

Everything you think you know about China is wrong

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Are we obsessing about its rise when we should be worried about its fall?



For the last 40 years, Americans have lagged in recognizing the declining fortunes of their foreign rivals. In the 1970s they thought the Soviet Union was 10 feet tall -- ascendant even though corruption and inefficiency were destroying the vital organs of a decaying communist regime. In the late 1980s, they feared that Japan was going to economically overtake the United States, yet the crony capitalism, speculative madness, and political corruption evident throughout the 1980s led to the collapse of the Japanese economy in 1991.

Could the same malady have struck Americans when it comes to China? The latest news from Beijing is indicative of Chinese weakness: a persistent slowdown of economic growth, a glut of unsold goods, rising bad bank loans, a bursting real estate bubble, and a vicious power struggle at the top, coupled with unending political scandals. Many factors that have powered China's rise, such as the demographic dividend, disregard for the environment, supercheap labor, and virtually unlimited access to external markets, are either receding or disappearing.

Yet China's declining fortunes have not registered with U.S. elites, let alone the American public. President Barack Obama's much-hyped "pivot to Asia," announced last November, is premised on the continuing rise of China; the Pentagon has said that by 2020 roughly 60 percent of the Navy's fleet will be stationed in the Asia-Pacific region. Washington is also considering deploying sea-borne anti-missile systems in East Asia, a move reflecting U.S. worries about China's growing missile capabilities.

In the lead-up to the Nov. 6 U.S. presidential election, both Democrats and Republicans have emphasized perceived Chinese strength for reasons of both national security and political expediency. Democrats use China's growing economic might to call for more government investment in education and green technology. In late August, the Center for American Progress and the Center for the Next Generation, two left-leaning think tanks, released a report forecasting that China will have 200 million college graduates by 2030. The report (which also estimates India's progress in creating human capital) paints a grim picture of U.S. decline and demands decisive action. Republicans justify increasing defense spending in this era of sky-high deficits in part by citing predictions that China's military capabilities will continue to grow as the country's economy expands. The 2012

Republican Party platform, released in late August at the Republican National Convention, says, "In the face of China's accelerated military build-up, the United States and our allies must maintain appropriate military capabilities to discourage any aggressive or coercive behavior by China against its neighbors."

The disconnect between the brewing troubles in China and the seemingly unshakable perception of Chinese strength persists even though the U.S. media accurately cover China, in particular the country's inner fragilities. One explanation for this disconnect is that elites and ordinary Americans remain poorly informed about China and the nature of its economic challenges in the coming decades. The current economic slowdown in Beijing is neither cyclical nor the result of weak external demand for Chinese goods. China's economic ills are far more deeply rooted: an overbearing state squandering capital and squeezing out the private sector, systemic inefficiency and lack of innovation, a rapacious ruling elite interested solely in self-enrichment and the perpetuation of its privileges, a woefully underdeveloped financial sector, and mounting ecological and demographic pressures. Yet even for those who follow China, the prevailing wisdom is that though China has entered a rough patch, its fundamentals remain strong.

Americans' domestic perceptions influence how they see their rivals. It is no coincidence that the period in the 1970s and late 1980s when Americans missed signs of rivals' decline corresponded with intense dissatisfaction with U.S. performance (President Jimmy Carter's 1979 "malaise speech," for example). Today, a China whose growth rate is falling from 10 to 8 percent a year (for now) looks pretty good in comparison with an America where annual growth languishes at below 2 percent and unemployment stays above 8 percent. In the eyes of many Americans, things may be bad over there, but they are much worse here.

Perceptions of a strong and pushy China also persist because of Beijing's own behavior. The ruling Chinese Communist Party continues to exploit nationalist sentiments to bolster its credentials as the defender of China's national honor. Chinese state media and history textbooks have fed the younger generation such a diet of distorted, jingoistic facts, outright lies, and nationalist myths that it is easy to provoke anti-Western or anti-Japanese sentiments. Even more worrisome is Beijing's uncompromising stance on territorial disputes with America's key Asian allies, such as Japan and the Philippines. The risk that a contest over disputed maritime territories, especially in the South China Sea, could lead to real armed conflict makes many in the United States believe that they cannot let down their guard against China.

Sadly, this gap between the American perception of Chinese strength and the reality of Chinese weakness has real adverse consequences. Beijing will use China-bashing rhetoric and the strengthening U.S. defense posture in East Asia as ironclad evidence of Washington's unfriendliness. The Communist Party will blame the United States for its economic difficulties and diplomatic setbacks. Xenophobia could become an asset for a regime struggling for survival in hard times. Many Chinese already hold the United States responsible for the recent escalations in the South China Sea dispute and think the United States goaded Hanoi and Manila into confrontation.

The most consequential effect of this disconnect is the loss of an opportunity both to rethink U.S. China policy and to prepare for possible discontinuity in China's trajectory in the coming two decades. The central pillar of Washington's China policy is the continuation of the status quo, a world in which the Communist Party's rule is assumed to endure for decades. Similar assumptions underpinned Washington's policies toward the former Soviet Union, Suharto's Indonesia, and more recently Hosni Mubarak's Egypt and Muammar al-Qaddafi's Libya. Discounting the probability of regime change in seemingly invulnerable autocracies has always been an ingrained habit in Washington.

The United States should reassess the basic premises of its China policy and seriously consider an alternative strategy, one based on the assumption of declining Chinese strength and rising probability of an unexpected democratic transition in the coming two decades. Should such a change come, the geopolitical landscape of Asia would transform beyond recognition. The North Korean regime would collapse almost overnight, and the Korean Peninsula would be

reunified. A regional wave of democratic transitions would topple the communist regimes in Vietnam and Laos. The biggest and most important unknown, however, is about China itself: Can a weak or weakening country of 1.3 billion manage a peaceful transition to democracy?

It is of course premature to completely write off the Communist Party's capacity for adaptation and renewal. China could come roaring back in a few years, and the United States should not ignore this possibility. But the party's demise can't be ruled out, and the current signs of trouble in China have provided invaluable clues to such a highly probable seismic shift. U.S. policymakers would be committing another strategic error of historic proportions if they miss or misread them.

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