

Can the iPhone Generation Reform the CCP?

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"I have no doubt that the Communist Party of China can maintain an authoritarian, quasi-capitalist, relatively prosperous regime for a time. But without the political safety valve of the democratic process, I doubt the long-term success of such a regime."

Alan Greenspan¹

China is now praised as the land of opportunities. Its economy is booming and every entrepreneur or transnational corporation wants to open and expand its business in China. Over the last three decades the country has sustained growth rates at levels² that exceed previous trajectories of the 'Asian Tigers', the last generation of countries to join the 'developed world.' Yet, China remains the world's largest developing country.³ The question is: Can China sustain this rate of growth? And, if it does, what does this mean for the world order—both economic and political?

With US\$1.43 trillion disposable in foreign exchange reserves,⁴ China can challenge the 'developed nations' dominance. It is investing in the Asia-Pacific region, the United States, Europe and expanding its area of influence by distributing aid to other developing countries in exchange for natural resources.⁵ Politically, as the last remaining communist country (of any political significance) China exercises influence behind the world stage (United Nations, with North Korea, etc), but it is unclear if it can (or wants to) fill the military vacuum left by Russia after the collapse of communism. In domestic politics, the Chinese Communist Party (CCP) has maintained its stronghold although there are signs at the local level that its political power may be becoming fragmented.

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¹ A. Greenspan, *The Age of Turbulence: Adventures in a New World* (New York: The Penguin Press, 2007).

² Since opening up its economy in 1978 China averaged 9.6% annual GDP growth. This impressive performance allowed China to lift 300 million people out of poverty. Shujie Yao "Can China Really Become the Next Superpower?" *Briefing Series – Issue 21*. April 2007. China Policy Institute, The University of Nottingham. Accessed: <www.nottingham.ac.uk/china-policy-institute/publications/documents/Briefing_21_China_Next_Superpower.pdf>. Viewed: 10.13.2007.

³ United Nations Conference on Trade and Development (UNCTAD), *UNCTAD Handbook of Statistics* (Geneve: UNCTAD, 2006). Accessed: <http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx?CS_referer=&CS_ChosenLang=en>. Viewed: 7.19.07.

⁴ The government has set up an investment arm to manage some of the reserves: the China Investment Corp., a \$200 billion fund that manages part of the currency reserves in an effort to seek higher returns. N. Pibontanasawat, "China's Foreign-Exchange Reserves Rise to Record \$1.43 Trillion." *Bloomberg.com*. October 12, 2007. Accessed: <<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=azt1SwXSiBog>>. Viewed: 10.13.2007.

⁵ According to Jun Ma, two-thirds of overseas investments by Chinese firms are going to take place in the resources sectors (oil and mining). J. Ma, "China's Overseas Investments." *Global Market Research*, January 3rd, 2007. Hong Kong: Deutsche Bank.

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Could this red capitalism or “socialism with Chinese characteristics”⁶ perpetuate the CCP in power and still be successful 30 years from now? This article argues that the brand conscious Chinese youth that are growing in economic prosperity and have big appetite for the latest fashion, *the iPhone generation*,⁷ will challenge red capitalism, an incoherent mix of controlled market economy and totalitarian political system. Inspired by a new era of globalization and the demonstration effect⁸ –that cannot be totally controlled by government censors–, the iPhone generation will be ready by 2040 to modify the tight control of the CCP over the society.⁹ This article also analyzes the effect of economic growth, international influence, and the CCP’s control of domestic political power on the future of China’s political system, and what are some of the implications for business and the world order.

Nation of Contrasts

Luxury boutiques, expensive German cars and astonishing towers are now common in Chinese cities like Beijing and Shanghai. These clear signs of capital investments contrasts with trademarks of underdeveloped countries such as labor-intensive manufacturing, unsustainable small farmers practices and a large informal¹⁰ economy. How did all these contrasts come together? Welcome to the communist version of a controlled market economy.

In 1978, after 30 years of Mao’s firm leadership, during which China received Soviet assistance (only until 1963), Deng Xiaoping started radical changes by allowing direct foreign investment in several small “special economic zones” and breaking up collective fields into land that was contracted out to private families to work. Most restrictions on selling agricultural products in free markets were also lifted. This was the beginning of the transformations that led to the current “socialism with Chinese characteristics” (see Chronology).

This contradictory mix of market oriented economic policies and a firm communist regime was possible because the market reforms have brought undeniable progress, legitimizing the CCP’s authority. This formula, however, may not resist the test of time (as Alan Greenspan

⁶ Visit <<http://english.peopledaily.com.cn/dengxp/vol3/text/c1010.html>> to read Deng Xiaoping’s Opening Speech at the 12th National Congress of the Communist Party of China. This Congress was summoned under the guiding principle of building socialism with Chinese characteristics.

⁷ Young people (under 25 years old) make up 16% of China’s population and approximately 40% live in urban areas. United Nations Population Fund (UNFPA), *Growing Up Urban. State of World Population, 2007: Youth Supplement* (New York: UNFPA, 2007. Accessed: <<http://www.unfpa.org/publications/detail.cfm?ID=336&filterListType=>>>. Viewed: 8.19.07.

⁸ Term particularly used in political science to describe the fact that developments in one place will often act as a catalyst in another place. *Wikipedia*; Accessed: <http://en.wikipedia.org/wiki/Demonstration_effect>. Viewed: 10.18.07

⁹ Globalization and the demonstration effect will be fueled by the Internet and cell phone communications. China has 500 million cell phone accounts. M. Kanellos, “How many new cell phone accounts are opened in China a day?” *cjnetNews.com*, 5.31.2007. Accessed: <http://news.com.com/8301-10784_3-9724502-7.html?part=rss&subj=news>. Viewed: 7.20.2007. The number will grow to 784 millions by 2011, of which 239 million will access the Internet by cell phone. The China Internet Network Information Center estimated that Internet users in China hit 162 million in June 2007. Reuters.com; Accessed: <<http://www.reuters.com/article/internetNews/idUSSHA17814220070719>>. Viewed: 8.19.07.

¹⁰ Many employers pay salaries in cash and major purchases such as cars or houses are also paid in cash.

predicted in his latest book –see footnote 1). Capitalist behavior runs contrary to traditional communist doctrine and party members have difficulty keeping Marx’s ideals while operating in a market economy. There is a clear conflict between the needs of a communist party and the logic of the market. According to George Washington University scholar Bruce Dickson, the CCP strategy is twofold: to create corporatist links between the state and the business sector and co-opting individual entrepreneurs into the CCP.¹¹

The red capitalists, entrepreneurs with personal ties with the CCP and especially local government officials, represent the bridge between economic and political power in China. In a way the red capitalists are the new *contubernales*, which mean ‘tent-companions’. The term was used in ancient Rome to describe young men who served the commander and performed whatever duties he allocated them. Both the CCP and the red capitalists (a skillful cadre of entrepreneurs that enjoyed attractive opportunities over the last 10 years) live in the same tent, they need each other. The former to hold on to power through growth and cooptation of possible focus of criticism and the latter to work on ties with the CCP to guarantee increased profits. Does this corporatist model have solid foundations?

Evolution of Communist China

- 1949.** The People’s Republic of China is created under the leadership of Mao Zedong. Drastic fiscal policies were undertaken to cut inflation.
- 1950.** People’s Bank of China replaced the Central Bank of China.
- With the Agrarian Reform Law property of rural landlords was confiscated and redistributed, eliminating landlords as a class.
 - Treaty of Friendship, Alliance and Mutual Assistance was signed with the Soviet Union.
 - China intervenes in the Korean War on the side of North Korea.
- 1953. First five-year plan (1953-57)** emphasized rapid industrial development at the expense of other sectors of the economy. With important Soviet technical and financial assistance heavy industry grew rapidly.
- 1958. Second five-year plan (1958-62).** Resembled its predecessor and came with the Great Leap Forward announcement. During this period, in agriculture private plots were abolished; a spectacular drop in agricultural production ensued. These difficulties were aggravated when Soviet aid and technical assistance were withdrawn. By late 1950s, early 1960s, the country faced a big economic crisis and starvation.
- 1966. Cultural Revolution (1966-76).** It did not have an explicit economic philosophy but industrial production was badly affected by a decade of confusion and strife. Wages were frozen and bonuses cancelled, eliminating incentives to work hard. Policies required employing more workers than necessary to soak up unemployment and employees were never fired once hired.
- 1967.** China detonated its first hydrogen bomb and became a nuclear superpower.

¹¹ B. Dickson, *Red Capitalists in China* (Cambridge: Cambridge University Press, 2003).

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- 1972.** US President, Richard Nixon visits China and both countries declare the desire to normalize relations.
- 1976.** Mao dies.
- 1977.** After a brief presidency of Li Xiannian, Deng Xiaoping takes over the leadership of the country.
- 1978.** The Chinese Government permitted direct foreign investment in several small “special economic zones.”
- 1979.** US established diplomatic relations with communist China.
- 1981.** Emphasis shifted to breaking up collective fields into land that was contracted out to private families to work and most restrictions on selling agricultural products in free markets were lifted.
- 1986-90.** China opens the country to foreign investment and encourages the development of a market economy.
- 1987.** The Organic Law of Villager’s Committees first institutionalized village elections.
- 1989.** Troops open fire on demonstrators who have camped for weeks in Tiananmen Square initially to demand the posthumous rehabilitation of former CCP General Secretary Hu Yaobang, who was forced to resign in 1987. The official death toll is 200. International outrage leads to sanctions.
- Jian Zeming takes over from Zhao Ziyang as the CCP general secretary. Zhao refused to support martial law during the Tiananmen demonstrations.
- 1994.** China establishes its first floating exchange rate since 1949.
- 1997.** Deng Xiaoping dies.
- Hong Kong reverts to China’s control.
- 2001.** In November China joins the World Trade Organization.
- 2002.** Hu Jintao is named the head of the CCP, replacing Jiang Zeming.
- 2003.** Hu Jintao is named President.
- SARS virus outbreak.
- China launched its first manned spacecraft.
- 2005.** Second manned space flight.
- 2006.** China/Africa summit in Beijing.
- China formally launched the 11th Five Year Plan (2006-2010) that aims for a 20% reduction in energy consumption by 2010 and proposes greater investments and urbanization in the rural interior to address income disparities and social unrest.
- 2007.** China carries out a missile test in space, shooting down an old weather satellite. Concern from international community at China’s military build up.
- The seventeenth National Congress of the CCP confirmed Hi Juntao for another five-year term as General Secretary, paving the way to be re-elected as state President at the National People’s Congress in 2008.

Sources: BBC News, “Timeline: China.” Accessed: <http://news.bbc.co.uk/1/hi/world/asia-pacific/country_profiles/1288392.stm>. Viewed: 10.20.2007; and Espasa Calpe, *Diccionario enciclopédico Espasa*, 2nd edition, Vol. 10, 3698-3713 (Madrid, Espasa Calpe, 1993).

So far in the short run this strategy is working. It allows the government to play a leading role in the economy while the CCP leadership exploits this situation to hold on to power. However, in the long run it distorts the economy because the “State Concubine Companies” progress will not depend on its competitiveness, productivity or innovation but on privileges obtained through government connections.¹² Dickson argues that given the current business environment red capitalists are more likely to be partners with the State, rather than adversaries of it and more likely to focus on local and procedural issues, rather than abstract notions of civil, political social rights and common good objectives that are good for society.¹³ Economically, the red capitalists do not have the incentives to transform their influence into political power. They are uninterested in political ideals; political action is unnecessary to solve their individual problems because they have the viable option of engaging in clientelism, and “the socialist corporatist strategy of the state is designed to prevent” organized political action.¹⁴ The price of this temporary success through “*contubernales* cooptation” is too high: corruption and mixed ideological signals that could eventually debilitate the legitimacy of the CCP.

But doing business in China is not as easy for everyone as it is for the *contubernales*. According to the World Bank,¹⁵ China is ranked 93 in the concert of nations that compete for investments, behind poor countries such as El Salvador or Zambia. It takes 13 procedures to open a business (6.2 in OECD countries) and 36 days (16.6 in OECD countries). Once a company is established, in top tier Chinese cities it takes 36 days a year of interaction with bureaucracies while in smaller, less developed ones 87 days a year.¹⁶ Even though the number of state-controlled companies dropped from over 300,000 to fewer than 150,000 by 2005 and the number of SOE employees fell 49% there are still many inefficiencies plus the rising unemployment and migration factors uncovered by the privatization process.¹⁷ (State owned enterprises: SOE)

Setting aside for a moment unemployment, aging population, pollution, urban migration, corruption and potential health problems, could China become the next superpower?

¹² The same rule applies to foreign companies that have specific high level employees assigned to court government officials.

¹³ Dickson op cit, page 23.

¹⁴ M. Pearson, *China's New Business Elite: The Political Consequences of Economic Reform* (Berkeley and Los Angeles: University of California Press, 1997).

¹⁵ World Bank, “Doing Business in China, 2006.” Accessed: <<http://www.doingbusiness.org/ExploreEconomies/?economyid=42>>. Viewed: 7.25.07.

¹⁶ W. Mako, “China. Governance, Investment Climate, and Harmonious Society: Competitiveness Enhancements for 120 Cities in China,” October 8, 2006, Report No. 37759-CN (Washington, DC: World Bank). Accessed: <http://siteresources.worldbank.org/INTCHINA/Resources/318862-1121421293578/120cities_en.pdf>. Viewed: 7.25.07.

¹⁷ Still public employment is highly valued. It is in a way a royal employment without the noble title. Workers in SOE are paid up to 20% more than workers in the private sector. New entrants go to work for the government where pay and conditions are believed to be better, leaving skill shortages in parts of the private sector. Oxford Analytica, “China: SOE Reforms Continue—at a Cost,” June 22, 2006. Accessed: <<http://www.oxan.com/display.aspx?StoryDate=20060622&ProductCode=APDB&StoryNumber=1&StoryType=DB>> (by subscription only). Viewed: 7.25.07.

China and the Balance of Power

In his seminal work *The Rise and Fall of the Great Powers* Paul Kennedy¹⁸ analyzes the international balance of power throughout history by studying the interaction between strategy and economics. All governments according to Kennedy need to balance their decisions to simultaneously provide national security, satisfy socioeconomic needs of its citizenry and ensure sustained growth. In other words, the balance between competing demands of defense consumption and investments will determine the rise and fall of a great power.

Impressive growth certainly put China on the forefront of the race of nations competing to challenge US dominance. But that is only one variable, a very decisive one, that determines the future of a nation. In the international order relative strengths never remain constant. Other key variables are the technological and organizational breakthroughs.

China, for example, invented the magnetic compass and had movable type printing in the eleventh century, so technology innovations are not foreign to Chinese history. How is the country currently doing in technological innovations? A good measure is analyzing the investments in research and development (R&D). In 1998 China invested 0.7% of its GDP in R&D and in 2005 1.3%, moving ahead of Japan to become the second highest investor in R&D after the US. In January 2006 China's Science and Technology Congress approved a new medium to long-term program that aims to boost R&D to 2% of the GDP by 2010 and 2.5% by 2020, which will require investments 6 times what it is today.¹⁹ The Chinese government is aware that imported or copied high technologies from other countries will not be enough if the country wants to sustain growth and improve the standard of living of 1.3 billion people.

Is it only a matter of investment to become an "innovation-oriented country" as President Hu Jintao defined?²⁰ Apparently it is not that easy. According to a World Bank study about informatization commissioned by China, "the complex division of regulatory responsibilities fosters uncertainty. The absence of a legal framework stipulating the principles and scope of informatization makes regulations unclear. Coordination and cooperation among regulatory departments are weak, and China's myriad agencies have different and sometimes overlapping responsibilities. As a result many agencies often regulate the same area—yet accountability is lacking, and resulting regulations are inconsistent, making implementation and execution of laws and regulations problematic."²¹ These circumstances can be applied to multiple leading edge sectors and, of course, are not ideal for a country that aspires to be "innovation oriented."

Even members of the Research and Development (R&D) community in China such as Professor Ze Zhang, vice-president of Beijing University of Technology acknowledges that it is not that easy: "There is a lot of tension between the push for innovation and the capacity of the political system to deliver it."²² Plagiarism and research misconduct are also a big problem. When the government increases 25% of your salary if you get an A score, people tend to

¹⁸ P. Kennedy, *The Rise and Fall of the Great Powers* (New York: Vintage Books, 1989).

¹⁹ J. Wilsdon and J. Keeley, *China: The Next Science Superpower?* (London: Demos, 2007).

²⁰ Chinese Government Official Website, "President Hu Outlines Tasks for Building Innovation-Oriented Country." Accessed: <http://english.gov.cn/2006-01/09/content_151696.htm>. Viewed: 7.18.2007.

²¹ C. Zhen-Wei Qiang, *China's Information Revolution: Managing the Economic and Social Transformation* (Washington, D.C.: The World Bank, 2007).

²² Wilsdon and Keeley, op cit, page 10.

plagiarize results, and with plagiarism, “collaboration,” says Professor Zhang, “becomes very difficult. You can’t trust people not to steal your work. Everyone works with the door closed, in secret. This is very bad for innovation.”²³

Technology advances are key to Chinese future, but the political structure and cultural factors will be a big obstacle for China to overcome if it is to achieve a superpower status.

The third piece of Paul Kennedy’s triptych is defense expenditures. Chinese officials have been using the term “peaceful rise” since 2003 to describe an ideal policy to combine economic, political and military expansion.²⁴ There has been some controversy with the use of this phrase within the CCP. Some officials argue that ‘peaceful’ would send the wrong message to Taiwan’s independence aspirations and others that ‘rise’ may trigger some concern in China’s Asian neighbors.²⁵ This is a good example of China’s ambiguity when it comes to present its own political intentions.²⁶ Is that declamation ratified with Chinese defense expenditures and military initiatives?

Until recently, China’s approach to military expenditures has been non-threatening. Hu Jintao’s Administration is maximizing economic growth and increasing investment in technology with a peaceful foreign policy message. The approach seems to match the somewhat limited main strategic concerns of the country: securing access to raw materials and energy resources and restricting Taiwan’s diplomatic space.

However, this may be changing. In March 2007 *The Washington Post* reported an official military budget of \$44 billion, an increase of nearly 18%.²⁷ Even though a significant part of the defense budget goes to replace obsolete equipment and facilities, the US Office of the Secretary of Defense reported to Congress that China is also developing and testing offensive missiles and methods to counter ballistic missile defenses.²⁸ Many countries expressed concern after China successfully tested a direct-ascent, anti-satellite missile against a Chinese weather satellite, demonstrating China’s ability to attack satellites operating in the low-Earth orbit. These are signals that in the near future the balance between growth, investments in technology and military expenditures may be tilting towards the latter.²⁹

Political Perspectives

Having analyzed the economic, technological and military strategic priorities of the country, a glance at the political situation is due. Since 1987 China has allowed local elections.

²³ Ibid.

²⁴ E. Medeiros, “China Debates Its ‘Peaceful Rise’ Strategy.” *Yale Global Online*, 22 June 2004. Accessed: <<http://yaleglobal.yale.edu/display.article?id=4118>>. Viewed: 7.18.2007.

²⁵ President Hu Jintao moderated the initial phrase to a more diplomatic “peaceful development”.

²⁶ The use of the term “democracy” or “market economy” could also be perceived as deceptive.

²⁷ E. Cody, “China Boost Military Spending,” *The Washington Post*, 3.5.2007. Accessed: <<http://www.washingtonpost.com/wp-dyn/content/article/2007/03/04/AR2007030400401.html>>. Viewed: 7.26.07.

²⁸ Office of the Secretary of Defense, “Annual Report to Congress: Military Power of the People’s Republic of China,” (Washington, D.C.: US Department of Defense, 2007).

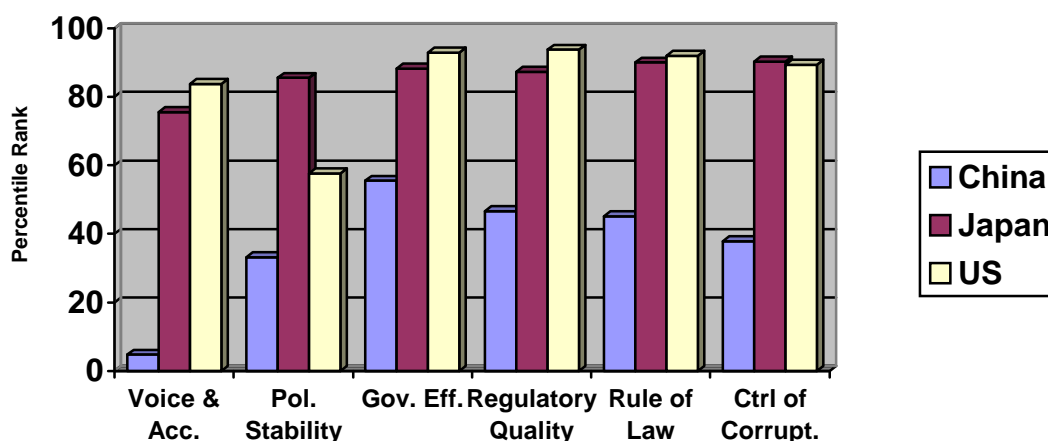
²⁹ Susan Shirk, former Deputy Assistant Secretary of State and author of *China: Fragile Superpower* (Oxford: Oxford University Press, 2007) argues that after the Tiananmen Square incident, one of the key alliances the CCP has to nurture is with the military, so “if push comes to shove there is no gun to back up opposition.” Military expenditures according to this view will be a key consideration to keep the army loyal.

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Village elections now occur in 930,000 villages, involving 75% of China's population.³⁰ Even though in many instances the party controls candidates or retains a tight control over the candidate pool, this has been a huge step that breaks with communist traditions.

This first, timid step is far from defining China's political system as a democracy, even at the local level³¹. Carl Minzner, a Council on Foreign Relations International Affairs Fellow, questions the real motive of this openness towards democracy: "In an authoritarian system, rulers in Beijing have real trouble actually figuring out what's going on at the local level". Local officials, he argues, try to suppress information about local grievances in the interest of preserving their own jobs. For that reason, "Central leaders don't necessarily know what's going on until ten thousand local farmers make it out of a particular area and mount a collective protest," Minzner says.³² Central authorities view local elections as a way to improve the administration. The real question is why the system is useful only at a local level? The answer is clear. Any system is useful as long as it does not jeopardize the power of the CCP. Local elections represent a seed of change that could in the future be an example of better governance in the national level.

Figure 1. China, Japan and US Governance Indicators, 2006



Source: World Bank, *Governance Matters 2007* (Washington, D.C.: World Bank, 2007).

Accessed: <http://info.worldbank.org/governance/wgi2007/sc_country.asp>. Viewed: 7.28.07.

High quality institutions have the capability of delivering over the years improved standard of living. Are the current national governance indicators of China good enough to

³⁰ Carter Center, "China Program, 2007." Accessed: http://www.cartercenter.org/peace/china_elections/index.html>. Viewed: 7.27.07.

³¹ The Chinese political system does not grant, for example, broadly protected political rights and civil liberties, an essential characteristic of any well-established democratic regime. Schumpeter goes even further and defines the democratic method as the institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of competitive struggle for the people's vote. Democracy is a product of the capitalist process. J. Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper & Brothers, 1942).

³² Carl Minzner as quoted in C. Zissis, "Backgrounder: China's Slow Road to Democracy," *The New York Times*, 6.18.2007, accessed: <http://www.nytimes.com/cfr/world/slot2_20070618.html?_r=1&oref=login>; viewed: 10.15.2007.

allow the country to become a developed one? They have sustained growth based on a labor intense export model. According to the World Bank³³ China is still far from the developed countries' governance measures (see Figure 1). Specifically, for China to achieve a better standard of living and solve health, demographical and environmental problems the CCP needs to improve voice and accountability and control the corruption. Scoring low on these two indicators will in the future affect the legitimacy of the government, especially when there is an economic crisis and it cannot deliver the impressive rates of growth it has achieved since 1978.

Behind the glittering parade of economic growth, five challenges that could jeopardize the CCP leadership in the future are brewing unattended in the horizon. In the next section they are presented and analyzed vis-à-vis its potential impact on future generations that may question the current political system.

Challenges to the CCP and the iPhone Generation

Thirty years of impressive growth lifted 300 million Chinese out of poverty, but at what price? Pension problems, inequality, poor health and pollution are part of the dark side of the Chinese growth miracle. Legitimacy for the CCP was an expensive acquisition. This section analyses the problems that the iPhone generation is inheriting.

1. Aging Population

China attempted to control population with its one child policy,³⁴ initiated in 1979 by Deng Xiaoping. One of its unintended consequences was and still is the aging of population. Even though the Chinese government pay pensions from general revenue, it is important to note that the proportion of people of working age is projected to peak in 2010. After that year, the number of workers per retiree will fall from the current 3 to 2 in 2015 and only 1 by 2035. By 2050, 24% of China's population will be 65 or older, compared with 8% today; 7% will be 80 or over, compared with 1% today.³⁵ Thirty years from now the productivity of the active population must increase for the government to have enough revenue to provide pensions and

³³ China and several other developing countries complained to the new World Bank president, Mr Robert Zoellick about the truthfulness of some of the indicators. World Bank, *Governance Matters 2007* (Washington, D.C.: World Bank, 2007). Accessed: <http://info.worldbank.org/governance/wgi2007/sc_country.asp>. Viewed: 7.28.07.

³⁴ As a matter of fact this policy is basically limited to urban areas. Citizens living in rural areas and minorities living in China are not subject to the law. However it is estimated that the law limited population growth by as much as 300 million during its first 20 years. C.Chan *et al.* "Demographic Consequences of China's One Child Policy," Web Document, April 26, 2007; Michigan: Ford School of Public Policy, University of Michigan. Accessed: <[www.umich.edu/~ipolicy/china/6\)%20Demographic%20Consequences%20of%20China's%20One-Child%20Policy.pdf](http://www.umich.edu/~ipolicy/china/6)%20Demographic%20Consequences%20of%20China's%20One-Child%20Policy.pdf)>. Viewed: 10.15.2007.

³⁵ United Nations Population Fund (UNFPA), *Unleashing the Potential of Urban Growth. State of World Population, 2007* (New York: UNFPA, 2007.). Accessed: <[Journal of the Washington Institute of China Studies, Winter 2007, Vol. 2, No. 3, p77-90](http://www.unfpa.org/publications/detail.cfm?ID=334&filter ListType=)

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maintain a good standard of living for the new generations. The pension problem is growing along with an aging population,³⁶ the Chinese are getting old before they get rich.³⁷

2. *The Inequality Tide*

At the end of the 1990s and the beginning of the new century, China encouraged privatizations that eliminated over tens of thousands of State Owned Enterprises (SOE), generating a 49% reduction in the number of SOE employees. Massive layoffs triggered unemployment problems, more severe than the official 4% rate that the government is willing to recognize over the last few years. The situation is particularly delicate in the cities, where migrants do not enjoy the same benefits as registered citizens of any given city. As a matter of fact rural residents are denied urban housing and urban schooling for children, mainly to stop them from migrating to towns. This creates a broad range of second-class citizens that live in poverty. According to Pang and Lau³⁸ “the richest group of households, or top 10% income earning families, represent 41.4% of money made by the entire population in 2006, compared with 0.8% earned by the bottom 10%. That indicates the richest group of people earns 51.75 times more than the poorest.” With this kind of statistics, a government that praises equality as one of the political system virtues loses credibility and legitimacy among the population it governs.

3. *Health Risks*

One of the main risks to the Chinese economy is its vulnerability to communicable disease. Epidemics are a real danger. For example HIV cases increased by 30% to 650,000 in 2006 and the United Nations projects that 10 million Chinese will be infected by 2010. The severe acute respiratory syndrome (SARS) episode of 2003 was a good example of the health risks that the country faces. Hepatitis is another worrisome disease; it infects 10% of the population. The weak social welfare system will be another source of problems and conflict for the Chinese government in the near future. China needs to export the development achieved in urban areas to poor rural areas in order to avoid a crisis, especially with the rural elderly. The urgency of the situation arises from the explosive socioeconomic mix of increased inequality and reduced welfare benefits that the new “socialist market economy” created. In a way, the legitimacy of high growth rates may come at a high price: the break down of the welfare system. This in turn could be an impetus for the collapse of the CCP.

4. *Pollution*

³⁶ In addition to the aging population China is suffering a gender imbalance, it has 37 million men more than women. “China has 37 Million More Men than Females,” *People’s Daily Online*, 7.10.2007; Accessed: <<http://english.peopledaily.com.cn/90001/90776/90882/6212115.html>>. Viewed: 10.1.2007.

³⁷ For additional information about pension reforms in China, see S. Dunaway and V. Arora, “Pension Reform in China: The Need for a New Approach,” *IMF Working Paper 07/109* (Washington, D.C.: The International Monetary Fund, 2007).

³⁸ D. Pang and M. Lau, “Gap Wider Between Rich and Poor,” *The Standard*, accessed: <http://www.thestandard.com.hk/news_detail.asp?pp_cat=11&art_id=47186&sid=14117720&con_type=1>, viewed: 7.30.07.

By 2009 China will surpass the US as the world's largest producer of carbon emissions (it is already the biggest emitter of sulfur dioxide) and is now the Planet's second largest consumer of energy. Twenty of the top 30 most polluted cities in the world are in China.³⁹ According to the World Bank, air pollution is causing 500,000 deaths a year.⁴⁰ Access to water, such an important resource to avoid health problems, is also difficult.⁴¹ For example only 1% of the surface water available to Shanghai is safe to drink. Furthermore, water is a common good, which leads to overexploitation, especially because the communist ethic precludes the government from using price to limit consumption. This is leading to a natural resource consumption that is simply not sustainable.

Last year China released a report that calculated the cost of pollution as just over 3% of the GDP. Environmental experts believe that the figure is much higher: between 8% and 13%, which enshrouds the real economic growth benefits.⁴² The Chinese Government argues that all industrializing countries went through this stage and cleaned up the environment afterwards. It remains to be seen if the level of pollution generated by China can be 'cleaned up afterwards,' probably by the iPhone generation. Resources devoted to a sound environmental practices could affect the pace of growth and the ability of the government to lift people from poverty. A difficult choice for the Chinese government since economic growth is its best policy to achieve legitimacy.

5. *Transparency and corruption*

The Chinese Government is characterized by secrecy. The cover up of the severe acute respiratory syndrome (SARS) episode reveals that the CCP tends to hide damaging information. This tendency, in turn, leads to misrepresentation of politically damaging situations and corruption.⁴³ One of the most publicized cases occurred in May 2007, when Zheng Xiaoyu, who served as commissioner of the Food and Drug Administration from its founding in 1998 until mid-2005, was sentenced to death after pleading guilty of accepting bribes.

According to Transparency International,⁴⁴ China is number 70 in the world ranking of corruption perceptions, behind perpetual underdeveloped countries such as Jamaica or

³⁹ J. Boudreau, "Shadow over China's Boom." *The San Jose Mercury News*, 6.17.2007. Accessed: <http://www.mercurynews.com/ci_6162698>. Viewed: 8.2.07.

⁴⁰ M. Lieu, "Chinese Government Censors World Bank Pollution Report," *China Watch*, 7.11.2007. Accessed: <<http://www.worldwatch.org/node/5192>>. Viewed: 10.25.07.

⁴¹ J. Kahan and J. Yardley, "As China Roars, Pollution Reaches Deadly Extremes," *The New York Times*, 8.26.2007; accessed: <<http://www.nytimes.com/2007/08/26/world/asia/26china.html?pagewanted=print>>, viewed: 10.15.2007.

⁴² A. Zwanecki, "China Environmental Problems Tackled with US Help," *USINFO*, (Washington, D.C.: Department of State, 2007),. accessed: <<http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2007&m=July&x=20070710163214saikceinawz0.1669275>>, viewed: 8.19.07.

⁴³ In 2003 Dr Jiang Yanyong, a retired surgeon in the People's Liberation Army, disclosed in a letter circulated to international news organizations that at least 100 people were being treated in Beijing hospitals for SARS when at the time the Chinese authorities were asserting that the entire nation had only a handful of cases of the disease. J. Kahn, "China Bars U.S. Trip for Doctor Who Exposed SARS Cover-Up," *The New York Times*, 7.13.2007; <<http://www.nytimes.com/2007/07/13/world/asia/13doctor.html>>, viewed: 10.15.2007.

⁴⁴ Transparency International, *Corruption Perception Index 2006*, accessed: <http://www.transparency.org/policy_research/surveys_indices/cpi/2006>, viewed: 7.30.07.

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Namibia.⁴⁵ Even though many Chinese may think some government officials “steal but deliver good deeds for the community” this tendency could affect the CCP legitimacy if the “deliver” part of the “equation” disappears along with the impressive economic growth rate.

The iPhone Generation and the Chinese Regime Evolution

Thirty years from now, when the five most pressing challenges enumerated above grew to critical, difficult to manage dimensions, the iPhone generation will realize that the key for the solution lays at the core of the political system. The Chinese James Carville will say then “It’s the politics, stupid.”⁴⁶ Future generations of Chinese leaders will realize that the economic situation is not as rosy as the CCP has been painting it. This article argues that China’s growth will hit a glass ceiling when expenditures to fix environmental, health and pension problems will place a heavy burden on the economy, and growth rates will not be as impressive as they are today. By then the society will have realized that it has been cheated in the environment, health care, retirement and many other important issues. They will learn that the CCP delivered high growth rates to acquire legitimacy at a cost that is unsustainable, jeopardizing the standard of living of future generations.

China seems to be moving towards “competitive authoritarianism.”⁴⁷ The country’s political system is a far cry from democracy, but it is also falling short of a full-scale authoritarianism. Even though China is opening up to local elections, the country still does not comply to the well established four characteristics of a democratic regime: Executives and legislatures are chosen through elections that are open, free and fair; virtually all adults possess the right to vote; political rights and civil liberties are broadly protected, and elected authorities possess real authority to govern.⁴⁸ Bribery, corporatism, patronage networks, co-optation and subtle persecution, such as through the tax authority or government agencies that legally harass to extort cooperative behavior from critics, are still part of the political environment. Democratic rules, if anything, are simply to serve as to legitimate the existing party. Electoral competition is limited both *de jure* and *de facto*. Joseph Fewsmith, a scholar from Boston University, argues that the CCP seems to be delaying democracy as much as promoting it, without instituting a Western-style democracy.⁴⁹ Perhaps the intent is to create a democracy with Chinese characteristics, where the CCP is the final decider in the election process.

Can the iPhone Generation reform the political system designed to perpetuate the CCP in power? The coexistence of democratic rules and methods aimed to keeping the CCP in power will create sources of instability. The spark of change is coming through international influences

⁴⁵ According to *The China Daily* (accessed: <http://www.chinadaily.com.cn/china/2007-03/13/content_826696_4.htm>; viewed: 8.20.2007), in 2006 40,041 government officials were probed by prosecutors.

⁴⁶ The popular analogous phrase (“It’s the economy, stupid”) was coined by President Clinton political adviser during the 1992 presidential campaign. James Carville hung a sign with the phrase at Bill Clinton’s campaign headquarters to keep everybody “on message” in 1992.

⁴⁷ Levitsky and Way define it as the system in which elections are competitive but civil and political liberties are regularly abused by incumbents seeking to preserve power. S. Levitsky and L. Way, “The Rise of Competitive Authoritarianism.” *Journal of Democracy*. Volume 13, Number 2, April 2002.

⁴⁸ Ibid.

⁴⁹ C. Zessis, op cit, note 29.

such as the Internet, demonstration effect, and a new urban generation raised in abundance and with a large number of students getting a degree abroad.⁵⁰ State to state pressure (e.g. for Human Rights violations) or through conditionality from international organizations such as the World Trade Organization are already proven sources of change. This article argues that the iPhone generation, web versed, who enjoy the benefits of economic growth, is starting to suffer the hardships of pollution and will rebel in time to address the problems enumerated in the previous section. Those combined characteristics plus the fact that many future leaders are now studying abroad in developed countries (experiencing first hand different political systems) will trigger change in China as we know it today. Unless, the CCP resorts to extreme authoritarian control of all aspects of governance, including the economy.

A few decades from now the CCP will discover that a country cannot offer partial economic freedoms to its citizens and keep an iron fist on civil liberties. Through a tight control of the media, political and governance problems can be temporarily eclipsed but as time goes by reappear, only aggravated.⁵¹ Chinese youth is a beacon of hope to break this media *corset*. In the mid 1990s, for example, a young Chinese returning from study in the United States persuaded the party to offer Internet access to the public. Even though the government controls blogs, blacklists foreign sites, filters email, hijacks anti-government sites and frequently asks site managers to delete information unfavorable to the regime, in the end the Internet will become un-censorable.⁵²

Another good example of the youth hunger for change is the *China Youth Daily* newspaper. Last year Li Datong, editor of the Freezing Point, a weekly supplement of the *China Youth Daily*, posted a letter on the newspaper computer system criticizing the CCP. The memo was leaked and spreaded across the Web until censors scrambled to order several sites to delete the letter. A few days later, due to public outrage, the CCP was forced to eliminate plans to cut reporters pay if they wrote stories that upset party officials.⁵³ This case proves how youth can be at the forefront of liberalization initiatives. However, the fight will not be easy and without individual consequences. Li and a colleague were fired after the incident.

Ultimately, it is hard to predict when the political system will be reformed. More research is needed to determine if China will evolve to a democratic society, such as Mexico did after the collapse of the corruption prone PRI, or if it could run the same course as the former Soviet Union⁵⁴ and understand the possible evolution of the Chinese political system into a

⁵⁰ According to a Ministry of Education official, since late 1970s more than 1 million Chinese studied abroad. China.org, 2.27.2007 (Accessed: <<http://www.china.org.cn/english/education/200867.htm>>. Viewed: 10.16.2007).

⁵¹ Reporters Without Borders ranked China 163 out of 168 countries for its lack of press freedom in 2006. Reporters Without Borders, "Worldwide Press Freedom Index 2006," accessed: <http://www.rsf.org/rubrique.php3?id_rubrique=639>; viewed: 08.08.07.

⁵² Even brand names such as Google experienced censorship in China. Nowadays if readers in the US search for "Tiananmen" in English get complete results, but users based in China are automatically redirected to google.cn where queries on Tiananmen produce only tourist information both in Chinese and English with no political content.

⁵³ The system awarded bonuses to the paper's staff. They would get 100 points if their articles were praised by provincial officials, 120 if praised by the propaganda department and 300 if praised by a member of the Politburo. Points were deducted if criticized by officials. One report that upset a party leader could mean losing a month's salary. P. Pan, "The Click That Broke a Government's Grip." *The Washington Post*, February 19, 2006. Accessed: <http://www.washingtonpost.com/wp_dyn/content/article/2006/02/18/AR2006021801389_pf.html>. Viewed: 08.08.07.

⁵⁴ Where only a few republics moved from competitive authoritarianism to a democratic system.

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competitive authoritarianism and beyond. The consequences of current and future Chinese reforms will determine the incentives of the iPhone generation to act and trigger the great political reform that many dissidents have been predicting for years: a system open to new players that will eliminate the big star from the country's flag.⁵⁵

⁵⁵ The large gold star represents the common program of the CCP, and the smaller ones the four classes united by the common program: the workers, the peasants, the petty bourgeois, and capitalists sympathetic to the Party.