

**China 2010:
Collapse or Federation?—
Contradicting Views from Japan
and the US**

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There have been numerous discussions in Chinese and US American academic circles about the future of China's economic and political development. Among other publications, two books have been in the center of heated debates. The first was published by *Random House* in July 2001. *The Coming Collapse of China* was written by Gordon Chang, who had lived in China for over two decades and had been a partner in the international law firm of *Baker & McKenzie* and counsel to New York law firm *Paul, Weiss, Rifkind, Wharton & Garrison*.

Gordon Chang, who is a practical man not an academic, expresses his pessimism about China's future in his book. His main prediction is that China's political and economic systems are headed for collapse. A collapse sparked by Beijing's failure to address three hidden problems—a deteriorating banking sector, rising unemployment and an underdeveloped agricultural sector. Chang warns the West about a complete breakdown of the banking system caused by some US\$720 billion in non-performing loan obligations and claims that foreign investors would make little profit

because of an industrial over-capacity in world markets. In an opening statement before the US-China Security Review Commission the author said that the “Communist Party of China [would] fall from power within a decade,” and continued his speech with the assessment that: “China is not prepared for accession to the WTO. Its state-owned enterprises and banks are not ready for increased competition. The economy, in reality, is stalling, not growing fast enough. The result is worker and peasant unrest. The central government's finances are in bad shape, and one day the People's Republic could run out of money. But before that happens, the rulers of China will run out of something even more precious: time.” In his book, Chang has much more to say about China, but most is negative.

The second popular book on China's future was written by Kenichi Ohmae and first published in Japanese in November last year. Ohmae is a well-known author. He has published over 140 books, many of which are devoted to business and socio-political analyses. He has also contributed numerous articles to major publications (e.g., Wall Street Journal, Harvard Business Review, Foreign Affairs, New York Times). For twenty-three years, Ohmae was a partner in McKinsey. He is the founder of the “Reform of Heisei,” a citizen's socio-political movement established in 1992, to promote and catalyze the fundamental reform of Japan's political and administrative systems. Kenichi Ohmae is an academic. He studied at Waseda University (BS), the Tokyo Institute of Technology (MS), and the Massachusetts Institute of Technology (Ph.D. in nuclear engineering).

In his controversial book, *The Emergence of*

the United States of Chunghua, Ohmae makes two major predictions about China. According to him, China will disintegrate into six economic blocs - Liaoning, Jilin and Heilongjiang in the north-east, the Beijing-Tianjin corridor, the Yangtze River delta area, the Shandong peninsula, the Pearl River delta area, and Fujian in the south. Ohmae stresses in his book that China has already started to split up into these six pieces and that China is no longer a centralized nation. Decentralization and economic prosperity is reality in China says Ohmae and compares the current situation in China with federalism in the US. His prediction is that there will be a Chinese federation within this decade and here starts his second—even more controversial—prediction, namely, that Taiwan would be part of this federation. According to him, the most likely year of unification will be 2005, or 2008 the latest. Economic factors are cited in his book as the main reasons for such a development. Ohmae foresees severe economic crisis in the tiny nation-state, if Taiwan failed to reach consensus with Beijing on the issue of unification by 2005.

Who is right?

Ohmae criticized Gordon Chang by saying that his book was based on outdated data . He pointed out that several years ago he would have made the same conclusions but economic realities had changed. The 1998 reforms initiated by former premier Zhu Rongji would have made a collapse such as the one described by Gordon Chang impossible. Chang responded to Ohmae's remarks at a speech held in Taipei earlier this year by referring to him as "Mr. Everything-is-ok-in-China." He once again spoke of a collapse of China and urged the Taiwanese not to overlook the social and

political risks involved of doing business with China. Taiwanese business tycoons share the view that both authors' predictions are off the mark.

Given the fact that Ohmae's book deals with the sensitive issue of unification with China, his book faced far more criticism than Gordon Chang's book claiming that arch enemy China would collapse. In academic and political circles, Ohmae's claim that more and more people in Taiwan have positive feelings towards China and his prediction of an early unification sparked heated debates and was considered nonsense. Taiwan's president Chen Shui-bian, for instance, rejected Ohmae's ideas by saying that Taiwan would be Taiwan in 2005 and would never be another Hong Kong.

Yin Chang-yi, professor of Chinese history at Furen Catholic University, looked deeper into Ohmae's claim and emerged as one of the most outspoken critics. In one of his recent publications in a local academic journal, he strongly objected to Ohmae's claim that China would disintegrate into several autonomous entities and to his statement that China had already decentralized. Prof. Yin acknowledges that Ohmae is good at analyzing economic trends but doubts his ability to understand Chinese politics and history. Yin is certainly right when he says that Ohmae's prediction is based on economic issues only and does not take political and historic factors into account. His predictions, therefore, fail to reflect the real world situation. Moreover, Yin argues that the Chinese political ideal is to have one big nation: In Chinese history, there has not been any political issue more important than unification under a centralized government. Recent developments in Hong Kong seem to support Prof. Yin's view. When Hong Kong

returned to Chinese sovereignty in 1997, Beijing was quick at emphasizing that the former British colony would be ruled under the principle of “one country, two systems.” As a matter of fact, however, the people of Hong Kong soon found out that such a formula would never mean real autonomy. Things turned worse when Beijing recently instructed the Hong Kong administration to amend article 23 of the Basic Law, Hong Kong’s constitution, allowing state agencies to take repressive action against anybody voicing concern about social, political and religious issues. About half a million people took to the streets on 1 July this year in protest and their message was clear: As to politics, there is no such thing as autonomy or decentralization in China. In other words: “One country, two systems” has already been transformed to “one country, one system.”

In a recent speech, former Taiwan president Lee Teng-hui warned the audience of Beijing’s “one country, two systems” concept by citing Abraham Lincoln’s view that a nation could not be both “half slave and half free.” Lee is one of the most outspoken critics of unification in the tiny nation-state’s political arena. He believes that closer economic and political integration would only benefit business people but would harm Taiwan’s middle class that tends to defend values of democracy and freedom. There seems to be some truth in his assessment that further integration with China could cause an equalization of factors of production and prices between the two states that would eventually lead to falling real-estate prices, interest rates and salary levels, and apart from that drastically increase unemployment among local Taiwanese since Chinese university graduates and workers would influx Taiwan. Lee’s opinion thus contradicts

Ohmae's assessment.

Although both books may not necessarily reflect "the real world situation," they are worth reading and discussing, especially prior to next year's presidential election—a period of time full of pros and cons surrounding a possible unification between one of Asia's most democratic countries and one of the region's most anti-democratic states.

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