

# AUTHORITARIANISM IS A SUCCESS FACTOR

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Eamonn Fingleton

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EAMONN FINGLETON is an Irish economist, journalist, and political scientist living in Japan. He is an ex-editor of *Financial Times* and *Forbes*, a frequent contributor to *New York Times*, *Washington Post* and *Harvard Business Review*. Fingleton is one of the most well-known world experts on economics of Southeast Asia. He is the author of the books *In Praise of Hard Industries: Why Manufacturing Not the Information Economy is the Key to Future Prosperity* (1999), and *In the Jaws of the Dragon: America's Fate in an Era of Chinese Hegemony* (2008)

I cannot think of any nation that has ever gone through faster modernisation than China. When I first visited Beijing in 1986, most buildings were traditional two-story houses. Little more than a decade later, the old houses had mostly been bulldozed away and replaced by modern office buildings and international hotels. Today, the same thoroughfares look little different from downtown Chicago or Los Angeles.

Of course, what matters to the world in general is not the changing skylines of Chinese cities but how the **expansion of Chinese industry has impacted other economies**. In the 1980s, China was still running large trade deficits. Since then, the growth has been stunning, and as of 2008 their surplus had reached \$426 billion. This was by far the largest trade surplus of any nation in world history and was more than four times the extremely large surplus recorded by Russia last year. Russia's trade success in recent years has been impressive but it has been driven to a large extent by rising energy prices. China's success, on the other hand, has been driven by a tremendous national effort to get to the forefront in production technology across a wide range of industries. Both South Korea and Taiwan have modernised faster than Japan, but even by their standards China's achievement has been extraordinary.

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The role of the political system has been crucial. Although the authorities in Beijing often downplay their role and pretend that Chinese economic development has stemmed mainly from the interplay of free markets, anyone who probes below the surface sees a quite different picture. For a start, **the Chinese banking system is entirely government controlled** and provides Beijing with a powerful tool to shape the economy. Top officials clearly decide, for instance, which areas of the economy are developed first. As a practical matter, export industries have been major beneficiaries of Beijing's lending policies.

China has learned important lessons from the earlier East Asian "miracle" economies. For a start, it has used a policy of suppressed consumption to boost China's savings rate to an artificially high

level. Then, via control of the banking system, it has channeled those funds into developing so-called "pillar" industries, such as electronics, steel, and textiles. Corporations in favored industries have thus been able to leapfrog rapidly to ever more advanced and efficient production technologies. Meanwhile, the authorities have afforded these industries a high degree of protection against foreign competition. The result is that Chinese corporations have generally been able to achieve high enough returns on capital to repay their debts and keep the banking system reasonably solvent.

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The American market has obviously been important but in itself it is not sufficient to explain what has happened. To make the most of the export opportunities in the United States and elsewhere in the West, China first needed to upgrade its production processes. Here it benefited from a much closer relationship with Japan than most outside observers have realized. Although the Western press often presents Japan as suspicious of China, in reality, top officials in Tokyo have clearly favored China in their technology transfer policies in recent decades. The huge Baoshan steel mill near Shanghai, for instance, is one of the world's most efficient thanks to impressive technologies transferred by Nippon Steel. As far back as the late 1970s, China received transfers of semiconductor production technology from Toshiba. Later it received important technology from Fujitsu, Matsushita, and NEC; and Mitsubishi Heavy Industries provided China with advanced nuclear energy technologies. Of course, the Japanese have stopped short of giving away their crown jewels. They don't give away their most advanced technologies. Thus they

ensure that the industries growing up in China have – hitherto at least – posed little threat to Japanese jobs. Rather, Chinese competition has been used by policymakers as a spur to press Japanese corporations to stay one step ahead in labor productivity in their home factories.

**The United States in particular has played a key role, but the initiative has come from individual American corporations.** Often they have transferred technical expertise as a quid pro quo for access to cheap – some would say artificially cheap – Chinese labor. The question is whether this is a sustainable model. I don't think so. In the long run, Americans are going to be left with a lot of shut factories and jobless workers.

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It is surprising that China was allowed to enter the World Trade Organization in 2000 while Russia remains excluded to this day. China clearly benefited at Russia's expense in this case. And, as Russia builds up its manufacturing industries in the years ahead, it will increasingly find itself facing off against entrenched Chinese competition. That said, I think it serves no purpose to characterise China as a threat. The Chinese are as



entitled as any other nation to strive for economic success – and as they account for nearly one-fifth of the world's population it makes little sense to argue with them! Russia should, however, be careful to guard its national interests. In particular, it should not shy away from taking robust measures to challenge China in manufacturing. If judiciously applied, tariffs and other protectionist trade policies can help towards that objective. It goes without saying that the Kremlin should keep an eye on Russia's most valuable production technologies – in the aerospace industry, for instance.

Founded as it is on the Christian

tradition, and increasingly infused with the spirit of Western individualism, Russian culture is too different from East Asian Confucianism and collectivism for China to be a very useful model. With that said, Russia can certainly aim to emulate some aspects of Chinese policy. Take savings policy, for example. To put this at its least controversial, Russian policymakers should at least avoid making the same mistakes Britain and the United States made in fostering over consumption and thus running down their savings rates to almost nothing. ■

*Exclusively for RJ*

## ON THE LIFE OF AMERICA IN THE JAWS OF THE DRAGON

**Eamonn Fingleton** is a well-known Irish economist and journalist. In his writing, he especially addresses the theme of the globalization of the world economic system.

The most famous works by Fingleton are those written in the mid-1990s, when he virtually predicted the 'Asian crisis' that occurred in the second half of the 1990s and analysed trends in the development of the Japanese economy. According to Fingleton, the foundation of a **new economy** should be real production and heavy industry, not information technologies.

The most recent book by Fingleton is "In the Jaws of the Dragon: America's Fate in the Coming Era of Chinese Hegemony" (New York: 2008).

In this book, Fingleton states that, in the course of time, China is going to be guided more and more by the pattern of political and economic development exhibited by the countries of East and South-East

Asia after World War II. And this pattern, as Fingleton asserts, is incompatible with both the patterns of social and economic development that have been adopted in the West and the system of Western values on the whole.

In Fingleton's opinion, this east Asian pattern of development constitutes an evident threat to the existing world order, which is based on the Western model. And if this incongruence goes as far as head-on collisions, then the east Asian model, based on the priority of national interests and the establishment of a trade surplus with its partners, has greater chances of winning than the Western model, with its keystone of free trade that eventually results in growing dependence on external borrowings.

