

WHAT IF CHINA FAILS?

We'd Better Hope It Doesn't!

BY DAVID M. LAMPTON

AMERICANS ARE ANXIOUS ABOUT THE RAPID RISE of China, and they may be forgiven for idly wishing that the Asian giant would trip and suffer a nasty fall. Many blame China for America's economic distress and see it as a growing challenge to U.S. power, not only in Asia but in other corners of the world, including our Latin American "backyard." That "giant sucking sound" that Ross Perot once predicted we would hear as U.S. manufacturing jobs disappeared to Mexico can now be heard loud and clear, but far to the east.

Among specialists who watch China closely, there is a very different sort of anxiety. Their nervousness grows from the realization that the kind of Chinese failure that occurs in some Americans' daydreams would create enormous problems for the rest of the world. So mighty has China become that such a fall seems almost unthinkable, but Wall Street seers nevertheless nervously watch the Chinese markets, alert for any sign of a bubble or imminent collapse, while economists attuned to larger movements search for fatal economic imbalances and policy shifts. Intelligence specialists scan for rumblings of instability among the country's tens of millions of hard-pressed (often migratory) industrial workers; they also keep an eye out for outbursts among the Muslims of Xinjiang, the nearly three million Tibetans whose "autonomous region" encompasses about an eighth of China's enormous territory, and

other groups that chafe under Beijing's rule. In fact, while setbacks and mistakes are the lot of every nation, the likelihood of large-scale failure in China is extremely low, and a closer look at various failure scenarios shows that we should be grateful for that. Almost any such reversal would be profoundly contrary to American and global interests.

The speed of China's emergence as a great power has been unsettling, but the country has become a positive and virtually indispensable element in the global economy, woven into a web of interdependent relationships that connect it to many nations, including the United States. In a single issue of *The Wall Street Journal* I chose at random (August 11, 2010), there were 11 articles that dealt in some way with China's significance to the global economy. Several were related to the just-announced decline in the growth rate of Chinese imports in July, which produced a dramatic jump in China's trade surplus and a host of ripple effects: new fuel for protectionist sentiment in the U.S. Congress; increasing demands for Beijing to let the yuan appreciate against the dollar; the worrisome depreciation of the U.S. dollar against other currencies; and a sizable drop on stock exchanges in China and around the world. The stories underscored the fact that China was the world's growth engine during the recession and that now even that engine seemed to be sputtering, unsettling global markets. (The United States has found Chinese markets important: In 2009, U.S. exports to China decreased by less than a single percentage point, while exports to the rest of the world shrank by about 20 percent.) Strikingly, alarms were sounding not because China was importing less than before but because its imports had grown "only" 22.7 per-

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cent from a year earlier. Imagine the shock if China's imports were to decline in absolute terms.

Other *Journal* articles that day dealt with the China trade's implications for individual U.S. companies. The stock of aluminum producer Alcoa fell on fears of reduced Chinese purchases, while General Motors expected to report its biggest profit in six years, fueled in part by fast

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growth in China. The newspaper reported that this success was energizing efforts by GM's executives to reduce the U.S. government's ownership share of the company.

The Wall Street Journal's reports hardly exhausted the ways in which China has become essential to the U.S. and global economies. For better or worse, China by a wide margin is the number one foreign bankroller of the U.S. government, with a growing pile of U.S. Treasury securities (\$868 billion as of mid-2010) that dwarfs the holdings of all the oil-exporting countries combined. Chinese foreign direct investment in the United States is still small but growing, and includes employment-generating investments in South Carolina, Minnesota, and other states—a Chinese automaker even considered building the revived MG line of automobiles in Oklahoma a few years back. Chinese investment is now a significant force in the economies of Canada, Australia, Southeast Asia, and some parts of Europe, Latin America, and Africa. Estimates of future global expansion by the World Bank and other institutions rely heavily on expectations of continued Chinese growth.

The damage wrought by a sharp Chinese downturn likely would not be limited to the economic realm. Some may hope that a major setback at home will rein in Beijing's ambitions abroad. But the opposite result is more likely. Under Chairman Mao Zedong's rule, from 1949 to 1976, China's share of global economic output was very low and hardly changed at all—Mao's China was abysmally poor. During those years, China was in conflict with almost

everyone in its neighborhood—India, the Soviet Union, Taiwan, and several Southeast Asian countries—as well as the United States, and Beijing supported insurgencies in Africa and Latin America. Mao used external conflict to foster unity at home in the face of hardship and whip up support for his policies and power. As Beijing's domestic agenda became focused on economic growth and ever higher levels of well-being in the wake of Mao's long reign, Beijing's foreign policies moderated considerably, with China becoming a good citizen of major international organizations such as the United Nations, the World Bank, and the International Monetary Fund. Wealth and stability do not assure a benign

foreign policy, but economic success at home and integration into the world economy have created the conditions that make responsible behavior more likely. A poor or floundering China is unlikely to be a cooperative China.

There are at least three paths that could lead to failure for China, and if one scenario began to unfold, it probably would cascade into the others. While all three are unlikely, none are beyond imagining.

The first path would be economic disaster, triggered by a protracted period of inflation, deflation, or agricultural crisis; dramatic constriction of the international economic system or China's access to it; or the growth and collapse of bubbles in the stock and property markets.

A second path, one that would almost immediately produce spillover into the economy, would be a breakdown of the political system precipitated by a dissatisfied citizenry, a fractured Communist Party elite, or both. While ethnic tensions receive the headlines, they are not a major threat to regime survival because China's ethnic minorities are relatively small and widely dispersed—Beijing can handle them, albeit at substantial cost. Rather, the principal dangers to the regime stem from the possibility that a rising middle class will demand more rights, participation, and control over its destiny and interests. Particularly dangerous would be a fracture of the party elite during a domestic crisis, with different top leaders allying with con-



Millions of cargo containers pass through Shenzhen each year, making this Hong Kong neighbor one of the world's busiest ports. While China's exports get all the attention, its imports last year topped \$900 billion, including some \$14 billion in U.S.-made semiconductors, aircraft, and plastics.

tending social forces—there are already some signs of elite division, not least over the pace of political reform.

A third path to failure could unfold if China ran up against ecological limits faster than technology could be found to ameliorate them—a risk that the behavior of the current leadership suggests could easily receive insufficient attention until problems reached near-intolerable levels. A significant percentage of what the Chinese government categorizes as “mass incidents” (i.e., public disturbances) have their origin in the ecological impacts of poorly regulated industries: polluted drinking water, chemical contamination, and “cancer villages” in the countryside caused by unregulated industrial and mining effluents. Children in Shenyang, Shanghai, and other cities, the World Bank reported as early as 1997, “have blood-lead levels averaging 80 percent higher than levels considered

dangerous to mental development.”

A related risk arises from the possibility of a significant infrastructure breakdown. Imagine if today's relatively urbanized and open China experienced a major dam collapse like the one that occurred in August 1975, when the Banqiao Dam in Henan Province (and many other dams) gave way in a typhoon, in part because of poor construction. Between 85,000 and 230,000 Chinese perished, and, according to the Chinese journalist and dissident Dai Qing, “two million people were trapped for weeks in trees and floating wreckage. Some 11 million were stricken by disease, food poisoning, and famine in the aftermath.” In 1975 this story could be swept under a large rug; in today's wired China, the political fallout would be very difficult to contain, particularly if the death toll were increased by the erection of substandard buildings allowed by corrupt officials, a

common occurrence in China. Indeed, in the wake of the 2008 Wenchuan earthquake, which took the lives of nearly 69,000 people, including many children who died in poorly constructed schools, the regime had a very difficult time containing popular anger and demonstrations. Disasters can be of enormous scale in China, and the potential for public backlash has become serious enough that one of China's senior leaders can now be counted on to hasten to any disaster site in a public show of concern.

None of these possible failures could be counted as a boon for the United States. While China's rise unquestionably carries with it costs and risks for the rest of the world—from job losses as Chinese competitors move into new areas of business to security risks as Beijing's ambitions and power increase—contemplating failure only serves to underscore the reality that China's rise is a net gain not only for the United States but for the world as a whole.

If China were a small African nation lifting its people out of poverty at the same impressive rate, we would

applaud without hesitation, recognizing the simple value of human progress. At the same time, we would have no difficulty recognizing that a wealthier society is one that is more likely to adopt policies with benefits that reach far beyond its borders—energy efficiency, environmental improvement, and innovation contributing to the fund of human capabilities. A healthy society, moreover, is one that efficiently solves problems that can quickly affect other nations, such as the spread of infectious disease and poor quality control of exported food and other products. China contributes to the world simply by responsibly governing itself. Consider what the inability of Afghanistan, with its mere 30 million people, to maintain order and create a better life for its citizens has meant for the rest of the world—it is less populous than 20 of China's 33 provincial-level jurisdictions. A stronger China willing to use its resources to strengthen international treaty regimes, institutions, and norms should be welcome, particularly at a time when U.S. capabilities are increasingly stretched. The issue is not



Frolicking in Beiliu, one of China's "cancer villages," can be hazardous to your health. Coal-based industry fouls the air and water of this village on the outskirts of Linfen, an industrial city several hundred miles southwest of Beijing, and the death rate is reportedly much higher than average.

Chinese power, but how that power will be used. The United States and other nations can influence China's choices through their policies, but the course of China's own internal development will be the decisive factor.

There are two ways to look at development that I find particularly useful. The first derives from the psychologist Abraham Maslow's thinking on the hierarchy of human needs. Maslow's idea was that individuals, and by extension societies, have a hierarchy of needs, with physiological requirements most fundamental, followed by the needs for personal security, then community, with the apex of the hierarchy being self-actualization. As more basic needs are satisfied, society's agenda moves on to higher-order needs. But that upward momentum cannot be taken for granted. Even in the 21st century, some large and significant countries, such as Pakistan, with its inability to cope with floods and other challenges, find it difficult to devote effort to national integration, political participation, and self-actualization.

The story of China in its reform phase, starting with the ascent of Deng Xiaoping in the late 1970s, has revolved around the movement of massive numbers of people up this hierarchy, with perhaps 400 million people being lifted out of absolute poverty (albeit with growing inequality by some measures). The country has achieved astonishing progress in improving its citizens' quality of life. The death rate for children under age five was 65 per 1,000 as recently as 1980. It dropped to 46 in 1990 and 21 in 2008. The wide gap in public health between urban and rural areas has also shrunk, at least as measured by some indicators, according to a recent study by sociologists Martin Whyte and Zhongxin Sun, and life expectancy has increased. Literacy is now virtually universal among the young, with women making especially great gains since 1990. At the higher end of the hierarchy, the annual number of newly enrolled university undergraduates rose by a factor of more than nine between 1990 and 2006.

In the space of three decades, the bulk of China's people have gone from grappling with issues of survival to aspiring to self-improvement. They are enjoying undreamed of geographic and career mobility and ever-broadening material and cultural horizons. This has positive implications for the world. For one thing, wealthy people buy more goods and services from abroad than poor people do. Last year, China

was America's fastest-growing large export market, as it has been for a number of years. And China's growing appetite for education has produced an enormous flow of human talent (and tuition payments) to institutions in the West. The Institute of International Education reports that China had the second-biggest number of foreign students enrolled in U.S. colleges and universities (about 99,000) in the 2008–09 academic year—only India had more. Many Americans may not realize it, but education, like corn and automobiles, is an export item. Unlike commodities and manufactured goods, however, talented Chinese graduate students contribute mightily to U.S. hard science and other areas of research.

The second way to think about development derives from the American political scientist Samuel Huntington's 1968 classic, *Political Order in Changing Societies*. Huntington argued that development is a dynamic process in which societies strive for a balance between the capacity to regulate behavior and maintain order (by building institutions) and the demands of individuals to participate in political life. If institutions are too strong, the result is authoritarianism. But unrestrained popular participation with no institutional capacity to regulate it leads to various degrees of anarchy. "Failure" means a radical and sustained move away from balance in the system—too much disorder or too much order (though what constitutes "too much" depends on the beholder).

China's reform-era leaders have acted decisively to impose order at key junctures, such as the 1989 crackdown in Tiananmen Square and the move to regulate their citizens' access to the Internet by erecting the Great Firewall in 2003. Nonetheless, even as institutional strength has grown, so too has the space for individual and group action, except in the most directly political domains. Groups of citizens, for example, sometimes organize to stop or delay major infrastructure projects such as petrochemical facilities and, occasionally, nuclear power generating plants, and urban condominium owners now join together to protect their property. Last summer, there was what may prove to have been temporary tolerance for collective worker action—strikes—against some foreign (particularly Japanese) manufacturers' pay and working conditions.

China is not a land of black and white; it presents a complex picture of growing individual freedom, episodically increased repression, and institution building, all proceeding simultaneously. The overriding point is that the world

has an interest in China keeping order as it enlarges freedom. This is not an easy balance to maintain; Beijing's leaders have a heavy hand, but chaos would bring a significant human and global toll as well.

Were China to fail in either Maslow's or Huntington's terms, it would mean some combination of declining consumption and investment, increased immigration, declining (or stagnating) indicators of human welfare, less capacity to deal effectively with acts of nature, more social and political disorder, and a diminished ability to regulate domestic predatory behavior, whether stemming from corruption or unrestrained market activity. Any mix of these developments would have mind-numbing human rights and security implications.

What is bad for China would be, in almost every case, bad for the world. Apart from the implications of economic interdependence, consider some of the environmental issues raised by China's rise. Generally speaking, countries with economic wherewithal and social stability use resources more efficiently, even though the overall volume of consumed resources climbs with development. It is also true that total energy consumption rises dramatically with development and urbanization despite increases in efficiency, and that has been the case in China. Demand for electric power, for example, will more than double in the cities by 2030, even though energy intensity, a measure of how much energy must be consumed to create a given amount of output, is declining. So why not hope China stops growing, or grows more slowly? Because wishing for a slowdown is not a policy. Because economic decline or stagnation would reduce the prospects for more liberal political governance in the People's Republic. And because slower Chinese growth would stunt American growth prospects as well.

No matter what some others may wish, relatively high growth rates are likely to continue in China. The regime's emphasis on market forces has the support of most ordinary Chinese, despite widespread dissatisfaction with corruption and the ill-gotten gains of the politically well connected. Beijing generally has been fiscally prudent (though many local governments have not), and individual debt burdens are comparatively low. China saves about 50 percent of its gross domestic product. Access to secondary and tertiary education and universities is rapidly improving. The Chinese middle class is still only at the early stages of growth, so there is enormous potential for further expansion. Beijing is aware of the need to rebalance its economy so that domes-

tic consumption rises and the relative dependence on exports declines. Military spending is growing significantly in absolute terms along with the economy, but thus far the government has limited it to a modest share of GDP (in the three to four percent range). These developments are good news for China and the world, but they also pose a challenge to the United States. As China moves up the value-added ladder, with an ever more skilled workforce and ever more capital at its disposal, Americans will have to increase their capacity to innovate and boost productivity. If they don't, America's national competitiveness will decline.

But if relatively vigorous growth in China is very probable for the next couple of decades, the Chinese still face uncertainties. How successfully will Beijing deal with a rapidly aging population, which, thanks to a significant degree to its one-child policy, will be considerably older than the U.S. population by 2040? Will it be able to maintain political stability as a burgeoning middle class and increasing interest-group activity multiply demands on a system with still-limited institutional and economic capacity? Political reform has been painfully slow, but some of the country's leaders seem to recognize that it is necessary. In August, Premier Wen Jiabao acknowledged, "Without political system reform, economic system reform and modernization construction cannot succeed."

Beyond demographics and politics, will China manage mounting environmental stresses? The record so far, with water and air quality and the supply of arable land all still in decline, is not encouraging. Will Beijing keep military claims on the economy at a moderate level and persist with a foreign policy that has not caused significant friction with other nations? Not all signs are positive on this score. China's leaders have become more assertive about waters and resources off the country's coast. China has protested U.S. and South Korean joint military exercises in the vicinity of the Yellow Sea and is involved in tussles with regional neighbors over a number of disputed tiny islands, the surrounding waters, and the resources beneath them.

Given their record of adaptation and success over the past several decades, it would be unwise to bet against the Chinese. The United States and other nations should plan on facing an increasingly capable China. That is in many ways a daunting prospect, but it is a far better one, and richer in promise, than the alternative. ■