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WEBINAR

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Diana Fu: Good morning, everyone. A very warm welcome to all of you joining us today. My name is Diana Fu, I'm a nonresident senior fellow in the John L. Thornton China Center here at Brookings, as well as an associate professor of Chinese politics at the University of Toronto. On behalf of my colleagues at the Brookings China Center, I'm just thrilled to welcome all of you to today's very timely and important event. I am told we have an almost unprecedented number of participants joining, which just speaks to the prominence of our panelists, as well as to the timeliness of this discussion.

Over the past 40 years since the country opened to the world, China has been increasingly powerful, both domestically as well as internationally. China has debunked the modernization theory. Contrary to predictions, China's economic liberalization has not ushered in political liberalization, and recent geopolitical, ideological and economic clashes between the US and China have led to talk of a cold world 2.0. So today's event features four distinguished authors of new books focusing on the historical, political and economic elements that shape the current state of US-China relationship, and all four books are available via Brookings Bookstore online. We will be discussing a number of topics, including what are the factors that have led to China's drastic transformation, what are the current and domestic and external challenges, what is the state and future of US-China relations, and of course, we will try to get to balloons and other aerial objects that may be on everybody's minds.

So please join me in welcoming our distinguished panelists in alphabetical order. First, we have Chris Marquis, who is the Sinyi professor of Chinese management at the Judge Business School at the University of Cambridge. His book "Mao and Markets: The Communist Roots of Chinese Enterprise," assesses how China's economic success continues to be shaped by the Communist ideology of Chairman Mao.

We are also joined by Steve Roach, who is a senior fellow at the Jackson Institute for Global Affairs at Yale University. He is author of the book "America, China and the Clash of False Narratives." He argues that the false narratives from both China and America, amplified by information distortion, are more of a reflection of each nation's exaggerated fears of the other than an honest self-assessment of problems of their own making.

We also have with us Susan Shirk, who is a professor at the School of Global Policy and Strategy at the University of California, San Diego. Her book, "Overreach: How China Derailed its

Peaceful Rise," explains the domestic roots of China's transformation from "Fragile Superpower," the title of her first book to global heavyweight, as well as the dynamics driving its overreach.

And we also have Suisheng Zhao, who is the director of the Josef Korbel School of International Studies at the University of Denver. He is author of the book "The Dragon Roars Back: Transformational Leaders and Dynamics of Chinese Foreign Policy," which examines the primary forces that have driven China's reemergence to global power. So we'll begin with very brief opening remarks by each of the panelists and then move into the open discussion. We've already received a number of audience questions. If you have questions in the meantime, please email it to events@brookings.edu. And you can also join the conversation on Twitter at #Rethinking China. So without further ado, it is now time to turn to our panelists.

So I have a question for all four of you. All four of you suggest a different way of thinking about China's trajectory as a rising power. So can you please give us a brief, no more than five minute take, on how your very rich books debunk the popular assumption about China's trajectory economically and politically. What did previous scholars and China watchers get wrong? And how does your book correct some of those assumptions about China's future path? So let's start again in alphabetical order with Chris.

Christopher Marquis: After three years, I would unmute myself. So first, you know, thanks so much for the great intro, Diana. I want to thank Brookings and also Cheng Li and Ryan McElveen for this great opportunity to be with such amazing other sets of scholars and books. I know it's not usual that as an M last name I'm first alphabetically. So it's also, you know, great to be here with people with names from the last name of the alphabet as well. So I guess, you know, starting, I would say about our book, the area that we try to examine and in some ways debunk which you mentioned in your opening as well, Diana, is, you know, the wishful thinking I think very much that China, as it economically modernized, would actually end up becoming more politically liberal. You know, this is something that is well-established in economic development modernization theory as a common relationship. And I think, you know, since Deng's reforms in the late 1970s, early 1980s and beyond, you know, this was what U.S. policymakers, global policymakers, you know, sort of assumed and actually how China was approached by businesses, and by political entities.

You know, China was admitted in 2001 to the WTO. And President Clinton at the time said something to the effect that this was, you know, like a one-way economic street, you know, where the

assumption was that China would be, you know, sort of becoming much more liberal politically. And this also led to decades of, you know, engagement policy on the parts of politicians in the U.S. and globally from all political persuasions. So what we try to examine in the book, though, that this period actually of Deng, Jiang, and Hu, and everyone else, that sort of, you know, what's underneath them, was really what the aberration was. It's not, you know, many people are saying, you know, surprised at how sort of hardline Xi Jinping is.

And so we, you know, try to examine by looking at politicians, looking at business leaders and entrepreneurs how actually there is a thread from Mao to Xi, and through the society, political leaders and business leaders that, that might have been ignored. I think that, you know, we had this wishful thinking that, you know, we saw giant markets in China and, you know, wanted to take advantage and capitalize on those. And, you know, a well-known psychological bias that we discuss in the book is confirmation bias, where we look for evidence to confirm our underlying beliefs. And, you know, we all thought that China was going to liberalize. We were thinking that China would become more like us instead of actually having its own unique political economy with the CCP very strongly at the center. So we try to break out of this confirmation bias trap, so to speak, by really rooting our analyses in a number of studies which were published over the past ten years in peer-reviewed academic journals that start with the actual data and relationships between political actors, business actors and actually what's happening on the ground in China.

You know, this, we think that this was an important way to start because, you know, I think it was James Fallows that wrote about, you know, because China is so vast and complex, you can find almost anything you want sort of happening somewhere. And so it's very easy to sort of have confirmation bias. And so, we look in detail in the book at the depth of how the CCP influences life in China and the commitment to the CCP for many people, particularly those as I mentioned, our analyses look at business leaders, entrepreneurs and also political leaders. Again, we try to actually write the book in a readable style with stories and anecdotes and from our own qualitative research and interviews, but also from media reports. But underlying those stories are these peer reviewed journal articles.

And so, you know, this is important, I think, for business leaders as they engage in China, but also political leaders as well. Because as you know, President Xi has returned to many of the sort of more ideologically driven, perhaps hardline policies and practices that are reflective also of Mao and,

and the earlier CCP. And I think as we continue to think about how to engage— and I think that engaging with China is hugely important— but we have to do it from a realistic standpoint and understand that just because Liu He says at Davos that China is open for business, that actually we should maybe take that with a grain of salt and think about actually the deeper underlying political and economic systems.

Diana Fu: Wonderful. I have some follow-up questions about the title of your book, the specter of Mao hovering over everything. But before I do that, I wanted to turn it over to Steve with the same questions about what your book debunks and what did other people get wrong.

Stephen Roach: Thank you. And I would just add a note of gratitude to Brookings. Back in the Jurassic era, my first position out of grad school was a Brookings Research fellow where I completed my dissertation. So I've always been a special fondness for Brookings in the deep recesses of my heart and career. I think Chris has the time frame correct and noting the sharp difference between Mao, and Deng Xiaoping, Jiang Zemin and Hu Jintao. But I would argue that the return to Mao under Xi Jinping is truly the aberration and not necessarily something that connects these two important bookends of modern China's history. The Deng Xiaoping model, which was followed I think reasonably well by Jiang Zemin and Hu Jintao, was a flexible model. And it was so flexible that right around 2007 began an intense internal debate as to how the model should be modified to move away from an economic framework that stressed growth being driven by exports and investment to one increasingly driven by China's rising middle-class consumer.

And it was an encouraging and refreshing rethinking of the framework that had worked so well for nearly 30 years. And Xi Jinping has basically backtracked on all aspects, or I shouldn't say all, but most aspects of that transition, shifting power back to state owned enterprises and their low productivity bias, which is really problematic given the rapid aging of the working age population, or the population in general in China, and the decline of the working age population that's now been evident for eight years. And I think that the problem with Xi Jinping's approach very much reflects the points that Chris made. It's more driven by ideology, by a power consolidation under the guise of anti-corruption. And a standing committee right now, courtesy of the 20th party Congress that is packed with loyalists who are unwilling or afraid to speak truth to power. And so that ensnares China deeper and deeper in conflict with others, most notably the United States.

And the final point I would make is that unwilling to face up to its own vulnerabilities of a failed rebalancing and a failed opening up of its system, China has turned to scapegoating the U.S. for its containment policies, which are certainly very fact based and you can support, as the excuse as to why it has not completed the rebalancing and opening up. And this is an example of what I write about in my new book, "China's False Narratives with Respect to the U.S.," it's one of many. And I, you know, I have to be fair here, the U.S. is equally culpable in blaming China for its big trade deficit, when that stems from problems of our own making, notably the lack of saving.

And so, this confluence of many false narratives on both sides of the relationship has led to deepening misunderstandings between these two strongest nations in the world. And this clash of false narratives, I argue, is the high-octane fuel of conflict escalation, which in the last five years has resulted in a trade war, a tech war, and now the early stages of a new Cold War. It doesn't take much of a spark to turn a Cold War hot. It could be any one of a number of things: Taiwan, South China Sea or who knows, maybe even the popping of a balloon. But I'll stop on that point.

Diana Fu: Great. We'll circle back also to that point you raised about the demographic crisis. Let's now turn to Susan. Susan, you're muted.

Susan Shirk: Well, thank you, Diana. Thank you, Cheng Li, thank you, Brookings. It's really fun to be talking about these four books all together, especially for me, because Suisheng got his Ph.D. from UCSD, and I was his thesis advisor. And so I'm naturally have a lot of pride of all the wonderful work he has accomplished. For so many years, he's been so much more productive than I have. And so I really admire and seek to emulate him as the teacher learns from the student. So, my book, I think, will surprise readers because I argue that China's overreach didn't begin with Xi Jinping. And of course, the definition of overreach is to take things too far, to do them in an exaggerated manner in a way that snaps back to harm yourself. Self-defeating, overly aggressive foreign policy, and overly repressive and statist domestic policy. And when, of course, most of my career as an old China hand, we've seen China and the United States managing to get along after Mao died surprisingly well, despite China's rapid strengthening of its economy and its military capabilities.

And despite the vast differences in our political systems, but due in large part to China's own policies designed to reassure the United States and other countries that even though it was rising so rapidly, its intentions were friendly, it was not a threat. And also, to a kind of generosity and goodwill on the part of the U.S. in welcoming China into the community of nations in the world order, things

were going moderately well until the mid 2000s. So that's the big surprise, is that this begins under collective leadership between the two terms of Hu Jintao, it actually begins even before the global financial crisis and is due largely to some of the perverse features of collective leadership which had been designed by Deng Xiaoping after Mao in order to prevent what Deng called the overconcentration of authority which led to arbitrary decisions, tragic decisions like the Great Leap Forward and the Cultural Revolution.

But collective leadership under Hu Jintao was really oligarchic leadership instead of the bureaucratic interest groups constraining one another, checking one another. Instead, they log-rolled on one another, and every oligarch in particular, the head of the control, what I call the control coalition, Zhou Yongkang in this standing committee with nine members, now was able to hijack policy, nobody stopped him. Hu Jintao didn't stop him, and the other interest groups also didn't stop him. And so, there's tremendous lack of coordination leading to assertive challenges to Southeast Asian countries in the South China Sea, which drastically changed the narrative about what kind of rising power China was, the return to statist management of the economy to build indigenous innovation and domestically, social control and grid management, which developed especially right before the 2008 Beijing Olympics. So it's a story in which nothing about this was inevitable.

So what I'm debunking is the international relations scholars who believe that China's rise, the reactions of the United States, the Graham Allison view and the Thucydides trap view is incorrect and that, there's a lot of human agency here and it reflects the nature of Chinese politics in this period of collective leadership. But then the problems of collective leadership, especially the massive corruption, enables Xi Jinping to get a mandate to establish a stronger, more centralized version of Chinese Communist Party rule. And his anti-corruption campaign, which is very popular with the public, is also a purge of his rivals, real and imagined, and this purge which continues to present days. And has become something of a permanent purge, such as described by Zbigniew Brzezinski about the Soviet Union, has really so intimidated, and created a climate of fear in Chinese officialdom that what it means is that in order to survive and preserve their own careers, you get a very different overreach dynamic here, which officials jump on the bandwagon behind Xi Jinping's policies, many of which are arbitrary and mistakes -- policy mistakes that are harmful to China. They also over comply. They overdo their implementation of those policies.

Look at zero COVID, three years of zero COVID, and they don't dare give him accurate information and feedback. As a result, China is really the economy on the ropes, there's a big international backlash against China's Wolf Warrior diplomacy, aggressive policies toward Taiwan, Japan, Australia, India. You get all these coalitions pushing back against China. And so the third term is likely to be an even worse version of overreach under this concentrated authority of Xi Jinping.

Diana Fu: So we have Susan bringing agency back into structure, which as a comparativist scholar I couldn't agree more with. And I think, Susan, you mentioned earlier, too, that there's another part of your argument that debunks another assumption, which is very much in the media that everything changed with Xi Jinping. But I think your book evidences so well that the overreach that you document, the exaggeration, actually didn't start with Xi Jinping, it started with his predecessor. So more on that later. We'll turn from the master to the student who is now has become the master himself. So over to you, Suisheng.

Zhao Suisheng: And thank you, Diana, Cheng Li, and Brookings. I'm really thrilled with such a distinguished group of scholars, especially my former advisor, Professor Susan Shirk, and her modesty is not the very typical American now, but she taught me that modesty is a virtue in every culture, I still remember that. But in Chinese culture, if you are my teacher, one day you'll be my teacher, so I would learn always from you. And among the four books, two books are on domestic trajectory of China's rise, two are on China's rise on a global stage. My book tracks the trajectory of China's rise on the global stage and also tries to understand what are the driving forces behind this rise. Structural realism and regime type theory have been used most often to explain China's rise, which almost become conventional wisdoms. Structural realism that when China expands its power, its ambition expands; so China's rise is somehow like a linear process going with its rise of power.

But these cannot explain many turns and tests of the PRC foreign policy behavior in the last 70 years. One, and during Mao Zedong's years, China was, China's relative power was weak, but Mao launched six cross-border wars, including a war with the most powerful nation in the world, the US, in Korea, and fought war with the Soviet Union and with India, with many other countries. But Deng Xiaoping came to office and moderated Chinese foreign policy. His successors, Jiang Zemin and Hu Jintao, continued that process of moderation. But China's relative power during this period has been rising, so that cannot explain that process and behavior, too. Then Xi Jinping came to office, and we all know that he overreached as Professor Susan Shirk spoke, talk about overplayed his

hand. Although China's economy has been slowing down and there are so many problems with Chinese power foundation. So the structural realism cannot explain well about China's long term international behavior.

Regime type theory has argued that, all the problems, aggressive behavior or whatever, should be attributed to China's authoritarian system. In other words, if we don't have regime change, will not see change in China's foreign policy behavior. That cannot be true either. So we already see so many changes, sometimes very dramatic changes in China's foreign policy behavior. But China's authoritarian regime has not been changed. So my book developed a leader-centered framework and argues that leaders matter in all political systems but matter more in Leninist, authoritarian system, especially in China, where hierarchy and discipline are emphasized. And in democracies, leaders are constrained by public opinions, by opposition parties, by term limits.

In China's authoritarian system, leaders are relatively unconstrained by public opinions, by those were not mentioned about oppositional forces, and very often they hold lifetime tenure. But the puzzle for me here is that not every Chinese leaders at the top have used that power to chart a new course for Chinese foreign policy. And in that case, I try to distinguish Chinese leaders into three types. One is transformational leaders who are game changers. And these leaders have new visions for the new direction of China—Chinese foreign policy in this case— and also, they have political wisdoms to prevail in a jungle of China's internal power politics, and also to mobilize domestic sources such as ideational sources, institutional sources, and strategically respond to international distribution of power and also norms, regimes, institutions, everything, to advance their policy agenda. Here, what I'm talking about, Mao Zedong, Deng Xiaoping, and Xi Jinping. Each charts a unique course of Chinese foreign policy. Mao Zedong's foreign policy, I call it revolutionary foreign policy. Deng Xiaoping's foreign policy, I call it developmental foreign policy. And Xi Jinping policy, of course, in his own words, big power foreign policy.

And the second type of leaders are what I call successional leaders. These leaders managed maintained, and navigated in the power jungle in PRC, but they stayed on course set by their predecessor. Here I'm talking about Hu Jintao and Jiang Zemin. They set on course set by Deng Xiaoping, low profile, non-confrontational to everything.

And the third type of leaders are failed leaders. They might have new visions, but who cares? And they lost power in the jungle of a politics -- Hua Guofeng, Zhao Ziyang, and Hu Yaobang. And

they might want to chart new courses, but they failed. And so my book tries to document how this, focused on the three transformational leaders and document how their visions, their political wisdoms and their domestic international operations have met them, to set a new course for China. The focus is on Xi Jinping. Here, I really learned so much from my former advisor. Xi Jinping really has been overreached and how he has been overreached by his misperceived vision, and also by his political behavior domestically and internationally.

Diana Fu: Wonderful. Since we talked quite a bit already about, you know, from more of a theoretical and conceptual standpoint, I want to turn to what many in our audience must be wondering, which is what to do. I want to skip to a question that I was going to save for later, but I want to do it right now. A common theme that runs through all these books is that of correcting path, correcting the path that the U.S. and China are on now, which seems to be one of competition, conflict, misunderstanding, and overreach. And I think this is most evident in Susan and Steve's books, which both reference a Cold War 2.0 between the US and China.

So, Susan, you've argued for Xi to curb his overreach, and you advise in your book, among many recommendations to open dialogue with Taiwan and to close the internment camps in Xinjiang, among other suggestions, in order to temper what you see as this overreach. Can you tell us a little bit more about how you arrived at those advice, and what would be the channels to communicate this message to Xi, given decoupling and unwillingness on both sides to really listen to each other? So over to you, Susan, and then we'll turn to Steve. Oh, you're muted again, Susan.

Susan Shirk: Thank you, Diana. As you point out, my book is primarily an analysis based on a lot of the interviewing and documents on how Chinese domestic politics shapes its foreign policy as well as its domestic policies. And it's not really a policy book, but the last chapter does give advice to both Beijing and Washington on how to stabilize relations and prevent the Cold War from turning into, even worse, a hot war. My advice to China is that I have no good suggestions about channels to make sure that this advice gets to Xi Jinping. Obviously, we should translate my book and make sure that Xi Jinping reads the last chapter. But actually, I wrote the book with a Chinese audience in mind because I did want people in China to think about that nothing that's happened so far is inevitable. That it's a matter of the political choices of political figures and that they could change their policies.

And so I think from, and you look at the past precedent on the Chinese side, you look at how Hu Jintao protected the effort to integrate Taiwan and prevent Taiwan independence through a kind of

more peaceful economic integration strategy, it's very interesting. And remember, who was the person working for Hu Jintao who carried out that very effective integration in diplomacy? It was Wang Yi, who now under Xi Jinping, is sort of your number one wolf warrior diplomat. So that shows us how there are possibilities for the future should China moderate its policy.

On the U.S. side, I make the case that what we need to do is test whether or not the Xi Jinping concentrated personalistic dictatorial system is capable of moderating policy once the costs of its overreach have become so evident, especially on the economic side and the coalitions to balance against China internationally, and of course, now even protests over the extremes of zero COVID. So that's why I really was hopeful about the Blinken visit as the start of a process trying to engage in give and take, a process of diplomacy that includes sanctions, includes sticks as well as carrots. But integrated in a process of diplomacy, not overreacting by just whacking them with sanctions without a strategy of how to use those sanctions to try to induce moderation and change in Chinese behavior.

Diana Fu: So, Steve, I think you also have a very people-centered argument. And I like what you said to me earlier about relationship problems require relations getting worked on. So could you tell us a bit more about what you argue in your book in moving from codependency to interdependence? And you mention suggestions including a bilateral investment treaty and the establishment of a US-China secretariat. You know, you basically propose all of these relational mechanisms that need to be set up, but also structures and institutions to facilitate those kinds of relational dialogues. Could you tell us a bit about why those are your proposals and given the complexities of politics on the DC side, how you think any of this would be feasible?

Stephen Roach: Well, thank you, Diana. Just to pick up on that, the relationship aspect of this is absolutely critical to this book and its proposed framework of conflict resolution. Contrary to what you pick up in every American newspaper every day, the U.S. does not have a China problem. China does not have an American problem. Together, we have a problem in managing the relationship between us. So how do you, how do you implement these proposals that you just enumerated, the bilateral investment treaty or a new secretariat-like organization? The obvious thing that's missing from that equation is to move from distrust to trust. There is no trust at all between the United States and China right now. None. Can you name one sitting member of the U.S. House of Representatives or the United States Senate who is in favor of re-engagement in any form with China right now? The House, enacted by a vote of 365 to 65 a couple of weeks ago, the establishment of a

new select committee, I like to call it the Select Committee on China bashing, because I'm certain that's what its purpose will initially be.

So on trust, I think there are some low hanging fruits and there are some tough issues that can be done. The low hanging fruit that can be picked is reopening closed consulates in both nations, in relaxing visa requirements, in restarting foreign exchange student programs between the two nations that have been so important over a long period of time. Tougher to do, but equally essential is in relaxing serious constraints that have now been placed on the operation of NGOs. And then the big issues that are critically important in trust building: climate change, health, especially in a pandemic, and of course, cybersecurity. If we began to make progress on trust, and I just stress the word begin, then we can do the other two issues that I talk about explicitly in my book that are more framework issues: a bilateral investment treaty where the negotiations were 95% of the way done prior to the election of Donald Trump, these lower investment barriers are our pro-growth, much more effective than trying to implement zero sum agreements focused on bilateral deficit reduction that do nothing for either country.

And then finally, the institutional proposal that I'm actually most excited about is the establishment of a full time U.S. China Secretariat, which really alters the architecture of engagement between the two nations that used to be focused on once or twice a year annual strategic and economic dialogues, which basically accomplished very little over a long period of time. And now, we have meetings either by Zoom or the Bali three-and-a-half-hour summit between leaders. And we were hoping but didn't get, you know, the Blinken follow up mission this past weekend. That's not the way to engage our major adversary in the world of geo-strategic power.

A secretariat located in a neutral venue call it Switzerland would work full time 24/7 on all aspects of the engagement from economics and trade to innovation, policy and technology transfer to subsidies of state sponsored activities to climate, health, cyber and even human rights. It would have a convening power to bring in experts from around the world to deal with thorny problems like COVID, and it would have a compliance and dispute resolution mechanism to manage existing and new agreements. The plan is not perfect, but I'd certainly welcome, you know, any better ideas from any of my three colleagues on this, on this call today.

Diana Fu: Great. And I see a common thread between yourself and Susan in that posing or framing the bilateral relationship as really a collective action problem to be solved on both sides. And I

couldn't agree with you more that when channels are blocked, when there's mistrust on the official channels, especially at the higher up you go where the harder it is to dialogue, there can be and should be people to people exchange, such as the different types that you mentioned, between businesses, between NGOs, between students. But those, those exchanges need institutions to facilitate them.

So I want to now turn back to Chris and Suisheng. You can feel free to react to any of the recommendations that our other two speakers have given. But I also did want to come back to Mao and markets. So I had a question for Chris, you provocatively link Mao to markets and you essentially argue— I mean, this is my words— but you argue that Mao's specter has been essentially hovering over China's market logic for decades and importantly that China's economic success was precisely due to this continued influence of Maoist ideologies rather than being constrained by it.

But what do you make of Xi Jinping's crackdown on the private entrepreneurs, on the tech entrepreneurs' sectors, especially in late 2020 and its subsequent easing very recently this year to stimulate growth after the pandemic? Doesn't this kind of Maoist style campaign, which is highly unpredictable, scare off investors who think that, well, if China can do an about face on COVID policies— and it has done an about face on crackdowns on the tech sector— aren't China's markets just riskier and riskier and more volatile because no one ever knows what campaign the party is going to launch next?

Christopher Marquis: So, yes, on your assessment of Xi's actions in the economy, it couldn't be sort of more aligned and in agreement. I think that they're very scary to investors and actually, I think very long term and short term detrimental to the Chinese economy. You mentioned your words, I would actually and as a reader, I respect sort of your assessment of our argument. But I would maybe phrase a little differently what our goal is for the book, because Mao is sort of famously led to many tremendous economic and human disasters. The Great Leap Forward being, you know, sort of maybe the most prominent where his ideas of sort of catching up to the UK and US and steel production led to great famine where upwards of 40 million people died.

So our interest is not necessarily in really connecting Mao's economic policies, but really understanding how socialization happens into the CCP and just more broadly, and that actually the sort of propaganda ways in which people enter the party actually have a long-standing effect on their cognition. And this is something where there's lots of social science research on this topic. And so,

you know, it's a lot of areas where we actually examine the things that either entrepreneurs or politicians actually do or actually against their economic interests, against the growth of actually the sort of city that the politician's in or actually the business that's run.

So I think, we in the West talk to people, talk to leaders in China and they say sort of wink, wink, nudge, you know, we don't actually, all this sort of Maoist rhetoric we may not believe. But actually, you know, because of the socialization process, what we find is that actually those feelings sort of run very deep. And so I do think that the sort of neo-Maoist moves that you mentioned and sort of the backtracking and 180s on the tech industry and uncovered and all this stuff, both sides, are hugely detrimental. And I think also another neo-Maoist strategy that Xi has is around the campaign logic or campaign style of doing things.

I mean, there's the anti-corruption campaign, there's a people's war against COVID. In the economic realm, there's this sort of very much campaign focus around semiconductors where Xi talks about, concentrating strength to do big things. And I think this is actually a strategy in a setting like semiconductors that just is doomed to failure because huge amounts of subsidies, you know, overwhelming support of just domestic industries ignores the fact that in an industry as complex as that, you know, international human capital networks, suppliers is absolutely essential.

And so you've seen, SMIC has been one of the leading patentors in China for a long time. When you have these very top-down systems of, of trying to encourage innovation, you know, patents is a way to measure that. And so there's a lot of sort of production of patents. But whether they're high quality or not, you know, is another sort of another factor. So I do think that that in some ways return by Xi to many of these sort of hard line, you know, economic policies and plans, I think really hurts China economically. And that worries me because not just China doing well, but also authoritarian regimes, if they don't have or aren't delivering economically for their citizens, there may be questions from the citizens as to what good the regime is. I think people, if they're economically growing and their kids are going to be better, I mean, they can actually support the regime.

And so if that, if they start to get more significant pushback, like with the COVID protests after the longstanding lockdowns, this could create further uncertainty, maybe result in doing other things to sort of reassert the legitimacy of the party, like even trying to take Taiwan. So I think it's a scary couple of years we have as these poor economic policies probably are going to lead to economic disruptions.

Diana Fu: So not a great outlook for investors.

Christopher Marquis: Yeah, I wouldn't put my money in China.

Diana Fu: So Suisheng, I wanted to come back to your leadership trajectories, and you mentioned that you sort of put Mao and Deng and Xi on the same pedestal as chief architects or transformational leaders. And so what do you think, and you mentioned that, you know, while Mao was a revolutionary transformation leader, Deng was a developmentalist transformation leader, Xi is a great powers transformational leaders. Can you talk a little bit more about what distinguishes Xi from his two predecessors, and what should Western investors and policymakers be aware of when a risk, when assessing political risk under Xi Jinping's transformation of China's path?

Zhao Suisheng: All the three leaders are the most powerful leaders in the PRC in history and all, as you said, architects of a new course for China and for China domestically and internationally. And but the question here people ask is who is more powerful among the three. I would argue that Xi is more powerful than all others because he has not only concentrated, consolidated his power quickly and he has also eliminated all the factional potential rivals and the press is lowering their prices. In fact, he has upset a longstanding practice of internal power balance as a top neighbor of China's leaders, Mao was balanced by his revolutionary comrade, Liu Shaoqi and some others, Deng Xiaoping was balanced by Chen Yun, and Jiang Zemin by Deng Xiaoping, and Hu Jintao was balanced by Jiang Zemin. But who is now balancing Xi Jinping? I don't see any.

So Xi Jinping is running the country now without a clear rival. So he has not become Mao Zedong in terms of power concentration has also changed the Deng Xiaoping, Hu Jintao, Jiang Zemin's so-called collective leadership, consensus building policy making practice. And he has really become the most powerful leader in China. So using his power, he has carried out a fundamental policy orientation, foreign policy reorientation of China becomes, he abandoned clearly Deng Xiaoping's low profile foreign policy, changed Deng Xiaoping, Hu Jintao, Jiang Zemin's featured, developmental modesty for sure. Then he advocates the so-called big power foreign policy. What is big power foreign policy? To actively shape international environment rather than react to it.

So he has a lot of new initiatives, much, much more than anyone else in PRC history. And also, he has advocated this really confrontational foreign policy direction, fighting spirit (斗争精神/Dou Zheng Jing Shen), and recognize and have the chance to be baseline thinking (底线思维/Di Xian Si Wei) and tries to defend a so-called, a called national interests, which is called national interest, is

that bottom line of national survival? You cannot negotiate. You cannot compromise. So he is, for me, something, he will not conduct diplomacy. He is fighting using the military. We don't need the foreign ministry, as Susan Shirk said, those people, we don't need them, we need only those military officers to fight for the islands, to build those islands in South China Sea. And so he put a very big new face of China, an international arena.

Then the question here becomes, when he posted such a confrontational posture internationally, he has been met with unprecedented resistance, pushback against China especially, but only because of hyper assertive foreign policy, but also authoritarian domestic, repressive domestic policies. So in that case, Xi Jinping has become increasingly incredibly insecure. The insecurity now has a tag price, his psyche, his policymaking process. So what he has done in the past several years has elevated security to the naval office department.

Now, if there's is conflict between security and development, obviously he'll give up development, economic development for security here. When we say security, is it mostly from domestic banks, the regime security. In his own words, political security. So here we have to this insecurity, we have seen another very interesting development that is, I mean for the investors, that is his tolerance to risk. Risk tolerance has been increased in case those economic pushbacks, all economic costs, the COVID zero policy is a very typical example. Three years, China's economy suffers so much, he will now change onto the protests November took place, so the November protests threatened security. So that's why he changed his policy.

So here we have the investors have to be aware of his policy priority for China today, not development. Even for the last couple of weeks, we saw this so-called new development of economic emphasis, I don't know, it's tactical, long term fundamental or just the fault of the temporary development. So his mind, regime security, so called national security is still the priority. So, another risk, I think we have to be aware of his power concentration. Someone mentioned that earlier has also had a huge rest, risk for the policy making process. He is living in a bubble, just like Putin in a bubble, to make decisions. Nobody around him or tell him honestly about the troops and he lives in his own kind of environment and everybody having told him what he wants to listen, everybody guesses what is in mind would tell him that.

So in that context, he would make decisions, unpredictable decisions from outside, irrational decisions from outside. So he would leave China to some kind of a decisions of adventure of do

return and that also it has to do with another what I call virtuous cycle. He made decisions which is wrong. And the consequence will be very serious. Then he wants to defend his mistake. He makes more mistakes. So China would come to a really vicious cycle in that five years, or even not ten years, all his lifetime, if he's in the power. So China has a very uncertain future.

Diana Fu: That's right. Right. So we've got the sort of powder keg combination of perhaps the most powerful leader in Chinese history yet, along with one of the most insecure leaders. And those two combinations don't bode well. We've also got Chris arguing that socialization plays a big role in people, in decision makers, that even though maybe people don't take Mao's ideologies at its face value, they are socialized by some of those ideologies. And I would add to that I agree with you that if there is any sort of institutional or structural continuity, it has to do with campaign politics. And we've seen that where Xi's policies with the tech sector we'll probably continue to see that. And campaign politics, I always tell my students, when you talk about China, you're not talking about policymaking as much as you're talking about campaign politics. And campaign politics are very unpredictable and not great for predicting, predicting what's going to happen, not great for the stability that investors are looking for.

So now I want to turn to audience questions. We've got a great many of them. I want to pick up on one that had been asked by a number of people ahead of time, which is about demographic changes. And I want to turn this question over to Steve, because you mentioned that in your, in your opening remarks. Is China starting a demographic death spiral as an economic power? Because we know that, you know, working, you know, that the population is aging. That's why you see the CCP having moved fairly quickly from a long standing one child policy then to the two child and then very quickly after that to three children. And so it's obviously a problem. But is this going to be fixable in the short term? And how is that going to impact economics in the short term and long term?

Stephen Roach: Well, as we've seen from the Japanese experience, which predates China's aging profile by about 20 to 25 years, it's very, very difficult to fix. But economics does prescribe a possibility that unfortunately, China is failing to rise to meet, and that is when the working age population is contracting and is likely to do so in China for the next 20 to 25 years despite these efforts to incentivize women to have more children, even if they were to work, which is dubious, that would not have an impact on the working age population for at least 20 to 25 years, in the meantime, the only offset the only option that economies have is to boost the growth rate of productivity to offset

to, in other words, to maintain a higher growth rate by extracting more incremental output from a shrinking population.

Productivity is going the other way in China right now. For the last ten years, total factor productivity has been declining significantly as Xi Jinping has shifted power to ossified, low productivity, state-owned enterprises and to the point that Chris has made, and I totally agree with it, by squeezing the high productivity private sector Internet platform companies, that removes an important prop to productivity going forward. So, it's the wrong solution for an aging society. One of China's demographers leading demographers, has often said the difference between China and Japan is that China is likely to get older before it gets rich, unlike Japan. And that's the truth.

And I would just throw it back to Suisheng who talked about the three categories of leaders. And I think the risk is if you put Xi Jinping prematurely in the transformational category, you may end up putting him in your third category of a failed leader if he cannot deliver on the economic legitimacy that he has promised the people through the Chinese dream and all these other lofty, aspirational, soaring rhetorical imagery that is framed his own political campaign to the Chinese people. He's got a growth problem. It's a serious one. It's not going to go away; it's going to be enduring. I say this as someone who's been an unabashed China optimist for 25 years. I am no longer of that optimistic view.

Diana Fu: Yeah. And just, it's no surprise that, when you have a policy shift in order to really boost childbirth, you got to give people incentives. And women are saying, especially women in the urban areas are saying we don't want to have more kids like who wants to have more kids. It's very costly to raise kids in China and there's not any sort of economic incentives to do so.

I want to then turn to Taiwan. And here I want to turn it over to Susan to answer this question, because you talk a lot about the importance of continued diplomacy, even when it's very difficult. So we have a question from the audience. Is there still room for diplomacy to manage the Taiwan issue or is conflict now inevitable? I think I know your answer to that one, but maybe you can expound upon that. If the answer is of some version of there must be some time, there must still be time, what is the first step towards this diplomatic solution and who should be taking it?

Susan Shirk: Well, the most important element in a diplomatic solution is really Beijing's actions and treatment of Taiwan. It will be extremely difficult for Xi Jinping to persuade the people of Taiwan that there is a path of peaceful reunification, especially after the takeover of Hong Kong. I

mean, look what's happening this week with the trial of the democracy activists in Hong Kong who simply sought to have a primary election. You know, so people, it will be extremely difficult. But perhaps not impossible to at least stabilize a, a relationship between this island and the mainland, which is so close to it.

If Taiwan were universally recognized as a sovereign, independent country already, it would still be important for it to find a modus vivendi with this powerful government on the mainland. So but instead of pursuing some kind of reassurance, at least talking to the DPP government in Taiwan, Xi Jinping has taken this more intimidating approach, aggressive approach. And that then has even though the folks on Taiwan are not panicking at all about that, in the United States, American politicians are competing with one another to show how much they love Taiwan and how much they're going to put the United States to the defense of Taiwan. I am all in favor of strengthening deterrence, and I think it's an extremely positive development that Japan, as well as other countries, are seeing the preservation of Taiwan's autonomy as and peace in the Taiwan Strait as important for their own security, and therefore strengthening working with the United States to deter aggression from Beijing.

But the actions by American politicians are really irresponsible. Pursuing all sorts of symbolic gestures, including McCarthy visit, Pelosi visit. And what, it's even possible that they may introduce legislation to formally treat Taiwan as a sovereign state, which would be so provocative to Beijing that even the most restrained, responsible leader would find it very difficult not to react violently to such a move and threaten Taiwan. So it's a very, I urge people to look at the little report we did as part of the task force that I co-chair with Orville Schell— it's on the 21st Century China Center website, it's on the Asia Society website— which talks about how to preserve peace in the Taiwan Strait through a prudent set of policies by all three sides.

Diana Fu: It's a very important message, Susan. I wanted to turn it over, I think, to Chris. I wanted to ask about AI. How might recent an upcoming advancement in AI you think impact the bilateral relationship in areas such as business, military, law, education? And I'm asking you this because you're at a business school. Mic, Chris. Yeah.

Christopher Marquis: Thank you. I need to have AI actually taking my mic off. So first of all, I'm not in any way an expert on AI, but I think this is an area where China has really staked out an ambitious position like many other areas. You know, I think they were the first country with a national AI strategy in 2017. Some of the AI areas like facial recognition, I think are pretty advanced. You

know, I've seen this in person actually. I took students to China in 2019 and actually visited an AI company. We got to see their control room where they were monitoring all kinds of people in different cities. And the students were astounded they would show this to us. And they were very proud of it. The book survey, I think it's surveillance state actually, though, discusses how maybe the sort of behind the scenes the AI is not as advanced as the government is actually portraying.

So I mean, that's an interesting thing to think about. And I do think that, you know, to my earlier point about innovation trajectories that a top down, heavily subsidized model that is pushing for things like patents, you know, there ends up being a lot of corruption. The big fund in chips is an example that I think innovations like chat GPT are coming out of the U.S. where I think there are, is much more of a bottoms up, entrepreneurial driven innovation trajectory. And so I think, you know, aside from facial recognition, which is, you know, like Suisheng said, you know, security being really the paramount that that, you know, the U.S. I think is going to be in the leading position on AI for the foreseeable future. And as you know, Xi continues to be really consolidated his power, this power of the economy, it's even less and less likely that China will become an AI superpower, as Kai-Fu Lee said.

Diana Fu: Okay. So the U.S. has nothing to worry about or maybe not as much to worry about as one would anticipate in terms of AI competition, according to Chris. We'll see if that plays out. So I wanted to turn it over, perhaps being our last question to Suisheng, because this is really a question about, it's a big question about the state of the world situation, and it's linked to President Xi himself. So given Xi's about face change on COVID, and I might add on a number of policies, is it possible that he will also reverse his position on foreign policy? Is it possible that we see an about face or a turn from wolf warrior diplomacy to something else? Panda diplomacy, I don't know what you know something else in the, in the near future.

Zhao Suisheng: And first of all, let me ask Steve this question here first. Xi Jinping might be a failed leader, which I hope he will, and he very possibly like to be a founder because of his own mistakes, zero COVID and also the sudden U-turn. And he might make more mistakes. He has lost trust among those educated people in China. In next five years will be very difficult for him to accomplish what he wants to accomplish. So that's the question. Regarding if Xi Jinping would fundamentally change his posture, a so-called wolf warrior type of foreign policy people is talking about not several weeks or months or so he has softened his tone. Is that a softening of tone, tactical

or fundamental? My answer to that is tactical, is not fundamental. His mind has not changed. The situation has changed, forced him to softer his tone.

But now, if, but even the visits I mean canceling his visit, the Chinese response is bizarre, I think. He even said that we never invite him, we never talk about, about that. The balloon thing also is they lie so clearly. But they tried to, to still stand at this kind of high ground type. So that shows how in turn, inside they are, internal circles of Xi Jinping. They still believe in what China should confront all those what they think the evil of Western powers. That's the, I studied nationalism. I find that the fundamental difference of Xi Jinping's nationalism and Jiang Zemin, Hu Jintao, Deng Xiaoping nationalism is that previously those nationalist sentiments were affirmative. Try to affirm a positive for us. Now, Xi Jinping's nationalism has targeted at evil others. All the outside world is so evil and try to undermine China's rise, to get China. So that can, fundamental mind, I don't think has changed. So in that context, I would not see a fundamental change of China policy.

Diana Fu: Okay. And I'm glad you mentioned the balloon, because I promised we would get to that, and we didn't really do that. So I want to thank, first of all, the audience for tuning in to this very stimulating discussion. And please stay tuned and register for other great events at Brookings. And I also, of course, want to thank our prominent panelists for writing the books that you did and for joining us for the discussion. And thank you to the Brookings Institution and to the China Center. Thanks, everyone, and have a great rest of your week.