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Is China Failing? Risks, Imponderables and Perspectives

by Anja Senz

A growing number of voices around the world can again be heard proclaiming the collapse of the People's Republic. But is China really facing the threat of failure? A more questioning look at the situation reveals that such doomsday prophecies have long been popular in the international debate, but have just as often proved to be wrong – in part due to Western assumptions and in part to wishful thinking. There is no denying that China is struggling to deal with a number of profound difficulties stemming from its economic development. However, it would be going too far to conclude from this that China was on the verge of collapse. Instead, it would be wiser to take a discerning and longer-term look at the political and economic structures in order to be prepared for China's future development.

For years, China's rapid economic growth has dominated the way the country has been perceived by the public. But in addition to admiration for the effectiveness of a "Chinese model", China's rise and the consequences of it for global politics and international competition have also been felt as a threat. The debate on China's future economic and political development now revolves around terms such as crisis, turbulence, stagnation, decline and collapse. And once more, China is seen as a threat – this time as the "spluttering engine" that is endangering the global economy. China's development is undoubtedly a matter of high international importance and the country is confronted with many challenges as a result of its continuing economic momentum. Instead of exaggerated horror scenarios, however, the debate on China's development should be guided by a discerning look at the situation.

Is there a threat of collapse?

Year after year, public attention is aroused by predictions of China's impending collapse. The Tiananmen Square protests in 1989 already prompted debate on how long the Communist Party would be able to cling to power. In the early 1990s, it was argued that China would split up into a number of constituent states. Explanations for this disintegration included analogies with the collapse of the Soviet Union, growing tensions within China and the anticipated death of the influential leader Deng Xiaoping. In her book entitled *China's Pitfall*, which was published in Chinese in 1998, the economist He Qinglian describes the country as having all but "failed". She argues that growing differences in income, the demise of centralised state authority, weak economic structures and the moral decline accompanying the country's open-door policy pose a systemic threat.

Following China's accession to the World Trade Organisation, Gordon Chang predicted in his 2001 bestseller *The Coming Collapse of China*, that the country would collapse within a decade, justifying his claim with the inefficiency of its state banks and the high level of debt of its state-owned enterprises. In connection with the Tunisian Revolution of 2010/11 and the subsequent "jasmine rallies" in China, observers have remarked that China will soon or later be unable to resist the pressure of democracy.

Finally, in 2015, George Washington University professor and respected China analyst David Shambaugh published an article in the *Wall Street Journal* in which he argued that the “endgame of communist rule” in China had begun. Capital flight, a wealthy Chinese elite fleeing the country en masse, growing political repression, widespread corruption and draconian attempts to combat it, the cynicism of state cadres and an economy that is cooling down are, Shambaugh reasons, characteristics of a “broken” system that is economically on the brink of stagnation and politically on the decline. A complete collapse, accompanied by violence and chaos, cannot be ruled out either. This is a position Shambaugh reiterates in his book entitled *China’s Future*, which was published in March 2016. He argues that the country is at a critical juncture, since continuing prosperity cannot be guaranteed without political reforms.

Forecasts on China’s future

Sinologists have been discussing conceivable future scenarios for many years. Topics of debate are the hope for the initiation of a controlled process of democratisation from above, a process of “Singaporisation”, repressive neo-totalitarianism and a wavering open-ended policy brought about by socio-economic crises. Over time, it can be seen that assessments of China’s future oscillate between optimistic forecasts and apocalyptic prophecies. Many observers, however, believe that the political status quo is likely to continue even longer. From the theoretical angle, authoritarian systems are regarded as unstable on account of their weak legitimacy, over-centralised decision-making structures and use of coercive measures, which demands an account to be given for the continuity of the Chinese system to date. Sinologists therefore now believe that this has more to do with resilience than transformation. Resilience can be seen as the capacity of a political system to manage acute problems and “survive crises”.

Aspects of the debate

There are three noteworthy aspects to the debate on China’s future.

1. Economic explanations are given for political changes. It is reasoned that positive economic development is certainly possible up to a point in authoritarian systems that have regulated markets. A rising level of prosperity, however, renders political change inevitable. Property rights and legal security must be guaranteed to ensure a positive investment climate and to satisfy society demands. According to this argument, only liberalisation measures can create the space for the innovation and entrepreneurial creativity needed to avoid the country remaining at a medium level of prosperity. With reference to China, it is argued that continued growth is no longer possible on the basis of low wages and imported foreign expertise. To not only develop independent innovation and the capability to increase productivity, but also to be able to compete with highly industrialised countries, China must initiate political reforms – otherwise it will remain the world’s factory. This argument, however, is based on the assumption that there is too simple a connection between economic development and political liberalisation. A further problem of these analyses is that the Chinese system is not being judged so much by its own standards, but assessed according to Western ideas about how it should develop. This encourages assumptions about China’s fragility that turn individual failings within the system into existential crises. While claims of China’s exceptionalism, in other words its fundamental peculiarity or otherness, cannot be used as grounds to reject such approaches, China’s dimensions, heterogeneity and historical experience must be figured into an assessment.
2. In the academic debate, experts seem eager to avoid making the mistakes that led to the failure to foresee political events such as the collapse of the Soviet Union or the Arab Spring. Going through different scenarios of China’s future can be seen as an intellectual exercise, but one that, of course, is problematic from the theoretical angle because relevant factors and the way they interact are still unclear. Predictions about China’s possibility of collapsing may therefore also be a form of

reputation management, with experts making statements to which they can later refer if these statements are borne out by the country's political development.

3. Chinese commentators often respond with irony to conclusions regarding the possibility of China collapsing, dismissing them as wishful thinking on the part of America or as a never-ending fantasy. Although they are certainly critical of the high costs of the Chinese economic model, they accuse "Western analyses" of always containing the usual complaints about the state's interventionist role. "We are sorry, America, but China will not collapse!" is China's self-confident response and part of the discourse that China has long been using to assert itself against a "West hampering China's rise".

China under pressure to adapt

As a result of its economic development, China is today struggling with numerous difficulties. Urbanisation, demographic change, a weak social welfare system, an education system that is inadequate to produce a qualified labour force, regional inequalities, income disparities, ethnic conflicts, the securing of access to the resources required for the country's economic development and the fight against environmental destruction and climate change are some of the long-term challenges. New social strata have evolved and attitudes and values are undergoing change. Social tensions resulting from a variety of conflicts of interest and distribution, but unable to be dealt with due to the lack of fully-developed instruments often erupt in protests. In economic terms, Beijing's leadership would like to convert China into a service and consumer society. In political terms, the party state is under permanent pressure to adapt on account of the expectations of a diversifying and mobile society, the need for integration into global economic structures and the demands of the international community. This also poses the risk of conflicts arising between opponents and advocates of the various restructuring programmes, between those who stand to gain from them and those who stand to lose.

Economic restructuring

China's integration into global economic processes has left it vulnerable to weak demand in the world market. The economy is experiencing a loss of competitiveness due to demographic change and the associated rise in the cost of labour. Many state-owned enterprises in China are considered to be inefficient. The financial sector is in need of reform; the monetary sector and the stock market have in recent months given rise to doubts about the competence of management authorities. Investments in the development of infrastructure that were planned to stimulate the economy are slow in amortizing and are only doing so at all where they are not based on misplanning. Excess capacities need to be reduced in many sectors, like the steel and the chemical industries. China has a backlog demand for development in the service sector and urbanization; that is why these areas are regarded as driving forces for growth. The government in Beijing would like to make enterprises more innovative. Structures and mechanisms promoting and facilitating innovation, however, first need to be developed in China. Furthermore, the internal market is expected to become an alternative to the declining export boom. But this calls for logistical structures that do not yet exist and will only evolve as demand increases. All in all, China is experiencing a structural change. It is accompanied by a change in foreign trade and a slowdown in growth. One positive aspect is the fact that the latest data show that the internal market is becoming stronger and the service sector is developing continuously. It is creating jobs that are necessary to compensate for slackening industries.

Political corrections

The period of fast growth in China has come at an enormous social, ecological and economic cost and caused social unrest in many domains. The political leaders are faced with growing popular expectations and demands. The state must deliver, but is undergoing extensive restructuring and is not yet fit enough to handle all the problems that characterise modern industrialised societies. Decentralisation and deregulation have resulted in fragmented administrative structures, which in turn have led to the incoherent distribution

of responsibilities, resources and competences among the national and numerous local levels. Everyday reality therefore contrasts to the image of authoritarian effectiveness that the state likes to cultivate.

The new group of leaders around Xi Jinping has emerged from the delicate compromise achieved between various wings of the party. It sees the strengthening of the authority of the central state as the key to the consolidation of power. The establishment of new executive committees for central fields of policy is an organisational indication of this. The state is also to become more efficient. The fight against corruption is a convenient means to discipline the party state actors and to show the people, who have been pointing to rampant corruption as a key deficiency for years, that the state has the capacity to take political action. Many people therefore welcome the current anti-corruption campaign. The Chinese way of conducting an anti-corruption campaign, however, has always led to an economic slowdown. Due to uncertainty regarding what procedures are acceptable, economic decisions are made hesitatingly, if at all – and this has unfavourable consequences for the issuing of permits and the implementation of investment programmes.

Many observers assume that the legitimacy of China's leaders is based solely on economic performance. In addition to good economic results, though, positive developments in education, environmental protection, clarity of laws, the fight against corruption and the reduction of inequalities perceived to be unjust are subjects that are relevant for legitimacy. The people are very likely to support the government as long as it shows a willingness to make reforms and a capacity to take action in these fields.

Repressive action against intellectuals, artists, lawyers is an attempt to achieve aims such as a reduction in the diversity of the voices contributing to the debate in China and the leaders' retention of the sovereignty of interpretation. Xi Jinping's "Chinese Dream" is considered to be the programme for a successful China. However, the "core socialist values" summed up in the buzzwords prosperity, democracy, courtesy, harmony, freedom, equality, justice, the rule of law, patriotism, dedication, integrity and friendship seem to be more like patchwork than a coherent vision. If politics is not only crisis management, but also an offer to provide order, then vague allusions to pride in China's culture, history and traditions can indicate that there is no clear idea of what a modern China stands for – an effect that hardly comes as a surprise in view of the change affecting all spheres of life, but one that cannot be overcome constructively by the confinement of critical debate.

Risks

States collapse if the political elite become fragmented, if there is a lack of social bonding and if economic problems that have a negative effect on the availability of state resources arise. Weak, failing or collapsing states vary in the degree to which they do not deliver in the fields of security, welfare and legitimacy. Instability arises where political leaders are no longer in touch with the people and the people no longer trust the government.

One version of China's failure would be a consolidation or reinforcement of a repression preventing the society from building a consensus on priorities and goals for the country's development. Another version would be a consolidation or expansion of politico-economic power cartels dividing China up among themselves. All this would sooner or later put distance between the political leaders and society. Thirdly, the fragmentation of the political elite poses a threat that cannot be ruled out and can flare up over differences regarding policies, economic crises or the way protests are handled. Fourthly, a progressive personalisation of power would render the party state more vulnerable – in particular with an eye to a political successor for Xi Jinping. A fifth version would be destabilisation from outside.

Stabilising factors

The Communist Party was successful at the time of the founding of the People's Republic on account of its ability to establish a strong state and present it as an organisation and mobilisation agency for defending national independence and modernisation. Dramatic mistakes that have indeed been made did not cause the party to fail. The state apparatus has undergone a huge change since 1978. Positive characteristics are

its ability to learn, its focus on development and its room to respond flexibly to urgent challenges. It also largely has qualified personnel who are well-informed about the concerns of relevant social groups. The political leaders are thus, on the one hand, able to take action and to exercise control, while, on the other, the high number of politicians and administrative officials have a strong self-interest in maintaining the existing structures.

Many people in China share the feeling that the political leaders around Xi Jinping have a firm hold on the reins of government and are addressing the urgent problems with vigour. The Beijing Headquarters therefore quite enjoys the trust of the majority of the people, as studies confirm. Due to the many negative developments the Chinese have experienced in China's recent history, with upheavals and discontinuities, "stability" is a central political goal for many in the People's Republic. While Western democracies are often considered to be chaotic because conflicts of interests are settled openly, many sections of society approve the non-ideological way in which the government weighs up reform, development and stability. The political leaders are trying to create what is for them a favourable climate of political opinion by developing such socially divided patterns of thought that include nationalist tones and find expression in government mottos like the "Chinese Dream". As long as the party state responds to the pressure to change and is headed by a team of leaders that is both struggling to achieve compromises and consensus and willing to function as a mediator in bringing about conciliation between the different interests and opinions in society, it can be assumed to prove relatively stable. The hope is that this includes the concerns of the different ethnic groups and the relationship with Hong Kong. In addition to these "soft" factors, the political leadership is furthermore willing and able to prohibit any escalation and expansion of protests by using security forces if need be and to prevent the development of political alternatives.

Conclusion

China is an important element in Germany's present export structure and will be needed as a partner for handling global challenges. The country is currently undergoing a twofold restructuring process concerning its economic model and the issue of coming to terms with the change in leadership. Scenarios of China collapsing, possibly borne by a subliminal sense of satisfaction about the alleged victory of the West or the superiority of Western-style democracies, are not very helpful. Those who think it is possible that China will collapse should base any provision they make for it on good analyses, because if China were incapable of taking action and were to collapse, the consequences would be enormous, not only for the German economy. Those who think it is likely that China will continue to undergo stable development should look for constructive ways of co-operating with the country on the basis of shared interests. Germany and Europe should be prepared for the different contingencies because China's future will remain one of the global uncertainties.

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