

LEADERSHIP CHANGES IN ASIA: WHAT DO THEY MEAN FOR THE WORLD?

On February 5th, Yves Tiberghien (H.90)¹ analyzed the ongoing leadership changes in China, Japan, and Korea and their potential consequences for the region. The conference was co-organized by HEC Alumni (International Development Group) and the Stanford Club of European Leaders.



The world has experienced a great power transition from the USA to emerging Asian powers, especially China. During the four years of Obama's first term, the Chinese economy grew from 30% to 55% of the US Gross Domestic Product, versus only 12% in 2000. At PPP rates (Prices and purchasing power parities), the trend is even more impressive: the ratio went from 58% in 2008 to 80% in 2012². Assuming that in the next 5 years, the annual growth rate reaches 7.75% in China and 2.5% in the USA – a rather conservative scenario – China will become the first economic power in the world as early as in 2018. *“True, the country doesn't have yet all the dimensions of a global leader: its universities, innovative ability, and its army are no match for those of the US, and it doesn't have as much soft power”*, Yves Tiberghien concedes. However, public opinion already acknowledges the new position of China: according to a survey conducted by the Pew Research Center in August 2012, 42% of world elites consider that China is the world's leading economic power, whereas 36% think it is the US.

On top of this long-term economic shift, major political changes recently took place around the world and especially in Asia, with new leaders in China, South Korea, North Korea and Japan – not to mention Russia, and the re-election of Barack Obama in the USA. *“After a large reshuffling of the deck, how will these new leaders interact with each other?”* Yves Tiberghien asks. In China, Hu Jintao stepped down in October from his two main titles: general secretary of the party and leader of the Central Military Commission (CMC). Xi Jinping was able to impose himself for those two functions. The unified



Yves Tiberghien (H.90)

control of the military and the government bodes well for regime stability. However, it took months to agree on a lineup and set up the 7-member Politburo Standing Committee. *"Party leaders could not reach a consensus in August, it took them all the way until November to set up the group, which is why the Congress was delayed. There was intense bargaining behind the scenes"* Yves Tiberghien explains. Hu Jintao could not push his protégés into the Standing Committee and appeared as weak, whereas key surrogates of the prior leader Jiang Zeming³ were nominated. *"The balance of power is now roughly: three reformers versus four conservatives"*, Yves Tiberghien sums up. *"Right now they are constrained by the 5-year plan that was decided last year and by other senior leaders that put pressure behind. But gradually this group could end up being a reforming one, at least economically speaking"*. Within the Standing Committee, Xi Jinping is just a primus inter pares. Most decisions need the consensus of the 7 members. The new leading group is facing major challenges, including growing social unrest nurtured by "explosive" levels of inequality and corruption. For now, Xi Jinping has been taking a safe line and repeating the 1980s motto of "socialism with Chinese characteristics". He has also addressed the corruption issue, for instance issuing bans on long banquets for officials. At present, the average Chinese is still contented with the government. According to a Pew survey, 87% of Chinese people were "satisfied" with their country's direction in 2010, compared to 28% in Egypt. *"That is why there has been no 'Arab Spring' in China"*, Yves Tiberghien points out. Finally, with regards to foreign policy *"the direction is quite uncertain: Xi Jinping is pragmatic, but has close links to the military and has kept a strong approach to the Japanese situation"* Yves Tiberghien underlines.

What about Japan? At the end of last year, a pretty unusual event took place there: the leader of the Liberal Democratic Party (LDP) Shinzo Abe, who was prime minister in 2006-2007 and then abruptly resigned after 12 months in power due to health problems and a defeat at the Upper House election, returned to power six years later. This was the result of a landslide victory of the LDP in the general election of December 16th, 2012. During the campaign, Abe presented his new "Abenomics" approach – namely, a policy of increased fiscal spending financed by aggressive purchases of government bonds by the Central Bank. He threatened the Bank of Japan to lose its independence unless it accepted to buy governments bonds and target a 2% inflation rate (there is still deflation in Japan). *"It was the strongest attack against a central bank's independence in an OECD country. But it worked with voters"* Yves Tiberghien acknowledges. Indeed, the LDP won, and the Japanese Central Bank

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initiated a QE-style policy which had a massive impact on financial markets. The yen depreciated by 10% against the dollar and by 14% against the euro (the 5-year government bond yield remained very low, however, at 0.19%). *"If more countries tend towards economic nationalism, as Japan is doing right now, the global system could be endangered. That could eventually lead to a situation close to the 1930s"*, Yves Tiberghien alerts.

These political changes in China and Japan occur on the background of rising tensions between the two countries over five disputed islands in East China Sea. In late January, a Chinese warship beamed a fire-control radar at a destroyer belonging to the Japanese Navy, near the islands. *"It is the kind of cat and mouse game that happens every week on the sea. Chinese ships circulate to show that there is no status quo of Japanese ownership. If a ship captain acts in a panicky way and there is a hit, it could trigger a major conflict"* Yves Tiberghien warns. Pressure has been growing since September, as the Japanese government nationalized the remaining three islands that it did not already own. This led to large-scale protests in China, where citizens associate those islands with Japanese imperialism and a lost war. The five islands are named 'Senkaku' in Japan and 'Diaoyu' in China. Japan is getting "quite schizophrenic" about China: it fears Chinese military strength, but it wants to pursue economic integration. Indeed, Japanese exports have massively shifted towards China and Hong Kong, which now represent 25% of the total (while only 15% are directed to the USA). Economically speaking, Japan is more dependent on China than the reverse.

To conclude, we are at a pretty tense moment, with new leaders consolidating their power and testing each other. *"All of them have historical roots, short timeframes and high domestic constraints. For them, it is the time not to lose face"*, Yves Tiberghien explains. *"Even if those countries are economically integrated, there remains a high risk of misperception and miscalculations. I often go to China and Japan, and I'm stunned to see how little they understand each other. They assume the worst of the other and they are unable to anticipate reactions, as evidenced in the Senkaku/Diaoyu island dispute"*. The expert advocates a move towards more institutionalization: *"more links, more organizations, more free-trade agreements: anything that could embed those countries, get them to work together and know each other better would be good the stability of the region and the world."* ●

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Pew Research Center, August 2012

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1. Yves Tiberghien is an Associate Professor in the department of Political Sciences in the University of British Columbia in Canada.
2. Source: International Monetary Fund. PPP: Purchasing Power Parity.
3. Jiang Zeming was secretary general of the Party from 1989 to 2002.