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## How China has reinvented itself.

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Headline: How China has reinvented itself

Byline: Beijing has delivered a market economy but will need clear-headed leadership for the next phase of reforms, writes William Overholt

Credit: William Overholt

WHILE ATTENTION HAS focused on the personalities emerging at China's 16th party congress, the real significance is the leaders' efforts to create a new era of reform. In the new team, individual leaders are intended to be less important. China is tired of great leaders.

Mao Zedong ruled by personal charisma. Deng Xiaoping ruled even when his only formal position was honorary chairman of the Chinese bridge players' society. Jiang Zemin was called the core of his generation. The coming generation is supposed to have no core.

Now, nine people are supposed to rule collectively in accordance with the rules, thereby enhancing the rule of law. In a country with China's enormous problems, though, rule by committee could prove risky.

The leadership is also repudiating Maoist ideology as decisively as it once abandoned traditional socialism. Mr. Jiang's "Theory of the Three Representatives" comes across to most Westerners as communist gibberish, just as the concept of the "socialist market economy" was once seen as a contradiction in terms. But both phrases express a determination to build a very different kind of society. Beijing has basically delivered the market economy.

The core of Maoism was class struggle, an eternal battle to secure the dictatorship of the workers, soldiers and peasants over the old elite. The "Theory of the Three Representatives" turns this on its head. It says the party should represent the leading edge of culture and technology and the common interests of the Chinese people - representing the elite rather than the masses, and shared interests rather than struggle and class dictatorship.

To implement this, the party has begun admitting private business entrepreneurs. More importantly, a new generation is focusing on building a middle-class society. Previously, the very concept was anathema. Now, however, tax advantages, strengthened property rights, home ownership, and redirection of the financial system to support entrepreneurialism seek to create a middle-class society.

Party leaders talk explicitly about the need for political reform. They have initiated high-level studies of Taiwan's Kuomintang, Mexico's Institutional Revolutionary Party, and other once-dominant parties for insights into how it is possible to liberalize a regime without losing power.

Accountability has become a buzzword, implemented experimentally, but seriously. Half of China's villages now hold credible elections. Government units increasingly post detailed budgets for public scrutiny.

Beijing's leaders are not contemplating free national elections and legalised opposition parties, but they are asking fundamental questions and making important changes. One respected senior theorist said: "We have a communist party but already we are not a communist society."

China's economic agenda is undergoing another historic shift. While 1978-94 sought to reform socialism, 1994-2000 created new market institutions. Now, the focus is "social well-being".

The benchmarks of economic performance are changing from growth in gross domestic product to job creation. Hence, the new leaders will encourage small, medium-size and private businesses because they create jobs. They will change the finance, tax and accounting systems to support job creation, and foreigners will soon be encouraged to buy into China's banks.



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The new leaders promise to attack inequality. They will end the special privileges of the coastal areas and emphasize building infrastructure in the deprived west. They want to create pension and medical systems for the poor and to attack the advantages wealthy elite obtains through corruption and tax evasion.

China now welcomes the market economy and globalization, rather than grudgingly accepting them. It is abandoning the old Asian strategy of subsidising and protecting chosen national champions. New policies will leave all mergers, acquisitions, and failures to the market and treat foreign joint ventures as domestic manufacturers. Beijing wants the jobs and the manufacturing facilities for a globalised industry to be located in China, regardless of ownership.

Similarly, China has embraced free trade. Just before the party congress, Zhu Rongji signed an agreement with the Association of Southeast Asian Nations to create a free-trade zone by 2010. Beijing embraced an Asean concept rather than imposing its own, but Asean had lost its way and Beijing has revived the push towards multilateral free trade. Having committed to the world's most rigorous World Trade Organisation agreement, China now has little to lose by going the additional distance towards completely free trade.

Japan's insistence on agricultural protectionism and bilateral Tokyo-dominated agreements leaves socialist China as the leader of Asian economic liberalisation and multilateralism, thereby ceding much regional political leadership to China.

That is the vision. Fulfilment of the vision will, however, require decisiveness from leadership-by-committee, overcoming opposition from enormously powerful bureaucracies and corporate interests, conciliatory but firm management of millions of laid-off workers, and the amelioration of a banking crisis for which no persuasive strategy has yet been identified.

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