



## The China Model \*

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**Abstract:** The China Model for development of a modern society adapts the lessons of previous Asian “miracle economies” to Chinese conditions. The core Asian Model is pragmatic adoption of best international practices regardless of origin, organized around the central lesson of Asian successes and gives priority to economic growth at the expense of geopolitical, political and ideological goals. Given the economic imperative, the model establishes priority rankings: agriculture first, then light industry, heavy industry, domestic politics, and international politics. The Asian Model’s economic strategy includes critical components: international opening; domestic economic marketization; rapid incrementalism rather than shock therapy in pursuing those goals; and competition. In all the Asian miracles including China, successful economic reform has been accompanied by parallel incremental political reforms. In addition to emulating the Asian model, China has added distinctive strategies, including most notably the use of a “One, Two” approach — one country, two systems; one sector, two systems; one company, two systems; and so forth. China has refined the art of managing a country on an efficient business organizational model, and of using “social globalization” to expose its government, business and student elites to best practices all over the world.

**Key words:** China model; marketization; priority; economics; politics

### 1. Introduction

What is the China model? Is it a model of economic development? Is it a model of political control? Is it a structure of developmental authoritarianism? None of these quite captures the full scope of the factors that have led to China’s success or of the rapid evolution of China’s political economy. There is something much broader and deeper going on. The China model is not just about economics, or just about economics and politics. It is an approach to the creation, out of poverty and chaos, of a society that achieves China’s multi-generational goals of wealth and power, along with the related goals of stability and legitimacy. It is, in short, a strategy for creating a modern society.

But even to speak in this broad way of the China model does not begin to capture the full reality. The China model is a variation of an East Asian model that has repeatedly proven successful in achieving stability, prosperity, international influence, and domestic legitimacy but also has characteristic pitfalls. One of the original drivers of the China model was Deng Xiao-ping’s recognition that key Confucian neighbors were achieving modernity with a speed and resilience that far outpaced what Maoist policies were accomplishing in China itself. After a number of conversations with Zhu Rong-ji, I came away convinced that he had a better comprehension of South Korea’s developmental structures and policies than any Western expert on South Korea. The study of the successes and failures of other countries, particularly the Confucian neighbors, has been a fundamental reason for China’s success.

The China Model is a variation of the Asian Model. China has had the huge advantage of being able to build on the experience of the other Asian miracle economies, most notably South Korea, Taiwan, Singapore and Japan — and even Hong Kong. To say this is not to imply that there is a single template that can be applied to all the great Asian economic successes; there are of course enormous variations among those earlier successes. Nor could China simply copy anyone else’s experience; China’s conditions, most notably its huge scale,

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multiple dialects and different conditions in different regions, contrast strikingly with the smaller and generally more homogeneous earlier successes.

Nonetheless there are vitally important resonances among the Asian success stories. For years after Deng Xiao-ping and Gorbachev became leaders, at a time when the Western consensus was that Deng would fail and Gorbachev would succeed, I used the following chart in explaining why the opposite would occur. (This chart became the analytic core of my controversial book, *The Rise of China*.)

| <u><i>East Asia priorities</i></u> | <u><i>Gorbachev priorities</i></u> |
|------------------------------------|------------------------------------|
| 1. Agriculture                     | International politics             |
| 2. Light industry                  | Domestic politics                  |
| 3. Heavy industry                  | Heavy industry                     |
| 4. Domestic politics               | Light industry                     |
| 5. International politics          | Agriculture                        |

The Asian priorities typically produce rapid growth, domestic political stability based on the fruits of that growth, international prestige, and a solid educated middle class foundation for political liberalization later on. The Gorbachev priorities, which are applauded wherever they occur by U.S. and European elites, more often lead, especially when implemented in very poor countries, to weak economic performance, persistent political instability, and international weakness. In the 1970s, when my career was beginning, there was a near-consensus that authoritarianism in South Korea and Taiwan would lead to political instability and economic failure while India's priority for Western-style political values would lead to superior performance. The same arguments that were applied to South Korea in 1976 were the source of consensus in the George H. W. Bush administration of the early 1990s that China would prove unstable and fail economically.

My lectures and book arguing the opposite at that time outraged this sensibility. The consistent success of the Asian model has been ideologically unacceptable to much of Western opinion. But the model has succeeded on such a scale that it has changed the world.

## **2. Priority for Economics**

The single most important aspect of the Asian model is a priority for economic growth. "Priority" means that economic growth receives attention and resources at the expense of other national concerns, most notably the military and the political process.

### **2.1 Economics over Geopolitical/military Goals**

The Asian miracle economies have been particularly noteworthy for their downgrading of military priorities in favor of investment in economic growth. Before 1945 Japan destroyed itself by emphasis on military and geopolitical ambitions. After 1945 it never spent more than 1% of GDP on the military but rapidly became recognized as one of the world's preeminent powers because of the rapid growth and size of its economy, along with the domestic stability and prestige that resulted from its economic success. It lost that preeminence when, in a gradual shift after 1975, it downgraded its priority for sound economic management (Overholt, 2010). The devastating consequences of Japan's shift from economic priorities to a priority for patronage politics reminds us that Asian miracles can go backward, not just forward, if the priority for economic efficiency is abandoned.

South Korea failed to achieve growth, domestic political stability, or even minimal international security under the Syngman Rhee regime on the 1950s, which emphasized military priorities, or the brief Chang Myon



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regime of 1960-'61, which emphasized democratic political process. But when, in 1961 under General Park Chung Hee, it shifted to an overriding priority for economic development at the cost of greatly reducing the military's share of the national budget and greatly deemphasizing democratic political values, growth rapidly rose to over 10% annually, domestic politics gradually stabilized, and the balance of power between South and North Korea gradually shifted from one that greatly favored North Korea in 1961 to one that greatly favors South Korea at present. Today the South Korean economy is between 20 and 30 times the size of North Korea's, and the balance of domestic stability, diplomatic recognition, and international prestige, not to mention the difference between the human dignity of South Koreans and the downtrodden malnutrition of North Korea's people, has shifted overwhelmingly in South Korea's favor.

## Asia Model Priority for Economics

| Priority for economics                             | Priority for military or politics          |
|--|--|
| ➤ Park Chung Hee's ROK, 1961-'79                   | ➤ Syngman Rhee's ROK, 1950-'60 (military)  |
| ➤ South Korea, 1988-present (politics & economics) | ➤ Chang Myon's Korea, 1960-'61 (democracy) |
| ➤ Suharto Indonesia 1966-'85                       | ➤ North Korea (military)                   |
| ➤ Japan 1955-'75                                   | ➤ Sukarno's Indonesia (geopolitics)        |
| ➤ Deng Xiaoping's China                            | ➤ Japan 1975-2000                          |
|  | ➤ Mao Zedong's China                       |

In Southeast Asia, the transformation of Indonesia, from a society on the brink of civil war and driven by some of the world's most dangerous ideological and religious divisions to a stable country widely recognized as the leader of ASEAN, resulted from a shift after 1966 not only to better economic policies but also, crucially, to priority for economic development at the expense of quiet abandonment of territorial claims that previously covered much of Southeast Asia.

Likewise, the beginning of China's rise coincided with a similar shift of priorities. U.S. analysts estimate that in 1976, at the end of the Cultural Revolution, 16% of China's GDP was going to the military. Deng Xiao-ping reduced that to around 3 percent. The theory of peaceful rise articulated by Zheng Bi-jian summarized not just a Chinese concept but the broader experience of the most successful Asian societies.<sup>1</sup>

<sup>1</sup> Zheng Bi-jian's arguments about China's peaceful rise, modified to more politically correct form in others' discussions of "China's peaceful development," have appeared in many forms, in diverse publications, and in many languages. In English, the best-known publication is "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs* 84. 5 (Sep. - Oct., 2005), pp. 18-24. Western security specialists often treat this thesis just as a propaganda point, but it is central to the course Deng Xiao-ping actually set for China. Deng learned the lesson from neighbors. I first noted the tendency for economic priorities to displace military ones in the Asian miracle economies in publications like William H. Overholt, "International Violence in Asia," in Tunde Adeniran and Yonah Alexander, *International Violence* (New York: Praeger Publishers, 1983); "Progress and Politics in Pacific Asia," *International Security*, Spring 1983; and "The Pacific Basin Model: The Moderation of Politics," in James Morley, ed., *The Pacific*



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While militaries always protest that these cuts leave their nations vulnerable, in practice the result of a focus on economic growth has been a great improvement in national security—because of greater domestic stability, because of the prestige that comes from demonstrated success and decisiveness, and because an economy growing 10 percent annually supports very rapid growth of the military even if the percentage of GDP is relatively small.

## **2.2 Economics over Politics**

Similarly, a priority for economics means that political values often take a subordinate position. National unity and order are of course always a top priority, but even these are often optimized by a shift of leadership attention and resources in favor of economic progress. Just as South Korea did not fare well in the 1950s with a priority for the military, it also fared so poorly in its brief experiment with political democracy in 1960-'61 that the population broadly supported a coup by General Park Chung Hee that promised strength and a focus on economics. Democratization at an extremely low level of economic development has often fared poorly, as happened in South Korea, the Philippines and until recently India. After the development of an educated middle class society, the outcomes of democracy have typically been much better. South Korea and Taiwan not only found that the emergence of an educated middle class society enhanced pressures for political democratization; they also found that it made stable, prosperous democracy possible.

Likewise China remained backward and weak when national priorities were defined by “Politics in Command” and by an emphasis on red over expert. Deng Xiao-ping’s slogan, “It doesn’t matter whether a cat is black or white so long as it catches mice,” is just a colorful way of expressing his successful decision to replace Mao’s “Politics in Command” with economics in command.

The decision to put economics in command comes to pervade national life. In China, South Korea, and Singapore, allocation of infrastructure investments is determined primarily by a national plan based on efficiency. In the Philippines and India, allocation is determined far more heavily by patronage political decisions. In China, a mayor seeking promotion will be judged primarily by whether he has met specific goals for increasing his city’s GDP, investment, foreign investment, and employment. In the Philippines, he will succeed or fail based on whether he has cobbled together enough support from local elite interest groups. A Chinese mayor who succeeds will typically be assigned a different kind of challenge in a different part of China, whereas in the Philippines or India most politicians succeed by consolidating and enhancing a certain collection of interest groups in a particular geographic area. China, South Korea and Singapore achieved their economic takeoffs by running their economies like businesses.

## **2.3 Second Order Consequences**

Although the Asian Model gives overwhelming priority to economics at the expense of military and political goals, rapid economic growth typically supports rapidly increasing military power even if the military share of GDP is small. Park Chung Hee’s decision in 1961 to cut South Korea’s military budget in order focus on economic development led to today’s military superiority over North Korea. Deng Xiao-ping’s cuts of the military share of GDP led to the increasingly powerful Chinese military of today.

Likewise, a focus on economics as the key to successful nation-building paradoxically leads eventually to superior political performance. Domestic stability comes much quicker when economic growth is benefiting everyone. Social pressures for political liberalization emerge much faster in a successful economy. Technological progress turns out to require considerable freedom of discussion. Foreign and domestic investors



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alike press for rule according to law, transparency, freer flow of information, and accountability. In an educated society people can make informed political decisions. In a middle class society, as opposed for instance to one divided into landlords and peasants, citizens are debating how to achieve shared interests rather than engaging primarily in class conflict.

### **3. Priorities within Economics**

Within the overall priority for economics, the most successful Asian economic takeoffs have begun with land reform –termination of feudal landholding systems that previously reduced vast parts of the population to virtual serfdom and put farms into the hands of a few elite families, with infrastructure and other support to help small farmers succeed. In China, which inserted a costly intermediate misstep into industrial-style communes, this was a more complicated process than in Japan, South Korea and Taiwan, but the eventual result was the same: an entrepreneurial burst of production that lifted the economy, together with a sense by rural people, who comprised the overwhelming majority of the population, that the government was sensitive to their interests.

After agriculture, the Asian Model economies have tended to emphasize labor-intensive industry. An emphasis on production of inexpensive consumer goods, both for domestic consumption and for export, has the benefit of creating the maximum number of jobs. This is politically stabilizing; nothing is more destabilizing than mass unemployment, and conversely nothing is more stabilizing than a process that gives people a stake in society: land for farmers, jobs for workers, eventually housing for families.

While the early phases of development , focusing on agriculture and labor-intensive industry, require the building of infrastructure — a form of heavy industry—the most successful Asian economies have typically focused on building capital-intensive industries such as steel, aluminum, concrete, shipbuilding and automobiles only after a period of emphasis on the labor-intensive sectors.

### **4. Strategies of Economic Development**

Of course, it is possible to prioritize economics but get the strategy wrong. Early post-independence Burmese leaders believed that economic development would best be achieved by cutting their economy off from a world dominated by predatory colonial powers. Dependency theorists argue that engagement with the world economy automatically brings subordination of developing economies to the wealthy countries. Early Latin American and Filipino leaders promoted an emphasis on import substitution industrialization and a priority for heavy industry. These perspectives and strategies lead consistently to failure.

The China Model has followed the Asian Model in making opening of the national market and marketization of the economy the core strategies. By opening I of course mean the encouragement of international trade and investment and the acceptance of international market practices. By marketization I mean the replacement of many forms of state-imposed pricing and economic decisions by market mechanisms, along with development of a regulatory infrastructure that enables markets to function. So many volumes have been written about reform and opening that I shall not repeat the details here.

In the Asian model these reform processes are achieved by rapid incrementalism rather than shock therapy. “Gradualism” is not the right word to describe, for instance, the dismantling within just a few years of China’s communes in favor of family farms. Given the size of China’s population, its vast geography, and its social diversity, reforms have in fact occurred at extraordinary speed. The difference between the Asian model and the shock therapy model is not speed so much as careful attention to sequencing so that reforms achieve maximum effectiveness with minimum social disruption. This is also the way most successful Western societies developed, both economically and politically, although Western societies reformed far more slowly, but during





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the latter part of the 20<sup>th</sup> century it became fashionable in the West to recommend shock therapy to others and to deride incrementalism. The same is true today of political development.

Certain other characteristics of the Asian model deserve highlighting. First, competition. The Asian miracle economies achieve efficiency through competition. In textiles, consumer electronics and cars, Japan's and South Korea's economies have been marked by extreme competition — twice as many car companies, for instance, as in the giant U.S. market. The China Model follows this. Starting in the last few years of the past century, China broke up many sector monopolies, for instance in telecommunications, and replaced them with frenetic competition. That has driven costs down and productivity up. Within the Asian Model it is noteworthy that sectors have succeeded to the extent that there was open competition. Japan is most successful in its truly internationalized sectors—for instance, cars and consumer electronics — and is relatively backward in protected sectors such as agriculture. In rural Japan, notwithstanding the very high average incomes of the country, many housewives still launder the family clothes by hand. In China, open competition has led to the emergence of world-class companies like Lenovo precisely because they had to survive fierce competition rather than benefiting from state pampering.

More broadly, the core feature of the Asian model is the systematic search for, and adoption of, best international practice. Early in its development, both in the early Meiji era of the mid-19<sup>th</sup> century and in the early postwar era of the mid-20<sup>th</sup> Century, Japan sent teams all over the world to discern best practice (German education, British navy...) and help the mother country adopt such practices. The real secret of the Asian model's success is this globalization by adoption of best practice. China has carried this aspect to its highest level, sending not just its best students, not just the children of its political and business elite, but also current leaders abroad to ensure that China understands best practice. In the center where I work at Harvard we have a succession of Chinese vice ministers who are there to ensure that their country understands best practice of every kind. This does not mean that Chinese leaders blindly copy foreign practice, any more than early Meiji Japanese leaders did. It does mean that, more than any other world leaders, they understand a variety of management practices other than their own and therefore can systematically choose what seems to them to be best practice for China.

## 5. Political Reform

If the essence of the Asian Model is a priority for economic management, the corollary is that the country is managed for economic efficiency. It is, in short, managed in many ways as if it were a business. As in the economic sphere, political reform in the Asian model is a process of rapid incremental progress.

The Asian Model presupposes a certain kind of leadership motivation. In the Philippines, most of Latin America, and most of Africa for much of the modern period, politicians have wanted to become leaders of their countries because it was the most effective path to become rich. The Asian Model works only where the country has found a way of selecting leaders who focus instead on what future historians will say about them. Ferdinand Marcos wanted to be President of the Philippines so that he could become rich. Park Chung Hee of South Korea, Chiang Ching-Kuo of Taiwan, Lee Kwan Yew of Singapore, and contemporary Chinese leaders such as Deng Xiao-ping and Zhu Rong-ji have been motivated primarily by wanting to ensure that future historians will say they did great things for their country.

This difference of motivations at the top has pervasive consequences for society. For instance, patterns of corruption are different. In all emerging economies, corruption is pervasive. In economies like the Philippines, corruption involves leaders creating monopolies so that they can acquire a share of monopoly profits. Corruption led Marcos to emphasize capital-intensive industrial development, because the more capital you borrow the more you can steal. In the Asian Model economies, however, corruption takes a less corrosive form.



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It takes the form of tips (sometimes huge tips) for implementing development policies; the bribes are a source of inefficiency, but they rarely subvert sound development policy.

The foundation of political reform in the China Model, as elsewhere, is the transition from governance based on charisma to governance based on institutionalized rules. From government by Mao's whim to governance by contemporary China's institutionalized management is itself a revolutionary change. In China, the emergence of a rules-based system began with rules on retirement of officials. Stable governance across a vast territory requires rule-based governance. Markets can develop only on the basis of a vast infrastructure of widely understood rules. Competition-based efficiency can emerge only if competition is based on clear rules of the game. Domestic investors will have the confidence to invest on a large scale only if the rules are clear. Foreign investors are even more insistent on clear rules, implemented by a system that does not depend on political whim. Hence a gradual transition to the rule of law.

Other forms of political development are driven by the requirements of science and the market. Scientific progress requires disagreement and debate, so a degree of freedom of speech comes to physics and chemistry departments. Then it turns out that finding the optimal economic policies requires disagreement and debate and broad freedom to conduct that debate, and so do decisions about the balance between the needs for urban redevelopment and the interests of people who live in the area to be redeveloped. A successful market requires that people be free to choose their jobs and hence to choose the location where they will live. The result is a broad increase in personal freedoms. In this area as in others, China's experience follows that of the other successful economies, in this case most notably Taiwan.

As the economy modernizes, transparency becomes an imperative. Taxation requires accounting transparency. Investment requires transparency, whether that investment is in a joint venture or in stocks and bonds. In the political arena, even a tough authoritarian state finds it difficult to get people to pay their taxes and to comply with policies, and in larger societies this problem becomes exponentially more difficult. Hence, increasing transparency becomes imperative for both economic and governance reasons.

Likewise, accountability becomes ever more complex and difficult as the economy and society become more complex. How are top leaders to know what is really happening in the towns and villages? A vast network of communications and bureaucratic checks certainly helps. But increasingly top leaders need feedback from the public, hence increasing use of polls, of monitoring internet opinion, of allowing the press some freedom to criticize, of tolerating protests within limits, of listening more to the views of legislators and others who represent diverse groups, of permitting village elections.

There is also a driver of political evolution that arises from the changing needs and values of the citizenry. When people are scared and hungry, they yearn for stability and food above all else. The citizens of Japan in 1955, South Korea and Singapore in 1960, and China for much of its modern history have been driven by fear of disorder, war and hunger. Whoever could bring order, unity, food and shelter received their support. But success brings with it new issues. When people live to 70 years rather than 40, when their children virtually all survive and virtually all get an education, when they have a home and a car, they become both more rooted in their society and more demanding. China is in the early stages of this, but the signs of transition are everywhere. People care about the environment and speak out. They care about how urban development is managed and they organize in support of their views. Society supported the vast social stresses that occurred under Zhu Rong-ji, because they saw most of the change as necessary, but attitudes turned negative in his last 18 months and people began to express a yearning for a more harmonious society. Willingness to accept a society run like a business, with the overriding goal of economic efficiency, was beginning slowly to fade. In all the Asian Model modernizations, success eventually puts limits on the extent to which society can be run as a business.

There is much more that I could say about political development in the Asia Model and the China Model. The space of this paper does not allow proper treatment of the aspects of political development in the China



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Model. But hopefully I have said enough to justify two points to two different audiences. First, for the Western audience: the image of the China Model as unchanging and brittle has no basis in reality. Given its scale as one-sixth of the human population, China's political evolution has been extraordinarily rapid. The China Model is fully consistent with the successful evolution of the other Asia Model economies, which has been stressful but largely peaceful. Despite the consensus views of the 1970s, South Korea and Taiwan were not candidates for revolutionary upheaval. Nor is China today. But, as with the economic part of the China Model, it evolves through rapid incrementalism, not through shock therapy. That is to say, it evolves the way most of Western politics evolved, not the way much current Western thought approves of other societies' evolution.

The message for Chinese scholars and leaders is one that they mostly understand very well: the success of the China Model has depended upon very rapid evolution in governance as well as in economy. Continued success will require continued evolution. That does not necessarily imply that politics in Beijing will end up looking like politics in Washington DC; but it does mean that China faces social imperatives, arising from the complexity of modern society and the evolving values of citizens when they become more economically secure, that parallel the imperatives faced earlier by other exemplars of the Asian Model.

## **6. Distinctive Aspects of the China Model**

While the China Model is a variant of the Asian Model, building on the experience of its predecessors, it obviously has distinctive characteristics. The sheer scale of China's geography and population entails important differences.

The most noteworthy aspect differentiating the China Model is its creative use of "One Country, Two Systems" (for Hong Kong and Macau), "One Sector, Two Systems" (for transitions away from state enterprises and the planned economy), "One City, Two Systems," and even "One company, Two Systems" to minimize social stress in the process of potentially stressful transitions. Professor Lawrence Lau has elucidated how this "One, Two" system leads to remarkably efficient transitions (Lau).

Also distinctive is China's use of large scale field tests for new policies. The early economic processing zones; the observation of the effects of dissolving the communes prior to permitting such dissolution throughout the country; the employment of special development zones in Shenzhen, Pudong, Tianjin Binhai, and Chongqing; the testing of new political ideas in Shenzhen; and many other field tests too numerous to mention all demonstrate a pragmatic, careful approach to modernization. China's leaders "cross the river by feeling the stones." Notwithstanding the speed of change in China, they also "cross the river by testing the stones very carefully."

If the priority for economics leads Asian Model countries to manage themselves on the analogy of business management, China has refined the art of managing a country as a business to a distinctive level. Infrastructure development, indicative planning for the growth of different sectors, seed investments in Tianjin Binhai and Chongqing, and many aspects of development are handled the way they would be handled by a large scale business. This reaches its most characteristic form in government personnel management. A Chinese mayor is expected to meet specific business-style targets (economic growth, investments, employment, infrastructure projects) in the development of his or her city. If successful, the mayor will likely be promoted to a more important position in a different area with different challenges. This leadership development process continues as long as the official proves capable of coping with a variety of challenges successfully. This is the way a company like General Electric develops leaders; it could not be more different from the process in, for instance, India, of leaders developing on the basis of consolidating a particular elite coalition of interests in a particular location and of building infrastructure largely on a patronage basis.





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China has also been distinctive among the larger societies in the degree to which it has pursued what one might call social globalization. As noted earlier, perhaps the single most important determinant of success of the Asian Model is a reaching out for the best global practice. In Japan, this search for global practice was particularly vivid in the early Meiji period and in the three decades after World War II, but then Japan turned inward. Both Japan and Korea, as relatively homogeneous, insular societies, have had difficulty accepting many aspects of social globalization. One South Korean president after another battle against the social barriers to globalization, from belligerent xenophobic unions to riots against any imports of U.S. beef, meet with sporadic but cumulative success. Japanese politicians have been less interested in overcoming the barriers and some, most notably recent Prime Minister Hatoyama, have actively denounced globalization. The consequences for Japan's economy have been tragic. At the other end of the globalization have been the city-states, Singapore and Hong Kong, which have been totally open to the best global practice and competition. China falls at the successful end of the spectrum of social globalization.

Demographically China cannot match Singapore's globalization, but the thrust of its policies has been more like Singapore than like Japan. Chinese students learn English; Japanese students study English but do not learn it. The children and grandchildren of China's leaders go abroad for education. Japan's stay home and those few who do go abroad are usually penalized. The number of Chinese students in the U.S. now exceeds any other nationality; the number of Japanese students in the U.S. has been declining precipitously. Senior Chinese officials often spend a semester or more studying in the U.S. or elsewhere. The Ash Center where I work at Harvard has a succession of vice ministers staying for a semester and many hundreds of similarly senior officials who come for shorter stays. Such practices, even more than the details of economic opening and marketization, are the ultimate key to China's current success and its prospects for continuing that success.

China is distinctive in the diversity of its social progress. Shanghai is part of the modern world. Qinghai is still an impoverished, backward economy and society. This unavoidable diversity worsens the inevitable income and social disparities between rural and urban areas, between coast and interior. Those disparities are difficult enough to manage economically. But they create even more serious challenges for political development. Political progress tends to be accompanied by strong waves of feeling across a nation, but Shanghai may well be ready for things that Qinghai is not.

## **7. Risks of the Asia Model**

The Asia Model is typically implemented by a dominant party, or a dominant stable coalition as in Malaysia. A dominant party has many advantages for stability, for continuity, and for implementing socially stressful policies in the face of opposition. But it also carries the risks of ossification and debilitating corruption. Indonesia's Golkar and Mexico's PRI succumbed to these risks. Japan and Malaysia have more quietly lost their dynamism because of these risks. Hubris and interest group subversion of the national interest lead to decay, loss of productivity growth, economic stagnation and political alienation. The China Model incurs such risks but faces them with superior economic openness, superior domestic economic competition and superior social globalization. Hence China's chances are better, but not fully assured.

The speed of development of the Asian model means that the parts can easily get out of sync. For continued success, the economy must continually upgrade at the expense of obsolete sectors. Political reform must keep up with economic reform. The state enterprise-based economy must give way to an economy where growth and jobs and innovation come heavily from small and medium size firms of which a large proportion are private. So far, China's ability to keep the different parts in sync, for a vast population of very diverse circumstances, has been remarkable, but the challenge arises anew every year.



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Geopolitically, a large country that grows rapidly into a major modern economy with great military power requires an evolution from one that takes the international system for granted to one whose own success entails taking responsibility for maintaining the system. Japan had great difficulty with this. By maintaining a relatively protectionist economy that is totally dependent on exports for growth, Japan seriously harmed the improvement of the world trade system and suffered humiliating, unnecessary stagnation at home. China is in a phase where it wants to celebrate its status as a great power but resents being told that it has some responsibility for limiting nuclear proliferation in the Middle East and for avoiding the aggravation of global imbalances.

## **8. Geopolitics of the China Model**

The core of the geopolitics of the Asian Model is that Japan, South Korea, Indonesia, Singapore and China have all enhanced their geopolitical stature when they reduced their military and geopolitical assertiveness in order to concentrate their resources and management attention on economic growth. As already noted, rapid economic growth provides superior political stability, and a military budget that is a small share of GDP grows so fast under the Asian model that it becomes very impressive even while remaining a small share. Just as Indonesia became the leader of Southeast Asia in part by giving up claims to sovereignty over much of the rest of Southeast Asia, so also China achieved its great stature of today in part by resolving twelve out of fourteen of its land border disputes peacefully to the satisfaction of the other parties.

A corollary of the downgrading of geopolitical assertiveness has been the cessation of revolutionary subversion and ideological proselytization. Mao's China tried to subvert governments all over the world and to promote Maoist ideology everywhere. The result was conflict with the majority of the world's governments. Reformist China does not try to subvert any government, does not try to change the ideology of other countries, and has not sought military bases in foreign countries. This has allowed China to focus on economic progress.

The key geopolitical fact about the China Model is that China is not promoting a China Model. Paradoxically this has greatly strengthened China's influence throughout the world.

Many in the West are upset that China does not join in promoting the Democratic Model in Africa, Latin America and parts of Asia. Those who are committed to the universality of the Democratic Model feel threatened by the fact that China's success lights a path to development that does not depend on democracy. This writer's view is that, if there are other paths out of human misery, then we Westerners have no right to object. It is also true that the most robust democracies in the emerging countries are those where Asian Model development rapidly created the educated, middle class societies within which democracy most easily flourishes. As long as China merely creates a model of success, without imposing it on anyone else, nobody has the right to object if other countries emulate some aspects of China.

China's trade, aid and investment policies in Africa do sometimes undercut Western efforts to impose certain governance criteria on aid programs. If there were any evidence that Western aid has actually led to superior performance, then the objections would be valid. I will leave it to proponents of different approaches to demonstrate empirically what actually works. Meanwhile, the Beijing Consensus is merely that there should be no Beijing-promoted path to development. Washington and Brussels are arguing that there should be only one basic governance path to development. The Beijing Consensus is that different circumstances may justify different paths and that countries should be left to decide for themselves. In most cases, given the demonstrated validity of the Asian Model as a path to economic development and political stability, and given the possibility that the Asian Model is the most reliable path to stable democracy, Western defensiveness is unjustified.

Of course, if political laissez-faire is taken to the extreme of willingness to rationalize military sales to genocidal tyrants, then genuine moral issues do arise.



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## 9. Is China Still Following the China Model?

As the case of Japan shows, to understand the development path of any Asian success story, one must constantly check whether the basic elements of the model remain in place. The questions take such forms as:

Is market-oriented reform still moving forward?

Are interest groups taking more control of the political process away from reform-minded officials as happened in Japan? Are the most powerful enterprises accumulating resources and power at the expense of popular welfare and of the development of vigorous SME and agricultural sectors? Is overconfidence leading to a loss of reformist zeal as happened in Japan?

Is political reform keeping up with social change?

Do events of 2010 indicate a move away from Deng's instruction to mute geopolitical tensions in order to focus on economic progress?

Behind the headlines of the day, and the ups and downs of international relations, China draws strength from its meritocratic governance, its social globalization, its openness to competition, and its leaders' awareness that continued economic progress depends on a degree of international amity. It is achieving profound successes in modernizing its western provinces and in adjusting the industrial structures of the coastal provinces to a new era. But the very success of the China Model entails such rapid change that we must renew, each year and at every conference, the key questions about the direction and balance of the model.

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