



Book China Counting

How the West Was Lost

Alex Mackinnon and Barnaby Powell
Palgrave Macmillan, 2009
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Recommendation

China is on track to become the world’s most powerful economy, and it will probably hold that status for a long time. To understand this juggernaut, turn to expert Sinologists Alex Mackinnon and Barnaby Powell. Their book may not be terribly original, but it examines modern-day China from multiple important perspectives. *BooksInShort* recommends this book to those who want to understand the economic reality of China today and in the future – beyond the cardboard cutout that Western politicians routinely wheel out to scare their constituents.

Take-Aways

- With its hard-working population and dedication to education, China will eventually become the world’s most powerful economy.
- In China, business and personal relationships revolve around *guanxi*, networks of trust.
- Chinese leaders regard stability as the starting point for all their nation’s policies.
- China will not let other countries affect its internal affairs.
- The West’s recent economic failures leave it in no position to dictate to China.
- China has invested heavily in Africa and South America.
- It seeks reciprocity in its dealings with other nations.
- China’s authoritarian system has been the norm for millennia.
- By financing so much global debt, China now functions as the world’s banker.
- China seeks to collaborate with, not confront, the West.

Summary

China on the March

China is ascending, while the West is in apparent decline. China is assuming control of world trade, along with a notable portion of the globe’s resources. Now the world’s primary banker, and eventually its dominant economy, China basically subsidizes the West. China is thrifty and pragmatic. Private Chinese debt is just below 14% of GDP. In the Western nations, private debt amounts to 140% to 180% of GDP. China holds sway in most of the world’s financial markets. This unnerves Western nations; they are suspicious and critical of China, and leery of its fiscal power. Western leaders think that China wants to achieve world dominance, which it will attain through take-no-prisoners competition, along with its many trade and investment initiatives. However, this is simply untrue.

Networks of Trust

In China, business and personal relationships revolve around *guanxi*, networks of transactions, resources, and information based on trust. Guanxi encapsulates the concept of mutual obligation. If you are not part of a guanxi network, you will not gain the trust of the Chinese. Most foreigners are outside these networks. Since democracy involves voting for people you do not know (and therefore, by guanxi standards, cannot trust), it probably will never gain traction in China.

“The Chinese believe in their fundamental difference from the rest of the world as a superior civilization.”

On the other hand, authoritarian Chinese leaders work overtime to deliver social stability, which the Chinese people value. The Chinese Communist Party (CCP) tightly controls internal media and the flow of information. At the same time, China’s social safety net, once the nation’s pride, is now severely frayed. As a result, local communities must fend for themselves economically. This can generate dissent, which the CCP suppresses.

An International Mover and Shaker

China is active across the globe, particularly in Africa and South America, where it provides funds for infrastructure development. China also is building bridges with Middle Eastern nations. African and South American countries prefer the nonconditionality of China’s lending terms (in contrast to the West’s complex financial provisions), as well as the Chinese practice of not pushing cultural change onto other regions.

“There are three things to understand in China – guanxi, guanxi and guanxi.”

China’s state capitalism model has the potential to affect or change established hierarchies and postcolonial dependencies. China’s message is that dedication to education, along with hard work, is how countries can advance. Developing nations appreciate China’s new status as a munificent benefactor. China provides Southeast Asia with more foreign aid than the US does. Chinese aid recipients appreciate that China has no aspirations to assume the role of colonizer. In return, China has gained broad-based international governmental and private sector access.

“Do not let that word ‘communism’ fool you – Mao maintained a traditional, imperialist hierarchy. And so does the present Chinese state: It is following several millennia of centralized control.”

China does not interfere in the internal affairs of other nations, including the African and South American countries it funds. In return, it insists that other states must not encroach on its internal affairs, particularly regarding the status of Taiwan, Tibet and Xinjiang. Beijing is adamant that China will control its internal affairs and determine its borders.

“Western values are shaped largely by a sense of individual guilt, while Chinese values are driven largely by an anxiety to avoid group shame.”

Western nations worry that China is locking up vital resources around the globe. Relations between East and West are tense, and exacerbated by the debt China now holds on behalf of Western nations. Though China is poor in terms of per capita GDP (only 5% of the UK’s per capita GDP), it is awash in money. Its average savings rate is 30% to 40% of income. This raises a pivotal positioning question: Is China a developing nation, or has it already developed?

Internal Tensions

Centralized leadership has controlled China for millennia; today, the CCP functions as the country’s stand-in emperor. Nevertheless, incipient tension exists within the state due to China’s need to balance authoritarian socialism with no-holds-barred capitalism. China strives to meet its domestic societal needs while expanding its economy and military.

“The vast majority of Chinese are quite ill-informed about the nature and state of affairs outside China.”

China is protectionist, as is the West. Due to the recession, China has closed many state-owned enterprises. Without work, these former government employees have moved back to the country’s agricultural areas, but making a reasonable living on village farms is difficult. The growing *bujun* – the notable income disparity between urban and rural areas – is a major issue; in fact, it is the CCP’s most gnawing economic worry. The nation’s *hukou*, or household registration, system prevents countryside residents from moving to urban areas, so “800 million rural dwellers are effectively second-class citizens.” Another notable problem is the high cost of medical care.

China and the Environment

China is opportunistic, highly adaptable and a great poker player. With its immense size, population and increasing modernity, China is a major environmental polluter, as is the West, but China wants to improve. Many Chinese suffer from serious degradation of the environment, particularly in Beijing, where the air’s particulate count is dangerously high. China faces enormous environmental challenges due to air pollution, deforestation and dam projects that have wrecked riverine ecosystems, to name just a few factors.

“The West – the US and Europe – have...lost the authority to wage any political or economic war.”

China depends on coal for much of its power. As a result, the country now creates approximately 10% of the world’s carbon dioxide emissions. Chinese factories are the planet’s most significant carbon dioxide producers, although US emissions on a per capita basis are four times heavier than China’s. China’s vehicles emit more carbon monoxide than any other nation’s. China does not enforce environmental protection laws, and it produces less than 7% of its power using renewable sources.

“There are more Chinese studying English in China than there are native English speakers in the world.”

China wants to move away from coal and toward hydroelectric and nuclear power. In recent years, the nation has built numerous dams to increase its hydroelectric

capability. China produces more solar energy than any other country. By 2050, it expects to be the world's leader in energy efficiency. By that time, China is likely to derive 25% of its power from nuclear and 25% from renewable sources.

Making Sense of China

China has always been mysterious to the West, and it remains so. Understanding China requires an enlightened, knowledgeable perspective based on three points:

1. The venerable Confucian system (replaced by the CCP) posits a leadership of strict hierarchy that the Chinese people follow without question.
2. Guanxi networks are fundamental.
3. The People's Liberation Army (PLA) is the nation's largest guanxi network and functions as China's emergency task force.

"The Chinese revere the past and...they go forward looking backward."

The PLA is China's army, air force and navy. Young people in China must perform two years' military service, and seven million Chinese serve in the military, including 2.3 million in the professional army. The PLA has an impressive, high-tech submarine fleet, which China deploys to deter movement by the US Navy in the Taiwan Strait. China's military posture is primarily defensive. The Chinese navy defends its coastline and stands behind its disputed ownership of the outlying Yellow Sea and South China Sea island holdings and oil banks.

"Chinese diplomacy is not one of smooth words and soft actions. It is often calculated with slide rule precision, and if it means brinkmanship, then it will be brinkmanship with something up the sleeve."

To promote its culture and influence, China is creating numerous Confucius Institutes around the world and participating in global team sports. The 2008 Summer Olympics in Beijing brought China valuable, positive notice. Young Chinese students now study throughout Europe and the United States, and they bring their new associations and knowledge back to China. The Chinese regard knowledge as a valuable commodity that also provides relational understanding.

"The Chinese National Congress emphasizes harmony as a communist ideal and a necessary societal influence."

The Chinese people greatly prize stability. Tung Chee-hwa – the first Hong Kong chief executive appointed by Beijing – explains that the Chinese have "a preference for obligation rather than individual rights." In China, harmony supercedes liberty. For the CCP, social stability outweighs any commitment to individuals. Personal freedom does not fit into this equation. Relationships, the *wu lun*, mean everything: how rulers relate to subjects, how fathers relate to sons, how husbands relate to wives, and so on. This goes back to the time and teachings of Confucius (551–479 BC). This revered, ingrained Chinese principle is unlikely to lose its powerful influence.

"The Chinese traditionally dislike teamwork, as it means working across networks and not comfortably within them."

Westerners make a mistake when they threaten China. The Chinese see such actions as a clear sign that developing relationships or trust – guanxi – with oppositional Westerners is not possible. Threats are counterproductive. The Chinese prefer integrated solutions dominated by groups. Furthermore, because of its many notable failures and shortcomings in China's eyes, the West does not possess the moral authority, the financial power or the credibility to interfere in China.

"The Chinese have the monetary and military might to order a significant portion of the world's affairs."

The Chinese harbor great resentment against Westerners, and for valid reasons, including the Opium Wars of the 1830s and the Treaty of Nanking in 1842, as well as the Versailles Treaty of 1919, which ceded parts of China to Japan. Given the injustices that Westerners have perpetrated against the Chinese over the centuries, China has little patience with Western governments, particularly in light of recent military and financial events that China regards as fiascos.

China and Science

China's cultural heritage has long been one that honors nature. As a result, China has always been deeply suspicious of science, which the Chinese traditionally viewed as tampering with the natural order. Nevertheless, China now focuses on scientific development. In 2001, China launched the *Shenzhou 2* spacecraft. In 2006, China instituted a program to explore deep space. A year later, it launched an unmanned lunar orbiter. In 2008, China successfully organized a manned spacewalk. It plans an unmanned deep-space mission for 2014, and it intends to send a man to the moon by 2020.

"The more that is known about the Chinese, the less is understood."

China instituted its ambitious space program to restore parity with the West. China suggested that the nations of the world keep space demilitarized, but the US quickly rejected this proposal. China hopes to achieve a sufficient state of scientific and technological expertise to sharply reduce its dependence on technological assistance from the European Union and the US.

Throughout history, China has always placed a higher premium on diplomacy than on military might. China doesn't seek global domination. Instead, it wants to provide a better life for the two-thirds of its citizenry that live in abject poverty. Only by making prosperity the norm, the CCP believes, can China achieve crucial stability.

China also does not want to damage Western nations, which seem to be handling that job quite well on their own. It does not want confrontation. China seeks true reciprocity in its dealings with the West and the other nations of the world. As the world's banker, China is ready to help rebuild the global financial system, assuming that other nations include it as a major financial and trading player in any new economic architecture they create. Such a system will require a notably circumscribed private sector, as well as a large increase in investment by state capitalism. The needed guiding philosophy for the future is collective collaboration, not cutthroat capitalism.

Time to See the CCP for What It Is

The CCP is not a revolutionary political party; it is an unelected cabal of experts, technocrats and proven leaders, along with peasants with strong campaign experience. The CCP resembles the vaunted British civil service. Expect to see the CCP loosen its control in the coming years. Chinese leadership is pragmatic; it understands that the current governmental system is backward and unwieldy.

The West can learn much from China. The Chinese people are stoic and able to overcome crushing adversity. The most helpful lesson China can teach the West is that superior education, which the Chinese value, is the best life preparation.

About the Authors

Alex Mackinnon is an organizational consultant with management experience in China, Hong Kong and Taiwan. **Barnaby Powell** is the former director of the Asia Invest Program for the European Commission.
