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**China: A Kingdom Moves to the Middle
When a Billion People Mobilize**

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The Historic Background

No country can be appropriately judged without a minimal knowledge of its history. That is especially true of a culture as old and complex as that of China.

At the end of the 18th century, China and India together generated about 50% of global economic value produced. Thereafter a decline set in, partly self-induced and partly a result of outside circumstances. Europe, whose colonial empires had spread steadily farther into Asia, replaced India and China as the center of the global economy, a development powerfully accelerated by the advent of the Industrial Revolution in Great Britain.

To this day, European thinking is marked by skepticism about Asia. The idea that the Chinese are a faceless mass has rooted itself deeply in the European psyche, coupled with an ancient fear of the “yellow peril.” Because of this one-sided perspective, Europe is in danger of missing the re-constellation of the global economy at the start of the 21st century.

The 19th century was the Century of Europe, particularly of Great Britain. The 20th became the American Century, especially after the U.S. victories in World War II and the Cold War. Presently there is every indication that the 21st will be the Asian Century. This will merely restore things to the condition that obtained before the end of the 18th century.

The rise of Europe occurred largely at the expense of Asia. As the European colonial powers grew wealthier, Asia grew poorer. The great challenge facing the world at the beginning of the 21st century is to insure that Asia’s resurgence does not go hand-in-hand with the decline of the West, and particularly of Europe.

The three great Asian cultures – the Indian, the Japanese and the Chinese – experienced the 19th-century encounter with the European powers in distinctly different ways. That fact has left its mark to this day. India was integrated into the British Empire. This had serious economic consequences, in that London shamelessly exploited its Indian colony to its own advantage. It also had serious psychological consequences, with the British perceiving themselves to be the ruling race and acting

accordingly. On the other hand, today, more than a generation after the withdrawal of the colonial masters from the Indian subcontinent, it can also be acknowledged that British rule over India left a positive legacy as well – one need only think of India's legal and political systems, and its widespread use of the English language.

Japan's experience with the West was quite different. When the Japanese elites saw the European colonial powers advancing ever farther into East Asia, they took stock of their own strengths. In what is known as the "Meiji Restoration," the medieval, feudalistic system of the Shogunate was replaced by an extensively overhauled political order along with far-reaching social, economic and technological changes. The Japanese correctly recognized that they could effectively halt the advancing Europeans only by taking on their drive for modernization. Within a generation, Japan transformed itself from a medieval, feudalistic society into a modern industrial one.

China's experience was different in yet other ways. Events in the 19th century, especially the two Opium Wars and the Boxer Rebellion of 1900, inevitably gave the Chinese the impression that the West's unmistakable intent was to humiliate the Middle Kingdom and plunder its resources. The ceding of Hong Kong imposed by Britain in the first Opium War, the numerous foreign "concessions" (areas of China in which foreigners enjoyed special privileges under their own legal system), the arbitrary transfer of the former German concessions to the Japanese at the "Peace Congress" in Versailles – all of these served to confirm Chinese suspicions of the Europeans' dishonest intentions.

It is important to keep these historic developments in mind, since they can help explain certain current behavioral mechanisms in India, Japan and China. As a people with a complex culture, whose social relations are oriented primarily toward family and clan, the Chinese are not nationalists in the conventional European sense. But they do have strong patriotic feelings and, in cases where they feel their honor injured, outbreaks of virulent chauvinism. As anti-American and anti-Japanese protests have shown, these feelings may erupt suddenly, though it is not always entirely clear to what extent such eruptions are spontaneous and to what extent they may be not only tolerated but actively promoted by the authorities.

China's greatest trauma of the 20th century was its civil war and the Japanese occupation. From today's vantage point it is difficult to imagine the chaos and brutality of those tumultuous years. When, on October 1, 1949, Mao Zedong proclaimed the People's Republic of China on Beijing's Square of Heavenly Peace, he had unquestionable historic legitimacy and enjoyed the highest prestige, since he had brought an end to the civil war. No one could know back then how quickly and brutally China's hopes for a better future would be shattered.

The legacy of the Second World War has still not been overcome. All the speculation about an East Asian common market and even of a common East Asian currency must

remain pure fantasy as long as the historic reconciliation between China and Japan has not materialized. In this context it is important to remember that the process of European unification could never have been launched without Franco-German reconciliation and the creation of NATO. Both those preconditions, however, are lacking in East Asia.

The Significance of China's Economic Reforms

From today's perspective Zhao Ziyang, who lost his post as Communist Party chief after the quelling of China's democracy movement in the early summer of 1989, and above all Deng Xiaoping, must be regarded as reformers of historic magnitude. What has happened in China since the start of its economic reforms at the end of the 1970s ranks among the most far-reaching and important economic and social modernizations in the history of the world. People quickly grow accustomed to new circumstances. Today it is taken as a matter of course that Shanghai has always had its glittering façades. Only by casting a glance back over the last quarter century can one become fully aware of the monumental changes which have taken place in the Middle Kingdom.

When Mao died in 1976, all of China lived in poverty and backwardness. Back then, someone who had assets of 10,000 yuan renminbi was considered wealthy. Most of the population was undernourished, the education system had been destroyed in the course of the "Great Cultural Revolution," there was neither higher education nor advanced professional training, the country's infrastructure – aside from a few major cities – was nonexistent, and even in Beijing, the capital, the street scene was dominated by wretched hordes of blue-clad bicyclists. Aside from a tiny class of those in power, people lived in communes in which several families had to share kitchen and bathroom facilities, and sometimes even sleeping space. When the first tentative steps toward reform were made with the establishment of Special Economic Zones, which were dedicated to exports and attracting foreign investments, the majority of Chinese were still living in the darkest Middle Ages.

It is very probably that Deng Xiaoping did not realize the full magnitude of what he was to set in motion with his reforms. But he was surely fully aware of three things, elements which are still of primary importance for judging the risks and opportunities of China's development. First of all, Deng knew that pragmatism was a fundamental component of Chinese identity and attitude toward life. He shared the ancient wisdom that, if only the people of the Middle Kingdom would be allowed to give free rein to their initiative, they would quickly and effectively take advantage of the available opportunities to improve their lives. Secondly, he knew about the ancient business acumen of the Chinese. Unlike in the neighboring Soviet Union, for example, where backwardness could be ascribed not only to the Soviet regime but also to the traditional lethargy of the Russian masses, in China one only had to give some elbow room to

private initiative and an economic take-off would be within reach. The third thing Deng knew very well was that, after the devastation which Mao had brought the country in his three decades at the helm, rapid modernization could only be accomplished by an opening to the outside world. This meant opening the country to foreign investments, foreign technology and production methods, and finally, opening it to the transfer of foreign know-how and research. With respect to investments and production, Deng naturally thought primarily of the Chinese communities which had successfully established themselves in many parts of the world, as well as of Hong Kong and Taiwan. As to knowledge transfer, his eye was mainly on the USA.

It would be highly questionable to view China's reforms as a single unbroken process of innovation and modernization. Deng and his reform-minded forces had to contend with considerable resistance within the Party. An opening to the outside world was particularly anathema to conservative Maoist traditionalists. On a number of occasions the project hung by a thread, and time and again it took Deng's personal civil courage to prevent the country's stagnation or even regression. Among the most perilous challenges was the suppression of the democracy movement in the spring of 1989, which was embodied in the world's consciousness by the massacre on Tiananmen Square. Even today, those tragic events have not yet been adequately processed in China, and everyone knows that atonement for them is still to come. It is important to remember that it was not only university students and democracy activists who were behind the protests; the social unease was also exploited by elements who were opposed to Deng's reforms and wanted to roll them back.

Following the shock of 1989, the Chinese leadership concentrated its attention entirely on developing the economy. Political reforms were put on hold, while all energies were turned to the goal of economic growth. The 1990s brought unprecedented expansion to the Chinese economy, and the country found itself being integrated into the global economy at a rapidly accelerating pace. By 2004 the People's Republic was one of the world's most important commercial powers. In that same year, China became the world's leading receiver of foreign direct investments (FDI). Jiang Zemin, who led the country until 2002-03, did not have Deng Xiaoping's charisma, but he and his leadership team succeeded in keeping the country stable during during a phase of rapid economic and social change.

The most important results of developments during the past 15 years are:

1. Once its economic motor had begun firing, China's modernization quickly spread beyond the original Special Economic Zones. Especially in coastal regions, in eastern and southern China and the agglomerations of Beijing, Chongqing, Shanghai, Chongqing and Guangdong, as well as in some internationally less well known provincial capitals, such as Chengdu, Yinan and Kunming, middle classes were created which today make up some 20% of China's population, or

about 260 million people. Of course, purchasing power has not attained anything like the average West European level, but it constitutes a quantum leap compared to what was commonplace in China until well into the 1980s.

2. Under Mao, the country lived in a state of extreme poverty and underdevelopment. Today's China lives in various time zones simultaneously. The dynamic urban populace, especially the young, lives in the 21st century, while people deep in the provinces continue to exist under Third World conditions. That gap generates tensions which could endanger the Middle Kingdom's social cohesion and stability. International statistics show that it is not only the more prosperous Chinese who have benefited from economic reform; in the course of the past 25 years hundreds of millions of Chinese have been raised above the poverty line. Of course, people are never satisfied with what they have, but always compare what they have with what others possess. The social changes which are inevitably accompanying economic modernization represent a significant challenge to the Chinese leadership.
3. Rapid economic transformation and somewhat hesitant, sometimes destabilizing social change, are counter-balanced by political stagnation. While China's economy and society at the start of the 21st century can hardly be compared with what they were in 1976, little has changed on the political front. The Communist Party of China (CPC) continues to rule in totalitarian style. At the same time, at the most recent, 16th Party Congress it freed itself from its traditional limitation to the "workers and peasants," and opened the door for membership to entrepreneurs as well. And anyone who follows China's reform efforts attentively must recognize that the CPC has long since deviated from pure Marxist doctrine. The pragmatism preached by Deng Xiaoping, moreover, means that the CPC's programmatic identity as a classic Marxist and Socialist party is very much a thing of the past. The historic legitimacy bestowed by Mao and Deng as the outstanding leaders of the Chinese revolution is also gone. Essentially the Party today can justify its rule only by continuing, strong economic growth. That is an extremely fragile foundation, which is why even enlightened representatives of the present system see clearly that the next major challenge for the Chinese leadership is political modernization. For some time now, how that is to be realized has been the subject of heated debate among small groups. While outsiders can only speculate, one thing seems certain: the solution which will eventually be implemented will be a typically Chinese one. Given the history and dimensions of the middle Kingdom, a simple imitation of models which have been successful elsewhere in the world is out of the question.

China's Return to the Global Economy

For the past quarter of a century, China's economic successes and high growth rates have been a continuing surprise to the world at large. One is certainly justified in being impressed by these developments, but those who have a longer historical perspective are unlikely to be surprised. China is simply returning to the outstanding position which it held through long stretches of its rich history. It is understandable that the resurgence of a great power would generate anxieties on every hand. Indeed, in recent years we have seen a revival of the old fear of the "yellow peril." This time, however, it is not hordes of Mongolian horsemen at the gates, but rather Chinese exports, which – so argue traditional protectionists and political opportunists – are taking jobs away from the West.

But China's return to the global economy is of far-reaching importance not only in terms of power politics. For the world and for China itself, it also presents a series of systemic and policy challenges unprecedented in both form and extent. First of all, China's reintegration into the world economy brings new opportunities and new risks. On the positive side, it should be noted that a China which participates in the global economy is far more predictable than a China which has completed sealed itself off from the outside world, as it did during Mao's rule. China today, to its own benefit, has a definite interest in a prospering world economy, an efficient international financial system, smoothly flowing streams of trade, and secure supplies of energy and raw materials. Frictions in the world economy would make themselves directly felt in China's domestic economy and, should they result in a lasting economic slowdown, could endanger the stability of the system as a whole. Seen against that background, it is hardly surprising that the People's Republic has long since relinquished its old mission of sparking world revolution. In reality, China today is a conservative power on the world stage, a power which, like Metternich's Austria of old, has no interest in political instability, wars or crises. It is time for the leading Western powers, notably the USA and the EU, to finally acknowledge this profound shift in roles and to treat China as a responsible great power, rather than reading it moral lectures as if it were a third-rank developing nation.

On the debit side of the ledger, China's return to the global economy has seriously intensified worldwide competition for resources and labor. A variety of natural disasters and political frictions may have contributed to raising energy costs in recent months. But the fact is that the structural reason for the rise is the massive increase in Indian and Chinese demand. Even a casual observer can easily see this in China – he has only to take a look at the traffic-clogged streets of Beijing and Shanghai. Where once the roads were ruled by the bicycle, today American-size avalanches of vehicular traffic clog the avenues. China is well in the way to becoming the world's second-largest user of automobiles. In 1995, just over ten years ago, China was a self-supplier of petroleum. Last year, it replaced Japan as the world's second-largest oil importer. And there is no end in sight to this line of development.

Another item on the debit side is that, in a growing number of industrial fields, China is becoming a serious threat to the production centers of the traditional Western industrial nations. It is a mistake to see China merely as a producer of cheap goods. More and more international corporations are transferring their research facilities to China, which, like India, is benefiting from economies of scale. On the one hand, its billion-plus population is naturally an enormous burden and, incidentally, a good reason why neither India nor China can become global superpowers on the scale of the USA. The social and economic challenges arising from such an enormous population are simply too great. On the other hand, a huge population also has its advantages. China has an inexhaustible labor force in virtually every field of endeavor. In the more highly trained professions, competition is so great that it results not only in relatively low wage costs, but also in the depth and breadth of the available talent pool. When we consider that more than two thirds of the Chinese populace still live in rural areas, we can get some idea of the country's available labor reserves and the vast competition which will be facing the Western industrial nations.

In following China's modernization process, one is well-advised not to see it as simply linear. The country's development takes place in quantum leaps. We have already noted this with regard to economic reform policy, with the giant step from Special Economic Zones to the status of global trading power having been accomplished in just a quarter of a century. Among the quantum leaps currently under way or soon to be realized is the progress of the Chinese economy from pure production to research and development, the production of high-quality Chinese goods and brands, and the expansion of Chinese enterprises into overseas territories. The West will have to prepare itself for a time when takeovers of Western corporations by Chinese enterprises will no longer be isolated instances which trigger political resentment, but commonplace events.

A very special challenge arising from China's return to the world economy are the systemic political consequences of the modernization of the Chinese economy. An initial question to be examined is whether China's is or is not a market economy. Aside from the political implications which recognition by the WTO would bring with it, the answer to that question remains negative from the standpoint of the overall system. Among the reasons are the condition of China's financial sector and the absence of an orderly system of laws. The dominant influence of the CPC and its organs, standing as they do above the reach of the nation's laws, cannot be reconciled with a free market economy.

There is, however, another factor of more far-reaching significance for the world economy. For the first time in the history of the Industrial Age, the world must somehow deal with a country whose political system remains totalitarian, but whose economy is of global relevance. While the Soviet Union represented a much more dangerous military threat to the West, it was always a lightweight economically and irrelevant to the general state of the Western economy. That can no longer be said of China. The other side of the coin, however, is that there has never before been a regime dedicated to

Leninist centralism and Communist one-party rule which could not exert total control of its economy. Thanks to its substantial foreign currency reserves, among other things, Beijing still has a massive arsenal with which to make its influence felt. But it can no longer insulate its national economy from the shocks and recurrent changes typical of the global marketplace, a fact which could have serious consequences in view of the regime's fragile legitimacy.

Will China Become the Superpower of the 21st Century?

Think tanks in the United States, security experts in America and Europe, and sometimes politicians as well, prophesy that China will become a superpower during the first half of the 21st century, and will present a serious challenge, and perhaps an actual threat, to the USA's status as the world's sole superpower. Some voices are already calling for a strategy of containment toward China, such as was successfully applied against the Soviet Union during the Cold War. But a careful analysis of previous developments in the People's Republic, and a cautious evaluation of possible future scenarios, inevitably lead to more differentiated conclusions.

As was mentioned earlier, I am convinced that China can never achieve the superpower status which the United States enjoyed in the second half of the 20th century and continues to maintain at the start of the 21st. The sheer dimensions of the country and its population are simply too great. There seems to be an ideal size at which a nation may attain the status of a global superpower: approximately 300 to 400 million people. Both the USA and the European Union are of that magnitude. In the latter, however, there is a lack of the security-policy and military cohesion which are necessary for action as a compact great power. The now-defunct Soviet Union, through an unprecedented national effort, managed to raise itself to the level of a serious rival to the USA, but only in military, never in economic terms. But at the latest since the onset of the Age of Globalization, economic strength and technological progress have been significantly more important than the number of tank divisions or missiles a country may have.

The fact that China cannot become a superpower with a global reach, however, does not mean that it will not become a great power of global importance. Within the foreseeable future, China will become the USA's most important partner and rival in the Asian-Pacific region. Japan, in its alliance with the USA, will continue to play an important role in East Asia, but it will not become a global player. India will advance to become a technological superpower, but its geopolitical situation will insure that it remains only a regional power in South Asia.

When all the factors are taken into account, China can thus be truly characterized as *primus inter pares*. This development has two consequences: First, Beijing will have to make greater efforts to insure that the growth in China's power is not perceived by its

neighbors as a threat. Secondly, China will have to eliminate its many current points of vulnerability. The first objective, as indicated by President Hu Jintao's busy travel schedule, already stands high on the Chinese leadership's agenda. In this context it is worth noting that China has relinquished its former reluctance to work in and with multilateral bodies. That is particularly evident in its cooperation with ASEAN, the Association of South East Asian Nations. The second objective is closely linked to reducing the country's economic weak points. In recent years China's foreign policy has been strongly influenced by economic goals. The Middle Kingdom has to make certain that its flow of imported raw materials and energy sources is secure. In addition, the fact that its naval fleet remains very limited in its operational radius is a negative factor in the country's security picture. This situation calls for tremendous efforts at a buildup. One of the reasons for this is the need to keep important trade routes, such as the Strait of Malacca, open and secure for Chinese imports and exports. But with all this need for innovation, it may be seriously doubted whether China will ever find itself in a position to protect its interests by armed force in strategically crucial regions such as the Middle East.

Great- or super-power status, however, does not depend solely on military capability. To a decisive extent it is a result of economic strength and internal political stability. In the economic realm, China has been on the right track for quite some time, though the major challenges facing it should not be under-estimated. Despite its notable successes, in many respects and for most of its inhabitants China is still a Third World country. But if we project that the dynamism which has driven China's modernization in the past two decades will continue in the future, there is a good chance that the People's Republic will advance to become the world's largest national economy (adjusted for purchasing power) during the first quarter of the 21st century. And just as in the past, so also in the future we may reckon with a series of quantum leaps which will accelerate projected developments. It was back under Hu Jintao's predecessor, Jiang Zemin, that China's leadership announced the goal of making it a "society of moderate prosperity" within ten years.

The big question marks come from the political side. After the imposing economic and social changes of recent decades, political modernization is long overdue. The more insightful elements of China's elites realize this, but there is a great divergence of opinion as to how that process can be effected successfully and without major upheavals. The collapse of the Soviet Union did not exactly stimulate the desire for political reforms. Against that background, foreign investors in China should put a high priority on political risk analysis, since it is precisely the political imponderables which pose the greatest questions about China's rise to great- or even super-power status.

A nuanced political risk analysis should take account of the following points:

1) The world certainly cannot have an interest in seeing serious upheavals in the People's Republic, such as a revolution or the disintegration of this vast country. The humanitarian catastrophe which such an eruption would trigger would be far beyond anything we have seen in the Balkans, the Middle East or Africa.

2) From a historical perspective, the range of political upheavals which could break out in China is very large. The world at large, and above all the Chinese leadership, must therefore have a vital interest in a peaceful process of reform in that country.

3) With respect to political evolution – which is clearly preferable to the trauma of another revolution – the fact is that the introduction of a democratic system virtually overnight is not only impossible, it would not be desirable. Considering the internal socioeconomic condition of the People's Republic at the start of the 21st century, the chances are that direct, general elections would bring to power which that are chauvinist, structurally conservative (i.e., Maoist), interventionist and populist. Also among the winners might be regional or even secessionist elements. Advocates of reasonable reform would probably not garner a great many votes, let alone a majority. This is due partly to the gap in prosperity and development among the various regions, and also to the fact that, thanks to six decades of dictatorship, the development of political opinion among the masses is still too rudimentary, especially in the heavily populated, backward rural regions.

4) Despite the reservations about a swift and direct step to democracy, however, it is still evident that the existing regime must be replaced by a democratic system. Those reservations should certainly not be equated with the idea, all too frequently voiced in the West, that the Chinese are incapable of instituting democracy. China's political culture goes very far back in history, and it is of a complexity and quality much like that of the West. There is absolutely no reason why China cannot establish the same liberal system as that cultivated by the existing democracies.

5) All this means that, en route to the establishment of democracy in China, three preliminaries must be put in place: the rule of law; the granting of full freedom of opinion and the press, and complete respect for human and civil rights. Once these crucial steps have been taken, China will experience a blossoming of civil society. That, in turn, is the most solid foundation upon which a genuinely democratic system can be built.

6) For some years now, the Chinese leadership has been making efforts at modernization of the legal system. It should be borne in mind that, in contrast to India, China had to start from zero in that regard. Progress has been made recently, but the Chinese authorities all too often evaluate that progress primarily by quantitative criteria.

Every year the Ministry of Justice proudly announces the steady increase in the number of new laws. Of fundamental importance, however, is that a start finally be made in establishing the rule of law. Its absence is an obstacle not only to China's political, but also its economic development, which can be confirmed by anyone concerned with problems of protecting intellectual property or questions of arbitration in the People's Republic. As long as the elementary principle of Roman law, *pacta sunt servanda*, is not accorded total validity in China, the Middle Kingdom will not be part of the civilized world from the standpoint of the law. The rule of law also means that the ruling Party must be made subordinate to the laws of the land. Without equality before the law, and without the most elementary separation of powers, everything else can only remain patchwork.

7) It has already been indicated that a stable democratic system is not possible without a politically mature and aware populace. However, in order for the country's people to become more mature in their ability to develop political awareness, there must be freedom of opinion and of the press. Neither of those prerequisites is guaranteed in China yet. Indisputably, the country has made great progress compared to the China of a decade ago. The press is much livelier and there are some areas in which open debate is possible. But, as demonstrated by the repeated arrests of Chinese journalists, the shadow of arbitrary Party power still looms over everything.

8) It is certainly a positive development that both the right to legally acquired private property and the concept of human rights have been anchored in the Chinese constitution in the last two years. These are important steps, since both private property and human rights are still frowned upon as "bourgeois ideas" in the country's Marxist rhetoric. In both cases, however, and most particularly with regard to human rights, it remains to be seen how serious China's authorities are about translating these concepts into action.

9) There are some early signs – in the area of environmental protection, for example – of the development of a civil society in China. That development is likely to accelerate with rapid urbanization and the growth of a middle class. It may be anticipated that this will provide the basis for the evolution of a degree of political maturity which will ultimately seal the Middle Kingdom's transition to genuine democracy.

Napoleon is reported to have said that, when China awakens, the world will tremble. No one today can deny that China has awakened. But where that development will take the world remains shrouded in conjecture. The only thing certain is that China's return to the world stage and to the global economy has been the most momentous event of the late 20th and early 21st century.