

Hu is Xi?

Remarkable little is known about Xi Jinping, who next March will succeed Hu Jintao as China's fourth President of the post-Mao era. Sure, we know that he's the son of revolutionary hero Xi Zhongxun, and that he spent several years in the Chinese countryside during the Cultural Revolution - and again ten years later in, of all places, Iowa. We also know that he was apparently once capable of "carrying a shoulder pole of twin 110-pound buckets of wheat for several miles across mountain paths without showing fatigue", according to one of the more colourful passages from Lawrence Kuhn's tome on the thoughts of China's leaders.

But we really don't know much at all about more useful things, such as his perspective on future reforms, as Mr. Xi, like all of China's leaders, appears to have a remarkable ability for obfuscating his true intentions, presumably a prerequisite for survival in the country's factional political system. Whoever he is, he certainly has his work cut out for him, as it will be Mr. Xi who must guide China through the next important transition in its economic development. The key question is whether he will turn out to be another Zhu Rongji, who had the nerve to shut down many of China's chronically loss-making state-owned enterprises and smash its infamous "iron rice bowl," or more like his immediate predecessor, Hu Jintao, who has been far more cautious, and consequently achieved relatively little in terms of economic reforms during his ten years in office.

The issue is that China has reached a crucial stage in its economic development, where rising wages will make its export-led growth model increasingly less competitive, while, at the same time, the potential for further productivity improvements by simply acquiring new technology and management skills from abroad, is being exhausted. In other words, now that it is beginning to reach middle income levels, China needs to replace the low-wage export-based industries that drove its initial growth over the last thirty years with a new set of higher value industries, or risk getting caught in the so-called "middle income trap." Doing so tends to be extremely difficult politically, as it means accepting considerable short-term pain in voluntarily letting go of existing sources of revenues and employment in return for a far less tangible promise of greater prosperity at some uncertain point in the future. In addition, China must manage this already difficult transition during a time of unusual global economic uncertainty as well as rising social tensions at home, due to growing income inequality, evidence of corruption at even the highest levels of government, and serious environmental degradation and product safety issues.

None of this is lost on Chinese officials and business leaders, who are often notably more nervous about China's future than their foreign counterparts. Outgoing premier Wen Jiabao, for example, has repeatedly stated that China's economic development is "unbalanced, uncoordinated, and (ultimately) unstable", and the CPC's Twelfth Five-Year Plan as well as a more recent joint assessment by the World Bank and China's own Development Research Centre of the State Council, provide surprisingly frank recommendations for how to move forward.

Implementing the recommended changes won't be easy, however, and certainly has never before been tried on such a massive scale and with so much at stake for the rest of the world. In fact, only a handful of much smaller countries - including Japan, South Korea, Singapore, and

Taiwan - have managed to successfully make the transition from middle-income to developed country status. Interestingly, all of them did so as single-party states.

Much will likely ride on Mr. Xi's personal leadership, as the surreal events surrounding Bo Xilai's expulsion and this month's leadership transition suggest considerable tension remains between the conservative faction of Hu Jintao and the Communist Youth League versus the reformists led by the resurrected Jiang Zemin and his Shanghai gang. Fortunately, Mr. Xi himself appears to be a member of the reformist camp and the composition of the incoming Politburo Standing Committee also seems to favour the reformists. In addition, Mr. Xi can at least count on a team of experienced and pragmatic economic policymakers, who have, on the whole, done a commendable job over the last few years.

Nevertheless, it remains to be seen whether Mr. Xi will have the political courage and acumen to provide the transformational leadership that Zhu Rongji delivered twenty years ago, let alone that of Deng Xiaoping himself in the late '70s and again in the early '90s. This time, a successful outcome is even more important to China and the global economy than before. Let's hope Mr. Xi is up to the task.