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Fang shou cycle

放,fàng shǒu to let go of its hold, to give up its free hand 防,fáng shǒu to defend itself to protect (against) Over the course of its history, the People's Republic of China has gone through milder and more difficult periods of authoritarianism. This is known in China as the fang-shou cycle. Today we are seeing a more difficult period of Chinese politics. The country's leader, Xi Jinping, consolidates power and cracks down on both corruption and civil liberties. What does this mean for China's future? What lessons has the Chinese Communist Party learned from the colorful revolutions and the collapse of the Soviet Union? Can China avoid the middle income trap? Professor David Shambaugh and Brad Carson discuss these issues in the third episode of Jaw-Jaw, the latest addition to the War on the Rocks podcast family. The biography of David Shambaugh is a professor of political science and international affairs at George Washington University, where he is also director of the University's China Policy Program. Author of many books about China, his most recent include China's Future (Polity Press, 2016) and China Goes Global: The Partial Power (Oxford University Press, 2013). Brad Carson is a professor at the University of Virginia, where he teaches at the Batten School of Leadership and Public Policy. From 2001 to 2005, he was undersecretary of the Army and undersecretary of defense for personnel and preparedness in the Obama administration. Welcomes the comments on the brad.carson@warontherocks.com. Links Liz Economy, Third Revolution: Xi Jinping and the New Chinese State, (Oxford University Press, 2018) Carl Minzner, End of an Era: How China's Authoritarian Resurgence Undermines Its Rise, (Oxford University Press, 2018) Bruce Dickson, Dictator's Dilemma: The Chinese Communist Party's Strategy for Survival, (Oxford University Press, 2018) David Shambaugh, The Future of China, (Polity, 2016) Transcript brad: Welcome to Jaw-Jaw. I'm your host, Brad Carson. I served in the U.S. House of Representatives under President George W. Bush and the Department of Defense during Barack Obama's presidency. I am a professor at the Batten School of Leadership and Public Policy at the University of Virginia. And this season on Jaw-Jaw, we will be talking about China, one of the great questions of our time. Today's guest is Professor David Shambaugh. Professor of Political Science and International Affairs at George Washington University, here in Washington, and author of many books on China, but lately, a wonderful book, The Future of China. Professor David Shambaugh, a longtime Observer of China, wrote about the fang-shou cycle and Chinese history. Can you explain what it is and how it explains, in a sense, what is happening in Today? David: Sure. First of all, it's a pleasure to be on the program, and I'm looking forward to the conversation. The fang-shou cycle is a term that some Chinese intellectuals have used over the past three decades to describe the trajectory of their country. This is not a historical concept. It is a very contemporary, latest concept that dates back to the 1980s, when China began the reform process under Deng Xiaoping. For four decades since the 11th Central Committee, held in December 1978, and was considered an event that marked the return of Deng Xiaoping to power and the beginning of a period of reform. We are right on the 40th anniversary of this. Over the past four decades, we have generally seen China oscillate back and forth between a hard authoritarian and a soft authoritarian approach. These are my deadlines. But fanes in Chinese means opening. Shou in Chinese means closure. Zhōuqǐ is the word for the cycle. Thus, Chinese intellectuals have talked about this oscillating pattern in their country, over the past four decades the oscillation between opening and closing, relative closure, fang-shou. Usually, patterns, and there have been, I think, seven such cycles since 1978, there about six years of opening, and then, in general, two years, sometimes one, closure and tightening. This has to do with liberalisation. It openly refers to political liberalisation, but also to economic liberalisation. Closure is dealing with repression, political repression, but also economic repression. So, as I say, we've seen about seven cycles of this six-year opening, then one to two years of closure, and then another six years of opening. These were two steps forward, one step back, as I say, going back to 1978. What's different, we're now taking the opportunity in the closing cycle, but what's different is that this closing cycle is now in year eight. It started in 2009 and shows no signs of returning to a more open liberalisation cycle. This is what this concept means. It's an oscillation. China has not been on a single path for the past four decades. In fact, it was oscillating. That's the point. Many Chinese are very concerned, and for the observer, I can tell you, China-observers are wondering if China will ever return to an opening, more liberalizing path, or is it the current period of repression and indefinite closure? Brad: Do you think they'll get on a new path, another opening in the foreseeable future? David: Nothing is absolute, first of all. Everything is a matter of degree in China. It can certainly be argued that there are elements of Opening. Not much. In fact, we can talk about the third economic reform agenda that Xi Jinping presented in November 2013, where we are today, six years later, but will they come back to open? I say no. This is difficult to see in the current regime. It's very hard to see. Xi Jinping, in his DNA there is no liberal gene. This is a very authoritarian leader with nostalgia for the 1950s, the Maoist period, but I would argue the Stalinist period. So, at the moment, unfortunately, there are no real indicators that the oscillation will return to the liberal phase, but there are many liberals in this system, I can tell you. Inside the Communist Party itself, as well as inside various institutions in China, and certainly inside the middle class in Chinese society, who would like to return to a more liberal system, and they are now complaining a lot about the direction in which Xi Jinping is heading. Brad: Can you talk about Xi Jinping taking it off, really? In your 2016 book, China's Future, you talked about some of the events of 2007 and 2008 that led to the collapse of five or six years of liberalisation. How did he both amass the kind of power he seems to have today, an unprecedented amount of power because at least Mao was nearby, and enough fellow travelers with him to support a more draconian regime, if you will? David: Good question. I believe that the regime's change of political orientation began before Xi Jinping actually became leader of China, as happened in 2012. I say that this happened in 2009, '10. It was a year in which we saw a real crackdown, and in the previous decade the fan, the openings that were taken at the end of the Jiang Zemin period, and most but not all of the Hu Jintao period. A man named Zeng Qinghong who is a senior leader. He was not a senior leader, but he was a senior leader who oversaw relative liberalization during this decade, from about '97 to 2007, 2008. Then came the global financial crisis. This had an impact on the way the Chinese viewed the world, the way they saw the United States. They lost interest in emulating the American economic model, and this coincided with some kind of pride, as I say, about their own development success and even their ability to reconcile the global financial crisis. Recall that China has trumpeted the pump with a \$644 billion fiscal stimulus package, and it's them through this crisis. This has caused long-term debt problems that are still with them. Nevertheless, the Chinese leader was quite full of himself, back in 2009, '10. They went through the Olympics, but other factors have happened this year, and I don't want to spend too much time going into it, but there were big riots in Tibet. Were xinjiang riots. There was the retirement of this man, Zeng Qinghong in 2008, a leading liberal, and there were bureaucratic factors that had to do with the security services, and a man named Zhou Yongkang, who was then a member of politburo behind the internal security apparatus. Today he is behind bars, in prison. He was one of many people who were cleansed by Xi Jinping. He was in the ascending at the time, as was the propaganda system. In 2009, in 2009, in '10, the control apparatus of the Lenin Communist Party began to be confirmed. As a result, they argued that the liberalisation of the previous 10 years would lead to further and further discontent, protests and perhaps the unraveling of the Chinese communist regime. So, in 2009, in 10-10 years, everything changed, and then they have been going on since then. Xi Jinping comes to power in 2012. He just doubles up on repression. So, a lot of it, I think, actually dates back to the Chinese analysis of what caused the collapse of the Soviet Union. This is the most important event in their psyche. Again, I do not want to prolong the discussion on this subject, but it was so fundamental that you have to understand that what they are doing today in China is very much a reaction to what Gorbachev perceived in the Soviet Union, and they do not want it to happen again. They live in terrible fear, not necessarily overthrown, but imploding from within. Xi Jinping came to power in 2012 and looked at his Communist party, all 87 million party members at the time, and all party committees, and saw the party apparatus of atrophy. He saw gradual multiple sclerosis and a meltdown on the horizon. In the last eight years he has been in power, seven years. Did he save the party? Yes, temporarily. Will he do it indefinitely? See. Brad: I think it's worth talking about something that you discussed in detail in your writings that they went to school, not only after the collapse of the Soviet Union and the communist peoples of the Eastern Bloc, but also about the various colorful revolutions that have taken place over the last 15 years. And you wrote that there have been some competing interpretations of these events that may explain some of China's internal leadership policies. You talk a little bit about what they learned from these episodes and how people may disagree about China's future, given these events. David: Very good point. Add to that the mix in 2009, '10, just about the so-called jasmine revolution in the Middle East and the colorful revolutions that had just swept through Central Asia. This has caused real fear in China's communist leadership. In fact, I know that when President Putin met his counterpart, Hu Jintao, the leader at that time, at one of the Shanghai Cooperation Organization meetings literally got to hold Hu Jintao by the flap of his suit, and said, if you don't get a handle on those foreign NGOs operating in your country, China, as we're getting a handle on them operating in our country, Russia, you too, will have the color of revolution. And that caught Hu Jintao's attention, but actually it gets your question. What were the competing narratives and interpretations about these events, the jasmine revolution in the Middle East and the color revolutions? Again, all this goes back to the collapse of the Soviet Union. There were two schools of thought. The Chinese studied not only the soviet fail, but also the Eastern European uprisings of '89, '90, very, very carefully. There were two schools. School number one was, Gorbachev was right, but it was too late. And that the system in the Soviet Union was so broken when it began to implement its reforms that it simply caused the system to crash. While if they were to implement these reforms gradually, over time and manage them, the system would indeed be much stronger and less fragile and would not come down from Gorbachev. In fact, they claim that Tchrusczzov was a reformer, and the real problem of the Soviet Union was that they overthrew Chruszczov in 1964. It was school number one. And they came to the conclusion that China, the Chinese Communist Party, that is, they will have a similar fate of implosion if they fail to liberalize and open up. In other words, it is a liberal communist perspective that can open up society. You can have relatively open media, NGOs, an open society, foreigners in your society, all sorts of things, within your party, discussions in your party, discussions between your party and other elements of society. It was a much more liberal vision. It's school number one. School number two said: Wrong. You walk the path, trying to manage liberalisation, it will get out of hand and you will fall from power. So the only way to deal with these pressures, which are inherent in all authoritarian systems and leninist party states, is to crack down. It was a second school, a claim of repression and control. You had two fighting forces, and that goes back to the original question, Brad, about fanies and shou, and that's why we've seen this oscillation over the last four decades in China. At the moment we have school number two under control in China. Repression. That's the only way to keep us in power. They got rid of the number one school in 2009, who claimed that No, you can manage the opening. Anyway, that's the short answer. Brad: One of the lessons you're talking about is to never let the security services get out of control. They look, for example, at Ceausescu in 1989, or The Stasi in the GDR, who asked about the crackdown, said no to this, and so to make sure that the security forces and the party were very closely married. David: Exactly. They watched what happened in those cases you just mentioned. eastern Germany, and in particular Romania. In fact, I was in Beijing when Ceausescu and his wife, Elena, were murdered in the snow by security forces in the 1990s. But the Chinese conclusion was that they knew from the beginning of their time in power, the Party would control the weapons, Chairman Mao used to say. The gun never controls the party. You lose control of your security services, you are sunk, in an authoritarian regime. It's a lesson they had to learn anew. They certainly re-elected in '89. The military eventually followed orders. Most of them did not, there were 38 marshals of the generals' courts who did not obey orders, but nevertheless, the military undermined the suppression in Beijing's Tiananmen Square in '89. Since then, they have increasingly controlled their homeland security services, and certainly their military. One final comment on this: corruption. Xi Jinping came to power in 2012, launching a massive anti-corruption campaign across society, across the government and throughout the military. The latest statistics published by the Chinese government, 16,000 officers, 120 generals and 4 central military commissions, senior military leaders, have been cleared during this anti-corruption campaign, only in the last six years. Well, corruption is a way that undermines the cohesion of every security service, in every military. Xi Jinping comes to power and realizes, Boy, our party is in danger if we don't have gun control and who has gun control? Money. Personal interests. So he is really cracking very hard, not only on the People's Liberation Army, but also in the Armed Police, the Ministry of State Security and the Ministry of Public Security. All the leninists, and maybe even the engries who are not Leninists, get it. If you don't control the repressive camera, you'll lose power. Brad: Does this somehow threaten Xi's control? Because if he has to have an army very close to him, you'd think cleaning is a risky proposition, right? That many people in the military will oppose it. At the same time, he cracks many of his predecessor's acolytes. Some of the Shanghai gang. Jiang crew. The crew of Hu Jintao. What also seems to be, only from a strict, political point of view, be risky things to do. How does he deal with it? In the past, there have been rumors of attempts to overthrow him. Does he have safe control over power in Beijing? David: It's a great question that I'm speculating about and thinking about, but I don't have Na. I don't think anyone has done that. As you suggest, there have been repeated rumours of attempted coups and assassination attempts against Xi, and even the Chinese regime itself has accused Sichuan [correction: Chongqing] the Leader of the Communist Party, a man named Sun Zhengcai, of plotting the coup. It was overthrown about a year ago. When he was overthrown, he was not overthrown for corruption, he was accused of permitting a coup. Regime, you know? The last person to be charged with a coup was Lin Biao in 1971. But the regime gave no details about what Mr. Sun's coup was supposed to be and who was part of it. But this caught the attention of observers. There were many such rumors. We just don't know what the basics of the facts are. But as you rightly suggest, and as I just said, Xi Jinping has really gutted the security services through an anti-corruption campaign. Yes, they were corrupt. They found incredible amounts of gold bars, cash, lovers, villas. I mean, corruption is not invented. But the ladies have done more about the loyalty of the security services, and I believe that is not exactly endeeive, he, Xi Jinping, to the security services, hitting them in this anti-corruption campaign. On the other hand, maybe through bullying tactics, which is the only thing that will pass. We just don't know. But my instincts tell me that the security services, as well as part of the party and the state, the government, that is, are really on the defensive under Xi Jinping, and his aggressive anti-corruption campaign has caused him many enemies. We know that. There are many enemies. Many people who would not be at all dissatisfied if they stumbled. Some might say they already have their own, you know, long knives are out, the proverbial phrase. Brad: And the anti-corruption campaign also suppressed some of the economic reforms he wanted to carry out because the bureaucracy was frozen because they feared they would be cleaned up themselves. David: Exactly. The Chinese have a term, they call it [foreign language 00:19:16], which means: Freeze. Also used in multiple sclerosis, but this is exactly the truth. Who wants to take the initiative, in an atmosphere, in the climate of this anti-corruption campaign? Because you get caught. Yes, everyone has hunkered down. Bureaucrats physically do not go to the office, or at least until about a year ago there was a lot of absenteeism. They do not implement the policies to which they are instructed. This is one of the reasons why we did not introduce the third Plenum economic package of 2013. This is not just a Chinese phenomenon. Bureaucrats around the world, right? This is the number one government of the bureaucratic opposition. You don't like what the boss tells you to do, you tell their boss it does, but you don't. Brad: That's right. Passive aggression. David: Passive aggression. You sit on your hands. We see a lot of this in Chinese bureaucracy. There are many reasons why economic reforms have stalled, but this is one of them. Brad: And you wrote that for China to get out of what you called a middle-income trap, that phrase is an expression of development economics, you must, in your mind, liberalize, move on to what you characterized as Singaporean-style democracy, or not go through that middle-income trap. Can you talk a little bit about what the middle income trap is and why do you think the only solution that, in the case of China, is to move to, if not fully Western-style democracy, at least one that Lee Kuan Yew will appreciate? David: Sure. Well, the middle-income trap is certainly not my return. As you say, this is a concept of development economics. The World Bank tells us that from 1960 to 2012, 101 countries graduated from developing economy status to middle income status. The World Bank divides all economies into three categories: developing, middle-income and developed. So, as I say, during this long period, from 1960 to 2012, 101 countries fled developing countries and became middle-income countries, which is measured by \$9,000 per year in per capita income. okay? This is what you call a lower middle-income country. When you hit it, I think it is, \$13,500, or \$14,000 per capita, you become the top middle income [country]. Then when you get to \$18,000 or \$20,000 of income per capita, you'll graduate to become a developed economy. okay. So, with 101, 89 never finished. Only 12 countries have become developed economies, which have become middle-income economies. Hence the term trap. Eighty-nine out of 101 imprisoned. They never go through that. So a minority, a separate minority, 12 out of 101, as I say, have done so, and in these cases there are two similarities of success that can be called a successful 12. Similarity number one: democracy. Similarity number two: innovation. They are related. You do not have an open intellectual and political environment, innovation will be difficult, to put it mildly. To get out of the middle income trap, basically, economies need to change from being... They need to add value to their products. They cannot rely only on labour shortages, low wages and the production of cheap consumer goods, as the Chinese have basically done over the last three decades. It's not unusual. In most developing countries, this way you can get out of being a developing country. You export your way out of it, basically. But then you become a middle-income country and you have to innovate. Creating knowledge-based goods with added value and thus the need for innovation. This is where China China Today. The big question is: will China be the number 13 country? Or country number 102? Sorry, country number 90? We won't find out. It will be a long time before China hits \$19,000 a year in per capita income either way. My guess is that the historical pattern is that China will follow the pattern. Unless they liberalize. I didn't say democratize, I said liberalization. And democracies, by the way, are in different lanes. You mentioned Singapore. It's one bar. This is one type that the Chinese have actually studied very carefully over the last 40 years, especially in the 1980s. But either way, if they don't liberalize their political system, even if the Communist Party maintains hegemonic political control, I don't think they'll pass the middle-income trap. Or at least history would suggest that they won't. This is not david shambaugh's theory, it is World Bank data for all countries since 1960. Long storytelling, no liberalisation, no innovation, no innovation, no escape from the middle income trap. It's simple. Brad: We'll go back to that, but I want to ask one person in particular, because I think he's always been a fascinating figure in Chinese history, which is Zhao Ziyang, who was secretary general of the Communist Party in the late 1980s during the Tiananmen crisis. He was previously prime minister. You characterized him as a true reformer, and I think in the West we saw him as someone who was supposed to be a great liberal. He was, of course, cleansed as hardliners came to power, or confirmed himself after Tiananmen. Would China be on a different course today if, say, Tiananmen never happened, Zhao stayed in these kinds of roles, perhaps even rose higher, and perhaps pursued this reform agenda? Or was there so much force working against this reform agenda that he was going to be pushed back from what, perhaps, his dreams were? David: That's a great question. I must admit, first of all, I have a weakness in my heart for Zhao Ziyang. I wrote my first book, a biography of Zhao Ziyang, in the late 1970s, in the early 1980s, and it was very sad for me to see him overthrown in 1989. I had the pleasure of getting to know him. I think he was probably China's greatest leader since maoist times. This includes Deng Xiaoping. In fact, many of the things that Deng Xiaoping is credited for Zhao's ideas Ziyang. In fact, a lot of things that Deng Xiaoping is given credit for Zhao Ziyang's ideas. The economic reforms of the 80s, that's all Zhao Ziyang. It wasn't Deng Xiaoping. Political reform in the 1980s was Zhao Ziyang and Hu Yaobang. China, I mean, you're asking a good but hypothetical question. Where would China be today if it had not been overthrown in 1989? It's speculative. We don't know. But it would be much further than it is today. middle income would probably be a problem, a problem that Imagine. He took China to the path of Singaporean style, which he called neo-authoritarianism. He consciously studied Singapore. That was his vision of China. That's where He tried to take China. Conservatives in the party at the time knew exactly where they were trying to take China. They tried to undercut him, undermine him, complain about Deng Xiaoping. They tried to stumble it long before the spring 1989 demonstrations. And then, of course, there were demonstrations. It was the last excuse, or denouement for him, and he was overthrown and placed under house arrest for the rest of his life. It's just speculative. Where would China be today? Well, it would be a much more open, much more liberal, much more reformed, rather than reformer, reformed place. Open to the world. That would be talking about a superpower, you know? In fact, I would argue that Tiananmen set China back significantly. China would be a much stronger and more capable power in the world today, and we in America would have had a completely different kind of conversation about China today if it were a liberal, open superpower that had not yet happened. Brad: You said that China needs to both liberalise and innovate if they hope to avoid this middle-income trap. I think one of the things that you have written quite strongly is that they are trying to develop a modern economy in a pre-modern political system. You have already referred several times to the Third Plenum reforms of 2013, which coincided with the World Bank report that Bob Zoellick and others, where it seemed that Chinese leaders, including Xi, had recognised some of the changes that needed to be made. Can you talk about the changes they're made? And by 2016, when you wrote in your last book, they had not made much

progress. Can you talk about, perhaps in the last few years, how they have made progress in this third plenum of 2013? David: Sure. Brad. First, I'm not an economist. An economist can give a chapter and a verse about what they have or haven't done since 2013. But you're right. I mean, the third Plenum package had 64 categories and, I think, 340 individual economic reforms. It was comprehensive. It was amazing. It was very exciting to see. And, as you suggest, it was modelled on the World Bank 2030 report. In fact, it was almost copied, its parts were copied, literally, from the World Bank 2030 report. The World Bank wrote this report, in fact, during the period of Xi Jinping's predecessor, Wen Jiabao was prime minister at the time. Wen Jiabao teamed up with Robert Zoellick to write a report for 2030. Zoellick, in fact, went to Wen Jiabao, said, Look, your country is going to get into the middle income trap. We, the World Bank, have experience in this category, so we are happy to help you go through the middle income trap and why not do a joint project? Between the NDRC, it's called the National Development Research Council in China, and the World Bank. So they did and produced a report by 2030. This is therefore transformed into the third Plenum package, which Xi Jinping himself has insisted on personally being released. Well, we are here six years later and by almost all foreign accounts, only the minimum of this package has been implemented. The only debate among foreigners, and you can look at the numbers, you can look at the Asia Society, Rhodium Group, the U.S.-China Business Council, the American Chamber of Commerce, the European Chamber of Commerce, a wide selection of foreign analysts say that only between 10 percent and 15 percent of the third Plenum package has been implemented. Eighty-five percent, therefore, were not implemented or 90 percent were not implemented. This, to a large extent, has to do with decentralization, opening up the economy to foreigners, all with credit cards ... Just this week American Express finally gained a foothold in the Chinese market. Now it will take them three years to make it workable. The Chinese allowed them to put together a feasibility study. You know? The Chinese are not simply, under Xi Jinping, interested in opening up. They closed the economy. That's why Donald Trump and Robert Lighthizer and others in the U.S. administration are reacting as they are because the third Plenum package has not been implemented. In different sectors, and we just don't have time to go sector by sector, and I'm not sure I'm the right person to do it, but I don't see a continuation. Why? I think as a political scientist, not an economist, because the necessary reforms threaten the hegemonic control of the Communist Party. State-owned enterprises, the fiscal banking system, various internal demographic controls and others. So I think these are the political reasons why China's leaders under Xi Jinping got cold feet and didn't move forward on this issue. That's just my hypothesis, but I think they are ... There are also vital interests, right? We are going to pursue this set of goals that the World Bank has written to them, you have to undermine a number of deeply vital institutional interests in China. They have been there since the 1950s. In particular, undertakings with specific requirements in this regard. Xi Jinping is not interested in reducing the power of state-owned enterprises. That's what SOE means. Contrary. He increased it. When it came to power, public sector GDP shrank to about 20 percent, 21 percent, of the state sector. Unfortunately, not in the public sector. Now it's back to I think 44 percent. It doubled. The state's role in national GDP has doubled in the last six years. Right? Xi it is about the state and the party. He said that in a speech by 19 parties, the Party controls everything. Its entire economic development model is a complete statistical model. This is not what the World Bank recommended to him. Brad: Do you think he's not really involved in 2013- David: That's true. Brad: -reform or that he can not implement, even if so chose because of how difficult it would have to be bureaucratic march? David: More the former than the latter. If he wanted to implement it, the state, and he personally, has the power to break his head and do these things. This is a deliberate choice on his part and on the part of the Communist party. They don't want to go down that road. Again, it all goes back to batch control. You know? Brad: As a political scientist, you write suggested that this is a short-term approach at best. In the long run, it will be their annihilation. As you mentioned, it doesn't seem as if Xi is doing any of these kinds of things, so is the long-term outlook for China that's bearish you'd say? David: I don't think it's necessarily ... this will not lead to the collapse of China if you ask. In fact, I was associated, unfortunately, with the collapse of a Chinese thesis, which I do not share, despite the title of the Wall Street Journal in an article I once wrote for them. I have to explain, again, that it was the title of the Wall Street Journal, not mine. Brad: They control the headlines, I see. David: They control the headline. No, China will not collapse just because it does not implement the third plenum reform, but will stagnate I would say relatively stagnant. If they grow 6 percent, is it stagnant? Many countries would like 6% GDP growth. This is not stagnation. It is a question of the quality of growth, not the amount of growth and the structure of the economy. As I say, unless China can move on to service-based innovation and even a consumption-based economy away from fixed capital investment, it's called by economists, it's like infrastructure, pouring a lot of concrete and producing low-end consumer goods for export to Target and Walmart, that's what they've been doing for the last 40 years, right? Lots of concrete, a lot of low-end manufactured exports to Target and Walmart. It's been very successful over the last four decades, but the World Bank would say it's a good thing, it's typical of the first stage of economic development. Now you have to start moving to a service-based, innovation and consumption-based economy, and even change the structure of exports. They don't. It's like a drug addict who's addicted to drugs. They must continue to pour concrete. They build what they call the spirit and railways, roads, and ports, and all kinds of physical assets that you don't need. They have more than the options at home, so what do they do about it? They export it abroad. One of the reasons for the belt and road initiative is to start exporting parts of this overcapacity infrastructure to their companies. Which companies? state-owned enterprises. This is not ... I do not anticipate that this will cause some kind of cataclysm of the Chinese Communist Party or the Chinese economy. On the contrary, it will keep chugging along and, in fact, we see very interesting success in the sector of innovation, company-based innovation, in and around Shenzhen. We are also seeing the development of the service industry, so there are indeed some encouraging economic changes, but they are also very discouraging. Such as the level of debt, which is currently close to 300 percent of GDP. It's a red light flashing zone, economists will say. The Chinese economy is a complicated, big economy. There's no magic ball for that. Tomorrow does not fall. The Chinese stock market, however, has really lost a lot of value. There's a lot of uncertainty in China, but it won't break down. I say it will be relatively stagnant. It will not continue to push through this intermediate zone we call the middle income trap. Brad: If there is economic stagnation can the Chinese Communist Party continue its grip? Can this repressive approach that Xi has taken continue, or can social unrest with their growing expectations be something that cannot be managed, bottled up? David: That's a question about \$64,000. We have not seen a single Lenin state in the history of the world survive without this kind of economic goods to deliver. It is impossible to survive only on repression. You need to deliver what they call performance legitimacy and change productivity legitimacy as the structure of the economy changes. What has been for the last three decades does not mean that it will be enough for another three. I think Xi Jinping, when he came to power in 2012, was really worried about the state of the party. He took very aggressive action to try to strengthen the party. In the short term, he strengthened the party. There is no doubt about that. I, I am still of the opinion, that he weakened the party in the long term because it weakened the various mechanisms within the party and between the party in different sectors of society. In other words, he returned to the party for a rather mechanical, dictatorial, top-down instrument. There is what the Chinese themselves call *dǐng jì shèngshuó*, a cross-party life. It all comes back, again to this debate about the Soviet Union, what kinds of parties can survive, open parties or closed parties? Can you survive only on or a combination of repression and openness? No Communist party has ceased to repress. I don't think they have to do it or that they will do it, but they need, I think, if they evolve economically, they need to loosen their political system. It just doesn't need a nuclear scientist to recognize it. Brad: What should be the American approach in light of this? You have already talked about President Trump and our trade representatives. Of course, we are not, if you can argue, in a beginning trade war with China. What's in your mind if you're an adviser to the President of the United States, or our approach to China? David: Well, a very good question that doesn't have a really simple answer, but I'll try to highlight a few things. The first element is that we need to work with other like-minded countries that share the same concerns about China. In other words, there is no point in hitting our allies, other OECD countries that have the same concerns about the structure of the Chinese economy and barriers to entry for foreign companies, whether Canadian, German, British, Finnish, Japanese or anyone else. I think it's a mistake on Trump's part. He has not mobilised a coalition that could be said of countries that have very similar concerns to ours in the Chinese economy. I think it would be more effective. Secondly, I think we need to give the Trump administration credit. I'm not a big fan of the Trump administration to be sure, but when it comes to China, I give them credit, among other things, for recalibrating the narrative and calling the relationship what it is. What is it? It's a competitive relationship. This is the first administration in the history of the United States to call China a strategic competitor and has been quite open in the United States National Security Strategy, the United States National Military Strategy, and even Vice President Pence's speech on all blemishes, if you want to put it this way, china has and problems in relations. We have a competitive relationship. There is no doubt about that. I don't think it's doing us any good to pretend that somehow we're going to get back to a harmonious relationship with each other with just a few negotiations. Excuse me. We're not going back to that. This is a new normality. We're in a competitive relationship, so now we need to figure out how to go on offense in a competitive relationship and not just play defense, but actually a crime. We must compete with the Chinese on the global stage, certainly in Asia and even in our own society against what has become known as Chinese influence operations. Brad: Confucius Centers and things like that? David: It's a big multi-pronged issue and we'll release a report on November 29th, a 300-page report Chinese influential activities in the United States, jointly conducted by the Hoover Institution and the Institute of Asian Society of the U.S.-China, so watch this space. This is a very complicated issue. Confucius Institutes is just one very small and frankly not a disturbing element. In fact, we call for the maintenance of confucius institutes. They are not threats to national security in the US at all. They are pilloried by some people very incorrectly, we claim. This does not mean that they should not be managed more efficiently. We have a number of surveillance recommendations in some Confucius Institutes, but this is not a Trojan horse that will undermine American democracy or teach China on American university campuses. In any case, US-China relations are competitive. This is a new normality. It will be indefinite. This should come as no surprise to anyone. The challenge is to manage it so as not to become a fully adversarial relationship, because the two countries could go to war. Your program is called War on the Rocks; well, there is real potential for war between the two powers. Graham Allison's *Destined for War*, his book on Thucydides' trap and his study of similar cases in world history between emerging powers and established powers suggest that most of them, 14 out of 18 to be specific, lead to a serious war of power. We don't need that. China doesn't need it. The world doesn't need it. The question is, how do you manage competitive relationships, go on offense, push back, stand up for your own American interests, and try to shape the global order without the risk of war? There are ways to do this, but we need a lot of creative thinking in our country about how to buffer competitive relationships, like a firewall between competition and adversarial relationships. We have to do this together with the Chinese. We do not have mechanisms, for example in the de-escalation of conflict or accident management, if our ships or our aircraft meet in an accident that we had with the Soviet Union. There's a lot of work to be done, but I attribute to the Trump administration that I'm actually changing the narrative, telling the truth, and telling the American people ... It seemed to me that Vice President Pence's speech was really very good, telling the American people what the nature of this country, China, is and what it means for American interests. Now we need to turn this into a real strategy, right? The speech is not a strategy, and I have not yet seen much evidence that the Trump administration really has a full strategy. Brad: Professor, we ask every guest at Jaw-Jaw to give us recommendations for books or podcasts that we recommend for people who are interested in finding out more about China. Can you give us two or three recommendations which which would people be interested to learn more about it? David: Well, there are a lot of good ones that come out all the time. I think my list of the top three will include the last book published last year, I think 2017, by Carl Minzner entitled *The End of an Era*. It's about China's reform agenda, it's about how it's going to end. The second book is Elizabeth Economy's latest book, published this year in 2018, entitled *The Third Revolution*. This is a study of China under Xi Jinping. The third book is by my colleague George Washington, Bruce Dickson, called *Dictator Dilemma*, who is also struggling with the Chinese Communist Party's strategies for survival. These three come to mind, but you may want to look at my own book, *The Future of China*. Brad: Professor David Shambaugh of George Washington University, your 2016 book *China's Future* is one of the great texts of recent years on the subject, so thank you for being a guest in Jaw-Jaw today. David: My great pleasure. Thank you. Brad: Thanks for listening to this episode of Jaw-Jaw. If you like what you've heard, go to iTunes or your favorite podcast app and rate, review, and subscribe. Music and production by Tre Hester Hester

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