



China's Crisis of Success

China's Crisis of Success provides new perspectives on China's rise to superpower status, showing that China has reached a threshold where success has eliminated the conditions that enabled miraculous growth. Continued success requires reinvention of its economy and politics. The old economic strategy based on exports and infrastructure now piles up debt without producing sustainable economic growth, and Chinese society now resists the disruptive change that enabled earlier reforms. While China's leadership has produced a strategy for successful economic transition, it is struggling to manage the politics of implementing that strategy. After analyzing the economics of growth, William H. Overholt explores critical social issues of the transition, notably inequality, corruption, environmental degradation, and globalization. He argues that Xi Jinping is pursuing the riskiest political strategy of any important national leader. Alternative outcomes include continued impressive growth and political stability, Japanese-style stagnation, and a major political-economic crisis.

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William H. Overholt
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To every thing there is a season, and a time to every purpose
under the heaven

Ecclesiastes 3, King James Bible

When you are studying any matter, or considering any
philosophy, ask yourself only what are the facts. Never let
yourself be diverted either by what you wish to believe, or by
what you think would have beneficent social effects if it were
believed.

Bertrand Russell, interview about what message he
would leave to future generations

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Foreword

China is in a crisis of success. Big success. Big crisis. Like an infant that has outgrown its baby shoes, China must refit itself to its new circumstances. Its old model of growth through exports and infrastructure investment now piles up debt without proportionately valuable economic development. The old model of governance, running the country for growth in the manner of a business in single-minded pursuit of profit, produces side effects for the environment and for people's lives that are no longer acceptable. While China's leadership has produced a wise and open strategy for what they need to do to fix a difficult but manageable economic transition, it is struggling to manage the politics of implementing that strategy and it has not produced a comparably insightful strategy for addressing political issues that are as formidable as the economic challenges.

Western nostrums, which assert a priori that China would have done better if it had been governed more like India or the Philippines, are unpersuasive to anyone who knows the region. But China's successes cannot persist if it continues to be managed the same way it has been – or, worse, if it reverts to some of the bad habits of the Mao Zedong era.

This book analyzes China's current crisis and seeks to illuminate the enduring elements that have shaped China's reform successes and determine China's future options. I detail the crisis, but always in the context of a larger framework: the model of development. The key questions we need to answer about China are as follows.

- Why has China been so successful?
- Why is it now facing a political–economic crisis?
- What are the key issues and non-issues?
- What are the principal alternative outcomes?

My answers to these questions vary considerably from what most readers are likely to read elsewhere; of course, the range of views about China is very diverse. Most discussions of China either extoll the

country's strengths and project those into the future or focus on its vulnerabilities. This book tries to explore both the strengths and the vulnerabilities – across the economy, the society, and the politics.

Throughout the 1980s I wrote that Deng Xiaoping's reforms would make China a great power again and that Mikhail Gorbachev's reform strategy would destroy the Soviet Union. The basis for that argument was that Deng was emulating strategies that had succeeded in South Korea and Taiwan, and to a lesser extent in Japan and Singapore. Gorbachev was following priorities exactly opposite to those that led to Asian successes. In my mind the only question about Chinese success was whether the strategies of comparatively tiny South Korea and Taiwan could be scaled up. It turns out they can. In 1992 I traveled the length and breadth of China and compiled the main points from a decade of arguments into a book, *The Rise of China: How Economic Reform Is Creating a New Superpower*, published in 1993.

At the time those arguments were the opposite of Western conventional wisdom. The leading review in London said that my bank must have paid me a lot of money to write such nonsense. (Actually, my boss banned me three times from writing the book before finally acquiescing.) The *New York Review of Books* expressed contempt for my assertion that China's superior growth derived from Deng Xiaoping's reforms. The local head of Reuters banned its reporters from interviewing me because I was "too optimistic." (They interviewed me anyway, and told me about the ban, but stopped quoting me.) Gorbachev and his immediate successors, after all, were following a strategy recommended by Americans and Europeans. Deng was doing the opposite, and right-thinking Westerners ridiculed and denounced him, as they had done with Park Chung Hee in South Korea and Jiang Jinguo in Taiwan. It was common to believe, even at the top of the US government, that China was on the verge of collapse.

From the early 1980s these bullish arguments had a good run of nearly three decades. As the end of the third decade approached, I became convinced that the model was diverging from the earlier success stories and that the future was becoming much more uncertain. I assembled early thoughts in "Reassessing China," published in the *Washington Quarterly* in 2012. The time for totally confident predictions was past. Now we need scenarios. That is what this book is all about. The current economic and political turning point could lead to

renewed vigor and stability. There is a very serious risk that it will not, at least with the current structure; if not, the ensuing crisis could become very big indeed. Where the Chinese administrations of 1979–2002 tracked the earlier Asian economic takeoffs, the administration of 2003–2012 took a pause for breath, and now the administration of Xi Jinping could, depending on the outcome of a titanic power struggle, be in the process of largely rejecting key lessons of the Asia Model.

The core conviction of *The Rise of China* and the core conviction of this book is that the best way to understand China's past success and future risks is to put it in the context of the other Asian successes. Doing this is remarkably rare both in popular writing and in the academic literature.

My respect for Asian nation-building and economy-building developed the hard way. In my first job, I wrote a draft contribution to a 1973 conference and book arguing that Park Chung Hee's lack of democracy and human rights would lead to instability and thereby hamper economic growth. That's what all right-thinking Americans knew then. My boss at the time, Herman Kahn, with whom I argued about everything, told me he was going to take me to South Korea and rub my nose in it. He did. He also took to introducing me to important people all over the world by saying "This is Bill Overholt. He spent seven years at Harvard and Yale and it just about ruined him. But we're trying to salvage him." On many issues I never agreed with him. As an illustration of our differences, I ran Asia policy and some aspects of human rights and nuclear policy for Jimmy Carter's 1976 campaign (Carter had 19 principal foreign-policy advisors leading task forces in the campaign, under Zbigniew Brzezinski's leadership, and I was one of the 19), while Herman Kahn flirted with Pat Buchanan, whom I viewed as dangerous. But, after Herman had introduced me to South Korea, I wandered all over that country on various occasions, and the ongoing improvement of people's lives, particularly in the rural areas and mountain villages, was so impressive that I sometimes became emotional when lecturing about it. Rarely in human history have people's lives improved so rapidly. I had the opportunity to do the same kinds of studies in Taiwan and found equally moving results.

At the time it was popular among many US scholars to argue that the economic growth rates in these two economies must be falsified; it couldn't possibly be true that these authoritarian states, constantly

abusing human rights, were growing 10 percent annually. Decades later, in the 1980s and 1990s, it was similarly common to argue that China must have falsified its growth numbers.¹ Countries run by these authoritarian abusers of human rights just couldn't possibly do so well – according to our Western preconceptions. The preconceptions are exceedingly durable. So has been my curiosity about the contrast between preconceptions and performance.

From the early 1970s to the present I have been writing and speaking about the Asian miracle economies, several near-miracles, and about the implications of these takeoffs for geopolitics and the world economy. The resulting publications are mostly available on my website, www.theoverholtgroup.com.

Traveling to these countries, living in Hong Kong (18 years), the Philippines and Singapore, and trying to understand their successes and failures have led me to shape my work according to certain strong beliefs.

One, the core contribution of this book, is that, to understand any country, you must constantly compare it with other countries. Japan specialists, China specialists, Korea specialists provide indispensable insights. The deep digging that they do is the foundation of everything else we know about their countries. But then we must take our understanding to the next level, the level of comparison. The reason I was able to write *The Rise of China* was that I had spent a quarter century studying the neighbors – Japan, South Korea, Taiwan, Singapore – so I could see that Deng Xiaoping was mostly emulating models that worked extraordinarily well elsewhere. And I could see that Gorbachev's politics-first emphasis, so lauded at the time by US experts, would be a catastrophe because it ignored the Asian lessons.

¹ Chinese statistics in the early days were rough guides to the rate of growth. Statistics collection was erratic. There was much adjustment and smoothing at the National Statistics Bureau, most notably because most localities exaggerated their growth in order for the officials to earn promotions. On the other side, most businesses reported much lower growth than reality because they didn't want to pay taxes. Moreover, nearly everyone had an official job, generating income that was in the statistics, and a sideline, typically not in the statistics. For a long time the services economy was drastically underestimated. But anyone with experience in a variety of countries could see by walking around that the growth was roughly proportionate to the claims. The independence of the statistics system was strengthened in 2015.

Second, really understanding a country requires demolishing disciplinary boundaries, which are quite arbitrary. The work of political scientists, economists, sociologists, historians in their individual disciplines is of course as indispensable as the work of country specialists. Focusing just on the economy or just on the politics simplifies issues so that one can build theories. But the economy functions within a framework established by politics, and the substance of political action is heavily a struggle over economic resources. The great political scientist Harold Lasswell communicated the intersection best with his book title *Politics: Who Gets What, When, How*. Asian countries stabilized their countries politically by giving their people a rapidly growing economic pie, and they consolidated their domestic and international security through growth that gave them desperately needed resources. There is no economy separate from politics, and no politics separate from the economy, but we mostly have to make up the discipline of political economy as we go along. (Some universities do actually grant degrees in political economy, but there's very little coherent substance to the field.)

Third, scholarly understanding comes best when it is grounded in real problem-solving for specific situations. In all disciplines, academic theorizing can become a cloud floating out of sight of the ground. Economics has benefited from, among many things, intense practical arguments over whether one should raise interest rates a quarter of a percent. Keynes wanted to get the world out of a depression. Good theories grow out of real problems. Political science is at its most valid trying to figure out how to get another 1 percent of the voters to vote for a candidate. Things go wrong when we fetishize a method rather than focusing on specific issues. For instance, teaching graduate students that their job is to find things to run regressions on can impede a discipline for half a century – which is exactly what has happened.

With grounded thinking, one goes and sees. One believes first in the evidence of the eyeballs. Economists are correct that anecdotes are not evidence, but when everything you see during a systematic personal investigation contradicts the literature, then the eyeballs must dominate. As a young bank risk analyst in the early 1980s I was sent to do a country risk study of Indonesia. The most influential literature said Indonesia was in terrible shape and getting worse. I visited many areas. Everywhere I went the women had decent clothes, the children no longer had the big bellies of kwashiorkor, men were going to work

on motorcycles rather than on bicycle or foot. It turned out the literature was driven by a Cornell professor who had studied declining employment in the villages and deduced dire consequences and by an Australian economist. The Cornell professor later recanted; he had neglected to look at the towns, where burgeoning employment was creating higher incomes. The Australian turned out to be a member of the Indonesian Communist Party who was spreading disinformation. Some disaffected political science professors had spread the erroneous economic news widely.

Wandering around China in the 1990s provided a direct analogue of that Indonesian experience. There has always been a debate about whether Chinese statistics underestimate or overestimate the size of China's economy. As noted in a footnote above, on the one hand, we know that the performance incentive system leads almost every locality to overestimate its growth. On the other hand, services are undercounted and businesses underreport their performance to evade taxes. Almost everyone one meets, from ministers to bottom-level factory managers, has an official job, whose salary is in the statistics, and a sideline, which typically isn't, and often the substantial income comes from the sideline. The statistics bureau makes mighty efforts to correct for localities' exaggerated growth reports; that is why the sum of reported provincial GDPs has always been so much greater than the reported national GDP. Wandering around China and other countries at similar levels of development, seeing how people lived, it was obvious the people were living much better than the statistics indicated.

A particularly vivid contrast between grounded and non-grounded research can be found in the chapter on Chinese politics below. I lived in Hong Kong for 18 years and had many opportunities to explore China and speak, sometimes negotiate, sometimes argue with Chinese officials. The subjects ranged from agriculture development to cleaning up the water supply to business arbitration mechanisms to trade negotiations with the United States to internationalizing the renminbi (RMB) to governance at the Asian Infrastructure Investment Bank to correcting oversupply in cotton spinning and a list of other topics that would fill a chapter of this book. I can't think of one official who wasn't worried about meeting his or her official performance goals. That goes for Zhu Rongji, for Bo Xilai (who was desperate in 2010 about a financial shortfall), and everyone right down to local mayors and university Party Secretaries. I wandered around much of

China and even in the poorest provinces the roads, airports, and wireless communications infrastructure were superior to their US counterparts. What then does one make of a political science literature that claims to prove that officials are promoted without regard to competence or performance? Are Chinese officials all afflicted by a false consciousness that leads them to think their performance matters when it actually doesn't? Can China's extraordinary infrastructure and growth all be the product of 70 million utterly incompetent corrupt louts? Of course, having noticed that the grass is green, one has to figure out how "sophisticated" statistical methodologies have led to the conclusion that it is orange, but the important part is to keep one's eyes open.

Ideology is the great enemy of grounded thinking. At Columbia University Zbigniew Brzezinski ran a Wednesday lunch seminar for leading thinkers. In a not-unusual example, a noted East German professor explained to us that, because East Germany and other East European countries were run for the whole people, the environment in East Germany was treated with far greater care than in blighted West Germany. His theoretical presentation was coherent and passionately argued. The problem with his theory, as all were able to see when the wall came down, was that in actuality the East German environment was devastated compared with democratic West Germany. If you went and looked, you could cut through all the theoretical nonsense.

That's hilarious and seemingly incomprehensible when it's someone else's ideology. But throughout the West professors teach, and students diligently memorize, that democracy in very poor countries will, through electoral competition and free media, solve or reduce corruption. When one actually functions in politics in Thailand or the Philippines, as I have, one learns that very poor people can't organize themselves to defend their interests and can't contribute to political campaigns, so the only political contributions are bribes plus a few personal investments in future office intended to earn a return. Democratic elections in such places are not a cure for corruption but rather a particular form of corruption. Misguided ideological preconceptions like these have consequences, sometimes fatal ones. It is worth recalling the sense of victory of Bush and Cheney when finally an election was held in Afghanistan or Iraq, or of Hillary Clinton when the Arab Spring led to elections. Finally, all will be well! Peace and prosperity are imminent! If neurosis is doing the same thing over and over and

expecting it to have different consequences, then ideology – including our ideology – is often a form of neurosis.

Closely related to this, a fourth lesson is always to look for, and explore, anomalies. Anomalies are weird things that don't work out the way normal things do, or that work very differently from what our preconceptions say should happen. When I found that South Korea was working so differently from everything I'd been taught, I became obsessed with understanding why. Similarly, my first exposure to Asia was in the Philippines in the early 1960s, when the Philippines was not only the perfect third-world democracy but also superior to all other developing countries on every economic index but one (railroads). As a graduate student I wrote a book about that, and got it accepted for publication by Yale University Press, then became uneasy about it and shelved it. When I lived in the Philippines in 1963, every family of substance had an *amah* from impoverished Hong Kong to cook, clean, and watch over their children. By the time I lived in Hong Kong (1985–2001 and 2013–2015), even the secretaries had a *filipina* from the now relatively impoverished Philippines to cook and clean. From such anomalies one learns.

Or one doesn't. Writers who want to preserve their ideological preconceptions resort to characteristic modes of thought. If the nearly perfect Philippine democracy produced bad results, it must have been that bad guys messed it up. The problem was Ferdinand Marcos, who appears in such thinking as a *deus ex machina*. Certainly Marcos was a bad guy; I nearly lost my life fighting him, and my two best Philippine friends did lose their lives. But why did Filipinos rally around him at first? And why, after the best corruption-fighting democratic President with the highest economic growth rates (Benigno Aquino III, President 2010–2016), did a cruder version of Marcos, a homicidal rogue named Rodrigo Duterte who became president just as I was finishing this book, gain similar adulation? Why, given the wonderful qualities of a system designed to be of the people, by the people, for the people, do the actual people – of the Philippines, of Thailand, of many other places – so consistently feel themselves ignored and abused that they turn to dictators or homicidal rogues who promise to rescue them? I provide some answers in the politics chapter below.

Above all, my most important lesson from decades of wandering in Asia has been to focus on what happens to real people not the GDP; not the rich people but the farmers, workers, and middle class. This is

not just about theory. It is about fundamental values. Are people living longer? Are they healthy? Do the mothers die in childbirth and the children succumb to diarrhea? Are they safe? Do they have good food? Do they have a place to live? Can they read? Do they have wide access to ideas and information? Are they free to choose their job, their location, their spouse? Are men and women treated with comparable respect? Are they free to move around? Does everyone have a reasonable chance to become prosperous or influential? Do they feel their life chances are fair? Can people speak their minds? Can they promote their interests? These are the ends. Everything else is instrumental. Communism, democracy, parties, unions, NGOs, parliaments, GDP growth, GDP per capita, indices of inequality, movements ... are means to an end. But the means are often fetishized in our thinking and we come to regard them as the ends. Unions are a perfect example; in some contexts they are essential to both income and worker safety but in others they inhibit growth and create a worker elite at the expense of mass unemployment and impoverishment. When one insistently digs beneath the means, and focuses on the fundamental conditions of life, no system is perfect and *all* ideologies are embarrassed, including our own. No system works the same way, or has the same consequences, in all social contexts.

A lifetime of studying and working in these countries has convinced me that the Asian miracle model works only under very limited conditions. There is no Beijing Consensus that is widely applicable. Likewise, transplanting Western electoral and judicial systems into the poorest countries often just legitimizes social oppression. The Washington Consensus often leads to mass misery and political instability. If some of the analysis that leads to such conclusions puts heavy demands on the reader, I hope that the importance of the conclusions justifies the effort. The illusions about a nonexistent Beijing Consensus and a practicable Washington Consensus form the basis of a remarkable amount of high-level foreign-policy thinking; if these are wrong, we need to know it. They are wrong.

In addition to the highly focused specialists, and in addition to those who do global statistical studies, we need synthesis, trying to weave the specialist studies into patterns. That is what I do. The task requires both hubris and humility. Nobody can master all that is known in several disciplines and about several countries. A historian of the economy of Ming China can master virtually everything that has been

written about his or her subject. I can't master all the economics and politics and social and military issues of China and its neighbors. I am always conscious of, and anxious about, all the things I haven't read yet. But somebody has to cross the boundaries. The weakness of the specialist is that he or she lacks context. The weakness of the synthesizer is that he or she may miss important details or perspectives. We need both. I am encouraged by the fact that some of my controversial predictions have come true and some of my practical work, based on my understandings, has borne fruit. I am humble in awareness of how much I don't know and can only hope my work will provoke more refined studies that will move us forward.

There are peculiarities of each discipline that one can overcome by looking through the eyes of multiple disciplines. To take just one example, political scientists are under enormous pressure to use regression analysis, a technique for showing how one thing (e.g., education levels) is related to another (e.g., economic growth). To get promoted, you have to publish in leading journals; and to get published in leading journals, you have to do some regression analyses. In the hands of economists, regressions are enormously fruitful, because economists have refined their concepts and persuaded governments to spend tens of billions of dollars cumulatively creating valid databases. For political scientists they are also very useful in studies of voting behavior in Western elections, because there is an existing and natural database (votes, polls, ethnic groups, income levels, education levels, employment status . . .). In analyzing emerging countries' politics, there are few issues that satisfy the assumptions underlying regression analysis and there are hardly any valid databases for the concepts. So we get regression studies that use whatever data happen to be available, with little thought to validity, and this leads to results that can be the exact opposite of the truth. Some US academicians' studies of the Chinese government promotion system, addressed in the chapter on the Chinese governance model, are the perfect example.

There is in fact an amusing analogy between the problems of Chinese officials and problems in some academic disciplines. When a Chinese mayor is pressured to produce growth through investment after most fruitful construction investment opportunities have been exhausted, he or she may build a giant hotel in a small town, spending four dollars to produce one dollar of growth – thereby subtracting from the economy's future prospects. When political scientists are

published and promoted for doing regressions where no valid regressions are possible, their regressions may subtract from the sum of human knowledge.

Modern political science has been more successful at characterizing the qualitative evolution of institutions and of relations among them. For China, political scientists and economists have steadily increased clarity about the Party, the state, the military, the state-owned enterprises (SOEs) and relations among them.² Likewise we have learned a good deal about social stresses and how the regime manages them³ and how the regime responds to particular social challenges like rapid urbanization.⁴

Specializing in a single country has created knowledge of enormous depth, particularly for China studies. But it sometimes leaves specialists vulnerable. As I note in the discussion of corruption, Western political experts on China frequently believe that its corruption problems are so severe because of its communist system and that they would improve if China became more democratic. But these analysts seem never to reflect on the fact that such evolution would make China more like India and the Philippines, where corruption has far more destructive consequences. Likewise with much of Western thinking about environmental issues in China; as soon as one puts the issues in comparative perspective (India's pollution is more damaging to human health) everything looks different.

On issues like corruption, the environment, and the Chinese government promotion system, there are schools of scholars who have reached something like a workable consensus. After I did a blog post that became the first draft of the corruption section of this book, one senior scholar, for whom I have the greatest respect, publicly rebuked me for not understanding that there is a professional consensus that the seriousness of China's corruption problems results from its communist

² An outstanding example is Zheng Yongnian and Weng Cuipen, "The Development of China's Formal Political Structures," in Robert Ross and Jo Ing Beekevoold, eds., *China in the Era of Xi Jinping: Domestic and Foreign Policy Challenges* (Washington, DC: Georgetown University Press, 2016), pp. 32–65.

³ See Joseph Fewsmith, "The Challenges of Stability and Legitimacy," in Robert Ross and Jo Ing Beekevoold, eds., *China in the Era of Xi Jinping: Domestic and Foreign Policy Challenges* (Washington, DC: Georgetown University Press, 2016), pp. 92–113.

⁴ Shahid Yusuf and Anthony Saich, *China Urbanizes: Consequences, Strategies and Policies* (Washington, DC: World Bank, 2008).

system. I do understand this consensus and others. I think – emphatically – that they are wrong. The strategy of this book is to take the consensus, subtract the ideological bias, ignore the methodological fetishes, and add systematic comparisons with neighboring countries. The result is quite different, sometimes opposite. I ask readers to keep this formula in mind; they can then judge its value.

The difference between what I am trying to accomplish and what many good academic scholars do is typified by the section on corruption. I published a summary of my overview of corruption issues, later incorporated in this book, in 2015. In early 2016, Hualing Fu's superb essay, which I have cited in the corruption section below, became available. To understand how corruption is fought in China his work is absolutely indispensable. The accumulation of scholarship like his is what makes broader views possible and also what makes it possible to test views like mine. But these days we are short of analyses that cut across disciplines and across countries, so I make an effort to fill that gap. Likewise, Minxin Pei's analysis of the special way that corruption works in China (a book that also came out in 2016) will long be essential reading for anyone who wants to understand China, but its lack of comparative perspective can lead to facile generalizations about democracies and autocracies.

Since I cannot know everything, this book does not try to cover everything important about Chinese development. I have tried to focus on what is decisive for the present and crucial for the future – and particularly on issues where I think I have some value to add. I have deliberately neglected issues, including important issues, that I have written about elsewhere and those that I judge will not be decisive for China's future.

I have chosen to write with a voice that I hope speaks to a broad audience. In physics and biology there is sound reason to write about quarks and mitochondria, terms that are incomprehensible to the general public. Although there is plenty of jargon in academic writing about China, no such excuse is valid for any of the subjects addressed here. One leading scholar cringed at my labeling of the Chinese administrative system as the “GE Model.” Well, I could have used or invented some polysyllable that readers would have had to look up in a thesaurus, but I think the phrase communicates what needs to be communicated and the metaphor's limitations are obvious.

Chinese, Japanese, and Korean names follow their national custom in having the family name first, e.g., Mao Zedong, Abe Shinzō, and Park Chung Hee. Chinese names are transcribed in pinyin (e.g., Jiang Jinguo), except where most potential readers are more likely to be familiar with a traditional spelling (e.g., Chiang Kai-shek, father of Jiang Jinguo) or where an author or other person uses a preferred transliteration.

I write as an American who is proud of US democracy and strength. But I try very hard to be objective and balanced, and some of my conclusions will upset fellow Westerners. I listen very closely when I speak with Japanese, Chinese, Korean, and Filipino thinkers. This leads to different angles on US policy – as well as on Japan and China. One of the incalculable benefits of being an American is that one is free to criticize one's own country's ideology and policies. Proper patriots of all major countries will be offended by some of the views in this book. If so, maybe I've got it about right.

Most Western media commentary on Asia, and much scholarly analysis, is ultimately rooted in images of good guys fighting bad guys. Park Chung Hee, ruthless authoritarian, was seen in the United States as a bad guy, a really really bad guy. Read the *New York Times* of 1976. But he saved his country, made his people prosperous, and created the social foundations for what later became one of the emerging world's two most successful democracies. Wandering around rural Korea and seeing people lifted from sub-human poverty and illiteracy into decent lives, I came to revere Park Chung Hee (President of South Korea, 1961–1979), but I visited Kim Dae Jung (Korea's leading dissident during Park's presidency and later President) every time I could when I was in Korea, notwithstanding severe Korean CIA efforts to intimidate me; eventually I risked my career to save him from execution. They were both good guys, but their country needed different skills at different times. The quote from Ecclesiastes that I have placed at the beginning of this book is an invocation to ideological humility.

Theologians call this division into good guys and bad guys Manicheism. The Manicheans saw everything as starkly divided into good and evil. Americans tend to see the world that way. China is bad because its government is authoritarian. India is good because it elects its leaders. But the justification for democracy is a conception of human dignity, and human conditions in India are so much worse

than in China that there can be no serious argument for Indian superiority based on human dignity. Yes, that malnourished, illiterate, 12-year-old girl, whose mother died in childbirth because Indian health-care for the poor is so much worse, and whose father is crippled by air pollution far more debilitating than China's, who has never seen a toilet, and who was forcibly married to an old man, will have the right to vote, but is that really what is most important to her human dignity? The number of Chinese who own homes is almost twice the number of Indians who have access to a toilet. To feel the difference, go to Mumbai and walk through the slums, then visit Shanghai. Or read Katherine Boo.

Conversely, it is inappropriate to judge India by Asian miracle standards. As this book will emphasize time and again, the system that has led to such wonderful growth in South Korea, Taiwan, Singapore, and China could not possibly work in most countries, including India. This book will have numerous comparisons between China and India. The point is not to disparage India, which is growing well by historical standards, indeed a multiple of the 2 percent that Britain achieved in the industrial revolution and ever since, but rather to highlight the hypocrisy of those who claim to advocate a philosophy based on human dignity but in fact denounce the countries that are doing the most wonderful things for human dignity (South Korea, Taiwan, and Singapore in 1970, China in 2000), while praising countries that condemn most of their people to short, brutal, abused lives but go through the rituals of Western-style elections (India, the Philippines, Thailand, and Cambodia during their democratic periods).

Similarly, in the current popular US view Japan is a good democracy and China is an evil dictatorship. In the American conception, the conception on which policy is based, the difference between the two is night and day. Of course, Japan is indeed much freer and much more democratic. But both are dominant-party systems, created – in Japan's case with CIA help – to ensure that the opposition parties are hapless. (China has eight very tame opposition parties.) Japan's polity, like its economy, is of course far more developed and subtle. The opposition parties in Japan even have had two chances to briefly gain the prime ministership, but during such evanescent interludes they quickly trip and fall while real power over both the economy and national security continues to reside with the deep LDP government. Few Americans

know that 99.8 percent of those arrested in Japan are found guilty – a slightly higher percentage than in China – and fewer still, including many professional Japan specialists, know how those convictions are obtained. The way the United States and the Japanese right collaborated to create and institutionalize a system with an overwhelmingly dominant party that could ram through economic reforms and consolidate the United States–Japan alliance does not feature in most studies of Japanese politics. One of my early assignments as a consultant was to analyze whether there was any residual risk that the opposition might win – and implicitly whether there was any need for the United States to provide some additional weight on the conservative side of the scales. In the common Manichean view, such things are conveniently forgotten.

As I write, senior advisors to the Chinese leadership, who recognize that Japan's polity is one potential ideal for China, are in Japan studying ways to import some of the sophistication of Japan's dominant-party system. We need to think in terms of spectra. On the spectrum from totalitarianism (0) to full competitive democracy (100), one might rate Khmer Rouge Cambodia as 0, Mao's China 10, today's China 50, Japan 75, Hungary and Poland 80, India 80, South Korea and Taiwan 95. Intriguingly, Western media are very hard on the leaders of Hungary and Poland, who are pushing their countries to be more like Japan, but they are much softer on Japan's Prime Minister Abe Shinzō, whose country is more authoritarian than Hungary and Poland and is openly determined to make it substantially more authoritarian. We Westerners are quicker to apply caricatures to Asian countries.

Americans' perceptions of who is good and who is evil periodically reverse.⁵ For some periods of history Japan was the bad guy and China was the good guy. During the period before and during World War II Americans believed that Chiang Kai-shek stood for democracy, and they read uncritically the most influential US anthropologist of that time, Ruth Benedict, who taught that authoritarianism and other evil traits were inherent in Japanese culture because of Japanese child-rearing practices. Now Japan is the good guy and China evil. Scholars

⁵ For deep insights into the peculiarities of mutual perceptions, see Akira Iriye, *Across the Pacific* (Chicago, IL: Harcourt Brace, 1967). More recently, James Bradley has taken up some of these themes in *The China Mirage: The Hidden History of American Disaster in Asia* (New York: Little Brown, 2016).

with distinguished titles tell us that the only thing that holds China's Communist Party together and generates Chinese growth is corruption. The US national security elite particularly embraces strong ties to Prime Minister Abe and his deputy (and former Prime Minister) Asō Tarō, who lead a movement that blames the United States for World War II, seek to move their country away from democratic ideals, and seek eventually to free Japan from dependence on the United States. Caricatured images distort our perception and lead to policy errors that waste resources and create gratuitous conflict.

Black and white make for easy, bad policy decisions. It is embarrassing to read about the old caricatures; how could anybody have taken seriously the view of Chiang Kai-shek, a proud Leninist, as standing for democracy? It would be convenient to believe that our predecessors were just dumber than ourselves, but I haven't found any evidence of that. It will be embarrassing for future generations to read about our caricatures, particularly if those caricatures prove fatal for some of our military-age children.

Manicheism particularly affects swaths of contemporary political science, and particularly some studies of China. There is now a whole literature that contrasts democracies with authoritarian countries, in other words good guys and bad guys. Almost the entire literature is nonsense. Democracies include Philippine extractive peasant democracy, Japanese dominant-party rule and the UK middle-class multi-party system; their dynamics are utterly different. Lumping theocracies (Iran), ethnic dictatorships, Latin American caudillos, African tribal kleptocracies, totalitarian systems (North Korea), disintegrating empires (Soviet Union), Asian economic mobilization systems, and others together in a single category of "authoritarian countries" makes no analytic sense. It leads to all sorts of false conclusions, including for instance articles in leading policy journals (*Foreign Affairs*, *The National Interest*) asserting that democracies consistently outperform non-democracies in economic growth (conclusions authoritatively refuted by more careful analyses, usually done by economists). It leads inter alia to the false generalization, addressed in this book's chapter on the Chinese political system, that authoritarian systems like China generally appoint less competent people because of insecurity at the top – a description that is the exact opposite of what happens in China and a perfect description of Japan (particularly in the first decade of this century) and other democracies. In fact, Trump's cabinet and

Obama's choice of ambassadors (to Japan, the most important US ally, and many other places) are the perfect counterexamples. This reflects a more general problem: much of Western social science has become profoundly ideological and this ideological thinking is now so deeply entrenched that it is largely unconscious.

Because the Asian miracle political economies don't work the way Western ideology says they are supposed to work, they attract extreme positions, playing into the Manichean mentality. Gordon Chang, long a favorite of Congressional China haters, predicted in *The Coming Collapse of China* (2001) that the Chinese regime would collapse within five to ten years. Each year he updates the prediction to give it a little more time. At the opposite extreme, journalist James Mann tells us that anyone who emphasizes developmental pressures for liberalizing change in Chinese politics has sold out for Chinese lucre. We heard the same things a generation ago about South Korea and Taiwan. Those who pointed out the positive transformations of people's lives in Taiwan and South Korea during the 1970s were frequently called fascist militarists. Those who pointed out the similar positive transformations in China in the early days were called panda huggers. I have been called both, repeatedly and loudly. I may well be called worse after people read this book. What I care about is people living longer, being fed and clothed, getting educated, and (albeit from a low base) eventually living freer personal lives.

So far, none of the Asian miracle societies has ever collapsed, despite predictions at the time that each would. However, all have had major bumps in the road, and all have had to continuously transform their economic, social and political structures. China is unlikely to collapse, but it is undergoing the latest stressful structural transformation and is at increasing risk of a severe bump in the road. The regime in 2017 is fearfully, frenetically combating the liberalizing pressures of feminists, environmentalists, NGOs, religious groups, students who want full internet access, human rights lawyers, professors, publishers, farmers who want to be compensated for their land, entrepreneurs who resent Party exactions and unfair constraints on their access to resources, and many others. At the same time, it is trying to implement an economic reform that will damage the interests of every powerful group in China. In the spirit of the Chinese curse "May you live in interesting times," this has put China's leadership in an interesting position, which the leaders have made even more interesting by simultaneously alienating

the foreign business community and challenging China's maritime neighbors and the US Navy.

As China seeks to cope with its crisis of success, it has tremendous strengths and tremendous weaknesses. That makes for a complicated book. I want the reader to comprehend these weaknesses and strengths fully, so I have to lead the reader through the evidence on a myriad points. *We must understand why China has been successful. We must also understand why its current crisis could prove ominous if mis-handled.* To gain such understanding, we have to explore contradictory economic, social, and political trends and we need to dig deep. This is complicated. The benefit of working through the complications is that we can eliminate the caricatures and equip the reader to make her own judgments while the news is moving fast.

Successful economic modernization eliminates the kind of fear that once energized the economic miracle economies. It replaces relatively simple economies and polities with immensely complex ones. Economic and political complexity are two sides of the same coin; the rise of large, rich, efficiently organized economic sectors is the same as the rise of large, rich, powerful interest groups with conflicting interests of immense complexity. Chinese leaders have recognized, albeit sometimes more in theory than action, that the only effective, efficient response to economic complexity is to delegate from the state to the market a dominant role over resource allocation. What is the best way to manage political complexity? Successful leaders, faced with an incoming tide, seek to channel it rather than to push it back.

In William Makepeace Thackeray's famous poem about King Canute, the king orders the incoming tide to retreat:

From the sacred shore I stand on, I command thee to retreat;
Venture not, thou stormy rebel, to approach thy master's seat:
Ocean, be thou still! I bid thee come not nearer to my feet!

Perhaps Thackeray was a closet political economist.

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