

# The Future of China

## Four Scenarios

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## Introduction

### **Scenarios: dealing with an uncertain future**

Many people believe that China is well on the way to becoming an economic superpower judging by its annual growth rate of ten per cent and higher. According to China's 11<sup>th</sup> five-year plan, this paints a picture of a rosy future. China is following a harmonious path of increasing openness, peace and social reforms, through "Peaceful Development" as it is known, to play a prominent role on the world stage once again. The Olympic Games in 2008 will be the visible symbol to demonstrate this to the whole world.

At the same time though, we still hear reports of domestic upheavals, poverty, violations of human rights, corruption, censorship, grave problems in the areas of health and the environment, unemployment, huge disparities in the distribution of wealth and a vulnerable financial sector. And, introducing all types of domestic reforms is proving difficult. What will happen if China cannot sustain its high growth rate? "China: Complex, Contradictory, Confusing"?

China's future seems to hang on the huge tension between an emerging market economy on the one hand (with increasing openness to the rest of the world) and one-party rule on the other. Several important forces and counter-balancing forces are at play and there is a great deal of uncertainty, which means that we cannot set our sights on just one possible future for China. We have to take account of the

fact that it may well turn out to be totally different and that whatever the outcome, it will have a widespread impact on our own future.

The scenarios in this publication present different narratives outlining possible developments in China from 2006 to 2020. They have been put together using comprehensive knowledge and insights from professionals in China, the Netherlands and elsewhere, covering a broad range of expertise and their plausibility and consistency have been examined. They stimulate debate on crucial questions such as what will happen if a certain scenario becomes reality. How can we use scenarios to gain better understanding of what is actually going on now? What significance do they have with regard to our current plans and investments? What kinds of safeguards should we put in place? And finally: what could we or should we do if it actually happens?

### **The scenario exercise: building blocks, framework and narratives**

“China 2020” was initiated for the purpose of gaining better insight on possible developments in China to make dealings more effective bearing the future in mind.

The scenario process was put in motion on the basis of well over thirty interviews with experts on China from the Netherlands and abroad. Interviewees included Dutch entrepreneurs, scientists and people working in organisations with close links to China as well as people from the business community in China, Chinese and other foreign scientists, journalists, public sector workers and representatives from social organisations in Hong Kong, Shanghai and Beijing. The

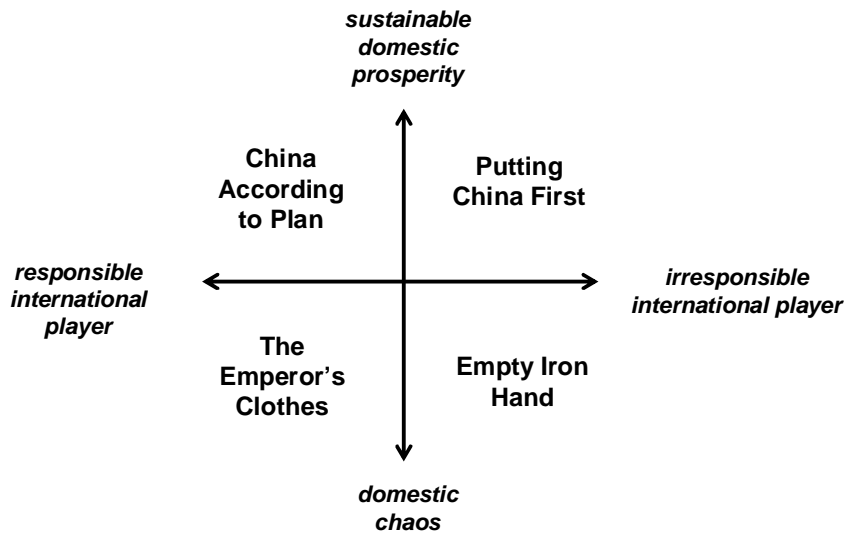
interviews were laid down in a report entitled "Thoughts on the Future of China" and paint a broad picture of expectations and wild cards on the future of China. In addition to the aforementioned report, various other inputs were used for a two-day scenario workshop, including an exploratory study on future trends by the Dutch Embassy in Beijing and a reader compiled by Asia House Foundation.

All 37 participants in the workshop jointly compiled what is termed a scenario framework. The framework is based on the two fundamental organising questions below. The participants believe that these questions best reflect the most significant factors of uncertainty that will determine how China could develop in the near future:

- Will China develop into a responsible player on the world stage during the time frame of the scenarios?
- Will China be capable of creating sustainable domestic prosperity?

Combinations of possible answers to these questions result in four "first generation scenarios" which have been given the following headings:

- *China According to Plan – Peaceful, harmonious society*
- *Putting China First*
- *Empty Iron Hand*
- *The Emperor's Clothes*



The participants split into four groups to flesh out the main themes of the framework they had developed and they subsequently presented the outcome to each other. The results, the "first generation scenarios", were worked out in more detailed descriptions.

These scenarios were tested at a later date and elaborated on in depth, underpinned by additional research and interviews with experts.

### **Last but not least: using them**

Scenarios are nothing more than a stepping stone to help us look at the future in a richer and more informed manner, giving us antennae to quickly see and understand things. The true benefit of a scenario

exercise, however, depends mainly on how we use them. We have to imagine what impact our scenarios will have on players in the world around us and ultimately how they might affect us. It boils down to answering the question, "What could or should we do if this scenario became reality? What if?" Answering the question generates policy options allowing us to anticipate hypothetical futures so we can quickly adapt and take appropriate action. In short, scenarios can be used as a tool for thinking and acting and can trigger meaningful 'strategic conversations'.

We often show a preference for one particular scenario rather than the other because we find it more appealing or else it consolidates our own mindset or wishes. It would be a grave error to choose one of the scenarios developed for any of these reasons alone. We need to bear in mind that it is not up to us to make a choice because we cannot erase the 'inherent' uncertainty. This is why we have to work with all scenarios we regard as plausible because the scenarios are only meaningful when viewed as a compilation of possible outcomes. This, in turn, requires finding the discipline to think through all the scenarios, to create policy options for all the scenarios and, finally, to examine these options against the backdrop of the entire compilation of possible futures.

The scenarios presented in the following sections do not reflect the viewpoint held by the Netherlands Ministry of Foreign Affairs or any of the institutes and people involved in the scenario exercise on the future of China.

## **Scenario 1 China According To Plan**

*Peaceful, Harmonious Society (Hé Ping-Héxie Shé Hùi)*

*China manages to sustain economic growth in the next few years to the satisfaction of the majority of the Chinese people thereby minimising social upheaval. China avoids causing any tension of note with foreign countries because it acts with caution in the international arena, which in turn allows the leadership to diversify the Chinese economy, ease domestic conflicts and tackle environmental issues through disciplined but balanced governance. These system changes did not take place without a struggle and required careful management of opposite interests in order to avoid social explosions. It paves the way for a new generation of leaders who turn China into a more open and cooperative economic superpower which by 2020 is willing to engage in discussions on political reforms.*

### **Developments leading to 2020**

*2006-2012*

The Chinese leaders present a promising 11<sup>th</sup> five-year plan which rigorously addresses the discrepancies between rich and poor, urban and rural income inequality and the east-west divide. The government's policies give priority to three major issues: the environment, its health care system and the standard of living in the farming community. At the same time, the government is aware of the huge challenge it faces to sustain economic growth, which is hampered by a weak financial system, to reduce widespread unemployment and to deal with an ageing population.

The Chinese government hopes that these plans will come to fruition and make China a prosperous and stable country, but they realise that they need to win the trust and cooperation of the international community before they can reap the benefits and solve domestic problems. With the aim of gaining trust in mind, the government adopts a multilateral approach to global environmental issues. Although it puts China in the opposite corner to the United States on this particular issue, the relationships with the American people are generally improved, most notably due to the encouraging role China has in the six-party talks. Closer to home, China actively engages in close collaboration with East and Southeast Asian countries, for economic purposes through involvement in ASEAN+3 as well as for political ends with the ASEAN Regional Forum and Shanghai Cooperation Organisation.

***Environmental measures in China***

The Chinese government realises that the water supply by China's biggest rivers depend on healthy glaciers and forested mountain slopes and applies innovative mechanisms like Payments for Environmental Services. By this Beijing and Shanghai support the conservation of mountain forests in western China. The national ban on logging (heavily pressing on forests in other parts of the world) is replaced by renewed logging in China. This time, however, the logging is certified by the Forest Stewardship Council (FSC). By applying the latest sustainable energy technologies China is the first to carry through the reduction in carbon dioxide emissions as agreed in the UN Climate Treaty.

*National Geographic, Autumn 2007*



Plans to develop a social security system including pension schemes stimulate the domestic market by freeing up savings for investment, making the investment climate much more attractive. China continues to attract foreign investors who particularly target China's potential as a service provider and Chinese and foreign companies forge lasting relationships based on close cooperation. As far as foreign direct investments go, the government decides to regulate them, achieving a more even spread of economic activities across the provinces. There are two other areas the government invests in heavily, namely education and R&D, while at the same time promoting the exchange of knowledge and joint research with foreign countries. This new open attitude is underpinned by China's belief that it needs foreign knowledge and expertise if it really wants to tackle huge challenges like a sustainable environment, energy efficiency and a good health care system for its inhabitants.

There are two major events which give China the status the Party so cherishes: the Olympic Games followed by the World Expo several years later. China acts like a good host and manages to win trust; it even shows the world it is slackening its hold on the media by giving them more freedom. In return, the international community gives the Chinese government *carte blanche* to set its own pace for handling domestic affairs. However, it does try to exert pressure so citizens will be granted greater political liberties. There is a call at international level to continue the liberalisation of trade as long as it keeps in line with a specific phased plan under WTO guidelines. The ILO plays a very constructive role in convincing the government and the local companies to adhere to international labour standards. When the Chinese government finally bows to foreign pressure and allows trade

unions to be set up, it sparks off a gradual process of awareness among the Chinese population at large, kindling the realisation that people do have a voice that counts and leading to a civil society in urban areas.

The Chinese government acts as a responsible global player in the field of security politics, helping to prevent tricky regional disputes from escalating by adopting a mature attitude. The leadership recognises that the private sector is the engine of growth and requires stable political conditions in the region to be able to expand peacefully. It also recognises that business interests thrive in a peaceful region. Dealing with the issue of Taiwan and its relationship with Japan, the Chinese government favours open diplomacy and discussions and also puts forward plans to create an Organisation for Security and Cooperation in Asia (OSCA). This open and cooperative approach of the government does not go without more frequent political tensions and heated discussions within the Party ranks showing fundamental differences in schools of thought. Moreover, pressure from the business community to get the government to relax its grip on the economy had to be steered in the right direction.

Large companies choose the next plant location in the central regions resulting in a surge in industrial employment in non-coastal areas. When Hu's policy of reorganisation of state-owned enterprises and the setting up of large-scale employment creating projects in rural areas also start reaping visible benefits there is a drop in the frequency of social uprisings. Also the reforms in land ownership from collective to private (marketable) rights succeeds, despite start-up problems, and encourages the migration of people from the rural areas to the cities.

Several factors, one being the construction of satellite cities, produce an upward trend in employment figures, higher standards in education and schooling, and an effective spread of foreign investments throughout the entire country. This has the positive knock-on effect of helping to diversify the Chinese economy, bolstered by the breakthrough of a high-tech sector resulting from R&D investments. Although the economy was initially kept afloat by low-tech industry manufacturing mass-produced articles using simple technologies, growth has now been effectuated in the service sector (retail in particular) as well as in the top quality end of the industrial sector. There has also been an increase in the share of domestic production aimed at consumers. To boost the economy, China engages in an open knowledge exchange with foreign countries, adopts an innovative energy efficiency policy and earns a special position within the WTO. As China sticks to its growing multilateral commitment to environmental issues it benefits enormously from new technologies for clean and cost-effective energy, particularly when it switches to large-scale use of clean coal technology, sustainable bio mass and the latest solar energy technologies. This makes energy consumption in the country significantly cleaner and more efficient. As a token of goodwill, Beijing offers to host the signing of the Kyoto III Protocol.

### *2012-2020*

Economic growth is based on labour intensive manufacturing industries and continues at the same speed for the next ten years. This allows rapid absorption of the underemployed rural workforce into the manufacturing industries in the coastal regions. Rural migration is furthermore facilitated by a more liberal ID card regime and by

offering opportunities to continue schooling and enter the public health care system wherever the migrant lives.

The financial system remains fragile but survives the waves of reorganisations because foreign banks are willing (and eager) to invest in Chinese banks. The financial regulatory regime is strengthened considerably so that foreign banks have trust in the security of their property rights. Although the government tries to keep a tight rein on the process it has to cooperate with commercial banking institutions. The role of multilateral banks such as the Asian Development Bank, the IMF and the World Bank is, however, a minor one. The entire process takes years, but encounters few hitches in the absence of exogenous shocks. The tension with the US about the exchange rate regime diminishes from the moment the Fed recognises the fact that the interests of both US banks in China and Chinese banks are intertwined. A more flexible exchange rate regime would probably hit the US economy quite severely.

This time frame heralds the fifth generation of leaders, men and women alike, who have an open attitude, are broadminded and cosmopolitan. The 12<sup>th</sup> five-year plan they draw up creates policies which are more enlightened and progressive than to date. This earns the Chinese government respect from the international community as well as from its own people and spurring it on to give priority to domestic prosperity and solving environmental issues in a big way once and for all. In this way, the Chinese government shows the rest of the world it is a genuine trailblazer in combating poverty and environmental pollution and thanks to the impressive efforts China exerts on behalf of its population in many areas, the United Nations'

Millennium Development Goals (total global scores) will be met by 2015. What is more, at the UN Summit in 2015, China puts forward an epoch-making proposal for new Millennium Development Goals to combat poverty plus setting new environmental targets aimed at promoting worldwide energy efficiency and developing clean technologies.

China's standing on the world stage is consolidated by words from the newly elected president of the United States saying that mistrust in China is a thing of the past and asking Japan to have faith in the strength of multilateral cooperation. The latter has an impact on space missions, leading to joint endeavours after China lands its first taikonauts on the moon in 2013 and in 2016 a joint space programme including NASA, ESA and China launches a three-man strong mission designed to set up a new space station.

There are signs that political reforms, gradual as they are, are moving forward because the Chinese leaders include them on the political agenda when formulating the 13<sup>th</sup> five-year plan (2017-2021 time frame). The impetus came largely from allowing trade unions, which triggered the move towards a mature civil society. Besides the original mainly apolitical NGOs, there are now NGOs voicing criticism on society. The Chinese government, faced with a population increasingly asserting its rights, responds by introducing a platform for complaints and an ombudsman for the violation of human rights and emancipation issues. The changing fabric of society leads to the introduction of democratic elections at county level, without undermining the Party as the country's ruling power. But within the Party too, open debates covered by the media are held among various factions leading to

political divisions and shifts in power. By 2020, an internationally respected China envisages a more stable development which still has to be entrenched in law. In other words, the wheels of motion in the transition from Rule by Law to Rule of Law are advancing but still can be reversed.

## China in 2020

By 2020, China has gained the trust of the international community and the introduction of political reforms, though getting under way at a relatively late stage, manages to propel the country forward and turn it into a harmonious society where growth is steadier and wealth is distributed more evenly. Building on a well-developed, market-based economy, driven by a sizeable, educated and enterprising middle-class, China has become a superpower which substantially influences world trade and international politics. Chinese culture and business practices are spreading worldwide.

<b>The situation in China in 2020</b>	
<b>The political system</b>	<ul style="list-style-type: none"> <li>• The Party has power, without the capital C for Communism</li> <li>• Good governance</li> <li>• Elections at county level</li> <li>• Improved legal system</li> <li>• More civic liberties</li> <li>• The media have greater freedom</li> <li>• Taiwan is peacefully incorporated into China</li> </ul>

	<ul style="list-style-type: none"> <li>• Ombudsman for human rights</li> </ul>
<b>The economy</b>	<ul style="list-style-type: none"> <li>• The circular economy is more sustainable</li> <li>• Energy consumption is more efficient</li> <li>• State-owned companies are privatised</li> <li>• The economic structure is diversified</li> <li>• Technology and science have a greater share</li> </ul>
<b>Relations with foreign countries</b>	<ul style="list-style-type: none"> <li>• China behaves like a responsible stakeholder</li> <li>• New Millennium Development Goals (poverty and the environment) are of primary importance</li> <li>• Important role in the Security Council</li> <li>• Fair free trade</li> <li>• Peaceful and constructive foreign policy</li> <li>• Chinese participation in peace-keeping missions</li> </ul>
<b>1.5 billion individuals</b>	<ul style="list-style-type: none"> <li>• Enlarged middle class</li> <li>• Family planning policy is more humane</li> <li>• Greater emancipation for women</li> <li>• Improved and broader range of educational opportunities</li> </ul>
<b>Social developments</b>	<ul style="list-style-type: none"> <li>• The introduction of trade unions</li> <li>• East-west tensions have eased</li> <li>• A social security system provides a safety net: there is a pension scheme and a health insurance scheme</li> <li>• More room for NGOs</li> </ul>

	<ul style="list-style-type: none"> <li>• Greater tolerance for the individual</li> </ul>
<p><b>The environment</b></p>	<ul style="list-style-type: none"> <li>• China implements the Convention on Climate Change</li> <li>• Invests in solar energy</li> <li>• Water pricing</li> <li>• PES: Payments for Environmental Services</li> <li>• Large-scale sustainable logging, certified by the Forest Stewardship Council (FSC)</li> </ul>



## **Scenario 2    Putting China First**

*The Chinese government wants a prosperous, healthy and clean China and wants to achieve internal stability by boosting the economy whilst maintaining its system of strong central government. Although its hopes for the future are occasionally challenged by opposition from within, the government manages to keep a lid on social unrest. The state is heavily involved in the development of the economy. By protecting its own industrial base and securing resource supply - in a manner which is solely oriented towards serving its own interests - China gradually manages to transform its predominantly export driven growth model into a more diversified, domestically oriented economy. Its protectionist policy causes international tensions, but the international community shies away from taking resolute action, initially because it fears it will damage its own trade interests, and later on also due to China's strong military power. The CCP leadership, unabatedly nationalistic yet inspiring, convinces the emerging middle class – both by showing successes achieved and skilful propaganda - that it is in China's best interest to reduce dependence on the outside world. In 2020, the CCP dictatorship is firmly in control, but how long will the Chinese put up with the divergence between the paternalistic state and the reality of the rest of the world?*

### **Developments leading to 2020**

*2006-2012*

A promising 11<sup>th</sup> five-year plan has been drawn up underpinning the Chinese leadership's aim of tackling the inequalities between rich and poor, urban and rural income, as well as the east-west divide. The

government gives priority to three main policy issues: deteriorating environment, deficiencies in health care and poor standards of living in the farming community. The leadership is fully aware of the huge challenges ahead to sustain economic growth: its weak financial system, high unemployment and an ageing population.

If China wants to succeed in tackling its domestic problems it will need continued growth to go hand in hand with domestic peace and stability. Where maintaining social stability is at stake, individual freedom and rights are of secondary importance. In keeping with the aforementioned policies, the government announces drastic measures to improve the environment and the welfare of its population and, as a knock-on effect, to alleviate the poor living conditions of both farmers and workers.

Initially, the Chinese economy remains heavily export oriented. The strong economic growth rates of the past few decades have been bolstered by cheap, locally produced goods aimed at the export market. This growth must benefit society across the board by creating more wealth and raising health standards. After years of growing social unrest caused by poor living standards, the Chinese government sets targets to increase prosperity, which has to create sufficient social cohesion to secure domestic stability and ongoing development.

The growth China hopes to achieve depends on several conditions. First of all it must secure supplies of essential raw materials, energy, and water. To achieve this China forges alliances with various parties and countries. In this process it makes deals with parties that score low on the international list of respected governments (including so

called 'rogue states'). But for China the end justifies the means. Self-interest is dominant, with little concern for the negative side-effects for poor countries. Securing supplies implies controlling supply routes, such as patrolling the infamous Strait of Malacca. This requires a huge defence budget and the development of a potentially offensive army.

Where emphasis lies on policies to bolster the economy, the government and the CCP have a pivotal role in what they see as the most predominant course: protecting and facilitating local production and exports. Wages and prices are kept artificially low to support China's international competitive position, and local producers are subsidised. To support its economic policy, China keeps the value of the RMB artificially low and invests heavily in infrastructure and water management.

The government realises that its current policies to subsidise the economy are not sustainable from a budgetary and balance of payments point of view, but also in terms of its exorbitant energy consumption and environmental pollution. Therefore its policy is increasingly aimed at reducing dependence on foreign countries and foreign investments in local industry. Over time the economy has to transform from being mainly export-driven to a more diversified economy, producing high quality goods aimed at rising domestic consumption. At the same time, the government encourages and supports the growth of local businesses based on home-grown entrepreneurship somewhat along the lines of "Chinese multinationals must replace foreign multinationals in China". To this end, foreign direct investment (FDI) has to comply with stringent conditions and

tight rules and regulations, including regulations promoting investments outside of the highly developed coastal regions.

Less dependence on foreign countries calls for heavy investments in R&D. Acquisition of new knowledge is carried out by all possible means, including aggressive industrial espionage and widespread breaching of industrial property law. With regard to foreign jurisdiction, China is openly defiant and has no qualms about drilling for oil on the territory of other countries. One of the consequences of this behaviour is that China becomes entangled in court cases and numerous trade conflicts. Partners who feel cheated, such as Microsoft, abort their dealings with China. This only reinforces China's inward-looking attitude, however. Regarding the Taiwan issue, the strong mutual economic interrelatedness leads to preservation of the status quo.

In the light of these developments, the world looks on with concern and irritation and strongly condemns the self-centred way in which China is operating. Its increasing moves towards protectionism are a source of permanent friction in international organisations such as the WTO, and the idea that China will achieve the status of an 'open market economy' seems further away than ever. China, however, pays no heed to international accusations. It sticks to its own plan. Against all odds, it manages to placate flagging criticism from the UN and stave off far-reaching sanctions.

### *2012-2020*

The Chinese government (read also, the Party) understands all too well that economic growth must go hand in hand with political policies

aiming at keeping its massive population satisfied. Domestic stability is a fundamental condition. The paternalistic state exercises tight control when overseeing the nation's development, putting an end once and for all to the uprisings and civil commotions in the first ten years of the 21<sup>st</sup> century, and keeping the media under its thumb. For the time being, the rising middle class will be distracted from pursuing the fruits of globalisation due to the new benefits of a cleaner environment, an improved health care system and lulled by the propaganda machine. However, China's middle class still has to be convinced that efforts to ensure self-sufficiency will provide a better future for everybody. Goods "made in China by the Chinese" are strongly promoted and the aim is that a steadily growing middle class with increasing spending power will push up domestic consumption. Acquiring wealth, for building up an old-age pension and for consumption of goods previously out of reach, now has paramount importance.

The CCP still rules with an iron hand and adopts the same paternalistic attitude that it will take care of everything. There is an underlying belief that as long as the population is satisfied, they will show little interest in politics. Therefore, the key to domestic stability is to visibly raise health standards and increase wealth. There is hardly any evidence of an emergent civil society, limited as it is to the sphere of leisure activities. But whenever such activities threaten to spill over into the political scene they are firmly repressed by the regime.

Several issues are targeted to achieve the goals of prosperity and general well-being. First, R&D concentrates on developing clean technologies that also provide clean and cost-effective energy at the local level and help the agricultural sector to increase yields. Other

energy-related areas are looked at, including gas, renewable energy, nuclear energy and clean coal. Second, after years of ignoring environmental problems, they are now given top priority, not necessarily to comply with global goals but because it is in China's self-interest. The government is aware that sustainable and efficient energy policies will improve living conditions nationwide and lower dependence on the outside world. Finally, China continues to invest heavily in education and training.

The 13<sup>th</sup> five-year plan is biased towards touching more nationalistic sentiments in Chinese society, but where might that lead? The developments in China have resulted in tensions in security politics, not only vis-à-vis the United States for stepping up its military presence in the Pacific, but also with respect to Korea and Japan, both of which are expressing nuclear aspirations. At the same time, China's strength makes the international community extremely vigilant. However, a mixture of self-interest, wariness and fear holds other countries back from taking action through the UN framework.

## **China in 2020**

By 2020 the CCP has a firm grip as ruling party. The country has made several major accomplishments while keeping a tight rein on social and economic developments. Steps taken to diversify the economy are paying off at regional level and product quality and energy efficiency have improved across the board. Most of these achievements are attributable to the growing spending power of the emergent middle class leading to burgeoning domestic demand. Economic dependence on foreign countries has strongly declined. China is willing to cooperate

and comply with the international community on condition it is 'to their advantage'. The government's accomplishments further include: increased prosperity in many areas levelling out disparities in the distribution of wealth, better health care and education, and progress in cleaning up the environment. All these factors lead to fewer incidents of civil unrest and greater trust in a paternalistic state which promises to deliver its citizens a better future. The Chinese people may acquiesce for a while, but how long can their society withstand pressure from a globalising world?

In sum, by 2020 China has grown into a commercially viable economic power but has not achieved high standing internationally. This is mainly because its self-centred and protectionist behaviour consistently rankles international organisations thereby keeping political tension running high. However, the international community is wary of taking action.

<b><i>The situation in China in 2020</i></b>	
<b>The political system</b>	<ul style="list-style-type: none"> <li>• CCP remains firmly at the helm</li> <li>• Maintaining social stability is the primary goal</li> <li>• Individual freedoms are subordinate</li> <li>• Control of the media to uphold image and for propaganda</li> </ul>
<b>The economy</b>	<ul style="list-style-type: none"> <li>• Promoting an industrious economy, granting subsidies, developing Chinese companies</li> </ul>

	<ul style="list-style-type: none"> <li>• Looking for less dependence on foreign countries, growing protectionism</li> <li>• Developing domestic market encourages buying Chinese, playing the nationalistic card</li> <li>• From export-driven to greater diversification and high quality</li> <li>• Clean and efficient energy consumption</li> <li>• Respect for nature, with an emphasis on clean water</li> <li>• Investments in the infrastructure, R&amp;D</li> <li>• Tighter regulations on FDI, regional spread of economy</li> </ul>
<b>Relations with foreign countries</b>	<ul style="list-style-type: none"> <li>• China secures availability of raw materials</li> <li>• Makes deals with dubious regimes, is exploitative</li> <li>• Trade conflicts, violation of industrial property law</li> <li>• Self-centred image, 'robber baron' behaviour</li> <li>• Increasingly irritates the international community, causes geopolitical tensions</li> <li>• The international community is wary of taking action</li> </ul>
<b>1.5 billion individuals</b>	<ul style="list-style-type: none"> <li>• Growing middle class</li> <li>• Growing stability through greater affluence for majority</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>• Reduction in poverty and inequality, better</li> </ul>



<b>developments</b>	<p>health standards, improved prospects</p> <ul style="list-style-type: none"> <li>• Tension between east and west has eased</li> <li>• Improved and broader range of educational opportunities</li> <li>• Protests and riots are curbed</li> </ul>
<b>The environment</b>	<ul style="list-style-type: none"> <li>• Investments in improving processes</li> <li>• Respect for nature, with an emphasis on clean water</li> <li>• Boosting energy efficiency</li> </ul>

### **Scenario 3    Empty Iron Hand**

*The Chinese government faces conflict on the home front and abroad. It does not manage to keep a lid on social upheaval, not even by taking repressive measures. To make matters worse, mismanagement, corruption and shortages of raw materials thwart the implementation of promising plans. This leads to the collapse of the labour market and an end to environmental policies. The consequences are devastating: crony capitalism, increased poverty, environmental disasters, famine, riots and millions of Chinese migrating all over the world. Not surprisingly, China's international reputation deteriorates and economic growth grinds to a halt. It seriously undermines the position of the Chinese Communist Party (CCP), leading to dissent of Party members and rising opposition. Hardliners in the CCP take over to restore order, using nationalistic rhetoric and taking repressive measures only keeping the country together by the skin of their teeth. By 2020, the domestic situation in China will have escalated and the rest of the world will turn against the country.*

#### **Developments leading to 2020**

*2006-2012*

China's economic growth during the past several years had an adverse effect on the stable development of its society, the natural environment and consequently public health. The Chinese leadership's 11<sup>th</sup> five-year plan aims at rigorously tackling growing disparities in Chinese society between rich and poor, urban versus rural income inequalities and the east-west divide as well as grappling with environmental issues to buoy a strong economy. However, the

question arises to what extent these problems have already got out of hand as the weak financial system, the insidious effects of mass unemployment and an ageing population seem to suggest.

There is another factor compounding the problems of the central government. Authoritarian governance combined with central control of the economy by the state gives birth to crony capitalism benefiting the ruling elites to the detriment of an equitable distribution of wealth and political power. Systematic economic inefficiency is being preserved as scarce resources are funnelled to local elites and bureaucratic constituencies. The ambitious five-year plan has to be carried out at local and regional levels, but it is precisely in these areas where it runs into mismanagement and incompetence. Local and provincial groups seize the opportunity to act on their own vested interests by bribing local officials so a wide range of policies cannot be properly implemented. As Beijing's brand of authoritarian politics is spawning a dangerous mix of crony capitalism, rampant corruption and widening inequality, this leads to failure of the plans: the social security system for the general benefit of citizens never gets off the ground; there are no effective measures to stop environmental degradation from continuing in many areas and plans to systematically alleviate the sorry plight of the farming community come to nothing. To top it all, the government fails to create the jobs it promised and the situation sparks off a rise in public protests.

It is the continuing lack of employment in China's rural areas that makes the yawning wealth gap even more alarming. The rise of unemployment and poverty leads to growing discontent, especially among farmers who vent their anger against the government, local

officials and state-owned businesses. Public protests spread across the country and the authorities are unable to control the groups of protesters, causing the number of public order disturbances to jump to over 300,000 a year. The dire poverty in rural areas stands in sharp contrast to the increasing 'rogue capitalism' in cities, where the privileged few own the lion's share of wealth. At this stage the harmonious society is further away than ever.

The world is shown a glimpse of the extent of social unrest in China when press highlights of the Olympic Games home in on several incidents spotlighting China's internal conflicts. They reveal how far environmental degradation is causing repeated disasters with serious consequences for neighbouring countries. The international media also picks up news of workers' protests which escalate into violent confrontations. In response, the Chinese government uses force to suppress the workers' uprisings, which is condemned by its citizens and the international community. Photographs showing Chinese prison camps are published, sending shock waves across the globe.

China acts as an irresponsible stakeholder on the world stage in its efforts not to see economic growth limited by shortages in raw materials and the Chinese increasingly behave like robber barons in their quest to obtain energy supplies, in particular by excessive non-sustainable logging in Africa as well as Asia, massive palm oil imports (Indonesia, Malaysia), exuberant soy expansions (Brazil) and overfishing. The Chinese government displays equally reprehensible behaviour, not hesitating to lend political, moral and in some cases even military support to regimes that the US labels as 'rogue', in particular to countries in Africa and Latin America. This causes growing

condemnation of its irresponsible behaviour which results in oil and trade conflicts, marking the start of a new-style 'Cold War' between a self-centred China and protagonists of multilateral cooperation. The outcome of the trade war means that bilateral restrictions on trade are imposed.

The economy comes under pressure because its growth is based on industries wasting energy, polluting the environment and mainly manufacturing low-tech industrial products for export. In point of fact, growth is really based on subsidising water and electricity, an artificial exchange rate and low prices of raw materials. Three factors put an end to this growth: mounting international tension, rising prices of raw materials and stagnating domestic consumption culminating in the failure to make essential investments in either a social infrastructure or a physical infrastructure.

China teeters on the brink of disintegration because of the widening gap in regional inequalities and the threat of water shortages. In more remote areas, there is even a revival of traditional clans and warlords emerge who set about securing their own local or regional supplies. These developments and others, such as China's deteriorating international image and the fear of a breakdown of Chinese society, lead to a decline in foreign direct investments. Especially in Japan anti-Chinese sentiments come to the fore. Neighbouring countries, witnessing China's unilateral actions also in the context of a seemingly disintegrating ASEAN+3 constellation, interpret declarations of the Chinese government – full of mixed signals – in their favour; therefore they choose not to oppose China's unilateral actions as long as China's aggression does not turn on them.

## *2012-2020*

A new generation of hardliners takes over the political helm in 2012, prompted by calls for tougher leaders to restore law and order in China. The new leadership sets three priorities: to quell civil disorder, to preserve the unity of the country and lastly, to cut Chinese dependency on international trade. One of the ways the new party leaders assert control is by playing on nationalistic sentiments in a strong display of sabre-rattling against Taiwan, causing mounting tension in the region and the rest of the world. When the Chinese occupy the Spratly Islands in the autumn of 2013, the already taut relations with Japan and the United States reach breaking point.

The Chinese government forges ahead along traditional lines and renationalises the private sector in 2014. The multinationals in China such as Philips, DSM and AkzoNobel shut down operations and this, combined with a downward trend in foreign direct investments, sees growth stagnate and unemployment surge. The effects on rural China are devastating, with poverty now endemic in a countryside thrown into disruption. This causes the flow of migrants from China's inner areas (like Sichuan) to cities in the coastal provinces to swell out of all proportion and the world witnesses the biggest mass migration history has ever seen. Poverty is not the only reason for migrating, people are moving away from uninhabitable toxic wastelands. Next to soil erosion and desertation a growing number of floods happen in other areas, also caused by non-sustainable logging on a large scale. The state-owned companies mentioned above cannot survive the economic slowdown and many small and medium-sized state businesses go bankrupt, leading to the collapse of many banks.

‘Slowdown US economy caused by China’

Chinese and Japanese investors have been funding the American debt-fuelled spending binge for quite a few years. Their Banks have been particularly happy to recycle the dollars they earned from goods to the US back into US Treasury bonds. After the new Chinese leaders renationalized their economy and diminished international trade, Chinese investors preoccupied with focussing on their domestic market, don't need US dollars any more. The falling dollar combined with the twin deficit threatens the Treasury market, leaving the US economy a massive slowdown in growth, which, in turn, could trigger an increase in precautionary savings and then, perhaps, a full-blown recession.

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On the political front at local level, opposition forces become more organised: in the coastal provinces where the middle class resent seeing their dreams smashed by current policies, but through religious movements in the inner regions too, such as Muslims in Xingjiang and Christians in Shenzhen. Beijing does not respond kindly to opposition, and curtails civil liberties, stretching to Hong Kong and Macao. At this stage in the scenario, China has become so blatantly nationalistic that Korea and Japan cast aside their deep-seated rancour and join forces to develop a nuclear weapon. China's position in the international arena becomes more isolated, especially after the WTO expels it for imposing trade barriers. China's isolation is compounded further when the nationalistic government flouts multilateral resolutions adopted by UN organisations after reports of alleged Chinese aggression in the region.

## China in 2020

China in 2020 shows a situation more or less comparable with the country in the 1420s under the Mandarins. Internationally the country is totally isolated and the CCP is still the ruling party despite daunting problems in vast areas of the country: environmental degradation, famine and poverty. The situation is so bad that Chinese rulers have very little to lose and one misplaced remark from the president of Taiwan would be enough for Beijing to decide to send in the troops and invade Taiwan in the autumn of 2020. China is a powder keg and the question is: how will the international community react?

<b><i>The situation in China in 2020</i></b>	
<b>The political system</b>	<ul style="list-style-type: none"> <li>• Nationalistic CCP leadership has power</li> <li>• Bad governance, repressive government</li> <li>• No opportunities for democratisation, rule of law or individual rights</li> <li>• Tight control of the media</li> <li>• Political opposition in the provinces and dissent within the CCP heavy-handedly suppressed</li> <li>• No international support for the Chinese regime</li> </ul>
<b>The economy</b>	<ul style="list-style-type: none"> <li>• China wants self-sufficiency and a reduction in Chinese dependence on foreign imports</li> <li>• Economic growth stagnates: high unemployment</li> <li>• State-run economy</li> </ul>



	<ul style="list-style-type: none"> <li>• Famine, security of food supply under threat</li> <li>• Protectionism</li> <li>• Diversification of the economy does not get off the ground in a balanced way</li> </ul>
<b>Relations with foreign countries</b>	<ul style="list-style-type: none"> <li>• China ends up isolated from the international community</li> <li>• Chilled relations with important neighbours like India and Russia</li> <li>• China is expelled from the WTO</li> <li>• China vetoes UN resolutions</li> <li>• Large numbers of Chinese refugees in Russia and Southeast Asia</li> <li>• Renewed militarisation of Japan and Korea</li> <li>• China has a strong naval power</li> </ul>
<b>1.5 billion individuals</b>	<ul style="list-style-type: none"> <li>• Massive migration to foreign countries, 1.4 billion remain in China</li> <li>• Traditional Chinese values as opposed to western values</li> <li>• Absence of a social safety net forces the elderly to keep working</li> </ul>
<b>Social developments</b>	<ul style="list-style-type: none"> <li>• Gaping inequalities in Chinese society: a harmonious society is further away than ever</li> <li>• Neither NGOs nor civil society get off the ground</li> <li>• No tolerance for the individual</li> </ul>
<b>The environment</b>	<ul style="list-style-type: none"> <li>• Vast stretches of China have become toxic</li> </ul>

wastelands

- The appalling state of the environment badly affects the nation's health
- Epidemics are rife in various parts of the country, including ghettos

## **Scenario 4    The Emperor's Clothes**

*The Chinese Communist Party (CCP) emerges as a responsible global player but fails to ease social tensions within its own borders. The effect of its more open attitude is that on the one hand China is more sensitive to globalisation and on the other hand the CCP starts losing its authority domestically. It loses grip on private enterprises, has no control on information flows and other sections of society even though they are all crucial to implementing essential reforms and reorganisations. Free market forces get out of hand, leading to uncontrolled foreign and domestic business operations and subjecting the economy to rogue capitalism. The drastic measures that are needed to diversify the economy, tackle environmental degradation, guarantee energy efficiency and create a social security system benefiting all, never get off the ground. The CCP is willing to cooperate with its international partners and renounces domestic repression but it no longer has a hold on society. By 2020, the Chinese leaders have gained world respect but are powerless to deal with the chaotic situation in the country at large.*

### **Developments leading to 2020**

*2006-2012*

The CCP presents a promising 11<sup>th</sup> five-year plan which highlights the need to tackle the discrepancies between rich and poor, urban and rural income inequality and the east-west divide. The government's policies give priority to three major issues: the environment, the health care system and raising the standards of living in the farming

community. At the same time, the leadership is aware of the huge challenge on the horizon to sustain economic growth despite a weak financial system, to reduce widespread unemployment and to deal with an ageing population.

The CCP rigorously starts implementing its 11<sup>th</sup> five-year plan by developing a market economy in line with a globalising world, hoping to integrate quickly into the global economy without disruptions and fully aware that it can play a harmonious role on the world stage. China can use all the help it can get from the international community and to this end it favours diplomacy and compliance with international laws and agreements. Chinese politicians become actively involved in international organisations indicating that the Middle Kingdom is reclaiming its great power status and wishes to be a stabilising factor in geopolitics. The emergence of China as a major world player heightens Chinese patriotic fervour and the country enthusiastically hosts big events like the Olympic Games in Beijing, the Asian Games and the World Expo in Shanghai. At the same time, China wants the world to know it is tackling poverty, raising health standards and dealing with environmental issues, so the CCP finances various PR campaigns demonstrating its commitment. The international community, in return, responds generously and showers China with compliments. At this point in time, China has noticeably gained self-confidence and very quickly ranks as a highly valued member of the international community.

The effects of globalisation become more apparent in China: the CCP loses its grip on society, partly because major international events expose Chinese people to foreign influences, opening up new vistas

and making citizens more critical and independent. Rapid developments in the information society only serve to reinforce this trend with an anticipated 250 billion Chinese having access to the internet by 2010. The CCP's seemingly unshakeable position remains uncontested for some time, bolstered by steady economic growth and the international standing China has acquired. However, this position is short lived because the first cracks in the political power of the CCP soon appear.

On the surface, the Chinese economy seems healthy because it can meet the big global demand for cheap, low-tech production capacity built on the strength of its huge population. China also starts attracting foreign tourists in growing numbers. What it does not manage to do, however, is to make the transition to manufacturing top quality goods or knowledge-intensive production and it fails to implement proposals for spreading economic activities on a nationwide basis. As a result, it is only coastal provinces that see patches of economic growth and prosperity while the majority of the other provinces in the country remain locked in poverty. Private business interests, to a large extent in the hands of foreign companies collaborating with local elites, have an open field. Free market forces are getting out of hand, turning the economy into a state of rogue capitalism with utter neglect of social equity, economic efficiency and environmental sustainability.

Efforts to allow a free market system on the one hand and plans to phase it in whilst keeping control on the other seem incompatible. Communist ideology fades further into the background in the face of a discernible bias towards economic expansion. The masses now realise that communism as a legitimate dogma has, in fact, had its heyday

and that the CCP is losing power, especially when it proves totally incapable of tackling the pressing problems the country faces.

### *2012-2020*

A new generation of leaders takes over running the increasingly chaotic country in 2012. There is widespread social unrest in protest against huge disparities in income, poverty, industrial developments, as well as concerns for food safety and the environment. Rivalries between provinces increase. The CCP launches publicity campaigns to deal with the problems but fails to motivate people to turn policies into concrete deeds and achieve results. The situation goes from bad to worse: corruption is endemic in the country as a whole, environmental disasters are as regular as clockwork and the press frequently reports large-scale violations of human rights by non-governmental businesses.

Social tensions keep on running high and the diminishing economic growth rate, just 4.8% in 2015, mobilises dormant dissatisfaction among Chinese farmers sparking off protests throughout the countryside followed by serious rioting in the urban areas. China manages to hide the gravity of the situation from the international community, only accepting aid in limited areas, in the banking sector in particular. As a result, by the time the international community intervenes it is too late and everybody can see that the new leadership is powerless to turn the tide. The country seems dominated by negative domestic forces and it looks like it has reached the point of no return. The CCP desperately clings to its international reputation as its claim to legitimate authority but it does not last very long because the government is obviously powerless to rule.

From 2016 onwards, China reaches a tipping point. The country is divided into a few relatively wealthy and industrially developed enclaves situated mainly in the coastal areas on the one hand and a considerably backward countryside in utter chaos on the other. There is a real threat of regional fragmentation when the coastal regions of Shenzhen and Shanghai are increasingly following their own course while other regions are turning inwards. Beijing reconciles itself to the fact that Taiwan's autonomy is steadily being reinforced. Vast areas of the country have been declared environmental disaster zones and this pushes the migration flows from poorer to wealthier areas, mainly to the industrially developed cities in the east. At the same time, there is an upsurge in the numbers of Chinese trying to leave the motherland, tired of the chaos and hoping to build a new life elsewhere.

## **China in 2020**

China in 2020 is a divided country that has reached an impasse. The CCP has totally lost its grip on the country and the economy. Virtually nothing has evolved from the promising 11<sup>th</sup> five-year plan and the bulk of the Chinese people have lost faith in a happy ending. The social tensions and upheavals of yesteryear are no longer incidents but have become entrenched in society. Finally, China managed to hold on to its image of a responsible world player and peacemaker for quite a long time, but that image is now rapidly eroding.

<b>The situation in China in 2020</b>	
<b>The political system</b>	<ul style="list-style-type: none"> <li>• The CCP's position is undermined</li> <li>• Central governance has become impossible</li> <li>• Wealthy areas act more and more independently</li> <li>• Private business wields local power</li> <li>• More media are independent</li> </ul>
<b>The economy</b>	<ul style="list-style-type: none"> <li>• Low-tech production aimed at export</li> <li>• Largely dependent on western countries</li> <li>• No reorganisation of financial sector</li> <li>• Declining economic growth</li> <li>• High unemployment, especially among farmers</li> </ul>
<b>Relations with foreign countries</b>	<ul style="list-style-type: none"> <li>• Excellent relations with international community</li> <li>• China participates in international consultative bodies</li> <li>• Peaceful</li> </ul>
<b>1.5 billion individuals</b>	<ul style="list-style-type: none"> <li>• Big disparities in income and growing middle class</li> <li>• Big rise in ageing population</li> </ul>
<b>Social developments</b>	<ul style="list-style-type: none"> <li>• Social safety net does not get off the ground</li> </ul>



	<ul style="list-style-type: none"><li>• Chinese companies put pressure on NGOs and trade unions</li><li>• Good educational opportunities for those who can afford them</li><li>• Health care sector is poorly developed</li></ul>
<b>The environment</b>	<ul style="list-style-type: none"><li>• Is in a bad state and environmental disasters occur regularly</li><li>• Limited investment in alternative energy sources, huge dependence on oil and coal</li><li>• China fails to comply with international agreements on climate change</li></ul>