

CHINA

The Return of the Mandate?

China's back. Again. In the summer of 2010, China's economic output officially passed that of Japan, ending the island nation's 42-year reign as the second largest economy in the world, and symbolically closing the book on the darkest two century chapter in China's history. For those familiar with China's epic story, a couple hundred-year slump was nothing new for the civilization rooted in the Mandate of Heaven where rulers rise and fall, foreign powers briefly oppress, and civil wars, famine and destitution cripple the country. But in the end, China always recovers.

In 2010, after two centuries of embarrassment at the hands of Japanese and European invaders; after the maniacal, narcissistic misdirected and debilitating rules of first Empress Cixi and then decades later Mao Tse Tung; and after a string of civil wars, purges and lethally foolish reforms, China entered the 1980s uncertain if it would ever recover. When the protests at Tiananmen Square in 1989 presented to the world a people willing to stand in front of an oppressive system (aka "tank") to demand their just human rights, many believed that, like the Soviet republics, the age of communist rule in China would soon come to an end.

The forecasters were not even close. From those protests, China didn't dissolve into chaos, but instead went on a two-decade economic, military and political evolution that pulled the nation from a backwards "century of humiliation" and advanced it to become a superpower threatening to dislodge the United States of America from its pedestal.

Economic Resurgence

Look at the stats. China's 2011 GDP surpassed \$7.3 trillion (only the United States produced more). China exports \$1.9 trillion in goods every year (tops in the world). Over the last twenty years, China's economy has grown at a double-digit percentage rate for all but four of those years (and in five of those 20 years, they surpassed 20% growth). China now holds the three largest banks in the world (replacing Bank of America and Citibank). China graduates over a million scientists and engineers from college every year (the United States barely hits 250,000 graduates, and its two leading majors are business and psychology). China has supplanted Japan and the Baby Tigers (South Korea, Hong Kong, Taiwan and Singapore) as the regional economic and military power. China has 240 nuclear bombs (fourth most on the planet) and maintains an active military of close to 2.5 million soldiers (nearly twice that of second place America).



Key Questions

- Is a 100 year period of struggle a "long time" in the context of Chinese history?
- What is evidence that China's economy is "back" and ready to compete?
- What economic cautions/problems is China having to face in its near future?
- Why did China create the 1 Child Policy? Did it achieve its goal? Did it have any unintended consequences?
- Does China hold to the "enlightened" ideas of Human Rights?
- Why does China support N. Korea?
- Are the Chinese people content with their government actions towards the environment, the media, protestors, etc? Why/Why not?

The 2008 Beijing Olympics were a symbolic coming-out party for China. From its Opening Ceremonies to its mildly disturbing ability to control the weather, China showed the world that it had arrived and was not merely a nation able to produce the billions of toys, porcelain plates and knick-knacks that line our shelves and fill our closets. Staged more to impress the world than to showcase the athletes, the \$44 billion Olympian production will probably never be duplicated again.

2008 marked another changing of the guard as the global recession first destroyed the American economy, bursting the over-inflated housing bubble and revealing the financial machinations of Wall Street “pure” capitalists, and then threatened to bring down the rest of the world’s markets. As nation after nation succumbed to harsh austerity measures and saw unemployment rates skyrocket while production rates plummeted, China emerged from the crisis relatively unscathed - some could argue even stronger than before. When in 2009 Secretary of State Hillary Clinton arrived in China to advise the government ministers on how best to weather the economic storm, she was met by officials who struggled to see what benefit they could gain from American instruction. Maybe, it is the Americans who should revisit their economic model. Maybe it is America’s stalled democratic system and corrupt financial industry that should heed the Chinese precedent.

The student had become the teacher. The West’s century-long paternalistic treatment of China no longer matched the reality of the economic and geopolitical climate. China had become a major player on the world stage, leaving many historians and economists to ponder if the age of Pax Americana was coming to an end and the era of Chinese hegemony was upon us.

Caution in the Rise

However, before sounding the death knell of the American republic and the birth of China’s unparalleled supremacy, China must first resolve a series of threats if they hope to continue on their seemingly unstoppable upward trajectory. For as much as pundits might want to believe China can only keep rising at a double-digit rate, history has shown us through the Tulip bubble of 1637, the railroad bubble of the 1840s, the stock market bubble of the 1920s, the Internet bubble of the 1990s and the housing bubble of the 2000s that what goes up, must come down. The gravitational realities of the invisible hand are inescapable. So the question isn’t if, but when. When will the Chinese boom become a Chinese bust?

The warning signs are many, but their costs might not be felt for decades, but they will be felt. First, China must deal with the threat of inflation. Double-digit growth often leads to double-digit inflation. As incomes increase and as more goods are produced, more money is circulated. China is in the midst of its own housing bubble; average home values tripled from 2005 to 2010. This type of too much, too fast growth was seen in Japan in the 1980s and America at the turn of the millennium, and both situations didn’t end well.

Inequality

China must also deal with its rising income inequality. Americans and the West fret over the inequity of the 1%, fearing that one class controls all the wealth. China’s already headed down that same path. Though it might have the #2 ranked economy in the world, when it comes to per capital GDP, China falls to 25th place. This inequality prevents China from developing a middle class able to consume the goods necessary to sustain China’s economic miracle. Although millions of skilled and unskilled laborers migrate to urban areas every year, purchasing the goods that keep an economy humming, China still disproportionately relies on exports to fuel their economy. This means that if the other countries stop buying, say during a worldwide economic recession, China invariably suffers. China’s domestic consumption (the amount of goods and services its own people buy) accounted for only 34.9% of its GDP in 2010 (compared to 71.2% in the United States). China is a nation of savers, not a nation of buyers. This is great when it comes to investment, not so great when it comes to fueling an economy. If China can’t find a way to grow their economy internally, they will perennially be vulnerable to the whims of other nations’ buying practices.

Corruption

As China's economy has grown, as cities have swelled, as billions of dollars in state and private investment in infrastructure projects has trickled down to the furthest corners of the nation, corruption has inevitably crept into every day transactions and jeopardizes the legitimacy of regional governments. Whenever a society goes through rapid economic expansion, there is money to be made by middlemen, those willing to grant favors to the highest bidder. 77% of China believes their local government officials are corrupt. With all the billions of dollars flowing to build roads, dams, bridges, communication lines, high-speed railways and state-sponsored businesses, local officials inevitably skim off the top to ensure the moneys flow to their province.

The most alarming (yet somewhat comical) example of the prevalence of corruption and the depth to which it pervades Chinese society came out in 2012 with the suspicious death of British businessman Neil Heywood. On November 15, 2011, Heywood was found dead in his hotel room, and initial reports claimed it was from alcohol poisoning, which was odd because many of Heywood's friends claimed he never drank alcohol. When the toxicology reports surfaced, noting traces of potassium cyanide, it became obvious that Heywood was poisoned. Who would have the means and the motivation to poison a British businessman? This was where the story started to look more like the plot of a quickly forgotten episode of CSI Shanghai than an actual turn of events.

Heywood was a friend of Gu Kailai, the wife of Bo Xilai. Bo was a prominent politician in the Chinese politburo whose career trajectory looked limitless. He had proven himself a popular figure, making a name for himself as the Communist Party chief of Chongqing, vowing to stamp out corruption while making Chongqing a haven for foreign investment and technological advancement. The problem was, Bo himself was quite corrupt, and it turns out that Heywood helped Bo and his wife Gu embezzle millions of dollars into offshore accounts. When Heywood threatened to expose Bo for his hypocrisy, Gu had him killed. As the media lens focused more on Bo Xilai's political and professional dealings, they discovered he had a history of kidnapping, torture, threats and graft that dated back decades. Because of Bo's position and the bizarre, sometimes shocking details surrounding the scandal, many in both China and abroad wondered if the story of the rise and fall of Bo Xilai was more the norm than the exception. For if corruption is as embedded in Chinese society as polls might suggest, China will have to embrace an era of progressive legislation and enforcement comparable to the American progressive legislation of the early 20th century.

Demographic Problems

But it won't be tales of homicides or income inequality or even distressing levels of domestic consumption that will obstruct Chinese prosperity. It'll be demographic trends that threaten to disrupt China's greatest asset – its seemingly inexhaustible supply of young, educated labor. China is the most populated country on the planet. At 1.33 billion, China's population surpasses the combined population totals of the third through seventh largest countries in the world – the United States, Indonesia, Brazil, Pakistan and Nigeria (India had to be ignored because they're at 1.2 billion and it messes up my argument). At around 20% of the world's population, you wouldn't think China would have an impending labor shortage, but they do. Let's call it the 160-160- 160 problem.

As of 2010, China had 160 million people that were 60 years old or older, 160 million families with only one child and 160 million migrants who had moved to the cities. These numbers scare economists because of the direction they are headed and the subsequent implications of this demographic shift. China's cohort of elderly people will continue to swell as health care and economic conditions improve. In just 50 years, China has increased its life expectancy from less than 40 to 74.5 for females and 70.7 for males. In the West, this feat took close to two centuries. Because China has expanded life expectancy at such a remarkable rate, their society has not had the time to properly prepare a health care, pension and infrastructure systems able to meet the inevitable needs of this greying population. By 2030, China could have more senior citizens than any country in the world, but not the money or the services to care for them.

Compounding the problem of decreased mortality rates is a frightening decrease in fertility rates. In 1979, recognizing how the population pressure was hurting their nation's progress, China instituted a One-Child

Policy, where families would be penalized a “social child raising fee” for having more than one child. Intended initially to apply to only one generation, three decades later, provinces continue to enforce the policy, and to this day, nearly 400 million births have been prevented. Some families are exempt from the policy due to exceptions related to gender, next of kin or rural status. Others merely have paid the fine (up to \$70,000 based on a couple’s income level). Even though exceptions exist, the One-Child Policy has dramatically impacted the ability of China to replace its population. Industrializing societies already witness a decrease in fertility as living standards improve, but China has compounded the problem with their forced compliance. Over the next decade the number of 20- to 24-year-olds will decrease from 125 million to 68 million, and with each future generation, the numbers will continue to drop. Though China might have 1.33 billion people now, by 2030, it will probably cap out at 1.5 billion, and then steadily decline.

A decline from 1.5 billion seems like it would benefit the society, but not when over half your population is made up of unproductive old people who mostly spend their money on health services, not exactly the type consumption that fuels an economy. Not when your population is physically unable to work. Not when your population drains money from the government’s treasury instead of filling it through payroll taxes. As each succeeding generation decreases in number, all of the age-related purchases will likewise decrease. Less babies mean less strollers, stuffed animals, diapers and baby formula. Less teenagers mean less schools, gadgets, cinema attendance and video games. Less young adults mean less weddings, cars, houses and furniture.

China’s Girl Problem

Less people also mean less girls. China is clearly still a patriarchal society, preferring male children to female children, and with the advent of ultrasound machines (China owns the most of these little contraptions in the world), Chinese couples increasingly use this sex determination technology to choose their one child’s gender. This form of in utero infanticide means that for every 130 boys born in China, only 100 girls are born. This gender inequity has already led to some creative methods of dealing with a dearth of female options. Children are forced to marry first cousins. Brothers share a wife. Some 30 million single men will die never being married. What will happen as this discrepancy only increases? Will crime increase? Will homosexuality rates increase? Will sex trafficking and the purchase of foreign brides increase? What will happen to a society outnumbered by the old and by males? Over the next few decades, China will find out.

China’s Anti-Enlightenment Foreign Policies

If China’s domestic issues weren’t worrisome enough, their increasingly formidable impact on international affairs continues to frustrate and challenge regional and global powers. China appears to abide by the policy of “anything goes as long as there’s money to be made.” Whereas the United States and other Western liberal, free-market democracies often put human rights stipulations on their trading partners, China has no qualms about working with the less-altruistic regimes around the world. It’s kind of hard for America to force the governments of Iran, North Korea and Sudan into altering their oppressive policies that brutalize their citizens, when always in the background is China willing to sweep in and accept all available resource exports. China needs the gifts of nature (especially oil), and if they have to make deals with the devil, they won’t shed a tear or feel guilty when the international community condemns their seemingly-callous business practices. G8 countries such as Canada, France, Germany, the United Kingdom and the United States hope that China will see their seat at the table as an opportunity to become a global leader, willing to leverage their economic power to make the world a better place for humanity. China right now cares more making a buck (or a yuan).

China also is expectedly defensive when it comes to dealing with regional powers. Only recently did China emerge from the patriarchal, sometimes condescending, influence of foreign powers, and they have no intention of returning to a state of subservience. Their military strength stands behind only Russia and the United States. With a 21st century navy, a land army that dwarfs any other country’s and a couple hundred nuclear warheads at their disposal, China is a formidable force that must be handled delicately. Because of China’s economic and military influence, over the last three decades their relations with their neighbors has skewed in their favor. Towards Russia, China no longer takes orders from their supposed communist fathers,

but instead Russia is one of China's most trusted trading partners. Their 2,640 mile border has even been demilitarized. Towards India, China has developed a mutually beneficial relationship that has seen trade explode from a mere \$332 million in 1992 to \$60 billion in 2012. Though these "Chindia" trade agreements prevent tensions from reaching the point of once return seen in their 1962 border war, China continues to recognize India's threat as both countries race to establish permanent relationships with nations to not only import essential resources, but to nail down markets for their expanding industries.

Taiwan & N. Korea

The nation that harbors the greatest hostility toward China is Taiwan. Ever since Chiang Kai Shek retreated to the island, securing an alliance with the United States and refusing to recognize Mao's communist control of the mainland, tensions between the two nations have always flirted with disaster. Not wanting to accept the reality of a Communist China, for decades America only recognized Taiwan as the true Republic of China. Taiwan sent a representative to the United Nations to fill China's seat. To many, this was a farce, as 98% of China's population was under communist control. In the 1970s, America changed their strategy, recognizing two countries – mainland China and Taiwan. To this day, America treats Taiwan as an independent country. But China still believes Taiwan is merely a province that should be returned to communist control. Neither side appears willing to surrender their claim to sovereignty as Taiwan continues to purchase the latest in military technology from the United States, and China consistently makes overtures toward returning Taiwan (or Formosa as it was called once upon a time) to their dominion. But for now, they've agreed to exist relatively peacefully, tied by a shared cultural background and connected by mutually beneficial economic interests.

North Korea is a whole different story. Decades ago, both North Korea and China were impoverished, backwards, pre-industrial nations who shared a vision of a communist future. In the words of Mao, they were "as close as lips and teeth." But the lips and teeth aren't so close anymore. With the appointment of Kim Jong Un to the head of North Korea after the death of his father, tensions between North Korea and the rest of the world hit feverish levels. China has tried to be supportive of North Korea, neutralizing UN sanctions and voting down interventionist plans. This isn't so much because Chinese officials agree with the unbalanced swaggering of North Korean leaders or the nation's continued pursuit of nuclear weapons, it's because the alternative is even less attractive. Should North Korean leadership fall, violence would ensue and two things would probably happen – millions would cross the North Korean border into China, and Korea would probably become united behind the support of the United States. China has no desire to manage a refugee crisis, and they're even less inclined to see American troops near their border. The status quo is just fine for now. If only Kim Jong Un would shut up.

Industry & the Environment

As foreign countries debate China's interactions with regional neighbors, they're also a bit taken aback by its domestic policies. Environmentally, China isn't exactly helping out the planet. In 2007, they surpassed the United States as the greatest emitter of greenhouse gases and carbon dioxide. 23% of the world's carbon dioxide comes from China. China likes to argue that their carbon dioxide emissions per person are far less than that of the United States (4.03 tons per person vs. 21.75 tons per person), but this ratio is irrelevant as Mother Earth isn't exactly handing out global warming rebates to those countries minimizing their per capita environmental destruction. China is hesitant to ratify any international agreements that might restrict their manufacturing output, especially when the United States isn't exactly the global leader in putting their money where their mouth is (the US was one of four countries – Afghanistan, Andorra and Sudan – out of 195 to NOT sign the Kyoto Protocol that aimed to reduce man's impact on global warming). As China's economy continues to expand, and as they increasingly rely on coal and oil to fuel their boom, the atmosphere will continue to bear the brunt of their development.

But China definitely knows there's a problem. Pollution continually chokes the skies, with air quality readings often approaching toxic levels. Sixteen out of the twenty most polluted cities in the world are in China, and 1.2 million Chinese citizens die yearly from pollution-related diseases (most notably cancer). Because everyone now has access to cell phones and these phones can download air quality apps, the government can no longer

mask the true level of contamination. In January 2013, Air Quality Index readings hit 755 (anything above 100 is considered dangerous) in Beijing, and its citizens protested the government's seemingly oblivious reaction to the crisis. They know the government could change the air quality if they actually cared. They did it prior to the 2008 Beijing Olympics. But alas, the coal factories still burn, the citizens still smoke and the cars keep clogging up the streets (with the numbers expected to quadruple by 2030).

As tens of millions migrate from the countryside every year, and as factories continue to prioritize profits over environmental health, the air quality will continue to deteriorate.

Government Control

International observers also feel their hands are tied when it comes to China's human rights abuses. Freedom of speech is not a Chinese inalienable right. Those who speak their mind can be jailed, tortured or even killed. The press is anything but free. Rigorous Internet censorship has led to what some call "The Great Firewall of China." Emails are filtered, websites are blocked, blogs are analyzed and Internet connections crawl. After the revolutionary events of the Arab Spring, the ministers of information blocked all emails containing the words "today," "tomorrow" or even "jasmine" (in reference to the Jasmine Revolution in Tunisia). This hypersensitive attempt to prevent negative discourse ended up having a greater impact disrupting the purchase of tea than it did forestalling any rebellious behavior. In addition to preventing its people from gaining a comprehensive view of international affairs, China also tends to block Internet communication that might depict domestic affairs in a negative light. In June of 2011, after a traffic accident in Mongolia incited regional protests, China immediately blocked all searches for "Mongolia" and cut off all communication from the region. This censorship, coupled with a dozens of seemingly random arrests, quickly quieted the insurrection. What China doesn't know can't hurt it.

So why don't the people protest? In 1989, people were willing to sacrifice their lives in Tiananmen Square for the sake of personal freedoms and liberal government. If the youths of the 1980s were willing to confront the oppressive central government twenty years ago, why not today?

First of all, China does still protest. In 1993, there were 8,700 "mass incidents" of protest involving more than 100 people. In 2010, there were 127,000. In 2013, just a few weeks after the appointment of new president Xi Jinping, Chinese journalists in the province of Guangzhou went on strike condemning the government's censorship of their articles. The Chinese definitely still protest. They just protest differently. Back in 1989, it was college students and city dwellers that demanded change. Today, the protests occur mostly in the rural provinces, and the issues aren't just freedom of press, freedom of speech and free elections, the issues relate more to regional decisions that negatively affect households. Maybe a regional official accepted bribes. Maybe a group of factory workers were laid off and wanted more compensation. Maybe a neighborhood wanted reparations for homes torn down to make way for a new railway. Maybe they didn't like a new land tax on their farm plot. But these protests aren't about Communist Party policies. They're about regional director choices.

The Communist Party is, for the most part, beloved by the Chinese people. Why? Is it because the Communist Party censors the media, suppresses public assembly and prohibits any damaging comments made toward the central government? Or are the people actually happy? For the most part, the Chinese are content. They've seen their wages increase, their nation's prestige rise and their health and security improve. Their lives are better. They also know what can happen to countries emerging from the Maoist- Stalinist post-WWII models. Of the 34 communist countries that once existed, only four still remain – China, Vietnam, North Korea and Cuba. The other 30 who have abandoned one-party communist rule have seen their nations digress into civil war, economic depression or societal anarchy, oftentimes emerging with an even more oppressive authoritarian leader. China has carefully avoided the daunting obstacles of entering the global marketplace, and has instead become the poster child for how a government can better guide an economy than can the invisible hand of capitalism. When China weathered the 2008 recession with their economy still intact, the Chinese people once and for all recognized they were part of something pretty impressive. The Communist Party has made minor concessions to opening up the political process – securing secret balloting, encouraging

multiple candidates for regional posts, allowing the media more freedoms and voluntarily transferring power to a new generation of leaders at the 18th National Party Congress of the Communist Party in the fall of 2012. But the Communist Party is here to stay.

Martin Jacques, author of *When China Rules the World* offers another explanation for why the Chinese aren't revolting against Communist rule and demanding a multiparty democracy that protects individual freedoms. Jacques argues that China's relationship with their government is like that of a son to their father – to be respected, to be feared, to be trusted. Unlike the West's notion of a social contract where the people have been taught to demand more from their government and where over the centuries the church, the aristocracy and regional powers have all attempted to wrestle power away from the state, Jacques argues that in China, the population trusts that the government alone has absolute power. And they're totally OK with that. Their empire stretches back 3000 years, and the central government has time and again proven capable of making China the preeminent civilization on the planet.

Conclusion

But for how long will the people be content to let this government rule? Just as history shows us how the Chinese willingly deferred power to the state for thousands of years, it has also shown us that when the government proves unable to handle economic strife and threats from abroad, the people have no problem ousting their leaders. So what happens when the other shoe drops? What happens if Europe and the United States enter yet another depression and stop consuming all the wares of Chinese factories? What happens when the government starts spending trillions of dollars on public welfare programs to support the elderly? What happens when China's huge labor advantage starts to dissipate as less and less couples have children? What happens when China's economy can no longer grow at the double-digit levels of the past, and the income disparity becomes a bit less tolerable to the masses? What happens when people aren't so healthy, wealthy and optimistic? Will they start caring a little more for their personal freedoms? Will they start to distrust their leaders just a bit more? And what happens when 1.3 billion citizens get angry? Can the Chinese miracle continue indefinitely?

We'll just have to see.

But that is for another chapter.