

1 | *China Model/Asia Model*

In a famous comedy skit, Mel Brooks plays a 2000-year-old man. The interviewer asks, "What was the means of transportation [2000 years ago]?" His answer: "Mostly fear . . . Fear would be the main propulsion."

Why has China succeeded?

What are the chances that it will continue to succeed?

What are the risks that it will not?

The Chinese Miracle succeeded by emulating the essential features of the other Asian miracle economies. Those essential features include strengths and achievements that Western commentators have been slow, even reluctant, to acknowledge. However, China now faces challenges that the other Asian miracle economies faced, with eventual success, but seems to be taking a different path from those that led to success in its predecessors. The current leadership is taking unprecedented risks.

In the course of examining the roots of the Asian miracle economies' success I argue that only a few countries can follow the Asian miracle model; hence Western fears of an imagined "Beijing Consensus" are entirely misplaced. The achievements of these countries – especially South Korea, Taiwan, Singapore, and China in their first-generation takeoffs – should be respected and celebrated rather than deplored and feared. Conversely, the imposition on very poor countries of institutions that work well for the advanced industrial democracies often leads to results that are the opposite of what was intended. If these findings are accepted, the foreign-policy implications are transformational. Western fears that countries in Africa and elsewhere might find ways to develop that do not utilize Western electoral institutions should be condemned; if you care about human dignity, the first task is for people to live long enough to have some human dignity, to have

enough food and shelter and medical care to have some human dignity, and to have at least the rudimentary education that is the foundation of dignity in any modern society. If you are malnourished and ill and illiterate and your children are at risk, participating in an election doesn't help much.

We have long understood the economic details of how developing economies can achieve extraordinary growth. Among many others a voluminous 1993 World Bank report called *The East Asian Miracle*¹ collected the evidence of seven fast-growing economies along with the insights of some of the world's great economists. Few economies in world history have been more carefully studied for policy insights than the fast-growing Asian economies. More recently the Growth Commission² collected the wisdom of the world's leading growth economists. The foundations of economic growth are not particularly mysterious, although the ways of achieving them attract great controversy.

Fear and Simplicity

For all we have learned and widely publicized about promoting economic growth, fewer than 10 of the world's nearly 200 economies have been managed in the ways necessary for very rapid growth. Why? Isn't growth the main task of developing countries? The central insight is not that of the World Bank but rather the wisdom of the 2000-year-old man. The societies that have been able to implement the required policies are all ones that have experienced excruciating trauma and intense fear: Japan after losing World War II; South Korea after the Korean War; Taiwan after the Chinese Civil War; Singapore after its traumatic separation from Malaya (which meant facing two much larger powers, Indonesia and Malaysia); Vietnam after wars with France, the United States and China; and China after a century of foreign humiliation and tens of millions of deaths from domestic strife. The tier of societies that have sustained just slightly lower rates of progress shares

¹ World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Washington, DC: World Bank, 1993). For a more recent survey, see Dwight H. Perkins, *East Asian Development: Foundations and Strategies* (Cambridge, MA: Harvard University Press, 2013).

² Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington, DC: World Bank, 2008).

some of the characteristics – Indonesia after the horrors of the Sukarno years and the bloody 1966 transition to Suharto, Malaysia after decolonization threatened by Indonesia's *Confrontasi* (confrontation), Thailand after the Vietnam War. The policies required for rapid growth entail enormous social dislocations, and political leaders who consider imposing such dislocations reasonably fear for their jobs. They only try when they are terrified of the alternative, and when a population fearful of collapse accepts otherwise unacceptable stresses. These are the political prerequisites of miracle-level growth.

The fear I am addressing here is broadly shared fear of societal collapse or destruction, such as occurs in a context of imminent, present or recent great war or ecological or other collapse. One of China's current problems is that shared national fear of collapse has given way to complacency and some hubris. There is lots of fear, to be sure, fear for top leaders' positions, fear for the Party, fear that the anti-corruption campaign will destroy one's family's wealth and safety. But this is not the shared fear that leads to near-universal willingness to accept shared sacrifice in order to save the society. These narrower fears often lead to opposite kinds of behavior, including inaction, neurotic reinforcement of obsolete norms, and personal selfishness or organizational sub-optimization at the expense of any larger social goals.

Even though pervasive fear is not an important variable in modern political science or economics, it is true everywhere that a frightened society, with both a frightened leadership and a frightened populace, works differently from a "normal" political economy. Faced with World War II, the United States and United Kingdom chose exceptional leaders, Franklin D. Roosevelt, Harry S. Truman, and Winston Churchill. In normal times the United States chooses more comfortable, incrementalist leaders, like George W. Bush, who gained a decisive margin of support from being seen as a genial guy with whom to share a beer. Similarly, other peacetime leaders get elected for reasons other than extraordinary talent and experience; inexperienced Barack Obama and Donald Trump would never have been elected in the midst of a world war. The wartime leaders pursued grand visions and took great risks, and they were supported by their people because the world situation made people afraid and willing to accept enormous stresses and sacrifices. This phenomenon, married to modern learning about the process and benefits of rapid economic development, is the political key to the Asian miracle economies.

Pervasive societal fear stimulates leaders to take great risks and peoples to support leaders who take great risks and impose otherwise unacceptable social stresses. It does not ensure that those leaders get it right or that the people invariably follow wise leadership. Mao Zedong took great risks, and a hopeful populace followed him, but his mistakes led to the greatest losses of life in human history. What happened with the Asia Model was that Japan and then several smaller countries found a strategy for rapid, overwhelming success and others, including belatedly China, emulated earlier successes.

In several cases, the advantages of fear in unifying adequate support for stressful policies have been supplemented by the power of foreign imposition. Most notably, in Hong Kong the government was the colonial United Kingdom, imposing economic policies from London with only limited dependence on local Hong Kong interest groups – and managing a comfortably small place, unlike colonial India. (I have not included Hong Kong in most of my commentary on the miracle economies, despite its rapid growth, because, as a pure colony, its politics was different. Likewise I have not included Vietnam, because it follows after China rather than creating lessons for China to follow – and its reforms may be stalling earlier than China's.) In Japan, South Korea, and Taiwan, redistributionist policies, especially land reforms, were imposed or facilitated by a foreign power, the United States. Moreover, in Taiwan the government that imposed land reform came from the mainland and was not redistributing its own people's farms. This pattern of outsider-imposed policies emphasizes the political difficulty of implementing the economic policies, particularly the egalitarian policies, needed for rapid economic development.

Digging deeper, these few societies shared a temporary simplicity of the political–economic task they faced. Their economies, except Japan, were relatively simple – mostly basic agriculture, simple manufacturing, and infrastructure. Japan is a partial exception because it was rejuvenating a previously modern economy, not building one for the first time – only a partial exception because rejuvenation is much simpler than building from scratch.

Fear, properly managed, simplifies politics in these countries. It does so by engendering widespread popular willingness to accept social stresses that would normally be unacceptable. It also motivates leaders fearful of collapse to take risks that national leaders normally would not take. People are desperate; they fear total social collapse, and they

often fear that their families will not have enough to eat.³ Hence they are prepared to follow leadership that they find credible even at the cost of extraordinary social upheaval.

Populations were willing to accept, for instance, radical land reforms, loss of 45 million state enterprise jobs under Zhu Rongji, and many other things, because fear created wide agreement that the country's situation required radical measures and shared sacrifice. When China joined the World Trade Organization, its 128 small, inefficient car companies, its steel and other major industries, were forced into overnight transformations, each undergoing changes in a few years that would be considered intolerable over decades in the West.

Reformist China is the archetype of fear-driven leadership. Surveying the wreckage of China's government, Party and economy after Mao's Cultural Revolution, Deng Xiaoping decided to acquiesce in Anhui farmers' move to take back their farms, sacrificing the direct Party control over farmers' livelihoods that provides control in a socialist state – at the time a frightening risk for Deng to take. When the benefits became clear, acquiescence evolved into promulgation. Later the Party curtailed much of its direct management control of industry, again losing direct control over workers' lives. We now take it for granted that the ensuing economic improvements generated popular support, but at the time these were daunting risks.⁴

³ Hunger was endemic in China in the first half of the twentieth century, and Mao's misguided policies led to the starvation of at least 30 million people in 1958–1961. Korea's last Japanese Governor General wrote that many Koreans spent the winters looking for grass and bark to eat; the Korean War then made things even worse. Before their great economic takeoffs, Taiwan and South Korea were among the world's most impoverished economies, well behind impoverished African economies at the time – a fact that has nearly vanished from memory. Following World War II, even the Japanese suffered from widespread hunger. Singapore at the time of independence was frequently characterized as just a malarial swamp.

⁴ Encapsulating Deng's strategies, and the drama that surrounded them, in a few sentences is necessary but the compression is almost painful. For a thorough and compelling analysis of those times, see Ezra Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Harvard University Press, 2013). Vogel has also written extensively on the other Asian miracle economies that I frequently reference here. Part of Deng's pragmatic genius was to accept bottom-up movements, such as the ones for peasant control of farms and of local officials to found entrepreneurial town and village enterprises, that spread prosperity at great cost to ideological orthodoxy.

Fear of collapse lay behind the willingness of Deng, Jiang Zemin, and Zhu Rongji to risk loss of the Party's most important levers of social control. Fear of collapse led them to risk upheaval by imposing wrenching job changes on tens of millions of people. Zhu risked his job repeatedly to avert financial collapse. In 1998 China's most prestigious international trading company and its largest foreign borrower, Guangdong International Trust and Investment Company (GITIC), became insolvent through mismanagement and corruption. Guangdong is far from Beijing and traditionally resistant to rule from the center, and was China's best-performing province. Zhu decided to let GITIC go bankrupt. That precedent made furious foreign lenders more cautious; my estimate at the time was that it cost China at least US\$50 billion of potential foreign loans, but it saved China from the risk of future Latin America-style financial collapse. I asked Zhu whether the political costs for him weren't pretty serious. He said, through a translator, "Yeah, they're trying to get rid of me again, but I think I'll be here a little longer."

Fear underpinned the courage of Deng and Zhu. Fear made China's vast population willing to accept their painful decisions. One of the problems of today's Chinese leaders is the difficulty of adapting to a new era where, in the absence of popular existential fear, people and interest groups do not easily acquiesce in demands for sacrifice, and, in the absence of leadership fear of collapse, leaders lack the motivation to take the reformist risks that early leaders took. This contextual change underlies China's loss of reform momentum under Hu Jintao and the great dilemmas of belated reform against resistance that Xi Jinping and his colleagues face today.

The Philippines, the most highly developed third-world country after World War II, both in institutional sophistication and in terms of all major indices of development, was not a candidate for an Asian miracle reform because US protection removed the potential reasons for fear by protecting it from foreign threats and intervening against domestic threats. In sum, a relatively simple economic problem, an existing sense of shared identity, and politics simplified by terrifying fear constitute the prerequisites of the great Asian economic miracles.

Simplified politics does not of course mean the absence of politics. Every society has factions. Every leadership has to ensure a certain amount of social support and must fear losing it. By 2003 the Chinese

population was tired of Zhu Rongji's reforms and angry; it took years before appreciation for his heroic reforms revived. Moreover, China in the reform era has always had powerful factions. Deng Xiaoping's industrial reformism had to contend with Chen Yun's conservatism. Zhao Ziyang and Li Peng fought from opposite ends of the political spectrum. Jiang Zemin's exceptional political skill kept – with difficulty – Zhu Rongji's market reformism and Li Peng's favoritism toward state-owned enterprises (SOEs) working inside the same tent. But the leadership's search for big, sometimes iconoclastic strategies and willingness to incur huge risks, backed by the population's willingness to accept extraordinarily stressful changes, made the task of rapid transformation possible. Again, the same thing happens in Western democracies during world wars.

The Asian miracle developed from the example of Japan and from a dialogue shared among South Korea, Taiwan, and the ASEAN countries. Belatedly, China tapped into that shared experience under Deng Xiaoping's leadership after 1979. What they learned from each other was, first, to focus obsessively on economic development; and, second, some techniques for achieving that development.

Shared Identity

In addition to simplified economics and politics at the beginning of these Asian miracles, they are societies with some degree of shared identity and national cohesion, so they don't have to build a national identity first. Laos isn't a candidate for an economic miracle, and Indonesia had to build a national identity under a wild-eyed, confrontational, ideological post-independence leader, Sukarno, before it could embark on rapid growth under his successor, Suharto.

Emulation and Limits

Note how constraining these prerequisites are. The Asia Model is viable only in a very small number of developing countries. And the mobilization around economic growth at all costs is viable only as long as the fear lasts. I shall return repeatedly to this point, because it is crucial to an ongoing debate about the spread of the "Beijing Consensus."

The China model is a variation of an East Asia Model that has repeatedly proven successful in achieving domestic political stability,

prosperity, international influence and domestic legitimacy but also has characteristic pitfalls. One of the original drivers of the China model was Deng Xiaoping's recognition that key Confucian neighbors were achieving these aspects of modernity with a speed and resilience that far outpaced what Maoist policies were accomplishing in China itself. After multiple conversations with Zhu Rongji (economic czar and prime minister under Deng's successor, Jiang Zemin⁵), 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. Li Peng and others sought to emulate aspects of Singapore's development, even to the point of giving Singapore control of an area the size of Singapore outside Suzhou. Study of the successes and failures of other Asian miracle countries, particularly the Confucian neighbors, has been a fundamental reason for China's success.

The China model, like its predecessors, 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,⁶ along with the related goals of stability and legitimacy. It is, in short, a strategy for creating a modern society.

As a variation of the Asia 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. For instance, as noted in the Introduction, South Korea has built its miracle with giant conglomerates while Taiwan's dynamism comes mainly from numerous smaller companies. Nor could China simply copy anyone else's experience; China's conditions, most

⁵ Jiang was Deng's successor as "leader." They had different titles. Jiang was President, Communist Party Secretary and Chair of the Central Military Commission. Deng, with lesser titles, became the "paramount leader" even when his only title was honorary chairman of the Chinese bridge players' society.

⁶ To understand China's multi-generational search for a path to wealth and power, through some combination of borrowed Western techniques and traditional Chinese institutions and values, see Orville Schell and John DeLury, *Wealth and Power: China's Long March to the Twenty-First Century* (New York: Random House, 2013). Their technique of mapping China's national journey through biographies of its most influential thinkers yields exceptional clarity.

notably its huge scale, multiple dialects, and different conditions in different regions, contrast strikingly with the smaller and generally more homogeneous earlier successes. I will address some of China's unique techniques below.

Some commentators have ascribed these countries' success to culture or to a tradition of hard work. Confucian culture does provide a boost, because the biggest success stories share a history of relatively meritocratic bureaucracy and of reverence for education. But these do not explain most of their success. South Korea, Taiwan, Singapore, and China were among the world's poorest countries as late as 1960. Their success was because they implemented basic growth policies with an efficiency that was lacking elsewhere. Other countries, with different cultures, that followed a fairly high proportion of the same policies – Malaysia, Thailand, Indonesia – also achieved high rates of growth. (These countries do have substantial ethnic Chinese minorities that are the most dynamic part of the economy. But other countries, like the Philippines, which have the ethnic Chinese community but not the policies, lack the economic dynamism.) Likewise, when the policies change, as in Thailand, the economic performance declines even though the Confucian minority remains the same.

Without the policies, the labor force didn't work hard. Before Park Chung Hee took power in 1961, South Koreans were famous for the opposite; in making an appointment, South Koreans would specify the date and place but not the exact time. One person would just wait around until the other showed up. Market competition and Park's military-style discipline changed the mentality to one where it was an insult to show up a minute late. Likewise, when visiting Chinese factories in 1982 I was amazed at the way so many workers just stood around smoking and chatting. Competition and incentives made the difference.

Despite the variations, there are vitally important resonances among the Asian success stories. Through most of the 1980s, after Deng Xiaoping and Gorbachev became leaders, at a time when the Western consensus was that Deng would fail and Gorbachev would succeed, I used Table 1.1 in explaining why the opposite would occur. (This table became the analytic core of my controversial book *The Rise of China*.⁷)

⁷ William H. Overholt, *The Rise of China: How Economic Reform Is Creating a New Superpower* (New York: W. W. Norton, 1993).

Table 1.1 *East Asian priorities versus Gorbachev's*

<i>East Asian priorities</i>	<i>Gorbachev's priorities</i>
1. Agriculture	1. International politics
2. Light industry	2. Domestic politics
3. Heavy industry	3. Heavy industry
4. Domestic politics	4. Light industry
5. International politics	5. Agriculture

These were not the only decisive differences, of course. Most notably, Chinese incrementalism enabled all social groups to gain continuously, albeit at different rates, whereas the shock therapy promoted by Western economists and accepted by Russian leaders created unconscionable human suffering. (Russia suffered a 40 percent decline in GDP and the losses of some social groups greatly exceeded that.) That suffering discredited Western capitalism and democracy, and led directly to Russia's reversion to authoritarian politics and crony economics. In contrast, the initially authoritarian East Asian model creates the potential, although no assurance, for prosperous democracy.

The Asian priorities typically produce rapid growth, domestic political stability based on the fruits of that growth, international prestige because of the rapid increase in prosperity and stability, and a solid educated middle-class foundation for potential political liberalization later on. The Gorbachev priorities, which are applauded by US 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. Jimmy Carter's Asia policies began with his determination to disconnect the United States from the horrors (as he and some advisors saw them) of South Korea and Taiwan. 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.

The consistent success of the Asia Model has been ideologically unacceptable to most of Western opinion most of the time, whether

in South Korea and Taiwan in the 1970s or in China in more recent years. American political scientists wrote eloquently about how Gorbachev would succeed because he understood the need to achieve political legitimacy before focusing on economic reform. Leading US economists advocating shock therapy for Russia insisted that their approach was the only correct one, to the point of blocking publication of articles that contradicted their view. But the Asia Model has succeeded on such a scale that historians will write centuries from now about how it changed the world.

The Western world needs to accept two realities. One is that, in the limited situations where it is possible, the Asia Model is the most efficient path to improving human dignity. People's lifespan doubles in several decades. Illiteracy vanishes. Desperate hunger and malnourishment give way to modern diets; the next generation is inches taller. The emergence of an educated, middle-class society creates for the first time the potential, although not the certainty, of a more pluralistic political order consistent with high levels of economic development.

Conversely, and this is why I have emphasized the prerequisites of the Asia Model, this model works only under very constrained conditions – a relatively simple economy, intense fear, some minimal level of cohesion – that are present only in a small number of countries and that dissipate with success. While most societies' sense of common identity and cohesion tend to rise with economic success (see Indonesia), simplicity and fear dissipate with success. China is having a very difficult time coping with the transition from fear to confidence or hubris, because the politics of an era of confidence is radically different from the politics of an era of fear. Moreover, the side effects of obsessive priority for economic growth accumulate with success and force changes in the model.

With the transition from fear to hubris, and the transition from a relatively simple economy and social structure to a modern complex economy, the period of obsessive mobilization for economic growth ends and the period of relatively simplified politics ends too. Moreover, around this time the society discovers that the obsession with economic growth has had huge costs, for instance environmental degradation, that must be urgently addressed. The early period where resources are obsessively mobilized for economic growth can best be termed a mobilization system.

A Mobilization System

The core of the Asia Model is a mobilization of society's resources around a single goal, namely economic growth. The concept of the mobilization system comes from the military and can only be properly understood as an evolution from a military process. It is not only an analogue of military mobilization but also an evolution of military mobilization systems. Napoleon learned to mobilize a mass army, drawing more of society's resources into battle and thereby winning great victories. In World War I, more extensive mobilization occurred and was defined as a specific preparation for imminent war. We say that Serbia, Austria, and then successively Germany and Russia mobilized in July 1914. Although the same word is used, this is different from Mao's idea of mobilization (riling up riotous masses) or from the social scientists' use of the word to describe the precipitation of social interest groups that occurs when societies modernize.

As the world moved toward World War II, modern military-economic mobilization began. Japan adapted from Hitler and Stalin key aspects of a modern system of mobilizing for war. The government asserts extensive control over the economy. Because the banks are susceptible to direct control, finance is organized around banks rather than stock and bond markets. Companies are subordinated to administrative guidance (or direct government ownership elsewhere). Since one can't afford to let a crucial military supplier go bankrupt, the survival of all important companies is guaranteed by embedding them in a giant conglomerate (pre-war zaibatsu or postwar keiretsu). Employees are subject to ruthless discipline, including demands for total loyalty, but are promised continuity of employment. Egalitarian policies reduce the risk of revolt from below and enhance the military-like sense of camaraderie.

These policies, or structures, passed from Germany and the Soviet Union to Japan and onward to South Korea, China, Taiwan, and Singapore. There were important variations. State control was exercised through administrative guidance and control of credit in Japan; through detailed guidance of privately owned chaebol from the president's office in South Korea; through state ownership in China; through Guomindang Party ownership of the crucial

40 conglomerates in Taiwan. For central control of national resources, socialism or its analogues and Leninism or its analogues are optimal. During wartime governments employed these resources to direct maximum devastation against the enemy and to shift deployments decisively when needed. The genius of the East Asian miracles lay in the discovery that the same mobilization resources could be employed to foster the most rapid economic development in world history. They built roads and bridges and telecommunications; imposed order on strife-torn societies; imposed the social changes attendant upon wildly rapid economic change; and planned for the economy and society the way a good military commander would plan, with intricately detailed models but with enough flexibility to cope with unplanned changes.

The relative simplicity of the impoverished economies, and the relative simplicity of rejuvenating modern industry in Japan, along with the relative simplicity of leading a population whose fears made them malleable, made the success of this economic mobilization system possible.

Conversely, the evanescence of those conditions, which economic success transforms within a generation, limits how long governments can succeed with mobilization policies. To understand those limits one need only imagine the US military leadership put in charge of managing the economy and social policies. Those military leaders are probably among history's most talented, but they would make a mess of Silicon Valley. Equally, of course, one would not want Silicon Valley's brilliant disrupters running the military. The tasks of managing a modern military and managing a modern economy require different skills and different organization structures. But there is a sweet spot of overlap, a very limited sweet spot in geography and time, where structures invented for military mobilization can succeed at economic mobilization.

Priority for Economics

As noted, the single most important policy aspect of the mobilization period of the Asia Model is an obsessive 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.

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 percent 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. The devastating consequences of Japan's shift from economic priorities to a priority for patronage politics remind us that Asian miracles can go backward, not just forward, if the priority for economic efficiency is completely abandoned.

South Korea failed to achieve growth, domestic political stability, or even minimal international security under the Rhee Syngman regime of the 1950s, which emphasized military priorities, or the brief, unstable, hapless Chang Myon regime of 1960–1961, which emphasized democratic political processes. 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 percent 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 malnutrition of North Korea's people, has shifted overwhelmingly in South Korea's favor. See Table 1.2.

In Southeast Asia, the transformation of Indonesia, from a society on the brink of civil war and riven 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 downgrading ideology

Table 1.2 *Asia Model priority for economics*

Priority for economics	Priority for military or politics
<ul style="list-style-type: none"> • Park Chung Hee's South Korea, 1961–1979 	<ul style="list-style-type: none"> • Rhee Syngman's South Korea, 1950–1960 (military) • Chang Myon's South Korea, 1960–1961 (politics)
<ul style="list-style-type: none"> • Suharto's Indonesia (1966–1998) 	<ul style="list-style-type: none"> • North Korea (military) • Sukarno's Indonesia (geopolitics, ideology)
<ul style="list-style-type: none"> • Japan, 1955–1975 	<ul style="list-style-type: none"> • Japan, 1975–present
<ul style="list-style-type: none"> • Deng Xiaoping's China 	<ul style="list-style-type: none"> • Mao Zedong's China

and of quietly abandoning territorial claims that had previously covered much of Southeast Asia.

Likewise, the beginning of China's rise coincided with a similar shift of priorities. Military analysts in the United States estimate that in 1976, at the end of the Cultural Revolution, 16 percent of China's GDP was going to the military. Deng Xiaoping reduced that to around 3 percent. The theory of peaceful rise – a rise emphasizing economic development in a context of peace – articulated by Chinese foreign affairs expert Zheng Bijian summarized not just a Chinese concept but the broader experience of the most successful Asian societies.⁸ Focus

⁸ Zheng Bijian'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. (Zheng served in a number of positions as a foreign-policy thinker and spokesman, including Executive Vice President of the Central Party School.) In English, his best-known publication is "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs* 84(5), 2005, pp. 18–24. Western security specialists usually treat this thesis just as a propaganda point, but it is central to the course Deng Xiaoping 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, eds., *International Violence* (New York: Praeger, 1983), pp. 116–129; "Progress and Politics in Pacific Asia," *International Security*, Spring 1983, pp. 180–194; and "The Pacific Basin Model: The Moderation of Politics," in James Morley, ed., *The Pacific Basin* (Washington, DC: Academy of Political Science, 1986), pp. 35–45. None of these focused on China, but rather they focused on the models that China subsequently emulated. Chinese thought leaders developed the "peaceful rise" concept a decade

on these priorities kept the big-power peace in Asia for half a century. (More recently, the United States, Japan, and China have all shifted toward traditional geopolitical competition.)

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 its percentage of GDP is relatively small. In most years, China has kept the growth of the military budget at or below the growth of government revenues (which have grown much faster than the overall economy), so that the military share of government spending has over time generally declined even though actual spending has been able to increase very rapidly.⁹

In most of these cases, including China during its 1980s fear of the Soviet Union, US protection facilitated the decision to give priority to economic growth. That does not make their decision less important. It is difficult for extremely threatened countries to curtail their own military expenditures. In most cases, most notably China and Indonesia but including all of the great economic takeoffs, the shift to economic priorities entailed abandoning major territorial claims or geopolitical ambitions or both. North Korea could have relied on its allies for protection and chosen to emphasize economic development, but its failure to do so has left it a basket case.

Economics over Politics

Similarly, a priority for economics means that political values often take a subordinate position, whether “political values” mean political

later and many believed it to be uniquely Chinese. Deng Xiaoping and Zhu Rongji knew better.

⁹ As growth slows, military spending growth necessarily slows. See Andrew S. Erickson and Adam P. Liff, “The Limits of Growth: Economic Headwinds Inform China’s Latest Military Budget,” *Wall Street Journal*, March 5, 2016, <http://blogs.wsj.com/chinarealtime/2016/03/05/the-limits-of-growth-economic-headwinds-inform-chinas-latest-military-budget/>. It is worth noting, in reading all US articles about Chinese military spending, that the Western media always – without any exception that I have ever seen over a period of decades – report economic growth in real terms (i.e., with the inflation taken out), but military budget growth in nominal terms (i.e., with the inflation left in).

opening or democratization or creating Mao's new socialist man. 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 1960–1961 that the population broadly supported a coup by General Park Chung Hee that promised strength through a focus on economics. Democratization at an extremely low level of economic development has often fared poorly, as happened in South Korea, the Philippines, Thailand, and until recently India. (More on this can be found in Chapter 4.) 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 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 (loyalty to communism and Mao) over expert. Deng Xiaoping'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, Taiwan, and Singapore, allocation of infrastructure investments is determined primarily by a national plan based on efficiency. In the Philippines and India, allocation is determined principally by patronage political decisions. In China, a mayor seeking promotion will be judged by whether he has met specific goals such as increasing his city's GDP, investment, foreign investment, educational performance, and employment. In the Philippines, he will succeed or fail depending 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 and continue working up by confronting diverse challenges in diverse areas, whereas in the Philippines or India most politicians succeed by consolidating and enhancing a certain collection of elite interest groups in a particular geographic area. China, South Korea, Taiwan, and Singapore achieved their economic

takeoffs by running their economies like businesses. (See the detailed discussion in Chapter 4.)

This distinction is not a black and white one. Every governance system involves patronage. In every governance system, personal loyalties matter. In every governance system, factions form. What is distinctive about China and the other Asian miracle economies is the emphasis on achievement of specific goals as a prerequisite of promotion or job retention. In the Asian miracle economies everything is framed by an economic plan and an organizational structure designed to implement that plan. China operates more like a modern business than an entourage. Even in GE or in an investment bank, there are factions, patronage, and personal loyalties, but if an executive can't meet his or her assigned objectives that executive will fail. There is intense competition over objectively defined performance, and those who outperform generally succeed (notwithstanding the controversies about this in the Western political science literature reviewed in Chapter 4).

As noted earlier, the period where obsession with economic growth overrides every other priority is a form of *mobilization system*.¹⁰ In Japan the postwar mobilization system lasted from 1955 to 1975; in China it lasted from 1980 to 2002. Most mobilization systems are created for war or the prospect of war. The original modern Asian mobilization system was instituted in Japan as it prepared for what became World War II, and its essential features were copied from Hitler's Germany and Stalin's Soviet Union: centralized, authoritarian politics; a financial system dominated by banks rather than stock and bond markets since governments can control banks; government guarantees that no essential firm will go bankrupt in order to ensure continuous supplies; assured employment to avoid unrest; and government guidance of banks and big firms. The Japanese system emphasized

¹⁰ In China the term mobilization usually refers to Maoist mobilization of the masses into great social campaigns. I am using the term in its more universal sense. Mobilization systems are social systems where the resources of society are mobilized toward a single overarching goal. The principal examples of mobilization systems are Hitler's Germany, the wartime Soviet Union, Japan's prewar mobilization that copied Hitler's and Stalin's techniques in preparation for war, postwar Japan that used many of the same techniques for economic growth, the Guomindang and Communist Party systems during war and civil war, and the obsessive concentration of national resources on economic growth by South Korea, Taiwan, Singapore, and, later, China.

lifetime employment, seniority pay, company unions, priority for employees over shareholders, a financial system organized around main banks, and administrative guidance as key features of the new system created to support the war.¹¹ The South Korean, Guomindang Chinese, Communist Chinese, and early Singaporean systems in turn emulated key mobilization features of wartime Japan, often with an ideological overlay of socialism. All of these systems had their origins in war, civil war, or the preparation for war. They were, in other words, designed for specific situations of great stress and danger. They require drastic modification in order to function well in other environments.

When the mobilization system has run its course, other priorities begin to compete and the prerequisites of this kind of mobilization system – scared leaders, scared people, relatively simple economy – fade, growth rates gradually decline but comparatively rapid growth can continue if meritocratic, performance-based governance systems persist. They have persisted well in South Korea, Taiwan, and Singapore. They became involuted and structurally corrupt in Japan, Malaysia, and late-Suharto Indonesia.

Second-Order Consequences

Although the Asia Model gives overwhelming priority to economics at the expense of military and political goals, as noted above 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 to focus on economic development led to today's military superiority over North Korea. Suharto's abandonment of vast geopolitical claims in favor of economic priorities made it possible for Indonesia to become maritime Southeast Asia's military leader. Deng Xiaoping's cuts of the military share of GDP made possible the increasingly powerful Chinese military of today.

¹¹ For a detailed account, see Tetsuji Okazaki and Masahiro Okuno-Fujiwara, eds., *The Japanese Economic System and Its Historical Origins*, translated by Susan Herbert (New York: Oxford University Press, 1993), especially pp. vii–viii. Japanese politicians and others often characterize these as aspects of traditional Japanese culture. They are not. They were transplanted from totalitarian systems for use in wartime.

Likewise for politics. Domestic stability comes much quicker when economic growth is benefiting everyone and creating a shared sense of benefit from a growing economic pie. Social pressures for political liberalization (which the leadership can accommodate to facilitate further growth as in Taiwan and South Korea or can resist at great risk) emerge much faster in a successful economy. Technological progress turns out to require considerable freedom of discussion. Foreign and domestic investors alike press for rule according to law, transparency, freer flow of information, and accountability; to list a company on a major stock exchange, or to issue a bond to international investors requires an extraordinary level of information and when that information turns out to be wrong the consequences are often quite severe. In an educated society people are better able to make informed political decisions, as a democracy requires. In a middle-class society, as opposed to one divided into landlords and peasants, citizens are debating how to achieve shared interests rather than engaging primarily in class conflict.

China has achieved the benefits of the stability that comes from growth and a sense that everyone is sharing a growing pie. It has a mixed record, in some periods quite positive, recently quite negative, in responding to the pressures for liberalization, but the pressures created by a more pluralistic society exist. For more than a decade protests of various kinds have multiplied; whether the leadership can respond creatively will determine China's stability as economic modernization creates new kinds of challenges. I shall elaborate on this in the politics chapter below.

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 – combined 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 rural production that lifted the economy, together with a sense by rural people, who

comprised the overwhelming majority of the population, that the government cared about and promoted their interests.

After agriculture, the Asia Model economies have tended to emphasize labor-intensive industry, supported by an infrastructure program that provides roads, railroads, airlines, ports, airports, and telecommunications. 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. Chinese leaders have been extremely sensitive to the risks of mass unemployment and, so far, extremely successful at maintaining jobs in the face of disruptive structural change. When 45 million state enterprise workers had to change jobs under Zhu Rongji, most workers were absorbed into the service economy and the remainder were retired on unusually generous terms. China now faces a challenge of comparable social change as it seeks to eliminate industrial overcapacity.

Crucially, the labor-intensive industry that drives early industrialization in these economies employs mainly women. Confucian societies have been particularly patriarchal. Pre-revolutionary China had a very high rate of female suicide, and the communists gained strength in the villages from organizing women, along with tenants and youth, into groups that held “speak bitterness” sessions which channeled them into Party-supportive organizations. Mao Zedong’s ideological declarations that “women hold up half the sky” translated into very limited improvements in the roles of women in Chinese society of his day, but Deng Xiaoping’s reforms led to an economy of factories that were staffed mainly by women. The bosses were primarily men, but the textile factories, computer assembly factories, and most of the other light industry hired mainly women, not men. Along with high rates of female education, the employment of women, often far from the misogynistic constraints of their traditional villages, explains why Chinese women are so much more confident and empowered than Indian women, whose government has not fostered light industry to anything like the same extent. Chapter 3 on vital social issues addresses this in detail.

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 when growth came predominantly from the labor-intensive sectors.

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. Indonesia's first post-independence leader, the fiery, charismatic Sukarno, had a parallel belief that the key to national success lay with confronting, and severing ties to, the old colonial powers. Dependency theorists argued that engagement with the world economy automatically brings further subordination of developing economies to the wealthy countries. (It was amazing that dependency theory, still taught with a straight face in many universities, persisted so long in the face of the rapid rise of the Asian economies. Self-justifying nonsense is highly resilient to facts.) Early Latin American and Filipino leaders promoted an emphasis on building domestic industry behind high protectionist walls in order to substitute domestic production for imports (a strategy called import substitution industrialization) and a priority for heavy industry. These perspectives and strategies lead consistently to failure.

The China Model has followed the Asia Model in making gradual opening of the national market and marketization of the economy the core strategies. Opening means the encouragement of international trade and investment and the acceptance of international market practices. Marketization means 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 Asia 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 Asia Model and the shock therapy model is not speed so much as careful attention to sequencing and field testing 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.

During the latter part of the twentieth century it became fashionable in the West to recommend shock therapy to others and to deride incrementalism. This was a recommendation to do what we (the West) say, not what we do. Western advocates of shock therapy ignore the lessons of virtually all successful economies, including Western Europe, North America, and East and Southeast Asia. The shock therapy strategy led to unspeakable suffering and economic decline. With GDP falling 40 percent, in the former Soviet Union, suffering and decline discredited Western-style capitalism and democracy in Russian eyes and led to the rise of Vladimir Putin.¹² The same approach, shock therapy rather than the kinds of incremental development congruent with social development that made Western democracy viable, is almost always advocated today regarding political development. In one country after another, this approach leads to division, violence, and decline, but a majority of respectable Western theorists and officials refuse to draw the conclusions.

Certain other characteristics of the Asia 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 US market. The China Model follows this. Starting in the last few years of the 1990s, 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 Asia Model it is noteworthy that sectors have succeeded to the extent that there was open competition. Japan is most successful in its truly internationalized and competitive sectors – for instance, cars and video games – and is relatively backward in protected sectors such as

¹² Because the Soviet Union, like China, did not properly measure services, average incomes fell less than 40 percent, but the shock was still far more traumatizing than the Great Depression in the United States. Some groups lost almost everything – income, homes, pensions.

agriculture, finance, cell phones, and many more protected industries. 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. (Lenovo, the world's largest laptop computer company, started with a grant of US\$25,000 to an employee of the Chinese Academy of Sciences whose bosses were paying him off to get rid of him.)

Importantly, the extent to which Chinese leaders will continue to accept this lesson of competitive success remains to be seen; some decisions in the Xi Jinping years seem to be going in the opposite direction as inefficient SOEs are consolidated into large-scale "national champions." In this and other areas the Xi administration expresses determination to reform, but it has sought to have its cake and eat it too.

More broadly, the core feature of the Asia Model is the systematic search for, and adoption of, international best practice – in a word, globalization. Early in its development, both in the early Meiji era of the mid nineteenth century and in the early postwar era of the mid twentieth Century, Japan sent teams all over the world to discern best practice (German education, the British navy in the nineteenth century, underutilized US quality-control methods and labor-management techniques in the twentieth, and much else) and help the mother country adopt such practices. The most important secret of the Asia 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. At Harvard's Kennedy School, 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.

Here, too, contemporary China is deeply conflicted. In some ways the Xi Jinping administration continues the policies of sending large

numbers of students and officials abroad, and importing large numbers of foreign counterparts, but it is also waging a campaign against officials sending their families abroad and it is severely constraining the ability of officials and even scholars to attend conferences abroad. More on this will be given in Chapter 5 below.

The Vital Role of Policies

There is a strain in Western commentary, from a minority of political scientists and humanists, that the Chinese regime should get no credit for its achievements. In this view, all the reformists did was to remove the constraints the communists had imposed on growth and let the hardworking Chinese people achieve what they would have without the communists. I address elsewhere the essentially racist cultural myth that Chinese and Koreans are naturally hardworking; like other people they become hardworking when they face starvation or the right market incentives or military discipline. In works that I cite elsewhere, Stein Ringen asserts without evidence that China would have grown just as fast without the regime. Kate Xiao Zhou ascribes all the success to local entrepreneurship. Her emphasis on the importance of local entrepreneurship was a major contribution to scholarship, but that entrepreneurship was enabled by government policies such as road building and education. Perry Link's review of my book *The Rise of China*, in the prestigious *New York Review of Books*, asserted that the reason for China's rapid growth was not Deng's policies but rather Mao's previous suppression of Chinese wages; on the contrary, places with much lower wages often stagnate, and China continued to grow fast long after its wages had far surpassed those of previously more prosperous neighboring countries. A great deal of internet blog chat maintains the theme that reforms just removed obstacles to the country's natural growth.

If this were true, then the default growth rate of humanity would be 10 percent and countries would achieve less only if they had interfering communist governments. Obviously that is the opposite of the history of mankind; it took millennia before parts of mankind learned to grow 2 percent annually in what we call the industrial revolution. Japan and the United States managed 3 to 4 percent as they ascended to dominance in their regions during the late nineteenth and early twentieth centuries. Only after World War II did a tiny number of countries

manage 10 percent for two or three decades. The thesis that China, or the other Asian miracles, just had governments that got out of the way of natural growth ignores what no economist would ever ignore, namely the crucial roles of high-quality roads, airlines, ports, telecommunications, and power systems; of mass education of the right kinds; of competent administrative institutions; of thoughtful plans that prepare areas for industry and cities for urbanization; of help to farmers displaced by industrialization and to factory workers displaced by the transition to a service economy; of egalitarian efforts to ensure that most or all groups acquire a stake in society.

Layered over all of these arguments is a kind of magical thinking that efficient markets emerge automatically if people are just left alone. Similar magical thinking affects many right-wing Republicans in the United States, who think that if you just eliminate government the economy will grow. Likewise it was a crucial reason why shock therapy, implemented on the advice of liberal Democrats, was such a catastrophe in the Soviet Union. On the contrary, efficient markets require good infrastructure and finely honed legal, accounting, and supervision structures and need constant, and constantly evolving, maintenance by properly structured organizations of skilled professionals. The transition to such markets is often catastrophic if not carefully planned and implemented.

Political Reform

If the essence of the Asia Model is a priority for economic development, 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. I shall speak later of the GE Model of governance. As in the economic sphere, political reform in the Asia Model is a process of rapid incremental progress.

The Asia 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 Asia Model works only where the country has found a way of selecting top 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, Jiang Jinguo of Taiwan, Lee Kwan Yew of Singapore,

and the early contemporary Chinese leaders such as Deng Xiaoping and Zhu Rongji have been motivated primarily by wanting to ensure that future historians will say they did great things for their country. In the new century some Chinese leaders, most notably Prime Minister Wen Jiabao, who served under a more circumspect Party Secretary Hu Jintao, have muddied this pattern, becoming fabulously rich at the expense of serving their country's future. Generals pondering how to make their next million – or hundred million – dollars are probably not focused on teaching their troops how to shoot straight; China's leadership is currently engaged in a great struggle over whether the Asian miracle model or the get-rich-quick model will predominate. Chapter 3 on social issues will examine corruption and the anti-corruption campaign.

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. The transition from government by Mao's whim to governance by contemporary China's institutionalized management is itself a revolutionary change. China started by stabilizing the leadership in key areas so that people, including foreign investors, could rely on continuity. The emergence of a rules-based system began with rules on retirement of officials and proceeded to things like (incompletely) separating regulatory functions from ownership and operation of the SOEs. Stable governance across a vast territory requires rules-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 relatively clear. Foreign investors are even more insistent on clear rules, implemented by a system that does not depend on political whim.¹³ Hence a gradual transition to the rule of law becomes imperative.¹⁴

¹³ Contrary to common assumption, moving to the market, or "deregulating" the market part of an economy, requires an enormous network of new rules and institutions to enforce them. See Steven K. Vogel, *Freer Markets, More Rules* (Ithaca, NY: Cornell University Press, 1996). This makes incrementalism essential and is one of the reasons why Soviet shock therapy privatization was a catastrophe. (Vogel's book focuses on developed economies, but the core point is even more important for developing ones.)

¹⁴ On the strengths and weaknesses of China's movement toward a law-based system, the decades of works of Jerome Cohen and Randall Peerenbohm are

China has made enormous progress in creating a rules-based system, but it has a long way to go. The government has, for instance, sought to eliminate irregular local taxes and fees on rural people and to constrain irregular takings of land for development, but ownership rights in a large proportion of local companies with partial government sponsorship remain unclear, and farmers' rights in their land remain somewhat ambiguous. A Party Commission can determine the outcome of any legal case. Here again China has reached a point where fundamental choices need to be made and the direction of those choices is currently unclear. See the further discussion in the chapters on politics.

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 in the first three decades of reform tracks that of the other successful economies, in this case most notably Taiwan, but the future in China is less clear.

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

particularly valuable. For running commentary, see www.jeromecohen.net/jerrys-blog. Current developments are somewhat schizoid, making progress in some areas and retreating drastically in others. For a revealing debate see "The Future of China's Legal System," www.chinafile.com/viewpoint/future-of-chinas-legal-system.

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 (constrained) village elections.

While fear drives the “miracle” phase of development, the phase properly called an economic mobilization system, success eventually dissipates fear. As fear segues into confidence, the willingness of the population to endure terrible stresses dissipates and so does the motivation of the leaders to take great risks. Relatively rapid development can continue if the government has been organized in a highly meritocratic way, what I later call the “GE Model of development.” But even a highly meritocratic system more focused on growth than most other countries has to evolve quickly away from an exclusive focus on GDP growth to a broader set of environmental and social welfare goals.

One driver of this political evolution 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 1950, 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 seemed able to bring order, unity, food, and shelter received their support. But success brings with it new issues. When people live to 75 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.¹⁵ 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 Rongji, whose term ended in early 2003, because they saw most of the change as necessary, but attitudes turned negative in his last 18 months and people began to express a

¹⁵ The standard reference on people’s hierarchy of needs, which I have interpreted to mean changing values as life improves, is Abraham Maslow, “A Theory of Human Motivation,” *Psychological Review*, 50(4), 1943, pp. 370–396.

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 Asia Model modernizations, success eventually puts limits on the extent to which society can be run as a business. These economies are still managed more like businesses than most others, but social pressures diminish the ruthlessness of change.

Before moving on to more detailed discussion in subsequent chapters, key points stand out. First, for the Western audience: the image of the China Model as politically 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. In its first three decades the China Model was fully consistent with the successful evolution of the other Asia Model economies, which has been stressful but largely peaceful. Despite the consensus Western views of the 1970s, South Korea and Taiwan were not candidates for revolutionary upheaval. But, as with the economic part of the China Model, politics evolves through rapid incrementalism, not through shock therapy. That is to say, it evolves the way most of Western politics evolved, just faster, 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 economics. 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 Asia Model. The chapter on domestic politics below looks at this imperative. Whether Western or anti-Western, it is not at all clear that the Xi Jinping administration has a coherent political approach to the era of complexity in social structure and complexity in values. While there have been improvements in administration under Hu, and some recent backsliding under Xi, overall measures of governance have changed remarkably little in the new century – a sharp difference from rapid political reform under Deng Xiaoping and Jiang Zemin.

Distinctive Aspects of the China Model

While the China Model is a variant of the Asia 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 and originally intended for Taiwan), "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 transitions¹⁶ that allow almost everyone to keep moving forward.¹⁷ The transition to mostly market prices in agriculture exemplifies the "One, two" model. In early socialism, the peasants had to turn over their grain to the state and there were quotas for how much they had to produce and turn over. In the transition, they still had to produce and turn over the quotas, but they were encouraged to sell any additional production on the market. Gradually the "additional production" overwhelmed the quota production and the system transitioned to a largely market basis.

Also distinctive is China's use of large-scale field tests for new policies. The early Special Economic Zones (mainly for processing);

¹⁶ Lawrence Lau, "Gain without Pain: Why Economic Reform in China Worked," in Gung-Wu Wang and John Wong, eds., *China's Political Economy* (Singapore: Singapore University Press, 1998), pp. 43–70.

¹⁷ Most readers will be familiar only with the "One country, two systems" model developed for Taiwan and applied to Hong Kong. Taiwan rejected the model and Hong Kong recently hit serious bumps in the road as China cracked down on controversial booksellers and others. But even with the bumps the model avoided a great historical crisis between China and Britain, sustained Hong Kong's prosperity, maintained Hong Kong's British-style economic and legal systems, and maintained free speech and much (not all) of the legacy of critical media. The domestic Chinese economic aspects – one sector, two systems; one company two systems . . . – have worked very smoothly indeed. Both in the agricultural transition and in the industrial transition, the transition to the market occurred without depriving those dependent on traditional state quotas and subsidies. *Contrary to Western preconceptions about heartless authoritarianism, this care for what happened to families is the most important distinguishing factor between Asian incrementalism and Western-sponsored shock therapy.*

the observation of the effects of dissolving the communes prior to encouraging 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; the experiments with three (mis-named) Free Trade Zones under Xi Jinping; and many other field tests too numerous to mention all demonstrate a pragmatic, careful, scientific approach to modernization. China's leaders "cross the river by feeling the stones," in the famous phrasing that Deng Xiaoping appropriated from Chen Yun. They think very carefully before stepping, and they test their balance on each stone before moving forward. But they often move through this process quickly and decisively.

If the priority for economics leads Asia 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. More on this can be found in the politics chapter below.

China has also been distinctive among the larger societies in the degree to which it has pursued what one might call social globalization. Chinese students go abroad in greater numbers than those of any other country (although South Korea sends proportionately more). China welcomes foreign experts and workers with needed skills to an exceptional degree. More than any other country, it sends its senior government officials abroad to acquire knowledge of what other countries believe to be best practice. As noted earlier, perhaps the single most important determinant of success of the Asia Model is a reaching out for global best 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 battles against the social barriers to globalization, from belligerent xenophobic unions to riots against any imports of US beef, with sporadic but cumulative success. South Korea, amazingly for the former Hermit Kingdom, now defines itself as

a multicultural society. Proportionately South Korea sends more of its students abroad than any other society. As the South Korean example shows, Japan's introversion cannot be explained by invoking an aging society, a trend Japan and South Korea share, but rather resulted from a decision by the governing elite. As a consequence, South Korean per capita incomes, once among the world's poorest, are on the way to equaling or surpassing Japan's, something nobody would have imagined possible even a few years ago.

Japanese politicians have been less interested in overcoming the barriers. They turned inward after 1975, falsely attributed Japan's early success to "unique Japanese cultural characteristics," and created layers and layers of protectionism, and stopped sending their people overseas for experience.¹⁸ Japan still has some very impressive global companies, but they are in limited sectors. Japan now sends fewer students abroad than South Korea or tiny Taiwan. (It does, however, send more students to neighboring China than the United States sends.) Some leaders, most notably recent Prime Minister Hatoyama Yukio, have actively denounced globalization. The consequences for Japan's economy have been tragic. At the other end of the globalization scale have been the city-states Singapore and Hong Kong, which, partly by virtue of their size, have been very open to global best practice and competition. China falls at the enthusiastic end of the spectrum of social globalization, although of course, given its huge population, it cannot match the proportions that South Korea, Taiwan, and Singapore send abroad.

While demographically China cannot match Singapore's globalization, 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 with less successful careers. For many years, a Japanese student who attended Harvard would stunt his (or her, but almost always his) career. The number of Chinese students in the United States now exceeds that of any other nationality; the number of Japanese students in the United States has declined precipitously and now is less than that of Taiwanese or South Koreans. Senior

¹⁸ See R. Taggart Murphy, *Japan and the Shackles of the Past* (London: Oxford University Press, 2014).

Chinese officials often spend a semester or more studying in the United States or elsewhere. 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 does not only send its best people abroad; it also imports talent enthusiastically. Its electronics factories and sports teams pay Western-level salaries to import top international talent. Because Shanghai's extraordinary collection of modern buildings strained the available construction talent, Shanghai imported not only the architects but also substantial numbers of plumbers and construction workers. There is now a little colony of Chicago plumbers and construction workers in Shanghai, happily earning more than they could at home in Chicago.

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 is ready for things that Qinghai is not.

Risks of the Asia Model

The Asia Model is always implemented by a dominant party, or a coalition with a dominant core as in Malaysia or Japan. 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 Institutional Revolutionary Party (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 socially better, but can be fulfilled only with wise leadership. Bureaucratic metastasis under Hu Jintao

(2002–2012) and nationalistic assertion under Xi Jinping (2013–present) could jeopardize China’s advantages.

The speed of development of the Asia 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, 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. Later chapters will focus on these challenges.

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 has suffered humiliating, gratuitous stagnation at home. Japan, which needed to change back in the late 1970s, never made the transition that China is now attempting from an export-led economy to one driven by domestic demand.

In contrast, so far China has forthrightly faced the imperative to change, whereas Japan’s ruling party has refused to pay the interest group price for such a transition and under Abe has gone backward.¹⁹ Nonetheless, 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 trade imbalances. Here too China has reached a turning point, and here the trends seem auspicious in some areas, especially on global warming, Iranian nuclear proliferation, and

¹⁹ I addressed this in William H. Overholt, “Policymakers Need to Recognize That the Clock Is Ticking,” *Nikkei Asian Review*, November 27, 2014, <http://overholtgroup.com/media/Articles-Japan/Clock-is-Ticking-NikkeiAsianReview-27NOV2014.pdf>. Japanese domestic and international protectionism raises prices and transfers money from consumers to corporations, creating a shortage of final demand. Abe cut taxes on corporations and raised them on consumers – the kind of decision that for decades has ensured continued stagnation. Likewise, the drastic devaluations that Abe has promoted raise the cost of imported goods and therefore reduce people’s purchasing power.

global trade imbalances, but quite inauspicious in others, most notably creating a peaceful rules-based or consensus-based maritime regime.

The Inexorable Crisis

Always the Asian miracle economies approach a point of crisis. A crisis does not mean inevitable collapse. In medicine, when a patient has severe pneumonia, the crisis is when the patient gets to the point of resolution; he will either live or die. In political economy, the choices are more diverse: the patient will prosper, stagnate, or decline. South Korea and Taiwan have prospered. Japan has stagnated, fortunately at a very high level.

The Asian miracle economies eventually come to a point where fear no longer simplifies politics, where society has reached a level of development where the economy is just too complex to be managed from the top leader's office, and where the polity comprises a myriad conflicting interest groups that likewise cannot be managed in detail by a small central leadership. At that point transformative economic and political changes are required.

How does one know when the point of crisis has come? After all, fear dissipates gradually and economic and political complexity increase gradually. At any particular point it appears that this process might go on forever. But when one knows what to look for the signs are clear. In South Korea, by 1978–1979 Park Chung Hee faced a combination of escalating financial squeeze and escalating political demonstrations. The old model had the president's office deciding major loans, production quotas, export quotas, and much else. Over-investment in heavy industry was creating a financial squeeze. People's economic and military fears no longer led them to accept increasingly dictatorial rule. Resolution of the political crisis took more than a decade, and economic transformation sufficient to take things to a new and stable level took until after the Asian Crisis of 1997–1998.

In Taiwan a similar dynamic occurred. An economy dominated by 40 Guomindang conglomerates was becoming inefficient and overindebted, and suffered a financial collapse in 1990. The polity was increasingly unwilling to accept harsh rule by a mainland elite, so the leadership moved toward a high level of Taiwanization and democratization by the late 1980s. As in South Korea, the political issue and the economic issue are two sides of the same coin. The economic interest groups whose power and complex interactions force a change of economic structure are

largely the same as the political interest groups that contend in radically more complex ways and with fast-changing values.

Once one looks for the pattern, its emergence in China is unmistakable. The mood of the Chinese population has evolved from fear of collapse to hubris. China faces a financial squeeze and possibly world history's most complex economic transition. China's leaders have responded by proclaiming a fundamental shift to market allocation of resources and hundreds of detailed policy changes that follow from that imperative. Simultaneously Xi Jinping and his colleagues have argued successfully that corruption and interest group resistance to reform risk both the legitimacy and the effectiveness of Communist Party rule, and they have responded by restructuring the leadership and drastically changing the norms of Chinese politics. The economic transition to greater acceptance of market forces is precisely analogous to what happened in South Korea and Taiwan as the government roles diminished and the chaebol and the Guomindang companies were forced into acceptance of market pressures. But it remains to be seen how effectively China will implement the proclaimed economic transition, and it has chosen a radically different approach to the political transition.²⁰

Geopolitics of the China Model

The core of the Asia Model's geopolitics 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 Asia 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

²⁰ One of the problems of writing about China is that the flood of new studies is hard to keep up with. Here as elsewhere I will try to acknowledge important work that came out after my own book was submitted for review. David Shambaugh is one of the great contributors to our understanding of China. His *China's Future* (Boston, MA: Polity Press, 2016) provides important insights into the set of transitional crisis issues discussed in this section. My angle of approach is different, my balance is different, and my sense of some of the economic issues is quite different, but the work is broadly complementary.

much of the rest of Southeast Asia, so also China achieved its great stature of today in part by resolving 12 out of 14 of its land border disputes peacefully to the satisfaction of the other parties. Compromise on land borders has, however, now given way to domineering assertion on maritime borders, creating risks both for foreign countries and for China's continued progress.

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 and does not try to change the ideology of other 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, notwithstanding a whole Western literature about a (nonexistent) Beijing Consensus. Beijing is simply refusing to go along with the idea that one model of Western democracy should be imposed everywhere, rather than trying to replicate its own structure around the world. Paradoxically this has greatly strengthened China's global influence; African countries in particular prefer to be told to find their own path rather than being told by Washington and Brussels that their diverse circumstances should all be subordinated to a US or UK model.

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 and in fact should applaud. It is also true that the most robust democracies in the emerging countries are those where Asia Model development rapidly created the educated, middle-class societies within which democracy most easily flourishes. No democracies in the emerging world compare with the vitality of South Korea and Taiwan, which build upon social structures created by particularly dictatorial predecessors. 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 choose to emulate some aspects of China. I have argued above that most countries

lack the omnipresent fear and sense of national identity that are prerequisites of following the Asia/China Model in full.

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. At the time of writing this book, the fastest-growing economy in the world seems to be Ethiopia, which has followed more advice from the Chinese chief economist of the World Bank, Justin Lin, than from the West. Washington and Brussels are arguing that there should be only one basic governance path to development. The Chinese view 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 Asia Model as a path to economic development and political stability, and given the possibility that the Asia Model is the most reliable path to stable democracy, Western defensiveness is unjustified. It is also based on completely misplaced apprehensions, since, as noted earlier, the conditions of fear and cohesiveness that enable the Asian miracles are quite scarce.

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.

As in domestic economics and domestic politics, China has reached a point in its development where it faces fundamental geopolitical choices. The Washington view that China has turned decisively toward expansionism is a caricature, but Chinese behavior regarding maritime disputes is the polar opposite of how it handled land disputes and that raises the most fundamental questions about the future.

The following chapters tackle in sequence the following issues: the great economic transition China faces; vital social issues affecting China's future; the prospects of the political model; and alternative choices.

Again, the questions this book tries to answer are as follows. Why has China succeeded? Why does it now face a crisis? How might the crisis work out?