

# Fear and ambition

BY PIALUISA BIANCO

China's bloody past has taught the Communist Party to fear chaos above all. This has certainly been a major preoccupation since the events in Tiananmen Square. Chinese leaders harbor a constant fear of being singled out and a profound concern for the regime's survival, bordering on a siege mentality. The ambitious economy of the country is governed by a system that is out of step with global norms. Only once since the Communist Revolution of 1949 has there been anything approaching a smoothly executed transition: in 2002, when Jiang Zemin handed power over to Hu Jintao, the current president. China's turbid selection process to weed out unsuitable candidates is designed to provide stability and continuity of power, but it is ferocious and unpredictable. That is why during the previous decade we observed the phenomenon of growth without reform. But that is also why China – in ways that were never true of postwar Japan and cannot be true of India – will both fascinate and agitate the rest of the world for a long time to come.

It is a seductive something. Many people currently admire the Chinese system not just for its economic record but also because it can make far-reaching, complex decisions quickly, compared with the agonizing policy paralysis that has racked both the United States and the European Union in the past few years. Since the recent financial crisis, some analysts have even begun touting the Chinese model as an alternative to liberal democracy. But this perception – or self-deception – apart from being naive, bears no relation to reality. China's political system is not the well-oiled machine it is sometimes made out to be. It is also unclear whether the model can be sustained. The Chinese themselves are skeptical about it. So the stability of this system can in no way be taken for granted. History's recurrent lesson is that those who cling to absolute power end up with none.

As the Chinese Communist Party (CCP) prepares to hand power over to a younger generation of leaders later this year, and reformists see a glimmer of opportunity, Bo Xilai's removal reminds us of the vicious factional infighting that



the party tries to hide. China's rulers know this very well. They are heirs to a long and proud tradition of high-quality bureaucratic government, one that stretches back two millennia. The Chinese government is built around a long tradition of meritocratic recruitment, civil service examination, emphasis on education and deference to technocratic authority. For the past two decades China's leaders have managed a hugely complex transition from a centralized, Soviet-style planned economy to a dynamically open one, and have done so with remarkable success. The bureaucrats not only reformed China's monstrously inefficient state-owned enterprises, but also introduced some meritocracy. Still, the fear always dominates.

The Chinese government argues that its citizens are culturally different and will always prefer benevolent, growth-promoting dictatorship to a messy democracy that threatens social stability. But it is unlikely that a spreading middle class will behave all that differently in China from the way it has behaved in others parts of the world.

Compared with the rich world's recent rocky times, China's progress has been relentless. Yet not far beneath the surface, society is churning. Recent village unrest in Guangdong Province's Wukan, ethnic strife in the area of Sichuan, the gnawing fear of a real estate crash: all are signs of the centrifugal forces making the Communist Party's job so hard. The party's instinct, born out of all those years of success, could be to tighten its grip. But it needs to master the art of letting go. Perhaps, it is doing just that.

Deng's insight was that without economic growth, the Com-

munist Party would be history, like its counterpart in the Soviet Union. Deng's reforms replaced a failing political ideology with a new legitimacy based on economics. The mix of political control and market reform has yielded huge benefits. Over the past two decades, annual economic growth has averaged 10% a year and 660 million Chinese have lifted themselves out of poverty – the biggest reduction in history.

The most ironic fact, and perhaps China's worst kept secret, is that pro-market economic reform has been sound asleep for some time now. Perhaps since the country's entry into the WTO. According to Minxin Pei, "As long as pro-market reforms are used as a means to preserve the political monopoly of the CCP, such reforms are doomed to fail."

Yet for China's rise to continue, the model cannot remain the same. That's because China, and the world, are changing. No strategy lasts forever. China's top decision makers recognize this: to sustain a high growth rate, the economy needs to shift away from investment and exports toward domestic consumption.

However, prosperity is fraught with risks. In the post-war era many countries have developed rapidly into middle-income status, but far fewer have gone on to high-income status. Rather, they have become stuck in the so-called middle-income trap. The factors and advantages that propelled high growth in these countries during their rapid development phases – cheap labor and easy technology adoption – disappeared when they reached the middle and upper-middle income levels, forcing them to find new sources of growth. Will China be different?

The World Bank's report

"China 2030" – produced jointly with a government think tank – warned that China could get caught in such a trap, with inflation and instability leading to possible stagnation. The authors project a gentle slowdown of growth, which will average 7% in the second half of this decade and 5% from 2026-2030. That would be enough to make China the world's biggest economy and a high-income country with an average per capita income, by the bank's definition, of about \$16,000. China will not fulfill this benign destiny unless it undertakes substantial reform.

So can the autocratic model of China, effective as it is in the short term, be flexible enough in the long term to permit adaptation to a changing strategic environment? Few economies have avoided a crisis after comprehensive financial liberalization and global integration. Think of the US in the 1930s, Japan in the 1990s, South Korea and other Asian tigers in the late 1990s, and the US and eurozone after 2008. Until now, China has been weathering the global crisis well. But can it be avoided in the future?

Today the world's economic downturn has raised doubts across the world and led many to ask whether the Chinese model of pervasive state involvement may be preferable. Many argue that the struggle in the 21<sup>st</sup> century will be about which kind of capitalism will prove the most effective at generating growth and become the most emulated. Will it be capitalism with "Chinese characteristics"?

Whether good or bad, it is something different. In the past the largest and most dominant economies in the world have also been the richest. As heads of a poorer and still developing country, Chinese leaders might be less willing to open sectors of their economy any time soon. The pressure to find better-paying jobs for an emerging middle class could lead them to protect certain industries that provide these jobs.

A protectionist China would be neither evil nor unprecedented. Many nations go through protectionist phases during their economic development. The US certainly did. The problem is that a phase in which China retreats into a shell could coincide with its rise to dominance. *This* would be unprecedented. And it is a matter of more than intellectual interest. China's choice will not just determine the country's future, it will shape the rest of the world's too.

