

China in the Twenty first century

Introduction

- Most of the 20th century was not a good one for China (wars, poverty, socialist economy).
- Economic reforms under Deng Xiaoping helped propel China back to very high economic growth lasting over 40 years.
- China's relative share in the world economy is going back to what it was several centuries ago.
- The world economy in the 21st century is very different.

Questions about China's role in the 21st Century

- How stable will China's political system be?
- What are the challenges facing a communist regime overseeing a capitalist economy?
- What are the chances China will overtake advanced market economies like the US?
- What will be China's behavior in the world arena? Will China be expansionist?
- Will there be systems competition between communism and democracy?

Stability of Chinese political system

- Never easy to make predictions.
- Gamble of CPC since Deng: CPC power can be maintained if 1) high growth, 2) challenges to CPC power are fought off.
- Two objectives:
 - economic growth objective
 - Political objective of maintaining CPC power unchallenged.

Stability of Chinese political system

- We discuss economic objective below.
- Assuming it can be fulfilled, what are the prospects for political stability?
- Challenge can come from either popular uprising or internal challenge from within the CPC.
- Little chance of external challenge.

Stability of Chinese political system

- Popular uprising often unpredictable (Arab Spring, June 4), sometimes the result of a shock (environment, arbitrariness of government officials, ...)
- Local revolts very frequent but transformation into national uprising has low likelihood. Covid has, however, seen important protests.
- Even if it did happen, there is no organized opposition willing and able to seize power in such a large country.

Stability of Chinese political system

- Internal challenge not likely unless major mistakes, which seems increasingly possible with Xi..
- Meritocracy leads to promotion of more competent leaders.
- Democratic centralism maintains unity of CPC and minimizes dangers of political schism.
- Factions do exist, mainly Communist Youth League (Hu Yaobang, Hu Jintao, Li Keqiang, Hu Chunhua) and Shanghai group (Jiang Zemin, Zhu Rongji).

Stability of Chinese political system

- New research (Francois, Trebbi and Xiao, 2017) shows how factions work inside the CPC.
- Entering one of the factions gives chances at promotion because support from higher up is necessary.
- Individuals in a high position will not support promotion of one of their own faction from the lower level to their level, because it would reduce their own chances at promotion.
- This leads to a stable equilibrium where none of the factions becomes too large.
- This is a system that emerged spontaneously, but contributes to stability inside the CPC.
- Xi is attacking it, though.

Is democratization likely?

- Modernization theory (Lipset, 1959) states that income growth should lead to democratization.
- In the 80s and 90s, expectations that political reform would follow economic reforms.
- Deng Xiaoping never supported this view, and initiated repression against wall of democracy (1979) and June 4 movement (1989).
- Fear that slight democratization, like under Gorbachev in USSR, would lead to implosion of power of CPC. Main lesson drawn from Soviet collapse.

Is democratization likely?

- Chinese leaders studied carefully Gorbachev experience and concluded that leading role of CPC should be reinforced.
- Gorodnichenko and Roland (2012) argue that culture can play a role, on top of income, in affecting democratization. Collectivist culture has less propensity to lead to democratization, insisting instead on “good” autocrat, leading to stable and efficient autocracy.

Challenges of market economy for CPC

- Challenge of obsolete communist ideology?
 - Not necessarily. Haifeng Huang (2015) “Propaganda as Signalling”. Zhao Gao episode: “calling a deer a horse”. Cultural difference in meaning of communication.
 - The problem is that if leaders are perceived as weak, ideology cannot be used to enhance their legitimacy. Power and not being seen as weak are the only things that matter in order to prevent challenge. This explains the success of Nazi ideologue Carl Schmitt in China who sees everything as based on raw power.

Challenges of market economy for CPC

- Challenge of corruption:
 - Purchase of government and party positions for money;
 - Trade-off between promotion chances and bribe-taking;
 - Danger of private enterprise networks controlling large wealth being independent from the party.
- Answer so far: party control inside private enterprises and cooptation of successful entrepreneurs.

Challenges of market economy for CPC

- CPC has a genuine interest in fighting corruption, but choice of market economy brings strong internal tension: communist leaders at different levels should promote growth but simultaneously behave ascetically (communist monks handling large wealth-making machine). Emergence of corruption difficult to stop without enough legal economic incentives. Corruption campaign likely to dull incentives at lower levels.
- Nevertheless, one should not underestimate the stability of the system. Main tasks of power structure (solving succession problem, solving informational problems, taxation) are not radically challenged. Leninist organizational form designed to keep party unity. Collectivist culture well suited to existing political institutions.

Challenge of international coexistence.

- Existence of democracies is a challenge to CPC power,
- ... but communist China is also a challenge to outside world.
- Other communist regimes collapsed because were economically inferior to capitalism.
- Capitalism under CPC power must face similar challenge.
- As long as catching up with the West takes place, CPC power should be stable with very high probability. If China starts lagging behind, CPC will face big legitimacy problem. This is the foundation of the fear of low growth. Chinese integration in world economy is necessary to maintain growth and prevent economic “falling behind”. This may still not succeed.

Challenge of international coexistence.

- Chinese international initiatives should not be misunderstood as intrinsically “expansionist”, but are purely domestically motivated.
- CPC power not easily exportable. China already has difficulties controlling the Western half of its territory. For that and other reasons, Chinese regime is NOT politically expansionist, despite China’s craving for more economic power. Propaganda on China having the “best governance” is mostly for domestic consumption.
- Main challenge for the West is to better understand the nature of CPC power, its stability as well as its objectives.
- Mistakes can unnecessarily increase international tension:
 - Thinking CPC power can be overthrown through outside political pressure.
 - Misreading China’s international economic initiatives for political expansionism.

Belt and Road Initiative (BRI)

- Several recent Chinese international initiatives can be understood as related to CPC goal of staying in power by generating *relatively* high growth through integration in the world economy.
- One belt one road often derided as propaganda, but interesting initiative to build infrastructure investment to favor stronger integration of China in world economy.
- Summers: “China gives projects and loans, the West gives lectures on institutions”.

..... Silk Road
Economic Belt

..... 21st Century Maritime
Silk Road



Asian Infrastructure Investment Bank

- AIIB initiative (President Liqun Jin)
- Obama blocked.
- UK and other European countries wanted to be part of it.
- Same spirit as BRI
- Infrastructure investment in Central Asia can make a large difference for Central Asia but also for China.

Will China become richer than the West?

- China is likely to become a high level income country like Japan and South Korea.
- The size of the country was an asset in the transition, but could be a liability in international economic competition, as poorer regions drag down the country.
- China will continue reducing income gap with the West in the 21st century.

Will China become richer than the West?

- China is unlikely to overtake the West in terms of fundamental innovation.
- Political repression and collectivist culture likely to have a stifling effect, preventing economic takeover.
- Illusion that STEM fields can thrive without fundamental freedom of thought.
- Recent crackdowns on corruption and freedom likely to have a stifling effect despite their necessity for CPC survival (but sometimes maybe overkill).

Understanding China's role in the world and in Asia.

- Main objective of Chinese leaders is to keep Chinese Communist Party (CPC) in power. This was the reason for the economic reforms in 1978, this is the reason for its integration in the world economy and for recent initiatives like One Belt One Road, etc... Access to world markets is crucial.
- In terms of territorial expansion, open goal of annexing Hong Kong and Taiwan. Communist regime has higher cost of territorial expansion because of need to establish comprehensive CPC control. China is not interested in expansion of communist regimes like Stalin and Mao.

Understanding China's role in the world and in Asia.

- As it becomes more powerful economically and militarily, China will nevertheless prove more aggressive in Asia: South China sea, territorial disputes with Japan, India, Vietnam and others.
- China will be more aggressive in other domains: censorship beyond its borders (CUP episode), retaliation against “anti-Chinese” actions. Lacking soft power of democracies, it will resort to threats and blackmail.

Understanding China's role in the world and in Asia.

- China will not try to take leadership of international order, but instead claim stronger influence in international organizations proportional to its economic and demographic power.
- China accepts the existing multilateral international order because it brings more stability, which is to its advantage.
- Given its size and importance of international integration for regime survival (Chinese openness ratio is above 40%, US below 30%), China cares a lot about stability of international order.

Understanding China's role in the world and in Asia.

- China will only pay lip service to international rules and decisions that go against its interest, but it is not the only country in that case.
- The long term coexistence of Chinese communist regime and advanced democracies will be an important challenge because of few shared values, but it is possible, albeit with frictions ... and there is no realistic alternative unless all-out war.

The Covid moment and Chinese ambitions

- After initial failures to react to the spread of the coronavirus (and repression of attempts to alert the general public – Li Wenliang and others), drastic lockdown and national mobilization for Wuhan led to success in dealing with the pandemic.
- The abject failure of the Trump administration to manage the pandemic put China's management of the pandemic in a positive light.
- Inside China, this was seen as a unique opportunity to overtake the US as the most important world power.
- China presented itself as a world leader touting its initiatives in sending PPE across the world.

Chinese arrogance

- This mask diplomacy revealed the arrogance of the “wolf warrior” diplomats:
- Fake videos about Italians cheering China from their balconies in lockdown.
- Allegations the coronavirus was brought to Wuhan by US military.
- Attempts to silence international voices that dared mention China’s initial failure or the contrast between drastic measures to prevent the coronavirus to spread within China but absence of measures to prevent its spread abroad.
- Threats made to Australia because of its support for international investigation inside China.
- Armed conflict at border with India, increased military presence and intimidation in South China sea, Taiwan straits.

Hong Kong as an experiment in hostile takeover

- The “One Country Two systems” in Hong Kong was de facto ended with the 2020 “National Security Law” imposed from Beijing. Xi Jinping was hostile to the “One Country Two systems” since coming to power.
- The communist regime is gradually being introduced in Hong Kong (first repression, then school textbook reform, then judicial reform, eliminating elections, having the CPC be the de facto power, ...)
- The CPC managed to end the protests started in 2019 against the extradition law.
- The older generation is more CPC friendly, but those born after 1997 have no knowledge of British colonialism and were educated with democratic values.
- The takeover of Hong Kong is an experiment in managing a hostile Chinese population (difference with Tibet and Xinjiang non Han populations) in an economically prosperous place.

The dangers facing Taiwan

- After the communist takeover of Hong Kong, Taiwan will never accept a “one Country Two Systems” given the lack of commitment of the CPC autocracy.
- Chinese leaders can try to recover Taiwan by a combination of stick and carrot. The preferred scenario would be to take full control over the KMT that would win a presidential election via electoral fraud. The CPC can plant a large number of agents in Taiwan to influence opinion or, in the worse case scenario, create disturbances that would trigger a Chinese intervention (like in Hong Kong). They would be ready to engage in military blockade or outright invasion.

The dangers facing Taiwan

- The world did not react militarily to Crimea's invasion (only sanctions), but Crimea's population was pro-Russian. How strong is the US commitment to Taiwan? This is a key question for Taiwan's security.
- Chinese leaders are patient, but their goal is to recover Taiwan before 1949. Taiwan will be a major stake in the new cold war with China.
- Xi Jinping will not want to wait that long. His personal ambitions far outweigh his intellect, which is very dangerous. He has no good understanding of the reasons behind China's economic success. He already destroyed China's succession system, China's parallel information system, "One Country Two Systems" in Hong Kong, consensual decision-making in the PSC and is encouraging Cultural Revolution style hysteria inside China even though he is opposed to a return to the Cultural Revolution.

China's international ambitions: sino-centric concentric circles

- The Chinese view of the world is profoundly sino-centric. Everything is seen through the prism of China.
- China's view on the international order are purely sino-centric and meant to further its growth objectives. As it grows, it wants its geopolitical weight to grow together with its economic weight.
- With economic development, invasion of foreign countries is less advantageous than it was in the past. Human capital is a more important factor of production than land, and human capital cannot be coerced easily. Natural resources can be more easily obtained through international trade rather than invasion.
- It is more costly for a communist regime like China to invade a country, because it needs to control all of society through Communist Party cells. They are already facing a similar problem in sparsely populated Tibet, Xinjiang and inner Mongolia.

Tributary states

- The more realistic scenario is to transform foreign countries in tributary states and create concentric circles of tributary states.
- In Chinese history, non Han polities were treated as tributary states:
- Tributary states sent fees and presents to the Emperor, and were seen as “satellite” states in a particular Confucian-style hierarchy of foreign countries and polities. This was the case of Tibet, but also Vietnam ...
- ...and most Asian countries at one point or another through history).
- China can use economic dependency and threats to force countries to behave in a way demanded by Chinese leaders. Recent pressures on Australia (but also the Philippines, South Korea,...) are a good illustration.

China's weaknesses.

- Lack of soft power
- Lack of real allies
- Weaknesses associated to BRI: a chain of strategic defaults is likely.
- Lack of military dominance
- Reliance on export growth.
- Xi is feared but not respected inside the CPC. A major shock could lead to internal political crisis.
- Instilling fear (inside the Party, the population and abroad) is not a long term winning strategy.

Summary

- China's role in international economy will become larger and China will claim a larger place, and rightly so, in the international order.
- China is likely to continue with high economic growth, relative to the world economy, and thus stability of the political system.
- The Chinese economy is unlikely to reach higher levels of income per capita than the richest countries, but its sheer size will give it a dominant role.
- China will become more aggressive locally, but its expansionist objectives will remain quite limited albeit extremely determined.
- As the Chinese political system is likely to be stable, fundamental to have peaceful international coexistence, but not at the cost of becoming tributary states.