

# *Introduction*

China has reached another of the great turning points in its history. Because it constitutes such a large proportion of humanity this means that our world has reached a turning point.

We need to understand the Chinese regime as a system, a political–economic–social system or model. The “China Model” is a variation of the Asia Model, a collection of strategies pursued by the other Asian miracle economies. China<sup>1</sup> has succeeded by emulating its predecessors (Japan, South Korea, Taiwan, Singapore) and now faces similar challenges. The current leadership has cut loose from emulation of the predecessors, but we can triangulate China’s choices by recalling how others faced the same challenges.

The Asia Model is a political–economic strategy for achieving rapid development, social stability and national security based on an initial obsessive priority for economic growth. It comprises tough imposition of radical economic and social changes by an authoritarian leadership, which is motivated by leaders fearful of catastrophic collapse and supported by a population fearful of catastrophic societal collapse. It entails an early decisive downgrading of emphasis on political ideology and geopolitical ambition in order to give overwhelming priority to economic growth. Its economic strategy involves strong central planning and control gradually giving way to a more open and market-oriented economy. As fear gives way to confidence and simplicity gives

<sup>1</sup> Throughout this book, I will frequently refer to “China” or “India,” rather than “the current communist regime in China” or “the current electoral regime in India.” This is a common ellipsis, although “China” can refer to the physical country, the Chinese people, or the current regime. In Western literature some writers insist on carefully differentiating every time between China the regime and China the people. The distinction is absolutely correct, but the intention is virtually always clear from context and the insistence on underlining the distinction in the case of China, but not in the cases of countries like India, is a subtle way of communicating that the Chinese system is less legitimate or less permanent. I reject that derogatory usage.

way to complexity, the model can remain successful only by evolving into a much more market-oriented economy and a much less centrally managed polity.

The Asia Model, which ignores the shibboleths of Western theories of economic and political development, provides the fastest way yet discovered to improve the livelihoods of a society's people, stabilize its domestic politics, and enhance its national security. Rather than acknowledge this, most Western writers have denounced the successive places – South Korea, Taiwan, and Singapore, now China, and even to a lesser extent Malaysia and Indonesia – that followed the early part of this path to development. Western scholars have mostly recommended giving politics priority over economics, administering economic and political shock therapy rather than incrementalism, copying Western-style elections and courts in the poorest societies, eschewing detailed economic planning, setting up Western-style unions everywhere, eschewing strongly egalitarian redistribution, and so forth. But the Asian miracle economies, which do the opposite of these things, grow faster, improve the lives of their citizens faster, stabilize their polities faster, and improve working conditions faster than the preferred Western alternatives. The rapid emergence of an educated middle-class society also creates superior foundations for stable democracy, if that alternative is tried as it was in South Korea and Taiwan, although it provides no assurance that it will be tried.

The lesson of the smaller Asian miracles is that the fastest path so far invented for a poor country to achieve a successful capitalist democracy begins with Leninism in politics and socialism in economics. The ironies of the real world confound all ideologies.

The Asia Model has numerous variations. South Korea used big, Japanese-style conglomerates, Taiwan a plethora of smaller, more specialized firms. Singapore is tiny, China huge, and social control techniques that work well in tiny Singapore (for instance detailed scrutiny to stop people from urinating in apartment elevators) often don't work in China – to the distress of Chinese leaders like Li Peng who have favored the Singaporean version. In Japan, the trust essential to successful business is based on corporate relations; in China it is based on family and personal connections. But just as the wide-ranging differences among capitalist countries do not obscure some common themes, and the variations among electoral democracies do not eliminate some common themes, Asia Model variations do not contradict the

common themes mentioned above that give them common successes and shared problems.

At the same time, detailed scrutiny of the preconditions of the Asian miracle economies shows that the model is applicable only to a very limited group of countries and is viable only for a limited period of time in those countries. The fallacy that the Asia Model is inherently unstable because of lack of democracy in the early phases is mirrored by two other fallacies: that the methods of the early mobilization phase can be effective indefinitely; and also that there is a Beijing Consensus that is widely applicable internationally. As we shall see, neither the nonexistent “Beijing Consensus”<sup>2</sup> nor the regrettably existent Washington Consensus works in most poor countries. China knows that its model is not universally applicable and wisely refrains from proselytizing it. The West has not been so wise and therefore makes three errors: it is inordinately fearful that China’s success might lead other countries to emulate China; it projects early Japanese or Chinese success into inevitable world domination; and it believes against all evidence that the Western-approved model can work everywhere.

In China’s crisis of success, the intensity of the crisis is proportionate to the scale of the success. The Chinese economy must transition to a new model in more ways than have been widely understood – as will be elaborated on in the next chapter. The required transition may be the most complex in history. In response, Chinese leaders have formulated the most impressive economic plan in history. But the implementation of that brilliant plan depends on a successful political strategy. Xi Jinping’s administration has chosen to take on every major power group in Chinese society simultaneously, at two levels. First, the economic reforms seriously damage the interests of every power group. Second, the anti-corruption campaign, which began as a lever to impose the reforms despite the implacable resistance of China’s most powerful interest groups, frightens those who are needed to implement reform, often immobilizing them, and also damages the interests of every major power group. This is the polar opposite of the strategies of

<sup>2</sup> The term Beijing Consensus was popularized by Stefan Halper, *The Beijing Consensus: Legitimizing Authoritarianism in Our Time* (New York: Basic Books, 2010). Many writers use the term to signify proselytization in the manner that Western countries have proselytized electoral democracy and abrupt deregulation of economies. Under Mao Zedong China made the mistake of proselytizing a universal ideological nostrum and, at great cost, learned its lesson.

leaders like Deng Xiaoping and Mustafa Kemal Atatürk, who picked selective targets and then pivoted to other targets. Xi Jinping's political approach is the most risky political strategy being implemented by any leader of an important country anywhere in the world.

The political risks are compounded by a strategy of responding to social mobilization, a phenomenon that occurs in every successful economy, by suppressing it. So far, this has never worked anywhere else for a long period of time.

The possibility of China's responding to this new phase of development with forms of Western-style electoral democracy as the other Asian miracle countries did has diminished for both domestic and international reasons. Domestically, this is a period of hubris when much of the leadership thinks that everything is possible and that the Chinese system has demonstrated an ability to rise to the economic and corruption challenges without fundamental political reconsideration. The cosmopolitan leaders Deng Xiaoping and Zhu Rongji, who studied South Korea, Taiwan, and Singapore so carefully for clues to success, have given way to a top leadership that doesn't think it needs to undertake such study and probably hasn't done it (although scholars and officials a few tiers down have).

Internationally the Global Financial Crisis of 2008–2009 convinced many in China that the West provides a deeply flawed economic model, and the demagoguery of the 2016 US election campaign and the 2016 British Brexit campaign have devalued Western political models. Finally, the hostile, subversive US ideological posture toward China, and its confrontational military posture, have given political liberalization the color of national defeat and thereby made it less likely. All this is understandable, but there remains the fact – a hard fact – that the structure of Chinese society has changed in ways that are as challenging politically as they are economically and the leadership has not yet complemented brilliant economic plans with incisive political plans.

The current leadership's strategy carries two formidable risks. One is that massive resistance to economic reform could lead to an analogue of stagnation in Japan, where key interest groups effectively took ownership of the government and protected their interests against vitally needed structural reform.<sup>3</sup> This could occur even though China

<sup>3</sup> Throughout this book I shall make frequent reference to Japanese stagnation, loss of competitiveness and the roots in interest group politics. For my understanding

has a much more competitive economy and more cosmopolitan society than Japan.<sup>4</sup> Second, the leadership could split, reigniting the political instability that plagued China earlier. A split might create prolonged chaos or it might enable the emergence of a more sophisticated, more representative political strategy.

Aside from the economic reform itself, there are key social issues that are crucial for the stability of the society and the continuity of the regime: inequality or inclusiveness, environmental degradation, corruption, and globalization. On each of these, much of the conventional Western wisdom is wrong. On environmental degradation, China's priorities up to now have served the Chinese people well, and now China is turning the corner on environmental degradation as decisively as the earlier economic takeoffs such as Britain and Japan did. If the center holds in Chinese politics, China could become a leader in global environmental amelioration.

On corruption, if one understands the different forms corruption takes, then one can easily understand why the Chinese economy performs well, and why India doesn't, despite corruption on a scale that might otherwise seem similar. Nonetheless, China's leaders are right to believe that the current level of corruption threatens their legitimacy, and it remains to be seen whether their anti-corruption campaign can contain it and institutionalize the containment.

of this phenomenon, see William H. Overholt, "Japan's Inexorable Decline," *The International Economy*, Autumn 2010, pp. 26–29. For a very thorough analysis, see Richard Katz, *Japan, the System That Soured* (New York: Routledge, 1998). For a superb description of Japan's evolution from a dynamo into its current status, see R. Taggart Murphy, *Japan and the Shackles of the Past* (London: Oxford University Press, 2014), especially Chapters 8 and 9. Japan has high standards of living and has maintained or slightly improved them at the cost of staggering debt that, absent structural reforms, must eventually be repudiated, inflated away, or evaporate in a gigantic bond market crisis.

<sup>4</sup> As an island economy, Japan should have much higher ratios of foreign investment and trade to GDP than a continental economy, but in 2013 (the latest available Japanese data) FDI into China was 3.72% of GDP while Japan's was only 0.08% (source: World Bank). In 2014 China's trade equaled 42% of GDP while Japan's was only 33% (source: CEIC Data Company Ltd.). Particularly astounding as an indicator of relative openness, since China's modern banking system is so much younger than Japan's, is that foreign banks' loan market share in China (2.7% for 2013) is almost double their share in Japan (1.5%). China welcomes foreigners into senior roles and sends its students and officials abroad to an extent that is unimaginable for Japan.

China sees globalization as a source of ultimate economic and geopolitical advantage, whereas Japan crippled its economy by turning away from globalization. But China's leaders have not yet convincingly addressed the tensions between globalization and domestic controls on information and other things.

The leading Western development economists of our day, Daron Acemoglu and James A. Robinson, have persuasively shown that economic inclusiveness is the key to long-run sustainable growth while its opposite, an extractive regime, tends to be unsustainable. But they follow the ideologically correct assumption that political democracy equates to economic inclusiveness at any level of development. On the contrary, the authoritarian Asian miracle economies have succeeded through social and economic inclusiveness of a kind unrecognized in the West; for instance, a far higher proportion of Chinese than Americans own their own homes. Conversely, at low levels of development (which China has only recently surpassed) Western-style electoral and judicial systems create extractive, unstable regimes. See the chapters on social issues (Chapter 3, first section on inequality) and politics (Chapter 4) below.

Will sophisticated economic plans carry China to a new level or will unsophisticated political strategies derail the economic growth? Anyone who can give a totally confident answer doesn't understand the complexity of the situation. But we can understand the moving parts and track the emergence of a clearer scenario. On the answer rests the prosperity of the Chinese people, the stability of the Chinese state, and much of the relationship of China to the rest of the world.