

RAPPORTEUR'S REPORT

ASSESSING CHINA'S FUTURE

EAST ASIAN INTERNATIONAL RELATIONS (EAIR) FORUM

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Prepared by:

Dr. Wan Liyana Mariah Dato' Wan Zainal Abidin

Research Officer

Centre for Political Studies and Economic Diplomacy

Institute of Diplomacy and Foreign Relations

Ministry of Foreign Affairs

Malaysia

The session was chaired by Mr. Suhaimi bin Salleh from the Centre for Competency Enhancement, Institute of Diplomacy and Foreign Relations, Kuala Lumpur. Malaysia. The moderator was Dr. Peter Chang from the Institute of China Studies, University of Malaya, Kuala Lumpur. Malaysia.

### **Abstract**

This forum focused on China's future, based on Professor David Shambaugh's latest book, *China's Future* (2016). He opened the discussion by stating that understanding China is very complex as it comprises of uncertainty and rigidity which may lead to various conclusions about the country. China is a distinct, yet not a unique country. Therefore, the country faces challenges similar as other industrialized countries. Henceforth, it is crucial for us to work with various institutions, outside and inside China to understand the country in a better way.

Several perspectives were assessed during the session to offer some fresh insight into China's future. First and foremost, to describe the performance of China as part of the newly industrializing economies (NIEs). Second, to examine its political system (i.e. Leninism). Third, to review the Chinese history and dynastic cycles. These perspectives had been further dealt with when discussing the major challenges of China in economics, politics and society. On the same note, China's foreign relations, its possible political pathways and the likely result for China's future had also been elaborated during the session.

**1. Presentation by: Professor David Shambaugh, Distinguished Visiting Professor, S. Rajaratnam School of International Studies, Nanyang Technological University, Singapore.**

At present, China is part of the newly industrializing economies (NIEs). The country falls within the category of middle income countries, as classified by the World Bank. In order for China to become a developed country, substantial political liberalization is necessary. Or else, China will remain in the position of middle income trap. Based on the current political system in China, Professor Shambaugh predicted that it will be difficult for China to escape from the trap.

Several key variables for the NIEs, namely innovation, value-added strategy, import substitution into knowledge-based and service-based economies had been identified during the presentation. According to the China 2020 report, the country had an increase in the level of consumer expenditure and level of innovation which at present is at 15 percent implementation. He expected the implementation after the 19<sup>th</sup> Chinese Communist Party Congress in November 2017 to be similar as five years ago. He outlined several major economic challenges involved which refers to the changing of Macro Growth Model from Old 2 comprising elements of fixed capital and labour surplus to New 3 which includes innovation. He reiterated that innovation is the key for the country to become a developed nation.

Next, the debt problem in China which refers to both corporate and local companies had also been mentioned in the discussion. Other challenges involved are industrial overcapacity, industrial sector restructuring and SOE reform, labour market and hukou reform (i.e.rural-urban wage gap), the need for financial sector restructuring and housing market bubbles.

On the other hand, it is noted that the GDP growth of China is still growing, approximately falls within 6 to 7 per cent. The country is still on track to become the World Number One Economy by 2025. The growth in China is driven by the private sector comprises of 70 per cent of the total GDP. In addition,One Belt, One Road (OBOR) initiative is also amongst the great economic news which had been discussed.

From another perspective, China has encountered several major social trends and challenges. The level of income inequality with the Gini Coefficient value at 0.47 had been considered as one of the highest so far. Consequently, the middle and upper classes have moved their assets abroad. In addition, there have been continuous high levels of mass unrest with the value of 180,000. Furthermore, the volatile periphery of Xinjiang, Tibet, Hong Kong and Taiwan are difficult to control due to the political instability in the country. It had been argued that the worst political atmosphere is felt in China. There has been severe repression of civil society. Besides, huge magnitude of urbanization transition is also present in the country. Subsequently, the demographic transition which relates to the single child policy had also been mentioned. The provision of public goods, contaminated environment and degradation as well as energy

transition to non-fossil fuels have also been considered as amongst the major social trends and challenges that China has encountered at present.

From political perspective, he argued that China adopts the “Leninism”, which is a sub-type of authoritarian political systems. Only five countries in the world currently left within this type of political system, China being the largest in size. It lacks of tolerance which involves semi-well penetration. He further highlighted about China political system since Mao have undergone several opening-closing cycles known as the China’s “Fang-Shou Cycles”. He observed that there have been so far eight phases of cycles involved since 1978. According to him, if we referred to seven cycles, it will have five years of opening cycle and one to two years of closing cycle. However, it is noted that the closing period since 2009 has been longer than before.

He had later spoken about the existence of overconcentration of power of the country’s current President Xi Jinping, and the breaking of collective policy norm. Professor Shambaugh noted that President Xi Jinping is similar to Mao, who practiced top-bottom approach and not pursuing collective decision making. Despite the country has been filled by many technocrats, nonetheless, they have been used by the government and not to be critical to voice their arguments, or else, they will have to face the consequences. There has been pervasive culture of fear due to the existence of anti-corruption campaign which led to frozen policy apparatus and breakdown of the technology. He felt that the regime is very insecure. There has been no real political reform, cessation of “inner party democracy” and party elections. The party has

intensified repression of civil society, media and intellectuals. The party cells has been embedded everywhere, at the university level, military, private enterprises as well as lack of freedom for the media. Besides, there have been local government legitimacy deficit as well as human and capital outflight of upper class in China.

From historical perspective, Professor Shambaugh reminded us to understand the historical patterns of China which involves many dynasties. Nonetheless, most of their characteristics are similar which comprise of high levels of corruption, the state ideology, economic disallocation and natural disaster. He mentioned that some of these characteristics are present today. Pertaining to the 19<sup>th</sup> Chinese Communist Party Congress which is due soon either in October or November 2017, there are several possibilities involved. First, the party may be gridlock at the top. Second, it may apply more one-man rule and hardline policies. Third, return of the reformers or fourth, transformed Xi. He perceived that a political reform will be unlikely in the country as several of the party members are likely to be retained after the 19<sup>th</sup> Chinese Communist Party Congress.

With regard to China's foreign relations, Professor Shambaugh stressed that overall, it has been positive, though it varies by region and country. He noted that China had been increasingly assertive in Asia. However, the country ties with USA might be further strained under President Trump's administration. The hard power is increasing whilst the soft power is still lacking in China. Despite that, there has been some improvement in

the global governance contributions in China. The country had become more diplomatic and signified a positive role during G-20.

Consequently, he had foreseen four possible political pathways that China could have undertaken. He reflected that the country had adopted soft authoritarianism from the period of 1988 to 2008. This may result to moderate reform and partial transition. However, within the period of 1989 to 1994, the country had relied on neo-totalitarianism which may lead to regression, atrophy and collapse. Since 2009 onwards, he noted that China has practiced hard authoritarianism signifying limited reform, stagnation and decline in the country. He further argued that after the 19<sup>th</sup> Chinese Communist Party Congress, it is may be possible for them to adopt neo-totalitarianism, following the period from 1989 to 1994. Nevertheless, it is also possible for the country to adopt semi- democracy which may lead to successful reform and full transition.

In his opinion, the hard authoritarianism system which the country upholds at present is fragile and has led to limited reform, stagnation economy and political decline. China should rely on soft authoritarianism system, and to be more open towards media, party and civil society that will assist the country in its transition from middle income country to become a developed nation.

## **2. Questions and comments**

A number of questions from various perspectives emerged in the discussion. These questions were related to China's economic and political situation, its relationship with other countries and the country's influence as part of the emerging economies. For example, several participants expressed their concern on the usage of China Model. Firstly, whether the China government is able to escape from the middle income trap without following Western Model. His response was that China will need to have political liberalization to escape from the trap, without following the Western Model. Other question which had been raised was whether China would be able to be as it is today if it follows American way. He noted that the American way is not to be commendable with other countries. Each country should develop its own democracy system.

Next, there was another question relates to China Model, whether it is good or bad. He responded that China adopts centrally planned economy, which reflects the Soviet Union model. This model seems to be able to nurture Chinese entrepreneurship which is remarkable, able to stimulate export-driven economy and produce technocrats who were trained from MIT and Cambridge. It reflects Chinese identity and it could not be transferrable elsewhere.

From another perspective, one participant pointed out the lesson learnt from the collapse of Soviet Union to be applicable to China and the extent of political liberalization needed in the country. Professor Shambaugh stated that President Xi



Jinping had taken a great lesson from the collapse of Soviet Union. China will need to adopt tolerance with various parties, by being open with the media, intellectuals, societies and party members to form political liberalization. Next, there was one question emerged on Professor Shambaugh's prediction on the collapse of China. He explained clearly that his discussion did not include at all about the collapse of China, but rather focusing on the declining stage of China if there is no political reform to be taken place in the system.

On contrary, another participant noted the projection of International Monetary Fund (IMF) for China to become World Number One Economy by 2050, and whether it would create a problem to US. He stated that it will difficult for US as the country is now at the declining stage. Finally, in respond to a question asked by one of the participants whether China's economic dominance will influence the New World Order. He replied that China increasing economic presence is limited to South East Asia.

### **3. Rapporteur's observation**

The presentation provided an opportunity to assess the major challenges which China experiences at present, and the strategies that the country needs to undertake to escape from the middle income trap. It is noted that there is a strong linkage between political liberalization of a country, economic growth and social stability. Henceforth, it is crucial for us to examine China's potential strategies due to the country's growing dominance, particularly from economics perspective.

#### **4. Conclusions**

In his concluding remarks, Professor Shambaugh expressed that China's challenges are rather complex. He had foreseen two general scenarios in the country. First, the elements of political reform, qualitative economic and social reform are vital for the country to graduate from the middle income trap. This may lead towards transition to a mature modern economy. Or else, economic stagnation, aggravated social problems and political decline will prevail in the country in the future. He ended the session by addressing the key question of whether the Chinese Communist Party Regime has the confidence to open up politically in order to succeed economically and socially. He confirmed that there is no sign of it at present.

## Question 1

***After your publication of your first book it seems that you have predicted the “Collapse of China”, don’t you think the china government and intellectual circle will break out “Middle Income Trap” without following the “Western Model” or “Washington Consensus”? What can be learnt and what cannot be learnt from Singapore by China, and what is your prediction on Singapore’s future.***

Firstly I cannot predict Singapore’s future. Yes I’m very impress with Singapore, I think they have a good system and they are doing great as a state. Your comments in relations to the “Collapse” theory of China, I am not predicting the collapse of China, never in my presentation and lecture this morning did I ever mentioned China would collapse. There’s a profound misunderstanding about that in China. Yes, I did use the word “Decline” in reference to the political system but not collapse. Collapse can happen such in the case of the former Soviet Union where 27 years of political decline did result in collapse eventually. Let me clarify I’m not a collapse theorist, I certainly do not support that. I’m merely pointing out the different outcomes that can happen if China continues on its current hard internal political policies. The current political system is not going to produce the desired economical growth expected by China’s leadership, without political liberalization the desired economical and liberal transformation is not possible. Without political liberalization in China, china is going to have a hard time coming out of the “middle income trap” and it’s going to be a tough challenge for them to get out this structure.

The second point you made was that China’s intellectuals and others believe what we in the west believe as the “Chinese Exceptionalism”, that China will break free of this pattern that I describe of this hundred and one “Middle Income Trap Countries” and China does not have to follow the “Western Model” or the “Washington Consensus”. Did you ever heard me say that China have to follow the “Washington Consensus”? No it does not. Democracy comes in many different forms, Malaysia’s democracy, many countries democracy, they all have their own unique characteristics. Secondly I would say there’s much to commend about China’s political system in terms of stability, economic growth and meritocracy, it’s confusions past and present. Daniel Bell has written a lot about this, I do share some of his analysis but not his conclusion. Again I do not support the “Collapse Theory” I’m against it. But my main argument today is that China’s current political system is not going to produce what China need to be a develop economy. Without political liberalization China would face a hard time getting out of this “Middle income Trap”.

As to the question in relations to what China can learn from Singapore? Let us look at why Singapore is successful the way it is in comparison to China, they have multiple political parties to contest in open election, it has a separation of powers, it has an autonomous judiciary, it has a world class education which I’m very impressed with, they have a world class civil service system which is almost corruption free, a very open media, not completely but still its more open. The People Action Party is supported by the people because the party is supportive not suppressive. They are facilitative that’s why the book “Why Nation’s Fail” is important. Imagine if China has all these elements going for them.

## Question 2

***There's been a lot of discussion on the "China Model" is it good or bad? Is it only distinctive to china based on Chinese identity? Or can it adopt western values and be transferable?***

Yes, it is good and yes, it's distinctive to China. Essentially it is a "Soviet Model". The foundation is still central planning. They still have one year plan, five year plan or a ten year plan of which 40% still remains in the public sector, one would say its Industrial planning. They took the South East Asia, Korea and Japan plan and married that together with the Soviet Model. We still have to remember that at its base it is still is a soviet system. The Chinese entrepreneurship is remarkable, couple with inbound FDI to stimulate the export driven economy, smart leadership, and technocrat advisors trained at MIT, Cambridge and elsewhere. But it's distinctive, a "Sui-Generis Model" which is not universal and I can't think where else it could be applied, so it can't be transferred to any country that I know of.

## Question 3

***What have China learnt about the collapse of the Soviet Union? And to what degree of liberalization and legalism would be allowed in China?***

If you read my book "China's Communist Party: Atrophy and Adaptation", China has learnt a lot on the collapse of the Soviet Union, they have done a lengthy analysis on it and have learnt on what to do and what not to do in relations to how they handle their state. That I believe is the most defining element of China's leadership thinking. Ji Jinping talks about this a lot, he has given many talks on the collapse of the Soviet Union and believes that the downfall of the Soviet Union was the lack of a "Strongman" leadership figure which he himself quoted "the soviet union lacked a strongman in a crucial time", he also view himself as being the "Strongman" for China.

Legalism interesting point! I've to think about that....Daniel Bell wrote a lot about this, but at the present time the rule of law is not something that I would associate with The People's Republic of China, as it is a "Rule by Law" not "Rule of Law". It's a good suggestion and I would have to think about that.

As for what kind of liberalization I would envision for China? It would be liberalization with tolerance. Tolerance with openness, relative openness by the media, by the intellectuals, by the writers, by creative individuals, society and even party members. Which is the opposite of the obsession they have for control and need to manage into in everything, even now they are trying to export their style of control outside their country. They are trying to control the international narrative about China by pouring billions of U.S dollars a year into a whole series of so called soft power instruments to try to influence the international opinion on china. They showed the "Fang" period "manage opening from above" before, however this is not practised currently, there's no liberalization in china now, internally or externally.

#### Question 4

***In the last 8 years it seems that China has been in a repressive “Sho” state, to what extend did the U.S Pivot Policy under President Obama contributed towards this and would china economic performance validate its continuation as a Leninist State?***

No their not related, the U.S Pivot Policy was not rolled out until 2012 and the “Sho” reversion started in 2010, that was also the year of assertiveness inside china. I was living there at the time and I don’t think they are related.

To a certain extend yes, continual successful economic performance does validate China’s economic policy. We have to ask ourselves what else would drive a communist state to continue to exist? Successful economic performance of a state is a major source of legitimacy for any state to continue to thrive. Continued successful economic performance and growth will continue to regenerate China’s Leninist State. Unless there is dissatisfactions from the people. China’s society is increasingly being stratified, the people pocket less from their income, wages percentage is lowering and the aggregate high is growing, the disparities are widening especially in comparison to the rural society. It’s also about perception “*Are you better off today than yesterday?*” something that can be done with a public survey but unfortunately it cannot be done in China, again they (government) control this and they have this obsession on control.

#### Question 5

***If China did followed the US way and followed democracy would China be what it is today?***

Did you this morning hear me say that China should follow the American way? Or in the future should they follow the American way? No, god forbids it. The American way is not commendable to be followed by any country. The present gridlock in the executive branch and congress, the lack of substance on addressing issues is embarrassing to the American democracy and democracy itself and then we have the current American president! America need to re-invent and re-boot itself. Every country needs to find its own path. I’m not preaching any form American Neo-Colonialism, that is not what I’m saying in this lecture and I cannot recommend the American system to anyone, china has to find its own path and china greatest strength is it’s creativity and adaptability to graft what it have learnt from abroad into its local roots, the Chinese are good students. China being a “Hybrid”, and this makes it its greatest asset which has produce its past successes. But this period they are in which is “*inclusive*” and it does not help their current state of growth and they have to get out of it by being more open and liberal.

#### Question 6

***How to you see incentive set by China’s “One Belt One Road” (OBOR) towards its participants?***

Yes there’s been lots of talk and excitement on OBOR. However I can’t speculate anything for now as OBOR is still on the drawing board. Personally I think it might be a success, maybe 70% success and 20% failure. There might be difficulties with relations towards East Asia and Africa. I would give it another ten years before I can say anything on it.

### Question 7

***China's economy would be larger than US, according to IMF projections it would be 40 trillion by 2050, and would that be a problem for US? It seems you have doubt on china economic growth potential?***

Well it's going to be a major psychological blow for the US, whether it's coming in 2020 or 2025 according to the IMF reports or other reports. It is not going to be easy with the Americans, a lot of adjustments needs to take place as America now as it is in its declining phase of imperial powers. If one is studying about America one must also study the decline of major imperial powers of nations such as the UK or the decline of other major powers and how they have managed this decline, in order to get a better understanding of it. It's not easy to manage decline that brings us into the question of the rising powers and the established powers? A book by Graham Allison illustrates this. History does not indicate that established powers necessarily welcome rising powers taking over or being in the lead, in most cases war happens such was the case with Japan and America in WWII. Either preemptive war initiated by the rising power or preemptive war was initiated by the established power. This is something we need to be quit cognisance about. The Chinese are quite cognisance about it, Xi Jinping itself recommended a new type of "major country relations" and it is all because he had read history and understand the "precipitant trap", I am not quite sure if President Trump can even spell the word "precipitant" let alone be prepared for it. It is going to be difficult for America to adjust to it.

### Question 8

***Does China's economic dominance influence the new world order? And what is the effect to the new world order?***

Well it's a fact of life that China's economic presence is global, especially in Asia and it's changing the orientation of the world order. Most nations who are neighbours with China sees China as a rising economic power and wants to be beneficial to its rise as well but that's not the case for nations which are not neighbours to it. I see China as a partial power, it lack diplomatic power, cultural power, socio economical power, it is a single dimensional power not a comprehensive one, it does not have hard power but that is increasing in South East Asia but not in other parts of the world. It is not there yet but it is on its way. I'm in the sceptic tank of China watchers and I've been doing it for forty years now and that's where I am at this stage of my career. As Malaysia and China move forward in their relationship since 1978, Malaysia should keep its eyes open and be cautious with this relationship.

### Question 9

***Will China make a push for any change within North Korea? And what is your view on China's recent punishment on South Korea for its THAAD missile system deployment.***

Predicting the future of North Korea is very difficult. Up to this date any attempt or pressure towards North Korea by China have been very limited, take for instance the UNSC sanction on coal imports that was only enforced by China just a week ago even though the sanction was made a year ago! The worst nightmare of China is that they can't afford for North Korea as a state to collapse so it has to survive. I

don't see any significant changes on China's policy towards North Korea any time soon, hence my approach on the matter is to wait and see on any substantive changes.

In my view China has over reacted and by economically punishing South Korea because of their recent THAAD missile system deployment. They have done this in the past with other states that had cross them before such as the Philippines, Singapore and Holland. China exerts this economical punishment unto countries that crosses them in their core interest but rewards countries who do the latter and bow down to their core interest, this form of economic punishment serves as an instrument for them. They have alienated the public perception of South Korea, is it a good thing? No of course not. This whole South Korean episode on China's part is a big overreaction.

#### **Question 10**

***In what extend of China future depends on its capability to influence Latin America to be a partner with the East Asia Community? The second question is how to you view China in handling the issue regarding the South China Sea territorial dispute?***

Yes, it does have potential. It has been increasingly present in Central America and the Caribbean but it's a late comer into Latin America but it has established its economic footprint in that region nonetheless and it is growing quickly. It's a part of 11 or 12 separate western hemisphere dialog groupings. It's East Asia-Latin America grouping regional grouping which is different to other China relationship with other regions in the world. If you look at Africa they have China-Africa Cooperation (FOCAC), in the Middle East they have the China-Arab Cooperation and if you look at Asia they have the Shanghai Cooperation (SCO). So if you look at Latin America they are part of a region-to-region institution and that's different if you follow me and they potentially might bring these continents from two side of the Pacific Ocean together in ways we have yet to see.

As for the East Asia Community, I don't know. The notion originated here in Malaysia by Tun Dr. Mahathir Mohamad but it seems to be more of an aspiration for now rather than a reality. There is an East Asian Summit but is there really an East Asian Community? I don't think so. Latins from all countries in Latin America can identify themselves as Latins, if you are a Chilean he can identify himself and say he's a Latin-Chilean or an Venezuela being Latin-Venezuelan but there is no identity association to countries in Asia like Malaysia and Indonesian for example, people from these countries still don't identify themselves as being Asian-Malaysian or Asian-Indonesian, its either Malaysian or Indonesian. Without association to an identity it is difficult to forge multilateral institutions pan regionally.

The South China Sea territorial dispute is one of the issues where China is not helping itself. China's maximal position on this is hurting everyone. It should be open towards a more multilateral level on this matter and this in turn will show more good will on its part. They have refuse to take the matter to an international body. They should do what is usually done in a conflict of interest, split the difference and jointly explore ways to come to a mutual resolution.