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The topic, as you all know is China’s new leadership and its relations with India. I think that’s a good beginning to look at how the policy alternatives will shape up and a starting point, in my view, would be the 18th Party Congress of which we just seen the conclusion. It marks a crucial and important stage in the Chinese Communist Party’s evolution and, to my mind, the success of the Party’s veteran leadership in making sure the Party Congress carried through the handover of power to the designated successor leaders quite smoothly.

The Congress is different from the earlier congresses that have been held in so far as there is the marked absence of a veteran leader - a Long March leader - on the sidelines, and the people chosen as General Secretary and Premier had not been earlier selected by any of the veteran leaders. In fact, the last such choice was Hu Jintao. Finally, the installation at the top echelons of cadres who grew up during the Cultural Revolution, I think, is the most important point. All of them are people who joined during the Cultural Revolution and grew up then. Some of them personally suffered during the tumultuous years and of them I would point to the ‘princelings’. Four of them are present in the seven member Politburo Standing Committee and some of them personally suffered during the Cultural Revolution, but despite that they joined the Chinese Communist Party and rose through its ranks indicating a kind of determination and commitment to the ideology of the Party. The Chinese Communist Party itself has been through a rough period in the last year. In fact, I would say that it was severely disrupted and the Chinese Communist leadership was shocked by the Bo Xilai incident.
This is the first time in decades, in fact, that so senior a cadre of the Chinese Communist Party actually and with such an impeccable ‘Red Revolutionary’ pedigree, made efforts to acquire a personal base in the PLA, in the security apparatus and, among the people. It was almost like an American politician trying to run for elections, but that is what he tried to do and in the process, instead of just ensuring his position or his candidature for the Politburo Standing Committee, what he did was that he projected himself, or created an impression that he was, an alternate power centre much to the discomfort of Hu Jintao and Xi Jinping, both of whom decided that it is time to get rid of him. They joined hands and got him out. In the process of course, they were lots of politics that were played and there were a lot of manipulations that were done. The Chongqing Public Security chief Wang Lijun was an instrument used by the Beijing leadership and the rest is all history as to how he sought shelter in the US Consulate in Chengdu, how the charges against him were levelled and, what light punishment he got etc. But the Party learnt a lesson through the Bo Xilai incident. They realised few things.

The first was that the monitoring of senior cadres in the Party was not adequate and that had to be strengthened. There was no question of party cadres being allowed to violate party discipline and forge relationships with foreign intelligence services as was the case with Wang Lijun. They also felt that the public security apparatus needed to be cleansed and, as you all know, that about three thousand and five hundred cadres of the public security apparatus were sent for political education after this incident. And finally, the decision was taken that ideological education in the Party and political education needs to be intensified and there have been successive programs that were initiated for that particularly in the PLA. In fact, there was an article which I remember about the PLA around July in the Liberation Army Daily. It was an article written by a senior party cadre and it spoke about the emergence of factions in the PLA -- the first time that we have seen that after so many years.

However, with this jolt that the Party suffered, the fact the Party Congress went through was I think quite creditable. But there was also something else in the background that was developing in China and that was the discontent, the widespread discontent that has spread through the country and a lot of disenchantment as well. There were lots of calls for political reform that actually piggy-backed on the calls for economic reform and a number of ‘liberal’ economists including Su Liping, who is Xi Jinping’s tutor, was one of them who also made calls for economic reform. In fact, he went a bit further by saying that social instability or social unrest was being used as an excuse by security forces to try and stall the reform process. The number of protests rose from 180,000 in 2010 according to confidential estimate by Tsinghua University, at the rate of almost 8 to 12% a year. A study, or report, in a Blue Book issued last year by the Chinese Academy of Social Sciences (CASS) pointed out that the people were beginning to lose confidence in the government. The Party itself took measures to tackle the situation-- they were very concerned about ‘social stability management’, which is the euphemism for public security, law and order. And what they did was that they boosted the domestic security budget and, for the last two years the budget has been higher than the National Defence Budget! This is the first that this has happened.

Meanwhile, the ‘netizens’ in China have become very active indeed and if one looks at cyber space like Sina Weibo, Tencent and others, one sees a lot of critical blogs appearing. All kinds of blogs talking about the amount of money that the cadres are making and sending out of the country, talking about the luxurious living and the lavish lifestyles of the party cadres, and the amount of money that the party cadres have made and things like that. In fact immediately after the Party Congress, they were at least two cases where senior functionaries were named by prominent individuals including a former deputy editor of Caiping etc. So there is a kind of, shall I say effervescence, which the party leadership says is of the wrong kind, that is taking place inside cyber space. This was reflected when the 18th Party Congress was held in Beijing. Security was very high -- they drummed up 1.4 million volunteers to look after the two thousand odd delegates and some ‘netizens’ complained that was about six hundred and sixty security personnel for one delegate.

Apart from that they also sealed off the border with Nepal, Myanmar and India in order to prevent people from coming in, and you know whom they meant when they spoke about ‘people’. The effect of all these, including of the Bo Xilai incident, was to my mind evident in the selection done, or the composition, of the Politburo Standing Committee. Firstly the Politburo Standing Committee was reduced in size from nine to seven members. This discussion was going on for a while and we have been hearing reports about it for over a year. But the seven who were selected -- two of them were already designated candidates namely Xi Jinping and Li Keqiang -- but the other five who have been appointed and who are now Politburo Standing Committee members, which means the seven
people who actually and in fact run China are all conservative elements and I’ll just mention one or two of them.

The first I will identify is Liu Yunshan, who is the Politburo Standing Committee member who continues to oversee the propaganda, culture and the cyber space. He is conservative and was a very strong Director of the Propaganda Department. He was, you may recall, in charge of the propaganda apparatus in 2008 during the riots (in Tibet) when he managed it in such a way that it shaped the narrative at that time and, in fact, drove a wedge between the Han and the Tibetans at that time. We have seen the effects of those propaganda efforts. Even today there are reports of clashes between Han students and Tibetan students that keep taking place in middle and senior middle schools across China. He has also been given additional responsibility of the Central Party School, which is an important place. All the people who are marked for higher posts in the Party and in the army go to the Central Party School and he is in charge of that. He is also, importantly, a member of the Secretariat of the Central Committee which has been reconstituted and which seems that it is going to be more influential than the previous secretariat. There is now one Politburo Standing Committee member and four Politburo Members on that Secretariat which reports directly to Xi Jinping.

Of special interest to the gathering here, I think, would be the fact the Secretariat includes Liu Yunshan who has this background of Tibet and it also includes Du Qinglin, who in fact, people thought would be retiring. He is sixty-seven years of age and that’s normally the time when cadres get ready to be eased out of office. But he was brought into the Central Committee Secretariat and when you look at that along with the appointment of Guo Jinlong as the Party Secretary of Beijing, again a person of many years of experience in Tibet and Li Jinhua’s appointment as the Director of the United Front Department, then it would appear that an initiative is in the offing on Tibet by Xi Jinping and his team.

The other important facet in China is the army. Here again, some interesting things happened coinciding with the Party Congress. This time, we saw that the appointments to all the principal departments of the PLA had been completed before the Party Congress got underway, in fact, well before. And each one of the persons who has been appointed is a person who owes his promotions and who is a loyalist of Hu Jintao. To my mind, this would indicate that Hu Jintao and Xi Jinping have worked closely together in the military sphere. There is going to be a continuation of the policies that Hu Jintao had initiated. There are five ‘princelings’ in the Central Military Commission. Apart from signifying that the ‘princelings’ are on the rise, of these five three have come out publicly with tough statements on the South China Sea issue. I mention this because it is indicative of their mindset as to how China should handle disputes with its neighbors.

Xi Jinping, meanwhile, has moved very rapidly after the Party Congress in two spheres. One, he has shown his commitment to the economic reform policies set out by Hu Jintao but this is qualified. When he talks about economic reforms, he talks about graduated reforms. He recently made a speech about three days ago where he spelled out the various steps that the new economic reforms have to take. And these are in accordance with the policies that were worked out with Hu Jintao, which is one of ‘common prosperity’ or inclusive growth, and of not letting ‘some get rich first’.

The second thing was his trip to Guangdong and, of course, a lot of analysts pointed out that it was reminiscent of Deng Xiaoping’s ‘southern tour’ undertaken at a time when reforms were threatening to stall and Deng Xiaoping wanted to give them a push. That of course is there and that was the message, but there were two other messages that were also transmitted in the same tour. One was that Xi Jinping was making a point of stressing frugal living and a simple lifestyle. And the Hong Kong media, which picked up the visit first, showed his entourage’s visits to the four places that he visited in mini-buses with a police escort but with no disruption to traffic and no disruption to the people. They also showed him on occasion mixing with the common people.

So this was one point that was made and subsequently, on the fourth of December a circular has been issued laying down what the PLA cadres should do and what they cannot do during inspection visits along the same lines. The second point I think is also important point for analysts to consider. And that is this vision of the ‘Chinese Dream’. This concept first came out during the Party Congress, but it was really fleshed out by the cadres not so much by Xi Jinping who only made a couple of references to it. But this ‘Chinese Dream’ is something, I understand, was being formulated as far as three years ago or so, which indicates that Xi Jinping was very clear as to where he is headed and what policies he is going to follow. Wang Huning is the person who is closely associated with this ‘Chinese Dream’.
And essentially, the Chinese dream incorporates three things. **First** is a higher income for Chinese; the **second** is better environment for the Chinese; and the **third** is a strong nation. Here Xi Jinping’s repeated references to ‘rejuvenation of the Chinese nation’, I think, are significant. That implies not only a strong China but it also implies, or it recalls, the humiliations that China had suffered at the hands of foreigners thereby making China’s position with regard to negotiations or concessions on issues of sovereignty or territorial integrity more inflexible.

Finally, I think the new leadership’s agenda is going to be somewhat different from that of its predecessors. The first items that they are going to tackle are the domestic issues and primarily the economic. They have to keep the prices at an acceptable level, they have to control inflation and they would be working towards that. There is a difference though between their policy red lines and that of Hu Jintao and Wen Jiabao. The first is that in his latest speech, Li Keqiang, the Premier spoke of a 7.5% growth rate but in other conversations referred to an 8% growth rate. I think that is linked to the fact that unemployment is something that they have to tackle and they have to try and work on creating more jobs. A 7% growth rate makes that somewhat difficult and today there is a situation where the graduates coming out of the colleges are complaining that they are not getting jobs and the officials are clarifying that there are enough jobs available but they are not of the type that the graduates want. So that’s the difference there.

There is also a lot of resentment among the demobilised PLA soldiers and at the time of the National Party Congress last year, in fact, there was a group of ex-PLA soldiers in Liaoning who claimed to speak for sixty thousand other demobilised soldiers and they had a long list of complaints about non-payment of dues etc. If that kind of thing catches on it will mean more troubles for the new leadership, which is also why the new leadership is unlikely to move strenuously on the issue of reform of the SOEs, which would mean more unemployment and more worker riots and I don’t think they are prepared for that.

There is, however, going to be a reduction in the size of the bureaucracy and we will see fewer ministries probably being proposed by March next year. In fact, one of the ministries that are proposed to be done away is the Ministry of State Security, which will be merged with a National Security Bureau.

The **second** issue that they have while looking at domestic issues is that of Tibet and to my mind, that is the matter which causes them very serious concern. When it comes to Xinjiang, they look at that as basically a law and order or terrorist issue. The Uighurs have taken to arms and they can be sorted out the same way. The tactic that they follow there is to isolate the area where there is a problem, blank out any exposure or access to the media, and then, if I may use the term, ‘neutralise the problem’ and carry on. With Tibet, it is different. They are just not able to understand why when they are pumping in a lot of money, when trying to work for the development of Tibet, why the people are not accepting of the Chinese Communist rule. They have now got in a new Party Secretary who is apparently chosen by Xi Jinping and he has brought in a policy where he is accelerating economic development particularly in the urban centers in Tibet. At the same time, by his own admission, he has increased the number of police stations across Tibet in order to ensure that the ‘response’ time to any incident does not exceed to 3-5 minutes. He has also strengthened the Party’s presence and there is now a presence in every village in the Tibet Autonomous Region and he has thus increased the Party’s surveillance. And as he said in an interview in September, there are photographs of Mao Zedong, Deng Xiaoping, Jiang Zemin and Hu Jintao in every monastery in Tibet. So they have stepped up that, in addition to creating a cadre of people who are monitoring the monasteries and the monks. So they are making these
kinds of moves while at the same time that there are indications that Xi Jinping is contemplating some kind of an initiative aimed at the Tibetan community abroad and possibly inside Tibet.

There was a recent case of a visitor to Dharamsala who met the Dalai Lama and the Sikyong and Ugyen Thinley, the Gyalwa Karmapa. Nothing much has come out of it, but it indicates that the Chinese leadership is looking for ways of trying to diffuse the tension that exists today when the spate of self-immolations is unending. And one of the methods, I think, is to try and resume negotiations, or dialogue, that was going on if at all that is possible but whether that takes place we will have to see.

Along with that and what is of direct relevance to us in India, is the increased activity in Nepal. Nepal is viewed by the Chinese as the launch pad from where the U.S and the Dalai Lama will try and instigate trouble in Tibet and that’s why they have increased their presence there and they have suddenly become more active, particularly their Counsellor and Defense Attaché, in coordinating with the Nepalese government. They are also all kinds of plans which are being brought in.

The third aspect of the Chinese policy is an increased effort to contact and interact with high-ranking lamas in order to win them over and also at the same time to undermine the Dalai Lama’s position. They are looking of course to the likely regime in the ‘post’ phase where they expect the Tibetan community will be leaderless and that is the time they will try to capitalize on. So these are the moves that they are trying to make at the moment.

Taiwan is not such a major issue for them. They say it is in a state of passive improvement so they are not really concerned. And that brings us to the South China Sea, which is what I think will be at the top of the agenda in the foreign policy sphere and where Xi Jinping’s administration will continue to push the envelope. I don’t think there is any chance of a compromise or negotiation. Their effort will be to use their economic leverage as well as military strength, to try and cow down the neighbors and get them to accept the Chinese position, but of course, short of a clash. And they will not want a clash with the US either.

As far as India is concerned, what we do see is unceasing pressure on India in the form of incursions, in the form of Chinese activities in our neighborhood in Nepal, in Sri Lanka, and in Myanmar where, of course, the stage is being set for a contest with the US, and probably in Bhutan. These are the new areas where they (the Chinese) are moving in more actively. The number of exercises that the PLA has been organizing including integrated joint exercises across our borders have increased in size and in number and, I think, in the last ten months the figure would be about six major exercises that have taken place and that is something that is a source of constant pressure. There are new kinds of aircraft that have been deployed and additional aircraft that have been deployed in Tibet. There are also no changes in their policy of restricting India within the South Asia region. In fact, one of the points that they cite as causing friction between India and China are India’s regional aspirations or India’s growing aspirations. They want to contain that which is why there is no question of their supporting India for the UNSC seat despite vague ambiguous comments on that. They are, in fact, increasing the ambit of their claims on Arunachal Pradesh and in J & K. They have now started contacting and exerting pressure successfully on international organisations and preventing them from giving development assistance to projects in Arunachal Pradesh. I expect the next step would be in J & K. So they are trying all these. They have also gone on record and made at least four to five comments in their official media saying that in the context of sorting out their border issues with various countries including maritime issues, there is no question in their mind that they will have to go to war and that finally these issues will be resolved through conflict. In the context of the South China Sea, they look at two countries with whom a clash is likely and those are India and Japan. And they say that if such a situation does come about, they will choose the bigger of the two which is India. The reason, again one that has been spelled out, is to signal to all the countries in and
around the South China Sea that big countries like India and Japan cannot come to their assistance and neither can the US and, therefore, they are on their own and would be better off accepting Chinese dominance in the region. There are problems, serious problems, that China faces but I don’t see the Chinese Communist Party itself crumbling or weakening in a major sense at least over the next five to ten years.

The 17th Party Congress mentioned five pillars in their foreign policy issues: relations with major powers, with neighbouring countries, developing countries with multilateralism and soft power as the five pillars in that. The 18th Party Congress Work Report emphasised on security; the core security has been revamped to improve the South China Sea in addition to Tibet and Taiwan. There is also the independent foreign policy which is emphasised in the document. However, what is not said is also very important and that is what Mr. Ranade elaborated in terms of the situation in Tibet and overall objectives of China in the vicinity of its neighbourhood. He also put on the table the Chinese preferences to deal with South China Sea dispute by countering India and Japan and sending messages to the United States in terms of the next decade. The last white paper issued on national defense identified three evils. Three evils are code words for Uyghur extremism; separatism of Taiwan and splittism of the Dalai Lama. We would assume that the Taiwan independence receded in the Chinese assessment while Tibet and other issues especially Xinjiang has been raised in their security alert status.
As China continues its historic leadership transition, its economy is faltering; the Communist Party is stumbling; the authority of the central government is eroding; the military is breaking free of civilian control; and the Chinese people, from one end of their country to the other, are taking to the streets, often in violent protest.

The wheels are coming off China. So many things are happening all at once, it’s hard to know where to begin.

But we will begin with the motor of China’s rise. After 35 years of virtually uninterrupted growth, the economy has reached an inflection point. It has now started a long downward slide.

A slide? Beijing’ National Bureau of Statistics claims the economy grew a robust 7.4% in the third calendar quarter of last year.

Yet that 7.4% claim is questionable. By far the best indicator of Chinese economic activity is the production of electricity. In the third quarter, the average monthly increase in the production of electricity was just 2.1%. Because the growth of electricity historically outpaces the growth of gross domestic product, China’s economy could not have been growing much faster than zero during the quarter. And it was not growing faster than zero at a time when the country was filling Christmas orders and therefore should have been booming.

And as bad as recent electricity numbers were, there is growing evidence that they are being inflated to make the economy look better than it actually is.

This downward trend evident from the electricity statistics is consistent with the closely watched HSBC Purchasing Managers’ Index, which documents that the all-important manufacturing sector, through September—the last month of the third quarter—contracted for 11 straight months.

The falloff in manufacturing was also reflected in September’s 3.6% drop in the producer price index, signaling deflation. How can China have robust growth and deflation at the same time?

Corporate profits, which are harder to fake than GDP numbers, also disappointed. Profits of state enterprises, according to the Ministry of Finance, fell 11.4% in the first three quarters of last year. And what is the most telling sign that the Chinese economy was in distress? Money fled the country: in the second quarter of last year, there was at least $110 billion of capital flight, probably much more. When we get to look at data for the third quarter,
...anti-reform period will last for at least another five years. That's the term of the new Politburo Standing Committee, whose membership was unveiled at the end of the 18th Party Congress. At least four - and may be as many as six - of the seven-member body are so-called "conservative." In the Chinese context, this means the hardline anti-reformers....

...China, for the moment, is trapped in various self-reinforcing— and self-defeating—feedback loops. In one of these loops, a slumping economy is creating a crisis of legitimacy. The legitimacy crisis, in turn, is causing a wide-ranging political crackdown. The crackdown makes reform unlikely. The lack of reform prevents long-term economic growth... China has progressed about as far as it can within its existing political framework. Further reform would threaten the Communist Party's hold on power, so it will not sponsor change of that sort. A market economy, for instance, requires the rule of law, which in turn requires "institutional curbs" on government. Because these two limitations on power are incompatible with the Party's ambitions to continue to dominate society, China cannot make much progress toward them within the current system....

We will undoubtedly see that much more cash left China.

So how bad is the situation? In September, the Communist Party established the "Command Group to Fight Against Communist Officials and Government Employees Fleeing the Country."

Now, many analysts are claiming that the third quarter represented the bottom. And Beijing's data for October and November was good, much of it too good.

Nonetheless, there were some genuine signals that the downward momentum slowed. We even saw scattered signs of an uptick, especially in manufacturing as evidenced by the HSBC Purchasing Managers' Index, which broke into positive territory in November and picked up steam in December.

There is, however, little else to indicate the uptick will be pronounced or last long. The uptick is the result of a political decision to put even more state money into property and infrastructure. China already has enough "ghost cities"—cities that have everything except people—and high-speed rail lines to nowhere.

Building more of them will create GDP, but an upturn in growth rates caused by increased investment is simply not good news. State spending is taking China even further away from the only sustainable model, a consumption-led one. Today, investment accounts for a simply astounding 49% of GDP. And consumption as a percentage of GDP is on the decline, now around 36%, the lowest in the world.

One more point about the economy. China, unfortunately, is creating debt faster than it is developing its ability to service it. This is a problem because the country already has a massive debt problem. As one economist said, every province is a Greece.

The most recent debt-fueled spending spree looks like it was timed to coincide with November's 18th Communist Party Congress. Now that the Congress has passed, we are seeing leading indicators pointing to a new slump. The fall in price of construction materials, for instance, clearly shows that the "recovery" is not going to last long. Especially troubling is an apparent drop in retail spending, highlighted by poor corporate results of consumer products companies and retailers.

And the recent bank runs in China indicate that the great credit expansion, which has artificially fueled growth since the end of 2008, cannot last much longer.

Foreigners by and large are not concerned by China's obvious economic troubles. They believe that, despite their severity, these problems are temporary and will soon be forgotten because its economy is in a
supercycle upward.

Yes, China was in a three-decade upward supercycle. And there are three principal reasons for it.

First, there were Deng Xiaoping’s transformational policies, which were encapsulated by the phrase “reform and opening up.”

Second, the second decade of Deng’s era of change coincided with the end of the Cold War, which meant the elimination of political barriers to international commerce.

Third, all of this was taking place while China was benefiting from its “demographic dividend,” an extraordinary bulge in its workforce.

Yet this “sweet spot” era is over because these three conditions no longer exist.

First, China is no longer reforming. It’s actually worse than that. Hu Jintao, the departing leader, presided over an era marked by, on balance, the reversal of reform. This reversal is evident from both the partial renationalisation of the economy with state cash and the shutting out of foreign companies.

This anti-reform period will last for at least another five years. That’s the term of the new Politburo Standing Committee, whose membership was unveiled at the end of the 18th Party Congress. At least four—and maybe as many as six—of the new seven-member body are so-called “conservatives.” In the Chinese context, this means the hardline anti-reformers.

Hu Jintao’s regressive policies were popular inside Beijing for many reasons, especially because they had the support of what is now called the “Iron Quadrangle” of state-owned enterprises, the security apparatus, the People’s Liberation Army, and Communist Party conservatives.

Others define the constituent elements of the conservatives differently. Many identify “powerful families” as being inside this circle of influence, for instance, but it’s clear that entrenched interests now dominate politics in the Chinese capital. There is only one known reformer in the new Standing Committee, No. 2-ranked Li Keqiang, who is slated to take over from Wen Jiabao as premier next March when government posts change hands at the annual National People’s Congress meeting.

Yet Li is a slim reed of hope for positive change. He made his way onto the Standing Committee primarily because of his close political connections with Hu Jintao and has so far left a trail of only mediocre accomplishment on his way to the top.

Apart from Li, the Standing Committee looks downright reactionary. One man, the 86-year-old Jiang Zemin, seems to have packed the Standing Committee, the apex of political power in China. With no official position, the former supremo appears to be the most powerful Chinese politician, surpassing both Xi Jinping, the newly anointed general secretary, and Xi’s predecessor, Hu Jintao.

Jiang, who as Deng Xiaoping’s successor generally favored reform, is now protecting his family’s business interests as well as the interests of others who have become fabulously wealthy in recent years.

Is all lost? Xi Jinping went on his own “Southern Tour” last month, mimicking Deng Xiaoping’s famous 1992 trip to Guangdong province. Deng’s trip kicked off years of reform. Although Xi Jinping is no Deng Xiaoping, observers are predicting that Xi will introduce economic reforms in late 2013 to reduce Beijing’s role in the economy and break up state monopolies.

These changes would be welcome, of course. Growth is slowing partly because state entities are using their clout to close off opportunities for the most productive actors in the economy, domestic entrepreneurs and foreign companies.

Xi Jinping and Li Keqiang may be hoping to launch bold reforms to sustain growth over the next decade, but the pair for the short term is likely to be busy consolidating power and maintaining political stability.

In other words, Xi and Li are in no position to sponsor change soon, which means in an especially troubled transition they are unlikely to ever do so. After all, their predecessors, Hu Jintao and Wen Jiabao were thought to be reformers but never got around to reform, and they were in office ten years.

China has progressed about as far as it can within its existing political framework. Further reform would threaten the Communist Party’s hold on power, so it will not sponsor change of that sort. A market economy, for instance, requires the rule of law, which in turn requires “institutional curbs” on government. Because these two limitations on power are incompatible with the Party’s ambitions to continue to dominate society, China cannot make much progress.
today, there is a growing recognition that fundamental economic restructuring in China cannot occur unless there is far-reaching political reform, reform certainly more ambitious than the “inner Party democracy” that leaders like to talk about. Yet meaningful political reform is completely off the table, as the disappointing lineup of the new Standing Committee makes clear.

China, for the moment, is trapped in various self-reinforcing—and self-defeating—feedback loops. In one of these loops, a slumping economy is creating a crisis of legitimacy. The legitimacy crisis, in turn, is causing a wide-ranging political crackdown. The crackdown makes reform unlikely. The lack of reform prevents long-term economic growth.

Just when China needs fundamental reform the most, its political system is least able to deliver it. Even Beijing’s cheerleaders are beginning to wonder whether the Party will be able to survive until the 19th Party Congress, scheduled for 2017.

I mentioned there were three conditions that created China’s extraordinary growth over the last three decades. The second is the favorable external environment. Unfortunately for the Communist Party, that no longer exists.

China’s exports boomed in the post-Cold War era. In this unusually benign period, countries wanted to integrate China into the international system and were indulgent, tolerating its mercantilist policies.

But we have left that time of uninterrupted growth. Now, every nation wants to export more. In an era of protectionism or of managed trade—whatever you wish to label it—trade-dependent China will not be able to export its way to prosperity, as it did in the last downturn in the country, the one that followed the Asian Financial Crisis at the end of the 1990s.

And in our era, nations have in fact lost patience with Beijing. Eighteen months ago, it was inconceivable that Pacific Basin countries would launch a major trade round that excluded China, but that is exactly what happened November 2011 when President Obama announced the Trans-Pacific Partnership negotiations. The terms of the deal include provisions—such as restrictions on state enterprises—that are designed to keep the Chinese out. Moreover, in the last State of the Union address, Obama targeted China with his Trade Enforcement Unit.

And we have just watched the first American presidential campaign in which both candidates competed with each other to see who is tougher on China. Yes, much of what we heard was campaign rhetoric, but the rhetoric was in response to China’s mercantilist behavior and will result in real policy change.

Third, let’s look at the most fundamental reason why China’s economy has come to the end of the road. China, which during the reform era had one of the best demographic profiles of any nation, will soon have one of the worst. The country, because of the one-child policy, will begin to shrink within a decade, perhaps as early as 2020.

More important, the size of China’s workforce has already peaked. That occurred in 2010, six years before Beijing demographers said it would.

Some Chinese scholars believe the supply of workers in the under-35 cohort—the so-called “golden age group”—has already been exhausted in rural areas. Others disagree, but even those who think there is still a pool of workers on the farm acknowledge that not many of them want to move to the cities, where conditions are bad and pay is low. And in the middle-aged portion of the rural workforce, again, not many more of them want to leave home.

The Chinese government last year announced it will be building 20 cities a year in each of the next 20 years. And urbanisation is one of Li Keqiang’s
“four new modernisations,” which he announced in November.

Up to now, urbanisation has contributed to Chinese growth, but it’s not clear where Beijing officials are going to get the people to power the process over the next two decades. The country already has its famous “ghost cities, but the central government is going to be building even more of them.

Urbanisation is not sustainable unless there are people willing to move to the new cities—and more important—to work in them.

Urbanisation will continue, but it will no longer drive the Chinese economy like it has for the last 30 years.

Demography may not be destiny, but it will create high barriers for China—and Chinese growth.

So, China’s economy is entering a new supercycle. This time, the direction of the supercycle is down.

It is in this adverse context—not the favorable one of the last three decades—that Chinese leaders will have to act. In other words, they will no longer be propelled by trends; going forward, they will have to succeed in spite of them.

And that is a critical threat for the Communist Party, which for three decades has based its legitimacy on the continual delivery of prosperity.

Already, the Communist Party exhibited symptoms of instability last year during the leadership transition. There was intense infighting, and much of this played out in public. Officials were purged, businessmen arrested, and military officers reprimanded.

In March, Premier Wen Jiabao issued a public warning that the country could descend into another Cultural Revolution. The Communist Party is now fragile. Although Jiang Zemin is influential, he is no Mao Zedong or Deng Xiaoping—a strongman—able to enforce discipline. At this moment, China’s weak leaders will find any excuse to do each other in.

Each leader of the People’s Republic has been weaker than his predecessor. Many think this progression from one-man to collective rule is progress, and in many ways it is. Nonetheless, no authoritarian regime in recent years has survived for long without a larger-than-life figure. China’s officials are no longer grand. They are bland and uninspiring, and none of the current crop of leaders—none of them—resonates with the Chinese public.

Although Xi Jinping has just been chosen general secretary, analysts say the infighting will get worse as leaders struggle over, among other things, the selection of Xi’s successor, who should be identified at the next Party Congress in five years. Moreover, in five years—if the Communist Party lasts that long—there will be another wholesale change in the Standing Committee. All this means that politicking never ends in China.

In the new political China, the military has become even more powerful.

Beginning as early as 2003, flag officers of the People’s Liberation Army were drawn into civilian power struggles. Last year, we witnessed the same dynamic in the leadership transition.

This process of remilitarisation of politics and policy has gone so far that the PLA either has become or will soon become the most powerful faction in the Communist Party. The military has, from all accounts, retained its cohesiveness better than other factions in the Party, especially the amorphous Princeling group of Xi Jinping.

From all outward appearances, the military is already playing an expanded role in policy as well as politics. Senior officers are acting independently of civilian officials, are openly criticising them, and are making pronouncements on areas once considered the exclusive province of diplomats.

The implications of these internal changes are, obviously, large because the generals and admirals do not want a closer relationship with the international community. Yet there is an even more fundamental problem. “China’s military spending is growing so fast that it has overtaken strategy,” said Huang Jing of Singapore’s Lee Kwan Yew School of Public Policy. “The young officers are taking control of strategy and it is like young officers in Japan in the 1930s. They are thinking what they can do, not what they should do.”

At this moment, China’s officers, from generals to lieutenants, are thinking about what they want, and as a result they have become dangerous, arrogant, and bellicose.

By their own admission, they are spoiling for a fight. And in a time of political transition, almost no civilian leader is in a position—or willing to take a risk—to tell the top brass what to do.
The military’s expanding role in Beijing politics brings us to China’s new foreign policy. As the military becomes more powerful, it is pushing the country down a path of high-profile force projection.

That is a strategic miscalculation history will remember. Beijing is now pushing too hard and too long, taking on everyone at once. China is losing friends fast.

We need a little background. Beijing leaders in 2009 were riding high. They saw economic turmoil elsewhere and knew—just knew—they would soon dominate the century. The United States and the rest of the West, they believed, were in terminal decline. Then, Chinese leaders were proud, bold, and suffering from a bad case of overconfidence.

In early 2010, Beijing civilian leaders adopted a belligerent tone and made a series of threats and its senior military officers started to talk in public about waging a war in the near future—a “hand-to-hand fight with the U.S.” as one of them put it.

In addition to the United States, India, South Korea, and Japan, the Chinese challenged their neighbors to the south and east, and especially those bordering the South China Sea, the Philippines, Malaysia, Brunei, Indonesia, and Vietnam.

So the inevitable happened. At the urging of regional leaders—from traditional friends such as Australia to former foes like Vietnam—Washington began to change its China policy. In November 2011, the Obama administration “pivoted”—or “rebalanced” to use the current lingo—by deploying additional military forces to Asia and targeting the region on the diplomatic and trade fronts.

Other nations are changing their China policies too. For example, when Shinzo Abe became Japanese prime minister in 2006, his first foreign trip was to China. This time around, his initial foreign visit will be to Washington.

So what does this mean for India?

In 2006, Taro Aso, when he was Japan’s foreign minister, proposed an “arc of freedom and prosperity” for Asia. Then, the concept went nowhere, as Asian diplomats were optimistic about engaging China.

Now, Shinzo Abe is pursuing his “values diplomacy,” which emphasises freedom, democracy, and fundamental human rights. “We will deepen ties,” he said, “with nations that share and uphold these values.” And what nations does he have in mind? He mentioned two: Australia and India. As we can see, a grand coalition of democracies is in fact slowly forming in reaction to China. And, at the same time, China’s friends are putting distance between themselves and the Chinese. Just look at what is happening in Burma. India, understandably, does not want to take sides—no nation wants to. South Block still thinks it can come to terms with China.

Yet you will have little choice but to join the arc and anchor its southern end.

Why will you have to make a choice? Until you do, Beijing will violate your borders with even more armed incursions both on the ground and in the air, will continue to interfere with your ties with other nations, will increase the frequency of its naval patrols off your long coasts, will support even more Pakistani terrorists, will promote the breakup of your nation.

Beijing these days has good relations with only a handful of states—the Nepals and Zimbabwe of the world—and that should be a warning to us all.

There is no appeasing an expansionist China, and what makes China a threat to others makes it a threat to you as well. Today, we are at the Foundation for Non-Violent Alternatives. The non-violent alternative in this case is to show strength. Show strength, and Beijing will leave you alone and there will be peace. Yet if your diplomats betray a sense of weakness, China will challenge you. Despite everything, your government will try to work with Xi Jinping. There is always a renewal of hope when a new Chinese leader arrives on the scene. But the optimism will not last long. The continuing troubles inside China will not permit Beijing to pursue good relations in the long run.
With the Communist Party in turmoil and the Chinese army ascendant in Beijing, no country—other than those that decide to submit—can have stable ties with a China in distress.

China is a danger to the international community, but especially a danger to the country it fears the most in the long run. And what country is that? That would be India.

Comments by the Chair

Two major issues were raised. First, sustainable development in China will be problematic because of many reasons including the decline in the growth rates, environmental degradation, demographic profile changing in China, internal issues becoming more acute as we have seen Mr. Ranade has mentioned 180,000 protests in 2010 and in 2011, the Qinghua University survey suggested about 240,000 protests in China from around 5,500 protests in 1991; indicating to the level of unrest across the country. There is also the estimate that for every one per cent decline in economic growth rate, Guangdong factories would generate something like 2 million unemployed into the country and will join these protests across. So the economic growth rates are crucial for China as they have made it as a centre piece for the legitimacy for the Communist Party to survive. Hence, this is the central point Dr. Chang had mentioned.

Second, in terms of reform programme, he is very skeptical that the Chinese leadership will introduce any new political reform programme. We have seen Hu Yaobang first trying to introduce some and he failed. Zhao Ziyang tried in 1989 and he failed too and was put under house arrest. Wen Jiabao mentioned this in Diao for the first time and once again last year. However, there is no concrete programme that he had unveiled in terms of political reform. Hence, I think this is one other issue where the Communist Party would also have to face problems in future.
Overview of the Sino-Tibetan Dialogue

This discussion is important, particularly the topic itself, because people do talk about the next century (being the) century of Asia. And, if it is the century of Asia obviously the most important players are India and China, no matter whatever may be the battle they will fight. Some possibilities have been indicated already. It can (however) even go in a different direction. But whatever it is, whether it is confrontational or co-operative, there is no doubt at all (unless you are absolutely ignorant or wanted to really fool yourself), that you can't really imagine a relation -- whatever this relation may be -- between these two Asian giants without the Tibet issue being resolved. So, therefore, even though I feel intimidated by not only with the speakers but even the audience, the fact that you invited a Tibetan to participate is very important because you can’t really ignore this issue.

We talk about anniversaries and this is the 30th anniversary of my first visit to China. Well in fact, interestingly our counterpart during the discussions then was Xi Jinping’s father, Xi Zhongxun. When we were in Beijing for the first round of what we call the “exploratory talks”, I used to go over to visit the Indian Ambassador (A.P. Venkateswaran). At that time even my colleagues said, “Well maybe the Chinese will feel uncomfortable, maybe they will be very suspicious.” I said, “Well they may be but the fact is first of all we live in India. His Holiness lives in India. If they have a suspicion about us visiting or not visiting the Ambassador it will not make any difference”. I also said that it is very important for the Indians to understand that this is an issue that they cannot really ignore.

When we first went to China, Ambassador Rasgotra was the Secretary in the Foreign Ministry and when we went for the second time, Romesh Bhandari was the Foreign Secretary. Even in those days, we told them very candidly that it is very important that India takes a proactive role. Obviously, we do know that India has committed to the fact that the Tibet Autonomous Region is a part of the PRC. His Holiness is also seeking a resolution within the framework of PRC. I am not trying to encourage the Government of India to take a different approach but within that premise it is very important (to be proactive). In fact, I feel that the Government of India tries to pretend that it has no interest (in the Tibetan issue) or that it is the business between the Tibetans and the Chinese. I think the Chinese become even more suspicious (when they do this). It is always very important that India takes a much more proactive and very genuine interest. At the same time, I want to make very clear that these intentions are not intended to destabilise or to harm China’s interest. So that is why such gatherings are very important where we have the opportunity to discuss on these matters.

Now, I want to discuss the tragic development that is happening inside Tibet. This is something that all of us must really pay attention to. Nearly a hundred people have self-immolated themselves. Just imagine, each one of them is a human being like us. We do see the preciousness of their lives. Why is this happening? During my eighth round, I told my Chinese counterparts (almost like a prediction) word by word, “Look, I am not only
worried, but I always feel a sense of terror in my heart that unless you modify your present policy, there will come a time when the Tibetans can’t take it any more.” In fact, I told them very clearly that the fact that there has been many decades of stability (in Tibet), in spite of so much of suppression, is precisely because of one person - Tenzin Gyatso, the 14th Dalai Lama.

This (stability) is not because of heavy military presence and not because of the ruthless policies; this is precisely because of this one person: i) because Tibetans have hope in him, will suffer more, will taken more of the suffering because we have a leader speaking for us and he will bring some result; and ii) Another thing is that his very strong message of non-violence. One day, one person can tilt the whole thing. My worry is not only the self-immolations, which are tragic, and I think this will also continue, but it is about what it can lead into some day. This is my fear. There will be a different kind of act. We all will have sleepless nights because if that happens they will suffer more.

China’s immediate reaction is more suppression and rounding up more people, imprisoning and torturing them, but ultimately it will create immense destabilisation. If there is destabilisation on the Tibetan Plateau, it will not be isolated. It will have an impact on the whole region. So therefore, every nation, for their self-interest, must pay attention because I am really worried about this situation. During the last days of our negotiations, I repeatedly tried to convey to the Chinese leaders that we need to meet not to discuss any issues, not to revisit the proposal that I gave, but try to find ways to diffuse this tragic situation.

Now, we talked about leadership change. I don’t disagree, there is nothing to disagree. With regard to Tibet, now I also don’t disagree about the majority of them (new leaders) being conservatives. Again when we talk of China, about liberals and conservatives there, it has a totally different meaning then when we talk about liberals and conservatives in this room.

This is just a thought as there are so many experts here. Sometimes, we Tibetans are too optimistic, but that is also important because if we did not do that in the case of Tibet, I think we would have lost our fight long time back. It is the optimism of His Holiness and our people.

One thing the dialogue process did, (even though it may not have brought about any tangible result) as I think some of you research scholars might also agree with, is that it did have tremendous impact. When we talk about the negotiations, you must not only focus on the trips that I made to Beijing; how many trips and what exactly happened in those trips, but rather focus on their impact, particularly inside Tibet. What they meant for the Tibetan people. Internationally, I think the fact that we had dialogue did sustain the Tibetan issue. So when you analyse the failure and success of this dialogue process, you have to look at different aspects and not just focus on one aspect. His Holiness and those of us who served him and decided to go for the dialogue also had no illusions that by making ten or fifteen trips this very delicate conflict and very ancient issue could be resolved. But we felt that it is important for overall aspects.

Most important for the Tibetan struggle, it is the people themselves, especially the people inside Tibet, not so much the outside. Sometimes, I am not so popular with some of our Tibetan friends outside. I call them, including myself, armchair revolutionaries who can make big speeches. In fact, during our discussion, the Chinese started criticising our activities.

I said that you don’t have to worry so much about people like me because we live in freedom and we talk big, but your problem would be Tibetans inside Tibet. You may think that you have brainwashed, but ultimately, you have to fear the ones that are inside Tibet. That I think is precisely the situation now.

But anyway, going back, since 2002, we had formal discussions for several years. From my experience, those informal discussions that we had before 2002 were much more productive than the formal discussions from 2002. All that happened during Jiang Zemin’s time is something to do with his style.

Lots of people had access to Jiang Zemin: foreigners, business people even within China, all kinds of people. That gave us added advantage so we were able to have direct engagement. And another factor is that he made foreign policy, especially Sino-American relation, as the key and center of his policy. We were also quite successful in making Tibet issue very much integral part of Sino-US relation. I am not saying that it was the topmost issue, but it was always there as one of the issues even in their bilateral discussions. So, Tibet issue was making a move, may be very slow sometimes, may be very symbolic, but it was very important factor in his foreign policy, particularly in his relation with United States.
Now, Hu Jintao was totally different. Once Hu Jintao took over, I made trips during his time, but there was very little movement. We were unable to have any access to Hu Jintao because he had a different style (of working). This is experienced even by the Americans. He was very, very formal and he did not allow backdoor entrance or side door entrance, which became a major handicap. Now, looking at Xi Jinping even from the past few months and also talking to people who claim they know, his style certainly is more reflective of Jiang Zemin’s style.

Therefore, I think in negotiation, everything is about having the right access. Since, I am retired, I can share some incidences (with you). During our second round when everything was settled about the date and venue, I got a message from Minister Wang Zhaoguo (those days he was my counterpart. Minister Wang eventually became the member of the Politburo and he just retired during the recent party congress). He sent a message to say that everything is ready, but that I can’t bring my number two, Mr. Kelsang Gyeltsen. I asked, “Why”?

“Oh! We don’t think he is very supportive of the Dalai Lama’s approach”. So I said, “I know him more than you do”. While, he went to some meeting at the European Parliament, he made a formal statement which was clearly taken to mean that he is very hostile to China and not very supportive. “So therefore, please come and don’t bring him.” So without even consulting His Holiness and the Kalon Tripa Prof. Samdhong Rinpoche, I immediately said that if he does not come then I am not coming and there will be no next round of negotiation. So, for three weeks there was total stalemate because Wang Zhaoguo will not compromise and I said very clearly and finally I was able to send a message to Jiang saying, “Look this is happening.” So, even in such matters he intervened himself by telling Wang Zhaoguo, “Don’t make a big fuss and let Kelsang Gyeltsen also come.” I am just giving example of that kind of access and there is much more opportunity of things moving ahead. Since you wanted me to talk about the dialogue process, I thought I would share this story with you.

I have just come from Dharamsala, where we had a meeting of the Task Force. The Task Force is a small group that helps and advises Dharamsala on its relations with the Beijing leadership. I said there, even if Xi Jinping’s style is slightly different from Hu Jintao, it would be a mistake for us to see any movement on issues such as Tibet. I agree that Tibet certainly has become more important than Taiwan at the moment, but still it does not mean that ours is one of those issues which they think they must tackle in the next few months. They still have a lot of issues that they have to deal with. But I think it important that we continue to pursue that.

I told the Foundation for Non-violent Alternatives that I wanted to share with you the presentation I made at the Council on Foreign Relations a few months back. The reason is that I raised some points there, which I think are also relevant here. The Chinese have been very aggressive in trying to isolate the Tibet issue on the pretext of the “One China” policy. Anytime anyone tries to raise the Tibet issue immediately they will say that you are committed to “One China Policy” and how dare you raise this issue of Tibet. The Chinese have been very successful over the last decade in making everyone believe in this.

Unfortunately, some Europeans have been intimidated and said, “Yes. We agree with it”. I want to point out that the “One China Policy” has nothing to do with the Tibet issue. The “One China Policy” came about specifically with regard to Taiwan. There is no dispute because both the Kuomintang and the Communist Party of China are talking about the same China. Even Kuomintang used to say that there is only one China.

With Tibet it is different and we have to go back to the 17 Point Agreement. That is what is not in the Shanghai Communiqué that deals with the “One China Policy.” Even if one holds the position of accepting that Tibet is part of China, one has to go back to the 17-Point Agreement. I hope that people are not intimidated by the Chinese on the pretext that they are discussing this issue “One China Policy.”

Another issue that is particularly relevant here in Delhi is that there was very serious effort (by the
Chinese) in the past years of fundamentally changing the whole approach to the issue of so called “minorities” and doing away with the whole concept of autonomous regions. Somehow, some Chinese scholars have said that they made a mistake and they should not have even suggested this route of autonomous regions. They say that they have now created these separate identities for the Tibetans, for the Uyghurs, and for the Mongols and that they should do away with that. They think they should not have these autonomous areas or regions.

Some people thought that this is rhetoric by a few ultra-leftists, which it certainly is not. In fact, finally, even the Executive Vice Minister of the United Front wrote about it in an official publication. So there is definitely more to it. If that happens, let’s say tomorrow just theoretically if China does away with so called “Autonomous Regions.” As far as I know India, after lot of confusion and mistakes has accepted Tibet to be part of an autonomous region. The autonomous region is always part of PRC.

If tomorrow China violates and does not respect that autonomous status then what would be your position? Will you still say that yes, after many careful deliberations a position was taken that you accept Tibet as part of PRC but on the understanding that it is an “Autonomous Region”. Panditji clearly said that Zhou Enlai had assured him that China’s intention is not to make Tibet into a province of China, but as an autonomous region. So, I wanted to raise this although hopefully this may not come up as the National

People’s Congress didn’t discuss it. But you never know.

Another issue is that if the present situation in Tibet continues and sadly if it becomes more tragic then I think the Tibetan people will have the right to invoke the United Nations’ new concept, “Responsibility to Protect”. The Americans and Western nations have adopted this concept when it served their interest and carried it out in many countries to indicate that even sovereign nations can’t violate the fundamental rights of its own citizens.

So, this is what exactly is happening in Tibet. Even with regard to the Tibetan movement, if there is no progress and dialogue and if the tragic situation continues this could be the scenario. I know it is not easy and it is not like talking about some other country, as China is different and everyone treats China differently. But I don’t think you can deny the principle. I think the Tibetans will have to make a major move towards that initiative.

Comments by the Chair

We have had the personal insights with a person who had dealt with the Chinese negotiators on Tibet issue. We really benefitted a lot. On the Indian policy, so far in the last six decades, Indian government did not say a few things.  
1. It did not say that Tibet is a historical part of China but only the PRC which means the 1949.
2. The Government of India did not say that this is an inalienable portion of China which has legal implications in terms of security and so on and so forth.
3. And autonomy as Prime Minister Rajiv Gandhi brought in during his 1988 visit to China in terms of Tibet policy.
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