

**Testimony before the
U.S.-China Economic and Security Review Commission**

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

Yuen Yuen Ang

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Thank you for the opportunity to offer my views on U.S.-China relations and China’s economic policymaking. In this testimony, I highlight the following observations:

- The 20th Party Congress will be President Xi Jinping’s coronation as a third-term leader. If his previous terms were defined by the outward-oriented slogan “China Dream,” his third term will be devoted to “common prosperity,” a domestically-oriented agenda. Common prosperity is not merely a campaign against inequality; rather, it is Xi’s broader mission to end the excesses of China’s Gilded Age and summon the CCP’s version of the US Progressive Era.
- While Chinese leaders, including President Xi, do formulate grand strategies, they are also human and fallible—often, they themselves are unsure how to reach a goal; they overreach and later retreat; or they completely fail to anticipate certain problems and reactions. In order to accurately assess China, it is necessary to take both *ambition* and *fallibility* into account.
- In China policy outcomes are not only the result of leaders’ vision and elite politics; they are also shaped by policy *communication* and policy *implementation*, processes that involve a vast bureaucracy. In analyzing the sources of Chinese conduct,¹ the latter has received little or no attention.
- Specifically, on common prosperity, Xi has not yet found a way to resolve a fundamental conundrum: how to tame the excesses of capitalism without squashing entrepreneurial spirits. Precisely because he has no roadmap to follow, he has recently urged the officialdom to adapt and experiment.
- On sources: Despite being a black box, there is a vast store of open information about the Chinese policy process, contained in speeches and directives. When read closely and in context, they can shed valuable light on leaders’ thinking and the internal workings of the Chinese bureaucracy.

When Xi Meets China's Gilded Age

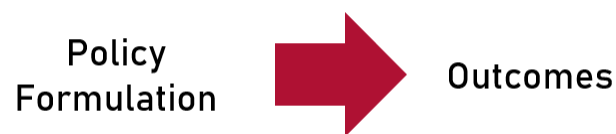
The 20th Party Congress in 2022 will be the equivalent of President Xi Jinping's coronation as a third-term president. If his previous terms were defined by the outward-oriented slogan "China Dream," which aspired to revive China's former glory as a world power, his third term will be devoted to "common prosperity," a domestically-oriented agenda. Common prosperity is not merely a campaign against inequality; rather, it is Xi's broader mission to end the excesses of China's Gilded Age and summon the CCP's version of the US Progressive Era.²

This understanding of the macro context has at least two important implications. First, it tempers premature predictions of China's decline or imminent collapse. When China's problems today are compared with the US in the last century, we are reminded that these problems are not unique, and depending on how leaders deal with them, crises can force necessary but painful changes. Second, in the coming years, the hard question for the Chinese leadership will be *how* they should transition to a more equitable, clean, and sustainable growth model. Beijing learned a costly lesson from the market's alarmed reaction to the regulatory storm in 2021. Going forward, Xi's core vision will not change, but there are signs (as I will later discuss) that his administration has been reflecting on and may adjust its approach.

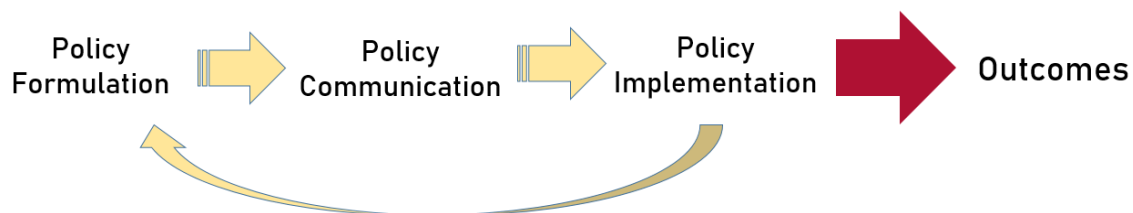
Beyond Policy Formulation

Given President Xi's centralization of personal power and his ambitions to be a great leader on par with Mao and Deng, it is appropriate to focus one's attention on Chinese leaders' decision-making, policy formulation process, and elite politics. In this testimony, however, I would like to bring attention to two neglected dimensions of the Chinese policy process: communication and implementation.

If the conventional imagery of the Chinese policy process looks like this:



The actual policy process is more accurately depicted as follows:



In China, once a policy is formulated, it does not necessarily translate into the exact outcomes that leaders anticipate. Rather, any policy has to be first *communicated* to the bureaucracy, which is a vast organization, comprised of many functional ministries and four layers of subnational governments (province, city, county, and township).³ Then, after receiving instructions from Beijing, numerous officials on the ground will *interpret* and *implement* the policy, often according to local conditions.

As a result, the final outcome can be vastly different from any ambitious, rosy picture that Beijing had initially envisioned. One example is the Belt and Road Initiative (BRI), which was supposed to “create a big family of harmonious coexistence” between China and some 65 countries around the world.⁴ In the end, the grand scheme provoked alarm in the US and criticisms from many BRI partners.

There are good reasons why US discourse on China typically ignore communication and implementation in the policy process. In advanced democracies such as the US, there tends to be little or no gap between policy formulation and policy implementation. This is due to the fact that advanced democracies command much higher administrative and enforcement capacity than sprawling developing countries. In this context, what matters is policy formulation: What decisions are made? Who influences the decision-makers? What is the process of reaching decisions? The unspoken assumption is that once decisions are made and laws are passed, they will be implemented effectively and predictably. Given that China is a single-party autocracy, where power is concentrated in the hands of a few top leaders, it seems natural that whatever these leaders command, they will get.

Yet the reality in China is quite far from the model above. Despite its image of awesome power, China is still a developing country, with only *selective* state capacity,⁵ meaning, the administration can enforce with impressive might if a given issue is circled as a top priority (e.g., control COVID), but it can be surprisingly negligent and inept in other matters of administration (e.g., food safety regulation).⁶

Moreover, China is the world’s most populous nation (1.4 billion in 2020), and its regions have very different economic and social conditions. This demands flexibility in policy implementation. Last but not least, policy implementation isn’t necessarily more predictable in autocracies than in democracies. In China, for example, local officials are pressured to cover up problems and falsify results in order to please their superiors, which can lead to distortions and sometimes disastrous consequences.⁷ The Great Leap Forward under Mao is the most tragic case in point.

None of this implies that we should ignore policy formulation in China. It is true that under authoritarianism, leaders play an outsized role in determining the direction in which the country heads. But we should take note that Chinese leaders, no matter how powerful, must rely upon a vast bureaucracy to implement their vision. We should also keep in mind that being human and fallible, Chinese leaders do *not* necessarily always know what they want. Of course, all leaders want their country to be prosperous and strong, but they may not know the right way to achieve this desired outcome. There are many examples of Chinese leaders—especially Xi—wavering and fudging on difficult problems, or giving contradictory commands.

Policy communication⁸

The Chinese political system operates on a mixture of *commands* and *cues*. Commands are explicit orders whereas cues are open to interpretation. They are communicated, first and foremost, through remarks and speeches made by the top leaders and sometimes editorials they pen using pseudonyms—which define the “spirit” of the policy. The “spirit” is then formalized in written directives, which includes laws and regulations, administrative rules, notices, and responses to requests for guidance, issued by the Central Party Committee and the State Council.⁹ Regardless of their format, instructions come in three basic varieties:¹⁰

- Red directions draw clear restrictions.
- Black ones clearly endorse a particular course of action.
- Gray ones are deliberately ambiguous about what officials can and cannot do.

TABLE 3.1 Three varieties of policy directives

SIGNAL OF GUIDELINE	FUNCTION	EXAMPLE
Red	Clearly forbids a particular course of action	“A Summary of Plans for National Land Use” [2008]: Specifies concrete quotas that limit the conversion of arable land for urban use
Gray	Permits bounded experimentation and generates bottom-up policy feedback	“Guidelines on the Development of Commune and Brigade Enterprises” [1979]: Encourages commune and brigade enterprises to “make big progress” and to “adapt to local conditions”
Black	Clearly sanctions a particular course of action	Amendment to Article 11 of the Constitution [2004]: Announces that the state “encourages and supports” the private sector

Leaders give clear directions—either forbidding or endorsing—when they confidently know what to do. For example, when leaders realize that arable land was at risk of being depleted by local governments who were eager to sell land for revenue, Beijing drew concrete “red lines” to restrict the amount of land that can be sold.

But there are also times when Chinese leaders are not sure what to do. This usually happens when the leadership faces a novel issue in which they have no prior experience (e.g., Belt and Road Initiative), or there is no easy solution for the problem at hand (e.g., capping capitalist gains without crushing entrepreneurial spirits). When unsure, they issue gray commands, which essentially gives local authorities room to experiment with solutions and tailor solutions to particular contexts. Being cryptic or vague also allows leaders not to commit to a given policy until they are sure they want to stake their authority and reputation on it.

Chinese bureaucrats invest significant efforts into interpreting commands and cues, or as one official puts it, they strive “to completely digest documents issued by the

higher levels.” They organize numerous study sessions to examine the slogans, speeches, and reports that flow from policy makers in Beijing. This should not be dismissed as merely propaganda and pretension. Just as an astute stockbroker must learn to read between the lines of what the Fed chairman says, a shrewd bureaucrat must decipher the subtleties of central directives in order to survive and get ahead.

Policy implementation

Based on their interpretation of central commands and cues, ministerial officials, state-owned enterprise executives, and local bureaucrats will translate a leader’s vision into concrete policies. Typically, directives are refined level by level as they flow down the hierarchy, becoming more detailed at lower levels of administration.

There are several factors that determine how local officials implement policies. First, the amount of autonomy and leeway accorded in the directive itself, as earlier explained. Local officials read instructions carefully in order to assess whether they must strictly enforce a given policy, jump on a bandwagon endorsed by Beijing, or experiment with solutions. Adaptive responses to ambiguous directives often produce feedback that then informs the central authorities about how policies should be adjusted. One famous example is collective property rights in the 1980s. Beijing gently encouraged localities to try out hybrid forms of property rights that were neither state-owned nor private. This ambiguity was enough to trigger a flourish of rural collective enterprises that were more successful than central planners could have imagined, which subsequently led them to endorse the experiment. In other words, policy implementation produces outcomes that influence policy formulation. The sources of influence on Beijing do not only come from the top strata of elites.

Second, career incentives. As a non-democracy, Chinese bureaucrats climb up the career ladder through top-down promotions or appointments to favorable positions, rather than through elections. The degree of enthusiasm with which local leaders implement policies, therefore, is often shaped by their career incentives. There is a large literature in China studies that find a positive correlation between career ambitions and the degree of subnational competition on a variety of policy outcomes, e.g., economic growth, tax collection, pollution control, production of patents.¹¹

Third, economic conditions. China is better understood as a continent containing first, second, and third-world regions, rather than as a homogeneous country. Regional inequality is immense and had grown wider over the course of market reform.¹² Thus, even though all Chinese bureaucrats receive the same set of instructions from Beijing, policy implementation will always be highly uneven.¹³ For example, under the “common prosperity” campaign, Xi has designated Zhejiang province as the imperial pilot, partly because it is the fourth richest province by GDP per capita. Many poorer regions, however, may not be able to replicate Zhejiang’s policies because they lack its level of development and financial resources.

Revisiting the Belt and Road Initiative¹⁴

All of this background, I hope, helps to shed fresh light on both China’s foreign and domestic policies. In this testimony, I append two related essays I earlier published

in *Foreign Affairs*. Here, I highlight some new insights we can gain by applying my framework on our understanding of the BRI.

The BRI is commonly interpreted as an ambitious, grand, finely orchestrated scheme formulated by Beijing to build a China-centered global order and displace American power. This popular interpretation arises from the belief that Chinese leaders always think strategically and long-term.¹⁵ It is reinforced by the fact that on paper, Beijing's map of the BRI does look intimidating and carefully strategized, with six economic corridors stretching from China to various parts of the world.

But the stereotype of a perfectly strategic Beijing is inconsistent with the reality of backlashes and even chaos on the ground. For example, Chinese-backed railway projects in Indonesia, Malaysia, and Thailand stalled, as Beijing's partner governments complained about excessive costs and corruption. I visited Cambodia, which saw a flood of Chinese investment, including condos and casinos conflated with BRI projects, that left locals frustrated and priced them out of their own homes.

Once we understand that policy formulation \neq policy implementation, the gap between Beijing's ambition on paper and chaotic realities on the ground begin to make sense. Initially, Chinese leaders did not anticipate the problems they would encounter and was not sure what rules they needed to make. After all, this is the first time that China had gone out into the world offering to build infrastructure on a grand scale. The central guiding document for BRI from 2015 to 2017 was only seven pages long, if printed in large font, and sketched only broad principles such as "go where the demand is" and "share responsibilities and progress together." This ambiguity leaves policies open to interpretation and allowed everyone to join the BRI en masse, but it also created confusion and misunderstanding overseas.

Facing a global outcry over BRI, Beijing subsequently shifted gears from a hazily defined BRI 1.0 to a more fine-tuned BRI 2.0. At a 2018 symposium marking the fifth year of BRI, Xi described this transition using an analogy from Chinese painting, as a switch from *xieyi*, freehand painting for outlining broad strokes, to *gongbi*, the careful inscription of details. Revealingly, during his speech in 2018, Xi used two new keywords that were absent from his speech at the 2017 forum: "priorities" and "execution." He dropped the grand phrase "the project of the century."

Understanding Common Prosperity¹⁶

The same policy framework I have outlined can also be applied to understand "common prosperity," a campaign slogan that was popularized in 2021, along with a sweeping regulatory crackdown on private and big-tech companies. Having sent jitters across global markets, there have been numerous commentaries trying to decipher the motivations behind common prosperity: Is the CCP going back to socialism? Will it continue to support private companies? Is this a one-time crackdown or a fundamental shift in economic policies, and so on?

As I explain in *Foreign Affairs*, the best place for look for answers is Xi's speech, which was published in *Qiushi*, the flagship journal of the CCP central committee, in

October 2021. The timing is revealing—it came a few months *after* the summer regulatory storm, which implies that this was not a speech that motivated and guided the crackdown, but rather an *ex post* reflection and course correction.

This speech should not be dismissed as empty propaganda; rather, it is a set of instructions for bureaucrats tasked to implement common prosperity. When carefully unpacked, this speech makes clear Xi’s recognition that despite the CCP’s remarkable success in spurring growth, it does not know how to tame the excesses of capitalism without stifling its entrepreneurial spirits. Like governments all over the world, the CCP has not yet figured out how to have its cake and share it, too. Xi admits as much, writing: “On fixing poverty, we have plenty of experience; but on managing prosperity, we still have much to learn.” Precisely because Xi has no road map to follow, he urges his comrades to adapt and experiment. “Common prosperity is a long-term goal,” he advises. “It requires a process and cannot be achieved in haste.”

Policy recommendations

Whether the US regards China as a strategic rival, a partner on transnational challenges, or both, the US needs to have a comprehensive understanding of China’s political system and policy process. To be clear, the Chinese leadership has ambition and grand strategies, but these are marred by the fact that Chinese leaders are human and fallible—often, they themselves are unsure how to reach a goal; they overreach and later retreat; or they completely fail to anticipate certain problems and reactions. While there has been a great deal of attention placed on Chinese leaders’ ambition and grand strategizing, US policymakers has paid little or no attention to the rest of the equation: fallibility, communication, and implementation.

1. I recommend that the commission hold hearings on the gaps between Chinese policy formulation and implementation, and why they occur. It would also be helpful to hear about how different parts of China are responding to the same national campaign (e.g., common prosperity) and economic challenges (e.g., real estate slowdown). It is worthy to note that the economies of some Chinese provinces are as large as mid-size countries. For example, in 2020, Guangdong province’s GDP is close to that of South Korea and larger than 90% of the world’s countries.¹⁷
2. I recommend that the US government invests in training a cohort of analysts who are able to read and interpret Chinese speeches and directives, which are an open source of information and available in vast quantity.¹⁸ Collecting these documents and translating them into English is tedious but not the hardest task—the hardest task lies in having the contextual knowledge to interpret them. This is long-term work that cannot be accomplished within few years, but it should begin as soon as possible, given that the most important bilateral relationship for the US in the coming decades will be with China.

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- ¹ See Odd Arne Westad, "The Sources of Chinese Conduct," *Foreign Affairs*, Sep/Oct 2019.
- ² Yuen Yuen Ang, "The Robber Barons of Beijing: Can China Survive Its Gilded Age?," *Foreign Affairs*, July/August 2021. See also *China's Gilded Age* (2020), Cambridge University Press.
- ³ The Chinese bureaucracy is described as a gigantic matrix, formed by an intersection of vertical and horizontal authorities. See Kenneth Lieberthal, *Governing China: From Revolution through Reform*, (New York: W.W. Norton, 1995).
- ⁴ Yuen Yuen Ang, "Demystifying Belt and Road: The Struggle to Define China's 'Project of the Century'," *Foreign Affairs* (2019).
- ⁵ Kevin O'Brien and Lianjiang Li, "Selective Policy Implementation in Rural China," *Comparative Politics* 31, no. 2 (1999).
- ⁶ See John Yasuda (2017). *On Feeding the Masses: The Anatomy of Regulatory Failure in China*. Cambridge University Press.
- ⁷ Huang, Yanzhong. "Is China setting up itself for another epidemic?" *The New York Times* (23 January 2020).
- ⁸ In a testimony I delivered to the Commission in January 2021, I analyzed clues about Xi's continuity and changes by comparing the Fifth Plenum statements in 2015 and 2020.
- ⁹ Michel Oksenberg, "Methods of Communication within the Chinese Bureaucracy," *The China Quarterly* 57, no. 57 (1974).
- ¹⁰ This section draws on Chapter 3, "Balancing Variety and Uniformity." See Yuen Yuen Ang (2016), *How China Escaped the Poverty Trap*, Cornell University Press.
- ¹¹ For example, see Xiaobo Lu and Pierre Landry, "Show Me the Money: Interjurisdiction Political Competition and Fiscal Extraction in China," *American Political Science Review* 108, no. 3 (2014); Li-an Zhou, "Governing China's Local Officials: An Analysis of Promotion Tournament Model," *Jingji Yanjiu* 42, no. 7 (2007); Ruixue Jia, "Pollution for Promotion," *Working Paper, IIES, Stockholm University* (2013); Chen Ling and Hao Zhang, "Strategic Authoritarianism: The Political Cycles and Selectivity of China's Tax Break Policy," *American Journal of Political Science*, 2021; Yuen Yuen Ang, Jia Nan, Kenneth Huang, and Yang Bo, Working Paper on SSRN, "The Limits of State-Led Innovation," 2021.
- ¹² Ravi Kanbur and Xiaobo Zhang, "Fifty Years of Regional Inequality in China: A Journey through Central Planning, Reform, and Openness," *Review of Development Economics* 9, no. 1 (2005).
- ¹³ Yuen Yuen Ang, "Domestic Flying Geese: Industrial Transfer and Delayed Policy Diffusion in China," *The China Quarterly* 234, no. 234 (2018).
- ¹⁴ This section draws on Ang (2019), "Demystifying Belt and Road."
- ¹⁵ Michael Pillsbury, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower*, (Henry Holt and Co., 2015).
- ¹⁶ This section draws on Ang (2021), "Decoding Xi Jinping."
- ¹⁷ "Top 10 Chinese provincial regions with strongest GDP in 2020," *China Daily*, April 16, 2021.
- ¹⁸ This reminds me of Mike Oksenberg's memo to Zbigniew Brzezinski in 2 February, 1977, in which he wrote: "The issue is: How do we cultivate talent so that 15-20 years from now, we will have a core group of Chinese intelligence analysts?"