

'The Sun Also Rises'

(A short note written for the Asymmetric Threats Contingency Alliance (ATCA) dated 20 June, 2006)

With all the talk about 'Chindia' reinforced by the last World Economic Forum, it is only too easy to forget about the Land of the Rising Sun whose recent economic fortunes have been somewhat mixed. It is, after all, the world's second largest economy whose business experience was once almost obligatory in Harvard Business School case studies. So Bill Emmott's balanced and thought-provoking piece is as timely as it is characteristic of the thorough-going and insightful Economist tradition he helped to hone so well during his stewardship as Editor-in-Chief.

At the risk of gilding the lily, I wish to confine myself to examining how serious are the elements identified in China's political risk, listed as one of those that may threaten the 'golden age' of global prosperity.

The first is the possibility of rising political expectations, perhaps triggered by a future economic downturn.

There is no doubt that in spite of lip service to ideology, the real mandate of the Chinese Communist Party (CCP) rests increasingly not so much on ideology but on how well it delivers a better life for the majority of its people.

Starting off with a fifth of mankind in the grips of poverty and backwardness on a path of explosive population growth, Deng Xiao-ping soon realized that there was little alternative but 'to let the few grow rich first'. The strategy, until the latest Five Year Plan, has been 'to let the villages feed the cities' under an Open door Policy, very much at the expense of the original power-base of the CCP. At about the same time, a draconian

One Child Policy was launched. Both strategies were unlikely to be endorsed if put to a democratic vote.

The outcome would otherwise have been very different but in slightly over a quarter of a century, helped by ever more pervasive globalisation, the whole social, economic and geopolitical profile of China, and indeed of the entire world, has been dramatically transformed. Since 1978, the rural poor has dropped from 250 million to 23 million. Never before on the planet have so many people been lifted out of poverty in so short a time.

But those who have grown rich first remain the few, although the numbers for China always appear large. According to a Credit Suisse First Boston estimate, there are some 31 million households able to make discretionary consumer purchases, comprising those earning more than US\$5,000. The vast majority are less fortunate, although the economic benefits have trickled down by various degrees.

Decades of Victorian capitalism and industrial revolution have ushered in glaring problems of unbalanced growth, resulting in growing income disparity between the urban and the rural sectors, and between the coastal and inner regions, lack of affordable access to health and education, corruption, pollution, and over-reliance on exports. Rural discontent is rising, with reported 'mass incidents' now over 84,000.

The Hu-Wen leadership, both with solid rural political upbringing, have already grasped the nettle. The latest Five Year Plan (2006-2010) marks a watershed in China's recent development with unequivocal and measurable shift of emphases to coordinated and more balanced (and lower) growth, sustainable development and nature conservation, energy saving and efficiency, a re-vitalised countryside, better social provision, and stimulation of internal demand. All these are underpinned by the concept of 'scientific development' (institutionalising Deng's 'White Cat, Black Cat')

theory?) and social, environmental, as well as international 'Harmony'.

At the same time, there is increasing awareness of the need for more transparent and 'accountable' governance, honing a more professional civil service, firing derelict officials including some at ministerial levels, getting tougher with corruption, and continual renewal of the CCP. The leadership keeps on reminding their officials of the importance of 'people-based' governance, or 'Government for the People'.

With the highest mobile phone population and the second highest internet population in the world, China's society has become relatively much more open. There are now some 36 million blogs and 60 million bloggers. It is not uncommon that the local media plays an active part in reporting on consumer interest violations, pollution and corruption scandals. Local NGOs are active in working with environment authorities to curb some of the challenges to nature in the name of progress.

As the development challenges still remain largely unresolved, it is understandable that there are recent internal debates about the country's direction. But there is broad-based support for pressing ahead with more Openness and Reform. In addition to certain vested interests, the 'official nomenclatura' takes pride in local and national economic successes. The rising Chinese 'middle-class' are generally fairly happy with their lot. The rural issues are being addressed, starting with the abolition of rural taxation. And according to Stephen Roach, even if the growth rate drops to 7.5%, it will be enough to generate sufficient jobs to absorb layoff workers from the reform process, whose annualised numbers have reduced from 7 million to 2 million.

The Pew Global Attitudes Survey just released in June found that 81% of Chinese were satisfied with the state of the nation, compared with 29 % for Americans and 35% for Britons. It is also tale telling that the Chinese figure has increased from 48% in 2002 to 72% last year.

So it is perhaps not surprising that since 1989, there has been no discernable broad-based demand for more rapid democratic reform, even from the intelligentsia. Even the exiled ‘activists’ find it difficult to muster a great deal of following. Enlightened or benevolent autocracy can sit well with economic prosperity and can endure a very long time. So the Tang, Han, Song, and Ming dynasties saw China’s economy dominating the world for over a millennium up to the 1,400s. Buenos de Mesquita & Down’s article ‘*The Rise of Sustainable Autocracy*’ in the 2005 September/October issue of Foreign Affairs makes interesting reading.

So unless the CCP gravely undermines its ‘people-based’ mandate by serious internal abuses or gross incompetence, even a major economic downturn would seem insufficient to trigger a sudden broad-based demand for a democratic revolution.

But that doesn’t mean that there will be no democratic progress. As President Hu said in a White House speech during his recent visit to the US, ‘We aim to raise China’s GDP to \$4 trillion by 2020, averaging \$3,000 per capita. By then, China’s economy will be better developed and its democracy will be further enhanced.’

I now turn briefly to the other elements identified in China’s political risk: Taiwan and Japan.

As for Taiwan, the table of public support has clearly turned on Chen Shui-bian. There are now over 600,000 Taiwanese businessmen running their profitable operations on the Mainland. This outsourcing and symbiotic business relations have proved to be much needed lifeblood for the island’s economy. Although only few would support immediate unification, the vast majority of citizens are loath to see their Mainland economic applecart upset by Chen’s provocative tendencies. So the voters have spoken by giving the Opposition the majority in the Legislature.

Nor would pushing the envelope too far be in America's interests, which would be better served by maintaining the status quo as a bulwark against a rising China. It is no wonder that Chen Shui-bian's recent diplomatic antics were given the cold shoulder by the US.

What is more, Chen's popularity is not helped by his own immediate family's recent corruption scandals. These stand in stark contrast to the squeaky clean and charismatic image of the new Opposition Leader Ma Ying-jeou, who is known for his less confrontational stance in developing closer partnership, though not unification, with the Mainland.

According to a 'Pan Green' survey, Chen's approval rating has plummeted to 5.6%. So Ma's political star is rising high and he is well poised to seize the Presidency come the next Election in 2008. Beijing is watching all this with greater composure.

As regards Japan, there are some 20,000 Japanese enterprises in China providing much of the needed technological savvy as well as some 9 million jobs. On the other hand, China has surpassed the US as Japan's largest trading partner. Moreover, Japan is mindful not to muddy the waters in Asia where it hopes to regain its geopolitical pre-eminence.

With Japan beginning to re-start its economic engine and an election of Koizumi's successor looming near, it is unlikely that Japan would see fit at this stage to escalate the confrontation with China over the Yakusuni Shrine visits, energy resources in the East China Sea, or other territorial disputes. While nationalism is rising strong on both sides, neither has shown a tendency prone to rash actions.

Likewise, America would not want to see its major Asia ally embroiled in an escalating conflict with China and we are beginning to see appropriate signals from Capitol Hill.

So we can probably expect some reiteration by China and Japan of their respective stands but gradual move towards a possible rapprochement.

Does this mean that China poses no threat to world order? Or Taiwan and Japan would not feature in any such threat? No, this is not what I mean. In a globalised, integrated and inter-dependent world, any large country, China included, would have the potential to cause asymmetrical disruptions. It is, however, important to understand the degree of risks of some of the likely flashpoints.

One last point, though, is the reference to China, India and Japan. Does this imply that the centre of gravity is shifting towards Asia and that this is likely to be Asia's Century, where the Sun also rises? There is an increasing body of commentaries that this is in fact happening.

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