

Is China the boogeyman ?

China was like N. Korea, but much bigger

China was just like North Korea but 60 times larger. We are fortunate China is no longer a desperate, irrational state. We should be mindful of the factors that made China a more reasonable country—economic liberalization and global integration.

China and NOKO shared some dangerous traits.

Extreme poverty and backwardness. Totalitarian government. Closed off from the world. Irrational, quasi-deistic personality cult built around the supreme leader. Nuclear weapons.

Sound familiar? If you're thinking North Korea (NOKO), you're right. But long before NOKO, there was China, which, in the 1960's and 70's, was like NOKO on steroids—crazier, more bizarre leadership combined with more than 50 times the people.

Mao Ze Dong of China to the left.

Kim Il Sung of N. Korea to the right.



China was a broken country in 1975, ripe for belligerence.

By the 1970's, China was perhaps more broken than any country in history, decimated by the 200 years of decline, capped off by the Great Leap Forward and the Cultural Revolution.

More than 30 million died in the Great Famine. Then another million died, and more than 30 million were tortured, imprisoned, and persecuted in the Cultural Revolution. Virtually all of society, from farms to factories and schools to government agencies, shutdown amid the chaos. From the Opium War through

the Boxer Rebellion, Fall of the Emperor, the Warlord Period and Japanese Invasion of WWII, China had a rough couple of centuries leading up to the Communist takeover. At that time, China didn't have great technology, but Mao Zedong had won control of China by mobilizing the masses. The Great Leap Forward was Mao applying mass mobilization to economics. Hundreds of millions of Chinese peasant farmers were ordered to use whatever metal they could find (melt down farm implements, etc.) to build simple, backyard furnaces to make steel. It was a creative, out-of-the-box attempt to allow China to make a huge step toward prosperity. Unfortunately, it was also technologically unfeasible and societally impossible to execute. The result was The Great Famine, 30 million dead. Even in a totalitarian regime, such a colossal failure can threaten a leader's rule. To prevent this, Mao responded with the Cultural Revolution, a program ostensibly designed to weed out anyone who wasn't loyal to Mao and his ideology, Maoism, which was enshrined in



Mao's famous "Little Red Book." People were encouraged to create "Red Brigades" dedicated to identifying and punishing anyone disloyal to Mao. In effect, the people were turned against each other as chaos, fear, fanaticism, and ruthless violence dominated the country, perhaps one of the greatest episodes of mass psychotic behavior in history.

Instead of becoming a belligerent country like NOKO, China reformed.

Broken countries often do desperate things. But China didn't. It reformed. As government control of the economy decreased, economic growth increased. China changed for the better.

How did China rise from the ashes? One thing is for sure, it didn't start by holding elections. Beginning with the leadership of Deng Xiaoping, it initiated a slow, gradual transition toward the free market, with China going from being a 100% state controlled economy with no private property or private enterprise in 1980 to one with roughly 60% private enterprise and 40% government dominated enterprise in 2020. That reform caused China to average 10% growth for 30 years, doubling in size 4 times over that period. Because China also happens to be the largest country in the world, with a population that is almost 5 times larger than the US, it also became factory to the world and an export powerhouse.



Chinese people developed a stake in the future.

Economic growth is about more than a bigger paycheck. The lives of the Chinese improved. They become empowered and developed a stake in the future.

The way Chinese people live their lives, and the decisions they can make, has changed dramatically. Unlike 40 years ago, hundreds of millions of Chinese are now free and empowered to make decisions like whether they go to college, what they study, what job they take, who they work for, when they quit and find another job, what they buy, how much they save, how much they invest, where they travel, etc. These are huge improvements for people who in the past has no choice but to toil in the fields as subsistence farmers. While Chinese people are far from completely free, it could be argued that Chinese people gained more freedom from 1980-2010 than any people in the world. It could also be argued that Chinese people, who cannot vote, are, in practical terms, freer and more empowered than the people of India, who can vote, but where the per capita income is only one-fifth of China (5% of the US) and real opportunity to improve one's life is virtually unavailable to most Indians. People who are focused on their career and retirement plans and the education

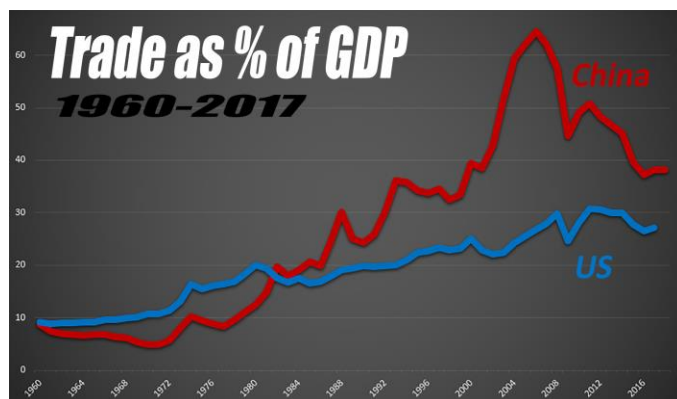


of their children are far less likely to get involved in the kind of fanaticism that fueled the Cultural Revolution and arguably still exists in places like N. Korea and parts of the Middle East. The world is a safer place for that reason.

China needs a stable world and good relations with its trading partners

Poor countries need good customers to grow and countries don't attack their customers. That is how economic integration makes the world safer.

The chart shows how dependent China is on the rest of the world, with trade as a percent of GDP rising to 2X the level in the US before falling as rising incomes in China leads to more domestic consumption. The fact is, every rising economy of the last 75 years (Japan, S. Korea, Taiwan, etc.) has relied heavily on exports to wealthier countries, demonstrating



that poor countries need good relations with other countries to grow economically. Plus, it's not just trade. China relies just as much on foreign investment and global integration relative to management, technology, finance, etc. In fact, the most important aspect of integration might be cultural influence that results from China having to meet foreign requirements and practices. This cultural exchange, driven by higher standards relative to transparency, quality, efficiency, trust, etc., is extremely valuable to China and any developing economy.

We'll be lucky if NOKO becomes like China

Success with NOKO requires more than an agreement. Only if NOKO fundamentally changes as China has will the world be genuinely safer.

Non-proliferation agreements are notoriously difficult to enforce. If NOKO remains poor, backward, desperate, and closed off from the world, any such agreement will hardly be worth the paper it is written on. Furthermore, it is naïve to think NOKO, any more than China or any other country, could become a stable, liberal democracy overnight. The truth is, to genuinely make NOKO less of a threat to the world, we need to have NOKO travel the same path China has traveled—economic growth, people with a stake in the future, a government that wants global stability and good foreign relations.

EXPERIENCE COUNTS:

Over many years in China I have seen firsthand how the younger generation is more open-minded and proactive than the older generation. I've also seen how more advanced parts of the country change faster than other parts. It took the US 100 years to go from the end of slavery to the end of segregation, so we can't expect China to be completely transformed already. Much more progress is needed but the last 40 years is a good start.

Presented by Daniel R. Joseph (www.theglobaldashboard.com)