

## Contemplating China's Future

China is approaching a series of turning points on its path of dramatic national transformation. After more than three decades of successful reforms, the nation has reached critical junctures in its economic, social, political, environmental, technological, intellectual, national security, and foreign policy development. Diminishing economic returns have set in, as the main elements of the broad reform program first launched by Deng Xiaoping in 1978 can no longer spur China's continued modernization over the next decades. The Chinese economy has transitioned from developing-country status to newly-industrialized economy (NIE) status. The challenge for the next two decades is to become a fully developed economy. To accomplish this, substantial changes are required.

Indeed, China's own contemporary leaders have evinced this reality. In 2007, former Premier Wen Jiabao bluntly described the nation's economy as characterized by the four "uns": "unstable, unbalanced, uncoordinated, and unsustainable."<sup>1</sup> And this came from the man then *in charge* of the national economy. Wen's successor as Premier, Li Keqiang, also offered a fairly dire assessment in 2015: "China's economic growth model remains inefficient; our capacity for innovation is insufficient; overcapacity is a pronounced problem; and the foundation of agriculture is weak."<sup>2</sup> China's current leader Xi Jinping has also lamented: "The tasks our Party faces in reform, development, and stability are more onerous than ever—and the conflicts, dangers, and challenges are more numerous than ever."<sup>3</sup>

Given that even China's most senior leaders admit that the nation faces severe challenges, the question becomes: what are they doing about it?

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## The Broad Challenge

The key issue for nations like China at this stage of development is precisely the relationship between politics and economics. For economies to transition up the added-value ladder, break through the developmental ceiling, and make the kinds of qualitative transitions necessary to become truly modern and developed, political institutions must be *facilitative*. They must cease being “extractive” states and become what scholars Daron Acemoglu and James Robinson describe in their insightful book *Why Nations Fail* as “inclusive states.”<sup>4</sup> Such states stop extracting rents from their economies and facilitate a variety of market forces and autonomous civic actors across society.

China’s political system was a great facilitator of the first wave of economic reforms post-1978—spurring GDP growth 26-fold over the past 37 years—but now and into

**C**hina’s political system may be the greatest single impediment to further decades of growth.

the future, it may be the greatest single impediment to further decades of reform and growth, unless it changes. China is trying to create a modern economy with a pre-modern political system. China’s economic future requires a very different kind of Chinese party-state than the past—no longer an administrative, commandist, centralized, extractive, and dictatorial state. Rather, it will require a state that is more reactive, responsive, inclusive, facilitative, compromising, tolerant, transparent, and genuinely decentralized.

This line of argument is hardly news to social scientists. Modernization theorists during the 1960s and 1970s all identified this necessity.<sup>5</sup> Samuel Huntington’s *Political Order in Changing Societies* epitomized those who argued that authoritarian-type regimes were ill-equipped to facilitate a post-extractive economy and meet the rising demands of their newly wealthy citizenry.<sup>6</sup> Buried on page 424 of his *locus classicus*, Huntington pithily observes, “The crucial question concerns the extent to which the system institutionalizes procedures for assimilating new groups into the system.” This is what Huntington meant by the third and final stage of development of authoritarian regimes—the “adaptation” phase; this phase follows the “transformation” and “consolidation” stages of such totalitarian/authoritarian-type mobilizational/extractive regimes. This concept of political adaptation is crucial for understanding the state of the Chinese communist regime today. Either these regimes adapt and become more inclusive, hence increasing their chances of political survival as well as facilitating socio-economic transitions and providing enhanced public goods, or they fail to do so and ultimately die.

Scholars of Leninist (communist)-type systems have joined modernization theorists in this conclusion. Many scholars of “comparative communist studies” posited multi-stage models that all Leninist party-states essentially pass through: revolution and seizure of power → transformation and mobilization of society → consolidation of state power and extension over all aspects of society → extraction of resources and capital from society for state purposes → bureaucratization of state power → adaptation and limited pluralism to cope with stagnation and ossification → ?

The reason there is an uncertain question mark in the final stage is because no communist-type political regime has yet successfully managed the *institutionalization* of adaptation on any kind of permanent basis. That includes China. The Chinese communist regime *was* attempting to adapt and become more inclusive and tolerant from 1998–2008—but since 2009 the party-state has recoiled and abandoned this earlier path. Even had it continued, it is uncertain that the regime could have successfully ridden the tigers of economic, social, and political reforms simultaneously. In any event, the regime has largely abandoned that path and retrenched since 2009, sliding back into the stage of atrophy and ossification. It has suppressed rather than embraced reforms.

Zbigniew Brzezinski, in his insightful and prescient book *The Grand Failure*, published in 1989, two years before the collapse of the Soviet Union, described communist party-states in this penultimate and moribund stage as “post-communist authoritarianism.” In this phase, Brzezinski presciently observed, the communist leadership loses their confidence, evinces a deep insecurity, and tries to reassert control. Rule becomes rule for rule’s sake. The governing rationale is stripped bare to its core: *maintaining power*.<sup>7</sup>

Both modernization theorists and comparative communism theorists have much to offer us in understanding China today and its likely future evolution. Certain processes afflicted other late-stage Leninist regimes or newly industrializing economies—China is not immune to these generic phenomena. Indeed, they are already beginning to bite in China, and will likely only intensify in the future.

## The Need to Rebalance the Economy

At the heart of China’s economic reform aspirations lies the stated desire to “rebalance” from the old (post-1978) growth model to a new (post-2013) one.<sup>8</sup> Both the old and new growth models are based on two key components: the “old two” drivers of development were fixed asset investment (primarily into infrastructure) plus low-wage/low-end manufacturing primarily for export (this sector benefitted from large inflows of foreign direct investment). This model was wildly successful beyond anyone’s expectations over the past thirty years. The “new

three” envisioned catalysts for the next thirty years are domestic consumer spending, an expanded services sector, and domestic innovation. (These new drivers are evaluated separately below.)

Actually, rebalancing is not a new objective for Chinese economic planners—it was embedded in both the Eleventh and Twelfth ‘Five-Year Plans’ (2006–2010 and 2011–2015)—but the fact is that after a decade of trying, they have not succeeded in rebalancing. To be fair, the eruption of the Global Financial Crisis in 2008–2009 derailed the rebalancing during the Eleventh Plan, which had the effect of perpetuating the old growth model through massive stimulus subsidies. Under the Twelfth Plan, a more serious attempt at rebalancing made some greater progress: investment growth and bank credit expansion slowed down; the share of household consumption in GDP rose; and tertiary (services) sector growth is now faster than secondary sector (industry, construction, and mining) growth. For the first time since the start of Deng’s reforms, services now contribute more to GDP than manufacturing.<sup>9</sup>

**The main reason for China’s need to rebalance has to do with the “Middle Income Trap.”**

The main reason for the need to rebalance has to do with the so-called “Middle Income Trap.” This is a concept used by developmental economists to describe a newly industrializing economy that reaches a certain mean income threshold—usually about \$11,000 per capita (China is currently \$7593, or about \$11,850 PPP equivalent, according to the World Bank)<sup>10</sup>—which begins to compromise the economy’s competitive advantages in low-

wage manufacturing. A related concept is the “Lewis Turning Point,” named after the economist W. Arthur Lewis, who found that there is a point in the development process where cheap and excess rural labor is negated by wage increases as the supply of “surplus” labor is exhausted. At this point in the developmental process, the comparative advantage of countries like China begins to erode, thus causing a fundamental shift in the structure of the labor market (especially for low-skilled workers), and forces them into the Middle Income Trap. The “trap” (precisely what China faces now) is that the economy needs to transition up the productivity ladder by producing more knowledge-intensive goods, investing in innovation, and retraining workers from production to service and other value-added industries. To facilitate these transitions, governments must have a more modern financial system, a more open political system, and make more efficient use of factor endowments (land, labor, and capital). These are not easy transitions for China to make—and, to date, there is minimal evidence that they are occurring.

There is nothing automatic about newly industrializing economies successfully navigating their way through and out of the Middle Income Trap, although Japan, South Korea, and Taiwan did so.<sup>11</sup> Indeed, most do *not* succeed. Chinese governmental economists are painfully aware of the historical record. A comprehensive study of China's development possibilities over the next decade undertaken by the State Council's Development Research Center itself observed: "Around the world 101 economies joined the ranks of middle income countries after 1960. As of early 2008, only thirteen of them moved up to the higher-income club and achieved a soft landing successfully, including Japan, South Korea, Taiwan, Hong Kong, Puerto Rico, Mauritius, Singapore, and Israel. Most of the rest of the countries failed to finish this process and saw economic stagnation, even recession, half-way catching up but getting stuck in the Middle Income Trap."<sup>12</sup>

The scope and scale of factors inhibiting China's transition through the Middle Income Trap are far greater. Finance Minister Lou Jiwei recently admitted in a speech at Tsinghua University that there was only a 50 percent chance of escaping the Middle Income Trap.<sup>13</sup> But concomitantly, if China succeeds in doing so, it will produce an economy the likes of which the world has never witnessed.

### **Which Road to the Future?**

China's future is not unlike a car that approaches a roundabout, where the driver faces several choices, which I label as *Neo-Totalitarianism*, *Hard Authoritarianism*, *Soft Authoritarianism*, and *Semi-Democracy*. Like all drivers, China approaches the roundabout already on an established road. I would characterize the current path that China is on as *Hard Authoritarianism*. This is the route China has been on since 2009.

Xi Jinping has proven to be a very anti-liberal leader. He has overseen a personalization and centralization of control, and has intensified the repression evident since 2009. There has been an unremitting crackdown on all forms of dissent and social activists; the internet and social media have been subjected to extremely tight controls; Christian crosses and churches are being demolished; Uighurs and Tibetans have been subject to ever greater persecution; hundreds of rights lawyers have been detained and put on trial; public gatherings are restricted; a wide range of publications are censored; foreign textbooks have been officially banned from university classrooms; intellectuals are under tight scrutiny; foreign and domestic NGOs have been subjected to unprecedented governmental regulatory pressures, with many forced to leave China; attacks on "foreign hostile forces" occur with regularity; and the "stability maintenance" security apparatchiks have blanketed the country. A swath of intrusive new regulations and laws concerning national security, cyber security, terrorism, and non-governmental organizations

have been enacted. Xi has also unleashed an unprecedented anti-corruption campaign, which has draped a blanket of fear over the party, state, and military. China is today more repressive than at any time since the post-Tiananmen (1989–1992) period.<sup>14</sup> Among other consequences, the repression and anti-corruption campaign have frozen the bureaucracy and stalled the economy.

China's leaders, the driver of the car, have already embarked on this hard authoritarian route. Continuing straight ahead is one option, certainly the easiest option, but it is not the optimal one. If they stay on this course, I judge that China will have only limited success in achieving the reforms necessary to make qualitative changes in the economy, society, and polity that will power China through its current "trapped transition" (to borrow Minxin Pei's apt term)<sup>15</sup> and on to a path of sustainable development to become a mature and fully developed modern economy. Rather, by staying on its current course, I predict that economic development will *relatively* stagnate and stall, exacerbating already acute social problems, and producing the protracted political decline of the ruling Chinese Communist Party.

**Staying on its current course will produce the protracted political decline, not collapse, of the ruling CCP.**

To be certain, staying on this path will *not* bring about the collapse of the Chinese economy, the end of CCP rule, or the collapse of China. A \$10+ trillion economy that continues to grow between 2–6 percent annually is hardly a failure, but it will mean that efforts to rebalance will only be minimally successful, and the economy will thus relatively stagnate. Nor does it mean that the political system will collapse or the nation implode. I do not subscribe to the "China collapse thesis," as falsely indicated by the title of my *Wall Street Journal* article.<sup>16</sup> However, I do believe that if

the regime stays on its current course, it is accelerating the process of political atrophy and decline. This is a long-term process better measured in decades than years.

Only by making a mid-course correction and taking a new route from that of recent years can the nation embark on decades of more dynamic growth and development—thus realizing its true potential as a superpower. Here, I envision three other possibilities.

At one extreme, China could lurch backward in the direction of *Neo-Totalitarianism*. This, of course, is not a positive pathway to the future. But it is a conceptual possibility that needs consideration. Such a course correction would be stimulated by the failure of the *Hard Authoritarianism* path to sufficiently deliver reforms coupled with widespread social instability across the country. At this point, a

group of hardline conservative leaders (of which China has no shortage) would push to close China's doors to the outside and reinstitute sweeping draconian control measures inside the country.

Under this scenario, China would revert to a situation not unlike 1989–1992. However, even if this is attempted, I do not see it as a feasible alternative for three reasons. First, the private sector of the economy is already too deeply entrenched, and China is too intertwined with—and dependent on—the global economy. Second, I suspect that the citizenry would resist and perhaps revolt if the relative freedoms they have come to know over the past forty years were rolled back. Third, I suspect that elements of the Party and military would not endorse such a revisionist change of national course, and these two central institutional pillars of power would therefore likely split into factions. Thus, while there may well be some forces in China and in the party-state apparatus which might be tempted to recentralize state power as an answer to a stagnating economy and reform agenda, my judgment is that the genie is already out of the bottle and there is no going back.

A third pathway would be for China to stay on the authoritarian track, but to significantly loosen its state controls and liberalize a variety of aspects of civic life and the political system. This *Soft Authoritarianism* alternative would, in fact, be a return to the course taken from 1998 through 2008. During this period—which began during the last four years of Jiang Zemin's tenure and continued under the first six of Hu Jintao—the political reformers in the Politburo (led by Zeng Qinghong) stealthily but steadily experimented with loosening a variety of political controls in several spheres. By loosening and liberalizing the way the party-state approached the media, non-governmental organizations, intellectuals, education, dissent, social discourse, and other aspects of civic life, the necessary conditions would be laid for qualitative changes in the economy that would better (but not completely) achieve its reform ambitions. It would also give various sectors of society better “buy-in” to support the regime.

Another potential pathway would be for China to embark on the entirely new road of *Semi-Democracy*. If it took this path, it would most likely evolve out of *Soft Authoritarianism* (as the other East Asian cases did). Democracy comes in many forms; one size does not fit all. Should China pursue this pathway it would, in all likelihood, bear a strong resemblance to the Singaporean model. Singapore is a democracy, to be sure, but one where some rights are restricted and the ruling party remains in power. Singapore has many aspects of democracy, however: multiple political parties, regular elections, a parliament and judiciary independent of the executive, a very open media (with restrictions), real rule of law, an exemplary professional civil service, no corruption, active NGOs, a full market and open economy, a multiethnic society without discrimination, a high-quality and globalized educational system, and protection of many basic freedoms and human rights.

China remains a very long way from having these features, and it is highly doubtful that the Chinese Communist Party would tolerate them. Nonetheless, it is not inconceivable that China could move in this alternative direction—particularly growing out of *Soft Authoritarianism* if it too reached its reform limits and China remained in a “trapped transition.”

Thus, these four alternative routes present themselves in China today and will become more pronounced in the future. As Figure 1 illustrates, each has its own likely consequences:

It is always easiest—for cars, people, or governments—to stay on the same course. To a large extent, nations (like cars) are “path dependent” and can only make an alteration in course by making strong decisions and allocating sustained resources to the newly chosen direction. Otherwise, the path already taken has a continual power of its own. Even when it is evident that a chosen direction is failing, vested interests make course correction difficult. Fear of unknown consequences is another deterrent. Turning a nation, even a modest degree, is more like turning an ocean liner—much less nimble than a car. It is always easiest to carry on, “muddle through,” and make minor adjustments than to make fundamental alterations. But in the case of China today, staying on the same path of *Hard Authoritarianism* is not a solution for the multiple problems the nation faces in society and with the economy.

Only a substantial political liberalization will afford China a good chance of not becoming indefinitely bogged down in the “Middle Income Trap.” China will *not collapse* if it stays on this path—but it will stagnate, and the Communist Party’s rule will prove more and more vulnerable over time.

A continuation of *Hard Authoritarianism* will also exacerbate multiple social challenges. Chinese society will become *more*—not less—unstable from the stubborn continuation of repressive policies. An attempted return to *Neo-Totalitarian* policies would only add greater stresses to society and in state-society relations.

**Figure 1: Alternative Pathways and Likely Results for China’s Future**

Pathway	Likely Result
Neo-Totalitarianism	Regression, Accelerated Atrophy, and Ultimate Collapse
Hard Authoritarianism	Limited Reform, Relative Economic Stagnation, and Political Decline
Soft Authoritarianism	Moderate Reform, Partial Economic Transition, Enlarged Political Stakeholders, Increased Regime Legitimacy and Longevity
Semi-Democracy	Successful Reform, Full Economic and Political Transition



This is certainly the case with what I describe as the “volatile periphery.” Absent a 180-degree change in policy by Beijing, one of these days Tibet and/or Xinjiang will explode in widespread upheaval against the Hans and Chinese Communist Party rule. It may already be too late with the scars too deep. Tibet and Xinjiang simply seethe with hostility and frustration. Hong Kong is not far behind, although the problems are different and not quite as acute. Taiwan is also rebelling against its growing relationship with the mainland. If Beijing thinks it will break the will of those in all four localities through sheer coercion and obstinacy of policy, it is sorely mistaken. Cracking down is not the way to win over these peoples on the periphery.

I see a similar situation with respect to civil society, with the regime having turned toward harsh repressive tactics since 2009. In this instance, though, the situation is much more difficult for the security services and party-state to contain. The sheer spread of social media is ultimately beyond the government's control. The internet, while under its control, may eventually overwhelm the ability to block it—or new ways will be devised to get around the Great Firewall. The regime is playing with fire here—by cracking down, especially on the middle class, it is sowing the seeds of only greater resentment and thus bringing the entire political system to an even more brittle and possibly breaking point.

**By cracking down, the regime is bringing the entire political system to an even more brittle point.**

Thus on balance, without political liberalization (*Soft Authoritarianism* or *Semi-Democracy*), Chinese society is only going to become more and more unstable and unpredictable. At some point, some—or several—of these elements will “snap.” And when that happens, given the deep-seated frustrations existing across society, it will likely trigger “horizontal” ripple effects across the country. So far the authorities have been able to control, coopt, and contain the “nodes” of protests when they break out (approximately 180,000 per year), but this cannot be assured in the future. Alternatively, political reforms could well alleviate many of the social stresses, stabilize the country, and buy the regime more support and time in power.

This is China's current dilemma, and it is a profound one. Quite simply, the country is presently not moving forward politically, and therefore is not moving forward economically or socially. China can stay on the current road—the road to continued relative economic stagnation, increased social tensions, and political decline possibly leading to the collapse of the Chinese Communist regime—or it can open up politically and enjoy far better chances of becoming a fully developed economy and modern country.

## Notes

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