)/GDP (%) (*F*)	(*D*)/(*A*) (%) (*G*)
1992	3,483.37	526.71	558.64	979.51	2,503.86	12.87	28.12
1993	4,348.95	515.10	574.27	957.51	3,391.44	12.24	22.02
1994	5,218.10	1,911.27	570.05	2,906.5	2,311.60	10.77	55.70
1995	6,242.20	2,027.25	610.01	3,256.62	2,985.58	10.21	52.17
1996	7,407.99	2,178.02	603.88	3,661.07	3,746.92	10.35	49.42
1997	8,651.14	2,856.67	603.80	4,226.92	4,424.22	10.89	48.86
1998	9,875.95	3,321.51	597.13	4,892.00	4,983.95	11.63	49.53
1999	11,444.08	4,086.61	598.13	5,849.21	5,594.87	12.69	51.11
2000	13,395.23	4,665.31	599.12	6,989.17	6,406.06	13.43	52.18
2001	16,386.04	6,001.95	590.96	8,582.74	7,803.30	14.86	52.38
2002	18,903.64	7,351.77	637.96	10,388.64	8,515.00	15.62	54.96
2003	21,715.25	8,261.41	618.56	11,865.27	9,849.98	15.90	54.64
2004	26,396.47	10,407.96	607.17	14,503.1	11,893.37	16.42	54.94
2005	31,649.29	11,484.02	713.85	16,548.53	15,100.76	17.03	52.29
2006	38,760.20	13,501.45	782.54	20,456.62	18,303.58	17.81	52.78
2007	51,321.78	18,137.89	850.50	27,749.16	23,572.62	19.15	54.07
2008	61,330.35	22,990.76	939.93	32,680.56	28,649.79	19.36	53.29
2009	68,518.30	28,563.79	n.a.	35,915.71	32,602.59	19.82	52.42
2010	83,101.51	32,341.09	990.93	42,488.47	40,613.04	20.32	51.13
2011	103,874.43	39,921.21	1,078.3	51,327.32	52,547.11	21.46	49.41
2012	117,253.52	45,361.38	1,152.74	56,175.23	61,078.29	21.95	47.91
2013	129,209.64	48,037.00	n.a.	60,211.48	68,998.16	21.97	46.60
2014	140,370.03	51,591.04	1,377.22	64,493.45	75,876.58	21.80	45.95
2015	152,269.23	55,097.51	1,433.88	69,267.19	83,002.04	22.10	45.49
2016	159,604.97	59,810.00	1,350.64	72,365.62	87,239.35	21.46	45.34

Source: State Statistical Bureau (1992–2016).

during the three phases above were roughly 9.3%, 18.8%, and 14.7%, respectively, bringing about what common standards would judge to be relatively runaway inflation. The "business cycle" of boom and bust prompted the turnover of political domination at the center between conservative and reformist factions, the rise and fall of the CCP's general secretaries, and the widespread social unrest that culminated in the 1989 Tiananmen Square Incident, arguably the most threatening crisis for the regime in the reform era (Dittmer & Wu, 1995, pp. 483–492).

It was not until these major national exigencies challenged the very survival of the regime that the center and the provinces began to disagree in their preferences over

fiscal decentralization. At a central work conference in November 1989, the center proposed a prototype of the Tax-Assignment System (TAS, *fenshuizhi*), a design characterized by relative fiscal rebalancing when it was later launched in 1994. Provincial leaders collectively scuttled the initiative by voicing their vehement opposition (Shambaugh, 1989, pp. 855–856). After this setback, the center refrained from forcing through the proposal for the next four years. This appears to lend support to the aforementioned argument that there remained a strong perception that overriding concerns for economic reform and the hedging off of pre-reform rigidity had warranted as much fiscal decentralization as possible, even after the immense impact of fiscal decentralization on the stability of the political system. Simply, the national GDP growth rate plunged after Tiananmen to its lowest level since 1979, with 4.19% in 1989 and 3.91% in 1990, followed by a mediocre 9.29% in 1991. It can be reasonably inferred that the relatively sluggish economic performance made the idea of incentivizing local governments more compelling than ever, and that the center would rather further postpone the inauguration of the TAS, even when the political atmosphere immediately after Tiananmen was marked by a drive to rally around the central leadership. In the wake of Deng Xiaoping's southern tour in early 1992, annual GDP growth rates bounced back to 14.22% in 1992 and 13.87% in 1993, a backdrop that was conducive to downplaying greater fiscal incentives for provinces and the introduction of the TAS in 1994.

In the area of investment policy, a salient decentralization of resources and authority had also occurred in order to induce local economic growth before the mid-1990s. First, the aforementioned expansion of EBRs — the bulk of which were in the hands of localities — constituted a key source of local funds. It is estimated that in 1987, the total of EBRs was for the first time on par with total national budgetary revenues, and that the former began overtaking the latter in 1991 (Zhang, 1999, pp. 123–124). Among the total of EBRs, the center had accounted for roughly 35–45% during the period of 1982–1993, while provinces had accounted for 55–65% in the same period (Yeo, 2017, p. 63). These realities suggest that EBRs provided a vastly augmented leverage to provinces to finance their own investment projects at will.

Second, Beijing bestowed the provinces with richer investment resources by launching the "substituting loans for state budget appropriation" (*bo gai dai*) reforms in 1985. Budgetary appropriations manifested substantial central control because major cross-regional investment projects in transport and energy often counted heavily on central financing. Projects funded mainly by provincial budgets were by definition subject to the availability dictated by central–provincial bargaining over revenue sharing. Conversely, in the 1980s, the allocation of bank loans was increasingly

subject to local influence. Just like a majority of their equivalents in other functional bureaucratic clusters, local branches of major state banks had been institutionally positioned to comply with "dual leadership" since 1949. Dual leadership refers to the professional leadership (*yewu lingdao*) of the superior agency in a local unit along the vertical chain of command, and the administrative leadership (*xingzheng lingdao*) of the party and government apparatus in the jurisdiction of the local branch. Generally speaking, administrative leadership had rested chiefly on the authority of the party and government in a locality over the personnel management of all local cadres, and the provision of crucial organizational resources — such as housing and parts of wages — for most local party-state agencies. For local states, the institutionally enshrined administrative leadership and the actual instruments to exert its influence had enabled them to interfere forcefully and often effectively with the decisions and behavior of local bureaucratic units, particularly in cases where local interests were at odds with the center's preferences. This is often known as "complexities and contradictions in the relations between vertical lines and regional blocks" (*tiaotiao kuaikuai*). To be sure, the decisions of local state banks about credit allocation had been no exception to these dynamics (Y. S. Huang, 1996, pp. 28–30).

Third, together with the progression of marketized economic reforms, state budget appropriations and bank loans became increasingly consequential as alternatives to the traditional state-centric sources of investment funds. As exhibited in Table 2, sources such as "self-raised funds and others" surged during 1982 and 1993, accounting for over half of all the FAI funds in the nation as a whole. In addition to local EBRs, another key component of the category of "self-raised funds and others" has been financing from "nonbank financial institutions" (NBFIs). An example of such financial intermediaries was various trust and investment companies, rural and urban credit cooperatives, security firms, insurance corporations, and postal savings deposits, many of which had in fact been established by local governments in the first place. Furthermore, the center's national economic plan and administrative oversight had little control over the NBIFs. The legal framework and regulations on them were also conspicuously underdeveloped (Yi, 1994, pp. 254–256). Therefore, the diversification of sources for FAI funds as an inevitable upshot of growing marketization and the shrinkage of central planning added more fuel to decentralized investment.

Finally, authority over the approval of investment projects was also increasingly decentralized. In 1983, the State Planning Commission shifted its power of approval to provinces for projects below 10 million yuan. Provincial authority was heightened to the level of 30 million one year later, and then further to the level of 50 million in 1987 (Naughton, 1987, pp. 52–54). To intensify decentralization for investment review and

Table 2.
The Shares of Various Sources of Funds for National FAIs in China, 1981–2016 (in %)

Year	State budgets	Domestic loans	Foreign investment	Self-raised funds and others	Total
1981	28.07	12.69	3.78	55.45	100.0
1982	22.70	14.31	4.92	58.07	100.0
1983	23.75	12.27	4.65	59.32	100.0
1984	22.97	14.10	3.86	59.07	100.0
1985	16.03	20.06	3.60	60.30	100.0
1986	14.60	21.10	4.40	59.90	100.0
1987	13.10	23.00	4.80	59.11	100.0
1988	9.28	21.01	5.92	63.79	100.0
1989	8.30	17.30	6.60	67.80	100.0
1990	8.70	19.60	6.30	65.40	100.0
1991	6.80	23.50	5.70	64.00	100.0
1992	4.30	27.40	5.80	62.50	100.0
1993	3.70	23.50	7.30	65.50	100.0
1994	2.97	22.42	9.92	64.68	100.0
1995	3.03	20.46	11.19	65.33	100.0
1996	2.68	19.58	11.76	65.98	100.0
1997	2.76	18.93	10.63	67.68	100.0
1998	4.17	19.30	9.11	67.42	100.0
1999	6.22	19.24	6.74	67.79	100.0
2000	6.37	20.32	5.12	68.19	100.0
2001	6.70	19.06	4.56	69.68	100.0
2002	7.02	19.67	4.63	68.69	100.0
2003	4.59	20.55	4.43	70.43	100.0
2004	4.37	18.49	4.41	72.74	100.0
2005	4.39	17.25	4.21	74.15	100.0
2006	3.93	16.47	3.64	75.96	100.0
2007	3.88	15.28	3.40	77.43	100.0
2008	4.35	14.46	2.90	78.29	100.0
2009	5.07	15.71	1.85	77.38	100.0
2010	4.55	15.40	1.65	78.40	100.0
2011	4.29	13.39	1.46	80.85	100.0
2012	4.63	12.59	1.09	81.69	100.0
2013	4.54	12.09	0.88	82.49	100.0
2014	4.92	12.00	0.75	82.33	100.0
2015	5.29	10.45	0.49	83.77	100.0
2016	5.87	10.89	0.37	82.87	100.0

Source: State Statistical Bureau (1982–2017).

approval, the actual scale of projects finalized by provinces was often greater than the level stipulated by the static policy rules above. Among other things, this was both because of the widespread practice of local governments deliberately understating investment costs at the application stage of the projects and the lax monitoring over cost control during the implementation stage (Kim, 1994, pp. 75–85).

The decentralized resources and authority in FAIs were undoubtedly key drivers for the runaway inflation in the 1980s. From 1986 to 1992, surges in FAIs were remarkably higher than those in consumer prices in all but one year, with the largest differential in 1992 between an FAI growth rate of about 40% and an inflation rate of about only 5% (Dittmer & Wu, 1995, p. 486).

Rebalancing in Fiscal and Investment Areas after the Mid-1990s

The Tiananmen incident was a crisis inseparable from exacerbated macroeconomic instability that had stemmed in large part from decentralization in China's fiscal and investment areas. The crisis made it clear that measures aimed at fortifying the central state were warranted to curtail the centrifugal dynamics. Aside from these internal concerns was the external shock created by the collapse of socialist regimes in the Soviet Union and East Europe from 1989 to 1991. Beijing perceived the urgency of shoring up its ability to maintain domestic economic and political stability in order to ward off the menace of a regime breakdown and national disintegration. To this end, the systematic and orchestrated efforts it undertook included a rollback of previous decentralization in the fiscal and investment areas. To talk all provinces into accepting a new fiscal scheme known as the TAS, Vice Premier Zhu Rongji traveled with a team of central economic officials to conduct one-to-one negotiations in the provinces in the second half of 1993. With provincial compliance secured, the center then passed a decision to install the TAS at the Third Plenum of the 14th Central Committee of CCP, held in November 1993. The decision was followed by the State Council's "Decision on the Enforcement of Fiscal Management Based on the Tax-Assignment System," which spelled out the detailed rules of the TAS.

The TAS designated specific types of taxes as unique revenue sources either for central or provincial governments and for funds split between the center and the provinces. The contracting approach under fiscal decentralization marked by the central–provincial sharing of receipts from all taxes was then phased out. The most critical revenue source for shifting the balance in favor of the center is the Value-Added Tax (VAT), which stemmed by and large from the pre-existing Product Tax and VAT before 1994, both of which had applied to manufacturing industries. Together

they had roughly accounted for between 28% and 32%, greater than that of any other single tax in the nation's total budgetary revenues during the pre-1994 period.[3] The central–provincial sharing ratio for VAT proceeds under the TAS is 75:25, which epitomized the rebalancing purposes of the TAS.

To induce provincial conformity with the new scheme designed to divert revenues away from the provinces, however, the center had to make side payments to them even at the expense of the internal coherence of fiscal policy. Chief among the side payments was the installment of the tax rebate (*shuishou fanhuan*) in order to compensate for the drop in a province's budgetary revenue in any subsequent year compared to its baseline figure as defined by its net budgetary revenue at the end of 1993. Furthermore, together with each 1% of growth in the proceeds of VAT and Consumption Tax combined, the tax rebate would have to increase by 0.3%.[4] Apparently, even when the center attempted to reassert its authority in the case of the TAS, it remained necessary to accommodate provincial vested interests in the form of the pre-existing level of provincial revenue receipts.

Yet, a reshuffling of the policy rules for the central–provincial revenue division alone was not enough since the lingering problem of the under-collection of revenues by local tax officials remained unresolved. Thus, the new fiscal system went further to usher in a reorganization of the tax bureaucracy in order to shore up the center's control over local tax collection. In December 1993, the State Council promulgated Document No. 87 to divide the original tax bureaucracy into two, with each assuming specific and mutually exclusive responsibilities. The first is the General Bureau of State Taxation (*guojia shuiwu zongju*) along with its local branches down to the county level, charged with collecting all fixed central and shared taxes. The other is the Bureau of Local Taxation standing at the provincial, prefecture, and county levels, which is responsible for collecting all fixed local taxes (Hsu, 2017, pp. 23–24). To further forestall under-collection and local governments' diversion of budgetary revenues to their EBRs, the center pushed for a restrictive policy on EBRs by redefining their scope after the TAS. First, the center narrowed the scope of local EBRs by excluding the SOE-generated funds, undoubtedly against local preferences. By doing so, the center undercut the incentives of local states to adopt a revenue-diverting implementation of tax policies. Second, starting in 2011, all sources of EBRs except

[3]For instance, the total receipts from the Product Tax and VAT as a percentage of total budgetary revenues before 1994 accounted for 32.3% in 1985, 30.6% in 1987, 29.4% in 1989, and 28.3% in 1991 according to the author's calculations with data drawn from the State Statistical Bureau (1982–2017).

[4]For the two components that make up the tax rebate, see, for instance, Jia and Yan (2000, pp. 149–150) and Wong (2000, p. 56).

for administrative fees levied on education were required to be incorporated into budgetary revenues, a quite thoroughgoing measure which virtually eliminated EBRs as a whole (Hsu, 2017, pp. 37).

As a result of the above-mentioned institutional overhaul of policy rules and implementation, the two ratios have gradually reached stable levels well above those before the TAS. As demonstrated in Table 1, the first ratio began to exceed the pre-TAS levels of 1992 and 1993 in the year 2000 and has stayed above 20% since 2011, just slightly below the range of 22–25% from 1980 to 1985. The second ratio rose sharply immediately after the inauguration of the TAS and had stayed above 50% in most of the years before 2011. Despite its slight decline to the range of 45–50% since 2011, it is still well above the highest pre-TAS level of 40.5% in 1984.

In the area of investment, the earliest initiative intended to curb excessive localism was to tackle the *tiaotiao kuaikuai* syndrome in the banking system. In November 1993, the Third Plenum of the 14th CCP Central Committee stressed the principles of all local branches of the People's Bank of China (PBOC), China's central bank, acting fully in compliance with the preferences of their headquarters and highlighted the problem of undue local governments' interference in their operations. Yet partly owing to political ramifications from the central–provincial tug of war over the installation of the TAS, concrete measures for rebalancing the banking authority were not put into effect until the second half of 1998. In November 1998, the State Council promulgated its decision to abolish all province-level branches of PBOC and to establish nine cross-provincial branches — the branches in Tianjin, Shenyang, Shanghai, Nanjing, Jinan, Wuhan, Guangzhou, Chengdu, and Xi'an — with the directors of the nine regional branches appointed directly by its headquarters (D. Yang, 2004, pp. 131–132). Aside from this systemic reshuffling, the center also started a major crackdown on serious transgressions of financial discipline that could pose a widespread risk. The Guangdong International Trust & Investment Corporation (GITIC) was a gigantic NBFI owned directly by the Guangdong Government. When Beijing discovered that it had failed to pay debts of more than US$2 billion, the PBOC sent a task force to conduct an onsite investigation in June 1998. After confirming that the GITIC's assets fell far short of its capacity for debt repayment, the PBOC announced the suspension of all its operations in October 1998. Given the final outcome of these liquidation procedures, the GITIC had no choice but to file for bankruptcy in January 1999 (H. Wang, 1999, p. 542).

To strengthen the rebalanced investment regulation that had begun under Jiang Zemin's leadership, Beijing turned to the more frequent adoption of administrative instruments under Hu Jintao. Immediately following the periods of January–February

2004, January–May 2006, and October 2007 when the national scale of FAIs had become gradually uncontainable, the center launched nationwide "clean-ups" (*qingli*) of undesirable FAI projects. Chief among the concrete measures under *qingli* was the direct suspension or termination of current or pending projects which failed to conform to national regulations or policies on land, construction, environmental protection, and public safety. In addition, the supply of land and bank credit for these projects was prohibited, and inspection teams directly commanded by the State Council was deployed to monitor local compliance in project approval and implementation. Moreover, national industrial policy played a pivotal role as Beijing came to place a growing emphasis on structural adjustment by phasing out industries plagued by excessive productive capacities or severe environmental pollution. As such, the National Development and Reform Commission (NDRC) in September 2009 and February 2010 issued directives to both cancel pending projects and shut down those projects that were already under way (B. P. Huang, 2011, pp. 34–35).

Overall speaking, the principal goal of restoring the center's ability to retain economic and political stability that had underpinned all the rebalancing measures above proved to be successful. First and foremost, as shown in Table 3, since the rebalanced allocation of fiscal revenues and bank credits were both installed in 1997, the annual national inflation rate has risen to above 5% in only two years, a figure which stood in contrast to the period of 1985–1996 when inflation had not surpassed 6% for two years only. Inflation remained below 3% in the 16 years from 1997 to 2017 and was even negative in 1999, 2002, and 2009, a phenomenon not found during the period of 1980–1996. Likewise, the upsurge of FAIs also appeared to be mild. The two pinnacles in 1998 and 2003, propelled by the dynamics of the "political–business cycle" in China, registered increases of 18% and 28%, respectively (Dittmer & Wu, 2006, pp. 63–64). In contrast, the two apexes of the business cycle in 1988 and 1992 witnessed the increases of 24% and 45%, respectively (Dittmer & Wu, 1995, p. 486). Second, the two destabilizing cycles before the mid-1990s identified by Dittmer and Wu — the reform cycle which prompted factional turnover for a dramatic policy change and the movement cycle which precipitated nationwide political turmoil — have not occurred since 1996.

The institutional framework of rebalancing in the fiscal and investment areas set up after the mid-1990s has remained essentially intact and become increasingly entrenched, despite some pathologies that have stemmed from it. In this current period that has lasted for over 20 years and marks the longest duration of strengthened central control since the birth of PRC, there is no sign that the country is returning to decentralization. This reality has made it increasingly likely that there has been a fundamental break from the periodic swinging between decentralization and

Table 3.
Inflation Rates in China (in %), 1980–2016

Year	Inflation rate	Year	Inflation rate
1980	6.0	1999	−1.4
1981	2.4	2000	0.4
1982	1.9	2001	0.7
1983	1.5	2002	−0.8
1984	2.8	2003	1.2
1985	9.3	2004	3.9
1986	6.5	2005	1.8
1987	7.3	2006	1.5
1988	18.8	2007	4.8
1989	18	2008	5.9
1990	3.1	2009	−0.7
1991	3.4	2010	3.3
1992	6.4	2011	5.4
1993	14.7	2012	2.6
1994	24.1	2013	2.6
1995	17.1	2014	2
1996	8.3	2015	1.4
1997	2.8	2016	2
1998	−0.8	2017	1.6
endthead			

Source: Retrieved from OECD Data <https://data.oecd.org/price/inflation-cpi.htm>.

recentralization since 1949. A key factor leading to this break is that the pathologies have not posed as serious a threat to the systemic economic, social, and political stability of the country. Consequently, the center has chosen to cope with the challenges through marginal or partial adjustments instead of an overall reshuffling.

Fiscal rebalancing intrinsic to the TAS has amplified the center's share in budgetary revenue at the expense of localities, and the room for localities to accumulate and tap EBRs has continued to shrink over time, as mentioned above. Consequently, the center's fiscal transfers to localities have grown steadily to cover their expenditures for the provision of public goods, while their budgetary revenues have counted heavily on the center's fiscal transfers ever since 1994. As displayed in Table 4, the share of the center's fiscal transfers to localities in its total budgetary revenue rose saliently from 53.8% in 1993 to 65.76% in 1994, staying in most years above 65% until 2000. It also stayed above 69% in most years from 2001 to 2008. The minimal level went up sharply to 79% in most years from 2009 to 2016. The share of the center's fiscal transfers to localities in the total budgetary revenues of local governments was

Table 4.
Central–Local Fiscal Transfers and Their Shares of Budgetary Revenues in China, 1992–2016 (in 100 Million Yuan)

	National budgetary revenues (*A*)	Fiscal transfers from center to localities (*B*)	Fiscal transfers from localities to center (*C*)	Budgetary rev. of the center before transfers (*D*)	Budgetary rev. of localities before transfers (*E*)	(*B*)/(*D*) (%) (*F*)	(*B*)/[(*B*) +(*E*)] (%) (*G*)
1992	3,483.37	526.71	558.64	979.51	2,503.86	53.77	17.38
1993	4,348.95	515.10	574.27	957.51	3,391.44	53.80	13.19
1994	5,218.10	1,911.27	570.05	2,906.5	2,311.60	65.76	45.26
1995	6,242.20	2,027.25	610.01	3,256.62	2,985.58	62.25	40.44
1996	7,407.99	2,178.02	603.88	3,661.07	3,746.92	59.49	36.76
1997	8,651.14	2,856.67	603.80	4,226.92	4,424.22	67.58	39.24
1998	9,875.95	3,321.51	597.13	4,892.00	4,983.95	67.90	39.99
1999	11,444.08	4,086.61	598.13	5,849.21	5,594.87	69.87	42.21
2000	13,395.23	4,665.31	599.12	6,989.17	6,406.06	66.75	42.14
2001	16,386.04	6,001.95	590.96	8,582.74	7,803.30	69.93	43.48
2002	18,903.64	7,351.77	637.96	10,388.64	8,515.00	70.77	46.33
2003	21,715.25	8,261.41	618.56	11,865.27	9,849.98	69.63	45.61
2004	26,396.47	10,407.96	607.17	14,503.1	11,893.37	71.76	46.67
2005	31,649.29	11,484.02	713.85	16,548.53	15,100.76	69.40	43.20
2006	38,760.20	13,501.45	782.54	20,456.62	18,303.58	66.00	42.45
2007	51,321.78	18,137.89	850.50	27,749.16	23,572.62	65.36	43.49
2008	61,330.35	22,990.76	939.93	32,680.56	28,649.79	70.35	44.52
2009	68,518.30	28,563.79	n.a.	35,915.71	32,602.59	79.53	46.70
2010	83,101.51	32,341.09	990.93	42,488.47	40,613.04	76.12	44.33
2011	103,874.43	39,921.21	1,078.3	51,327.32	52,547.11	77.78	43.17
2012	117,253.52	45,361.38	1,152.74	56,175.23	61,078.29	80.75	42.62
2013	129,209.64	48,037.00	n.a.	60,211.48	68,998.16	79.78	41.04
2014	140,370.03	51,591.04	1,377.22	64,493.45	75,876.58	79.99	40.47
2015	152,269.23	55,097.51	1,433.88	69,267.19	83,002.04	79.54	39.90
2016	159,604.97	59,810.00	1,350.64	72,365.62	87,239.35	82.65	40.67

Source: Ministry of Finance (*Zhongguo caizheng nianjian*) (various years); State Statistical Bureau (1992–2017).

elevated precipitously from 13.19% in 1993 to 45.26% in 1994, and has stayed above 40% in all but four years from 1994 to 2016.

The center's ability to afford the ever-growing fiscal subsidies to localities and the steadily heavy local dependence on them point to the relatively consolidated power of the center to maintain national integration and secure local allegiance in general. That is, the grave menace of possible systemic disorder and disunity that was ascribed to decentralization before the mid-1990s has subsided in recent years. This provides a momentous clue for assessing the preservation of national integration, an issue that is

integral to the central–local relations identified in the beginning of this paper. On the other hand, the heavy local dependence also highlights the possible problem of their shortage of budgetary revenues and is a strong impetus for an increase in subsidies from the center, especially as the availability of EBRs has come to gradually evaporate.

Indeed, the inadequacy of budgetary revenues has since 1994 impelled local governments to more aggressively seek funds beyond their budgetary and extra-budgetary revenues in order to cover local outlays necessary for the promotion of economic growth and the provision of public services. In the same year that the TAS was installed, the National People's Congress passed the Budget Law prohibiting local governments from running a deficit or selling bonds to salvage their fiscal imbalances. This left few choices for localities to garner more disposable funds. Chief among such choices has been the creation of local government financing vehicles (LGFVs, *difang rongzi pingtai*) right after the TAS. Generally speaking, LGFVs are "corporate platforms set up by local governments to raise funds primarily for public infrastructure projects. . . LGFVs are set up by transferring land-use rights and other assets to ensure that total assets and cash flows meet the standards of corporate financing, with fiscal subsidies serving as repayment commitments when necessary" (Tao, 2015, p. 2). A leading formality of the LGFVs' absorption of cash is to issue "Urban Construction Investment Bonds" (*Chengtouzhai*) for erecting infrastructure by counting on land-use rights as collateral. It is thus evident that the operations of LGFVs are based upon debt financing in character.

From 2006 to 2008, the overall magnitudes of China's local government debts that were incurred primarily by LGFVs each year were estimated to be 1,255 billion yuan, 2,087 billion yuan, and 3,036 billion yuan, accounting for 5.8%, 7.9%, and 9.7% in the national GDP, respectively (Y. Huang, Pagano, & Painzza, 2017, p. 39). This has skyrocketed in the wake of the 2008 global financial crisis. To weather the storm, Beijing launched a stimulus package of 4 trillion yuan (around US$570 billion) on November 5, 2008. Of the total amount above, the center required subnational governments to match its provision of 1.18 trillion yuan by shouldering the rest of the funds, which in effect forced local governments to resort to LGFVs. Accordingly, the total lending from state banks for LGFVs rose from 1.7 trillion yuan of outstanding loans at the beginning of 2008 to almost 5 trillion yuan just two years later (Liao, 2015, p. 71).

If we count all sources of local government debts where those incurred by LGFVs normally account for more than 60%, then the total size was 10.7 trillion yuan at the end of 2010 and soared to 17.89 trillion yuan by mid-2013. The accelerating upsurges of local debts in general and LGFVs-related debts in particular have posed

even greater risks for the system as a whole: as the total local debts were pushed up to 12.38 trillion yuan by mid-2013, the national debt stood at 30.27 trillion yuan, accounting for 53.22% of China's national GDP at the same time (Tao, 2015, pp. 4–5). This figure was a step closer to the international standard of sustainable national debt below 60% of national GDP. A more recent estimate by a global watch on the debt of sovereign states in 2018 concluded that the total size of China's national debt has already crossed the threshold above, with four different categories of national debt together accounting for 77.33% of its national GDP: local government debt to shadow banking (31.1% of GDP), local government debt as municipal bonds (21.82% of GDP), local government public–private initiatives (10.39% of GDP), and central government debt issued as bonds (14.02% of GDP) (Commodity.com LLC, 2018).

Whereas the potential threat of multiplying local debts is admittedly alarming and warrants effective coping strategy, it has not produced an explosive national crisis to date. In order to restrain this stunning local accumulation of debt, alleviating the relative deficiency of local fiscal revenues is of fundamental importance. Instead of bequeathing localities with a greater share in budgetary revenues, however, the center decided on an alternative approach: to lessen the expenditure burdens of localities. Since concessions in budgetary revenues would apparently make Beijing appear to be retreating from the rebalancing principle inherent in the TAS, this would be out of the question. In August 2016, the State Council promulgated the "Guiding Opinions from the State Council on the Reform about the Central-Local Division of Responsibilities for Fiscal Expenditures" in which the responsibilities comprised three categories: those assumed exclusively by the center, those assumed by subnational governments, and those split between the two. The types and features of expenditures delimited in the first two categories are by and large similar to those outlined in the State Council's scheme of expenditure division set up in November 1993, a scheme synergetic to the revenue rebalancing of the TAS. Yet as the third category in the 2016 decree was not present in the 1993 scheme, it has become the means by which overlaps in the responsibilities of the center and localities have come to be clearly demarcated.

As to the scope of central–local joint responsibility for expenditures, the 2016 decree specified "mandatory education, higher education, public culture, basic endowment insurance and pensions, basic health care and public health, basic medical insurance for urban and rural residents, employment, food security and ensured grain supply, centrally initiated projects in cross-provincial infrastructures and environmental protection and governance, and cross-provincial basic public services of which crucial information revolves around local management." The concrete criteria for splitting the central–local burdens for the items of joint responsibility above were

spelled out in the State Council's "Plan for Reforming the Division of Central-Local Joint Responsibilities for Expenditures in Basic Public Services," promulgated in February 2018. The circular identifies two steps for determining burden sharing. First, for each of the items under joint responsibility in the 2016 decree, the State Council has specified general principles of dividing the central–local expenditures. This could take the form of an even split or assigning the burden of a locality based on its level of economic development. Second, five different levels of local economic development are set for dictating this share. Ranked from the least to the most prosperous regions, the five groupings that include province-level entities and national industrial/commercial hubs are: (1) Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, and Xinjiang; (2) Hebei, Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan, and Hainan; (3) Liaoning, Fujian, and Shandong; (4) Tianjin, Jiangsu, Zhejiang, Guangdong, Dalian, Ningbo, Xiamen, Qingdao, and Shenzhen; and (5) Beijing and Shanghai.

Together the two principles above determine the relative burdens of the center and localities for each item or subitem in the 2016 decree. For instance, in the subitem of "free supply of textbooks" under mandatory education, the center pays for the entire cost of all textbooks used in nationally required courses and for the Chinese dictionary of each first-grade elementary school student in the nation, while localities pay the cost of textbooks used in locally required courses. In the subitem of "subsidies to the living expenses for students from families of financial hardship" under mandatory education, the center sets the standard of subsidies for students attending boarding schools, while localities set the standard for those attending regular ones. Once the standards are finalized, there will be an even division of these expenses between the center and localities. In the item of subsidies to basic medical insurance for urban and rural residents, the central–local ratio for sharing the expenditures varies among the five groupings; the ratios from the first grouping to the fifth grouping above are 8:2, 6:4, 5:5, 3:7, and 1:9, respectively. This five-tier formula for central and local shares of spending also applies to financial aid and tuition waivers to students attending regular senior high schools, subsidies to basic endowment insurance and pensions, basic public health services, and support for the national planning of birth control.

The center's choice to redefine relative spending burdens and not revenues between the center and localities discloses that a return to fiscal decentralization is quite unlikely. An even more telling piece of evidence is the center's further attrition of provincial revenue base. As shown in Table 5, the leading source of provincial revenues in recent years has been the Business Tax (BT), which accounted for 31–34% from 2006 to 2013. Under the TAS, the proceeds from the BT accrue entirely into

Table 5.
The Main Sources of Local Budgetary Revenues, 2006–2013 (in 100 Million Yuan)

Years / Sources	2006	2007	2008	2009	2010	2011	2012	2013
(A) Total local budgetary revenues	15,228.21	19,252.12	23,255.11	26,157.43	32,701.49	41,106.74	47,319.08	53,890.88
(B) Business tax	4,968.17	6,379.51	7,394.29	8,846.88	11,004.57	13,504.44	15,542.91	17,154.58
(C) *B*/*A*	32.62%	33.14%	31.80%	33.82%	33.65%	32.85%	32.85%	31.83%
(D) Property tax	514.85	575.46	680.34	803.66	894.07	1,102.39	1,372.49	1,581.50
(E) Value-added tax on land	231.47	403.10	537.43	719.56	1,278.29	2,062.61	2,719.06	3,293.91
(F) Tax on occupation of arable land	171.12	185.04	314.41	633.07	888.64	1,075.46	1,620.71	1,808.23
(G) Land-use tax	176.81	385.49	816.90	920.98	1,004.01	1,222.26	1,541.71	1,718.77
(H) Deed tax	867.67	1,206.25	1,307.54	1,735.05	2,464.85	2,765.73	2,874.01	3,844.02
(I) Resource tax	207.11	261.15	301.76	338.24	417.57	595.87	855.76	960.31
(J) Stamp tax	202.55	316.60	361.61	402.45	512.52	616.94	691.25	788.81

Source: Ministry of Finance (various years); State Statistical Bureau (1992–2017).

provincial coffers. Nonetheless, owing to myriad problems inherent in the BT such as duplicate taxation and the infeasibility of export tax refunds, the State Council had begun trial-point programs to replace it with a VAT in 2011. As mentioned above, TAS rules give 75% of VAT revenue to the center and only 25% to the provinces. The coverage of trial points of the replacement, known as *ying gai zeng*, expanded from Shanghai in 2012 to eight province-level jurisdictions in 2012 and finally to all jurisdictions in 2013. It also proliferated from a handful of industries to include every industry in the nation. Transport and financial services were first included in 2012, and the broadcast/TV/film industry was added in August 2013. The next sector was postal services in January 2014, followed by telecommunications in April 2014. All service industries were eventually put under the VAT by May 2016. To compensate for the loss of revenues in localities due to *ying gai zeng*, the center announced a series of tentative measures in April 2016 that were aimed at minimizing the adverse impacts on subnational governments during the transitional phase. Chief among them were the elevated provincial share of VAT proceeds from 25% to 50% and a tax rebate from the center to the provinces in order to ensure that their future annual revenues would be no less than their realized total revenues at the end of 2014. Apparently, the guarantee of 2014 revenue levels to provinces means that the elevation of provincial shares in the VAT alone is unlikely to prevent a net revenue loss for most, if not all. Interestingly,

the compensation through tax rebates in 2016 was a precise replication of the 1994 approach of tax rebates to provinces when the TAS was expected to cause huge revenue losses for all provinces. Apparently, the *ying gai zeng* in 2016 was a major victory for the center under the zero-sum structure lying at the heart of central–provincial fiscal relations.

That the center chose to tackle the ills of its rebalancing framework with marginal and contingent adaptions after the mid-1990s rather than attempting a fundamental change to the framework itself is characteristic of how central–local relations have evolved in the realms of finance and investment. The first litmus test was the outbreak of the Asian financial crisis in 1997, which brought down macroeconomic aggregate demand and national GDP growth. In response, the center embraced expansionary fiscal and monetary policies to battle stagnation. The first wave of fiscal measures was the issuance of long-term treasury bonds for development in the amount of 510 billion yuan. In addition, the Ministry of Finance issued long-term treasury bonds worth 100 billion yuan every year from 1998 to 2002, for FAI promotion in transport, energy, and telecommunications. With regard to monetary policy, the PBOC reduced deposit and lending interest rates seven times in a row, magnifying money supply to pump up both FAIs and the price index. Once the fallout of the crisis had faded away, however, the center stepped up restrictions on local FAIs from 2003 to 2007 as elaborated above (Yeo, 2017, pp. 55–56).

Similar contingent actions were undertaken in the wake of the 2008 global financial crisis without shattering the reinforced central control over FAIs as well. As expounded earlier, Beijing created its 4-trillion-yuan stimulus package primarily for infrastructure investments. Among the key components of the package were the issuance of treasury bonds worth 200 billion yuan, the devolution of power for the approval of FAI projects to provinces, and loosened regulations over bank loans for local governments. Still, the center was able to retain some critical limitations on the above measures. One such limitation involved the excluding of real estate items from the widened channels of funds, as they are in nature prone to speculation. Furthermore, the NDRC has bolstered its control over large-scale public investment projects since 2008, even as subnational governments were able to tap more self-raised funds through LGFVs (Yeo, 2017, pp. 57–66).

The center has also started tackling the aforementioned problem of rapidly proliferating local debts exacerbated by its post-2018 stimulus package that mobilized LGFVs for FAI funds. From 2014 to 2016, the State Council promulgated a series of circulars to restrain the operations of LGFVs. This was to make it clear that local governments would be fully responsible for the repayment of debts incurred by local

borrowings through LGFVs and that the center would by no means offer any bailouts (Y. K. Chen, 2017). For the center to disavow this possibility was a crucial step because local debts have kept accumulating under expectation of an eventual bailout. A similar case is that despite widespread defaults among the nation's rural credit cooperatives (RCCs), insolvent RCCs remain able to absorb new loans and savings and therefore incur more debts, because creditors expect that the center will ultimately save the RCCs from collapse through various means (Ong, 2012, pp. 155–158).

To double up the effectiveness of curbing local debts without rolling back rebalancing, the Ministry of Finance publicized a report in December 2017 that criticized the inadequate compliance of local governments with the policy of forestalling illicit local debts. Beijing imposed administrative punitive measures in the same month, holding more than 70 local officials in Jiangsu and Guizhou accountable for violations of the regulations under the policy. This was the first wave of crackdowns over administrative accountability and was followed subsequently by penalties on officials of Chongqing, Shandong, Henan, Hubei, Anhui, Yunnan, and Guangxi in 2018. The most recent and perhaps most potent action demanded by the center has been the creation of the "mechanism of lifetime accountability" (*zhongshen wenzezhi*) in 2018. Provinces have to install and enforce concrete rules to hold officials who violate relevant policies accountable, even after they have left a position where the misconduct occurred or after they have retired from government service. Inner Mongolia was the first one to publicize the lifetime accountability regulations in July 2018, and more provinces are following suit (J. S. Chen, 2018).

The Governance Policy Realm: Limited Decentralization versus Deepening Rebalancing in Personnel Management before and after the Mid-1990s

Limited Decentralization during the 1980s

In the midst of sweeping decentralization in a wide variety of areas during the 1980s, the power over personnel management, typically the most critical instrument for political leaders to secure the compliance of subordinates in socialist systems, was no exception to the national trend. The CCP's Central Organization Department (COD) carried out a plan in August 1984 to devolve authority over the determination of *nomenklatura* — the lists in socialist countries of leading positions over which party committees exercise the power of appointment, lists of reserve cadres for the available positions, and the institutions and processes for making appropriate personnel

changes. In the past, the COD's power on *nomenklatura* had been extended "two levels down," i.e., down to the prefecture level as far as central–provincial relations are concerned. After the 1984 devolution, the domain of the COD's power was reduced to "one level down," only the province level. The management of *nomenklatura* was delegated to provinces. Accordingly, the number of cadre positions managed by the COD shrank from about 13,000 to about 7,000 (Burns, 1987, pp. 36–40).

Deepening Rebalancing after the Mid-1990s

On the surface, it seemed that yielding such a crucial element of personnel power to provinces would significantly undercut the center's overall authority. Nevertheless, the actual impact of the 1984 devolution has proved quite limited, by virtue of other factors at the mercy of the center that outweigh the devolution in this single area. Most of these factors arose after the mid-1990s. The first is the increasing domination by the center in granting high-ranking positions to provincial leaders during the reform era. Seeking to understand whether provincial leadership serves as a launching pad for national leadership or an asset for fostering local interests, Bo examined the empirical data of all provincial officials transferred to central positions during the reform era. He found an unambiguously growing importance of provincial leadership as a stepping stone to central leadership (Bo, 2003). Likewise, by analyzing the makeup of the full and alternate members of the CCP's Central Committee (CC) and Politburo (PB) from the 11th to 15th Central Committees (1978–2002), Sheng (2005) discovered that provincial shares of full CC membership had gradually descended during the period. This means that the center had gradually strengthened its already firm grip on the composition of the CC, a crucial venue of national decision-making, and that the provinces were finding their political clout to be more and more constrained as they defended their interests there. Whereas provincial shares of alternate CC membership and PB membership had grown slightly, Sheng pointed out that alternate CC members usually matter very little in the decision-making of the CC, and that the PB has always been heavily dominated by the will of the center. Bo's and Sheng's findings make it a reasonable inference that provincial leaders are potently motivated by the prospect of promotion in their personal careers to refrain from putting forward initiatives in national policy formulation that defy the center and to adapt their preferences in congruence with it.

Related to the first one, the second factor is the center's reversal of provincial dominance over decision-making in the PB and CC sometime after the mid-1990s, as provinces had been occupying seats in the two bodies in order to advance their parochial interests. This second factor thus concerns the actual impact of the positions

of provincial leaders in national policy-making organs — a crucial outcome of personnel management — on the relative influence of the center and provinces. To scrutinize whether it was the center's autonomy or the pluralistic institutional interests of provinces that exerted greater influence on the central projects of capital construction, Su and Yang (2000) conducted a statistical analysis of how intensely provincial representativeness in the PB and CC affected the outcomes of decisions from 1978 to 1994. They found that for the three province-level metropolises of Beijing, Tianjin, and Shanghai, the variation of seats among them in the PB and CC had no significant effect on their shares in the nation's total investment in central projects of capital construction. Yet for all the other province-level entities, the more seats an entity possessed in the PB and CC, the greater the share it had in the same investment (Su & Yang, 2000). That is, the predominant national pattern before the mid-1990s reflected greater provincial and not central influence.

Attempting to answer the same research question for a different period of time, Hsu performed a statistical analysis to explore whether central or provincial preferences prevailed when they were unequivocally at odds with each other over the allocation of various FAI funds from 1993 to 2004. Hsu's (2011) findings were opposite to Su and Yang's due to the different temporal domain and very different conceptualizations and measurements for the dependent and independent variables: the allocation of various funds for all types of FAI projects and provincial representativeness through their seats in the PB and CC. When China experienced nationwide spiraling inflation in the reform era, the center preferred to impose a retrenchment program to maintain macroeconomic stability, while provinces continued to pursue local growth chiefly through an expansion of the FAI that deviated from the center's goals. This evident divergence of preferences in the form of outright competition between the center and the provinces occurred in 1993, 1994, 2003, and 2004 during the period under investigation. Hsu's results of regression unveiled that the stronger representation a province possessed in the PB and CC, the more likely it was to comply with the center's retrenchment program. In this sense, provincial seating in the PB and CC was no longer an effective tool for provinces to pursue objectives that ran counter to the center's; instead, it became an instrument for the center to restrain provincial recalcitrance. Apparently, the disparity in findings between the two studies above manifests a reversal of provincial power produced by personnel arrangements in the PB and CC after the mid-1990s. This reversal coincides with the gradual changes described in the first factor.

The third factor is the crafting and enforcement of institutionalized rules by the center and their growing effect on the personnel turnover of provincial leaders.

C. Li (2004) and Whiting (2004) both pointed out that the formation of these formal rules had accelerated since the mid-1990s. They pertain to issues such as term limits, age limits for retirement, regional representation in the CC, the law of avoidance and the regular reshuffling of provincial heads, and restraints on the promotion of princelings. These rules served primarily as institutional constraints on political localism conceived as undue local influence on personnel management and other policy issues (C. Li, 2004; Whiting, 2004). A litmus test on the extent to which such centrally crafted rules affect provincial power would be an inquiry into the pattern of the personnel turnover of provincial leaders. H. Li and Zhou (2005) tested these effects during the period of 1979–1995 by examining the data of provincial secretaries and governors. They discovered that the average growth rate of provincial GDP during the tenure of incumbent provincial leaders, a centrally selected indicator to gauge their job performance, had been the most influential factor that contributed to their promotions (H. Li & Zhou, 2005). As an extension of H. Li and Zhou's research, the analysis by Zhou, Li, and Chen (2008) based on the data for 1979–2002 confirmed again the vital role played by the economic performance of provincial leaders. Specifically, this was the economic performance demonstrated by the "relative" growth rates of provincial GDP that was defined by comparing the performance of incumbent leaders to their predecessors and the leaders of neighboring provinces (Zhou, Li & Chen, 2008).

Focusing on the period of 1993–2010, Hsu and Shao (2013) empirically examined the effect of institutional rules by synthesizing, modifying, and expanding the scope or operationalization of relevant variables employed in the research above. Hsu and Shao's findings demonstrated a broader scope and growing impact of the centrally controlled rules. First, the overall degree to which the personnel turnover of provincial leaders was bound by such rules seems to have made headway over time. The explanatory power of Hsu's regression models for 1993–2010 that range from 0.376 to 0.394 in the value of R^2 was tangibly greater than that of the models covering the 1949–1998 period in Bo (2002) with the value of R^2 ranging from 0.116 to 0.220.[5]

Second, with regard to the impact of specific institutional rules, the mandatory retirement age of 65 also proved quite effective, which corroborated C. Li's (2004) emphasis on the increasingly potent constraint of age limits for retirement.

Third, economic performance was found to be a more consequential institutional rule for the promotion of provincial leaders. Concretely, it was "relative" provincial growth through a "vertical" comparison with growth under their predecessors, which

[5]Unfortunately, the comparison with the levels of institutionalization inherent in H. Li and Zhou (2005) and Zhou et al. (2008) is infeasible since neither study disclosed its R^2 value.

was measured differently from the analysis of Zhou et al. (2008). The indicator of the relative job performance was the differential between an incumbent provincial leader's "rolling average GDP growth rate" and the average GDP growth rate of his or her predecessor (Hsu & Shao, 2013).

The final dimension which attests to rebalancing rather than decentralization is a new development after the 18th Party Congress. The center has made unilateral alterations in some key institutional rules for personnel management, where either the weight of local input is diluted or the job security of local cadres is increasingly subject to the discretion of the center beyond institutional constraints. In a national conference of party organizational tasks held in November 2013, Xi Jinping called for "refraining from employing four criteria exclusively" (四不唯 *si bu wei*, hereafter SBW). These four criteria that are not to be exclusive considerations in promoting cadres are ballots won by candidates in democratic recommendations, scores earned in examinations for cadre recruitment, age in relation to the mandatory retirement age, and job performance measured by GDP growth (Zhao, 2013). Except for the third criterion, the other three are dictated by factors chiefly under local influence. To fulfill Xi's demands, a revised version of the "Regulations on the Recruitment of Leading Cadres in the Party and Government" was publicized in January 2014 in which the principle of SBW was stressed markedly (X. Yang, 2014).

Whereas this unilateral move by the center pertained to the change of rules on cadre promotion, it also exerted influence directly on the outcome of cadre dismissals. This was in nature a spillover effect from the sweeping anti-corruption campaign that has characterized China's elite politics after the 18th CCP Congress. According to the author's calculations a total of 121 officials at the province level (not including those in the military and at the ministry level) lost their positions during the campaign from December 2012 to August 2018.[6] Such a large number in a period of less than six years marked the highest frequency of provincial cadres falling from office in the reform era. The incremental stabilization of the tenure of province-level officials has been a key aspect of guaranteed job security in the process of political institutionalization. As the centrally initiated crackdown impinged upon the stabilization of provincial leaders after the 18th Party Congress, political institutionalization is at stake. We can expect the ongoing anti-corruption campaign to continue increasing the political clout of the center through its discretion over which provincial officials should

[6]Here, "officials at the province level" refers to those no lower than the deputy position in the party, executive branch, local people's congress, the local branch of the Chinese People's Political Consultation Conference, the court, the procuratorate in province-level jurisdictions, and members of party standing committees in province-level jurisdictions.

be targeted. More than any facet of the overall rebalancing after the mid-1990s mentioned above, the center's predictably continuous and frequent exertion of the substantial influence on local cadre dismissal is likely to contain decentralization across a wide variety of issue areas in central–local relations down the road.

Conclusion

Scrutinizing the evolutionary contour of central–local relations in the policies of finance, investment, and personnel management in the last four decades has revealed some major dynamics exhibiting both continuity and change of the pre-reform pattern. The continuation of the broadly conceived decentralization–recentralization cycle after 1979 can be largely ascribed to the policy vision and grand design for national development conceived by the top leaders. As pointed out in the introduction, Mao's rejection of Soviet-style centralized planning in the pre-reform period was key to understanding his yearnings for unleashing grassroots spontaneity and activism among cadres and peasants, and thus for the start of decentralization in 1958. Yet his reckless, unsustainable initiatives caused a systemic disaster, and a rival faction in favor of a return to the Soviet model led by Liu Shaoqi and Deng Xiaoping seized back the momentum and introduced recentralization in the early 1960s. This was then reversed in 1964 when Mao gained the upper hand by waging an all-out offensive, where decentralization presaged the staggering Cultural Revolution. In the reform era, Deng Xiaoping and the central leadership embraced decentralization as a backbone of economic reforms. As egregious decentralization prompted a major economic and political crisis in 1989, the conservative faction seized the opportunity to roll back reforms during the period of 1989–1991. But just like the short-lived backlash against the dominant central leadership from 1961 to 1964, the conservatives soon lost their influence to Deng's reformist faction in 1992. Even the introduction of rebalancing around the mid-1990s was largely at the mercy of the reformists, when Jiang Zemin and Zhu Rongji, still under the endorsement of Deng, managed to deepen the marketization reforms.

On the other hand, the above contours before and after 1979 unveil at least two aspects that produced changes in the cyclical dynamics between the two periods. First, Mao's pursuit of decentralization was by and large ideologically driven, and thus continued to intensify despite the catastrophic outcomes from the period of 1958 to 1960. By contrast, decentralization in the reform era was in the first place a conscious policy choice legitimated by the nation's actual developmental needs, measured by material instead of ideational criteria. Likewise, the drift toward rebalancing was

propelled primarily by mounting crises in the material world and not by the rising ideological appeal of an omnipotent central state. The central leadership's current tactic of adaptation rather than a complete repudiation of rebalancing is also informed by the weighing of varying consequences for the nation's overall prosperity and stability. Second, the cycle of decentralization and recentralization in the pre-reform period was synchronized with the rotation of competing factions. Yet the transition from decentralization to rebalancing after the mid-1990s did not coincide with this rotation because decisions made for the purpose of national material development afforded greater flexibility to the central leadership than ones based on ideological loyalty.

It appeared that sweeping decentralization at the dawn of the reform era was destined to be drastic, since it was intended to overcome the deep-rooted and obstinate rigidity that had sapped the nation of its economic stamina. The embracing of rebalancing after the mid-1990s is also far-reaching and thoroughgoing for a similar reason; as the dire consequences of previous decentralization had posed a mounting threat to the regime that warranted a major turnaround in central–local relations. Nevertheless, the center seems as of yet to perceive no fatal crisis as rebalancing keeps moving forward, and has by and large successfully coped with its maladies with contingent and marginal adaptations. To Beijing, this has made a greater emphasis on control increasingly desirable in the maintenance of the current central–local relations framework. Accordingly, it is increasingly unlikely that the vicious cycle of decentralization and recentralization will continue.

The findings of this paper have produced vital implications for a major theoretical debate about the political economy of contemporary China, though it is not exclusively concerned with the cycle alone. Arguing that the party-state was capable of overcoming the institutional weaknesses standing in the way of China's transition and development, D. Yang (2004) highlighted the central state's reassertion of power over local states by curbing unbridled decentralization in the spheres of resource allocation and market regulation. For D. Yang, the story of the cycle seems to have a happy ending. Conversely, Pei (2006) asserted that China's transition toward greater marketization and development is doomed to be trapped by its autocratic political order and the persistent force of decentralization. As far as economic and administrative decentralization is concerned, it has yielded insurmountable obstacles for the center to effectively monitor and regulate local cadres while creating ample opportunities for them to illicitly tap public assets. That is, decentralization contributes to predatory and not benign practices in the Chinese party-state (Pei, 2006). Yet both D. Yang and Pei are only partially correct. D. Yang has not identified all of the

problems associated with rebalancing that have yet to be solved by the center. Pei does not appear to take into account the possibility for the center to curb growing predatory practices due to decentralization. In addition to the rebalancing, another example of the curtailment has been the crackdown on corruption in the Xi Jinping era. By retaining a balance between decentralization and rebalancing without risking systemic stability since the mid-1990s, the party-state stands somewhere between these two polarized views.

Last but not the least, the sustainability of rebalancing is susceptible to some potential uncertainties. The political and economic changes since the CCP's 18th Congress have been countless and dramatic, among which the most notable aspects may at least include the aforementioned central crackdown on local cadres and officials through the anti-corruption campaign and the heavy concentration of central power into the hands of Xi Jinping. The magnitude of the crackdown and the degree of power concentration were both unusual, if not unprecedented, during the reform era. As such, they have ushered in vast uncertainties about the party-state's ability to tackle all the ills of rebalancing, many of which pose systemic risks. Worse yet, adding to the uncertainties are the rising likelihood of a long-term US grand strategy to curb the rise of China and the ensuing trade war, which has already had a tangible effect on China's domestic economic growth and social stability. It therefore remains to be seen whether the current institutional framework grounded in rebalancing will persist as a viable formula for central–local relations to cope with both new and lingering challenges in the near future.

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The State and Digital Society in China: Big Brother Xi is Watching You!

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There is no question that China is ahead of many developed countries in the digitalization of both its society and surveillance systems. It is also clear that the new technologies made possible by this digitalization — the widespread use of smart ID cards, the Great Firewall, the accumulation of Big Data, the social credit system (SCS) and facial recognition — have enhanced the capacity of the Chinese Communist Party (CCP) to rule China, maintain control over society and stay in power indefinitely. While these are not the only systems in place to manage and control Chinese citizens and this is not their sole purpose, these developments have been rightly seen as part of an ambitious Orwellian project to micromanage and microcontrol every aspect of Chinese society. To better comprehend the significance of this new phenomenon, this paper employs Michel Foucault's "Panopticon" metaphor, the perfect mean of surveillance and discipline as well as an "apparatus of power." Yet, these new technologies have their own limits. In real life there is no perfect Panopticon as no society, even the most controlled one, is a sealed prison. Censorship on the Web is erratic and the full implementation of the SCS is likely to be postponed beyond 2020 for both technical and political reasons, as more Chinese citizens have raised concerns about unchecked data collection and privacy breaches. As a result, China is probably heading toward a somewhat fragmented digitalized society and surveillance system that is more repressive in some localities and more flexible in others, as is the case with the Chinese bureaucracy in general.

KEYWORDS: Chinese Communist Party; digital society; Michel Foucault; fragmented authoritarianism; Xi Jinping.

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State–society relations in the People's Republic of China (PRC) have changed profoundly in the last 40 years. At the beginning of the reform era, there was no clear distinction between the Party-state and society: most Chinese whether they lived in a city or in the countryside belonged to a work unit (*danwei*), an extension of both the state and the Chinese Communist Party (CCP). Today, while the emergence of a full-fledged civil society remains aspirational, it is fair to say that Chinese society has gained genuine autonomy. At the same time, the state–society dichotomy is a misleading over-simplification, as most social scientists have highlighted the continuum between the Party-state and society and the interpenetration of the two, underscored and embodied in many ways by enormous membership in the CCP, a figure that was just over 90 million in 2019 (Perry, 1994).

One of the most unexpected transformations in Chinese society has been its rapid accession to the digital era. Supported by unprecedented modernization, the impressive development of China's digital economy has been an uncontested success. The digitalization of Chinese society has had two opposite consequences: it has clearly simplified the life of many Chinese, allowing them to remain in constant connection and facilitating a variety of business transactions and payments. At the same time, it has given the Party-state the opportunity to spy on citizens and maintain its control over society with greater efficiency.

Similarly, the Internet and other social media platforms have contributed to creating forums for discussion, new manifestations of citizenship and new means of resistance and criticism of the Party-state. But, thanks to the new digital means of surveillance at their disposal, authorities have been able to remain ahead of the curve, tightly managing society and even pre-empting most of its potentially destabilizing moves, particularly since Xi Jinping came to power in 2012 (Xiao, 2019).

In order to explore the significance of this new phenomenon, this paper aims to elaborate on the research of other scholars on the development of the Chinese Internet (Boyle, 1997; Lessig, 1999; Tsui, 2003) and later its social credit system (SCS) as new means of control (Chorzempa, Triolo, & Sacks, 2018). This paper offers Michel Foucault's Panopticon metaphor and Jeremy Bentham's "perfect jail," a perfect means of surveillance and discipline (Foucault, 1985). Bentham imagined the Panopticon as a circular penitentiary designed to allow inmates to be observed (*-opticon*) by a single watchman without being able to tell whether or not they are being watched. As a result, inmates are compelled to regulate their behavior.

In his famous book *Discipline and Punish* (*Surveiller et Punir* in French), Foucault (1985) viewed the Panopticon as a symbol of the disciplinary society of

surveillance and understood discipline as an "apparatus of power" (p. 208).[1] Like Foucault's inmates, with digitalization and later the introduction of the SCS, Chinese citizens are "the object of information, never a subject in communication":

> "He who is subjected to a field of visibility, and who knows it, assumes responsibility for the constraints of power; he makes them play spontaneously upon himself; he inscribes in himself the power relation in which he simultaneously plays both roles; he becomes the principle of his own subjection." (Foucault, 1985, pp. 202–203)

This paper supposes that the CCP regime's multiple digitalized means of surveillance are forcing Chinese citizens (and netizens) to interiorize the new rules of the game and behave in such a way that they will not be caught.

This paper will first present the major features of the digitalization of Chinese society and the emergence of the Internet and other social media in particular. The subsequent section will describe the successive measures adopted by the Party-state in order to both manage these new platforms and to better control society as a whole: the introduction of smart and digitalized identity cards, the strict surveillance of the Internet and social media as well as the recent introduction of the SCS and facial recognition technology. The final section will attempt to assess the efficiency and limitations of these technologies as well as their implications for the future of state–society relations and, more generally, the political future of China.

The Major Features of the Digitalization of Chinese Society

While the Internet landed in China around 1994–1995, it has since developed very rapidly. In 2008, China became the country with the largest number of Internet users in the world. It had 730 million netizens in July 2016, a figure representing 54% of its total population at the time. In late June 2018, the number overtook 800 million (802 million, or 57.7% of the population), 98.3% (or 788 million) of which were mobile users, preferring all sorts of tablets, generally smartphones, to a fixed computer (Russell, 2018). Today China has more netizens than the European Union and the United States combined: 829 million at the end of 2018 (59.6% of the population), 98.6% or 817 million of which prefer a mobile device (China Internet Network Information Center [CNNIC], 2019). This data underscores the penetration rate of the Internet, how efficient the authorities have been in expanding network coverage and the multiple uses of the Internet in China. The enthusiasm of Chinese consumers for

[1]More generally, Part III: Discipline, 3. Panopticism of Foucault's book.

digital tools has facilitated the expansion of the digital economy and innovation while at the same time persuading the government to take full advantage of this novel kind of dependence, if not addiction. In China as elsewhere, the "magic tablet" is fast becoming a drug that people cannot live without (Reid, 2018).

A digital society can mean many things; a more connected society is not necessarily a more open, democratic and free one (Lessig, 1999). In today's China, the Internet and social media are generally used for buying, obtaining administrative or commercial services, online gaming, connecting with family and friends, receiving and disseminating information and recreation. Only a small fraction of Chinese netizens uses the Internet for political purposes.

Authorities in the PRC continue to boast about how connected Chinese society is today. For example, many Chinese citizens go online to shop (73.6%, particularly on Alibaba's platform *Taobao*), to reserve bus or train seats (40.2%), to book taxis (39.8%) or to use bike sharing applications (30.6%). In addition, while 74.1% of Chinese netizens use short video applications, including ByteDance's popular Douyin app (抖音短視頻; *douyin duan shipin*, known as TikTok outside of China), 50.7% use online banking. According to the same source, Chinese netizens are also using online government services more frequently: at the end of June 2018, the number of users of online government services reached 470 million, accounting for 58.6% of all netizens, 42.1% of which had obtained government services through the city service platforms of Alipay (支付寶; *zhifubao*) or WeChat (微信; *weixin*) (CNNIC, 2018, 2019).

The Internet is clearly now a part of everyday life in China, and it can be argued that at least in its urban areas, Chinese society has become more digitalized than many other developed societies, including that of the United States (around 300 million Internet users). For instance, the share of Internet users in China making mobile digital payments reached 71.4% in 2018, compared with only around 15% in the US.

The Internet has also changed state–society relations while facilitating access to information, the delivery of government services both to individuals and companies and the emergence in China of a more business-friendly, if not citizen-friendly, e-government. China's e-government has been introduced as "a vehicle intended to support economic development through an increasingly transparent and decentralized administration" (Ma, Chung, & Thorson, 2005). Yet, though China's appropriation of good practices in its e-government (as defined by the United Nations since the mid-2000s) is far from being able to solve all the tensions between the government and the governed, it has on the whole improved state–society relations, especially at the grassroots level (Schlaeger, 2013; Sodhi, 2016; Y. Yang, 2017).

This incredible expansion of digital communications and services has been stimulated by several well-known private companies such as Baidu, Alibaba and Tencent (BAT) that have helped moving their country's digital economy ahead of the others (Sacks, 2018; Woetzel et al., 2017). While benefiting from their close links to Chinese digital product hardware manufacturers, the BAT has also helped the expansion of this industry both in China and in the rest of the world. The best-known examples are Lenovo, which bought American company IBM as early as 2005, Huawei (with a 28% share of the Chinese smartphone market in Q4 2018), Oppo (20%), Vivo (19%), Apple (12%) and Xiaomi (9%) (Counterpoint, 2019). In the summer of 2018, Huawei overtook Apple for two quarters to become the second largest smartphone manufacturer behind South Korean Samsung, with ambitions to become number one in 2020 (Meek, 2018).[2]

The Chinese Government has been very supportive of this expansion, giving space both to digital players and manufacturers to innovate and win market share. It has only very gradually regulated the market, "playing an active role in building world-class infrastructure to support digitalization as an investor, a developer and a consumer" (Woetzel et al., 2017). Beijing's 2015 publication of the "Made in China 2025" plan has confirmed the importance of information technology in the realization of the country's economic ambition to become a "manufacturing superpower" in the middle of the next decade (Wübbekke, Meissner, Zenglein, Ives, & Conrad, 2016). The strategic importance of this sector for the national economy and the CCP has also been underscored by the Chinese Government's fierce defense of Meng Wanzhou, Huawei's Chief Financial Officer and the daughter of its founder, after the US asked for her extradition from Canada in December 2018.

In other words, the leadership of the Party-state has very early on identified both the economic and political importance of giving priority to the comprehensive digitalization of China.

A Party-State More Empowered to Manage and Control Society

While China's digitalization has allowed society to improve both interactions with the government and daily life in general, it has also afforded the government the capacity not only to manage society, but to control and even micromanage it. This

[2]Before falling again behind Apple at the fourth quarter of 2018: then the world market shares of Samsung, Apple and Huawei were 18.7%, 18.2% and 16.1%, respectively, ahead of Oppo (7.8%) and Xiaomi (7.6%) (IDC Media Center, 2019).

surveillance capacity, as Foucault defines it, has developed in four distinct steps, with an acceleration since the late 1990s when China began to truly enter the digital era. These four steps are the generalization of smart identity cards, the establishment of a Great Firewall aimed at strictly monitoring the Internet and social media, the testing and gradual introduction of the social credit system and the expansion of facial recognition technology.

The Ubiquitous Use of ID Cards

As early as 1984, the Chinese Government decided to compel every Chinese citizen over the age of 16 to apply for and possess a "resident identity card" (居民身份證; *jumin shenfenzheng*) issued by the local Public Security Bureau. Since then, Chinese citizens have been required to carry their ID cards in public. More importantly, after China's "rubberstamp parliament," the National People's Congress (NPC), issued a new law on ID cards in 2003, all ID cards have been gradually computerized, containing an IC chip card and digital encryption ("Beijing Launches," 2004; Law of the People's Republic of China on Resident Identity Cards, 2004). Resident identity cards therefore have become smart. The second-generation cards are machine-readable and more difficult to forge while also allowing the authorities quick access to a growing sum of data on each citizen. Today, ID cards are required in order to conduct business with the government: they are needed to obtain a resident permit, marriage registration or driving license. They are also required in a growing number of online and offline activities such as purchasing bus, train or plane tickets, registering a mobile phone number, opening an Internet account or microblog, e-banking and entering an Internet café. The activities requiring an ID card in China are arguably more numerous than in open, free and democratic societies. Since ID cards must be shown not only for airline travel but also to enter or exit all train stations, it has become much easier for authorities to locate people.

In 2017, the Chinese Government began to issue digital ID cards to replace physical ones, working with Tencent's WeChat to host them. This will allow Chinese citizens to use the digital ID stored on their smartphones instead of having to carry a physical card (Tao, 2018). In Guangzhou's Nansha District, for instance, residents can use smartphones and facial recognition technology to link their ID cards with their WeChat accounts. A few months later in May 2018, Alibaba announced that it would store the ID of Alipay users who opt for a "Web ID" by scanning their faces on its payment app. It will be testing the project in three cities including Hangzhou, the city where it has its headquarters (Corum, 2018).

While it will make the lives of many Chinese more convenient, the gradual use of digitalized ID cards will only expand the government's ability to keep tabs on them, as it has the potential to offer access to a larger set of data. More generally, the ubiquitous need for ID cards has served to compel citizens to "normalize their behavior" as Foucault has observed in the Panopticon.

The Great Firewall

From the very beginning, China's Internet and social media have existed under high political and moral surveillance (Griffiths, 2019a; Tsui, 2003). As early as the 1990s, the Chinese Government set up what Geremy Barmé and Sang Ye coined as early as 1997 as the "Great Firewall" with the help of technology companies such as CISCO Systems, an American firm, and Huawei (Barmé & Ye, 1997). Aimed at keeping the blogosphere healthy and particularly clean of any pornographic content, a recurrent justification for censorship, the Great Firewall also partly seals the country from outside information. These limits are well known, though they may change in the future. A great many websites, search engines, apps and emails are currently blocked and still inaccessible in China, among them Twitter, Facebook, Instagram, YouTube, WhatsApp, Snapchat, Google and Gmail. In 2018, 20% of the top 100 most trafficked websites worldwide were blocked in China ("List of Websites," 2019). Newspapers, magazines and information websites as *The New York Times*, *The Economist*, *Bloomberg*, *Le Monde* and *The Wall Street Journal* are also censored. Attracted by the vastness of the Chinese market, Google has been tempted to accept some restrictions to secure entry for its search engine "Dragonfly," but this decision is still being contested by some of its employees and the Trump Administration (Fleishman, 2018).

Most Chinese are unaffected by Internet censorship, as most of these websites and apps do not contain Chinese-language content. Moreover, China has developed its own local equivalents such as WeChat (微信) or Weibo (微博), a microblog site launched by the state-owned Sina Corporation in 2009 that drew much of its inspiration from Twitter. Later, other Chinese Internet companies such as Tencent (騰訊微博; *tengxun weibo*), Sohu (搜狐微博; *sohu weibo*) and NetEase (網易微博; *wangyi weibo*) developed their own microblogging services. Tencent's Qzone is one other such example.

Online activities have been more widely censored and monitored since Xi Jinping came to power in late 2012. In November 2013, Xi decided to establish the CCP Central Cybersecurity and Informatization Leading Small Group (LSG) (中央網絡安全和信息化領導小組; *zhongyang wangluo anquan he xinxihua lingdao xiaozu*). This LSG has been instrumental in tightening control and management

of the blogosphere. Highlighting its importance in the eyes of the Chinese leadership, the Cybersecurity and Informatization LSG was elevated to the rank of Commission (中央網絡安全和信息化委員會; *Zhongyang wangluo anquan he xinxihua weiyuanhui*) in March 2018, a key elevation also enjoyed by the three LSGs tasked with deepening reforms, foreign affairs and finance and economy. This is part of a larger plan aimed at recentralizing many competences of the State Council and central government in the Party apparatus, particularly in the area of security and propaganda (Cabestan, 2019b). The LSG and now Commission Office (辦公室; *bangongshi*) is headed by the Director of the Cyberspace Administration of China (CAC; 國家互聯網信息辦公室; *Guojia hulianwang xinxi bangongshi*), a State Council organ headed by Zhuang Rongwen (莊榮文) since August 2018. Zhuang is also Deputy Director of the CCP Central Propaganda Department, underscoring the direct relationship between this powerful Central Committee bureaucracy and the CAC. The first director of both the LSG Office and the CAC from 2013 to 2016, Lu Wei (魯煒), was investigated for corruption in 2017. The CAC includes 60,000 Internet propaganda workers and two million others employed off-payroll (Cairns, 2015).

The primary mission of this colossal workforce is to direct discussion on social networks and snuff out content deemed noxious (King, Pan, & Roberts, 2017). Labeled by critics as the *Wumaodang* (the 50-cent Party) for the amount supposedly paid to them for each politically correct post, this force of "Internet Police" initially numbered 40,000. Internet policing has since gone much further and now targets users accused of spreading "rumors" whether they are of a political, economic or financial nature (Wu, 2016). Consequently, the number of "inspectors" in charge of "Internet clean-ups" on behalf of administrations or private companies is estimated at two million in 2013 and has since sharply increased (Williams, 2017).[3]

In 2013, the government began to maintain stricter control of Weibo, deciding to require that users register with their real names and closing many accounts, particularly the ones developed by famous public intellectuals known as the "big Vs." This has convinced droves of Chinese to move to WeChat, where only shorter messages limited to 500 characters can be exchanged (Muncaster, 2013). WeChat's penetration rate among smartphone users is currently at 83% (L. Chen, 2018). As a result, the number of Weibo users dropped from over 500 million in 2012 to 220 million in 2015. It however bounced back to 462 million at the end of 2018 (CIW Team, 2019), pointing to a gradual internalization of the new rules of the game by most Chinese netizens. Here again, as in Foucault's Panopticon, behaviors have been normalized.

[3]No figures have been officially published.

The most significant turning point after 2012 was the adoption on November 7, 2016 of the "Cybersecurity Law of the People's Republic of China" (2016). The law's main objective is to better and more systematically control the Internet, giving priority to defending state interests and securing critical infrastructures. Article 9 of the law states that "network operators . . . must obey social norms and commercial ethics, be honest and credible, perform obligations to protect network security, accept supervision from the government and public, and bear social responsibility." While the law also aims at protecting individuals against cybercrime and data theft, it does not establish any concrete mechanisms, let alone an independent institution, that guarantees the privacy of information exchanged on the Web. More importantly, the law removes Internet anonymity: Internet providers must now verify the identity of users when offering network access or data services and can be fined or closed if they do not. Moreover, data collected by domestic providers of "key digital infrastructures" may now only be stored in China, triggering heavy criticism from foreign, particularly Western, companies. Any export of data out of the country must receive prior governmental authorization (Schulze & Godehardt, 2017).

The Chinese authorities have intensified the crackdown in the years since. In October 2017, for example, China cracked down on VPNs (Virtual Private Networks), networks which can be bought online and are widely used in China to bypass the Great Firewall and gain access to blocked websites or applications. In April 2018, the Chinese start-up ByteDance (字節跳動; *zijie tiaodong*, valued at US$30 billion by investors) was ordered to shut down its app for sharing jokes and "silly videos" after many "honest citizens" had reportedly complained about its content. A few days earlier, its flagship app *Jinri Toutiao* (今日頭條), a news aggregator that claims 120 million users, was pulled from app stores. It was in this context that the ByteDance Founder and Chief Executive Zhang Yiming (張一鳴) publicly apologized, indicating that "[*Toutiao*] content did not accord with core socialist values and was not a good guide for public opinion" (Russell, 2017; Zhong, 2018). In August 2018, Tencent was forced by the Chinese Government to impose stricter rules and limits on its very popular online games, particularly in order to reduce the tendency for Chinese youth to become addicted to them (Deng, 2018a). Deriving two thirds of its revenues from its games, Tencent was later forced to restructure (Deng, 2018b).

In the eyes of the CCP, censorship is not enough. It must be maintained with active propaganda that imposes the official narrative of China's history and its politics in particular, both inside and outside of the country. To accomplish this task, the Party has mobilized a large number of people in addition to its "Internet police" whose status is hard to determine. Since 2016, for example there has been a burgeoning nationalist

"troll army" referred to as the "Little Pinks" (小粉紅; *xiaofenhong*) voluntarily launching all-out attacks against anyone venturing to criticize the Party or Xi's policies (Pedroletti, 2017). These nationalists have clearly been used by the regime to better disseminate and shield its propaganda. In that sense, they act as a part of the Great Firewall and the guards of Foucault's Panopticon.

The CCP has also expanded its repressive objectives by targeting Chinese users of Twitter users, a social media platform popular among overseas political and human rights activists, for "liking" posts accused of insulting the Party leadership or even for simply opening an account (Shepherd & Yang, 2019). Likewise, an increasing number of Chinese "trolls" are active on Facebook, conducting organized raids on accounts defending the causes and rights of Uyghurs. In January 2016, they launched an "expedition" against Taiwanese President Tsai Ing-wen's own Facebook account shortly after her election (Griffiths, 2019b). The crackdown on VPNs has also intensified, underscoring both the fact that more educated youth are using them and that the CCP harbors ambitions to monitor the online behavior of its citizens beyond the Great Firewall.

In a similar vein, ByteDance has made sure to wall off users of Douyin and TikTok in order to "avoid having problematic content created outside of China viewed by domestic audience," according to Sacks (2018), a China digital economy expert with New America. This is in spite of TikTok's growing success worldwide, with over 188 million users in the first quarter of 2019 (Y. Yang, 2019).

Control of online communication has recently witnessed a more microlevel development: in a growing number of universities, students are being asked to give their personal data to the university authorities, including WeChat accounts, QQ numbers and email addresses.

As Roberts (2018) has shown, censorship has become subtler, making it difficult to access information that is critical of the government by diverting netizens to pro-government views.

The Government Use of Big Data

As have many authoritarian regimes (e.g., Russia), Chinese authorities have adopted a "sovereigntist" approach to the Internet and social media, feeding a much-discussed Balkanization of global cyberspace governance (Griffiths, 2019a). At the same time, however, the CCP has allowed Mainland China-based netizens some flexibility or "breathing space" with the double objective of letting out their frustrations [or bad *qi* (氣) in Chinese] and helping the government maintain a more accurate understanding of the mindsets of both Chinese society and resident foreigners. China's

"angry youth" (憤青; *fenqing*), for example, have been managed with a certain degree of tolerance by the cyberpolice.

By allowing debate and controversy on the Web to develop to a certain point, China's cyberauthorities can collect an impressive sum of big data that is constantly updated and directly helps the government in managing and maintaining control over society. It improves governance and public policies, makes it possible to address the concerns of specific groups and allows the government to more efficiently repress and even pre-empt bad individual or company behavior, social unrest or crime.

The Social Credit System

In 2014, the Party-state decided to introduce the "social credit system" (社會信用體系; *shehui xinyong tixi*), a new digitalized instrument aimed at maintaining better control over society. In June of that year, the State Council issued a circular that planned to fully establish such a system by 2020 (The State Council of the People's Republic of China, 2014). Borrowed from Western credit institutions, it aims at assessing and rating the reliability of citizens and companies with respect to both their ability to repay a loan and a vast and varied set of activities that include qualities such as respect for the law or political, social and moral conduct. Citizens are rated in four main areas: administrative affairs, commercial activities, social behavior and law enforcement. One other often overlooked objective of the SCS is to better check on government officials and the judiciary and improve the confidence of citizens in their institutions. Still, it is the former objective that has been the most noticed outside of China. Individuals may be marked as asocial for not visiting their parents, behaving badly on public transportation or jaywalking. Worse, they can be labeled as dissidents or dangerous for social stability should they participate in an underground church or a workers' rights non-governmental organization (NGO). Such cases could result in a negative rating and attract a certain number of sanctions or constraints: a ban on travel in public transportation such as high-speed trains or aircraft, the denial of access to social housing or public jobs or being prohibited from leaving the area.

This task is facilitated through the accumulation of an immense quantity of data on both individuals and organizations by the Party-state and its security services (the aforementioned *big data*) as well as progress in artificial intelligence (AI).

The social credit system was first conceived in the early 2000s to keep businesses under control and compel them to show greater respect for their legal, economic and social obligations. This included adhering to rules and their own entrepreneurial engagements, tax returns, environment protection, energy saving and other corporate

social responsibilities. The system has gradually been set up through a series of local trials and was extended in 2014 to monitor not only citizens and companies, but also government organs and courts. In December 2017, 12 cities including Hangzhou, Nanjing and Xiamen initiated local personal credit scoring systems. A smaller city, Rongcheng (Shandong), has also been included and often been promoted as a model (Mistreanu, 2018). Nearly 20 cities have created similar official systems since, and their number will continue to grow (Y. Zhang & Han, 2019).

Officially, the SCS should be fully in place in 2020 (Zhou, 2018). Coordinated by the LSG in the CCP and the Commission for Comprehensively Deepening Reforms since March 2018, the system is managed by the State Council's National Development and Reform Commission (NDRC) that officially keeps a nationwide database and a China Credit website which regularly publishes information.

As indicated above, the official objective of the social credit system has been to restore the faith of citizens in the government, the judiciary, economic actors and their fellow citizens. To some extent, the SCS attests to the high level of mutual distrust in Chinese society today. Targeting both Chinese and foreign enterprises, the project also aims to reduce the cost of transactions and cut economic risks by compelling the government to gather a great deal of legal, financial and commercial information on firms. About 75% of this information has currently been made public, the rest being restricted mainly to government access (Meissner, 2017).

This new system links mechanisms for holding individuals responsible with social control methods. On the one hand, society is induced to take part in the system because it allows access to diverse services and advantages. On the other hand, society's implication in the SCS opens it to potential sanctions, i.e., holding it responsible (Hoffman, 2017).

In June 2018, for example, the government released a list of 169 people who had committed misbehaviors such as provocations on flights, attempting to take a lighter through airport security, smoking on a high-speed train, tax evasion and failing to pay fines. Those on the list ended up with a ban from buying train and plane tickets for a year. In an attempt to shame them, they were also listed on the Credit China website (F. Tang, 2018). According to the NDRC, some 10.5 million people by the end of April 2018 had been named and shamed by the courts, prompting a quarter of them to fulfil their obligations (F. Tang, 2018).

A year later, the NDRC published even more compelling figures that resulted in the blacklisting of 13.49 million people classified as "untrustworthy." In its report, the NDRC claims that the SCS has blocked the sale of 20.47 million plane tickets (including 17.46 million in 2018 alone) and 5.71 million high-speed train tickets

(5.47 million) between 2014 and the end of March 2019 as punishment for failing to repay debts and other misbehaviors. The list of blacklisted people has been compiled by Chinese courts. Local authorities can also put pressure on untrustworthy persons by preventing them from buying premium insurance, wealth management products or real estate (He, 2019; A. Lee, 2019). In 2018, 3.51 million citizens and companies repaid their debts or paid off taxes and fines "due to pressure from the SCS." In addition, 3.52 enterprises were added to the creditworthiness blacklist, banning them from various activities including bidding on projects, accessing the security market, taking part in land auctions and issuing corporate bonds. Also, 1,282 peer-to-peer lending platforms were blacklisted because they could not pay back their investors or were involved in illegal fundraising (He, 2019).

In April 2019, NDRC spokesman Yuan Da indicated that the National Public Credit Information Center, the NDRC unit that manages the social credit database, has started sharing the credit scores of individuals and enterprises with credit firms in various sectors such as gas, coal, travel and transport. This Center will also give priority to cracking down on fraud in the medical sector by establishing a blacklisting system targeting hospitals, doctors and insured persons (A. Lee, 2019).

Consequently, it appears that there is a close relationship between the development of the SCS and the establishment by the judiciary of an online inspection and control network (網絡查控系統; *wangluo chakong xitong*) to implement its decisions. The 2019 Supreme People's Court report to the NPC sheds some light on the progress of the latter, which officially has been far from easy.

The Supreme Court claims that its network has been able to "connect 16 units and more than 3,900 banking financial institutions, including the Ministry of Public Security and the Ministry of Natural Resources, covering 16 categories of deposits, vehicles, securities, real estate, and network funds," and substantially improve the execution of court judgments as a result (L. Tang, 2019). In order to speed up the introduction of the SCS and improve the implementation of difficult court decisions, for example, the higher people's court of Shaanxi Province decided to improve its online inspection and control the network of financial, construction and real estate sectors in October 2018 ("Shannxisheng Fayuan," 2018).

The introduction of the SCS has the potential to clean up the internal economic environment, improve the behavior of economic actors, reduce corruption and regulate the market. As described above, however, the SCS also contains an Orwellian dimension that the growth of the Internet can only enhance. The SCS increases the Party-state's right to oversee business activities, its interference in market mechanisms and its control over the private sector, including foreign companies. It confirms the

CCP's intention to remain on top of the political system and the economy while thwarting the emergence of economic forces out of its tight leash. The SCS establishes above all a level of surveillance and micromanagement of citizens that is particularly anti-freedom, ignoring among other things, a respect for privacy and the right to be forgotten. It promotes a "rule of trust" arbitrarily defined and carried out by the CCP to the detriment of the rule of law (Y.-J. Chen, Lin, & Liu, 2018). Finally, the SCS contributes to creating a new Panopticon in which citizens are both inmates and guards, empowered to spy on their neighbors (see below).

For the time being, the SCS is in force only partially and is far from being fully centralized: much data is being held and managed by local governments which draw their information from their own services, mobile payment companies that hold personal data or court verdicts.

In any event, the social credit system seeks to reassure credit enterprises, consumers, parents and the government, highlighting the need for security and predictability with which Chinese society is preoccupied. This proclivity far outweighs individual freedoms or privacy at present. The system also confirms the low level of interpersonal confidence within Chinese society, the priorities of the majority of its members and its dominant political culture (Cabestan, 2019a, pp. 63–72).

Facial Recognition

The most recent product of the digital surveillance of citizens, facial recognition, has been presented in China first and foremost as a gem of domestic innovation. The true objective of this new technology, however, is to better monitor citizens and their movements and behavior in public spaces.

Since 2017, facial recognition has been gradually adopted by local public security bureaus across China with the help of local companies such as Megvii and SenseTime that have mastered the technology. They are part of what in China is called the "Smart Eyes" program, an important dimension of the country's "Smart City" program. Facial recognition is a substantive component of the AI industry, another key target of "Made in China 2025." The State Council expects that this industry will be worth around $150 billion by 2030 (C. Lee, 2018). The objective of local governments for using facial recognition is to "run their cities more efficiently," meaning to keep them safe, stop street crime and protect residents from pickpockets. Similarly to Internet censorship, however, one perhaps less overt but equally crucial objective is social stability (Schmitz, 2018).

According to some reports, Chinese authorities have ambitious plans to use facial recognition and AI to track and monitor its 1.4 billion citizens. China is already the biggest market in the world for video surveillance — $6.4 billion in 2016 — and has

the highest number of security cameras, with 170 million currently in use for its Skynet surveillance system and 400 million on the way in the coming years. By 2020, China will be equipped with 623 million CCTV cameras, a stark increase from its roughly 200 million in 2019 (P. Zhang, 2019). Skynet is a national system aimed at fighting crime and preventing possible disasters. In March 2018, Beijing police started to use facial recognition and AI-powered glasses to catch criminals (Zhou, 2018).

Since 2018, Chinese security has introduced advanced facial recognition technology especially designed for tracking Uighurs and other Turkic minorities. First used in Xinjiang when Beijing launched an unprecedented crackdown on the Uighur ethnic group and threw over a million into concentration camps, it has since been adopted by a growing number of provinces and cities. Developed by software companies such as Yitu, Megvii, SenseTime and CloudWalk, this racial profiling technology has also received investment from US companies such as Fidelity International, Qualcomm Ventures, Sequoia Capital and Sinovation Ventures led by Kai-Fu Lee (李開復), a Beijing-based Chinese tech investor of Taiwanese origin (Mozur, 2018).[4]

It is the CCP leadership's ambition to turn China into a massive Panopticon in which anyone can be constantly watched, and citizens resultingly regulate their behavior in order to avoid being caught.

Thanks to digitalization, the PRC Party-state is today much better equipped to understand and maintain control of Chinese society as well as to predict any of its potential moves. It tightly manages the Internet and social media with a degree of flexibility and pluralism purposefully employed as both a safety valve and an abundant source of information. These new technologies are a new source of power that are conducive to maintaining social stability and defending the interests of the CCP regime. The introduction of both the social credit system and facial recognition technology has added to the many ways in which the regime is able to maintain its control over society and the timely prevention of any social manifestations that could weaken or destabilize the regime in the foreseeable future.

The Complicity of China's Digital Economy Giants

The CCP has been able to mobilize many resources to these ends, including the support and cooperation of China's national champions such as Alibaba, Tencent and

[4]K.-F. Lee (2018), who earlier worked for Microsoft and Google, is known for his book *AI Superpowers: China, Silicon Valley, and the New World Order* that predicts China's surpassing the US to gain global dominance in AI.

Huawei. Cook (2019b) reported that "Dutch hacker Victor Gevers revealed that the content of millions of conversations on Tencent applications among users at internet cafés are being relayed, along with the users' identities, to police stations across China." Tencent is currently expanding overseas, having bought the news aggregator Reddit in February 2019. As a result, Reddit has been inundated with pro-China accounts that have "downvoted" links that are critical of China. Moreover, there has been evidence of politicized censorship and surveillance on WeChat conversations between overseas users and users based in China (Cook, 2019b).

SenseNets is a Shenzhen-based Chinese firm founded in 2015 that offers facial recognition and crowd analysis technology. It has also been closely working with the police. The company is one of the world's leading suppliers of artificial intelligence-powered video technology solutions in the security business. It has been part of China's Skynet Project and relies on more than 20 million cameras installed in public spaces. SenseNets has also helped the government track over 2.5 million people in Xinjiang.

The Perfect Digital Dictatorship and Its Weaknesses

The digitalization of Chinese society has helped the CCP regime to establish an authoritarian political system that has become more and more totalitarian, has the means to control and even pre-empt the moves of its citizens and cannot envisage its demise. China is using digitalization to achieve what Ringen (2016) calls a "perfect dictatorship." Yet, "perfect" is an aspiration more than a reality, an ideal that by definition cannot be reached: Chinese society is in reality more complicated, diverse, hostile and reactive than any perfect dictator, including Xi Jinping, can imagine. The complexity of society imposes significant limitations to a dictator's ambition to control and rule indefinitely, and these limits have important implications for the future of state–society relations in China.

Big Brother Xi is Watching You!

The founding document of the Social Credit System clearly states the CCP leadership objective: "Allow the trustworthy to roam freely under heaven while making it hard for the discredited to take a single step" (使守信者處處受益、失信者寸步難行; *shi shouxinzhe chuchu shouyi, shixinzhe*

cunbu nanxing).[5] The document is centered on the concept of "trust" (誠信; *chengxin*) that is mentioned 143 times but remains more than vague about the legitimate authority or agency which can define it and adjudicate disputes about its interpretation. Seen by some as a "gigantic social engineering experiment" (Dockrill, 2018), the SCS has been described by others as a "gamification of trust" because of its scary scoring system (Ramadan, 2018). As for the most interesting analysis of the SCS and the various aspects of the digitalization of Chinese society discussed above, much has been done by the economists Martin Chorzempa, Paul Triolo and Samm Sacks from the Peterson Institute for International Economics (Chorzempa et al., 2018). They argue that the goal of the PRC leadership is "algorithmic governance," describing its approach as a Panopticon in reference to Jeremy Bentham's perfect jail.

As demonstrated above, the CCP regime's multiple digitalized means of surveillance is forcing Chinese citizens (and netizens) to interiorize the new rules of the game and behave in such a way that they will not be caught. This not only means self-censorship and prudence on the Web or in public debates and publications, but also a temptation to denounce those who misbehave. The digitalization of Chinese society has magnified Link's (2002) famous "Anaconda in the Chandelier" metaphor, where a large snake does not need to move or intervene, but only to be there and watch. At the same time, digitalization has highlighted what Zuboff (1988, pp. 315–361) calls the "dual nature of the Information Panopticon": participants may be under surveillance but may also use the system to engage in the surveillance of others by monitoring or reporting the contributions of other users. Thus, the Information Panopticon is one in which everyone has the potential to be both a prisoner and a guard.

This is precisely how the CCP wants the Web and the SCS to operate, and there are multiple signs that it will work in this way. In general, critics have deplored the lack of awareness in Chinese society of the dangers of these new surveillance systems (Carney, 2018). According to opinion surveys such as those in Dickson's (2016, pp. 71–73) *The Dictator's Dilemma*, while most Chinese Internet users declare support in principle for freedom of expression online, a majority claim not to be affected by censorship: 72% have never experienced blocked sites, 77% have never seen their messages deleted and 91% have never had their accounts closed. Should censorship happen to affect their online activity, they often react with resignation (49%): "it doesn't matter" (無所謂; *wusuowei*).

[5]This is the most often cited translation ("Big Data and Government," 2016). Rogier Creemer's translation (available at <https://chinacopyrightandmedia.wordpress.com/2014/06/14/planning-outline-for-the-construction-of-a-social-credit-system-2014-2020/>) is closer to the Chinese original version: "Ensure that those keeping trust receive benefit in all respect, and those breaking trust meet with difficulty at every step."

Another factor continues to feed attitudes of acceptance and resignation toward censorship: in China as elsewhere, new public spaces opened by the Internet and especially social networks are becoming increasingly fragmented and ephemeral. This Balkanization of the Web has reached China and allowed netizens sharing the same ideas (for example, new left or nationalist sites) or interests to gather among themselves, limiting pluralism in debates and comforting each other in their positions. Moreover, Chinese cyberspace has been truncated and distorted as "liberal" sites and blogs that favor real political reforms are shut down one after the other. A mere 11% of Chinese netizens (around 90 million) are known to use a VPN, a tool that would allow them to reach the global blogosphere. Consequently, most netizens in China are daily influenced by a highly distorted Web. In any event, most Chinese who have not mastered another language are limited to reading local websites and blogs, and they do not find this particularly frustrating.

One should not neglect the attractiveness of the reward system for citizens who denounce the misbehavior of their neighbors or colleagues. A diverse array of incentives from SCS points to monetary rewards are being distributed to those who report on "illegal" religious practices (by Uighur or Falun Gong practitioners) or asocial behaviors (Y.-J. Chen *et al.*, 2018, p. 15; Cook, 2019a). In the same vein, the Ministry of State Security launched a new bilingual website in 2018 (https://www.12339.gov.cn/) that offers 10,000–500,000 yuan (US$1,600–79,700) for information on spies and Chinese officials who have taken bribes from their compatriots or foreigners (AFP, 2019).

Finally, many Chinese have another view of the SCS and facial recognition: they see these new systems not only as tools that can prevent misbehaviors and crimes by citizens and companies, but also as a means to monitor their government and judiciary, to compel their improvement and to encourage greater transparency with more participation from citizens. Believing in CCP propaganda, they think that the SCS will contribute to enhancing society's trust in the government and the courts (Chorzempa et al., 2018, pp. 4–5). In other words, many Chinese citizens have enthusiastically become both the inmates and guards of Foucault's Panopticon.

There is No Such Thing as a "Perfect Digital Dictatorship"

It is clear that Chinese society currently gives priority to security over liberty. By and large, it prefers to submit itself to the government's totalitarian means of surveillance and have the illusion of being more secure rather than to question these in the name of freedom or even the rule of law, acts which would cause it to feel less secure.

Nonetheless, China's new systems of digital surveillance face two major limitations and weaknesses: no system of surveillance is fully reliable and operational; in fact, some Chinese have begun to question and even challenge them.

First of all, the Internet controls imposed by the authorities are not as effective as sometimes believed. Censorship is often erratic. Even under Xi, a substantial and increasing minority of netizens continue to have access to banned foreign sites by using more and more sophisticated foreign VPNs. As we have seen, these VPNs are often tolerated because they are used by elites, researchers looking for cutting-edge technologies or Chinese and foreign enterprises. There are also provincial variations: VPNs are having greater difficulty in penetrating the Great Firewall in Beijing, the regime's nerve center, than in other cities.

Second, the widespread use of WeChat and the exchange of instant short messages on the Web has forced the government to become more tolerant by closing the accounts of only the most persistent abusers and hoping that the threat of account closure is enough to convince most netizens to restrain themselves and engage in self-censorship. For instance, multiple interviews with Mainland Chinese students have confirmed that many rely on a VPN without being threatened by authorities. They use VPNs to gain access to independent news and are inclined to use coded language when they discuss politically sensitive issues, precisely to circumvent self-censorship (Arsène, 2011).

Third, the geometric increase of online payments has rapidly multiplied the risks of data leaks and privacy breaches. These leaks are often used by Chinese (or Taiwanese) cybercrime organizations established abroad, particularly in developing countries such as Cambodia, Kenya or the Philippines. They make money by extorting careless or naive netizens. In September 2018, a Chinese Consumer's Association survey indicated that 85% of people had suffered some sort of data leak such as having a phone number sold to spammers or one's bank account details being stolen. PRC authorities have only very recently become aware of the magnitude of the problem and are now rushing to introduce "data governance" regulations (S. Wang, 2017). Baidu's Chief Executive Robin Li (李彦宏) presumed that contrary to Western consumers, Chinese consumers would be ready to "trade privacy for convenience," but the opposite seems to be taking shape in China. As a result, the government is putting pressure on big Internet companies to better enforce data protection rules (Y. Yang, 2018). Both Alibaba and Tencent have pledged that they will meet the European Union's General Data Protection Regulation (GDPR) requirements introduced in May 2018 (Chorzempa et al., 2018, p. 8). However, it is also feared that the CCP will at the same time take advantage of the new regulations to better protect national security and its own interests to the detriment of citizens.

Recent studies have shown that there is a growing awareness of privacy among netizens, convincing more of them to reveal less about their own life on the Web or to use a pseudonym in many of their online transactions (see below). As elsewhere in the world, China is simultaneously undergoing social media fatigue, leading netizens to become less active on the Web (Z. Wang, 2019).

Fourth, more Chinese are becoming unhappy with the stricter controls and ideological surveillance imposed by the government since Xi Jinping came to power. For instance, many students have reacted negatively to requests from university authorities to provide their personal digital data and tried to give away as little information as possible (Xi, Han, Wong, & Lau, 2019).

Fifth, facial recognition technology is not without limitations: cameras can only search a limited number of faces at the same time. Technological prowess has been on purpose exaggerated by the authorities in order to frighten potential law breakers, since what matters here is the intentions and the ambitious objectives pursued by the CCP regime, in the name of social stability (Jacobs, 2018; Mozur, 2018).

Sixth, while Chinese hardware and software companies are required to cooperate with the government according to the Cybersecurity Law and others, they are sometimes negligent. In February 2019, Victor Gevers indicated that an online database belonging to SenseNets has been publicly available for months, compromising the personal data of millions of people (Tao, 2019). While this raises questions about the protection of privacy, it also shows that companies do not always operate according to the books.

Finally, more Chinese have started to express concerns about the intrusiveness and potential unfairness of the SCS. The SCS has already attracted heavy criticism for its attack on freedoms, the inconsistency of data gathered and the potentially arbitrary nature of the scoring system. This criticism has come from both Chinese society in general and from economic circles. There are also concerns about privacy and the way China's technology giants will be handling personal information. While many PRC citizens are happy to see powerful entrepreneurs and officials disciplined by this system, some are already worried of the lack of established procedures to challenge the decisions. For example, investigative journalist Liu Hu (劉虎) was blacklisted by the SCS for "speech crime" after he had accused a government official of extortion. As a result, his career was destroyed, his social media accounts were shut down (he had two million followers on WeChat and Weibo combined) and he has been in *de facto* house arrest in Chongqing (Carney, 2018). As with Liu Hu, many of the more than 10 million Chinese who have received bad scores in the dozen cities where SCS has been tested have been wrongly blacklisted and can do nothing about it.

The fact that a growing number of Chinese netizens are leaving WeChat or using it more selectively over privacy fears is not unrelated to this intensified repression (L. Chen, 2018).

The fact that, still today, "most Chinese don't yet understand what's to come under the digital totalitarian state," as Liu Hu has said, is bad news for Chinese citizens but good news for the CCP. The system is run by a gigantic Panopticon-like Party-state which maintains the exclusive right to decide the score of every citizen and company and the type of information to make public. The good news is that its full implementation may be postponed and will probably trigger many glitches and unforeseen problems, leading more Chinese citizens to either challenge the system or at least question its sharpest angles (Horsley, 2018). As Chorzempa et al. (2018) remind us: "The SCS is a herculean effort that will take many years to succeed" (p. 4). The chances of having a full-fledged unified SCS remain limited. Moreover, for technical reasons, China is unlikely to meet the target of general adoption by 2020. It may more likely be heading toward a somewhat fragmented SCS that is more repressive in some localities and more flexible or even non-existent in others, as is the case with the Chinese bureaucracy in general.

Conclusion

There is no question that China is ahead of many developed countries in terms of the digitalization of its society and surveillance systems. It is also clear that new digital technologies such as the widespread use of ID cards, the Great Firewall, the accumulation of big data, the SCS and facial recognition have enhanced the capacity of the CCP to rule China, maintain its control over the society and stay in power for a long time. While these are not the only systems in place to manage Chinese citizens and managing them is not their sole purpose, they have been rightly seen as part of an ambitious Orwellian project to microcontrol every move of the Chinese public and normalize the behavior of its citizens (Xiao, 2019). As in Foucault's Panopticon, these new technologies and institutions have turned Chinese citizens into both inmates and guards, as they have been given the means to constantly check on other inmates.

Clearly, these developments in China are going to inspire other authoritarian countries. In fact, with the help of big firms such as Huawei, ZTE, Alibaba, Tencent and others, the PRC has already offered and transferred its surveillance technology to many other countries.

Nevertheless, we have shown that a perfect digital dictatorship is unlikely to take shape in China. China's digital dictatorship is likely to remain fragmented due to the sheer size of the country, the rivalry among the bureaucracies and telecommunications companies serving the Party-state, the lack of discipline in these firms, the slow pace of SCS development and the growing awareness of privacy in society. In spite of Xi Jinping's iron fist, China's authoritarian political system still appears fragmented (Cairns, 2016; Lieberthal & Oksenberg, 1988).

The digitalization of any society presents both benefits and risks. While Foucault's prescient work far preceded the digital era, Panopticon theory has witnessed a genuine revival precisely because of the growth of digital surveillance. This has inspired questions not only for China's recent innovations, but for the world's fascination for big data, algorithms, smart cities and technological surveillance "solutions." For example, Ericson and Haggerty (2006, p. 14) have demonstrated that increasingly visible data made accessible to organizations and individuals from new data-mining technologies has led to the proliferation of "dataveillance," a mode of surveillance that aims to single out particular transactions through routine algorithmic production.

The fundamental question for every democracy is: Is China showing the way? What kind of institutions and mechanisms can be put into place to protect transparency and the freedoms and privacy of citizens? Many democratic countries have already established independent institutions that are responsible for the protection of privacy and the prevention of the cross-utilization of data by the state, the police, the secret service and other security bureaucracies. However, much remains to be done as the Snowden affair has revealed. The digitalization of Chinese society compels us to remain vigilant and see that the newest technological treasures do not evolve into nightmares.

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The Rise of Xi Jinping and China's New Era: Implications for the United States and Taiwan

Drew Thompson

Xi Jinping's rise to power has heralded a new foreign policy that is more assertive and uncompromising toward China's neighbors, the United States, and the rest of the world. This change presents challenges for the United States and Taiwan in particular which must be addressed with a sense of urgency due to Xi Jinping's ambitious objectives and his firm grip on the levers of power which increase the likelihood that the Communist Party and government of China will seek to achieve them without delay.

This paper reviews changes to Chinese foreign policy in the Xi Jinping era and argues how the modernization of the People's Liberation Army (PLA) over time has increased the threat to Taiwan, with concurrent risks for the United States. Taiwan and the US can address the challenge presented by China by strengthening their relationship to adapt to the new era under Xi Jinping's leadership.

According to CIA (2018), China's economy now stands at approximately US$12 trillion, second only to the United States (CIA [2018]. World fact book). Unlike in 1978, China's economy today is dependent on access to globally sourced raw materials, and access to overseas consumer markets for its industrial and consumer goods. This dependency on overseas markets has increased China's global presence and interests, driving the need to protect them. The Chinese Government's now ample resources have been allocated to both hard and soft power means toward this purpose. The PLA has greatly benefitted from economic development and the expansion of the Chinese economy, transforming from a backward institution focused on private-sector money-making into the sharpest tool of China's power and influence. Since Xi Jinping came to power in 2012, China's foreign policy and strategy have undergone a dramatic shift away from Deng Xiaoping's focus on increasing domestic productivity and avoiding potentially costly overseas entanglements. The confluence of accumulated national wealth, diplomatic, economic, and military power, and the will to use those levers of

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power, has dramatic implications for the United States and China's neighbors. A more assertive China, confident in its wealth, power, and international status, is increasingly unafraid of overt competition with its neighbors and the United States, unwilling to back down or compromise in the face of disputes. This dynamic has resulted in a new paradigm in the Indo-Pacific region that is unlike previous challenges of the past 40 years.

The shift in China's foreign policy and the PLA's modernization threaten to challenge the credibility of US security assurances and alliances in the region, making the cultivation and strengthening of the US–Taiwan relationship, and the network of US bilateral alliances in the region an urgent imperative.

Keywords: Xi Jinping; China; Taiwan; People's Liberation Army; foreign policy.

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The period of reform and opening up that began in 1978 brought great changes to China that included the rapid modernization of its military, the dramatic development of its economy, and the expansion of its global influence. Xi Jinping's rise to power since 2012 has heralded equally impactful developments, including a new foreign policy that is more assertive and uncompromising toward China's neighbors, the United States, and the rest of the world. For the United States and Taiwan in particular, these changes present challenges which must be addressed with a sense of urgency due to Xi Jinping's firm grip on the levers of power and ambitious objectives to achieve his China dream to unify the Mainland with Taiwan, pledging that the dispute "should not be passed down generation after generation" (Bush, 2019). This paper will review certain changes in Chinese foreign policy during the Xi Jinping era and argue how the gradual modernization of the People's Liberation Army (PLA) has increased the threat to Taiwan with concurrent risks for the United States. It explores how Taiwan and the US can address these challenges, strengthen their relationship, and adapt to this new era of Xi Jinping's leadership.

Forty years of reform and opening up in China have resulted in an incredible transformation encompassing societal, economic, and military developments that have redefined the regional balance of power. Chinese society from 1949 up until Mao's death in 1976 was characterized by class struggle, systemic violence, and chaos. The economic norm was rural impoverishment even in areas with rich agricultural resources. There was widespread urban poverty, a lack of consumer goods, and gross inefficiency and incompetence throughout the economy. Human security was lacking for the majority of the population for a generation with the constant fear of dispossession, imprisonment, death, or exile to an impoverished countryside. Under the

absolute control and politicization of all aspects of life by work units or communes in a rigidly planned economy, the Chinese people lacked the most basic freedoms.

Forty years of reform and opening up that have been characterized by a relatively stable society as well as steady increases in productivity, incomes, and the Gross Domestic Product (GDP) have fundamentally changed the lives of the vast majority of the Chinese people. GDP growth has averaged almost 10% per year, which is the fastest sustained economic expansion by a major economy in history. More than 800 million people have been lifted out of poverty (Gao & Yan, 2018; Hofman, 2018). China's urban population expanded from 19% of the total in 1980 to 56% in 2015. About 50% of the population now has access to the Internet, and 93.2% of people have mobile phone subscriptions. Per capita income stands at US$13,345, and China's middle class is growing steadily (United Nations Development Programme [UNDP], 2018). The degrees of wealth, physical and social mobility, and personal freedoms in Chinese society today are astounding when compared to conditions in December 1978 at the beginning of reform and opening up. Those positive social changes have created a degree of domestic stability that, along with a greatly expanded economy, has enabled China's leadership to increasingly turn its attention outward to focus on achieving the complementary objectives of national rejuvenation and the protection of its growing global interests.

China's economy now stands at approximately US$12 trillion, second only to the United States (The Central Intelligence Agency [CIA], 2018). Unlike in 1978, China's economy today is dependent on access to globally sourced raw materials and to overseas consumer markets for its industrial and consumer goods. The dependency on overseas markets has increased China's global presence and interests, increasing the need to protect them. The Chinese Government's now ample resources have been allocated toward this purpose through the exercise of both hard and soft powers. The PLA has greatly benefitted from economic development and the expansion of the Chinese economy, transforming from a backward institution focused on private-sector moneymaking into the sharpest tool of China's power and influence. Since Xi Jinping came to power in 2012, China's foreign policy and strategy have undergone a dramatic shift away from Deng Xiaoping's focus on increasing domestic productivity and avoiding potentially costly overseas entanglements. The confluence of accumulated national wealth, diplomatic, economic, and military power, and the will to use those levers of power, has dramatic implications for both China's neighbors and the United States. A more assertive China that is confident in its wealth, power, and international status has been increasingly unafraid of overt competition with its neighbors and the United States, and unwilling to back down or compromise in the face of disputes.

This dynamic has resulted in a paradigm in the Indo-Pacific region that is completely unlike the previous challenges of the past 40 years.

The shift in China's foreign policy and the modernization of the PLA threaten to challenge the credibility of US security assurances and alliances in the region, making it crucial to cultivate and strengthen both the US–Taiwan relationship and the network of US bilateral alliances in the region.

Chinese Foreign Policy in the New Era under Xi Jinping

Deng set the direction of the country through a series of speeches and statements captured and promulgated by the Party's propaganda apparatus in the late 1980s to early 1990s, culminating in the now famous "24-character strategy" which has been translated in varying, sometimes self-serving ways. The essence of Deng's speeches with regard to foreign policy was the directive to "hide our capabilities and bide our time, be good at maintaining a low profile while trying to accomplish something, and never claim leadership." The rationale was to focus on domestic economic development and ensure that social disruptions from the reform process did not cause chaos or the displacement of the Chinese Communist Party from its place of power. Deng's strategy required a peaceful international security environment that included a benign international perception of China, which was conducive to expanded flows of trade, capital, and technology to and from the country. The "keep a low profile" (*taoguang yanghui*; 韜光養晦) strategy was formulated and promulgated at a historic inflection point when the domestic and international environments were unstable and the Party's grip on power in Beijing was potentially at risk. The unrest of June 1989 and collapse of the Soviet Union in 1991 were two events that had existential implications for the Chinese Communist Party, reaffirming a decade-old focus on internal affairs and the eschewing of international entanglements that could derail China's economic growth or draw it into costly arms races or military competition. Deng's strategy of keeping a low profile was sustained throughout both Jiang Zemin and Hu Jintao's tenures as Party General Secretary.

In Hu Jintao's second term, however, it became increasingly apparent that China's overseas interests had grown tremendously since Deng's time, while its military strength and diplomatic prowess had also grown considerably, albeit at a slower pace. The second half of Deng's *taoguang yanghui* clause was *yousuo zuowei* (有所作為), which has been translated as "try to accomplish something" or "make some achievements." Foreign policy debates in the Hu Jintao Era were centered around this yin-and-yang struggle over whether China's foreign policy should be

active or passive. Domestic calls to adopt a more activist and assertive foreign policy to protect overseas interests that included Chinese companies and citizens in geopolitical hotspots were considered and dismissed in favor of sustaining Deng's low-profile strategy. A dominant school of thought was that a more overtly assertive China would be perceived as a threat and invite the alignment of countries against it, especially the US and its Asian allies. A key public champion of maintaining a low-profile approach was Zheng Bijian, a close adviser to Hu Jintao who coined and promoted the concept of China's peaceful rise, writing numerous English-language articles in prominent US foreign policy journals as well as a book at a leading US think tank (Zheng, 2005). The peaceful rise theory did not last long, however, and quickly fell out of vogue after Hu Jintao and other senior leaders stopped using the phrase in major speeches. Its emergence and widespread dissemination as a concept, however, underscored the desire of the senior leadership to characterize China's economic and military development as inherently peaceful and non-threatening to the United States and China's neighbors.

Xi Jinping's rise marks a clear turning point in the reform and opening-up period, if not an outright departure from it. The rapid consolidation of power in his first five years in office, the dispatching of both rivals and potential successors, his dominance over the rest of the leadership, and his veneration by the propaganda apparatus and political society stand in stark contrast to Deng's behind-the-scenes style and the collective leadership approach of Jiang Zemin and Hu Jintao. Purged twice by Mao, Deng sought to shape a government power structure where no one person held absolute power as Mao did. Though he remained active by "advising" and selecting the next two generations of leaders, Deng was able to establish a collective and consensual leadership model with term limits enacted in 1982. Where Jiang and Hu were clearly first-among-equals, there is no question that Xi has created a new paradigm as the dominant leader of the Party.

This contrast between Xi and his predecessors is reflected in a tone that is more confident in domestic matters and more assertive in foreign affairs. Xi has embraced this difference by emphasizing the unique and new character of his reign. The term "new era" has been used incessantly as an adjective to adorn important government pronouncements, reaching a national crescendo with Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era (習近平新時代中國特色社會主義思想; *xijinping xinshidai zhongguo tese shehui zhuyi sixiang*), enshrined in the Chinese Constitution at the 19th Party Congress in October 2017.

Xi Jinping's vision on foreign policy was first conveyed publicly in October 2013 (Xi, 2013). The newly installed General Secretary gave a speech at a conference on diplomatic work with neighboring countries, where he announced a new approach

to foreign policy. *Fenfa youwei* (奮發有為) has been translated as "strive for achievement," signaling the coming of a more active, assertive diplomacy. While being similar in concept to *yousuo zuowei*, *fenfa youwei* evokes a more active and results-oriented concept. Xi directed that the core objective for diplomatic work in neighboring states be to "serve the cause of national rejuvenation" by seeking to "make our neighbors more friendly in politics, economically more closely tied to us, and we must have deeper security cooperation and closer people-to-people ties" ("Xi Jinping Zaizhoubian," 2013). Noted Chinese international relations scholar Yan Xuetong has compared Deng's *taoguang yanghui* approach with Xi's new *fenfa youwei* strategy, arguing that *taoguang yanghui* limited China to passively adapting itself to changes in the international environment while overly focusing on its domestic economic development. *Fenfa youwei*, on the other hand, "indicates that China will take initiatives to shape its external environment in a favorable direction." Yan notes that the *fenfa youwei* approach is harder than *yousuo zuowei*, and admits that it can lead to friction:

> "It is obviously more difficult for China to shape a favorable external environment for national rejuvenation than to maintain a peaceful environment for economic construction. Compromise is an effective approach to avoid conflicts but it may not be a good method to obtain a favorable environment." (Yan, 2014)

Yan Xuetong's assessment that Xi Jinping's new foreign policy assertiveness precludes compromise is insightful and foreshadows a new era of increased tensions and greater tolerance for friction with other countries in Beijing's policy-making calculations. Xi Jinping's new foreign policy prefers cooperation and accommodation by China's partners while accepting the inevitability of conflict in the pursuit of its goals.

The effective end of the reform and opening-up period and the beginning of a new era was heralded with Xi Jinping's rapid consolidation of power following his ascension at the 18th Party Congress in 2012, the end of term limits, and the enshrining of Xi Jinping Thought in the state constitution at the 19th Party Congress in October 2017. While Party orthodoxy may argue otherwise and refuse to mark the end of one era and beginning of a new, distinct one, Xi Jinping's approach to both domestic governance and international polities is sufficiently different from his predecessors to merit its own label.

Military Capabilities for the New Era

With more resources at his disposal than his predecessors, Xi has worked toward his political and strategic national objectives by creating a political framework that

enables the application of China's national power both at home and beyond its borders. Sustained economic growth fostered by careful reinvestment in economic development and underinvestment in the military enabled China to accumulate great wealth since 1978, and this capital has subsequently been applied to China's military in increasing amounts since the mid-1990s with little-to-no negative consequences for the country's continued economic growth. The sustained increase in resources provided to the PLA has resulted in the development of military capabilities that now present a challenge to the United States and Taiwan.

China's GDP was estimated by the World Bank to be approximately US$150 billion in 1978. It recently exceeded US$12 trillion, reflecting an annual growth rate of just under 10% during the reform and opening-up period (World Bank, 2019). China's defense sector did not benefit from its growing economy in the early years of reform and opening up. Deng Xiaoping famously said that "some people will get rich first," and while he was not specifically referring to the PLA, it was no coincidence that the military was listed last among the four modernizations. China's growing wealth would be reinvested to build up its industry and agriculture, leaving the military to fend for itself with subsistence budgets in the 1980s and 1990s. To placate military leaders and enable it to provide for its soldiers and their families, the PLA was encouraged to participate in the emerging consumer economy by using its capital, human resources, and fixed assets to engage in manufacturing and provide commercial services. PLA-owned facilities were rented out to entrepreneurs, trucks hauled goods for commercial customers, factories made consumer products, and hospitals treated paying civilian patients. PLA businesses were present in almost every sector of the economy, providing much needed revenue to a military which could not sustain itself on its government-provided budget. In 1998, Jiang Zemin ordered the PLA to divest its business interests and focus on developing warfighting capabilities, ending 20 years of commercial activities and beginning a new focus on developing military capabilities and training for war (Mulvenon, 1999).

The focus on domestic economic development and limited resources necessitated neglecting the military with the implicit understanding that it would receive a greater share of the national budget once national resources were sufficient. This approach dovetailed with Deng's strategy of keeping a low international profile and avoiding international conflicts that could negatively impact domestic economic growth. During the periods of Deng, Jiang, and Hu, China placed a greater emphasis on avoiding provocations with neighboring states and made a significant diplomatic effort to settle land border disputes with its neighbors. An inwardly focused PLA suited Chinese foreign policy objectives at the time due partially to the lack of external threats other

than the Soviet Union, which was preoccupied with the US and its Western allies. There was also a lack of confidence in the Chinese political and military leadership that the PLA was ready to project power and take on the United States military. During Ma Ying-jeou's presidency from 2008 to 2016, reassurances from Taipei and cross-Strait détente also lessened the imperative for Beijing to employ credible displays or the threat of force to prevent Taiwan from moving toward *de jure* independence. This does not mean that the PLA's military build-up and training for contingencies on its periphery slowed, but the PLA could continue to focus on its build-up of capabilities and the reform of its inefficient models rather than mounting operations beyond its land borders.

The year 2004 was an important inflection point in China's political and military history. The 100th anniversary of Deng Xiaoping's birth was a time to reflect on his legacy, China's current place in the world, and what the country would need to continue its rise and return to great power status. Jiang Zemin stepped down from his last post as Chairman of the Central Military Commission at the fourth plenary session of the 16th Central Committee, passing the baton to Hu Jintao. Hu fostered an atmosphere of intellectual openness which was unique to his leadership. He encouraged Party theoreticians and top leaders to explore ideas that informed decision-making about the future of the Party and permitted that the parameters of those discussions be made public. Study sessions were held by the Politburo, with government reports and outside experts invited to make presentations. The minutes of those meetings were publicized, spurring lively debate in intellectual and government circles. One notable issue that was discussed was a form of political reform called Intra-Party Democracy which sought to improve governance and accountability of all levels of government, though discussion was limited to building Party capacity and internal checks and balances rather than a more liberal approach to governance such as opposition parties or an independent legal system ("2004 Niandu Shizheng," 2004).

In July 2004, Hu Jintao chaired a study session of the Politburo to explore the coordination of economic development and building the national defense. Hu commented on the need to strengthen defense capabilities and promoted the concept of *fuguo qiangbing* (富國強兵), the fusing of the two concepts of a prosperous nation and a powerful military. In the meeting, Hu noted that Deng Xiaoping had prophesied in 1984 that the military could not be built up until the economy could support it, quoting him as saying:

> "The four modernizations must have precedence. Military equipment can only truly be modernized once the national economy has established a relatively good foundation. I think, by the end of this century, we will definitely exceed the goal of quadrupling our economy.

> By that time, when our economic power is strong, we can use more money to update our military equipment." ("Zhongyang Zhenzhiju Tanqiu," 2004)

The PLA and senior civilian leadership were well aware of the capability gap between the United States military and the PLA. The first Gulf War and the bombing of China's embassy in Belgrade in 1999 highlighted a technology and capability gap as well as PLA's inability to protect China's interests abroad. Hu Jintao's invocation of Deng Xiaoping was a clear signal that the time had come to increase defense spending and build PLA's capabilities. This was a key turning point in the evolution of China's military and foreign policy, marking the beginning of a sustained and concerted effort to develop its military capabilities to enable it to project power and more effectively defend its interests beyond its borders.

The National People's Congress in March 2017 reported the national defense budget at US$154.3 billion, a 6.5% increase over the previous year. China has the second largest defense budget in the world after the United States, having doubled it more than once in the past decade. For the last 20 years, defense spending has increased at an average rate of 8% in inflation-adjusted terms. With this steady increase in defense resources, the Chinese military has engaged in a comprehensive, long-term modernization program that has affected all aspects of the force (U.S. Department of Defense, 2018a).

The build-up and modernization of all branches of the PLA directly affect Taiwan's security. Hu Jintao's exhortation in 2004 that the PLA prepare for "New Historic Missions" has not diminished its focus on a Taiwan contingency as a key driver for its transformation (Taiwan Ministry of National Defense, 2017). The expansion and modernization of China's army, air force, missile force, and strategic support force are dramatic and relevant, but it is the sequencing of that modernization process and key acquisitions made by the PLA Navy that should cause concern in Taiwan. The PLA Navy's transformation from the year 2000 to today has exceeded any military build-up since World War II, rivaling only the United States Navy in the 1980s during its arms race with the Soviet Union (Fanell, 2018). Of particular relevance is the sequencing of that modernization process and how the choice of which capabilities to expand and modernize first should affect the strategic calculations of Taiwan, the US, and China's neighboring countries.

China has long had the ability to hold the main island of Taiwan at risk through conventional strike capabilities launched from standoff distances, particularly ballistic and land-attack cruise missiles. China's ballistic missile program began in the 1950s with support from Soviet technology and scientists. Test launches of domestically produced ballistic missiles took place throughout the Cultural Revolution. China's first

satellite was launched in 1970, a key milestone in the development of its ballistic missile program. The United States Department of Defense reported in 2003 that China had approximately 450 short-range ballistic missiles that could strike Taiwan, noting that land-attack cruise missiles were being developed. In 2016, the Department reported that China possessed approximately 1,200 short-range ballistic missiles. Authoritative estimates of China's ground-, air-, and ship-launched land-attack cruise missile inventory are not publicly available, but what can be confirmed from open sources is that China would likely use both ballistic and cruise missiles to attack critical infrastructure targets in Taiwan, particularly air force bases, command and control centers, early warning radars, and critical civilian and military infrastructures that include power and communications. It is possible that missile strikes would also be used against population centers to sap Taiwan's will to fight and force its political leaders to sue for an early peace. Ballistic and cruise missiles also provide a critical strike capability against US and allied air bases in the region and the United States Navy surface action groups that would be central to an intervention in the event of a Taiwan contingency.

The earliest focus of China's build-up of maritime capabilities was centered around the development and fielding of what the United States Department of Defense described as anti-access/area-denial (A2AD) capabilities that primarily targeted US military capabilities that would be critical in a conflict in the Western Pacific. These investments began in the late 1990s and early 2000s and included imported advanced Russian weapons such as guided missile destroyers, diesel–electric attack submarines, and fighter aircraft. China has assimilated Russian and international military technologies since then, combining them with indigenous research and development to field its own domestic weapon systems that bolster the capabilities of its navy, air force, and strategic rocket force. China's navy has enlarged its surface fleet by building and deploying six new classes of vessels in large numbers. The 107 surface ships armed with surface-to-air, surface-to-surface missiles, and anti-submarine weapons now in the fleet include the Type-052D *Luyang III* destroyer, the Type-054A *Jiangkai II* frigate, and the Type-056 *Jiangdao* corvette. The newly launched Type-055 *Renhai* destroyer is currently undergoing trials and expected to join the fleet in 2019. According to the United States Department of Defense, China currently operates 56 nuclear and diesel–electric submarines which are expected to increase to somewhere between 69 and 78 submarines by 2020 (U.S. Department of Defense, 2018a). With great fanfare, China has also launched its first two aircraft carriers with a third under construction. These surface and subsurface systems are complemented by ballistic missiles

such as the DF-21D, designed to target moving capital ships and air- and surface-launched anti-ship cruise missiles with long ranges and modern seekers.

Until 2006, the PLA Navy's expansion appeared to neglect amphibious warfare capabilities in favor of missiles, aircraft, submarine, and surface vessels that could provide air defense, anti-submarine, and anti-surface capabilities. This was to hold US forces in the Western Pacific at risk in what PLA strategists call a counter-intervention strategy. For decades, China military-watchers in the United States and elsewhere derided China's amphibious invasion capabilities, calling annual amphibious training exercises for PLA conscripts the million-man swim. In 2014, the United States Department of Defense noted in its annual report to Congress on China's military activities that, "The PLA Navy currently lacks the amphibious lift capacity that a large scale invasion of Taiwan would require. . . . An attempt to invade Taiwan would strain China's armed forces and invite international intervention. . . . China does not appear to be building the conventional amphibious lift required to support such a campaign" (U.S. Department of Defense, 2014).

The delivery of the first Type-071 *Yuzhao* Amphibious Transport Dock in 2006, however, was a little-noticed event indicating that greater resources were being directed to the PLA's amphibious warfare capabilities. The PLA Navy has since taken delivery of five Type-071 vessels with a sixth being fitted out. Displacing more than 20,000 tons, the Type-071 can carry four medium lift helicopters and four Type-762 *Yuyi*-class air-cushioned landing craft (LCAC) in its submersible well deck which could deploy up to 800 embarked marines or soldiers in a ship-to-shore mission. The newest class of amphibious warfare ships is the 40,000-ton-displacement Type-075 Landing Helicopter Dock, a helicopter assault ship with a well deck for landing craft and full flight deck running the length of the hull, similar to a United States Navy Wasp-class amphibious assault ship. The first Type-075 built in Shanghai was launched in September 2019. To ferry its troops in their tanks and armored vehicles, the PLA Navy has invested in air-cushioned landing craft. China purchased two Zubr-class hovercraft from Ukraine in 2009, which are two of the world's largest and can carry three main battle tanks or eight infantry fighting vehicles. Two more have been manufactured under license in China. China has also built six Type-762 LCACs which are slightly smaller than the Zubr-class LCACs but still able to rapidly land tanks and armored vehicles beyond the surf line. One can presume that the PLA Navy will manufacture additional LCACs as lift capacity from new amphibious vessels comes online. For follow-on forces in the instance where the LCACs may become attrited during the initial waves of a beach assault, the PLA boasts amphibious tanks and infantry fighting vehicles that can propel themselves through calm waters directly from the well deck of a ship.

The PLA has also invested in the personnel that would be called upon to conduct an amphibious invasion. Training for joint operations and amphibious power projection has not been neglected over the last decade, adding to the PLA's credibility and confidence to carry out a Taiwan mission. Annual and periodic exercises such as Stride, Mission Action, and Firepower focus on improving and demonstrating joint capabilities, including maneuvers over considerable distances and between different regional commands, making these exercises relevant to both Taiwan and other contingencies on China's periphery.

While the troops called upon in the event of a Taiwan contingency would come from throughout the PLA enterprise, the number of troops and units specialized for amphibious operations is increasing. According to the United States Department of Defense in its most recent report, the PLA Marine Corps is notably tripling in size:

> "One of the most significant PLAN structural changes in 2017 was the expansion of the PLAN Marine Corps (PLANMC). The PLANMC previously consisted of 2 brigades, approximately 10,000 personnel, and was limited in geography and mission (amphibious assault and defense of South China Sea outposts). By 2020, the PLANMC will consist of 7 brigades, may have more than 30,000 personnel, and will expand its mission to include expeditionary operations on foreign soil, as PLANMC forces are already operating out of the PLA's base in Djibouti. A newly established Marine Corps headquarters is responsible for manning, training, and equipping the expanded Marine Corps and, for the first time, the PLANMC has its own commander, although it is still subordinate to the PLAN. The PLANMC may also incorporate an aviation brigade, which could provide an organic helicopter transport and attack capability, increasing its amphibious and expeditionary warfare capabilities." (U.S. Department of Defense, 2018a)

In addition to the PLA Marines, the Army has historically fielded two Amphibious Mechanized Infantry Divisions in the East and Southern Theater Commands. There is speculation that these two units will be reorganized with some brigades being transferred to the PLA Marines in an effort to bring their strength up to 100,000 personnel in the future (Chan, 2017). In a relatively short period of time, the PLA has invested heavily in building a sizeable amphibious invasion capability that would be able to conduct operations on China's periphery using modern systems instead of a rag-tag flotilla made up of obsolete military vessels and conscripted civilian ships.

The development of credible power projection capabilities that includes the ability to invade Taiwan has changed the cross-Strait security balance and has significant implications both for Taiwan's defense and the US security guarantees that underpin regional stability.

Implications for Cross-Strait Relations and US Security Commitments

While the threat of a missile attack, blockade, and invasion hang over Taiwan like a dark cloud, cross-Strait and US–China competition continues to take place below the threshold of the use of force, making official statements and perceptions of intent especially important. In an environment of rising tensions, there is a greater risk that the policies, actions, and intentions of China, Taiwan, and the US will be misinterpreted, potentially fueling a spiral of distrust or escalation that could lead to miscalculation. Bilateral tensions between the United States and China at this point in time, however, are driven by great-power rivalry and respective domestic narratives of injustice and inequality, rather than frictions caused by Taiwan's domestic politics or changes in the network of US alliances in the region. Beijing's more assertive and uncompromising foreign policy contributes to increased tension across the Taiwan Strait which Taipei must grapple with. The United States, of course, is deeply invested in the cross-Strait relationship and the maintenance of cross-Strait stability. The United States' commitment to Taiwan's security is closely watched by US allies, both as a barometer of US willingness to stand up to China and as an indicator of the credibility of US security guarantees to allies in the region. For senior US and Chinese officials discussing Taiwan, every utterance is therefore carefully parsed for clues about policy shifts and intent, with any variation from past statements causing widespread analysis and speculation. The US official narrative on its approach to Taiwan has not changed in the Trump administration, though the frank, overt discussion of great-power rivalry and the challenge presented by China's behaviors is novel. That said, any changes in practice, such as President-elect Donald Trump's phone call to President Tsai Ing-wen in December 2016, have been viewed by diverse stakeholders with either great concern or great satisfaction, despite Washington's admonition that US policy is unchanged and remains based on the three joint Sino-US communiqués and the Taiwan Relations Act. Beijing, of course, sees US actions to support Taiwan as destabilizing and counter to stated policy while viewing itself as having a consistent and rational policy toward Taiwan. In periods of heightened tension, consistency of policy and its faithful, predictable implementation is particularly important for all parties.

Despite his declared change to a more active foreign policy, Xi Jinping has articulated China's perspective on Taiwan in relatively conventional terms, emphasizing a common heritage and cultural identity, shared interests in peaceful unification, and a shared desire of people on both sides for closer relations. President Xi and his officials responsible for cross-Strait relations continue to stress as their forebears have

done that the one-China principle manifested in the 1992 Consensus forms the basis for the relationship and that China in the "new era of socialism with Chinese characteristics" will continue to pursue peaceful reunification under the formula of One Country, Two Systems.

Soon after coming into office, however, Xi Jinping expressed impatience over the slow pace of reunification and began to apply pressure to the people and political leadership of Taiwan, noting to the Taiwan delegation at the 2013 Asia-Pacific Economic Cooperation (APEC) meeting in Indonesia that "The issue of the political divide that exists between the two sides must step by step reach a final resolution and it cannot be passed down from generation to generation" (Ng, 2013). At the end of President Ma's second term, faced with a January 2016 election in Taiwan in which the independence-leaning Democratic Progressive Party was likely to win, President Xi took the unconventional move of meeting President Ma Ying-jeou in Singapore in the first meeting between the leaders of both sides since 1945. President Tsai Ing-wen's resounding victory in January 2016 demonstrated that Xi's overtures to President Ma and his attempts to influence the people of Taiwan did not have the desired effect of shifting public opinion in favor of Beijing. Following President Tsai's inauguration, Xi Jinping began to apply increased diplomatic and political pressure on Taiwan while continuing to lay out Beijing's conditions and intent for the relationship with consistent rhetoric. Xi Jinping's report to the 19th Party Congress in October 2017 reiterated past themes succinctly, linking reunification with Taiwan to his signature goal of national rejuvenation:

> "We must uphold the one-China principle and the 1992 Consensus, promote the peaceful development of cross-Strait relations, deepen economic cooperation and cultural exchange between the two sides of the Straits, and encourage fellow Chinese on both sides to oppose all separatist activities and work together to realize Chinese national rejuvenation." (Xi, 2017)

Mentioning Taiwan 15 times in his speech, he went on:

> "We must uphold the principles of 'peaceful reunification' and 'one country, two systems'. . . The one-China principle is the political foundation of cross-Straits relations. The 1992 Consensus embodies the one-China principle and defines the fundamental nature of cross-Straits relations; it thus holds the key to the peaceful development of relations between the two sides of the Taiwan Strait... Blood is thicker than water. People on both sides of the Taiwan Strait are brothers and sisters; we share the bond of kinship." (Xi, 2017)

While Xi Jinping's rhetoric has remained consistent, the political and military pressure that has been applied to Taiwan since President Tsai Ing-wen's inauguration in May 2016 has become more pronounced. Beijing has successfully prevented Taiwan from participating in multilateral international organizations such as the World Health Assembly, the International Criminal Police Organization, and the International Civil

Aviation Organization, all organizations that have welcomed Taiwan's participation in the past. Beijing has also induced five of Taiwan's diplomatic allies to switch their recognition. China has forced US and European companies to change their websites and marketing materials to reflect its preferred nomenclature for Taiwan. PLA exercises and operations focused on Taiwan have been widely publicized and have included major live-fire exercises in the Taiwan Strait, deployments of H-6K bombers that have circumnavigated Taiwan, and cruises of the Liaoning aircraft carrier off Taiwan's East and West Coasts.

President Tsai entered office in 2016 as Xi Jinping cemented his power in the final year of his first term. With a strong mandate from the voters of Taiwan, she sought to strike a balance between voters who expected her to stand up to Beijing and Xi's requiring her acceptance of the 1992 Consensus and the one-China principle as a precondition for a positive relationship. President Tsai sought a middle road with Beijing in her inauguration speech, mentioning "1992" three times as she recognized that there were "acknowledgments and understandings" reached at meetings between the two sides, but she stopped short of agreeing that the 1992 Consensus was the foundation for the relationship. Faced with internal constraints and public pronouncements for his already established position, Xi Jinping felt that there was no room for compromise and proceeded to apply diplomatic, military, and economic pressure on Taiwan in response.

President Tsai has sought to mitigate the pressure from Beijing, being mindful of public opinion at home while also avoiding antagonizing the United States as Taiwan presidents have done in the past. One key aspect has been a diplomatic strategy that features diversifying Taiwan's foreign relations. A New Southbound Policy was announced soon after the inauguration with the intent of reducing Taiwan's dependency on the China market by deepening economic relations with South and Southeast Asian markets. While not a novel approach, President Tsai has called it Taiwan's new regional strategy for Asia and has allocated financial resources to expand trade, tourism, education exchanges, and increased funding for development assistance in South and Southeast Asia. Taiwan has also sought to expand its unofficial relationship with Japan by focusing on trade, tourism, and security issues.

To address the military challenges posed by the PLA in the new era, Taiwan has taken a three-pronged approach. The first is maintaining the robust US–Taiwan security relationship, consistent with the Taiwan Relations Act. US–Taiwan security relations are comprehensive and include dialogs between senior military leaders and provision of arms and defense services. The provision of services refers to training and exchanges in a wide range of disciplines that include joint combat training by all

services, sending Taiwan students to programs in US military schools, and holding exchanges between subject matter experts. Second is increasing self-reliance by building up Taiwan's indigenous defense capabilities, so Taiwan can make weapons and munitions that are tailored for its specific requirements. Third is adopting an asymmetric defense strategy known as the Overall Defense Concept that leverages Taiwan's advantages and challenges the PLA when and where they are most vulnerable (Thompson, 2018). If implemented effectively, this new defense strategy will continue to deter China from using force to compel unification by imposing tremendous costs on a PLA invasion force and increasing Taiwan's survivability in the event of an attack, therefore buying additional time for third-party intervention and an international response.

While the United States and its commitment to Taiwan's security is indeed a central factor in the cross-Strait relationship, Washington has its own relations with Beijing that are independent of Taiwan. This dynamic engenders deep-seated insecurity in Taiwan including concerns that the United States may someday abandon Taiwan as it did in 1979, or otherwise seek a grand bargain with China by trading Taiwan for an undetermined form of compensation. This sentiment is not unique to Taiwan, as other US allies have at times expressed their own concerns that the US may seek to accommodate China at their expense. The lack of trust and cooperation between Beijing and Washington, however, makes the likelihood of a grand bargain inconceivable. US policy toward Taiwan is underpinned by the expectation that a Taiwan made strong and confident by diplomatic and military support from the US will enable Taipei to engage Beijing from a position of relative security to reach a consensus that is acceptable to people on both sides of the Strait.

The Trump administration has been transparent about its view of China in the new era of Xi Jinping, pledging to compete across all domains to maintain US advantages and build American strength. The National Security Strategy released in 2017 observes that the US will respond to growing political, economic, and military competitions, identifying China and Russia as two countries who are challenging American power, influence, and interests. The Strategy pronounces China's intent to displace the United States in the Indo-Pacific region, noting that an era of great power competition has returned while committing the United States to maintain strong ties with Taiwan to provide for its defense in keeping with the Taiwan Relations Act (White House, 2017). Such an overt, authoritative declaration is intended both to provide reassurance to allies and to assure China of US intent.

Strengthening unofficial diplomatic and security relations with Taiwan has been made more urgent by China's growing assertiveness and its increasingly capable

military. Diplomatically, the United States will continue to support Taiwan's constructive role in world affairs, including its involvement in international organizations where statehood is not a requisite for participation. At the same time, there is little the US or Taiwan can do to prevent or deter China's use of diplomatic coercion to isolate Taiwan. While the potential loss of Taiwan's remaining 15 diplomatic allies or exclusion from international organizations is against US interests, it does not pose an existential threat to Taiwan. Taiwan can respond by carefully calibrating its response to Beijing's continued efforts to entice the remaining countries that recognize Taiwan to stay allies. It can accomplish this by building unofficial relations with the small countries that had formerly recognized it, just as it does with the United States, Japan, India, and other partners. Likewise, Taiwan can and should continue to set a positive global example, uphold international norms, and make contributions to international organizations where possible.

For its part, Washington will continue to provide for Taiwan's defense needs in the face of growing PLA capabilities. Maintaining cross-Strait deterrence is a critical interest of the United States, which will continue to provide both discreet and concrete diplomatic and military support to enhance Taiwan's security as well as overt actions that reassure Taiwan and signal to Beijing the certainty of US support for Taiwan, including intervention in the event of aggression. Washington and Taipei will likely have different perspectives about how and when to use political deterrence measures such as port calls, participation in major exercises, the wearing of uniforms, or other overt demonstrations of support for Taiwan's defense, but it is Washington that will determine what actions to take and when to take them based on its assessment of Beijing's perceptions and the perceived need to enhance deterrence measures. The divergent interests of Taipei and Washington also complicate their utility. Policymakers in Washington will undoubtedly remain cautious about several aspects of political deterrence, not least of which is concern about how Beijing might respond. Over-reassurance could lead to an emboldened Taiwan willing to provoke China, particularly if politicians seek to gain favor with the minority of Taiwan citizens who have expressed a preference for *de jure* independence. Taiwan's desire for overt demonstrations of support is also driven by domestic sentiments that include a need to compensate for the lack of diplomatic recognition by making public displays of cooperation a proxy for international legitimacy, and this runs counter to Washington's policies, and sometimes its interests as well. Washington also recognizes that such visible displays will invite escalation by China, leading it to be cautious as to when and how often to make use of them. Taiwan has an opportunity to make a compelling case for political deterrence actions by informing Washington's assessments. Success

is unlikely, however, if Taiwan rationalizes to Washington that it wants a specific measure of political deterrence to satisfy its domestic constituencies. A more positive outcome could be achieved if Taiwan were able to explain how a particular measure affects Beijing's calculus of the deterrence equation, which would therefore enhance Taiwan's security in keeping with US interests.

Some Asia-watchers have asserted that the stakes for the United States are too high to intervene in a Taiwan crisis, noting that China is too powerful, too influential, and too economically integrated for Washington to risk a conflict with the world's second-largest economy. With all the trade, investment, and mutual interests between the US and China, Taiwan is not worth fighting for and a grand bargain should be sought, as the argument goes (Glaser, 2015). This perspective might hold true in isolation if all other US interests in the Indo-Pacific region are ignored and only the cross-Strait dynamic is considered, but it fails to take into account US interests in the stability of the entire Indo-Pacific region. US support for Taiwan's defense is a critical indicator of Washington's credibility to support and defend its alliance partners in the region. In the event that Xi Jinping in the absence of Taiwanese provocation chooses unification by force, the US would be compelled to intervene in order to preserve the rest of its alliances in the region.

The consequences of the US failing come to the defense of Taiwan or its other allies would be dire. There would likely be uncontrolled militarization across the region as US security guarantees are devalued and collective security is abandoned. China may criticize US alliances as outdated Cold War thinking, but the prospect of the rapid militarization of its neighbors in the aftermath of unprovoked aggression is antithetical to its own interest and an outcome that the US will actively seek to avoid. The US National Security Strategy, National Defense Strategy, and statements by US officials about their intention to compete with China should also be interpreted as an assurance that the US will stand up to China and uphold its security commitments to partners in the face of pressure from Beijing (U.S. Department of Defense, 2018b; White House, 2017).

Conclusion

Taiwan's people and elected officials are rightfully proud of their democratic accomplishments, which stand in stark contrast to the totalitarian culture that has become a characteristic of Xi Jinping's new era of socialism with Chinese characteristics. Having successfully transitioned from a military dictatorship to a mature

democracy with three peaceful transitions of power, Taiwan's leaders consistently highlight their democratic values as a bulwark against China and a common value with the United States and neighboring democratic countries. Commenting on how Taiwan was responding to Chinese pressure, President Tsai remarked, "We [Taiwan and other countries] need to work together to reaffirm our values of democracy and freedom in order to constrain China and also minimize the expansion of their hegemonic influence" (Tsai, 2018). Shared values provide Taiwan with greater opportunity to strengthen its relations with other democracies, but merely having common political systems is unlikely to measurably improve its security or deter aggression from Beijing, unfortunately.

Taiwan's security would be more effectively assured in two ways: greater economic integration with democratic partners such as the United States, Japan, India, and the European Union (EU); and deepening its military relationship with the United States. Economic integration with other countries is critical to lessen Taiwan's dependence on China and is a stated goal of the New Southbound Policy. Success, however, will require not just redirecting Taiwan's outbound foreign investment from China to Southeast Asia and the United States, Japan, and Europe, but also undertaking market reforms that attract more international investment in Taiwan. Despite being one of the most open economies in the Indo-Pacific, Taiwan's reluctance to open specific markets to US and Japanese products have cost it influence with key partners. Investment restrictions such as limits on foreign control in many industries and nontariff barriers in the form of lengthy and opaque approval processes have deterred some investors. In addition to the Economic Cooperation Framework Agreement with China, Taiwan has free-trade agreements with Panama, Guatemala, Nicaragua, El Salvador, New Zealand, and Singapore, but none with major powers. Greater international investment in Taiwan, particularly from major economies who would be called upon to back Taiwan if it were coerced, is a way to increase its security while improving the economy and livelihood of its people.

While it is a challenge, deepening security relations with the United States, Japan, India, and other like-minded countries is a challenge that is ultimately the surest means of deterring China. The US–Taiwan security relationship is mature, but there are still opportunities for expansion. US arms sales will remain critical symbols of overt support, but as Taiwan transitions to building up its indigenous defense industry, the size and rate of US arms sales will invariably decrease. One area ripe for expansion is training exchanges, including train-the-trainer programs that can develop and expand a cadre of experts in the Taiwan military who can have an impact system-wide. Taiwan should also consider stationing soldiers and systems in key US bases for

long-term training to ensure proficiency in the operation of US-supplied weapon systems. Should Taiwan acquire new fighters or M1A2 tanks, the United States Department of Defense could encourage Taiwan to station an appropriate number of those platforms and personnel in the US for long-term training, to help develop doctrine specific to Taiwan, and to build institutional relationships and connectivity with their US counterparts. Exchanges can and should expand in areas critical to Taiwan's new Overall Defense Concept, including asymmetric strategies and competencies central to the concept such as improving the resiliency and survivability of its military.

Other countries are unlikely to play a comparable role in Taiwan's defense, but there are opportunities to deepen security relationships with countries such as Japan and India. Taiwan can potentially be a provider as well as a recipient of security goods. Military analysts of the PLA in Taiwan have great experience and perspectives which could be beneficial to partners. Taiwan's development of asymmetric strategies, technology, and doctrine may also be of value to other countries grappling with the rapid growth and modernization of the PLA. Its geostrategic location as the anchor of the first island chain gives it critical situational awareness of the air and sea domains connecting the South China Sea with the East China Sea, creating opportunities to exchange intelligence on PLA operations which have been increasing both in their volume and proximity to Taiwan.

Xi Jinping and the people of China likewise have every right to be proud of the momentous accomplishments that have been achieved since the beginning of reform and opening up in 1978. China's economic growth, rising standards of living, military modernization, and technological advancements should all be sources of pride for Chinese citizens, sentiments that the Chinese Communist Party is keen to support its legitimacy as the sole political power in China. Xi's rise to power, however, has been described as a new era. In style and substance, it does indeed feel different than what has come before. Xi Jinping's new era of socialism with Chinese characteristics is dramatically different from the polity established by Deng Xiaoping and subsequently carried out by Jiang Zemin and Hu Jintao. His assertive foreign policy, the elevation of the Party's role in all aspects of society and the economy, the aggregation of personal power, the rejection of collective rule, and the effective end of term limits on his power mark a clear departure from the internal balances of the reform and opening-up framework that he inherited. With these changes comes a greater risk to internal and external stability. Absolute power and a firm grip on the Party apparatus that dominates all walks of life has resulted in Xi Jinping accepting the risk of internal and external tensions in his all-out effort to achieve his Chinese dream of national rejuvenation.

Domestically, political risk has increased. A growing middle class may become dissatisfied by the lack of civil protections brought on by the curtailment of freedoms caused by pervasive surveillance technology, an opaque and capricious legal system, and the abuse of power by a massive internal security apparatus with nothing to check it. Within the Party, Xi risks opposition from colleagues threatened by his aggregation of power and the politically-motivated anti-corruption campaign which has endangered their security and the wealth of their families. Without a collective leadership to share responsibility, foreign or domestic policy failures can be placed squarely at Xi Jinping's feet, which is a potential explanation of why he has appeared to take inflexible and uncompromising positions on difficult matters. Economic tensions with the United States have been worsened by this domestic fragility and inflexibility, evidenced by commentators ominously warning that Xi would look weak if he were to seek compromise, therefore concluding that the US must accommodate or risk conflict.

A more powerful and loyal PLA is unlikely to pose a threat to Xi's leadership, but its relatively newfound force-projection capabilities make it a potentially destabilizing policy tool. There is now a confluence of power concentrated in the Party, in the PLA, and most importantly in Xi himself that increases the cost of compromise or acting with restraint. The implications of this power dynamic for relations with the United States and China's neighbors are considerable. For example, should President Xi call on the PLA to deploy its power to coerce or use force on its periphery, international opinion about China and its power would inevitably shift, causing a realignment of international interests resulting in the forming of both hard and soft alliances against China. Smaller countries may not feel powerful enough to stand up to China overtly, but they will undoubtedly increase their hedging behavior to ensure that their interests are protected.

China's soft power has considerable limits and is unlikely to dramatically change public opinion in Taiwan in Beijing's favor. Opinion polls show that the people of Taiwan overwhelmingly support the maintenance of the current status quo and have relatively positive perceptions of China, but the number of people identifying themselves as Chinese or seeking eventual unification is slowly shrinking, and a majority object to Beijing's campaign of military and diplomatic pressure. Xi Jinping has thus far offered little inducement to bolster unification sentiments in Taiwan other than economic opportunities and an appeal to ethnic unity. China's handling of political discourse in Hong Kong bodes ill for Taiwan should it join China in a federation, particularly with the recent decision to ban opposition parties and gradual erosion of freedoms enjoyed by Hong Kong's citizens. This confirms that Beijing has no

tolerance for dissent, freedom of expression, or democratic freedoms in any jurisdiction under its control, regardless of past commitments or assurances. Ending freedoms in Hong Kong decades before they were supposed to sunset raises doubt about the credibility of any long-term assurances that Beijing might offer Taiwan. The massive campaign to subject Chinese citizens in Xinjiang to political re-education without due process likely foreshadows a dystopian Taiwan pacification campaign should the island ever come under Beijing's control. Under these political conditions, the prospect of peaceful unification seems remote.

Militarily, China may now be closer than ever to having the means to achieve its political objectives for Taiwan. Coupled with an assertive and uncompromising foreign policy, the possibility of an intentionally initiated conflict over Taiwan is therefore higher now than at any time since the beginning of the reform and opening-up period. In this new era under Xi Jinping, however, Taiwan is not without options. The stark but fundamental cross-Strait choice of accommodation and integration or resistance and separation which Taiwan has always faced still applies, but Xi Jinping's uncompromising approach bodes ill regardless of which course Taiwan and its people choose. The third choice of maintaining the status quo may not be sustainable indefinitely as political and military power and pressures of nationalistic public opinion shape Xi Jinping's determination with regard to the urgency or necessity of reunification. Taiwan can shape Beijing's evaluation of Taiwan's vulnerability by increasing defense spending, implementing its Overall Defense Concept, strengthening economic and security ties with the United States, and diversifying its economic relationships.

The United States has clearly and authoritatively articulated its concerns about China's actions and what is perceived as its intent. China is viewed in Washington as wielding its power both at home and globally without restraint and at the expense of others. Its efforts at projecting soft power such as Confucius Institutes or development assistance are being increasingly viewed with suspicion. China's soft power is limited to certain economic opportunities from its large market, but industrial policies that favor Chinese companies over foreign ones and the lack of reciprocal market access is undermining even that advantage, leading to a trade war between the world's two largest economies. US declaratory policy has shifted from support for a strong, stable, and prosperous partner to the recognition (belatedly, some argue) that China is now a strategic competitor. This is not the outcome sought by successive US administrations since President Richard Nixon. The United States has never sought to contain China, despite what many in Beijing have long feared and sometimes claim. Unfortunately, Xi Jinping's vision for China's national rejuvenation has seemed increasingly

incompatible with liberal internationalism, which President Trump is also content to abandon in the midst of rivalry with China. While Taiwan is at risk of having its interests subordinated in this great power rivalry, this is by no means inevitable. Through the strengthening of bilateral relations based on mutual interests, smart defense planning, and the opening and diversification of its economy, Taiwan will be able to survive and thrive in an increasingly complex and dangerous Indo-Asia-Pacific.

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