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Are Odds in Favor of “China Model”?

The Political Economy of China’s Military-Civil Fusion Policy

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With the escalation of US-China tensions, the impact of differences in political systems on international relations is gaining renewed attention. For example, “new cold war” between the US and China, a term often heard recently, is used to highlight that the US-China tensions have taken on the aspect of a system-to-system competition¹. This gives rise to the following two questions. One is “how well do the factors of systems competition explain the current status of US-China relations?” The other is “if a systems competition is actually taking place, how will it impact future developments in US-China relations?”

1. Beginning of Systems competition between US and China

This essay seeks to look into the present and future of systems competition between US and China, in light of the military-civil fusion policy strongly promoted by the Chinese Communist Party (CCP) to win the global technology competition. If the claim that US and China have entered a full-scale systems competition implies the spread of Chinese ideology and development model, it does not necessarily reflect the actual situation². On the other hand, it is true that both US and China are respectively setting out **new resource mobilization strategies**

¹ For example, Tanaka, A. (2020), “*Posuto Modan no Kindai – Beichu Shinreisen wo Yomitoku* (The postmodern age - Interpreting the US-China New Cold War)”. Chuokoron-Shinsha, Inc. (pp. 261-267)

² For specific descriptions, refer to Lim, J., *Seijitaisei to beichu kyoso – Chugoku moderu no yushutsu to kakusan* (Political systems and US-China competition – Export and diffusion of the China model). *East Asia* (February, 2020)



involving various actors of the state and market with a view to competition with each other. As far as such strategies are concerned, systems competition has already begun between the US and China. Against this background, the military-civil fusion policy, which has been upgraded as a new model to enhance the competitiveness of industry as a whole, will provide a good material for observing an aspect of the systems competition between US and China³.

The following will introduce arguments surrounding China's development model and summarize the points to note when examining the characteristics of China's political and economic systems. I will then discuss the characteristics of the military-civil fusion policy compared to past policy measures and the challenges it currently faces, and finally examine its implications on the US-China technology competition.

2. Arguments surrounding the China model

Before going into specific arguments, I would like to confirm as a starting point that the military-civil fusion policy is the most ambitious attempt to reform the industry in the entire history of Chinese economic reform. The aim of this policy is to **strengthen the competitiveness of industry as a whole, through military-civilian cooperation mainly in the high technology areas**. For example, advancement of weapon production by promoting private sector entry represents only part of the whole picture. The military-civil fusion policy targets a wide range of industry sectors, with an aim to reform research and development, production, and procurement systems within those sectors. It will naturally be necessary to mobilize various actors associated to the state, market or both, in order to ensure that an industrial policy of this scale will deliver results as expected. We therefore need to start from examining the characteristics of China's political and economic systems to anticipate policy developments going forward.

Various discussions have been made about the relation between politics and economy in China to explain the continuous economic growth during the reform era. For example, economist Barry Naughton identified that one of the key factors that led to the dramatic economic development of China was the "authoritarian system integrated with the market" built on the basis of hierarchical authority structure formed during the planned economy era and bureaucrats strongly motivated by economic growth⁴. From a similar perspective, economist Chenggang Xu

³ As a more comprehensive examination of the US-China systems competition, Jessica Chen Weiss, "An Ideological Contest in U.S.-China Relations? Assessing China's Defense of Autocracy," in Avery Goldstein and Jacques deLisle, eds., *Differences, Dangers, and Dilemmas*.

⁴ Barry Naughton, "China's Distinctive System: Can It Be a Model for Others?" *Journal of Contemporary China*, Vol. 19, No. 65, 2010, pp. 438-439.



positions the dual structure comprising the central CCP which holds the power over personnel decisions and local governments which actually run the economy as the fundamental system that realized China's economic growth⁵.

In contrast, political scientist Yuen Yuen Ang argues that China's economic development was realized as a result of directed improvisation rather than the central government's control. According to Ang, the most distinctive characteristic of the China model is that the pattern of success varies by time and place. If there is a common ground to the wide-ranging development models, it is CCP's role as a "director," allowing policy innovation tailored to changing situations by removing ideological constraints and by providing certain direction and incentive to the enormous bureaucratic organization⁶.

Ang's argument can be seen as focusing on the positive aspects of the fragmented authoritarianism model often referred to in the context of Chinese policy processes. The latter's main hypothesis is that the authority for policy formation and execution in China is not concentrated at the Party center but instead diffused across a complex structure into which the bureaucratic systems of the CCP, government and military are intricately woven together both vertically and horizontally. This means that the policy process assumed by this model is more of a negotiation than coercion and more incremental than sweeping.

The implications gained from the above arguments lead to the following two suggestions. First, trying to understand the relation between the state and market as a unitary control of economic entities by the central government may lead to misunderstanding of the policy processes. Second, this does not mean that policy implementation is hardly aligned to the intentions of the central leadership, because the carefully designed incentive mechanism based on the Party's personnel appointment power has functioned effectively to ensure consistency of policy processes.

3. Politics and economy of the military-civil fusion policy

As I mentioned earlier, the military-civil fusion policy is groundbreaking, but the Xi Jinping administration was not the first to conceive the idea of promoting technology innovation through military-civilian cooperation. Similar policies, in terms of restructuring military-civilian relations towards economic development, date back to the early reform era, and the state-owned enterprise

⁵ Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development," *Journal of Economic Literature*, 2011, Vol. 49, No. 4, pp. 1078-1079.

⁶ Yuen Yuen Ang, *How China Escaped the Poverty Trap*, Cornell University Press, 2016, Ch.2; Yuen Yuen Ang, "The Real China Model: It's Not What You Think It Is," *Foreign Affairs*, 2018 (<https://www.foreignaffairs.com/articles/asia/2018-06-29/real-china-model>).



reform policies of the late 1990s share the same motivation to enhance the defense industry. Moreover, most of the individual policy measures currently being implemented was proposed by the Hu Jintao administration under the then new slogan of “military-civil fusion”⁷.

This continuity with previous administrations and their policies does not undermine the groundbreaking nature of the military-civil fusion policy driven by the Xi Jinping administration. Of particular notice is that **barrier-free cooperation and competition between the military and civilians for technology innovation** are positioned as a new development model tying military and economy together⁸. Behind this new positioning lies an important change in the strategic environment, specifically **the buildup of strategic competition with the US**, as well as the present administration’s intention to differentiate its policies from the previous administrations.

Another factor behind it is **the sputtering Chinese economy**. The intensifying strategic competition with the US has made it an urgent priority to construct a national defense system capable of responding to the perceived changes in the strategic environment such as advancement of military technologies and changes in the forms of war, requiring investment of resources exceeding previous levels in terms of both quality and quantity⁹. On the fiscal front, however, preferential and additional allocation of resources to national defense construction cannot be expected, due to the slowing economic growth and increased social welfare costs. In addition, regarding allocation within the military budget, cost reduction through personnel downsizing is not enough to meet the expanding equipment needs¹⁰.

Nonetheless, Hu Jintao administration rolled out its military-civil fusion policy measures from various directions in response to such changes in the domestic and international situations. In this context, it can be said that another characteristics of Xi Jinping’s military-civil fusion policy lie in the **attempts to revamp the system of policy implementation**. Of particular attention was the creation of the Central Commission for Military-Civil Fusion Development (CCMCFD) chaired by General Secretary Xi Jinping himself (January 2017). This was a big move in that the leader’s commitment was shown in the form of a policy implementation system, compared to the Hu Jintao administration which could not even establish a coordination mechanism to link the

⁷ For the contents of and specific challenges faced by the military-civil fusion policy implemented by the Hu Jintao regime, refer to National People's Congress Financial and Economic Affairs Committee (Ed.) (2010), *Civil-Military Integration Development Strategy of the National People's Congress*. China Financial and Economic Publishing House. It is a high-quality report containing analysis by the People’s Liberation Army and government departments.

⁸ “Opinion on the Integrated Development of Economic Construction and National Defense Construction” (July 2016) was published as a theoretical basis to upgrade the military-civil fusion policy into a national strategy.

⁹ National Institute for Defense Studies, *NIDS China Security Report 2021: China's Military Strategy in the New Era* (p. 59).

¹⁰ The State Council Information Office (2019), *China's National Defense in the New Era* (p. 23).



government and the military. The creation of CCMCFD also served to signify which actors were to lead the implementation of the policy. For example, leaders of the following entities were present at a discussion meeting organized by CCMCFD in October, 2018: the National Development and Reform Commission (NDRC), State-owned Assets Supervision and Administration Commission of the State Council (SASAC), All-China Federation of Industry and Commerce, Office for Strategic Planning of the Central Military Commission, Tsinghua University, Shaanxi Province, Qingdao City, and Aviation Industry Corporation of China, Ltd. Following such moves by the Party center, a wave of creation of province-level commissions for Military-Civil Fusion Development has spread across China along with emergence of various mechanisms for military-civilian cooperation¹¹.

It is true that the establishment of CCMCFD was an organizational innovation, which has led many observers to forecast the success of the military-civil fusion policy. Some arguments surrounding the China model, however, express reservation on such optimistic forecasts. Firstly, there remains a question concerning how much the fragmentation of authority in policy processes can be resolved. Considering the institutional inertia of the conventional systems, it is unlikely that the conflicting interests of the various interested groups involved in military-civil fusion can easily be aligned towards maximizing policy effects by showing the commitment of the leader and setting up a headquarter. For example, defense enterprises are one of the main interest groups of the military-civil fusion policy. As mentioned earlier, the state-owned enterprise reform of the late 1990s has created a management structure in which the entire process from research and development to production of related equipment is managed by a dozen defense conglomerates¹². Such enterprise groups have been formed in each area of the defense industry such as shipbuilding, weapon production, and aviation. The military-civil fusion policy is clearly a move to challenge the independent system of such defense industry enterprises. As far as we can tell from the current policy measures, it doesn't seem that NDRC and SASAC, for instance, as well as individual defense conglomerates and the related military departments have the same policy preferences¹³.

¹¹ Mei Yang, Ji Jianqiang (2019), Governance under Vertical Lines and Horizon Lumps: Local Government in Civil-Military Integration Development. *Journal of Beijing Institute of Technology* (Social Science Edition) Vol. 23 (3), pp. 133-142.

¹² National People's Congress Financial and Economic Affairs Committee (Ed.), op. cit. pp. 22-24.

¹³ Tai Ming Cheng and Eric Hagt, *China's Efforts in Civil-Military Integration, Its Impacts on the Development of China's Acquisition System, and Implications for the U.S. Acquisition Research Program* Sponsored Report Series. Monterey, CA: Naval Postgraduate School, 2020, pp. 24-27, 31-32.



Next, even if the central defense enterprises could be controlled¹⁴, there still would be the question of how to control the rapid spread and development of military-civil fusion policy in the provinces. Given that the strengths of the China model lie in the creative responses taken at the provincial and local levels, as mentioned above, the CCP leadership knows well it is better not to impose excessive restrictions and control over prolonged periods. The Party is therefore expected to make efforts to align the preferences of local leadership to the policy intentions of the central leadership as much as possible by providing appropriate incentives, while preventing the overheating of related businesses. Common guidelines on this point, however, have not been presented to date.

4. Military-civil fusion policy and competitiveness of the China model

As China's core strategy to US-China technology competition, will the military-civil fusion policy be another testimony to the competitiveness of the China model, which enabled China's extraordinary economic growth? Of course, we cannot predict the consequence of a strategic competition just by analyzing the strategy of one of the competitors, because the resulting effects of China's policy will differ depending on the responses taken by the US. In light of the policy formation and implementation processes continued from the previous administration, the military-civil fusion policy basically seems to be executed according to the formula of existing development models, while exhibiting some new aspects.

If the above observations are correct, and if other conditions were equal, the military-civil fusion policy would be able to achieve the expected results in the long run. However, the conditions surrounding the military-civil fusion policy is not the same as before. Given the international environment, it would be difficult to expect technology transfer from the US, and other developed countries would also be wary about technological cooperation with China. On the domestic front, the speed of economic growth has slowed down and difficulty in financing is an important motivation of the policy in question. There is also the question of whether the Chinese bureaucracy would be as adaptive as they used to be, and whether the flexible control of the central leadership would be as effective as it used to be in drawing out the best from the bureaucracy. The military-civil fusion policy may serve as an experimental field for validating the true value of the China model.

¹⁴ For CCP's moves to strengthen control over business enterprises, refer to Jude Blanchett, "From 'China Inc.' to 'CCP Inc.': A New Paradigm for Chinese State Capitalism" *China Leadership Monitor*, No. 66, Winter 2020, pp. 1- 12. Particularly, with regard to defense industry enterprises directly affiliated to the central CCP, the number of CCMCFD members has doubled since the start of the Xi Jinping administration.