

The Economist

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Hollywood after Weinstein

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A special report on autonomous vehicles

MARCH 3RD-9TH 2018

How the West got China wrong



What the West got wrong

It bet that China would head towards democracy and the market economy. The gamble has failed



LAST weekend China stepped from autocracy into dictatorship. That was when Xi Jinping, already the world's most powerful man, let it be known that he will change China's constitution so that he can rule as president for as long as he chooses—and conceivably for life. Not since Mao Zedong has a Chinese leader wielded so much power so openly. This is not just a big change for China (see page 25), but also strong evidence that the West's 25-year bet on China has failed.

After the collapse of the Soviet Union, the West welcomed the next big communist country into the global economic order. Western leaders believed that giving China a stake in institutions such as the World Trade Organisation (WTO) would bind it into the rules-based system set up after the second world war (see page 18). They hoped that economic integration would encourage China to evolve into a market economy and that, as they grew wealthier, its people would come to yearn for democratic freedoms, rights and the rule of law.

It was a worthy vision, which this newspaper shared, and better than shutting China out. China has grown rich beyond anybody's imagining. Under the leadership of Hu Jintao, you could still picture the bet paying off. When Mr Xi took power five years ago China was rife with speculation that he would move towards constitutional rule. Today the illusion has been shattered. In reality, Mr Xi has steered politics and economics towards repression, state control and confrontation.

All hail, Xi Dada

Start with politics. Mr Xi has used his power to reassert the dominance of the Communist Party and of his own position within it. As part of a campaign against corruption, he has purged potential rivals. He has executed a sweeping reorganisation of the People's Liberation Army (PLA), partly to ensure its loyalty to the party, and to him personally. He has imprisoned free-thinking lawyers and stamped out criticism of the party and the government in the media and online. Though people's personal lives remain relatively free, he is creating a surveillance state to monitor discontent and deviance.

China used to profess no interest in how other countries run themselves, so long as it was left alone. Increasingly, however, it holds its authoritarian system up as a rival to liberal democracy. At the party's 19th congress last autumn, Mr Xi offered "a new option for other countries" that would involve "Chinese wisdom and a Chinese approach to solving the problems facing mankind." Mr Xi later said that China would not export its model, but you sense that America now has not just an economic rival, but an ideological one, too.

The bet to embed markets has been more successful. China has been integrated into the global economy. It is the world's biggest exporter, with over 13% of the total. It is enterprising and resourceful, and home to 12 of the world's 100 most valuable listed companies. It has created extraordinary prosperity, for itself and those who have done business with it.

Yet China is not a market economy and, on its present course, never will be. Instead, it increasingly controls business as an arm of state power. It sees a vast range of industries as strategic. Its "Made in China 2025" plan, for instance, sets out to use subsidies and protection to create world leaders in ten industries, including aviation, tech and energy, which together cover nearly 40% of its manufacturing. Although China has become less blatant about industrial espionage, Western companies still complain of state-sponsored raids on their intellectual property. Meanwhile, foreign businesses are profitable but miserable, because commerce always seems to be on China's terms. American credit-card firms, for example, were let in only after payments had shifted to mobile phones.

China embraces some Western rules, but also seems to be drafting a parallel system of its own. Take the Belt and Road Initiative, which promises to invest over \$1tn in markets abroad, ultimately dwarfing the Marshall plan. This is partly a scheme to develop China's troubled west, but it also creates a Chinese-funded web of influence that includes pretty much any country willing to sign up. The initiative asks countries to accept Chinese-based dispute-resolution. Should today's Western norms frustrate Chinese ambition, this mechanism could become an alternative.

And China uses business to confront its enemies. It seeks to punish firms directly, as when Mercedes-Benz, a German car-maker, was recently obliged to issue a grovelling apology after unthinkingly quoting the Dalai Lama online. It also punishes them for the behaviour of their governments. When the Philippines contested China's claim to Scarborough Shoal in the South China Sea, China suddenly stopped buying its bananas, supposedly for health reasons. As China's economic clout grows, so could this sort of pressure.

This "sharp power" in commerce is a complement to the hard power of armed force. Here, China behaves as a regional superpower bent on driving America out of East Asia. As with Scarborough Shoal, China has seized and built on a number of reefs and islets. The pace of Chinese military modernisation and investment is raising doubts about America's long-run commitment to retain its dominance in the region. The PLA still could not defeat America in a fight, but power is about resolve as well as strength. Even as China's challenge has become overt, America has been unwilling or unable to stop it.

Take a deep breath

What to do? The West has lost its bet on China, just when its own democracies are suffering a crisis of confidence. President Donald Trump saw the Chinese threat early but he conceives of it chiefly in terms of the bilateral trade deficit, which is not in itself a threat. A trade war would undermine the very norms he should be protecting and harm America's allies just when they need unity in the face of Chinese bullying. And, however much Mr Trump protests, his promise to "Make America Great Again" smacks of a retreat into unilateralism that can only strengthen China's hand.

Instead Mr Trump needs to recast the range of China policy. China and the West will have to learn to live with their differ- ➤

ences. Putting up with misbehaviour today in the hope that engagement will make China better tomorrow does not make sense. The longer the West grudgingly accommodates China's abuses, the more dangerous it will be to challenge them later. In every sphere, therefore, policy needs to be harder edged, even as the West cleaves to the values it claims are universal.

To counter China's sharp power, Western societies should seek to shed light on links between independent foundations, even student groups, and the Chinese state. To counter China's misuse of economic power, the West should scrutinise investments by state-owned companies and, with sensitive technologies, by Chinese companies of any kind. It should bolster institutions that defend the order it is trying to preserve. For months America has blocked the appointment of officials at

the WTO. Mr Trump should demonstrate his commitment to America's allies by reconsidering membership of the Trans-Pacific Partnership, as he has hinted. To counter China's hard power, America needs to invest in new weapons systems and, most of all, ensure that it draws closer to its allies—who, witnessing China's resolve, will naturally look to America.

Rivalry between the reigning and rising superpowers need not lead to war. But Mr Xi's thirst for power has raised the chance of devastating instability. He may one day try to claim glory by retaking Taiwan. And recall that China first limited the term of its leaders so that it would never again have to live through the chaos and crimes of Mao's one-man rule. A powerful, yet fragile, dictatorship is not where the West's China bet was supposed to lead. But that is where it has ended up. ■

Italy's alarming election

Povera Italia

The world's eighth-largest economy faces a woeful set of electoral choices



TO HEAR Italy's politicians tell it, the country is, if not quite out of the woods, then at least emerging into an unexpected clearing, blinking gratefully. Growth has returned, exports are up, some of the weakest banks have been repaired and

even the migration crisis seems to be under control, thanks to a deal with Libya's warlords. Emboldened, the aspirants are out-bidding each other to promise gifts to voters. Benefits will rise, taxes will fall and jobs will soon return.

Sadly, things are not quite so rosy. The deal with Libya is precarious, to say the least. Although the economy is expanding again, its recovery is much weaker than that of the other big euro-area economies. Output growth of 1.7% a year trails the euro-zone average by a full percentage point. Unemployment is still over 10%, and far worse among young people. Banks are sitting on large portfolios of non-performing loans. At around 130% of GDP, Italy's public-sector debt is still a huge burden, even as quantitative easing by the European Central Bank, which kept interest rates low, is coming to an end. The country is in poor shape to withstand the next downturn. Responsible, reforming government is as badly needed as ever.

Alas, Italy is unlikely to get it on March 4th. The election that day is being fought using a new system that combines proportional representation with first-past-the-post contests in almost 40% of the seats (see page 41). Predictions are hard, but the signs point to a hung parliament, followed by a period of deal-making, with a risk of things going seriously wrong.

Most seats will probably go to an unsavoury right-wing coalition that consists of Forza Italia, led by a convicted fraudster, Silvio Berlusconi; the anti-EU and anti-immigrant Northern League; and a hard-right outfit called the Brothers of Italy. Fortunately, Mr Berlusconi cannot be prime minister. Because of his conviction he is barred from parliament, at least until next year. If the League wins more seats than Forza (polls have them near-tied), it will be the one pushing for the top job anyway. An administration led by its boss, Matteo Salvini, would spook markets and investors: he once described the euro as a "crime

against humanity", and favours (as does Mr Berlusconi) a flat tax which would hit revenues hard. The party is soft-peddling its traditional demand for northern separatism. It is now more of a far-right national party (allied with the National Front in France). The coalition, however, looks likely to come up short.

That might be either a relief or awful. A relief, because neither the 81-year-old Mr Berlusconi nor Mr Salvini is fit to lead Italy; awful because there is a small chance that Mr Salvini might in that case be tempted to throw in his lot with the Five Star Movement (M5S), another populist outfit that is led by a 31-year-old with no experience of running anything apart from a website. The most popular party in Italy, M5S is chiefly a protest movement. It has toned down its anti-Europeanism but has few credible policies and no ideological underpinning. The role of its founder and self-styled "guarantor", a comedian named Beppe Grillo, remains a mystery.

It has to be the Democrats

If *The Economist* had a vote, we would reject those woeful options and plump instead for continued government by the left-of-centre Democratic Party (PD). Under it, the country has at least been sensibly managed, and its "jobs act" introduced a few reforms into a system that still over-protects those with permanent jobs, encouraging companies to hire young people only on short-term contracts. However, the polls suggest that the voters, tired of years of austerity and PD infighting, will punish it at the polls. Barring a surprise, it will not be able to govern on its own.

Italy is hopelessly stuck. The least bad way forward would be another "government of the president", a broad coalition underwritten by Sergio Mattarella, the head of state. For all the flaws of such a system, it has allowed Italy to muddle along since Mr Berlusconi stepped down at the height of the debt crisis in 2011. The current prime minister, Paolo Gentiloni of the PD, has been in office for just over a year, but has already shown the diplomatic skill to manage such an unwieldy beast. In Pier Carlo Padoan, Italy has been fortunate to have an astute finance minister who understands the need for fiscal discipline and reform. For Italy's sake, both of them deserve to stay in charge. ■



Not the partner you were looking for

HONG KONG

The West got China wrong. That is no reason to bungle what comes next

IN MARCH 2000 Bill Clinton divided American opinion on China into two camps. First came optimists with an eye on the future, who could see China becoming “the next great capitalist tiger, with the biggest market in the world.” Then came hawks and pessimists, stuck in the past, who saw China stubbornly remaining “the world’s last great communist dragon and a threat to stability in Asia.” A generation later, those words have the poignancy of a message from a lost world.

Like many either/ors, this one turned out to be a both/and. The China of Xi Jinping is a great mercantilist dragon under strict Communist Party control, using the power of its vast markets to cow and co-opt capitalist rivals, to bend and break the rules-based order and to push America to the periphery of the Asia-Pacific region. It is confident of its strength—since the financial crisis of 2008 it has touted state-guided capitalism as superior to free markets—and newly willing to show its teeth, deploying military might to redraw maps in the South China Sea. It punishes foreign businesses for the actions of their home governments. It is engirdling Eurasia with the contracts and rules that come along with the roads, railways and fibre-optic cables of its Belt and Road Initiative.

This has led to the starkest reversal in

modern geopolitics. Political leaders and China-watchers across the West—most notably in America, but also in Europe, Australia and Japan—have come to believe that they were wrong about China’s rise. From cabinets to boardrooms to book-lined studies, voices which once argued that a growing middle class would drive China towards Western values have fallen silent. Hopes for reform were dealt a fresh blow when the Communist Party announced the scrapping of term limits for China’s presidency, allowing Xi Jinping to remain head of state indefinitely (see page 25).

Greatest good, greatest number

Instead debate divides those who think that it was naive to try engaging with China on the basis of such optimism and those who believe it was rational to make the attempt. Defenders of engagement have a point. China decided to rejoin the world after decades of Maoist isolation of its own accord; thinking that it was better to manage the process than not, as successive American governments did, made sense. Few were entirely Panglossian on the subject. Even in the headiest times America paired engagement with a need for “balancing” China’s rise, strengthening American forces in the Asia-Pacific and deepening security and trading alliances. The

benefits were real. Cheaper goods have been a boon for American consumers; many American companies have done well out of China. And the simple fact that hundreds of millions of Chinese were raised from poverty counted for something with some Westerners.

But the China sceptics had a point. The West was too confident that a prosperous China would inevitably see its liberal democracies as a model. In hindsight, a lot of clever predictions about China look like wishes in disguise.

There is nothing dreamy about the National Security Strategy America published late last year. A general statement of the administration’s worldview, it says that China “challenge[s] American power, influence, and interests”. For decades, it goes on, American policy was “rooted in the belief that support for China’s rise and for its integration into the post-war international order would liberalise China.” This is deemed a mistake: “Contrary to our hopes, China expanded its power at the expense of the sovereignty of others.”

In consequence, though the strategy stops short of urging a return to cold-war containment, it proposes tougher curbs on Chinese spying and theft of intellectual property, especially from the most innovative American firms. In January an American business delegation warned Chinese officials of Politburo rank that aggressive trade actions by America are more likely than not. Mr Trump’s administration announced tariffs on aluminium foil on February 28th. It is soon to decide on steep tariffs against steel imports and the merits of a trade complaint punishing China for forced transfers of technology; that may al-



► lege close to \$1trn in total damages.

Even those on the free-trade side of these debates worry about such showcase policies as “Made in China 2025”, a technology strategy aiming to create national champions in robotics, biomedicine, electric vehicles and more. When asked if they worry that China-curbing measures might disrupt global supply chains, nationalists on Team Trump reply that they want to re-route such chains back into America, while there is still time. In the Senate Republican free-traders like John Cornyn of Texas and Democratic champions of openness like Dianne Feinstein of California are co-sponsoring a bill to tighten the screening of Chinese and other foreign investments for national security.

Not long ago, such sabre-rattling would have triggered an uproar from corporate chieftains, worried about reprisals that would shut them out of China’s markets. But big business is no longer a reliable cheerleader for China. The Stockholm China Forum, a private gathering of senior government officials, diplomats, business bosses and academics from China and the West, recently met in Hong Kong. Never before in the forum’s 11 years have those assembled sounded so gloomy.

Nothing to lose but your supply chains

Foreign businesspeople talked of the “promise fatigue” that has set in as Chinese markets are opened only after they have ceased to matter (the recent decision to allow in American credit cards now mobile payment systems have made them irrelevant is an example). There was talk of dawn raids by Chinese regulators who take away computers filled with priceless intellectual property and global client lists, and of Western businessmen detained on murky grounds. They were especially shaken by the Chinese government’s punishment last year of Lotte, a South Korean-Japanese firm which owns land south-east of Seoul on which American anti-missile batteries are now based. The Chinese dis-

like the radars, which could see deep into their territory. So they have closed Lotte supermarkets in China, ostensibly as fire hazards. Such arbitrary actions oblige even those businesses making hefty profits in China to think hard about diversifying their risks.

Though some sectors of American business, including retailers and commodity exporters, enjoyed a bumper 2017 in China, the days when boardrooms would nod through anything resembling a bold China strategy are over. Today, faced with continued Chinese subsidies, competition from state-backed rivals (see Schumpeter) and limited market access, the mood is grim.

It could get grimmer. Western officials and experts note China’s growing military strength and its increased willingness to interfere in political debates across the democratic world, whether by funding friendly politicians and academic institutions, stirring up nationalism among Chinese students overseas, buying up foreign media outlets or bullying publishers. The “window” for confronting and challenging Chinese aggression, they say, is closing.

Part of what is so spectacular about the decline of Sino-optimism is how recently and how thoroughly it held the high ground. The idea that global engagement and rising prosperity would drive Chinese convergence with Western values was one of the last beliefs shared by all sides in the Washington elite. In that speech from 2000, aimed at encouraging Congress to dismantle barriers to commerce with China prior to its joining the World Trade Organisation (WTO), Mr Clinton drew a direct line between free enterprise and pressure for accountable government. When individuals have the power to realise their dreams, he enthused, “They will demand a greater say.” Just two months later George Bush, campaigning for the presidency at a giant Boeing plant, predicted that China’s WTO entry would bring both more jobs and political benefits. American goods would flow to Chinese consumers, China

would enjoy “more open contact with the world of freedom.”

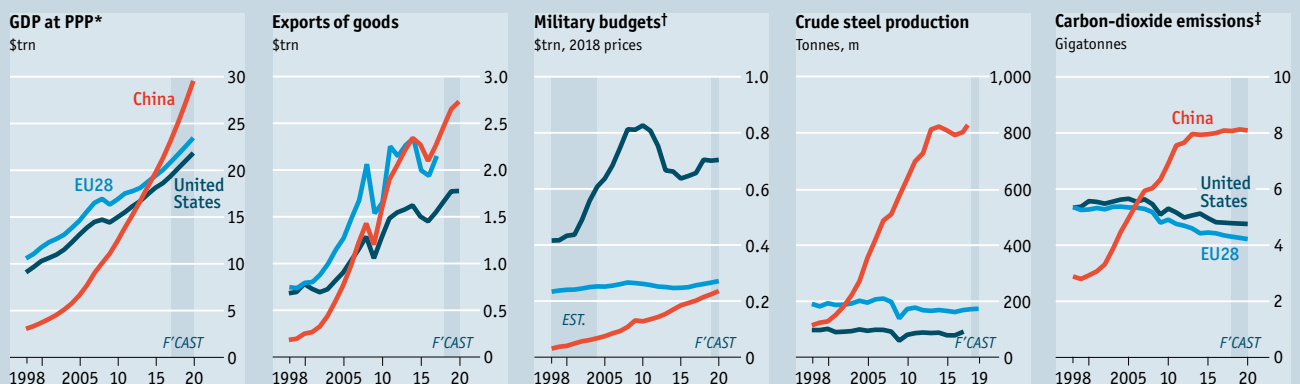
The optimists’ camp could count on support from political and business elites, and from diplomats and sinologists who had been watching China’s rise since the last days of Chairman Mao. The pessimists’ camp was much smaller, and was dominated by old-school security hawks and hard-to-impress trade union leaders, sniffing a plot by bosses to lower American wages. Now one of their number sits in the Oval Office.

Westplaining modernity

The optimists made two sorts of mistake. The first was to overestimate the subversive power of various novelties. This was often an error of projection: they could not imagine being as tireless as Chinese leaders turned out to be in defending their authority. Modern telecommunications technologies “have proved an unambiguous threat to totalitarian regimes,” Rupert Murdoch claimed in 1993. He later recanted, seeking to assuage appalled Chinese leaders, but plenty of others insisted that he had been right first time, if not about the faxes and satellite televisions of the 1990s, then about the internet of the 2000s. Why, technology entrepreneurs would scoff in Beijing bars a generation ago, China would have to hire hundreds of thousands of secret policemen to control the internet. Then China did more or less precisely that.

When Britain returned Hong Kong to China in 1997, under a 50-year agreement to preserve its free speech, free markets, rule of law and limited democracy, a *New York Times* columnist wondered if the city would prove a “colossal Trojan Horse”, bringing democracy to China’s mainland. Today Benny Tai, an activist law professor, sees little scope for an Odysseus of Hong Kong. Mr Tai was one of the founders of the Occupy Central protest movement which blocked streets in the business and financial heart of Hong Kong for weeks in 2014, in a bid to press the government to move ►►

Things change



► towards universal suffrage—something Hong Kong's Basic Law promises. But he no longer believes that direct pressure from Hong Kong democrats is enough to achieve universal suffrage. He now believes Hong Kong's best hope is the emergence of a democratic movement in China.

The second broad error made by optimists was to imagine that Western governments and organisations could explain to Chinese leaders where China's self-interest lay. The modern history of foreign interactions with China is littered with such sometimes condescending attempts. An ambassador to Beijing, 20 years ago, was fond of describing one of the West's roles as helping China to correct its worst blunders. Our job is "to build ladders for China to climb down," he would sigh.

More subtle attempts to influence China aimed to harness forces pushing for change within the system. Working with reformist officials, Western governments promoted the idea that China could benefit from the rule of law, even if it were not ready to adopt universal values. They organised seminars and gave scholarships to judges and lawyers to study abroad on the argument that, if prosecutors, police officers and courts were to grant citizens the rights which in theory they already enjoyed under China's laws and constitution, that would be a big advance. But with some reformist lawyers jailed and many more silenced, and with Mr Xi opposed to any separation of powers that might put laws above the Communist Party, a foreign expert says: "The window has closed, the chance of using the rule of law to advance human rights has vanished."

Attempts to explain to China why it should join the West in a rules-based global order reached a high point in 2005. In an influential speech Robert Zoellick, then America's deputy Secretary of State, urged China to become a "responsible stakeholder" in the international system that was helping it become stronger and more prosperous. The world, he said, was watching China's rise and was wondering how it would use the influence that came with it. That very gentle, veiled threat came along with an assessment of China's fragility. Pointing to strikes, rural anti-corruption protests and rising crime, Mr Zoellick advised: "Closed politics cannot be a permanent feature of Chinese society. It is simply not sustainable—as economic growth continues, better-off Chinese will want a greater say in their future, and pressure builds for political reform." Seeking signs of hope, he pointed to village and grassroots elections and suggested that "they might be expanded—perhaps to counties and provinces—as a next step." That turned out to be a mirage—but only after American presidents had praised such elections time and again in speeches to Chinese audiences.

Western leaders also spent years prais-

ing China for embracing global goods, with varying degrees of justification. Europeans spoke admiringly of the leadership it showed in climate diplomacy and renewable energy. Its rulers were hailed for hosting six-party talks aimed at curbing North Korea's nuclear programme. The mood has soured now. China has signed up to unprecedented sanctions on North Korea, curbing its coal trade with that murderous regime. But Chinese leaders continue to water down and resist still-harsher sanctions, as they fear the collapse of the Kim regime more than its nukes.

The strong and the weak

Some past optimism was a form of cockiness. Asked about some warships China had bought from Russia in 2000, an American in Beijing described them as "an interesting morning's work for the Seventh Fleet." Not now. Pentagon types question the military utility of China's outposts in the South China Sea. But the new bases, built atop reefs bulked up with dredged rock and sand, have real diplomatic nuisance value. Ian Storey of the Institute of Southeast Asian Studies in Singapore notes that China is urging neighbouring governments to agree on a Code of Conduct for the South China Sea that would ban military exercises within the 200-nautical-mile (370km) Exclusive Economic Zone of any coastal state without that state's permission. That would greatly complicate America's life in the Pacific.

Far from China converging with international laws, Western officials see the country seeking to be subject only to weak and vague rules over which it maintains strong powers of interpretation. Though not challenging bodies like the WTO or UN directly, China is increasingly keen on alternative forums. Nobody is quite sure what China means when it calls for schemes funded under the Belt and Road

Initiative to be subject to special dispute settlement courts in China, but it makes American and European officials anxious.

Weighing the challenge of a rising China dispassionately is made harder by a simultaneous, and not coincidental, crisis of confidence in the West. One happy story that no longer provides much cheer is the idea that open societies will always outpace lumbering autocracies. In 2013 America's vice-president, Joe Biden, dropped in on the visa queue at the American embassy in Beijing and startled the Chinese students there with his observation that though American school pupils might not be at the top of global league tables, their defiance of orthodoxy gave them an edge. "Innovation can only occur where you can breathe free," he told them. In a speech in 2014 Mr Biden conceded that China is graduating lots of scientists, but challenged his audience to name "one innovative product that has come out of China."

Today the West is in a funk. It is a time for serious thinking about how to balance China more effectively, with a united front and without losing sight of the strengths of democratic, accountable government, a free press and independent courts. Instead the West feels tired, timid and tetchy. From Washington to the capitals of Europe, the air is filled with calls for "reciprocity" in dealings with China. Such calls cover everything from more aggressive screening of investments to proposals to deny Chinese academics visas if Western counterparts are denied access to China. More transparency is a necessity when Chinese money is on offer. But few will win from tit-for-tat reprisals.

Western politicians have spent years rationalising their retreats in the face of Chinese pressure. The West has lost hope that it can make China embrace universal values. That would be a poor reason for the West to betray those values in response. ■

