

The China Dashboard

Has engagement with China worked?

Engagement with China has worked well, albeit imperfectly. China has made much progress, but you have to know where to look. It isn't just about politics and the government. Economic freedom and empowerment, culture, and people are most critical at this stage.

Real democracy takes time. All countries face challenges.

Only 15% of the world's population lives in an advanced, democratic society, a number that has barely changed in the last 50 years. America, the longest running democracy in the world today, required roughly 100 years to abolish slavery and then another 100 years to disband segregation. Using urbanization as a proxy, when America was at the same level of development as China is now (about 50-60% urbanized), women couldn't vote, segregation was in full force, and children worked in coal mines. The point? Democracy isn't easy and, even when it succeeds, it takes time. China is only 50 years removed from the disaster of the Great Leap Forward famine and the Cultural Revolution, only 40 years since reform began. Is it reasonable to expect China to have made more progress than it has made?



Why did China grow: Communism or Capitalism?

Let's give economic freedom the credit it deserves

Listening to the China Hawks, you would think China's remarkable economic ascendance was because communism actually worked. They never seem to mention economic liberalization. It started by allowing foreign companies to invest, which led to those companies accounting for more than 50% of Chinese exports for many years, and an even higher portion of tech-related exports. It also led to 85% of foreign companies reporting profits in China, and the likes of Apple, GM, Ford, P&G and others doing extremely well. It extended to a burgeoning entrepreneurial sector, which dominates China's most successful export sectors like apparel and electronics and which have accounted for more than 80% of China's new job growth over the decades. It can be argued that no country over the past 40 years returned as much economic freedom to the people as China did over a similar period of time.



Economic growth comes first, paving the way for democracy

For 200 years our advice to non-democratic countries is that they should have elections as soon as possible. Unfortunately, that doesn't really work. Poor countries are not culturally ready for democracy, with weakness in the rule of law being the biggest challenge. History and research have shown that economic growth changes the culture and strengthens the rule of law in ways that are absolutely necessary for real democracy to take root. The most successful development and democratization experiences of the past 50 years—Taiwan, S. Korea, Singapore, and Hong Kong—all started with economic reform first, and saved political reform and elections for later. China is on this path. It has a long way to go. But China's progress can't be assessed accurately if the economic side of the equation is ignored.

Rethinking Democratization

New thinking--a more comprehensive view.

The people are *not culturally* ready for democracy.

When the *people change*, the government will change.

Growth via free market

Economics

Change

Culture

Democracy

Politics

Economics → Culture → Politics

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Focus on the people, not just the government

Freedom in China has actually increased dramatically, if you know where to look. Economic liberalization and growth has empowered people to make decisions they could not have dreamed of a generation ago—start a company, study at university, take any job, change jobs, buy a home, live where you want, travel overseas, buy whatever you want, save, invest, choose a school for your children, etc. People in India can vote. But with a per capita GDP of roughly \$2,000, most Indians can make many of the above decisions. Life is a meager existence they can't change. China's per capita GDP is 5X larger than India's and it has at least 5X as many people who are

empowered enough to make impactful decisions in their own lives. Do you think many Chinese would rather live in India? Don't bet on it. As discussed in the preceding point, history and research shows that this economic empowerment eventually spreads into the political arena and brings democracy. China still has a long way to go, but if you only consider what the government does politically, you will never see improvement.



Engagement gives China a stake in stability

"No one declares war on their good customers." Vito Corleone would certainly agree. Like every emerging economy to experience consistent growth over the last 50 years (Taiwan, S. Korea, etc.), global integration (imports, exports, investment, etc.) has been critical to China's growth and will continue to be so. Plus, when the citizens of a country are more concerned about their own retirement and their children's education, and when a government's legitimacy rests in large part on the ability to help people achieve these goals, then outright confrontation is far less likely. China's leaders aren't elected, but why do you think they allowed China's debt to balloon from 120% of GDP in

2008 to more than 300% currently? Clearly it is important to China to keep the economy humming. This could change, but for now there is more reason to expect to China to continue to boost global integration in order to support growth, which means China will continue to be motivated to play by global rules and promote stability.



Reform has fallen behind. That is a problem that must be fixed

Just because engagement has worked, doesn't mean there aren't problems. Economic reform has been too slow for 10-15 years. Yet, due to the momentum of past reform, China has transitioned from low cost supplier to critical market and potential competitor. The exemptions from certain rules that used to be acceptable are no longer so. China needs more reform to continue to grow. The world needs more reform in China to ensure fairness for companies and consumers in all countries. So it is completely reasonable to insist on more reform from China. But not because engagement didn't work. Because engagement did work, and we need it to continue to work, and we need more reform for that to happen.

