



China: The Race to Market

What China's Transformation Means for Business, Markets and the New World Order

by Jonathan Story
Financial Times Prentice Hall © 2003
304 pages

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Take-Aways

- China is at a critical turning point and could go in any of several directions.
- The direction China goes will depend on complex political and economic uncertainties.
- China can become a great power, it can disintegrate or it can hover between the two alternatives.
- Evidence suggests that the Chinese Communist leadership resembles Britain's Tories — cautious, skeptical, conservative and protective of their own privileges.
- The world's move to market democracy may be unstoppable.
- On the other hand, the world may be headed for revolution and warfare.
- To become rich, China depends on a world order that, in turn, depends on the United States.
- China's population fears uncertainty and chaos more than it fears tyranny.
- China's leadership is in a precarious situation, justifying legitimacy on Marxist principles but rejecting Marxism in practice.
- China has many voices and competing power centers. It is not a "unitary actor."

Rating (10 is best)

Overall	Applicability	Innovation	Style
8	7	9	8

Relevance

What You Will Learn

In this Abstract, you will learn: 1) China's past, present and future international position, particularly in trade; 2) Information about investing, trading and doing business in China; and 3) Just how complex, contradictory and perplexing analysis of China can be.

Recommendation

Author Jonathan Story has assembled in one relatively short book a dense collection of facts, hypotheses and perspectives on China. Unlike many writers who have fixed ideas about China and use their books to promote their ideas, Story gives full and fair time to competing viewpoints. He is not selling a hypothesis, but exploring possibilities. Readers who prefer easy and definitive answers may feel frustrated, because Story provides only difficult and ambiguous alternatives. Yet his approach is solid, and more accurate than a finite stance could be. The future of anything is uncertain, and China is egregiously inscrutable, so any honest pronouncement on China's future must acknowledge uncertainty, difficulty and ambiguity. If the book has a demerit, it is that the author sometimes offers interesting, but meandering digressions through the minutiae of Chinese chronology without fully explaining why the details matter. China is perplexing, so *getAbstract.com* welcomes this compilation of insight — we would have been glad to read even more.

Abstract

Key Questions on China's Future

Prussian military theorist General Carl von Clausewitz said that the essence of war is "friction." You could say the same about the essence of business. Friction occurs at every level of the interplay among business organizations, the market and the greater political environment. To understand why that is so relevant to China, businesspeople operating in China or those whose markets are affected by China, need to know the answers to three important questions:

1. Where is China's development leading?
2. Will China become a major global power and if so, when?
3. What must businesspeople know to invest, trade or compete with China?

China has an opportunity to become one of the world's great powers. Other powers have achieved their positions by costly warfare. China can ascend to the big power table merely by continuing its economic development. If China manages its transition well, it will change the balance of power and the political dynamic of the whole world.

Will China's leadership be up to the task of managing this transition? Far from a radical revolutionary party, the heirs of Mao have come to resemble Britain's Tories. They are skeptics about human nature who put little faith in romantic ideals about the essential goodness of man. Rousseau may have said that men are born free, but are everywhere in chains. And, Marx may have noted that men have nothing to lose but their chains. However, Chinese leaders went through a Cultural Revolution that taught them what happened when the chains went. Mob rule, chaos, violence, destruction, retrogression

"China is indeed the biggest dragon of them all."

"The Chinese Communist Party — one that can lay claim with some justification to be among the most radical of all — has become a sinicized version of the British Tory Party."

“When China’s paramount leader, Deng Xiaoping, embarked on a policy of reforms in 1978, he was well aware that his formula of marketization combined with continued Communist Party primacy would create trouble.”

“The factor of time is crucial to an understanding of China, and of how to operate there.”

“If China runs smarter in the future, it can still catch up with the richest countries.”

and poverty flourished. It is no wonder that the Chinese leadership cocks a doubtful eyebrow at the prospect of liberation.

Of course, these leaders have a strong vested interest in the status quo. They have enjoyed a monopoly on political power in a system where political power is the foundation of economic power. Yet they recognize that their political power depends on an implicit bargain with the Chinese people, who have tacitly agreed to tolerate the system so long as it delivers wealth and prosperity. The catch is that, to continue to deliver wealth and prosperity, the system must become more and more market-driven. The more market-driven the system becomes, the less important political power may be.

So, frictions are changing China, and China’s change is causing more frictions. Meanwhile, the world outside of China is changing as well. Four primary changes have set new frictions in play. They are:

1. The failure of Communism, the emergence of the U.S. as the sole superpower and the worldwide proliferation of states and political entities.
2. International competition, global communications and the disappearance of any credible alternatives to market-based economic and political systems.
3. Integration of worldwide markets re-created under the guidance of the great Western powers.
4. The development of vast, transnational corporations with no loyalty to any particular national interest.

Where is the world heading, and where is China heading? The answers to these questions depend to some extent on each other. Experts offer two basic hypotheses of the future, both acknowledging that China’s development will take place in the context of global development. According to the first hypothesis, the world will, indeed, move more or less steadily to a system of peaceful, prosperous, market democracies sharing the norms of a global civilization. According to the second hypothesis, old antagonisms and conflicts will burst the weak bonds of globalism and lead to violent war and revolution.

Although we speak of China, we must never forget that there are in fact many Chinas. A country of more than a billion people hosts many voices and many opinions, even many centers of power. An old Chinese saying describes the reality of power beyond the capital city: “The mountains are high, the emperor is far away.”

China’s Transformation: The Four Paths

China’s historians see in circles. Dynasties begin, grow strong and powerful, grow wealthy and corrupt, grow weak and fall, over and over, one replacing the other. The Chinese Communist dynasty is presumably no exception. The question is not whether the cycle will repeat, as it has with every previous dynasty, but rather at what point in the cycle the Chinese Communist dynasty now stands and where the next turn of the wheel will take it. Consider four possibilities:

1. The regime is on the brink of failure — Chairman Mao was the most successful tyrant and the most tyrannical failure in human history. He aimed to yank China from the rear to the front of history by destroying useless vestiges of the past. He squandered the goodwill of the Chinese people by forcing the nation into disastrous economic experiments, such as the Great Leap Forward, and by plunging people into the orgy of famine and oppression that exploded in the Cultural Revolution, the

“China could climb on board the East Asian economy only by turning its back on Mao.”

“One major difference between the reform histories of China, Poland and Russia has been the Chinese communists’ aversion to policies with unknown outcomes.”

“Clashes have multiplied, such as the incident in Mao’s native province of Hunan, when peasants in January 1999 went on the rampage after one of their number committed suicide because he could not pay an arbitrary tax on the slaughter of pigs, which a local official had levied to coincide with the Chinese New Year.”

“China is embarked on regime change to constitutional governance.”

apogee of chaos. Chinese Communism has failed. Its failure and the recent emergence of quasi-capitalist enterprises have created serious competitors for power. The leadership has no moral legitimacy; the only justification for its existence was Maoist Marxism, a thoroughly discredited doctrine. Meanwhile China has a burgeoning population, little arable land and stagnant or negative economic growth. Therefore, it faces economic crisis. Some of China’s leaders cite these factors in their arguments for conservative, even repressive, government as a holding action to preserve the status quo and their privileges as long as possible.

2. China will grow, but fall short of greatness — Marxism is no longer credible, yet Marxism is the ideological support of the Chinese system. China is no better than a second-rate power and probably won’t be able to achieve greatness under its present leadership. The revolution and years of Communist government have cost the nation too much. Moreover, China will probably remain conservative, if not stagnant. Western powers ought not to let the Chinese paper tiger frighten them. China merely has delusions of grandeur.
3. China is the next great rival of the U.S. — China made it clear, in the Tiananmen massacre, that it will not tolerate the development of internal democracy and that it will not accept Western philosophies about human rights. China is intensely nationalistic and sees the U.S. as a threat to global peace and order. China’s population is growing and its economy is developing, albeit with difficulties here and there. Nonetheless, a collision between China and the U.S. is inevitable.
4. China is the world’s next great market democracy — The regime has to allow economic development in order to preserve its perquisites but, as noted above, the continuing development of markets will inevitably create competing power centers and erode the Communist monopoly on power.

China on the World Stage

China sees the United States as a partner in its development, but also as a rival. U.S. support for Taiwan is the only predominant obstacle to China’s “recovering” the island that Chiang Kai Shek established as his bastion after the Nationalist retreat from the Mainland.

U.S. influence in Asia is also a problem, especially given America’s offer of nuclear missile defenses to some Asian states. This kind of cooperation would seriously erode the value of China’s own nuclear arsenal as a means of projecting Chinese power in the region. Yet the U.S. is not only the world’s strongest military power, it is also the world’s most important market and the single most important source of investment capital. There is no way for China to avoid working with the United States.

The nuances of this relationship came to the fore during the struggle for China’s accession to the World Trade Organization (WTO). China’s motives for joining the WTO were hardly pure. Membership would grant it coveted status as a member of the world community. Membership would also allow China to participate in and impede negotiations that aimed at opening other markets. Some parties in China stood to lose a lot from WTO membership. In fact, that is probably why premier Li Peng did nothing to advance China’s membership during his long reign (1987-1998). He hailed from heavy industry, a sector that would certainly have to make a great sacrifice to support China’s WTO membership.

If domestic political concerns influenced China’s course toward membership in the WTO, it also affected the U.S. attitude. Most notably, President Bill Clinton almost

“China is poised for a very long period of growth.”

“From the start, China’s equity markets in Shanghai and Shenzhen have been a casino.”

torpedoed Zhu Ronji in 1999 by rejecting Zhu’s generous proposal to accede to U.S. demands as the price of entry to the WTO. Why did Clinton reject such a good deal? He was trying to curry favor with U.S. labor unions and other domestic constituencies.

It is still not clear what China’s membership in the WTO will mean. In one sense, WTO membership is a great badge of status that signals China’s arrival in the international community. Other badges include the decision to hold the 2008 Olympics in Beijing, the hosting of the APEC Summit in Shanghai and the fact that China could send a team to the World Cup. China has gained much face. But China’s internal political and economic frictions continue, and it is by no means certain that China plans to promote free trade if that means more sacrifice by privileged Chinese industrial and service sectors. China may choose to help or to hobble the WTO’s global trade agenda.

China’s Economy

China cannot retreat from the international economic and financial system. There is no going back to Maoism. Clearly, the U.S. strategy of containing communism through economic development has, in fact, worked. The successful Asian economies have been market-driven and trade-oriented. Although experts take China’s economic statistics with a few handfuls of salt, some things are indubitable. Among them:

- China ranked number 32 among the world’s exporters in 1978, shortly after reformers took power in Beijing. Now it ranks number six.
- Foreign investment drives 40% to 60% of Chinese exports.
- Chinese domestic savings grew from less than \$80 billion when reformers came to power in 1978 to nearly \$900 billion in 2001.

Market-oriented reforms have been very good for China. Moreover, China has plenty of growth ahead of it. The big question is how long it will take before rich Chinese begin to assert their economic power on the political front. How long will people tolerate political domination by Communist leaders they have not chosen? Some interesting demonstrations that the population is growing restive under arbitrary Communist rule have already been held here and there in China.

The stakes are high and the die is cast. More than that, no one can say for sure. Right now the strongest hypothesis is that China will indeed evolve into a market democracy almost indistinguishable in most important respects from any of the other main world powers.

About The Author

Jonathan Story, professor of international political economy at INSEAD in France, is a Shell Fellow in Economic Transformation. He wrote *The Frontiers of Fortune: Predicting Capital Prospects and Causalities in the Markets of the Future* and created The Story Country political and risk assessment software. He has consulted with international corporations, including IBM, Eastman Kodak, Dresdner Bank, Ericsson and ABB.

What China's transformation means for business, markets and the world order. "Here is a book on China that places corporations center stage. Story paints the broad canvas of China's transformation in all its dimensions, while providing sound advice to senior management. Here is corporate strategy on a grand scale. A must read". In China; The Race to Market, Jonathan Story helps you and your business to answer three essential questions: what direction is China's development taking? Will china successfully emerge as a world power? And what do we need to know to do business with or invest in the emerging China? The Amazing Race 1 (Chinese: æžé€Ÿâ%è¿; pinyin: JĀsĀ¹ QiĀ;njĀ~n) is a Chinese reality television series loosely based on the American reality TV series, The Amazing Race. It is the first season of The Amazing Race (Chinese: æžé€Ÿâ%è¿; pinyin: JĀsĀ¹ QiĀ;njĀ~n). It features eight teams of two in a race around the world. This is the second version of The Amazing Race to be produced in China, following The Amazing Race: China Rush. This new version is broadcast on Shenzhen TV, and had its premiere on October 17, 2014