Scenario One: Fragmentation

The Chinese Communist Party (CCP) faces escalating demands from a range of actors who have slowly chipped away at its legitimacy and capacity. When faced simultaneously with a major national disaster and an international crisis—during a time of power transition—the CCP is unable to respond effectively and its very survival is at risk.

Scenario Two: Strong State

Having engaged its best and brightest to successfully address the many challenges faced by China, the CCP remains highly autocratic, making extensive use of technology to improve government performance and suppress dissent. To safeguard its legitimacy, the CCP uses polling to continuously track public satisfaction with government policies and with the performance of senior party figures.

Scenario Three: Partial “Democracy”

Following several perceived failures of governance, the CCP is able to maintain a powerful position only by accommodating greater popular demand for openness and participation in shaping China’s political and economic agenda.
PROJECT OVERVIEW

This CGA China Scenarios workshop, conducted on October 16, 2009, was the third of several events at CGA designed to reduce surprise and expand U.S. foreign policy options. Previous events focused on Iraq and Iran. We have scheduled further workshops on Russia, Turkey, and Ukraine. The Scenarios project is funded by the Carnegie Corporation of New York.

Too often, in both official and academic policy debates, the future is expected to parallel the recent past. Potential discontinuities are dismissed as implausible, information that conflicts with prevailing mindsets or policy preferences is unseen or viewed as anomalous, pressure for consensus drives out distinctive insights, and a fear of being “wrong” discourages risk-taking and innovative analysis. This built-in conservatism can artificially restrict policy options and reduce foreign policy choice.

This is a particular risk in the current international system, characterized as it is by both internal and external pressures on all governments. Our experience, through several workshops, is that experts tend to underestimate the degree of future variability in the domestic politics of seemingly stable states. This is the case with Iran, as it was with the Soviet Union. Globalization, financial volatility, physical insecurity, economic stresses, and ethnic and religious conflicts challenge governments as never before and require that we think seriously about American policies in such turbulent and uncertain circumstances.

The CGA Scenarios project aims to apply imagination to debates about pivotal countries that affect U.S. interests. The project assembles the combination of knowledge, detachment, and futures perspective essential to informing decisions taken in the presence of uncertainty. The project comprises long-term research on forces for change in the international system and workshops attended by experts and policymakers from diverse fields and viewpoints. The workshops examine the results of current research, create alternative scenarios, identify potential surprises, and test current and alternative policies against these futures.

Michael Oppenheimer, the founder of the project, has organized over thirty such projects for the State and Defense Departments, the National Intelligence Council, the Central Intelligence Agency, the U.S. Institute of Peace, the Brookings Institution, the Council on Foreign Relations, and the President’s Science Advisor. He is a professor at the Center for Global Affairs at New York University.
FOREWORD

China’s emergence as a great power in later part of the 20th century has had a tectonic effect upon the conduct of world affairs, driven by the most rapid accumulation of national wealth in human history. As such, its ascendance and possible trajectory is the subject of intense scrutiny by global policymakers, business leaders, and scholars. Future scenarios, particularly when they involve a phenomenon as highly dynamic and complex as China, are easy to criticize, however, because predicting the future is obviously impossible. But the use of scenarios, properly contextualized and bounded, can nonetheless provide penetrating insights about the dynamics at work inside China, identifying key actors, drivers and impediments of change, and possible “wild card” outcomes. In other words, scenario work is largely a heuristic exercise in the best sense of the word, and it can often be a source of enlightenment for serious people in serious jobs that require a highly nuanced perspective on the fragmentary and sometimes contradictory data passing across their desks.

Not surprisingly, the success or failure of scenario development is largely dependent on the quality of the people organizing and participating in the exercise. Michael Oppenheimer and his staff at the Center for Global Affairs have years of experience running these types of meetings, guiding the conversation and extracting the precious metals from the piles of ore. The resulting scenarios reflect both the refined power of the methodology but also the hard work of designing the agenda and inviting the right mix of participants. In the latter respect, they succeeded admirably, bringing together experts from a wide range of disciplines and professions, including economists, journalists, NGO activists, academics, businessmen, and former government practitioners. More important, these experts brought a broad range of personal perspectives to the task, based on years of growing up or living in China, thereby obtaining the necessary but often elusive tactile, instinctive feel for the place and also possessing the introspective self-awareness to interpret and share those impressions. After resisting the initial urges to fight the methodology, the day was filled with spirited debate. The resulting set of scenarios offers three stylized future trajectories for China out to 2020, crafted by some of the most knowledgeable China observers in the field. I would highly recommend them for anyone interested in informed, provocative thinking about the future of China.

James Mulvenon
Defense Group Inc.
January 6th 2010
INTRODUCTORY NOTES

The scenario process was designed as a free flowing discussion on plausible futures for China and for U.S.-China relations to the year 2020. It was not a formal simulation with assigned roles and a scripted dialogue, but a facilitated conversation among 18 experts on various aspects of China (economy, politics, demographics, ethnic groups, environment, foreign policy) and how these factors might vary and interact over the decade to produce alternate scenarios.

We made an early decision to emphasize internal “drivers”. Although Chinese internal developments clearly are influenced by its external environment, China’s market size, currency reserves, increasing hard power and deliberate policies (only partial economic liberalization, peaceful rise) have granted China a degree of autonomy surprising for a country so globally interdependent in trade and finance. Its ability to resume growth of nearly 10 percent in the midst of a global recession is indicative. And this has granted China a corresponding policy autonomy capable of resisting, at last thus far, entreaties to float its currency, end export subsidies, and agree to verifiable carbon emission limits. We thus felt confident that, at least for the decade, China’s future will be shaped primarily by internal forces: the quality of its governance, the growth of internal demand, its environmental record and its response to demographic pressures. Although external factors were brought into the discussions, we maintained this “inside-out” approach throughout most of the session.

This approach enabled us to avoid the risk that the scenarios would come to revolve around alternate Chinese reactions to the current U.S. policy agenda. We attempted to make the scenarios as U.S. policy neutral as possible, then used these internally driven stories as templates for thinking about U.S. interests and policies. This produced policy implications that are often contradictory and ambiguous; trade offs are highlighted, rather than obvious choices. Seemingly positive scenarios (from a U.S. perspective) produce negative consequences unless anticipated and addressed. The reverse is also true. The goal was to identify the range of challenges and opportunities presented by each scenario, and to avoid deterministic conclusions about which futures are good or bad, or mixed.
The internal focus was also motivated by an impression we have gained through previous workshops that country experts often underestimate the degree of variability in the economics and especially in the politics of seemingly stable states. The USSR is the now classic example; Iran is the current one. Authoritarian states appear impervious to change, until suddenly they do. Expectations of stability, in retrospect, turn out to have reflected limited information, embedded mindsets, political biases, excessive caution. This does not amount to a general prediction of imminent instability, but recognizes that states are today subject to an extraordinary combination of internal and external demands, and that a scenario exercise affords an opportunity for structured speculation about how things might fall apart.

One final point about the overall approach: the early years of each scenario are structured around similar events, including a nuclear accident, a corruption scandal, and a Party election. This establishes a parallel structure that facilitates comparison. The scenarios then begin to diverge as the CCP reacts well, or not so well, to these challenges. We believe that this approach produces greater insight than snapshots of the future, or than scenarios that are forced to vary by locating important events in one scenario, but not in others.

The first two hours of the session began with a presentation of some fragmentary scenarios emerging in the national debate on China.

- Fragmentation
- Reform/Democratization
- Nationalism/Populism
- Business as Usual
- Southeast Asia Model

This list was thoroughly discussed, new concepts were suggested, and some eliminated based on redundancy. We then proceeded to choose three scenarios for detailed treatment. This selection was based on plausibility (not likelihood) and significance. The three were also chosen to encompass a wide range of conditions, including some that are of low probability but would be highly impactful, and that challenge both our assumptions and our preferences. The three scenarios chosen were:

- **Fragmentation**: China faces an array of challengers to central authority who chip away at state capacity and CCP legitimacy. The survival of the CCP is placed at risk.
**Strong State:** China remains strong and enhances state capacity through effective use of technology, improved decision-making and problem-solving, and the ruthless suppression of dissent.

**Partial “Democracy”:** A bottom-up change occurs in the Chinese political system as the CCP is forced to accommodate greater popular demand for openness and grassroots participation in addressing China’s many challenges.

These concepts were then the subject of detailed discussion over the following three hours. Here we tried to suspend disbelief, set aside probabilities, and build the most persuasive case we could for each scenario. To facilitate this, we asked certain questions: what factors/events precipitate and drive the scenario; what could get in the way and why will these impediments be unimportant? As each scenario took on a plausible shape, we asked about implications for the United States.

The final hour was devoted to a discussion of what we learned, or had confirmed, about change in China and in U.S.-China relations. We then opened up the discussion to other faculty, students, and observers for questions and comments.

The scenarios are not mutually exclusive, though each represents a dominant tendency with distinctive implications for China, and for the choices they pose for the U.S. Nor are they predictions or easily rank ordered as to probability. They are, we hope, plausible and thought-provoking, revealing challenges and opportunities for U.S. policy not apparent in extrapolations, or in policy driven debates about the future of China.

Michael F. Oppenheimer
NYU Center for Global Affairs
January 13, 2010
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The scenarios presented in this document were prepared by faculty and students at CGA, based upon discussions at a full day scenario workshop, and additional research.

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Scenario One: Fragmentation

STATE CAPACITY WEAKENS IN FACE OF RISING POPULAR DEMANDS

INTRODUCTION

The Chinese Communist Party (CCP) begins the decade in control, but faces escalating demands from various groups, challenging not only the survival of the CCP but also the geographic integrity of the Chinese state. The CCP proves unable to meet both the economic and social expectations of the Chinese people, thus losing its claim on absolute power. The decade is characterized by unsustainable growth rates of nine to eleven percent between 2010 and 2014 followed by a sharp economic downturn in late 2015. There are repeated failures by the central government to respond effectively to major natural disasters and other national crises. The endemic culture of corruption continues to diminish state capacity while riling the public and in particular the growing urban middle class. As the decade progresses, the frequency and growing size of public demonstrations lead to ever more violent and disproportionate responses by the People’s Liberation Army (PLA). Meanwhile, a growing list of challengers steadily chips away at centralized power and at the legitimacy of the CCP. These challengers include provincial leaders who have outperformed the center, entrepreneurs and independent trade groups who now pursue increasingly independent international strategies, a pro-independence leadership in Taiwan, strong separatist movements in Xinjiang and Tibet, emerging terrorist networks across China and a much stronger, nationally coordinated civil society. Acting independently, they defy Party commands and overwhelm central power.

In the past, the CCP was able to stay in control irrespective of the challenges faced. In this scenario, with state capacity significantly impaired, the CCP is confronted by a major national disaster at the same time as a major international crisis. The timing of these two crises in the run-up to a
transition in power creates unique conditions under which an open split in the CCP leadership occurs. The collective political will of the Party itself is put in question

**DRIVERS OF THIS SCENARIO**

The fragmentation scenario emerges due to the cumulative effect of the following drivers:

- **Economic Trends:** The CCP fails to deliver sustainable economic growth. A sharp economic downturn midway through the decade leads to severe economic hardship for hundreds of millions of Chinese and creates a highly disillusioned middle class, who unlike their predecessors are well educated, highly connected, expect each year to be better than the previous one and feel empowered to take action.

- **Corruption:** Corruption scandals emerge throughout the decade in which high-ranking party officials are found to have enriched themselves at the expense of public safety and/or damaged China’s trade prospects. Repeated failures to bring those responsible to justice damage the public’s faith in the CCP.

- **Inequality:** Unsustainable growth rates lead to increased deprivation for tens of millions of migrant workers. The CCP fails to deliver the minimum safety net promised by President Hu and millions who migrate to the cities in search of work find themselves living in squalid conditions, as city governments struggle to provide basic public services.

- **Civil Society and Information Technology:** A more computer literate population increasingly uses the Internet to connect with other like-minded people, to express their communal dissatisfaction with government performance. This leads to the emergence of nationally coordinated demonstrations, which are harshly suppressed by a regime determined to prevent the rise of rival national organizations or alternative power centers.

- **Demographics:** General dissatisfaction with CCP performance is exacerbated by a rapidly aging population with inadequate provisions for retirement, a growing gender imbalance whereby millions of single males are unable to find brides, and the failure of city governments to deliver adequate public services to the burgeoning urban population.
- **Environment**: As the decade progresses, more violent weather patterns emerge that are directly attributable to climate change, such as increased flooding along the southern coasts caused by rising sea levels, and longer periods without rainfall in the North, which reduce agricultural output. This leads to millions of climate migrants in search of somewhere new to live, causing tension with already established populations.

**THE PATH TO 2020**

At the 17th National congress in 2007, President Hu Jintao outlined an ambitious vision of the China that his and the subsequent administration would work to create by 2020. That vision was based on the assumption of continued high economic growth. He spoke about the creation of a moderately prosperous society within which there would be greater social equity and justice for all the people of China. Corruption would no longer be tolerated and there would be an end to arbitrary decision making within the Party as greater intra-party democracy would be introduced.

While the challenges facing China were understood in isolation, the complex interactions were misjudged, particularly how economic growth might in fact reinforce corrupt practices, which if left unpunished would lead to a perception of greater social injustice and to increased financial risk. Throughout this period, the CCP believed that it could retain control if it were seen to deliver economically and if it continued to forcefully suppress dissent. It failed to take into account public expectations which now included a much greater concern with social equity and justice, and with increasing public participation in government. The central government was expected to follow through on its commitment to address corruption and punish those responsible. It was expected to have learned from the mistakes uncovered at the time of the Sichuan earthquake and to ensure that government officials caught endangering people’s lives would be punished, regardless of their position. It was expected to keep the Chinese people safe from the consequences of natural disasters and from violent attacks by terrorist groups operating within or beyond Chinese borders. It was expected to address environmental problems and implement legislation that would help mitigate the consequences of global warming. It was expected to ensure a more equitable distribution of wealth and deliver a minimum social safety net for both urban and rural populations.
The first major setback to Hu Jintao’s ambitious plans occurred in 2008 with the global economic downturn. Corrective action taken by the Chinese government in the form of a USD$585 billion stimulus package was short-term in vision and ultimately ineffective. It successfully reignited Chinese growth in the latter half of 2009 and into 2010, but created significant mid-term risks by paving the way for equity and asset bubbles. The stimulus produced a new batch of bad loans that were never going to be repaid. Most significantly, it failed to address the fundamental need to rebalance sources of economic growth away from investment and exports in favor of domestic consumption. Its heavy focus on large infrastructure projects produced only limited employment opportunities, compared with what would have been created by similar levels of investment in the services sector.

American and European consumer confidence failed to rebound during 2010, while protectionism against Chinese products in the U.S. and the EU escalated, causing many Chinese manufacturing companies to either cut back production, shift production to lower cost locations overseas or shut down their operations. This led to greater competition for fewer jobs and increasing tensions between the migrant workers and their host communities in coastal cities. Compounding the challenging economic conditions, domestic terrorism emerged as a serious threat in 2010. A car bomb attack at the Expo 2010 World’s Fair in Shanghai killed over one hundred people. The attack was blamed on Uyghur separatists and described as proof of emerging ties between the Uyghurs and Middle Eastern terrorist organizations. A violent clampdown followed in which thousands of Muslim men were arrested across China on suspicion of involvement in the attack. When reports started to emerge of violent beatings and the death of a number of suspects in custody, a media blackout was imposed. Quick execution of a large number of Muslim men did not allay a lingering fear among the public and growing tension between the Han and Muslim communities. Conspiracy theories abounded that the terrorists were the cat’s paw of “foreign forces”, including the CIA, adding tension to Sino-US relations.

An accident at the Daya Bay nuclear power plant in Guangdong province in early 2011, which killed thirty eight plant workers and released dangerous levels of radiation into the local atmosphere, reminded the public that corruption continued to thrive at all levels of government. An official investigation traced the incident back to fundamental failures in safety protocols and to defective equipment. It was discovered that short
cuts had been taken in the construction of the plant. Mid-level managers were initially charged with accepting bribes. High-ranking officials with known personal ties to the construction firms responsible tried to avoid prosecution. Details of their direct involvement quickly spread via the Internet. Outraged members of the public took to the streets in protest demanding justice but were quickly and firmly dealt with by the poorly trained paramilitary forces of the People’s Armed Police. Five people were killed in the ensuing confrontations and the government blamed the deaths on extremist elements in the local population. When official media outlets suspended any further reporting on the nuclear accident, the Guangdong disaster took on a life of its own among Chinese bloggers, ensuring that the incident would not be forgotten and providing yet another example of a cover-up by the CCP. Some senior Party members were later discovered to have fled China for safer havens, taking with them substantial amounts of ill-gotten gains, further inflaming local sentiments.

2012: A Power Transition and the Start of a Trade War

2012 was a pivotal year because of the transition of power to the 5th generation of Chinese leadership and because of presidential elections in the U.S. and Taiwan. As the new Chinese leadership team, President Xi Jinping and Premier Li Keqiang came into office, it faced growing levels of social unrest. Further corruption scandals, severe flooding in the South caused by rising sea levels and the deaths of hundreds of miners in another mine collapse in northern China led to heightened levels of tension. The new leadership reverted to traditional CCP populist tactics, placing a renewed emphasis on propaganda and introducing a limited range of new environmental policies that it hoped would provide some respite from public protests.

Across the strait, Taiwan swore in its new president, Dr. Lai Shin-yuan. A former member of President Ma’s cabinet, she was expected to continue his pro-China policies. However, once in office, Lai quickly reverted to her pro-independence roots and took a much firmer and in some instances confrontational approach to the CCP. This renewed tension with Taiwan was met by anger on the mainland as the public blamed the CCP for...
having allowed relations with Taiwan to deteriorate so rapidly. The great progress made under the Ma Presidency on economic and cultural exchanges had led many to believe that full political re-integration was only a matter of time. Those hopes were now dashed.

As election fever grew in the U.S., there was a high profile product recall involving household electronic devices. A series of electrical fires was eventually traced to sub-standard Chinese-made appliances, all bearing counterfeit UL (underwriters laboratories) decals. Against the backdrop of a persistent national unemployment rate of 11 percent and a continued trade imbalance with China, this led to an intensely xenophobic reaction in parts of the mainstream American media. The American trade union movement took advantage to push its agenda of protecting American jobs from unfair Chinese competition, now joined by consumer groups pushing a new agenda of “safe trade”. Desperate for union support in a very close election campaign the Obama administration conceded and “Buy American–the Safer Choice” became a rallying call for both parties on the campaign trail. Legislation was subsequently proposed to subject all imported electronic products to much more rigorous safety testing. This had a devastating impact on Chinese imports, as the government proved unable to enforce more exacting standards, and the cost of testing would in any case render many Chinese products un-competitive. China quickly found itself entering an intensive trade war with one of its largest markets. The range of products impacted expanded to include a wide range of food products and toiletries, which the U.S. claimed were not being produced to international quality and safety standards. The Chinese retaliated by placing restrictions on the import of U.S.-manufactured consumer brands.

Instead of stepping back and investigating safety and quality issues at manufacturing plants suspected of taking short cuts, the CCP blamed the trade war on Western prejudice against the Chinese people. The CCP propaganda machine attempted to generate a movement of national Chinese outrage at Western actions. While this strategy might have worked in the past, an increasingly active community of Chinese bloggers ensured that the truth was uncovered. They publicized direct linkages between factories involved in producing sub-standard merchandise and corrupt Party officials. This generated renewed public outrage. Historically, anger at government failures was localized and could be contained, but the Internet now enabled small communities to find other groups across the
country with shared grievances. The CCP no longer faced easily controlled small pockets of protest at the local level, but now confronted nationally coordinated demonstrations.

Inundated by external and domestic challenges, the Chinese leadership turned inward. There were fewer government-led international delegations dispatched to negotiate deals with global partners. State visits by the President and Premier were postponed. As the leadership became increasingly preoccupied by domestic matters, a number of entrepreneurs, trade bodies and a small number of progressive provincial leaders decided to take international matters into their own hands. From 2014 onwards, these players worked in partnership to drive increasingly independent international strategies. Their priorities were no longer dictated by Chinese national interests. Instead, they went where the deals were. They carefully distanced themselves from the CCP and presented a more “westernized” image to potential investors and business partners. They emphasized transparency and tight quality control in their business operations. They engaged NGOs to monitor their quality processes and report on any deviations. They hired returning Chinese expats, with Western business credentials, as the front men and women for their business interests. They attracted new international investors and found markets for locally manufactured goods. On the basis of some early successes and careful management, the provincial leaders involved in these initiatives were able to protect their local populations from the extremes of the recession that was to follow. This gave them the confidence to operate independently in an expanding range of policy areas.

2015–2016: A Sharp Economic Downturn

In the fourth quarter of 2015, the Chinese economy experienced a sharp economic downturn. The sluggish global economic recovery, the ongoing trade war with the U.S. and the continued high dependence of growth on exports were all contributing factors. But the 2008 stimulus package was also deemed responsible. It failed to stimulate the growth of small and medium enterprises that are typically engines of job creation, instead focusing on large SOEs. Poorly targeted loans led to the emergence of bubbles in both the property and equity markets. As early as 2009, warnings had been issued that there was already a surplus of office
accommodation and high-end apartments in Chinese cities. By 2015, much of the property remained unoccupied and as developers started to default on their loans, the knock-on effect led to a crisis in market confidence. Suddenly investors stampeded out of equities. The resultant market crash wiped out hundreds of billions of dollars of wealth within just a few weeks. Economic growth fell from eleven percent to six and a half percent by the end of the first quarter of 2016. This had a huge impact on China’s growing middle class, who saw the proceeds of their hard work decimated.

The difficult economic conditions from 2016 onwards were magnified by other challenges facing the CCP. The post-Great Leap baby boomers had started to retire, many without adequate pension provisions and dependent on family support. The gender imbalance in the Chinese population became more and more visible as young men struggled to find brides. The rapid rise in urban populations brought further challenges as municipal governments struggled to provide the necessary public services and many people found themselves living in squalid conditions. Severe storms along the southern coast and expanding deserts in the North led to a rapid growth in the number of climate migrants. These increasingly extreme weather events were now threatening food and water security. The government managed to avoid large-scale, violent protests only by relying heavily on the intervention of the paramilitary forces.

In addition to demographic and environmental challenges, the CCP also faced an array of challengers to its hold on power. Provincial leaders, some of whom were outperforming the center, called for greater devolution of power to the provinces. They allied themselves with local PLA commanders, many of whom had been passed over for promotion in favor of officers with better social and financial connections. Entrepreneurs and trade associations were becoming increasingly influential in international trade discussions. Terrorism had become an ever-present threat, as the frequency of attacks and scale of casualties increased over the decade. Some groups claimed links to global jihadist movements. Others described themselves as freedom fighters, seeking independence for their people (generally either the Tibetans or Uyghurs). It is possible that they were encouraged by Taiwan’s pro-independence movement, which seemed to go from strength to strength over this period. In spite of regular admonishments from Beijing, Taipei became a much more visible and confident player on the global stage.
Over this period, military spending slowed down as the CCP redirected resources to strengthening the state internally. It invested more in light infantry forces, which were used to promote regime stability. This preoccupation with survival also impacted how China approached international negotiations. While occasionally China was prepared to compromise on non-core interests in exchange for assistance that promoted regime survival, it became extremely sensitive to actions of other states that sought to profit from China’s weaknesses. As a result, China was seen to hunker down diplomatically, be less willing to compromise and believed to be much more likely to use force.

**2020: An Emerging Split in the Leadership**

Political maneuvering in the run-up to the next power transition in 2022 was already afoot in early 2020. While still attempting to present a united front, the CCP faced its first major challenge of the decade. In June 2020, North Korea launched a missile that landed in the East China Sea. Immediately, there was a major mobilization of Chinese forces along the border with North Korea and the air-force and navy were placed on high alert. The then Korean leader Jang Song-taek had been out of the public eye for several months and there was a growing fear that the North Korean military might now be in charge and that a refugee crisis could be imminent.

Within days, the CCP faced a second crisis, this time a massive earthquake in North Eastern China. The quake caused widespread devastation and millions of people were forced to evacuate their homes. The initial death toll was estimated in the tens of thousands and a major search and rescue effort was launched. However, it quickly became clear that the CCP response to the earthquake was going to be inadequate. This latest in a long series of government failures brought the Chinese people to the streets. With PLA forces already stretched to their limits, the demonstrations were allowed to proceed uninterrupted. A split in the already fragile leadership now spilled over into the public domain. Behind closed doors, the CCP anxiously deliberated its next steps.
CONCLUSION

In this “fragmenting” China of 2020, the legitimacy of the Chinese Communist Party has been significantly compromised. With its very survival at stake, the CCP grapples with: how to get the balance right between greater devolution of power to the more competent provinces, trade organizations and civil society organizations without jeopardizing the CCP’s control at the center; how to deal with the debilitating consequences of rampant corruption that has cost the CCP its mandate to govern and must now be tackled head on; and finally, how to bring some social stability back to the country so that the army can be redirected from containing domestic anti-government protests to dealing effectively with national crises and protecting the nation from the growing threats posed by terrorists and other actors along and outside its borders.

The consequences for U.S policy are mixed. The China depicted in this scenario is less a rival to U.S. power than at present and in other scenarios, but also a less effective partner in addressing global problems of concern to the U.S: the spread of nuclear weapons, the threat from terrorist groups, the negative effects of climate change, and protectionist challenges to global economic growth. It is also more insecure, less predictable in its external behavior, and prone to impulsive actions growing out of internal pressures or the opportunistic moves of regional competitors (India, Russia). Its very weakness becomes a potential source of instability and conflict in Asia. The U.S.’s ability to manage Chinese insecurity will be a major challenge, not least because of the temptation to exploit internal divisions by attempting to empower breakaway groups. The successful management of Soviet decline suggests that the U.S. has the skill to get this right, but Chinese fragmentation will present its own set of unique problems.
Scenario Two: Strong State

STATE CAPACITY STRENGTHENS DUE TO PROBLEM SOLVING AND IMPROVED DECISION MAKING

INTRODUCTION

The Chinese system of government remains authoritarian, with some elements of controlled democratization. It has met its economic commitments to the Chinese people by sustaining robust growth while slowly rebalancing the sources of growth away from investment and exports. This remains a key priority.

The CCP continues to govern as if it were part of a contested party system, although there is no traditional opposition. Instead, it faces resistance and feedback from an array of challengers including Hong Kong, Taiwan, the entrepreneurial classes, the rural masses and external actors—all with expectations and demands that force the CCP to continuously review its policies and adjust when necessary. With its focus on survival, the CCP closely monitors the sources of its legitimacy, using polls to determine if overall CCP policies are generally supported and also to track public opinion about the performance of senior party figures. How a particular provincial leader is polling will determine how he or she progresses within the Party. Collective leadership and the Party’s dominance are helped by the long grooming process and by the principle that nominations to the top are always vetted by the generation before last—effectively denying complete control to any particular group of leaders. Such feedback enhances the quality of governance, enabling leadership to competently manage the challenges of inequality, corruption, and environmental blight. When necessary, its enhanced capacity allows it to successfully suppress dissent and maintain law and order.
The CCP uses a top-down approach in managing the dissemination of information to the general public. Following any incident such as a natural disaster, a food safety scandal or the uncovering of corruption, the CCP manipulates public opinion by allowing people to vent and express their anger for a short period of time. This creates the illusion that freedom of speech is tolerated. However, media coverage is always closed down within a few weeks thereby preventing matters from festering. The public barely notices the media blackout and is left feeling that their voices have been heard.

The modernization of China is at the top of the CCP agenda in 2020. The government has embraced many new technologies during the previous ten years and technology has become a key government enabler. The CCP has issued electronic ID cards to the public and moved to a predominantly e-government environment. State security makes full use of Internet and mobile tracking, while China’s video surveillance system has become the world’s most sophisticated. This has improved the quality of government reporting leading to better decision-making. It has introduced a much higher degree of transparency to public interactions with government officials, thereby making requests for bribes and other forms of corruption more difficult to hide. While improving efficiencies in the planning and delivery of public services, the ID cards are also a very effective government tracking tool and are used to follow the movements of the vast Chinese population.

Critical to safeguarding Party legitimacy has been the CCP’s successful campaign against corruption. While China still does not have an independent judiciary, the party has implemented structures to encourage the reporting of corruption and ensure swift and effective justice for the perpetrators. Its evolving bargain with the Chinese people remains intact.

**DRivers OF THIS ScEnARio**

The strong state scenario is made possible by the interactions of the following drivers:

- **Economic Trends**: The CCP delivers sustainable economic growth of between 8 and 9 percent over the ten year period. It adjusts its interest rate and currency policies to gradually move the economy away from its heavy dependence on investment and exports towards increased domestic consumption. While the population no longer sees the
double-digit growth of the 1990s and 2000s, it accepts that the new policies implemented by the CCP are necessary for the longer term health of the Chinese economy.

- **Corruption**: The CCP introduces a new internal department reporting directly to the premier, which has as its sole objective the elimination of all forms of corruption. While it is viewed as a long-term program, the Party proclaims a zero-tolerance policy and engages the public directly in exposing those guilty of corruption and ensuring that they are brought to justice. Selective enforcement of this policy enhances the insecurity of citizens and encourages political conformity.

- **Inequality**: By delivering sustainable economic growth, the CCP provides a degree of stability to the Chinese population. The additional focus on the development of Western China brings new opportunities to those populations and closes the income gap between them and their counterparts in the coastal cities. It eases tensions within the population.

- **Information Technology**: Technology becomes an important government enabler, allowing it to improve the quality of decision making and eliminate many inefficiencies and waste from government departments. It also becomes an important tool for the CCP in suppressing and co-opting opposition.

- **Civil Society**: Tensions grow between the CCP and civil society primarily due to the CCP’s continued censorship of all media outlets in China and its tight control over Internet usage. NGOs remain highly regulated but are allowed to fill gaps where their knowledge and expertise is of value to the CCP and can enhance overall state capacity.

- **Demographics**: The introduction of electronic ID cards across the population enables the CCP to track demographic trends more accurately and start to respond more appropriately to public requirements. The addition of highly trained demographers to senior positions within the CCP ensures that new policies are introduced to try and prevent worst-case scenarios from unfolding.

- **Environment**: Energy conservation and environmental protection become central to all aspects of China’s economic activities and key motivators in the movement of economic activity away from heavy industry.
Changes within the CCP: The CCP manages to refresh itself. It doesn’t succumb to corruption or expectations that it will lose power. Instead, it reforms organically from within. It encourages the best and the brightest to step forward, which in improving the quality of government, reinforces CCP survival.

International Economy: China has used its terms of entry into the WTO in 2001 to build up huge, internationalized Chinese state enterprises which challenge established multinational companies and act in tandem with the government. This rewrites the story of globalization with an economic powershift towards China.

THE PATH TO 2020
2010: A start is made to rebalance the economy and address inequality

The 2008 stimulus package was an overwhelming success, when viewed in the context of its primary objective—to reignite economic growth. However, the CCP was aware of the potentially damaging consequences of its heavy focus on investment and in 2010 it started to take corrective action. The stimulus program had kick-started the economy by investing heavily in large infrastructure projects, which had the immediate impact of increasing demand for heavy industrial goods and creating new jobs. However, much of the funding was inefficiently used and led to the creation of overcapacity in many industrial manufacturing sectors. By mid-2010, production significantly exceeded domestic demand and much of the surplus production found its way into European and other developed country markets, often at substantially discounted rates. This development led to an escalation of official complaints against dumping and trade actions against Chinese products. In parallel, the loan component to the stimulus had created dangerously overinflated property and equity markets. The CCP acknowledged that these markets needed to be cooled down, that capital needed to be directed more efficiently to take advantage of China’s pool of surplus labor, and that it needed to introduce new policies that would stimulate sustainable growth in domestic consumption. The CCP also needed to demonstrate progress towards its commitments to reduce the energy intensity of Chinese economic growth. A continued focus on heavy industry would destroy any prospect of reducing carbon emissions.
By late 2010, the CCP had introduced new policies that would be expanded as the decade progressed.

- New property taxes were introduced that made speculative investment in property less attractive. This had the immediate effect of slowing down the construction frenzy, particularly in the major coastal cities.
- New capital gains taxes were applied to stock market gains, which helped to cool down equity markets.
- The CCP initiated a process of slowly increasing interest rates. This had the effect of making the capital previously used for investments in heavy infrastructure much more expensive. As a result, entrepreneurs diverted more funding into less capital-intensive and less carbon intensive service industries which in turn created more jobs.
- Higher interest rates led to greater consumer confidence. The Chinese people saw their savings accounts earn interest, which made them feel more financially secure and therefore less conservative about spending.
- 2010 also marked the start of a change in currency strategy. While never publicly conceding to U.S. and EU demands, the CCP began to gradually revalue the renminbi. This helped the CCP economic policy on a number of fronts. By making the currency more expensive, it increased the cost of Chinese exports and decreased the cost of its imports. This helped reduce the economy’s dependence on exports as a source of growth and gave Chinese consumers access to new imported products, driving domestic consumer demand. This change in strategy also lessened tensions with international trading partners as it helped to reduce trade imbalances.
- Aided by new international standards for the reduction of emissions and international enticement schemes to developing countries, China’s industrial policy aggressively pushed alternative energy and environmental technologies, including on the export front. Made-in-China solar panels, wind farms and electric batteries started to capture the next wave of consumer technologies.

In 2010 the CCP was presented with a new domestic challenge, when a terrorist attack at the World Trade Fair Expo in Shanghai killed over one hundred people. The CCP responded with a determination that left no stone unturned. The perpetrators from the Xinjiang region were captured and executed. The CCP increased its surveillance activities over suspected
members of the Xinjiang and Tibetan separatist movements. It launched an aggressive publicity campaign to remind the Chinese public that terrorism now posed a major threat to Chinese security. The “Safe Streets” initiative, initially launched in the winter of 2006, received increased government funding to dramatically expand the web of surveillance cameras operating nationwide, particularly in Xinjiang and Tibet. Originally developed to detect possible illegal demonstrations, the program’s mandate was expanded to include monitoring for potential terrorist activity. However, the CCP recognized that surveillance was not enough and that it needed to address the issue at its source.

It understood that poverty provided a ripe recruitment ground for terrorist organizations. The tenth anniversary of the Western Development Strategy had been celebrated in January 2010. Following the terrorist attack some months later, the CCP recognized that following through on the proposals outlined by Wen Jiabao at the Western China International Cooperation Forum in October 2009 was now critical to undermining all separatist movements. Premier Wen had outlined his proposal for the further development of Western China under four headings:

- The deepening of energy cooperation and transportation links between Western China and its neighboring countries, which were similarly rich in natural resources.
- The deepening of economic ties through increased cooperation in trade and investment, including a relaxation in import quotas and the creation of new industrial hubs.
- The deepening of cooperation in energy conservation and environmental protection. The CCP engaged a range of NGOs as consultants and to implement new programs in this area.
- The deepening of regional and international cooperation through organizations such as ASEAN and the Shanghai Cooperation Organization (SCO).

From 2010 onwards, the CCP started to follow through on its commitments and slowly, the Western provinces started to see increased levels of investment and the emergence of new local employment opportunities. Although the income gap with the coastal provinces remained, by 2020 it was not as pronounced as in the past, and the CCP carefully manipulated public
opinion to ensure a general perception of progress and continued loyalty to the center. Over this same time period, although the separatist movements struggled to build momentum, the CCP kept a close eye on their activities ensuring that any semblance of agitation was quickly quashed.

2011: Fighting Corruption

In early 2011, a dangerous leak from a nuclear plant in Guangdong province led to a major change of strategy within the CCP. Unlike previous incidents in which public safety had been compromised, the CCP did not simply bring those responsible to justice. It initiated a major internal restructuring that was to transform how the CCP would deal with corruption going forward. The CCP recognized that corruption posed one of the biggest threats to China’s economic growth, to the safety of the Chinese public and to the survival of the CCP.

- The Premier announced the creation of a new anti-corruption department, which reported directly into him. This well-funded new agency was ruthless in exposing fraudulent practices and in ensuring that the maximum penalties possible were secured for those convicted.
- The CCP made promotion up its ranks dependent on a proven track record of fighting corruption. This slowly helped to change the Party culture by creating a degree of competition among party members to expose wrongdoings.
- The use of polling among the public became an important way of monitoring how committed Party members were to wiping out corruption.
- The government accelerated the migration of its day-to-day paper-based administrative activities to an e-government environment in order to increase transparency.
- Electronic ID cards were rolled out nationally to simplify interactions between members of the public and government agencies. It made the payment or receipt of bribes by public officials much more difficult to hide.
- The public was encouraged to report instances of corruption via a centralized government website.
- Independent NGOs were invited to work with government departments and State Owned Enterprises (SOEs) to introduce new
quality and safety procedures that would qualify for international accreditation from the International Organization for Standardization (ISO). It was hoped that clearly defined electronically trackable processes would act as a deterrent to corrupt practices and that ISO accreditation would improve the image of Chinese-made products.

Given how entrenched corruption was within the Chinese system, it was accepted that progress would be slow and that success would be elusive. Nevertheless, this aggressive new policy was viewed by the public as evidence of the CCP’s commitment to addressing this major problem. The anti-corruption framework announced in 2011, was fully operational just two years later in 2013.

2012: A Leadership Transition

2012 was a critical year for the CCP with the new generation of Chinese leaders coming to power and presidential elections taking place in both Taiwan and the U.S. While sensitive to its own vulnerabilities during this transition of power, the CCP was also very alert to activities in both Taiwan and the U.S. When rumors started to emerge that Ma Ying-jeou might not seek reelection in Taiwan, the Chinese intervened immediately to persuade him to run for another term. Although the pro-China movement seemed to have gained considerable ground under Ma’s leadership, it was still in its infancy. The CCP needed President Ma at the helm for at least another term, to reinforce his policies towards the mainland.

Meanwhile in the U.S., the Obama administration was facing a difficult reelection campaign, with unemployment running at over 11 percent and a growing populism. The CCP was concerned that trade relations could be jeopardized by the American union movement and elements of the U.S. media. In response, Hu Jintao organized a state visit to the U.S., using this trip to remind the U.S. administration and the U.S. public of the important partnership between the U.S. and China. He reiterated the key steps China had taken during the preceding two years to promote a return to global economic stability and to open up its domestic markets to imports from the U.S. He outlined the major changes that had been introduced to eliminate corrupt practices and improve the quality and safety standards employed.
by Chinese manufacturers. He reaffirmed China’s readiness to play a military role against threats to sovereign states, particularly in Africa and South America. He spoke of China’s support of a strong Pakistan state and its commitment to ongoing development in Afghanistan.

But as well as these positive gestures, China was able to leverage its hard currency war chest: trillions of dollars, partially hedged by increased holdings in raw material and energy resources. The world, and singularly the U.S., had come to accept a partial internationalization of the renminbi, based on its use within the Asian region and with developing economies, without China opening itself up to the risk of a fully convertible currency. At the UN and on key international issues, China increasingly held sway over a growing group of countries that often resisted American policy preferences. It had gained a kind of parity, not in hard power, but in the management of the world economic system and in addressing global issues of high importance to the United States. The main theme of President Hu’s visit was that the U.S. and China needed each other to remain strong. Their economies and global interests were so intertwined that if one were to fail, both would fail.

The visit was deemed an overall success. Obama committed to continue to work together with China to address many of their shared global challenges and subsequently went on to be re-elected. Meanwhile, Hu Jintao and Wen Jiabao were succeeded by Xi Jinping and Li Keqiang as the new President and Premier of China.

Power transitioned smoothly to the new Chinese leadership in 2012. The new leaders continued to drive the previous administration’s efforts to rebalance the Chinese economy, fight corruption, and narrow the income gap between rural China and the coastal cities. Top-down engineering continued to be the CCP’s standard approach and from 2012 onwards a renewed focus was placed on bringing highly qualified and capable people to positions of influence and leadership. The CCP made sure that high performers in the provinces, in central government departments and in State Owned Enterprises were recognized and rewarded. Exceptional performers were promoted. This renewed focus on developing and promoting talent within the CCP was crucial to improving the quality of Chinese policy making. It also improved intra-party cohesiveness and loyalty. The CCP had its best economists steer the country’s interest rate policy, drive its currency revaluation policies and carefully manage
economic rebalancing. It engaged the country’s brightest scientists to drive its policies for dealing with climate change. It engaged the country’s most knowledgeable demographers to drive the required changes in fertility policy and in the development of a state pension program to help support the rapidly aging population.

The Chinese state apparatus had brought China to its current position as a global economic powerhouse. However, there were huge inefficiencies that could now hamper China’s progress to the next stage of its economic development. A key challenge for the CCP was how to combine its surplus capital with its surplus labor. It would need a strong reformed financial system underpinning these efforts. These objectives became central to CCP strategy for the remainder of the decade.

2013–2020: The Role of Technology and an Evolving Relationship with the Public

Technology was embraced by the CCP as a critical enabler in accelerating the achievement of its ambitious targets and in enhancing state capacity.

Between 2013 and 2016, the CCP rolled out its nationwide electronic identity card program. This proved highly successful. It gave the central government full visibility of the entire population. It provided important information on healthcare and education needs, on demographic trends and demand for public services. It improved the quality of government reporting and city planning activities. It enabled the government to keep a closer eye on the vast population, and improved its responsiveness to the population’s evolving needs, which further enhanced CCP legitimacy. As government departments moved to an electronic based system of management, waste was reduced and transparency increased. The move to e-government transformed government procurement activities and eliminated many of the corrupt practices of the past.

Technology also enabled challengers to the CCP. To combat dissident groups, the CCP spent vast amounts of money on enhanced Internet security and surveillance equipment. It continued to invest heavily in new technologies to monitor Internet usage, detect dissident activity and close down threatening sites. It infiltrated many of the underground networks by using the same technologies as the bloggers and activists themselves. The CCP also expanded its use of surveillance equipment nationwide.
This market grew from an estimated $43.1 billion in 2010 to $500 billion by 2020. From its origins as a tool in the fight against crime and an early warning system against possible public demonstrations, surveillance cameras in public places were increasingly used to track targeted groups of individuals. Improvements in face recognition technology made it possible for the police to track an individual’s movements throughout an entire day.

The CCP’s heavy-handed top-down approach, created significant tensions with civil society. The government continued to strictly censor all forms of public media and Internet usage. It was accused of blatant human rights abuses against individuals who dared to challenge its rule. It maintained tight control over the registration of NGOs and was ruthless in closing down those that challenged CCP policy. However, over the decade the CCP was astute enough to recognize that in certain niche areas, state capacity would be enhanced by engaging NGOs to perform certain tasks. NGOs supplemented state-provided health and education services, helped the CCP to improve the processes used by government agencies and helped a number of SOEs secure international ISO accreditation. NGOs were also successfully used by the CCP in energy conservation and environmental protection, supplementing increased levels of cooperation with the EU and U.S. on energy technology development and capacity-building.

As the decade progressed, China was emerging as a clear leader in the global clean energy technology race. Leading the world in clean vehicles, solar and wind technologies, the development of game-changing carbon capture and sequestration technologies enabled China to grow new export markets and create new domestic jobs. This further solidified the impression of competence as the central government executed a highly effective long-term energy strategy. A critical driver of the clean energy revolution in China was the adoption of a carbon tax starting in 2013.

**Public Opinion**

From 2015 onwards, the CCP expanded its use of polling to keep its finger on the pulse of the population. New technology and an increasingly IT-literate population made electronic polls a highly effective tool in tracking public perception of government and individual Party members’ performance. Polls were used to determine what the public thought about their local leadership, how they felt the campaign against corruption was going and
what areas they felt were being neglected by the government and needed more attention. While the public did not directly elect party members to government, they increasingly saw that their opinions were having an impact. Provincial leaders who continued to engage in corrupt practices and who were not performing satisfactorily lost their jobs. Those leaders perceived by the public to be doing a good job tended to be promoted.

Over this period, there was a growing sense of social justice as corrupt politicians were caught and convicted, investment and growth opportunities were now being directed to Western provinces and income gaps were starting to narrow. While far from the Western ideal of a true democracy, the Chinese system was viewed by the population as increasingly participatory. Their voices were being heard. Within the CCP, there was also a feeling that things were changing. While intra-party democracy was still in its infancy, a culture of meritocracy was gradually filtering down the organization. High performance was starting to replace the old culture of cliques and personal connections as a determining factor in appointments, leading to much greater transparency in the workings of the CCP.

CONCLUSION

While China remains highly autocratic in 2020 with the CCP firmly in control, the Chinese public is still generally supportive of the central government. The Chinese leadership has brought in highly qualified and effective people to address the many significant economic, demographic and environmental challenges faced by China, and they seem to be making progress. The internal structure of the CCP has evolved to deal with corruption. The CCP has embraced technology as a key enabler of strong government. It has become a more constructive stakeholder in the international system, albeit a system over which it exerts growing influence, committed to and capable of discharging its international commitments.

The consequences for U.S. policy are, as in other scenarios, both positive and negative. On the positive side is a China committed to reducing its dependence on export led growth, thus potentially a more effective partner in managing the global economy, generating growth and poverty alleviation throughout the global system, and maintaining a more balanced trade and financial relationship with the U.S. Also, the government has
the domestic writ—though not necessarily the motivation—to deliver on any commitments to trade and currency liberalization, reduced carbon emissions, nuclear non-proliferation and regional stability.

Realizing this upside will, however, be very difficult. On the part of the U.S., the urge to see and encourage economic and political liberalization in China will interfere with even “à la carte” cooperation with a strengthened Chinese state. For China, with a legitimate and robust government, a GNP approaching the U.S.’s, and enormous financial resources, the obvious tendency will be to rediscover dormant ambitions and to pay lip service to reform of the Western order while quietly (and eventually not so quietly) seeking to overthrow it. Asian regionalism in trade and monetary affairs will deepen. The contest between democratic and state capitalism could echo the Cold War in its reach and intensity.

This suggests a complex, rapidly changing relationship, full of ambiguity and uncertainty. Objectives on which the two states agree—counter-terrorism, stabilization of failing states, promotion of global growth, avoiding worst-case scenarios for climate change—might be greatly advanced by cooperation. But the U.S.’s partner at times will appear as a rival in setting the rules for the global economy, building a strong non-proliferation regime (as opposed to ad hoc cooperation with regard to certain states), and maintaining regional stability (not when instability serves expanding Chinese interests). As Chinese power continues to grow and its state strengthens, finding the right balance between engagement and containment will be a constant challenge for the U.S.
Scenario Three: Partial Democracy

RISING DEMAND FOR IMPROVED GOVERNANCE FORCES PARTY TO ACCEPT WIDER PARTICIPATION

INTRODUCTION

The residual effects of the global economic downturn, endemic corruption, natural disasters, and demographic, environmental, and socioeconomic issues—all reflections of China’s single-minded commitment to economic growth—threaten social harmony and political stability. Improved standards of living and wealth creation no longer guarantee party legitimacy in the eyes of the Chinese population, both because growth slows and because other issues increase in importance. Retention of party power will necessitate more inclusive decision-making, and a new level of political accountability to those beyond top levels of the CCP.

In this scenario, the Chinese Communist Party (CCP) is able to maintain a powerful political position in the country, but only by accommodating greater popular demand for openness and grassroots participation in shaping China’s political and economic agenda. The CCP attempts to deflect “bottom-up” challenges, but they grow in intensity and ultimately lead to a material change in the country’s political status quo. New, more democratic procedures are enacted during election of the Party leadership. Regulations governing the Internet and the formation of politically oriented NGOs are liberalized. The opinions and perspectives from the Chinese population are given more legitimacy and this “public voice” influences the government’s decision-making process to a far greater degree than in the past.

These changes are shaped by growing popular discontent resulting from the Party’s inability to meet rising economic expectations, compounded
by corruption among members of the Party elite. The precipitating event is the Party’s poor response to a leak at a nuclear power plant, which ignites a wave of populist fury across China’s rural regions and key urban areas. This crisis is fueled by the growing aggressiveness of domestic NGOs and an increasingly commercialized and professional press. A new generation of politicians and entrepreneurs takes notice and responds to the popular will, bringing fresh ideas to the CCP and a new sense of economic and political empowerment.

A number of key, up-and-coming party members, while stopping short of challenging the CCP’s hold on national governance, choose to exploit these trends to further their own political ambitions. In response, the Party elite seek to co-opt this wave of change and open the Party to new members, fresh thinking and liberalization of the Party’s decision-making processes. The result is an institutionalized “checks and balances” within the party-state system with all the appearance of traditional factional politics.

By 2020, the CCP has successfully demonstrated its ability to evolve and respond to challenges to its authoritarian rule. While popular unrest continues to simmer in uncoordinated outbreaks in the countryside, the Party succeeds in its effort to accommodate its critics and political opponents. In the process, the Party becomes more open and transparent, a new upward mobility enables “outsiders” to compete for and gain high positions within the CCP; and public opinion is able to shape official policy as never before. The CCP will continue to struggle to retain its domestic political primacy, but it has managed for the moment to retain one-party rule.

New “power centers” form with real clout within Chinese society. Changes in the national political fabric become obvious when different elements within the CCP create their own slate of competing candidates at the 19th National Congress. The public clearly embraces this new form of democracy (“bipartisanship with Chinese characteristics”) driven by a highly motivated middle class (as large as the entire population of the U.S.), an engaged civil society, a domestically-grown entrepreneurial class, and new-found support for the Party among the civilian population.
DRIVERS OF THIS SCENARIO

The Partial Democracy scenario emerges from a number of key drivers:

- **Economic Trends:** China’s GDP growth rates moderate as a result of the global economic recession and increasing protectionism, from 12 percent to approximately 8 percent. This is below the 10 percent needed to create new employment opportunities for the millions of rural farmers moving to urban centers after being uprooted by massive infrastructural development, and for the additional millions of new college graduates seeking first jobs. As a result, local frustration leads to more frequent and larger street demonstrations. This, in turn, spurs the development of a multitude of populist organizations, far larger in number than the PLA is able to control.

- **Environment:** Two decades of rapid economic development have resulted in displacement of rural and urban residents from their homes and land, environmental degradation, and reduced access to clean water. Approximately 300-400 million people are expected to migrate to urban areas over the next two to three decades, primarily to seek employment and to escape spoiled rural areas. Hundreds of environmental “events” such as poisoned water supplies, deadly sandstorms destroying crop land, lingering air pollution which causes infant deaths, are reported each year and are the main topic in domestic Internet chat rooms and blogs.

- **Corruption:** Unchecked corruption and malfeasance by government workers and employers exacerbates the impact of economic and social dislocation and fuels a deep sense of unfairness and shame across the country. This corruption is fueled in part by the recent USD$585 billion stimulus program, which earmarked substantial investment for State Owned Enterprises (SOEs), well known for their inefficiency and history of self dealing.

- **Information Technology:** There is a growing sense of popular empowerment and self expression among the middle class (expected to reach 520 million by 2025), as demonstrated by the phenomenal growth of mobile phone use (480 million mobile devices as of 2007) and the Internet (320 million users as of 2006).

- **Civil Society:** It has become very popular to participate in one of the over 354,000 registered (and hundreds of thousands of unregistered) NGOs. Many of these organizations actively challenge government policies affecting minority rights, environmental degradation, and loss of farm land to industrial development.
THE PATH TO 2020
Post-Recession Economic Reality

In 2007, President Hu Jintao outlined the government agenda at the 17th National Congress on how the CCP would continue to serve as the primary steward of the economy, address pervasive institutional corruption, protect natural resources, and address the downsides of rapid growth. Progress also entailed the sustainable expansion of social democracy, the protection of individual rights, and greater social equality and justice for all citizens.

After its successful Party Congress in mid-2007, the CCP was on a stable footing and continued to deliver the economic progress necessary to maintain the government’s “bargain” with the Chinese people. However, the global financial crisis that began in later 2007 dramatically increased the level of difficulty in meeting expectations across Chinese society. China, which enjoyed a decade of double-digit GDP growth prior to the global economic crisis, began to feel the effects of a more modest rate of growth. GDP growth hovered around 8 percent throughout 2009 and 2010. A substantial decrease in American and European consumer demand led to a significant drop in exports. The government continued its policy of pegging the Chinese renminbi to the U.S. dollar in an effort to jump-start export activity, which led to increasing tension between China and its U.S. and European Union trading partners, in addition to its partners in Southeast Asia. Furthermore, the Chinese stimulus package proved initially successful in sustaining economic growth through massive infrastructure projects, but was unable to bring the economy back to double-digit growth. Nor did it trigger the level of domestic demand needed to replace the reduction in export revenues. This led to a decrease in confidence in the government’s ability to deliver on its wide-ranging promises. New employment lagged and social programs were underfunded. Government officials were well aware that the underpinning of the CCP’s legitimacy rested on economic and social progress, but chose to focus solely on large-scale infrastructural development, delaying safety net expenditures.

Public dissatisfaction increased with each new revelation of corruption among regional and central Party officials.
Rising Demand for Improved Governance Forces Party to Accept Wider Participation

2009: CCP’s Lost Legitimacy and the Increasing Public Discourse

Public dissatisfaction increased with each new revelation of corruption among regional and central Party officials. In November 2009, the Chinese legislature removed education minister Zhou Ji amid a corruption scandal at the Wuhan University and widespread dissatisfaction over the educational system. The event highlighted the challenges in tackling corruption and continued to exacerbate tensions across Chinese society.

No concrete international agreement on global warming emerged from the Copenhagen Climate Conference in December of 2009. However, the conference sent the Chinese blogosphere abuzz with discussions on the environmental degradation that had been a byproduct of rapid economic growth and the renewed focus by the CCP on nuclear power production. Cyber dialogue focused particularly on China’s chronic water irrigation and sanitation issues and on its plans to widely expand its use of nuclear power, to help meet its growing energy needs while limiting the growth in carbon emissions.

Popularly read blogs and Internet sites posted skillfully written and nuanced articles filled with coded language understood by Chinese readers criticizing the government’s approach in addressing significant issues. One particular satirical anecdote went “viral” on the Internet—the story was a metaphor for a water incident in Eastern Shandong Province in 2000 in which thousands of villagers fought with police for two days over access to water for irrigation.

2011: Guangdong Nuclear Disaster

As the government debated how best to respond to these incidents, its legitimacy took a massive hit. In January 2011, a week before Chinese New Year, Guangdong, one of China’s most economically prosperous and populated provinces was rocked by a scandal involving a radiation leakage from the Daya Bay nuclear power plant. Dozens of plant workers fell ill, many of whom subsequently died from radiation poisoning. The local water system and agricultural lands were contaminated. The radiation emissions extended over a densely populated area and it was estimated that up to half a million residents might have been directly impacted. Initial attempts by plant managers to cover up the incident and
a poorly coordinated response from local government emergency services led to a national outcry, which was fueled by Internet reports describing the chaos on the ground.

Inspections at the power plant led to the arrest of several mid-level Party officials who were found to have accepted bribes in return for relaxing oversight during the accelerated construction of the plant. Sub-standard materials had been used and many safety protocols ignored. The CCP was particularly shaken by this event because the expanded use of nuclear power was one of the corner-stones of its program to meet the country’s growing energy needs. While mid-level local Party officials were initially charged, high-level responsibility was ultimately traced back to senior Party officials in Beijing, who were eventually charged and executed.

In retrospect, the CCP underestimated the huge role the Internet played in disseminating information about the incident. Thousands of blogs, Internet media services and mobile phone users transmitted all available information on the crisis. It was estimated that over one billion SMS messages were sent pertaining to the disaster during the first two weeks.

The dissemination of information led to demonstrations across many major cities, not only in Guangdong, but also in Zhejiang, Jiangsu and other areas where nuclear power plants were either already in use or under construction. The PLA was called in to restore order and no fatalities or major clashes were reported. But the CCP was put on notice.

2011: Government Response
The CCP leadership called an emergency session to develop a strategy for managing the immediate crisis and to address the issues underlying the future role of the CCP. To respond quickly to the escalating crisis, the CCP decided to turn to a group of small, privately owned (entrepreneurial) companies with particular expertise in energy technologies and in the stringent safety standards required in the construction and operation of nuclear power plants. These firms, in partnership with a number of NGOs, conducted a thorough examination of Daya Bay. They reviewed all aspects of its operations including the technology used, safety processes, training of personnel and disposal of waste, to identify areas of risk. The audit was completed and recommendations for improvements submitted to the CCP within six months. This initial exercise was deemed highly successful.
and the Party approved a variety of pilot programs to carry out similar independent audits of nuclear power plants nationwide. Many of these independent firms were subsequently engaged by the CCP to deploy new technologies that would help improve safety standards, and others were engaged to work with the plant managers on improving production and safety processes.

The CCP bet on the ingenuity of these entrepreneurs, many of whom were also low-level members of the Party. Reliance on a non-Party solution to the crisis paid off, and this fact did not go unnoticed in the blogosphere. Many websites lauded the government’s efforts while simultaneously hinting that the challenges the country faced were potentially too much for any government to handle alone. These conversations led to a veiled discourse about how an overwhelmed government in crisis mode was not best-situated to handle issues of poor technology and institutional corruption. The blogosphere dialogue was coupled with an increasingly dynamic debate among China’s professional classes. Intellectuals, mid-level policymakers, entrepreneurs, and civilian government critics pushed the political boundaries by using the Internet and other modes of communication to discuss and debate the Party’s new stance. The “Three Represents” policy, which functioned as a policy framework directed at dissenting members of the elite during the 1990s and early 2000s was under attack. Too many Chinese had broken through once-impregnable technological, socioeconomic, and political barriers; the CCP’s ability to co-opt professionals, intelligentsia, and private entrepreneurs was severely compromised.

As the Guangdong disaster receded, mostly due to the success of these pilot programs, the Politburo decided to push forward with a series of other “pilot programs”, which focused on environmental degradation, healthcare, and education. Provincial-level governors and Party secretaries were given a wide scope to set local policy and work independently with businesses and NGOs in these areas. Most NGOs focused on general education, the environment, public health, services for the disabled and elderly, technology development, and poverty alleviation. There was also a major focus on improving disaster response capabilities with a strong emphasis on coordination across government and NGOs and the effective use of technology. The success of these new groups and partnerships, coupled with their popularity across the country, led the CCP to further
streamline the NGO registration process and to issue registration waivers to many NGOs allowing them to become operational even before completing the CCP registration process.

**2012: Reforms at the Party Congress**

The party was still attempting to find ways to reclaim its lost legitimacy at the commencement of the 18th National Congress in 2012. The CCP looked for ways to capitalize on the successful pilot programs instituted after the Guangdong crisis. While these programs helped bolster the CCP, it was clear that the leadership would not be able to go back to the pre-Guangdong days of top-down policies.

The CCP initiated a series of pilot programs aimed at institutionalizing procedures for electing Party leadership, expanding rule of law, and establishing a uniform legal system with robust judicial authority. For example, pursuant to new guidelines enacted at this Congress, the Central Executive Committee, the most powerful organ of the CCP, was elected by a floor vote of all Party Congress participants rather than by the Politburo. This dramatically democratized the process of selecting the country’s leadership. The CCP also increasingly encouraged entrepreneurs, civil society groups, and municipal governments to take the lead in resolving educational, environmental, and social issues.

In 2012, the Chinese leadership transitioned to Xi Jinping and Li Keqiang, the new President and Premier. They institutionalized Hu Jintao’s Scientific Development concept, which endorsed continued development while addressing the downsides of rapid growth. They emphasized the importance of continuing efforts in combating corruption, addressing income inequality and regional disparities, environmental degradation, and maintaining social harmony. It was made a priority to continue the pilot programs initiated following the Guangdong incident and to expand this public-private partnership approach, into other areas. Success in implementing many of these new initiatives was attributed to the new blood that entered the CCP as well as the leadership’s ability to steer clear of political crisis and to effectively oversee these new programs and simultaneously address corruption via the newly established intra-party legal framework.
From 2012 onward the Chinese political landscape continued to evolve. The leadership’s agenda included a renewed focus on the eradication of the types of corruption that were at the center of the Guangdong crisis. They created expanded roles for NGOs, the growing middle class, small business owners, and the media. Out of pure necessity, the CCP started empowering these groups to take much more prominent roles in tackling issues within their areas of expertise. However, other groups within the CCP grew anxious about the trajectory of the CCP’s new policies and this led to heated debate about the future of the Party and the country. News of this debate found its way into domestic Internet chat rooms.

2017: Government Responds to a New Crisis

In 2017, China was hit with yet another natural disaster: a massive earthquake in Central China which caused significant damage to the Three Gorges Dam, leading to massive flooding and the displacement of tens of thousands of Chinese. The government, which oversaw the rapid implementation of the previously mentioned pilot programs, was now ready to successfully manage a coordinated disaster relief effort between the military, local civil society groups, municipal government agencies and international relief groups. The CCP called an emergency session and decided to empower the local authorities to manage the response to the crisis. New emergency management procedures, developed and implemented in the aftermath of the Guangdong crisis were followed. The central government’s willingness to partner with local authorities and NGOs was widely applauded by the population. The use of technology, particularly mobile telephony, satellite tracking technology and the Internet, facilitated very close coordination between the various agencies on the ground. The local government, the PLA, NGOs and local businesses were able to closely coordinate their efforts, identify the most vulnerable populations at any given point in time, and prioritize where and how aid was dispatched. They were able to maintain real-time communications around the clock, thereby ensuring a highly effective search and rescue effort. This devolved, tightly coordinate response was credited with savings tens of thousands of lives in the immediate aftermath of the earthquake.

The 19th CCP National Conference was unlike all previous conferences.
By 2020, the CCP had published and fully implemented new intra-party rules creating transparent procedures, expanding the rule of law and establishing a uniform legal system with robust judicial authority—all within the Party apparatus and in the name of social harmony.

The 19th CCP National Conference was unlike all previous conferences. The new Party leadership included a wide range of non-traditional participants. Representatives of NGOs, entrepreneurial and business interests, and civilian watchdog groups all had a major role in the development of the conference agenda. A one-party, two-faction system emerged. Conference participants aligned themselves with either the “populists” or the “princelings”. The CCP successfully institutionalized dynamic checks and balances within the Party, which incorporated disparate elements of society and placated critics of Chinese democracy around the globe.

CONCLUSION

This scenario has positive and negative implications for U.S.-China relations. Transparency within the Chinese political system will enable a more open dialogue. Progress should be facilitated on several issues important to U.S. interests: increased respect for human rights, establishment of rule of law, greater transparency, multiplication of contacts and collaboration between U.S. and Chinese citizens and groups. The expanding middle class and the growth of the Chinese entrepreneurial sector will create new opportunities for the U.S. to build more balanced and sustainable economic relations. Growth of civil society may encourage common approaches on international human rights issues, for example in Burma and Darfur, and greater consensus on development assistance conditionality.

There are, however, important negative consequences. China with greater transparency and partial liberalization will enjoy expanded soft power in Asia and among developing countries generally, feeding the contest over legitimacy with the U.S. The new inner-party governance model will lead to a more dynamic and self-confident ruling elite, which could promote more assertiveness globally. Populist sentiment, frequently highly nationalistic, will begin to focus on years of “national humiliation” prior to the CCP’s assumption of power. Memories of economic exploitation at the hands of the West will be rekindled.
As China’s economic power expands, so will its quest for global legitimacy. The liberal model promoted and implemented by the U.S. after World War II is already under international challenge from a new brand of participatory authoritarianism. This scenario will reinforce this reality, giving it greater internal political impetus. A successful Doha outcome, mandatory and globally monitored limits on carbon emissions, and effective “G-2” management of globalization would all become less likely. The bilateral relationship will become “domesticated” in China as never before, producing a more complex, contentious relationship, even as U.S.-China interdependence grows.
Appendix

DRIVERS PAPER

The Chinese political system of the past twenty-five years has rested on an implicit understanding between the Chinese Communist Party (CCP) and the people of China, whereby the government delivers economic development and ever higher levels of prosperity in return for popular acceptance of the CCP’s monopoly of power. Will this system of government continue to deliver its end of the bargain? The Chinese leadership must now address some significant problems if they are to repeat the economic successes of recent decades:

- the negative consequences of a flawed economic model, specifically, high levels of corruption, decreasing productivity levels, unprofitable State Owned Enterprises (SOEs), and state owned banks with high levels of bad loans
- the growing levels of inequality and ethnic strife and significant environmental degradation caused by rapid industrialization and high growth rates
- the growing pressures of globalization in terms of price competition, higher quality standards, and global expectations for further trade/currency liberalization
- a high dependence on export trade and investment as sources of economic growth, both of which are much less stable and sustainable than domestic consumption

The degree to which the Chinese political system will address current challenges is widely debated. The recent CSIS publication “China’s Rise—Challenges and Opportunities,” presents three possible scenarios that might unfold:

- Minxin Pei’s vision of a China “trapped in transition” whereby China remains indefinitely under authoritarian rule, plagued by crony capitalism, and unable to get to the next stage of economic development
- a more hopeful vision from Bruce Gilley who foresees the better educated and more affluent emerging middle class, becoming a major force for change, leading to significant reforms within the CCP or possibly even a change in regime by 2025
Randal Peerenboom’s hypothesis that China will follow the East Asian development model of countries such as Singapore, where its economic growth will be managed under a system of softening authoritarianism to eventually emerge as a “democracy with Chinese characteristics”\(^\text{11}\)

A key determinant of the trajectory China ultimately follows will be how it emerges from the current global economic downturn. Pivotal to this will be the CCP’s ability to rebalance the Chinese economy on the production side toward a greater emphasis on services rather than industry and on the demand side away from export trade and investment towards domestic consumption.\(^\text{12}\) This has officially been part of the government strategy since December 2004, and a successful execution would help address many of the current challenges:\(^\text{13}\)

- growth would be less capital intensive, enabling China to grow with a lower level of savings and become less intensive in its use of energy and other natural resources, leading to lower carbon emissions and less environmental damage
- inequality would be reduced or at least its growth slowed, as average personal consumption levels rise and the reduced focus on export-driven growth leads to a greater economic balance between coastal and inland areas. World Bank research suggests that China’s heavier focus on industry, as opposed to services, has left China less able to absorb its excess agricultural labor. The creation of more labor-intensive urban jobs, particularly in services, would help China improve total factor productivity by enabling more rural dwellers to find work in urban centers, reducing rural poverty levels and the urban-rural income divide\(^\text{14}\)
- the rebalancing would lead to a reduction in China’s trade surplus, returning greater stability to the international system and reducing the likelihood of protectionist policies being pursued by the Americans and the Europeans

In the current global environment, we must ask some key questions: is this goal of rebalancing the Chinese economy achievable? Has the CCP demonstrated a commitment to this policy or will they in fact be forced down this path? What are the primary levers to such a transition? Will this strategy inevitably lead to lower average growth rates? How might the various internal and external stakeholders in the Chinese system
respond to these changes? What might the implications be for the U.S. of diminishing interdependencies with China?

**Economic Growth**

In late 2008, the Chinese government took decisive action to get the economy back on track. They announced a stimulus package of RMB4,000 billion (USD$585 billion) and RMB7,370 billion of new bank loans. The loan component of the plan is believed to have created more credit than any other economy has created since the end of World War II.15 This level of investment is credited with creating the V-shaped recovery we are now seeing in China, which marginally overtook Germany in the first half of 2009 as the world’s largest exporter.16 Chinese GDP growth in Q2 2009 returned to 7.9 percent and it is now projected that China may achieve an average growth rate of 8 percent or more in 2009.17 This is still below the double-digit growth of recent years.

While the initial impact of the stimulus is broadly welcomed, experts highlight flaws in its structure, such as the possibility that new asset bubbles may be created in equities and property, that more bad loans have been made, that most of the investment has gone into energy intensive infrastructure projects (namely roads, rail and airport projects) which are likely to create over capacity in certain areas, that these large infrastructure projects have generally created replacement jobs for some of the growing numbers of unemployed without expanding overall employment opportunities or leading to increased domestic consumption, and that the stimulus has mostly gone to large SOEs where waste and corruption are rampant, while ignoring SMEs who provide up to 75 percent of jobs in urban areas.18 It is thought that this heavy focus on fixed-asset investment may generate only short-term benefits and that this could transform China’s economic recovery from a V- to a W-shaped recovery.

It is broadly agreed that the Chinese must look to domestic consumption as a future source of growth, which presents many challenges. The Chinese population typically spends less on personal consumption than their Western counterparts, primarily due to the absence of an adequate social safety net. While earning less than Western workers, Chinese workers have to save to cover the medical and educational needs of their families. If the government were to help cover those costs, people might be encouraged to spend more and save less.19
Nicholas Lardy suggests that there are a number of levers available to the Chinese government to rebalance demand, specifically through changes in the following four policy areas:

- **Fiscal policy**: The government should reduce income tax rates, increase minimum wages, spend more on the provision of healthcare and educational services, and possibly fund incremental expenditure through higher dividend taxes on SOEs.

- **Financial reform**: The current low interest rates paid on consumer savings accounts are not keeping up with inflation and are subsidizing corporate borrowers, who continue to drive excessive levels of investment in energy-intensive industry. Higher consumer interest rates would increase disposable income levels, encourage more consumer spending, and reduce the availability of cheap capital for investment.

- **Exchange rate policy**: Liberalizing the exchange rate policy and allowing an appreciation of the renminbi would lead to a reduction in exports and an increase in imports, reducing the weight of exports in economic demand.

- **Price reform**: Ensuring full-cost charging for energy, water, utilities, land, and environmental impact would discourage investment in energy-intensive, environmentally damaging industries and encourage more investment in services.

Jianwu He and Louis Kuijs suggest some additional areas for policy change:

- **Service Sector**: The opening up of the service sector to private and foreign investors and the creation of a legal framework that would encourage growth in this area

- **Houku System**: Changes to this system that limits migration to urban areas, discriminates against migrant workers, limits the transfer of labor and social benefits, and enforces restrictive land tenure policies.

Changes in the above areas would impact a broad base of stakeholders, positively in the cases of rural dwellers and migrant workers and negatively in the cases of entrepreneurs who would pay more for access to capital and SOE managers whose profits would be reduced.
Which options would be the most attractive to the CCP? Which options are they likely to pursue and within what timeframes? What are the likely impacts going to be and over what timeframe?

**Energy Supply & Demand**

China’s energy consumption has grown rapidly over the past three decades. China’s ability to get continued, secure access to enough energy to fuel its economy in a highly competitive global energy market is a major government concern. Primary energy consumption quadrupled between 1980 and 2007, and aggregate demand is projected to double again by 2030 to 3,128 million tons of oil equivalent (Mtoe). China is expected to overtake the U.S. as the largest energy consumer within two years. China’s dependence on imported oil is projected to increase to 50 percent by 2010 and to 60 percent by 2020. As early as 2015, it is predicted that 70 percent of China’s oil imports will come from the Middle East through the Strait of Malacca. Coal-fired power, which emits high levels of carbon dioxide, provides 66 percent of China’s energy, 76 percent of electricity generation, and 70 percent of all energy consumed. To meet this growing energy demand, China is building two new coal-fired power stations every week.

Given the economic imperative of accessing affordable energy, the security implications of a high dependence on Middle Eastern oil and the environmental consequences of a heavy dependence on fossil fuels, in particular coal, the Chinese are working hard to diversify their energy sources. This includes increased investment in renewable energy technologies and controversial strategies exemplified by their relationship with the Sudanese government. The Chinese are investing in many developing countries and providing financial aid to those nations without any conditions in return for access to natural resources. This strategy is a source of increasing conflict between China and Western powers, particularly where human rights are being violated.

**Environmental Stresses**

China is now the largest emitter of carbon dioxide in the world, and the Chinese people are already seeing the impact of climate change in the expanding deserts of the north and in the increasingly violent storms hitting the South. The melting of the Himalayan glaciers over the coming decades will lead to extreme water shortages as the main river arteries of...
China and its neighbors to the South start to dry. The melting of the polar ice caps, which could raise average sea levels by several meters, would leave coastal cities such as Shanghai completely submerged. China is already seeing some internal migration due to expanding deserts in the north but faces the prospect of mass movements of climate migrants in the future.

In June 2009, the CCP announced its intention to introduce carbon dioxide emissions targets for China’s various social and economic programs. This was viewed as a signal that national carbon emissions targets might be included under the next 5-year plan, which will run from 2011 to 2015. In August 2009, Premier Wen Jiabao declared that climate change considerations should be built into the medium- and long-term development plans of all levels of Chinese government. At the UN Climate Change Summit on September 22, 2009, President Hu Jintao announced that China would reduce CO2 emissions per unit of GDP by 2020 to a level significantly below 2005 levels and increase investments in reforestation and renewable energy sources. Although he did not specify CO2 reduction targets, his speech signaled that China is now engaging fully in the fight against climate change. While welcome at the global level, this new commitment will face some resistance within China. To date, one of the weaknesses of the Chinese strategy has been its inability to ensure nationwide implementation and enforcement of new climate change legislation. A key question, therefore, is whether or not the central government will be able to successfully execute the ambitious targets set by President Hu.

### Inequality Across China

Since 1981, China’s poverty, measured by the World Bank as the number of people living on less than $1.25 per day, has dropped from around 65 percent of the population to just 10 percent in 2004. This decline represents an estimated 500 million people who have been lifted out of poverty. While most Chinese households have benefited from the economic boom, there has been a significant increase in income inequality. The GINI measure in 1981 was just 0.31, but by 2005, it had risen to 0.46. This widening gap can be attributed to both the market-based system, which created incentives for wealth creation, and to features of government policy, such as restrictions on the ability of rural residents to move to cities, the prohibition on the sale or mortgage of rural land, and the decentralized financial system, which leave local government
responsible for the provision of health and educational services.29

As factories close across the major urban centers during 2009, inequalities are being exacerbated. It is estimated that up to 20 million migrant workers will find themselves unemployed in 2009, a trend which has been described as a “ticking time bomb for the Communist Party.”30 How might these migrant workers and their host communities react to continued and increasing high levels of unemployment?

**Ethnic Minorities**

China is home to fifty-six officially recognized ethnic groups, of which the dominant group is the Han. According to the 2000 national census, 108.46 million Chinese people were members of an ethnic minority, 8.04 percent of the total population.31 The remaining 92 percent consisted of the dominant Han. They too are comprised of different sub-groups, including the Cantonese, the Fujianese and the Hakka. Although the government positions the Han as a homogenous unified ethnic group, eight Han sub-groups speak completely distinct languages.32 It is among the Han sub-groups that the Chinese government is thought to see a potential future threat to Chinese stability.33

China’s Muslim population is estimated at approximately 20 million people dispersed across ten different ethnic groups, with over 70 percent living in Western China.34 The largest group is the Hui, who are culturally Chinese and either converted to Islam or intermarried with Muslim migrants. Many other Chinese Muslims are Turkic in origin and directly linked to minority groups across Central Asia or to populations within the former Soviet republics.35

Officially, the Chinese government promotes equality among all Chinese people, regardless of ethnic origin.36 In practice, the government has taken steps to reduce the power of ethnic minorities through job discrimination and by resettling Han Chinese in areas dominated by ethnic minorities (e.g., Xinjiang and Tibet). While ethnic minorities are unlikely to overthrow the Chinese system, “cultural and linguistic cleavages could worsen in a China weakened by internal strife, an economic downturn, uneven growth, or a struggle over future political succession.”37

Given the current challenges faced by China, are we likely to see more of the ethnic fueled violence witnessed recently in Tibet and Xinjiang?
Could we see Chinese Muslim communities forging closer relationships with Islamic communities across Central Asia?

**Demographics**

The Chinese population will continue to grow over the next twenty years and is predicted to peak at 1.5 billion people in 2035. The Chinese birth rate is falling and now stands at 1.7 children per woman, versus the recognized replacement level of 2.1. While this should be welcome news, it is problematic in the long-term when coupled with a rapidly aging population. Today, 145 million Chinese, 11 percent of the population, are aged 60 or more. By 2050, this number will rise 33 percent. China is also experiencing a growing gender imbalance. The gender ratio now stands at 117 males per 100 females, and the government fears that the growing proportion of single men in Chinese society may lead to major social problems in years to come.

It is clear that demographic trends will have a significant impact on China over the coming decades. It is estimated that rural to urban migration will continue and that an additional 10 million people will leave rural areas each year to move to the cities. By 2050, it is estimated that 70 percent will live in cities, compared to 40 percent today and 20 percent in 1978. This will significantly strain the infrastructure of Chinese cities and towns and natural resources, in particularly water. China is estimated to hold just 7 percent of global freshwater sources, despite being home to 20 percent of the global population. Climate change will further exacerbate this problem. Urbanization will also accelerate the growth in the Chinese middle class, whose values and priorities diverge from their parents’ generation.

A much smaller workforce will be responsible for supporting a much greater proportion of Chinese society, which holds major implications for average incomes and economic growth. The shrinking of the Chinese workforce will also damage China’s competitiveness in decades to come, as India’s labor force eventually surpasses China’s in size.

The pressures and frustrations that these changing demographics will create, coupled with a slow economic recovery and other either perceived or real grievances against the government, could lead to significant social unrest. What policy changes might the CCP introduce over the coming ten years to address some of these demographic challenges and to mitigate their impact?
Civil Society and The Internet

The number of NGOs in China has grown rapidly to an estimated 354,000 by the end of 2006. These organizations increasingly fill the gap between the range of services provided by the government and those required by the Chinese public. The sector is heavily regulated, and all NGOs must secure the support of a government agency to operate. As a result, a vast number of unofficial or illegal NGOs exist across China, estimated by the World Bank to number more than one million. Many of these unofficial NGOs operate in areas that challenge government policy, such as human rights or religious freedoms. Over the past decade, the number of public protests in China has increased from an estimated 8,700 in 1993 to 74,000 in 2004. The average number of people taking part in these protests has also increased from an average of 8 in 1993 to 50 in 2004.

The Internet has become a great enabler of civil society in China. The number of Internet users had increased to 338 million, as of June 30, 2009, of which 320 million had broadband access. The CCP polices the Internet and tries to censor all materials published. However, emerging blogs have proven elusive for the Chinese Internet police, and blogging has become a very powerful tool for the Chinese to express their criticisms of the Chinese government. By 2007, it was estimated that almost 47 million Chinese bloggers maintained around 73,000 blogs, with 17 million bloggers updating their blogs at least monthly. Although the government does systematically close down blogs that publish unauthorized material, once a blog is published, it is very difficult to remove its contents entirely from the web. The Chinese government focuses its attentions on blogs it finds “criticizing the state or state policy directly, those advocating mass political action, or those airing views that openly conflict with party ideology.” However, bloggers have developed clever techniques to avoid detection, such as using codes decipherable by readers that elude their censors. Going forward, advancements in Internet technologies and in the sophistication of Internet users will make it increasingly difficult for the CCP to control the web, particularly its use by the better-educated and affluent Chinese middle class.

Political Change

In recent years, intellectuals with very divergent views on how to address the challenges faced by China have been brought into the internal Chinese political debate, expanding the range of options under consideration by
the Chinese leadership. “The United States must carefully observe these debates to improve its understanding of both how and why the Chinese leadership will choose to address the many economic, political and diplomatic challenges it faces.”

In October 2007, President Hu appointed two successors to the Politburo Standing Committee, Xi Jinping, an elitist (or Princeling) who is expected to succeed Hu as president, and Li Keqiang, a populist who is expected to succeed Wen as premier. These two individuals come from very different backgrounds with different value sets: Xi a strong supporter of the coastal entrepreneurial classes, favoring further international integration and growth in international trade, while Keqiang is a more traditional CCP member with strengths in propaganda and organizational management and a tendency to focus on relatively populist policies relating to agricultural reform and social services. “In elevating both Xi and Li in 2007, Hu signaled the importance of the different constituencies each represents and the belief that only consensus-building will successfully forestall serious political upheaval in the so-called fifth generation of leaders, of which Xi and Li are members.” Their primary shared objective when they come into power in 2012 will be to transform the structure of the Chinese economy from the current export- and investment-driven model to one that is driven by domestic consumption.

Given their divergent interests, how will Xi and Li work together? Which set of values will be more to the fore? How might politics change if the economy fails to recover by 2012?

**Actors Outside China**

As the most populous nation on earth and a global economic and military powerhouse, China and its leadership will be strongly influenced by external drivers over the course of the next ten years, including:

- the speed with which consumer confidence in the U.S. and Europe recovers and demand for Chinese exports starts to grow again
- the degree to which U.S. and EU leadership decide to pursue protectionist policies against China
- the extent to which the U.S. and other Western powers pressure China into changing its exchange rate policy
a likely power transition in North Korea: who will be the successor to Kim Jung-il; is there a risk of state failure; how might the role of the U.S. change on the Korean peninsula?

the evolution of China’s relationship with Japan and its new administration’s engage strategy

continued competition and tension with India: will India pursue a policy of constructive engagement with China, or might it pursue a more aggressive competitive strategy?

external players’ perception of China’s intentions toward Taiwan

the world’s perception of the rise of China: will it be viewed through a liberal lens or through a realist lens; if the realist narrative were to take over, how might the Chinese adjust its strategy to the outside world?

other regional powers’ response to China’s growing economic strength and regional dominance

changes to the U.S. administration in 2012 or 2016: what might they mean for U.S.-China relations?
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A traditional mindset may be at odds with the realities of our increasingly globalized planet. Energy policies set locally impact business strategies around the world. An NGO wages a PR battle against a multinational corporation. Ongoing health crises drain a continent’s economic resources. Today, more than ever before, an appreciation of the world’s great challenges and the ability to create meaningful change both require a global perspective.

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