



Will China's New Leadership Team Pursue Economic Reform?

Nicholas Borst says that while some economic reformers were left off the team, other members are followers of former President Jiang Zemin and may seek to further liberalize the economy.

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Steve Weisman: China has installed its new leadership team and questions have arisen about the future of economic policy and economic reform in Beijing. This is Steve Weisman at the Peterson Institute for International Economics with Nicholas Borst, research associate and specialist on China. The new leadership in China brought some surprises -- or was it the team that was expected?

Nicholas Borst: I think it was largely expected. There were a couple of disappointments. Two people that we thought were very key reformers, Wang Yang and Li Yuanchao did not make it on to the seven [leaders of the Politburo Standing Committee]. The other surprise was that we saw of [former president] Jiang Zemin's protégés and allies secure spots, as opposed to [outgoing president] Hu Jintao's people.

Steve Weisman: Identify who Jiang Zemin is, for those who might not remember?

Nicholas Borst: Jiang Zemin was the former leader of China before Hu Jintao and was associated with a lot more economic reform than we saw in the Hu Jintao-[premier] Wen Jiabao era of the past decade.

Steve Weisman: So it's possible that although the reformers you named didn't get on the list, the people close to Jiang might be reformers?

Nicholas Borst: Yes. That's the hope -- that his new resurgence into public life, where he's been absent for a couple years, means that he's really going to make a push for revitalization of the reform effort. A lot of his allies getting these spots on the Politburo Standing Committee are representative of this.

Steve Weisman: What do we mean by reform?

Nicholas Borst: I think reform could take a lot of directions. But a couple of key things we would be looking for would be more market based exchange rate, less financial repression of interest rates, gradual opening in the capital account, and more long-term reform of state-owned enterprises.

Steve Weisman: Let's talk for a second about state-owned enterprises. You noted in a recent posting that at Hu Jintao's farewell speech he emphasized the importance of state-owned enterprises, which discouraged the hopes for reform. But that may have been pro forma. What do you think is going to happen in that sector?

Nicholas Borst: Yes. In Hu Jintao's report to the 18th Party Congress—which is traditional for the outgoing leader to give this address—he emphasized once again the need to strengthen and consolidate state-owned enterprises. A lot of analysts initially were put off by that and interpreted that as a return to state-ism. But we went back and looked at a lot of the previous addresses, the 16th and 17th Party Congresses, and the language is almost identical. So I think it's not the correct interpretation to assume this is something new or some dramatic shift in state-owned enterprise policy.

Steve Weisman: Boilerplate, in other words.

Nicholas Borst: Boilerplate. It reflects, I think, a deeply founded Chinese view that there is a proper realm for the state sector and for the private sector and that the two are not mutually exclusive.

Steve Weisman: The re-emergence of Jiang Zemin has only been apparent in the last few weeks or months, hasn't it?

Nicholas Borst: Yes. It's been relatively recent. About a year or so ago there were rumors that he had actually passed away. So his emergence is, I think, quite significant and has deep implications for wherever reform might go.

Steve Weisman: How quickly will we see what new direction the Chinese leadership is going to take? When does the new leadership take office?

Nicholas Borst: March. In March Xi Jinping will become President and Li Keqiang will become Premier. But actually, I think there's more continuity than change here. The 2012 five year plan, which was drafted in 2011, actually takes us all the way through 2015.

So at least formally, the policies of economic reform for the party have already been laid out. But I do think there is room within that of what they choose to emphasize, how quickly they move on things. There's this big movement now—you're hearing a lot in the party—of creating a moderately prosperous society by 2020. I think a lot of that is going to be an emphasis on growing personal incomes more quickly, less environmental damage, those sorts of things.

Steve Weisman: One thing that strikes an outsider like me is the extent to which this leadership increasingly seems insular. They're called princelings, from the original revolutionary leadership. They're all well-connected and prosperous. China just seems to be evolving toward a kind of imperial court of insiders and relatives who share the wealth among themselves. That can work in any society as long as they deliver the goods for the average Chinese.

Nicholas Borst: I think the Party very clearly acknowledges that their continued legitimacy is based on delivering speedy economic growth. I think a lot of people have criticized Xi Jinping. Obviously, he has a very prestigious family background. But I think you saw right after the Congress, where the new leadership walked out and was introduced to the public, he gave a very sort of direct interaction with the media. He would speak in Chinese and then pause for things to be translated into English. He said directly, "China needs to learn more about the world and the world needs to learn more about China." And so I think, in many ways, he's going to be a much more internationally minded, a bit more cosmopolitan than Hun Jintao ever was.

Steve Weisman: Does he speak English? I read that his wife does.

Nicholas Borst: I think he probably speaks a little bit and the new Premier, Li Keqiang, actually speaks pretty decent English and has actually given a couple addresses in English.

Steve Weisman: So is there a stylistic difference with Hu Jintao and Wen Jiabao?

Nicholas Borst: I think Xi Jinping is much more comfortable traveling abroad and meeting with foreign leaders. Hu Jintao always looked like he was uncomfortable anytime he was outside of China.

Steve Weisman: Yet Nick Lardy [of PIIE] said that President Obama has had more contacts with Hu Jintao than President Bush did.

Nicholas Borst: Yes, and I think high level dialogue and conferences and things like that between the U.S. and China are going to continue without interruption.

Steve Weisman: Nick, thank you very much.

Nicholas Borst: Thank you.

