



## **Report on Wilton Park Conference WP1055**

### **DIALOGUE WITH CHINA ON HARMONIOUS SOCIETY: GOVERNANCE, PARTICIPATION AND SOCIAL COHESION**

**Thursday 4 – Sunday 7 November 2010**

#### **Summary: China 2020 and beyond**

The Communist Party (CCP) remains the core institution at the heart of the Chinese state; authority rests with the people and the Constitution but it is also passing to the business elite, popular bloggers (some of whom have as many as 10 million followers) and even dissidents and demonstrators. There is an argument that the more ‘harmony’ is celebrated, the more chaos and anarchy there is in reality. This raises the question of whether fundamental political and economic reform will take place in China, either to prevent an explosion or as a consequence of it.

The central issue is one of trust—trust among different groups of people within nations, trust among nations, and, especially, the formulation and implementation of policies that restore trust both within a nation and in the international community. The era of Western normative dominance is over, but the shift in global power to the East will be a long and uneven process. Rather than “multipolar”, the world is characterized by one superpower and several great powers, including China, but the United States remains the global leader, even though its authority is under greater challenge than at any time since the end of the Cold War. The international system is fluid and in prolonged transition, so there are few strategic certainties.

There is every indication that the world is not “harmonious”, and that geopolitical and geoeconomic tensions will increase over the next 10 years, especially in Northeast and Central Asia, as well as on maritime, and trade and currency and sovereignty issues. However, these tensions are unlikely to spill into open conflict. China and the United States have become so interdependent that they should be able to maintain

some level of constructive engagement, even (or especially) in bad times. China is committed to continuing this dialogue—a reality reinforced by the risk-averse attitudes of its leadership. However, Chinese policies on many issues are likely to become tougher and more assertive. Given that Western countries and institutions will not react well to China’s increasingly confident projection of its own influence, there is likely to be a hardening of feelings on both sides.

China has neither the inclination nor the capacity to build a new world order in which it is the world’s leading power, or half of a G2 system, in which China and the United States co-share power. However, China does seek greater status and influence within the existing international system. By 2030, possibly earlier, we may see the emergence of a new international system in the form of a remarkable, somewhat chaotic but highly effective, triangle composed of the United States, China and a third side—not a single country such as India or Russia, but an amalgam of formal and informal networks involving nation-states, multilateral institutions, such as the European Union, and non-state actors such as philanthropic foundations, NGOs and influential business and scientific leaders. Such an emerging system would be highly complex, interdependent and characterized by multiple checks and balances. This emerging system might turn out to be quite dynamic and subject to change, but also beneficial for China, the West and the wider international community.

### **Introduction: Harmony and History**

1. China’s debate on how to achieve a harmonious society has parallels with those prompted by the credit crunch in many other countries: Western governments grapple over how to restructure economies to develop societies that are both productive and harmonious. Meanwhile, in China, the notion of a “harmonious society”, drawn from Confucian values, with their strict respect for hierarchy, implies that harmony can only be achieved if each nation and individual plays an appropriate role in an established order. This principle is reflected in the Chinese saying: “You have me within you, but I have you within me.” The concept of “harmony” can prove contentious, however, according to the interpretation of what constitutes a “proper” order. Some participants saw a natural balance, or harmony, evolving from a state in which business acts as the main driver for economic development; others insisted

that a nation's true wealth derives from the richness of its ideas and the strength and ability of its institutions to manage change, while yet others expressed the view that a form of harmony, or balance of power, could only be achieved after a brutal contest for political power. Concern was expressed on the need to balance the impact of these various models for development with respect for individual rights.

2. According to Chinese philosophy, the Tao (or Dao)—the way, path or route—cannot be defined, but only understood and experienced, as well as followed theoretically and practiced in life. From a Chinese perspective, the Dao of the wealth of nations involves taking a long term perspective to examine growth patterns over a thousand years: Western Europe and China had similar Gross Domestic Products (GDPs) in the year 400, but China then moved slowly ahead until 1300, at which point Western Europe swiftly outpaced China for the next 650 years, until a readjustment began to occur with the Chinese Revolution led by Mao Tse-Tung in 1949. This has been described as an “unfinished revolution” by some Western and Chinese commentators. Their analysis notwithstanding, China's rapid growth has made it one of the largest economies in the world, second only to the United States, and a key player in the global capitalist system. But it is still at an early stage of building the business and governance structures needed to sustain the enormous impact of its economic rise at home and abroad.

3. The Chinese Communist Party (CCP) is the core institution at the heart of the modern Chinese state; a direct ideological descendant of Chairman Mao's revolutionary force. But its transition from revolutionary movement to established party of government, in a system bound by market forces, remains problematic. While there may be growing awareness within the Party that its existing ideology is out of pace with the rate of economic development, and that this could have severely damaging consequences not just for China but for the global economic system as a whole, there is also considerable disagreement on how to move forward. Reforms have been undertaken with mixed results; some have achieved considerable success but others are struggling in “deep water”, according to Chinese and Western analysts. This could prove the catalyst for a wider programme of adaptation but the sweeping historical time frame, customary in China, means that even Chinese

analysts who recognise a need for the Party to change describe this as “the key issue *in this century* for the CCP”. Such long term attitudes can generate considerable frustration for Western negotiators seeking quick results in talks with China while their interlocutors may be offended by what they see as unseemly, ill-considered haste in the resolution of important issues.

### **Striving for Sustainable Political and Economic Development**

4. China needs to establish a blueprint for future growth based on respect for the environment and its limited resources, but which seeks also to mitigate differences in the pace of development between the Chinese regions. It must achieve a balance between political and economic change; building social cohesion while respecting the rights of the individual and encouraging governance and civil society mechanisms that can underpin sustainable development. The world has become increasingly uneven, due to an explosive combination of industrial consolidation and partial economic collapse. Policy makers around the world struggle more than ever to develop forms of governance that are viable both in political and economic terms.

5. Many countries have registered significant rises in income levels, but this has not been matched by equitable distribution of wealth. Western states rely on borrowing to fund their affluent lifestyle, with national and household debt growing at alarming rates. China, meanwhile, remains a country of savers rather than consumers with imbalance and tension between China, as a creditor, and the United States as a debtor: The US argues that the *renminbi* operates outside exchange constraints and is kept at an artificially and unfairly low rate. Not so, says China – insisting on its right to ensure capacity to buy American goods, as well as to protect its significant investments in the US and other foreign economies.

6. The conference debated possible timing for a “tipping point”<sup>1</sup> at which the Chinese currency might generate greater confidence than the American dollar. Given that 50% of US debt is now owned by foreigners, and a marked reluctance on the part of both Americans and Europeans to reduce borrowing, such a shift in the global market

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<sup>1</sup> Malcolm Gladwell, *The Tipping Point: How Little Things Can Make a Big Difference* (London: Abacus/Little, Brown, 2001).

structure looks increasingly likely. This would mean a significant decrease in US influence in the global economy while underscoring the value of the capitalist system.

7. The conference also analysed what kind of capitalism would prevail – a modern free market model, as practised in the West, or the state capitalism of China, with its semblance to instruments pioneered by trading nations in the 17<sup>th</sup> century, such as the British East India Company? Will the technological ability to move capital around the world with ever-increasing speed, lead to a major redistribution of wealth and power forcing consumers in the United States and Europe to live within their means?<sup>2</sup>

8. China is more integrated in the world economy than may appear and has no wish to, or interest in, undermining the EU and US economies in which it has made considerable investment. China is not seeking global hegemony; its chief economic concern is to tackle considerable inequalities in its own domestic distribution of wealth. Precise figures are hard to establish, but one informed estimate maintains that the top one percent of Chinese households hold 62 percent of household wealth while the top 0.1 percent of households account for 41 percent of household wealth.

9. At present, China has no clear vision for a viable alternative to the world economic order, or to its own political system, and so is in no position to effect change. On the one hand, the CCP recognizes that class and social conflicts trigger political revolutions, such as the movement that brought it into power. On the other, the fact that social conflict is considered a danger does not necessarily make it a determinant factor to effect change. Both Chinese and Western analysts insisted, that the CCP will not allow external pressures, or foreign intervention, to set a path for the country's political development.

### **Balancing Policy Challenges and the Risk of Uncertainty**

10. Chinese participants stressed that every nation must be allowed to manage for itself - the three goals of economic growth, environmental protection and national in

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<sup>2</sup> See Stephen D. King, *Losing Control: The Emerging Threats to Western Prosperity* (New Haven, CO: Yale University Press, 2010) and Peter Nolan, *Crossroads: The End of Wild Capitalism and the Future of Humanity* (London: Marshall Cavendish, 2010).

the context of global interdependence. So far, the Chinese approach has been to “cross the river by feeling for the stones at low expense”— that is to seek economic and social transformation through gradual, relatively small-scale reform. There is growing recognition, however, that lasting transformation will require movement away from economic efficiency to social equity. At the same time, China’s ability to learn, reference and absorb foreign influence has led to technological advances based on a pattern of introduction, followed by a period of imitation of Western products and practise, leading to renewed capacity for independent innovation.

11. China’s determination to upgrade its industrial structure runs parallel to its ambition to become a producer of high quality products, characterized not by the ubiquitous “Made in China” tag (which has become synonymous with cheap, mass-produced, use and bin items) but by a new tag —“Innovated in China”. Its ambition to move towards greater social equity, in the context of a technologically innovative economy, is clear.

12. By 2030, it is likely that China’s economy will be less reliant on the state and even more prominent globally. There is no certainty, however, that this will lead to greater distribution of wealth. As the relatively straight forward initial stage of “catch-up” with the West comes to an end, China will face the problem of a demographic shift and an ageing population. While increased trade, urbanization, rising income and a larger middle class will drive economic growth, factors constraining the economy could include water shortages, limited supplies of mineral and other energy resources, rising inflation, volatile exchange rates, and environmental pressures. China also has to manage the transition of millions of people moving from rural to urban centres.

13. China has proved surprisingly adept financially: with hindsight, it is clear that senior figures anticipated the storms that buffeted the United States housing market, threatening the whole banking system, and took care to safeguard Chinese investments.

14. But be it in China, the United States or Europe, once a particular group, or individual, accumulates substantial power without adequate regulatory constraint there is a real danger that policy-making will be skewed by vested interests. Introducing systems of checks and balances, appropriate to national cultures, is vital to prevent corruption and lower the temptation to adopt protectionist measures.

15. Europe and the United States urge China to engage more fully in international control mechanisms. But China has reason to be critical of their recent track record and is now in a strong position to set its own terms and conditions towards countries that seek its economic help.<sup>3</sup>

### **Safeguarding the Environment**

16. Ensuring adequate supplies of clean water; protecting the atmosphere and finding ways to dispose of solid waste safely are daunting challenges for China. Efforts have been made to reduce consumption but the high rate of growth will mean a steady increase in energy demand. Water quality in many parts of China's river system remains poor and poses a significant threat to human and animal health.<sup>4</sup> In 2009, one-third of China's 113 major cities were unable to meet air quality standards, due in large part to the use of coal as a standard fuel and to the rise in vehicle emissions. Beijing alone generates 18,000 tons of solid waste each day.

17. China is now the world's largest producer of greenhouse gases, and Chinese policy makers recognize that shifting to a low-carbon economy is a sensible path to sustainable economic growth.<sup>5</sup> Making this shift, however, will require the installation of a number of low-carbon technologies, as well as policy changes on an immense scale in the use of human and financial resources. An attempt, in 2004, to reform emission charges proved ineffectual and should be revisited. It is also important to introduce environmental taxes for industry, business and other users.

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<sup>3</sup> See Mark Leonard, *What Does China Think?* (London: Fourth Estate, 2008).

<sup>4</sup> See Elizabeth Economy, *The River Runs Black: The Environmental Challenge to China's Future* (Ithaca, NY: Cornell University Press, Second Edition, 2010).

<sup>5</sup> See Jonathan Watts, *When a Billion Chinese Jump: How China Will Save Mankind—or Destroy It* (London: Faber & Faber, 2010) and the book review by David Pilling, "Nature will constrain China's growth", *Financial Times*, 4 October 2010.

18. Like most other countries, China seeks to achieve carbon reductions without undermining economic growth. This is a particular priority in a country which has an informal pact with its people that they will not threaten political stability in return for continued growth and improved living standards.

19. The Chinese particularly resent blame attached to them for the failure of the Copenhagen Negotiations, arguing that the degree of real commitment by the West to carbon mitigation and adaptation measures is questionable. As China's chief negotiator at Copenhagen, Su Wei, put it, you are "like a pig looking in a mirror"; and it is not fair to criticize (us) if you are not doing anything (yourselves)".

20. China aims to increase its share of non-fossil fuels in primary energy supply to around 20 percent by 2020 with extensive research and development of wind and solar power. Partnerships such as a Rio Tinto venture in carbon capture and storage in California could be models for future development.

21. But long-term prospects for limiting high-carbon based energy consumption in both China and the West remain problematic given that over the next 20 years, an additional three billion people across the world will attain annual incomes of \$15,000 with a rise in living standards leading to high levels of energy consumption. In practise, China will continue to rely on high-carbon producing coal resources over the next 20 to 30 years with considerable consequences for the environment.

22. Efforts are underway to introduce environmental impact assessments, special environmental supervision and monitoring and there is a real need for a comprehensive approach to link Resources, Economy (production, consumption and trade), Energy and the Environment. This REEE system should also consider People and Population, thereby becoming PREEE.

23. China is the world's largest consumer of iron ore, steel, coal, aluminium, copper and nickel and has sought to supplement its own stocks from abroad, looking to Africa in particular but conscious that it is in a competitive market with global demand for minerals increasing at a rate of 3.5% a year. From the Chinese perspective,

another partnership with Rio Tinto to produce iron ore in Guinea, West Africa, is proving highly attractive,

24. If they are to prove more than a wish list in the government's five-year-economic-plans, the policy instruments of pricing, taxation, land/forestry/water rights, subsidies and eco-compensation will need to be implemented effectively. This requires not just passing laws but ensuring that they are enforced.

### **Comparing and contrasting the UK's "Big Society" and China's Civil Society**

25. Comparing and contrasting political and economic problems in the United Kingdom and China can be instructive. Three causes for concern in Britain were outlined. First, political disengagement and lack of interest in elections is endemic. Second, it was alleged that the state has become profoundly dysfunctional in the delivery of public services, spending more money while achieving less. Third, there is considerable economic disarray, with high levels of credit, increasingly powerful oligarchic structures and declining standards of living.

26. In China too, there is decreasing interest in elections because many people view these as having little effective impact on subsequent action at either the local or a national level. There is widespread belief that power will rest with the CCP for the foreseeable future. Some analysts insist, however, that redistribution of wealth is the first stage in a process which is bound to lead to redistribution of power also.

27. In Britain, the Coalition government is promoting the concept of a "big society" in which social and economic decentralization, linked to transparency, could create mechanisms for people to seize the initiative for providing social support from the state, investing in their local economy, for example to run schools.<sup>6</sup> Encouraging groups of people to tackle specific local problems could offer a way forward to alleviate poverty, loneliness and reduce dependence on the state. In China, social transformation needs to be based on political continuity and stability, incorporating new opportunities for participation. As in Britain, self-forming groups could play a

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<sup>6</sup> See Phillip Blond, *Red Tory: How Left and Right Have Broken Britain and How We Can Fix It* (London: Faber & Faber, 2010).

significant role. There are already three million quasi non-governmental organisations in China, with direct links to the state, and a further 400,000 non governmental organisations that enjoy a genuine degree of independence -- some 4,000 of these focus on environmental issues.

28. In both Britain and China, the legitimacy of the state is under assault from global economic pressures which could lead to a decline in living standards for the unemployed and other vulnerable groups. Throughout the West, political legitimacy continues to rest on representative democracy, although direct democracy is becoming increasingly important. In China, there is growing interest in exploring other forms of participation, such as the use of internet campaigns to highlight specific issues. In all cultures, it is essential to find forms of participation that appeal to citizens and encourage engagement as a means to ensure good governance, respect for individual rights and as a disincentive to corruption.

### **A Nation on the Move: Future Perspectives on Rural and Urban Flows**

29. Managing rural-urban migration is a priority for the CCP and policies designed to generate greater mobility and flexibility feature prominently in five-year plans. The *hukou* system of registration, in which each household is registered as either urban or rural and enjoys only those rights granted by the local administration, lies at the heart of the divide between town and country in China. Since 1978, the number of urban households has grown from 18 percent of the population to almost 50%.

30. The *hukou* system originally enabled authorities to keep a tight control on mobility but the degree of restriction has eased in recent years allowing hundreds of millions of people to work in cities unofficially while still making regular trips back to their villages. Most of these people had no right to social security or education but the government is now looking to find ways of providing these.

31. Inequalities between the wealthier coastal provinces, which harbour most of the major cities, and inner regions, characterised by a fairly primitive agricultural economy, are decreasing with the development and construction of new cities inland and through government subsidy to encourage industrialisation.

32. But the *Haiku* system remains in place, and that means a constant risk of corruption as would-be migrants seek help from officials to circumvent it. An even bigger problem is the lack of access to education and health that puts a severe strain on societies and local government. Greater transparency and reform of the regulations with effective implementation by officials at local level is required.

### **Governance and the Rule of Law: The Search for Transparency**

33. The perception and practice of governance and the role of law is important to both countries. In the United Kingdom, government ministers consistently agree on the theoretical desirability of the rule of law, but in practice they often find its implementation annoying especially when legal obstacles necessitate changes to policy proposals. China has been modernising statutes and regulations to reflect societal changes in a large number of areas—anti-monopoly, environment, intellectual property rights, financial regulation and even freedom of information. A growing body of specialised judges, lawyers and regulators, many of them trained in the UK and United States, now work in the Chinese legal system. However, standards for implementation and enforcement can vary considerably. And it can be argued that judges have too much leeway over how they interpret and apply legislation leading to wide disparities. It was noted that similar criticisms could be applied to the legal systems of many countries and were almost inevitable in one undergoing such swift and far reaching change.

34. The Chinese understanding of the rule of law rests on three sources of legitimacy—the CCP, the people and the Constitution with its laws. It is true that judges' decisions may reflect not only the law but, in some cases, political input too.

35. It then follows to ask whether the political process in China produces influences and distortions that lead to deviation from principle and whether, in developing the rule of law, the Government (or CCP) accepts that it is subject to principle. The answer to this question may be that the core concept of the rule of law in China rests on the degree of transparency with which it is applied, rather than its tripartite legal architecture.

36. The possibility of establishing transparency as a key principle stems from a number of positive developments: First, in 2008, the State Council passed the Open Government Information Regulation which required governments at all levels to be more open with the public providing a touchstone by which transparency might be evaluated. Second, the internet is now quite clearly the premier platform for expression of public opinion and, although subject to censorship and significant control, still operates with much greater freedom than the rest of the mass media. Third, local public demonstrations are becoming established as a viable means for people to voice their opinions, especially on the shortcomings of local government officials. Fourth, although the mass media is still owned by the government, each outlet now has to secure its own funding which has led to substantive competition for market share and provides impetus to produce accurate information on the workings of local government. And finally, there are indications that elections at the grassroots level are becoming semi-competitive, although it is difficult to determine to what extent, and how many of the 600,000 villages in China, are able, in practice, to hold local officials accountable for their actions.

37. Improved levels of education have led people to seek greater personal rights and respect from their officials especially at local level. In addition, alternative sources of information are becoming available, via the internet and through greater opportunity to study and travel abroad. The developments outlined above suggest the possibility of piecemeal changes and improvements to the existing rule of law in answer to this demand for more accountable government.

38. But there are less positive signs also: The workings of the prosecution process and the court system remain far from transparent, despite publication of tens of thousands of court verdicts in Beijing and Shanghai. Up to 99.9 percent of people who are charged in court are subsequently convicted. There is a serious shortage of qualified people to do legal work, especially in rural areas, and the reasoning behind the law remains top-down, dominated by the CCP, with citizens not viewed as equal players. Possibly the most significant factor is that the guiding principle of the court system itself appears to be to consolidate the power of the CCP.

39. There was some consensus, although not complete agreement, that a higher degree of qualification among personnel would lead to a higher degree of transparency. Other difficult issues that require resolution include separating the local courts from local government; changing the top-down logic of law making (even though an independent judiciary was not seen as a viable possibility at this stage), and creating and enforcing laws that regulated inter-governmental relations.

40. Reform was likely to be more effective if it came from the bottom up, with breakthroughs at a relatively low administrative level—country (*xian*) level. Considerable courage, and political vision, would be required by party leaders to undertake deep-rooted reform because this could lead to the CCP having to share power and even, ultimately, to its demise, although few considered this a likely outcome. Equally, to avoid reform carried a risk of repeating a “dynastic cycle” and political immobility which could generate considerable frustration in key sectors of the population and generate social unrest.

### **China in the Contemporary World: Understanding *Yin* and *Yang***

41. It is important to recognise that Chinese domestic and foreign policy are integrated in such a way that Chinese foreign policy is consistently an extension of its domestic policies.<sup>7</sup> The Confucian emphasis upon “harmony” can be seen as a rhetorical device that minimizes the role of power – a velvet glove that covers the iron heart. The Confucian commitment to order does not rest upon law, but upon each individual and nation assuming its “proper” place to achieve harmony. Clarification of the core interests of each nation state is unlikely to lead to harmony, but a consideration of how common interests can lead to universal values is inherent in the Chinese understanding of “a harmonious world”.

42. The European Union may prove a more effective model for international governance than the United Nations. Given differences in forms of expression and cultural sensitivity with the West, it is hardly surprising that external attempts to

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<sup>7</sup> See Joseph Fewsmith, *China Today, China Tomorrow: Domestic Politics, Economy and Society* (Lanham, MD: Rowman & Littlefield, 2010).

influence policy should generate enormous resistance in China. The country often displays a victim mentality sorely out of keeping with its powerful new status; but this extreme wariness of Western policy proposals, shown on topics such as human rights, Taiwan and Tibet, has its roots deep in the historic memory of traumas and humiliation suffered as a result of Western colonialism.

43. Western policy makers might find it rewarding to invest time in reaching an intellectual understanding of why China can be perfectly willing to adopt concepts such as “sovereignty” and “the nation state” and yet reject others such as respect for “human rights” and “democracy”.

**Robert Kahn<sup>8</sup>**  
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