

The recent U.S.-China Strategic and Economic Dialogue was overshadowed by the political scandal of Bo Xilai and civil rights activist Chen Guangcheng hiding in the Beijing US embassy. Both incidents have touched a sensitive nerve in China and have continued the limited progress on discussions involving regional stability and future military cooperation.

China has always been concerned about foreign interference within its domestic affairs and will want to limit any damage that recent events have on the ruling party's ability to maintain stability. State news sources in China denied recent events had a major impact on the nation's political system since Bo Xilai has been removed and is currently under investigation. Rumours about a potential political uprising are unlikely to be true but the public exposure of this incident and increased international interest in Chinese domestic affairs concern Beijing and have led Premier Wen Jiabo to publicly push for more political reform.

Revealing details about Bo Xilai's leadership style and corruption has damaged the Communist party image at home and abroad. These events could have an unintended impact on the nation's future military ambitions and economic prospects since this scandal will make foreign governments and businesses wary in their affairs with China if the integrity of its leadership is continuously thrown into question. Incidents such as the arrest of an Australian Rio Tinto executive accused of spying and Bo Xilai's connection to the death of British businessman Neil Haywood are concerning if this is the direction in which China's leadership is heading.

Considering China's court system is controlled directly by the Communist party, passage of legislation that allows it to detain foreign businessman suspected of illegal activities for at least six months without due process will only continue speculation about the intentions of the ruling party towards protecting foreign investment, especially when it comes into conflict with the ruling party's ambition to maintain social stability and economic growth. If China moves towards a more free market economy, an essential step in maintaining high levels of future economic growth, it will need to carefully face the many political challenges ahead. Many global businesses have viewed China as a stable source of growth but the recent events surrounding Bo Xilai and Chen Guangcheng are a reminder that nothing is guaranteed. The protectionist nature of China's state run economy will harm future growth which in turn can lead to security concerns within the East Asia region.

The fall of Bo Xilai signalled the return of politics to China and the social media interest in this topic cannot be denied since the secrecy associated with the ruling party is very troubling. Despite these concerns, China has the opportunity to take this crisis and distance itself away from the leadership style of Bo Xilai. Recent public statements by Premier Wen Jiabo to move forward with political structural reform is essential since failure to do so will signal that China is on the path to becoming an international nuisance.

Beyond the economic realm, the PLA will undergo significant personnel changes prior to the

Communist Party's upcoming 18th National Congress in light of the Bo Xilai affair and will have a major impact on the future direction of China's military modernisation process. Less influence from Bo Xilai and his allies could lead the PLA political leadership towards a less confrontational stance on its military affairs since Bo Xilai's downfall has undermined his former allies who argued loudest against western-style democratic reform. These individuals included Zhou Yongkang, China's security tsar, who allegedly has access to many secrets involving other foreign governments. The sensitivity in dealing with the dismissal of such high level officials is what the current leadership is trying to sort while in an unusual spotlight.

Thus far, President Hu Jianto has seized this opportunity to take more control of the PLA since generals close to Mr. Bo are now less likely to be appointed to the powerful 12-member Central Military Commission. This shifting relationship between the Communist party and the PLA signals the ruling party's ambition to maintain economic stability with as little confrontation as possible. Beijing's ability to handle the recent 'bad press' will demonstrate its resilience or its political weakness. If it turns out to be the latter, an impending economic slowdown will bring about dire consequences for both China and the entire international system.

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