

Statement for the Record Before the US-China Economic and Security Review Commission

Hearing on “CCP Decision-Making and the 20th Party Congress”

January 27th, 2022

Alex He

Research Fellow, Centre for International Governance Innovation (CIGI)

Introduction

Since democratic political reform disappeared from the agenda of the Chinese government after the 1989 Tiananmen event, the most important task for a paramount leader in China is to maintain sustainable economic growth and, subsequently, social and regime stability, which will conversely help the top leader reinforce his control over the party and the country.

China’s economic policy-making process has shown some new features since Xi Jinping became the president in 2013. Presenting China’s reform as a holistic system consisting of economic, political, cultural, social, and ecological subsystems, President Xi introduced a top-level design as the theoretical foundation for his overall control of the reform agenda and economic policy-making process. Sticking to the party’s tendency to be extremely risk averse, Xi’s top-level design embraces stability as the top principle while seeking the primary goal of sustainable economic growth.

This statement will focus on the following questions (topics) to explain China’s economic policy decision-making.

Economic policy decision-making: apparatus, information, and process

The party-state dual model of governance is the basic institutional framework to understand the decision-making process in China.

Apparatus

Within the Chinese Communist Party (CCP)’s central authorities are the de facto highest organs in the power structure, the Politburo and its standing committee (PBSC), both of which are at the centre of China’s decision-making process. In general, the Politburo and PBSC make decisions on significant issues concerning China’s political economy with final approval by the CCP’s Central Committee. Specifically, the most significant policies, such as the five-year-plan, guiding principles, other strategic policies, and the direction of China’s economic and social development, are drafted by ad hoc groups under the direct leadership of the Politburo and the PBSC. These drafts are then discussed and reviewed by the Politburo and the PBSC in parallel before being submitted to the CCP’s Central Committee for final approval.

As one of the results of the achievements on the so-called “democratic and scientific decision making” since the beginning of the twenty-first century, these most significant policies needed to be decided collectively, either by the PBSC, the Politburo meetings, the Central Economic Work Conference (CEWC), the plenary meeting of the Central Committee of the CCP, or the National Congress of the CCP, depending on the significance of these policy issues. However, the final approval of the plenary meeting of the Central Committee or the national congress is usually rubber stamped as the decisions have already been made by the most powerful members of the Politburo and the PBSC.

As the highest organ of administration of state power, as well as the highest executive organ, the State Council (China's central government) enjoys the highest authority in managing economic and other affairs across China, making and implementing policies on a daily basis. The State Council and local governments at all levels are responsible for implementing the most significant policies, strategies, and guidelines made and approved by the Party Central (the PBSC, the Politburo, and the Central Committee). The ministries and commissions under the State Council oversee decision making and implementation within their own special fields and shoulder the duties to implement the policies made by the State Council.

The central leading groups under the CCP's Central Committee, in their respective special fields, play the important role of policy coordination and consultation, among the Politburo, the PBSC, the State Council, and relevant ministries and commissions under the State Council. Among these leading groups, the Central Leading Group for Financial Economic Affairs (CLGFEA) is the highest body for coordination of economic policy decision making. The office of the CLGFEA has become more significant as its main duty is to draft annual economic guidelines for China's development at the annual CEWC. What the CEWC did was formally announce and explain in detail the policies made by the CLGFEA to the key senior officials in every sector of Chinese society.

Since 2013, Xi has notably strengthened the role of leading groups at the expense of both the PBSC and the State Council, which indicated a significant institutional change that would reshuffle the policymaking and enforcement system in China. By establishing, reshaping, and upgrading leading groups in key sectors to the status of commissions, Xi has amassed a concentration of power unseen since Mao. Since June 2014, President Xi quietly and carefully put himself in the leading position in the CLGFEA, breaking the tradition of the premier of the State Council assuming the role of director of the CLGFEA as the top policy maker for economic affairs began in the 1980s. Holding the post of director of the CLGFEA means grasping the decision-making power of economic issues in a way that is institutionally and perfectly justifiable. The CLGFEA was upgraded to the Central Financial and Economic Affairs Commission (CFEAC) in the significant reshuffle of the party and government institutions in March 2018. (See Figure 1 in the Appendix for a visualization of policy-making institutions and process in China)

Information input and decision-making process

Information that the highest political leadership uses in economic policy decision-making is provided by the State Council and local governments. During the information input process, the CFEAC and the National Development and Reform Commission (NDRC) under the State Council play crucial roles in coordinating, providing key information, and drafting proposals for economic policy decision making. The CFEAC and the NDRC have similar duties in conducting field investigation, collecting information, doing research, and making important economic plans, but the former owns higher authorities in coordinating among government agencies, ministries, commissions, and higher-level party organs for economic policy making.

Specifically, the Office of CFEAC is responsible for information collection and drafting proposals and outlines for the most important economic policies including the five-year-plan, annual economic plan, and the quarterly Politburo meetings. As the party's highest body for coordination of economic policy decision making, the CFEAC's Office coordinates and gets information from the most important ministries concerning economic policy and drafts China's economic plans and outlines. These ministries or ministerial-level government agencies include the NDRC, the Ministry of Commerce, the Ministry of

Finance, the People's Bank of China (PBoC), the State-owned Assets Supervision and Administration Commission, the Ministry of Industry and Information Technology (MIIT), China Banking and Insurance Regulatory Commission (CBIRC), China Securities Regulatory Commission (CSRC), etc.

Although it has lower authorities than the CFEAC, the NDRC, as the powerful leading government agency in macroeconomic planning, has its advantages in economic policy making. With its main duty of making the economic development plan and a nationwide local-level system, the NDRC plays an indispensable role in China's long-term and annual economic plans.

Take the example of the five-year-plan: the NDRC is responsible for organizing the mid-term assessment of the previous five-year plan undertaken by all ministries and agencies in the central government and local governments as the very first step of the making of the five-year plan. The NDRC then is entrusted by the party's Central Committee and the State Council to lead the work for the preliminary research for the five-year-plan, which incorporates extensive, nationwide field investigation, information collection and research, as well as the recommendations and suggestions by all ministries in the State Council and local governments. After that, the NDRC drafts "the basic thought" of the five-year plan on the grounds of this preliminary research and then submits it to the Central Committee and the State Council.

The CFEAC takes over from here. Based on "the basic thought" drafted by the NDRC, the CFEAC leads and coordinates the establishment of a high-level, usually premier-led ad hoc drafting group under the supervision of the PBSC and Politburo and organizes the members of draft groups to conduct extensive field investigations and draft the five-year-plan proposal. After submission to the Politburo and PBSC, the draft would be circulated to all departments in the party, the central and local governments and the military, as well as retired senior party leaders, democratic parties¹, business, public figures, and economic experts for suggestions. The drafting groups revise the draft multiple times based on the collected suggestions and further opinions from the members of the PBSC before the draft can be submitted to the plenary meeting of the party congress for final approval.

Judged by the process of assessment, field investigation, discussion, research, and recommendations and suggestions by a variety of entities and institutions within and outside the party central and the central government, the information for economic policy decision-making is basically reliable.

Key individual players and President Xi's role

Liu He, the current director of the CFEAC Office, and a vice premier of the State Council, is the key individual player in formulating economic policy in China's political leadership.

As stated earlier, President Xi introduced a top-level design as the theoretical foundation for his overall control of the reform agenda and economic policy-making process. Liu He, who was regarded by a variety of sources as the top economic advisor to President Xi, even before the latter's ascent to the highest authority, is believed to have provided the origin of the top-level design based on his background in information science².

¹ It refers to the eight subservient political parties that exist within the CCP's United Front in China's one-party political system controlled by the CCP.

² Forsythe, Michael and Dune Lawrence. 2009. "Liu He as China's Larry Summers Makes Politburo Appreciate U.S." *Bloomberg News*, September 24. www.bloomberg.com/apps/news?pid=newsarchive&sid=aKp9wybwC4HM.

Liu He is a veteran in China's economic policy making who participated in the development of the CCP's and China's most authoritative guiding documents, the five-year plan, since the 8th Five-Year Plan in 1990 up to the latest 14th Five-Year Plan in 2020. He is also one of the major scriptwriters of the most important annual economic conference in China's policy making, the CEWC, and has participated in drafting economic speeches for the three top leaders since Jiang Zemin.

Liu He's promotion to vice premier in 2018 indicated that he had become a significant supervisor on policy implementation as well, with substantive authority over the state bureaucracy, in addition to his existing role as Xi's top economic advisor and the senior policy maker in China's economic and financial policy. Liu's dual senior positions in both the party and state bureaucracy and in both policy making circles and policy implementation would help further smooth the interlinkages between policy making and policy execution. Seen from this perspective, Liu He has emerged as the new economic czar, as Premier Zhu Rongji did in the late 1990s.

Control of both people and process (institutions) matters in economic policy decision-making. President Xi's role in deliberating economic policy is to make sure that the people he trusts stay in control of key institutions and decision-making process. Through publicly announcing himself as the head of the CFEAC, and promoting Liu He as both the director of the CFEAC Office and the vice premier to take charge of the financial, industrial, and technological sectors in the State Council, President Xi secured control of highest authorities on economic policy decision-making over the premier of the State Council.

Since coming to power in 2013, President Xi has quietly promoted his protégés to key positions in the party and government as the main way to fulfill his vision and plans. Except for Liu He, Xi's former subordinate and long-time ally **He Lifeng** was appointed as the head of the NDRC in 2017, which will help Xi's efforts to consolidate its control over the regulatory bodies in China's economic management. Three years younger than Liu He, He Lifeng as the director of the NDRC could be a candidate for Xi's next top economic advisor and the vice premier responsible for the finance, industry, and technology sectors.

Different strains of economic policy thinking

Major economic policy initiatives under President Xi include the supply-side structural reform to restructure and rebalance the economy since 2015, implementing the new development philosophy featuring innovative, coordinated, green, and inclusive growth since 2017, and fostering the new dual-circulation development paradigm since 2020.

Behind these major economic policy initiatives lie different strains of economic policy thinking:

1. The restructuring based on the supply-side economics

Supply-side structural reform is a revision of China's long-standing growth model driven by export and investment, which has created and exacerbated many problems associated with overcapacity. The idea of supply-side structural reform can be traced back to 2013, when the party central made an assessment of the entire economic situation and concluded that the Chinese economy had entered a so-called new normal of economic development in which it was necessary to simultaneously deal with a slowdown in economic growth, make difficult structural adjustments, and absorb the effects of previous economic stimulus policies.

Different from President Reagan's supply-side economics, which focused on tax cuts and deregulation from excessive government intervention, Xi's supply-side structural reform focuses on the structural changes in the supply side to try to transform and upgrade China's economy and lead the economic development in a sustainable way. Specifically, it includes five tasks in slashing excessive capacity in sectors such as coal and steel, reducing excess housing market inventory, de-leveraging (cutting debt) to avoid financial risk, lowering costs of enterprises, and shoring up weak areas in the economy.

Facing a mixed picture of limited successes and the highly negative impacts it brought to China's economy, the main attention of supply-side structural reform turned to its fifth task, bolstering areas of weakness. Starting from 2017, supply-side structural reform expanded into almost the entire scope of industries³ and incorporated many areas of advanced manufacturing, such as robotics, semiconductors, next generation information technology, aviation, and new materials. Until today, supply-side structural reform has spread into improving the quality of the supply side in general, including manufacturing, finance, innovation, technology, and the digital economy, and Liu He has called to combine it with demand side management and expanding domestic demand.⁴

The Liu He-headed CFEAC Office was behind the design of supply-side structural reform. A group of renowned economists since 2013 have advocated China's new supply-side economics but there is little evidence to prove its connection with President Xi's and Liu He's supply-side structural reform.

2. Embracing the market economy while strengthening the party and government's control over economy

The seemingly self-contradictory and confusing statement demonstrates Liu He's idea in finding "the existing grey area" between market economy and government control, in which China made a detour with Chinese characteristics and took a pragmatic approach in the path to marketization.⁵ This idea was presented in the decision passed at the Third Plenary Session of the 18th CPC Central Congress. Although Xi advocated "allowing the market to play a decisive role in allocating resources" in the authoritative document, his statement included another crucial part, "improving the government's role."⁶

Following this paramount principle, we saw China continue its support for making its state-owned enterprises (SOE) and state assets stronger, better, and bigger while encouraging, supporting, and guiding the growth of private sector; strengthening the government's control over big private companies through intensified market regulation and anti-monopoly measures while encouraging the innovation and development of big tech and platform enterprises; seeking market-oriented economic development while emphasizing the strengthening of national economic security and improving SOEs' role to provide strategic support for the economy and carry out strategies for safeguarding food, energy, and finance security and secure and controllable development in priority industries, infrastructure, strategic resources, and core technologies.

³ Barry Naughton. 2018. "Economic Policy in the Aftermath of the 19th Party Congress." *China Leadership Monitor Winter* (55), January 23. <https://www.hoover.org/sites/default/files/research/docs/clm55-bn-final.pdf>.

⁴ http://www.gov.cn/guowuyuan/2021-11/24/content_5652964.htm (In Chinese).

⁵ Liu He. 2008. "Future Trends and Three Long-term Issues in Chinese Economy." See <https://www.yicai.com/news/5129776.html> (In Chinese).

⁶ http://www.gov.cn/jrzq/2013-11/15/content_2528179.htm (In Chinese).

In addition to Liu He's thinking in dealing with the relations between market economy and government control, Justin Yifu Lin's idea on the new structural economics has provided a theoretical support for government control of economy in China. Lin's new structural economics argued that the government should play an active role in facilitating industrial upgrading and infrastructure improvements, in addition to an effective market mechanism.⁷

3. Seeking innovation and technology-based growth to overcome the middle-income trap

Liu He has long advocated that economic transformation and upgrading is the key to overcoming the middle-income trap.⁸ His latest article further clarified that the key lies in the transition from factor-driven to technological innovation-driven economic growth.⁹ Successful cases of South Korea, Singapore, and Israel in overcoming the middle-income trap show that China needs to follow suit in taking key positions in global innovation and supply chains.

China's extraordinary emphasis on homegrown technological innovation is not just about overcoming the middle-income trap. Liu He's latest article has specified that technological innovation is not only a matter of development but also a matter of survival for China as "the profound change" has happened. This wording echoed the unprecedented emphasis President Xi placed on "core technologies" and "key technologies" immediately after the ZTE ban in April 2018¹⁰. The ZTE incident and Huawei ban by the U.S. government became China's sputnik moment, in which many Chinese elites and policy makers realized that the prosperity boosted by China's tech boom since 2015 is something built on sand and was very vulnerable.¹¹ The Chinese top leader's emphasis on grasping core technologies was not something new, but Xi's focus on the immediate urgency for owning core technologies was unparalleled. Facing technology "decoupling", China has already doubled down on relying on indigenous technology and innovation to seek breakthroughs in core technologies in the semiconductor industry and other advanced manufacturing since 2018.

4. Upholding the consistent reform and opening-up policy as the party's "new orthodox"

Four decades after Deng Xiaoping first initiated the reform and opening-up policy, the rapid economic growth and great economic achievements China has accomplished have made the policy as one of the party's fundamental ideas, along with other ideas such as the "socialist market economy" and "the CCP's one-party rule" in today's China. Top leaders and policy makers in China have consistently promised and practiced the economic opening-up policy since then. Ideas of deepening opening-up to the world include transition from the opening-up based on flow of goods and factors to the one based on rules and institutions and establishment of domestic institutional arrangements and regulatory models to link up and adapt to international rules, etc. This explained China's motives and moves to join the WTO, most recently to join the RCEP, submitting to join the CPTPP, participation in global economic governance systems such as the G20, and promotion of its Belt and Road Initiative (BRI).

⁷ <https://openknowledge.worldbank.org/bitstream/handle/10986/19919/WPS5197.pdf?sequence=1&isAllowed=y>

⁸ <https://www.cdrf.org.cn/jjh/pdf/j101.pdf> (In Chinese).

⁹ http://www.gov.cn/guowuyuan/2021-11/24/content_5652964.htm (In Chinese).

¹⁰ http://www.xinhuanet.com/politics/2018-05/28/c_1122901308.htm(In Chinese).

¹¹ See the founder of Tencent, Pony Ma's address at a science forum in Shenzhen in May 2018. Available at: <https://www.youtube.com/watch?v=qWzVZ3vMLrY> (In Chinese).

Although the dual-circulation new development pattern¹² emphasizes the domestic circulation, the opening-up policy still constitutes the other essential part to sustain China's economic growth.

5. Common prosperity (inclusive development) and green development to placate domestic resentment and increasing legitimacy for the party's rule

Economics is not just pure economics, it is always about the political economy and political stability, as Liu He wrote.¹³ Sustained economic growth via market-oriented reform has evolved into the fundamental source of legitimacy for the CCP's rule in China since 1989, as democratic political reform, freedom of the press, pluralism, and other universal values have not been appreciated in Chinese society under the CCP rule. Accordingly, dissatisfaction accompanied by economic development in Chinese society constituted severe challenges to the CCP's rule in China.

Among them, the great gap between rich and poor and the degrading environment are long overdue and the most outstanding problems that Chinese people complained about, along with other issues concerning inequality in education, job opportunity, health care, housing, and food safety. President Xi's new development philosophy contains the two prominent fronts, trying to push for common prosperity by encouraging public-welfare and charity and rural revitalization, and to achieve the goal of green and low-carbon development through imposing a strict ecological environment protection system, setting the goal of carbon neutrality, and reducing air pollution.

Policy priorities in the wake of the 20th Party Congress

Stability is the word being emphasized repeatedly in the 2021 annual CEWC, which outlined the main goals and policy priorities for economic development in 2022. Facing slowing growth along with severe downward pressure caused by shrinking demand and the supply shock from the negative impact of the global pandemic, the annual conference called for all local and central governments to take responsibility to introduce policy to stabilize the economy.

As stated earlier, Chinese leaders have evolved an extreme risk-averse tendency and have become stability-obsessed since 1989. Under President Xi's top-level design for overall control of the reform agenda and economic policy making, and maintaining stability, is the de facto top priority. Economic work will be of crucial importance in the wake of 20th Party Congress in 2022 and the top priority is ensuring stability, as explained by **Han Wenxiu**, deputy director in charge of routine work at the CFEAC Office.

The biggest challenge of governing the Chinese economy for the party's top leaders has been how to maintain the fine balance between economic restructuring and keeping stable growth since 2008. In the wake of 20th Party Congress, Chinese leaders are unlikely to tolerate any severe economic volatility, and policy choices are likely to tilt to maintaining economic and social stability. Relevant priority policies announced at the 2021 CEWC include active fiscal policies and prudent but flexible monetary policies to

¹² It refers to President Xi's domestic-international dual circulation, a strategy that advocates China prioritize domestic demand and innovation as the main drivers of the economy while remaining open to the outside world for foreign trade and investment. See: <https://www.nytimes.com/2020/09/07/business/china-xi-economy.html>.

¹³ Liu He. 2008. "Future Trends and Three Long-term Issues in Chinese Economy." See <https://www.yicai.com/news/5129776.html> (In Chinese).

maintain liquidity at a reasonable and ample level, tax breaks and fee cutting policies for businesses, while shoring up infrastructure investment in areas of low-carbon development, new energy, and new technology, etc.

Long-term structural issues such as the energy transition for carbon neutrality, curbing debt, deflating the property bubble, strengthening regulation on private big tech companies, and capital market development remain unchanged, but some temporary easing policies might be introduced. Policies that would help maintain economic and social stability such as guaranteeing food, energy, and resources supply, promoting even wealth distribution in society, and increasing job opportunities will be set as priorities.

Since the 2008 global financial crisis, Chinese leaders have always under pressure to make choices between maintaining short-term growth to contribute to social stability (but with key reform measures suspended) and pursuing long-term reform goals (but with decreased economic growth). Still, President Xi and his senior economic advisors' vision for China's economic future after the Party Congress in 2022 relies on the result of pushing forward these long overdue and difficult structural issues.

The division of labor between Party organs and government ministries in economic policy decision-making

The relations between the party and the government in China's decision-making process is similar to that between the board of directors and the executive team in a company. The seven-member PBSC is similar to a board of directors, and the general secretary in the PBSC is akin to its chairperson. The huge hierarchy of the State Council is similar to a gigantic executive team consisting of different departments. The premier of the State Council is similar to a general manager and invariably ranks second in the PBSC (board of directors).

The CFEAC acts as the highest Party organ for coordination in economic policy decision making, providing economic advice to the Party Central. To better understand the position of the CFEAC in China's governing structure, it can be analogized to the National Economic Council of the White House in the United States, which play a similar crucial advisory role in policy making. Headed by President Xi, the members of the CFEAC include three other members of the PBSC: Premier Li Keqiang, Han Zheng, and Wang Huning. Before the 2018 government and party organization reshuffle, its members also included heads of ministries in charge of economic issues in the State Council. Liu He heads the CFEAC Office, which is the key organ for making the party's significant economic policies such as five-year-plan and annual economic plan. The CFEAC Office as a ministerial-level agency coordinates economic policies among major ministries and commissions in the State Council.

Ministries and commissions in the State Council that manage economic affairs play a key role in economic decision making concerning their respective areas. They are usually the source of many policy initiatives. The way that policies are initiated by ministries and commissions can be defined as a bottom-up approach, as they may originate from the officials at the bureau-chief level or lower-division-chief level. If a policy proposal by ministry decision is made at a sensitive time and deemed to affect the direction of China's economic growth and stability, it has the chance to be submitted to the State Council and the CFEAC or the PBSC for final discussion and approval.

Another common way of decision making by ministries and commissions is the second-time decision making or specific decisions to materialize the instructions given by the State Council or the Party

Central. China's decisions are always forwarded with written instructions and comments from more senior policy makers. Typically, these instructions only give a general idea on the direction, tasks and goals of the policy, not detailed information or plans. What the ministries and commissions normally do is make the second decision and this occurs on a daily basis. This decision-making model fully embodies, and even exemplifies, in many cases, the roles of the ministries and commissions in the policy-making process.

Policy coordinating bodies beneath the State Council such as the Leading Group for Building Manufacturing Power and the Financial Stability and Development Committee, both headed by Liu He, are established to coordinate economic policy making in certain areas such as manufacturing and financial stability in the State Council system. Compared to the CFEAC and its office, these policy-coordinating bodies within the State Council are lower-level and sector-centered specific policy coordinating agencies among relevant ministries. Depending on who heads these bodies, they can also play important roles of policymaking and policy regulation and implementation in the area they supervise. The two bodies headed by Liu He play important roles in coordinating manufacturing and industrial policy and financial supervision and preventing financial risks respectively.

Roles of think-tanks and research institutions in shaping economic decision-making

China's think-tanks and policy institutions can be roughly divided into two categories: The inner-circle ones refer to policy research institutions within the Party Central and the State Council, including the high-level Policy Research Office of the CCP Central Committee, State Council Research Office, the Development Research Center (DRC) of the State Council, the CFEAC Office (as the core economic policy making and coordination body, it conducts policy research as well). The outer-circle ones include the Central Party School, the Chinese Academy of Sciences, the Chinese Academy of Social Sciences (CASS), Chinese Academy of Governance (merged to the Central Party School in March 2018), research institutions and think-tanks within universities, the military, as well as non-governmental social think-tanks and institutions.

Among all the think-tanks and research institutions within and outside the party and state system, the DRC and CASS are two significant ones in shaping economic policy making. Although both are affiliated with the State Council, the DRC is more relevant as it is an inner body, closer to the center of economic policy making. It plays important roles in conducting advanced study in issues concerning China's economic development and providing policy proposals and recommendations in economic decisions. The CASS is a more academic institution with more capacity and talent in research but has less access to internal government information than the DRC, although it has its channels as well to provide policy proposals and recommendations to the Office of the CCP Central Committee and the Office of the State Council.

One key factor determining the influence of think-tanks and research institutions is their connection to core Chinese economic policy makers. Depending on the research quality, media influence, and connection with policymakers at government ministries or party organs, some renowned economists from prestigious universities such as Peking University, Tsinghua University, and the CASS may have influence on economic policy decision making. In this sense, the Economists 50 Forum is a loosely organized think-tank but has a significant policy influence in China's economic decision-making process.

Founded by Liu He and Fan Gang in 1998, the Economists 50 Forum gathered the 50 most prestigious economists who have reputations in academic circles, media, and policy community.¹⁴ It holds internal seminars and annual conference to provide recommendations and policy proposals to senior policymakers on significant economic issues. Since its founding, some of its member economists have been promoted as senior government officials in charge of economic policy. With its strong connection with top economic policymakers at the crucial institutions including the CFEAC Office and top leaders at the Party Central and the State Council, the Economists 50 Forum plays a role of a top-level think-tank advising on significant economic issues for China's top economic policy decision-makers.

A small part of its members are replaced with new economists and officials every five years but its members in general cover three categories: Distinguished economists from the DRC, the CASS, Peking University and Tsinghua University, etc.; Incumbent senior government economic officials with strong academic backgrounds, including Liu He, vice premier of the State Council and the director of CFEAC Office, Yi Gang, Governor of the PBoC, and a few ministers, vice ministers, deputy directors from the CFEAC Office, the CERC, the CBIRC, etc.; Former senior government officials, including former governor of the PBoC Zhou Xiaochuan, a few former deputy directors from the CFEAC Office, the PBoC, State Taxation Administration, and a former minister of the MOF.¹⁵

Problems of President Xi's "top-level design" in economic decision making

Xi's style of highly concentrated power and full control over policy making has achieved a mixed result. It may have pushed through some difficult economic structural reforms, but it has created a variety of new problems and exacerbated the existing bureaucratic problems in China's political economy.

First, policy implementation has been the biggest problem in China's complex party-state dual governance system and policy-making process. The existing bureaucratic problems in policymaking and implementation have been further intensified under the idea of top-level design. Xi's heavy-handed approach to ruling in the party-state and determined anti-corruption campaign created a highly intense and mutually suspicious atmosphere among officials, which, ironically, led to widespread indolence among officials in performing duties, contrary to Xi's expectation. Bureaucratic methods such as "slow-walking" orders or keeping information from superiors were created to avoid the suspicion of corruption or violation of party discipline.

When facing greater pressure from superiors, officials typically either choose to pretend that they are busy performing their duties to avoid being suspected of inaction or become inflexible and over-eager in enforcing policies to keep their jobs. As a result, policy implementation is either halted by officials in many innovative and delicate ways to give the impression they are working hard or executed in a rigid but ardent way. One recent example of the latter was the lockdown of many cities in China such as Tonghua, Ruili, Shijiazhuang, Yuzhou, Anyang, Xi'an, or the requirement of all residents of a city to get PCR tests since the pandemic, with only hundreds, dozens, or even single-digit Covid cases being reported.¹⁶ For local officials, the rigid one-size-fits-all lockdown or mass Covid tests are the safest and

¹⁴ <https://m.21jingji.com/article/20190217/herald/bc0f9b172a88c41ba3868aff5ba1d0e5.html>(In Chinese); <https://www.jiemian.com/article/1955799.html>(In Chinese).

¹⁵ See the full list of the current members of Economists 50 Forum at its home page: <http://www.50forum.org.cn/home/english/index.html>.

¹⁶ <https://www.npr.org/2022/01/05/1070472805/xian-reacts-to-covid-lockdowns-with-outrage-and-humor>.

simplest way to execute the required zero-Covid policy from the top to keep their jobs, or even get promoted.

Second, these problems can have catastrophic consequences when emergency situations arise, such as a public health crisis, as the novel coronavirus epidemic beginning in January 2020 demonstrated. The stability-obsessed ruling style under President Xi's top-level design and the unprecedented pressure it brought on state and local bureaucrats are, unexpectedly, unable to react swiftly when facing a crisis. The existing notorious bureaucratic problems, including a tightly controlled flow of information, and local officials' inclination of not reporting and releasing bad news while dodging responsibilities by only taking actions following a superior's orders, have been amplified under President Xi's top-level governance style and eventually played a large part in making the coronavirus outbreak worse once it began in January 2020.

Third, sticking to the party's extreme risk-averse tendency, Xi's top-level design approach continues the party's top priority of maintaining stability, which oppresses different voices in policymaking concerning economic and other affairs resulting in negative consequences. The nationwide strict zero-Covid policy during the pandemic is a key measure to maintain social stability. If the zero-Covid policy is abandoned, the potential overwhelmed situation in hospitals and subsequent healthcare system crisis would create a great deal of chaos in the society. Under the circumstances, public discussion and voices suggest society live with the coronavirus are neglected or suppressed. This comes at a high cost: Repeated lockdowns of cities and the nationwide harsh quarantine measures have a negative impact on the main driving forces of economic growth, including trade, manufacturing, and consumption, thus damaging China's capacity for stewarding the economy and efforts to counter decoupling attempts in supply chains and technology by the West.

Fourth, problems of the top-level design might counteract Xi's goals of pursuing breakthroughs in core technologies and innovation-driven growth. Problems in China's state-controlled science and technology (S&T) research system and a campaign-style¹⁷ approach for quick success in techno-industrial development that rewards bureaucrats on short-term goals are to blame for the longstanding backwardness in core technologies and related advanced manufacturing. Facing the situation of being "choked" in core technologies, President Xi's prescription under the top-level design approach is nothing new but to strengthen the existing state-centric S&T research system and correlated government-dominated campaign-style catch-up strategy to encourage indigenous innovation. Under the 14th Five-Year Plan starting from 2021, a new system concentrating nationwide effort and resources to support S&T and innovation under the socialist market economy has been pursued.

The decades-long development of China's semiconductor industry has illustrated that the state-dominated approach did not greatly help the promotion of the desperately needed long-term innovation for China to develop into a real technological powerhouse in the semiconductor industry.¹⁸ The fact is that the real breakthroughs in China's semiconductor sector were achieved by private companies such as HiSilicon, and China's rapid advancement in frontier technologies — artificial

¹⁷ Campaign-style here refers to a way of doing things in China by concentrating money, manpower and other resources in an organized way to achieve set goals in a short period of time. It applies in particular to government-organized activities such as campaign-style law enforcement, campaign-style anti-corruption and campaign-style governance improvement.

¹⁸ <https://www.cigionline.org/publications/chinas-techno-industrial-development-case-study-semiconductor-industry/>.

intelligence, 5G wireless communication network technology, big data, and the Internet of Things— was attributed to private companies such as Huawei, Tencent, Alibaba and Baidu. However, the new system under the 14th Five-Year Plan still emphasizes the state-centered concentration of nationwide effort and resources instead of relying on the strength of market-driven innovation and the private sector to make breakthroughs in core technologies. In the years to come, whether the Chinese government can continue to provide an encouraging environment for private big tech’s further development in the digital economy is a key issue that deserves attention.

Future of President Xi’s “top-level design” approach in economic decision making

The top-level design laid the theoretical foundation for Xi’s overall control of the reform agenda and economic policy-making process. But it took five years for Xi Jinping to complete building both institutions and personnel foundations for the “top-level design” approach.

The “top-level design” approach uses renewed central leading groups’ control to establish the institutional framework for promoting the reform and dominating the policy-making process. It started from 2013, the year Xi Jinping became the president, when Liu He was promoted to the director of the CLGFEA Office, deputy director of the NDRC, and was publicly recognized as Xi’s top economic adviser.¹⁹ When Xi publicly announced that he assumed the director of the CLGFEA in June 2014, Xi finished the institutional control of the economic policy-making process inside the party central system.

The top-level design also emphasizes building the party’s full control of economic work in the whole state bureaucracy. The “top-level design” approach in economic policy making finished in March 2018, when Liu He was promoted to the position of vice Premier of the State Council in charge of finance, industry, and technology sectors, and Xi reshuffled and upgraded the CLGFEA to the CFEAC and further tightened control of economic affairs within the party central system.

Judged by the long process of building the top-level design approach, Xi would maintain the institutions for the approach in the economic decision-making process following the 20th Party Congress. Changes might happen to the personnel arrangement, depending on how the Party’s succession politics would unfold at the 20th Party Congress. Xi might have to choose new top economic advisors he trusts in both the party central and the State Council. A key issue to observe would be whether Liu He could remain the position of director of the CFEAC Office and vice premier of the State Council after the 20th Party Congress.

Recommendations

- Fund initiatives to deepen the understanding of China’s policymaking in the Chinese policy community in the United States: (1) Build a China policymaking network that consists of participants in the Chinese policy community in the United States including researchers at think-tanks, Congressional committee staffers, and federal government employees who closely engage with China’s policy making; researchers and scholars on China’s policymaking among U.S. ally countries; former insiders of China’s policymaking who reside in the West. (2) Forge policy consensus and make policy recommendations for U.S.-China

¹⁹ Xi introduced Liu He to the U.S. national security advisor at the time, Tom Donilon, who was visiting Beijing in 2013. See Bob Davis and Lingling Wei, “Meet Liu He, Xi Jinping’s Choice to Fix a Faltering Chinese Economy.” *The Wall Street Journal*, Oct.6, 2013.

policy based on the deepened understanding of China's policymaking through the network. (3) Train or encourage the participants in the Chinese policy community in the United States to pursue proficiency in the Chinese language.

Compared to the United States, China's policymaking process is relatively closed, and leaders or key policymakers' speeches or authoritative documents are always full of highly polished but confusing political parlances. To make it worse, the English version of these key speeches or documents are usually either not available or with poor quality. Relying on media reports in English or other second-hand information might miss the key information conveyed in Chinese policies. All these factors contribute to a bad communication of China's major policies to the outside world. These programs and initiatives are proposed to strengthen the understanding of China's policymaking institutions and process among key participants of the China policy community in the United States.

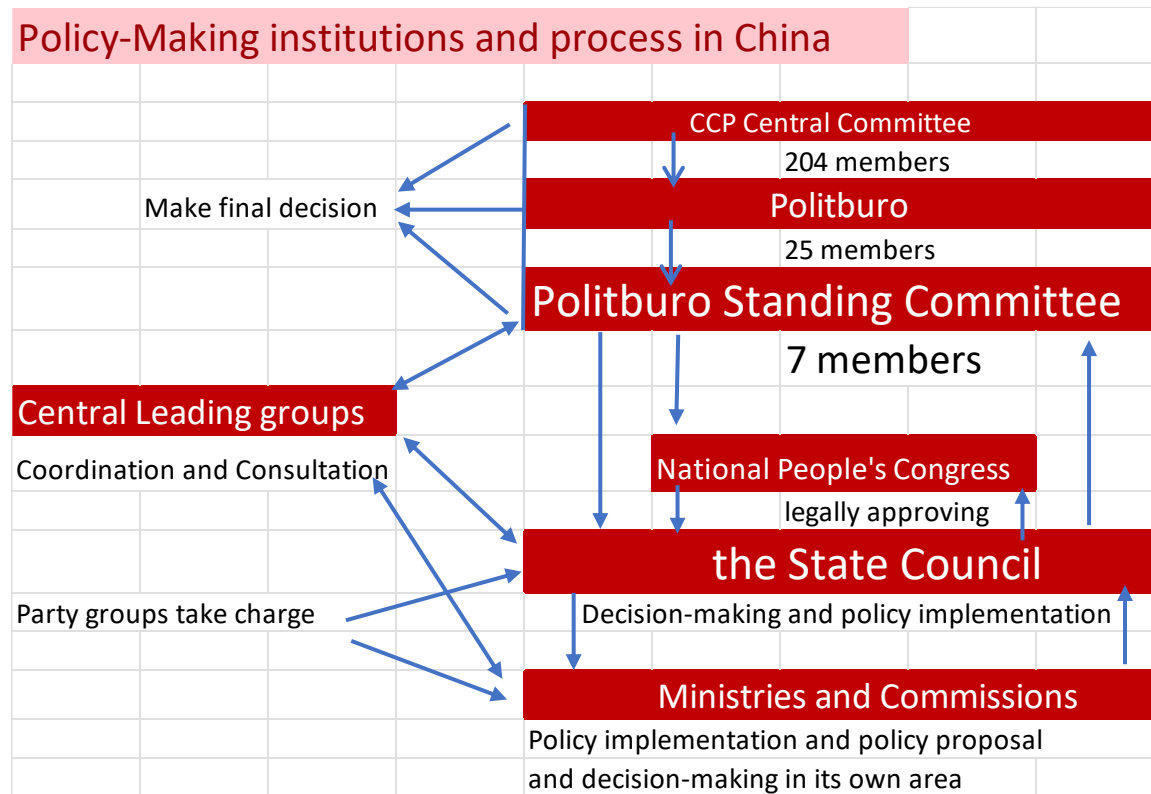
- Encourage the increased exchange between equivalent agencies and institutions in economic policymaking in the United States and China. Exchange between proper counterpart agencies on key economic policies would increase policy communication between the two countries. Potential equivalent exchanges include the one between exchange the National Economic Council of the White House and the CFEAC Office at the CCP's Central Committee, between key government agencies such as the Federal Reserve and the People's Bank of China, the United States Department of Commerce and China's Ministry of Commerce and the NDRC, or between prestigious think-tanks and institutions in the two countries.
- Encourage exchange with lower-level policy makers in key government agencies in economic policymaking such as the NDRC, the PBoC, the Ministry of Commerce, the Ministry of Finance, and the MIIT in China. These officials at the bureau-chief or lower division-chief level are sometimes an important source of economic policy initiatives, and eventually, they are also key officials responsible for the supervision of policy implementation at the central level. Exchange with these officials from counterparts in the United States government would benefit in dealing with trade and economic relations between the two countries.
- Examine U.S.-China cooperation on climate change and encourage cooperation on specific topics such as clean coal technology and the clean energy transition, CCUS (carbon capture, usage, and storage) technology, increasing uses of renewable energy, etc. As the largest emitter of carbon dioxide, one of biggest challenges for China is the significant share of coal in its total energy consumption. These areas that relate to coal and renewable energy are the ones that have more potential to achieve substantive results, considering the close attention that Chinese leaders have paid on climate change-related issues due to increasing domestic concerns and dissatisfaction on a degraded ecological environment and severe air pollution. Substantive results of cooperation in these areas between the two countries will benefit the global effort to address climate change.
- Encourage the Biden Administration to rejoin the CPTPP or initiate a similar high-standard trade agreement with its main allies. The original TPP or a CPTPP with the United States still stands as one of the best sources of leverage the United States could have to make China abide by rules-based international order. Further economic liberation and opening-up is highly significant for China to sustain its economic growth and maintain the legitimacy for the CCP's rule in China. Joining high-standard trade agreements such as the CPTPP is one of Chinese leaders' valued policy choices to push for difficult

economic reform and further economic liberation and opening-up, which can largely explain China’s recent submission to join the CPTPP.

- Pass legislation to encourage the Biden Administration to respond China’s BRI through international organizations under the UN framework, such as the World Bank, the IMF, and other organizations such as the OECD and G20. China, for its part, has cooperated with the World Bank and the IMF on the debt sustainability of low-income economies and released the Debt Sustainability Framework for Participating Countries of the BRI in 2019. China also jointly established the BRI International Green Development Coalition with the United Nations Environmental Programme in 2019. With its influence in these multilateral organizations, the United States is well positioned to exert pressure to encourage and monitor China to follow transparency, debt sustainability, and other international rules, as well as green Belt and Road ideas China has promised to practice.

Appendix

Figure 1: Policy-making institutions and process in China



Source: Author