

Chinism and the future of globalisation

Grzegorz W. Kolodko

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MEET IN MITTE

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Professor Grzegorz W. Kolodko, academic, public intellectual and politician, was a key architect of Polish economic reforms. He discussed Chinese political economy and its relationship with the world at the DOC's Berlin headquarters on 24 February 2020.

Chinism and the future of globalisation

Chinism is my second contribution to the English language. My first was published in a paper called ‘Stagflation and shortageflation: A comparative approach’. Stagflation was a concept developed in the 1970s for a previously unknown phenomenon that contradicted traditional Keynesian economics: the simultaneous occurrence of growing unemployment and inflation. Shortageflation, as I describe in a paper written jointly with Walter W. MacMahon and published in *Kyklos* in 1987, consists of simultaneously occurring price inflation and shortages, which results in economic stagnation. Typically, unemployment and inflation happen in a trade-off, either one or the other, but not both. Nevertheless, after the oil shock following the Yom Kippur War, we did actually see inflation and unemployment growing at the same time.

*“The previous system
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If you were to call me at 3 am and ask me to make a statement to CGTN, CNN, or the BBC, explaining the reason for the collapse of so-called communism, I would immediately say shortageflation. Do not buy the propaganda that you have 200 metres from here, at the empty place on Unter den Linden where the Polish Embassy used to be. Nowadays, there is nothing there and a special board for tourists explains, falsely, in my view, how the previous system collapsed. Contrary to the board’s claims

that the old system crumbled because of the fight for democracy of some Solidarity activists, I believe that the previous system collapsed under the heavy burden of economic and social inefficiency, resulting from the dual inflation-unemployment combination that I call shortageflation.

Defining ‘socialism’

There was, and still is, some debate on whether it is possible that shortageflation was the driving force of the end of the Soviet economic system. We still argue which country was most advanced towards a limited liberalisation and marketisation, especially considering that China, unlike East-Central Europe and the Soviet Union, had survived all the winds of the 1980s and continued market-oriented reforms.

The centrally planned economy is based on the dominance of state property, which we refer to as ‘socialism’, ‘state socialism’, or ‘bureaucratic socialism’. However, most of the time, the West refers to this system as ‘communism’. Now, in my country, when people talk about the system prior to 1989, they are talking about communism. But in 1989, almost nobody was referring to the system as communism; they referred to socialism. So, what one means by the terms ‘capitalism’, ‘socialism’, ‘state socialism’, or ‘liberal soul socialism’ is a matter of what definition you recognise and the discipline of research you come from.

Bernie Sanders, a contender for the Democratic presidential nomination in the 2020 US election, declares himself a democratic socialist. Widespread fear of a ‘democratic socialist’ president throughout the primary campaign has been very much reflective

of the January 2020 election in the UK, where Jeremy Corbyn was crushed by Johnson's Tories because people were afraid of the word 'socialism' without trying to understand what that word implied.

Chinism: A reformation or a transformation?

What I mean by Chinism is an ideology, a political and economic system, which is neither capitalism nor socialism. I'm not convinced by China's leader, Xi Jinping, calling it 'socialism with Chinese characteristics'. It is not socialism, and it is definitely not communism.

China learned particular lessons from Poland and Hungary. In 1997, I was invited to a conference in China, where I was asked to prepare a paper on Polish reforms. In the paper, I explained why my country's market-oriented reforms and partial liberal

democratisation of the 1970s and 1980s failed and why, 31 years ago, we decided to move towards a fully-fledged democracy. The conference organisers said, "No, professor, we don't want your knowledge about transition or what you did in the government when you were there from 1994 to 1997. Tell us why the Polish market-oriented reforms didn't work".

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Actually, China was not asking how to make the reforms work, but rather how to avoid their failure, what had happened in Poland and elsewhere where they were attempted, especially in

Hungary. Later, when China joined the World Trade Organization in 2001, that was the time when China began reforming the socialist system – or communist system, as it is called in the West – and shifting to capitalism, to a fully-fledged market economy, yet without dealing with democratic reforms for the political system.

From the Polish example, China has learned that if you release a little bit of power, people will then ask for a lot more, which means that you cannot liberalise a political system just slightly and sustain a single-party, centralised system. Instead of sharing power, there will be an attempt to take over. Therefore, China's course since 1989, as you know, has been drastically different to Poland's. It is an unexplainable coincidence of history that on the very same day, on 4 June 1989, when we, in Poland, had our first free parliamentary election, the People's Liberation Army was rolling tanks through Beijing's Tiananmen Square to crush a student revolt. That was the very same day. But how different...

Therefore, for the last 30 years, with all the ups and downs and differences and problems, history has worked out very differently in Central and Eastern Europe, the former Soviet Union, and China. János Kornai's famous 'economics of shortages' theory says that as long as you have state socialism, where the dominance of property is based on state property and the government's right of control, you have so-called soft budget constraints. This implies that the supply of money is adjusted to the demand for money, and subsequently there is a permanent flow of excessive demand over the supply. Due to ideological and political factors, prices are fixed and prevented from rising. In a nutshell, according to Kornai's theory, you will have shortages as long as you have state property and state socialism, or 'communism'.

It is a great achievement that there is no shortage in China. Everything can be bought for money because China has a very big consumer market. China, unlike us, in Central-Eastern Europe and the former Soviet Union, got rid of shortage syndrome without changing its system to a fully-fledged market economy and liberal democracy. Hence, from this perspective, Kornai is wrong. It is possible to eliminate shortages without complete resignation from state property; it can be accomplished if you pull off a special trick: freeing prices – but not enterprise ownership, at least not completely. You have to free prices and keep the money supply under control. In addition, from this perspective, China has succeeded. Now we can see a system that differs from classical socialism/communism, but at the same time, is very different to typical Western capitalism.

If we stick to the definition we use in political science, sociology, social psychology, and economics, however, Chinism is not socialism or communism, and it is definitely not capitalism. It is a regulated market economy. It is not a free market economy but it is a market economy nonetheless. It is very specific, unique, and it is delivering tremendous growth and development through a combination of the power of the market's invisible hand and the power of the government's sometimes too-visible hand. China has proved, as nobody else has done, that you can combine these two powers, at least for some time, and that it can deliver.

Totalitarian? Not China

At the same time, if we shift from an economic analysis to a political one, China is neither democratic nor totalitarian. If you want to see a totalitarian system, you have to go back into history.

Here, in Germany, or the Soviet Union, for instance, you have to go back decades, to Nazism and Stalinism. Nevertheless, if you want to see a contemporary totalitarian system, there is only one place you can see it: North Korea.

I did go to North Korea because I am not only a researcher and former policymaker, but I am also a world traveller. In North Korea, they have their own ideology and system called *Juche*, which, from our European perspective, is like something between Stalinism and Maoism. Mobile phones do not work as they do in the free world, because there is no free cell service. Actually, the authorities confiscate your device for deposit, for the time of your visit, when you enter the country, but I had managed to keep mine with me. It was not working as a phone, but was useful to take some pictures.

After a very interesting visit, I was coming back to China by train, to see as much of North Korea as possible. As I crossed the bridge over the River Yalu on the border between North Korea and China, I got mobile service again, so I made a call to my wife in Warsaw and screamed, "Freedom! Freedom! Freedom!" Well, I had come to a free country. If you ever go from North Korea to so-called communist China, you are entering a free country! So, everything is relative.

China is a free country from the North Korean perspective. Nonetheless, it is definitely an authoritarian system, a one-party system, with rubber-stamp democratic institutions. Behind closed doors, there are very lively debates, there are a lot of confrontations between different agendas and projects, values, and policy ideas, perhaps similar to those that took place here in East Germany or in Poland during the 1960s and 1970s.

The Chinese political system is definitely not a democratic one – and far from a liberal democracy – and for that reason we do not like it. For us, that creates a difficult situation because it is not fashionable to be politically incorrect. Now some of us may say, well, China definitely has an undemocratic and authoritarian one-party system, but it is quite efficient from an economic viewpoint, at least much more efficient than any of the democracies out there. That statement may be politically incorrect, but in terms of substance, it is correct.

We have to be careful to clarify what we are talking about when we discuss whether we are for or against China. On the one hand, there is the one-party political system led by the so-called Communist Party – ‘so-called’ because it supports private property and business, and accepts inequality and unemployment. This is just a single ruling party, not an essentially ‘Communist’ party. Then we have an advanced, competitive, open market economy engaged in globalisation. At the same time, China has managed to liberalise the economy and maintain control. Hence, there is a unique kind of synergy that has produced incredible economic development during the period of just one or two generations.

President Xi may say, “Well, wait a minute, don’t expect us to follow this view. You are wrong, China is not going to support Western liberal democracy. We have our values which you have to respect or at least understand, and our preference is to stay our course”. China will not stay this course until the end of time, but it will at least until 2049, a year when it will probably celebrate the 100th anniversary of the birth of the People’s Republic of China – so-called Communist China.

The unique course of Chinism

Therefore, this is Chinism, and Chinese leaders have declared that they are going to stay the course. The changes are not going to occur as we expected 20 years ago, after China was welcomed into the World Trade Organization. It was expected that step by step China would progress along the lines of the liberal economic setup, followed by a slower, gradual political liberalisation. In due time, the growing middle class, the intellectuals, and some other leaders will call for more political freedom. At the level of local government, there will be some experiments with free elections and these will foster a kind of pluralism. And at the end of the day, after a process that probably will take not five years but rather 50, China may not be a fully-fledged market economy and liberal democracy like, say, Germany or even Poland nowadays, but could perhaps operate like India, Indonesia, Pakistan, or the

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Philippines. Nobody calls these states authoritarian, totalitarian, or communist. Democracy, after all, is much more than having free elections.

However, now, President Xi and the Chinese leaders are saying not only that they will stay their own,

specific course, but also that the Chinese model may be a kind of offer or proposition for other countries. One may say, “Well, I’m in Berlin, I have never been to China, and I don’t care about their so-called proposition for others”. This proposition is definitely not for Poland or Germany; I would say it is not even for Russia. Nevertheless, what about Uzbekistan, Iran, or Indonesia? What about Tanzania, Angola, Mozambique?

I have been to all these countries and I hear what the people are saying. They are saying, “Your liberal democracies are failing. Take a look at Brexit, take a look at Alternative für Deutschland, take a look at this fellow in the White House”. Is this democracy? Is this what people are dreaming of? This system sees decades-long delays over simple decisions like where to build a bullet train. There is no such thing in the United States, while by comparison, over the last 30 years China has built over 30,000 kilometres of tracks.

I know a little bit about how difficult it is to run politics and policies, being Deputy Prime Minister and Minister of Finance in four governments in very challenging times. If you want to be successful, you need a vision and strategy, but lots of patience and technical skills. Imagine, for instance, that you need 16 stamps from the ecological office, the local government, and the cultural heritage office, and so on, so that you can build something in one place and so that the decision is to be taken in a democratic way. There are procedures, there is law, and there is rule by law. Such decisions are not ‘political’ as in China. However, China has delivered a lot of economic progress through technocratic, not democratic decisions.

Nowadays, the new Chinese hit is the Belt and Road Initiative. What is this? We could discuss it over and over again, because the Belt and Road Initiative means a lot. It is much more than just one huge investment project. It is actually a comprehensive, multi-track concept, the bold idea of making infrastructure investments here and there to facilitate economic development and expansion. China had plenty of over-capacity, especially in aluminium, glass, and cement, so instead of closing abundant factories and risking unemployment for millions of people, China

decided, “Let’s build a Pakistani corridor from here to there and have access to the Arabian Sea and the Indian Ocean. Let’s build a new harbour in Sri Lanka. Let’s build a railroad from Belgrade to Budapest. We have plenty to do!”

Why did China decide to do this? Because you have the Europeans and Americans, who, during the worst of the crisis, forced Greece to sell so much! Thus, Greece sold Piraeus, the harbour of Athens, to Chinese companies, which are, of course, controlled by Beijing. You will soon see China build a railroad from Piraeus, which is in the European Union, to North Macedonia and Serbia. Moreover, at this rate, they will have a harbour and high-per-

“China is not rolling out the Belt and Road Initiative for charity but for business reasons”

forming railroads to Budapest, which will develop yet another important hub in the European Union. Should we be against these developments? I do not think so.

However, the Belt and Road Initiative is much more than just a bold transnational, long-

term infrastructure investment project. It is an instrument to enhance connectivity and support economic growth, not only in China. The Middle Kingdom is not doing this for charity but for business reasons. They need new markets to sell their manufactured goods, including high-tech products and services, and to buy raw materials and energy for their own industries, and they need logistics infrastructure to support smooth international trade.

A potential role model for other economies

Chinism, *sui generis*, is a syncretic economic system based on multiple forms of ownership of means of production, with a strong macroeconomic policy and limited government control with respect to microeconomic management. Deregulation is subordinated to maintaining enterprise activities in line with the social and political goals set by the ruling party. Widely used, flexible but generally far-reaching economic interventionism uses both indicative planning, addressing the business sphere, and command planning with respect to some state-owned enterprises and infrastructure. The country's policy for government, local authorities, and the central bank alike also makes use of classical instruments of market interventionism. The pricing system is essentially decentralised, which, despite the absence of fully hardened budget constraints with respect to public enterprises, guarantees a dynamic money market equilibrium.

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This hybrid economic system comes hand in hand with an authoritarian, one-party state with centralised power, essentially based on meritocracy. The policy implemented by the state is competent and responsible. At the same time, it is oriented to fulfilling long-term strategic goals, to which medium-term and immediate goals are subordinated. The authorities use traditional and modern social impact methods, for example, they resort to controlling society's compliance with behaviours promoted by

the general direction of development set by the party and by legislative and executive power. In exerting social influence, diverse measures are used like references to Confucian philosophy and quasi-religion, on the one hand, and modern electronic surveillance, on the other. The digitalisation of social communication is increasingly used to control public dialogue, including influencing the content shared on social media.

Chinism does not stand for turning back from the path of market reforms or returning to the omnipotence of the state sector in the economy; this is an overly simplified image of a highly complex reality. The state plays a major role – most of all as a regulator and also as the owner of some means of production – but it neither crowds out nor replaces the market; rather it corrects and supports it and creates a synergy with its forces.

Therefore, this proposition of Chinism is now coming to countries in other regions of the world, especially Southeast Asia, Central Asia, including the post-Soviet republics, the Middle East, Africa, and, to a much lesser extent, Latin America. The latter is another big question because, traditionally, it has been under the influence of the US, and now we have an additionally messy, interesting, and challenging situation in Venezuela. We have had slightly different situations with Ecuador, Bolivia, Argentina, and president Bolsonaro in Brazil. It is very complex, since all these countries must take the Chinese card into account alongside all their other politics and policies. China is not yet very active in Latin America for a number of reasons, but it will be a factor of growing importance in already bad Sino-American relations in the years to come.

When I talk about Chinism, what I mean is a specific ideology and political and economic system which has taken over and delivered a lot in China, and which may now be attractive to others. For the time being, it is an influence that we definitely cannot afford to *not* take seriously.

When I think about the future, I do not focus on tomorrow or next year – I am thinking about the next generation. I am looking at the next two, three decades. Do not fight with China. If you do not love it, work with it!

“Why does the US prefer to make China a foe instead of supporting pragmatic cooperation and peaceful coexistence?”

Martin Wolf of the *Financial Times* reviewed my book, *Chinism and the Future of Globalization*, in this way:

The rise of China is the greatest political and economic event of our era. Grzegorz Kolodko, a former finance minister of Poland, has produced a thoughtful, balanced, and penetrating analysis of the global implications. He is particularly concerned by the desire of the US to turn China into an enemy. But, he notes, “China does not wish to turn other countries into foes... It’s astounding, but China seems to better understand what’s at stake at the current civilizational crossroads.” Alas, he is right.

Why “alas”? Why it is such a concern for the West? Why does the US prefer to make China a foe instead of supporting pragmatic cooperation and peaceful coexistence?

The disaster with Covid-19 may delay China's ascent to developed-country status by a year or so. In the most negative scenarios, considering the devastating effects of the pandemic, I think China's GDP growth rate will drop only 1%; or maybe not all. China will join the group of advanced economies by 2024 or so. According to the World Bank methodology, there are 44 advanced economies in the world, which, by the way already includes Poland.

China has the technology that is conquering the world but for some, it seems like a threat. Take Huawei's 5G, for example. Can you name a company in the US that can compete with Huawei's 5G? There is no such company. You could support European firms like Ericsson and Nokia, but still the Americans are afraid of Chinese competition. For that reason, we have these overreactions, ill-advised policies, trade wars, and confrontations that are the trademark of President Donald Trump. Unfortunately, populism and new nationalism deliver political success sometimes, but in the longer run, they are doomed to fail. Unfortunately, the people will pay the price.

“What the US is now seeing is that a small improvement in the trade balance with China comes at the cost of deterioration in the trade balance with other countries”

What the US is now seeing is that a small improvement in the trade balance with China comes at the cost of deterioration in the trade balance with other countries. The trade war is actually

about a position in the supply chain during globalisation, which is an irreversible process, and there is nobody playing globalisation better on its own behalf than China. Nobody. They have been the master of the world over the last 30 years. They used globalisation to catch up and they have actually skyrocketed. They are moving up the supply chain from making Nike products, ballpoint pens, and porcelain, to having their own high-tech products and a developed consumer market-led economy.

At the same time that China is moving up the supply chain, it is advancing technologically. In addition, in some technologies, it ranks first globally. Even if they were stealing, which unfortunately is the case to an extent, just as the US robbed others of its technology for most of the 1800s and the first half of the 20th century, you cannot reverse this process. We are in 2020 now and the question is how to move forward, given that globalisation is irreversible.

Moreover, what is globalisation in the first place? Globalisation is a historical and spontaneous, if not chaotic, process of liberalisation and integration that has united previously independent national economies into one intertwined, interconnected, global economy. What happens here, in Germany, depends upon what has happened, say, in Brazil, which has consequences for what is going on in, say, Japan. The world has become a common economy. The question for the future – the critical and most challenging question – is how to govern the world economy in this era of irreversible globalisation, while China, because of Chinism, is becoming a more and more important player.

Globalisation: Looking ahead

The irreversible process of globalisation must be governed – not managed, ruled, or manipulated – by a relevant entity. So, the question is, what kind of governance do we need? We do not need a global government; that would be another utopia. Yet we do need global governance. Well, there are international organisations, which hypothetically could perform better than they are currently doing. Unfortunately, under the Trump administration several of them are marginalised and weakened, like the WTO, UNESCO, and especially the WHO.

If we have regional integration groupings, like the European Union, Mercosur, ASEAN, SAARC, or SADC, then even small or medium-sized countries can deal with everybody else and may traverse globalisation in a fruitful way. Most of the countries in the world are small or medium-sized. They have to work together, and for that reason, any kind of nationalism or separatism works not only against long-term issues and solutions for the countries involved but also against the possibility of making globalisation more inclusive.

Is Chinism really contributing to a more inclusive globalisation? We have to play the game of globalisation by leaping forward, but for the time being globalisation is in crisis because it has not been inclusive. It was working very much in a neoliberal fashion, which is the ideology and politics of accommodating the few at the cost of the many. If that continues, we will see more of the AfD, and Orbán, and Erdogan, and the Yellow Vests, and Occupy Wall Street. However, this is not the end of the world, and this is not the end of globalisation.

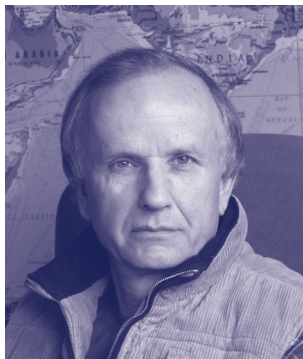
The fundamental question, therefore, is how to coordinate policies and how to redesign institutions? For this reason, I have some trust in the G20. If we want to have a prosperous and peaceful world in the future, it must be based on inclusive globalisation, which must be governed within a kind of multilateralism, multiculturalism, and an open, multipolar world.

I would say that to make the inclusive, irreversible process of globalisation ‘great’, is the paramount challenge of our generation, and from this perspective, I think that Chinism may contribute a lot. Yet, one must be careful.

China’s economic success has been accomplished at very severe costs. In addition, Chinese leaders and Chinese intellectuals are aware of these costs. First, there is a lack of democracy, as we, in the West, understand it. Most Chinese people do not care about Western liberal democracy. They seem to be happy with their so-called consultative democracy, as long as business does what they want, household incomes are growing, and – of course – political leaders can run the show according to their values and agenda. Second, there is the damage to the natural environment, yet recently China’s government has been doing a lot to combat that. And third, there is huge income and wealth inequality. Income inequality in ‘communist’ China is even bigger than in the liberal United States, which is a surprise. Nevertheless, the Beijing leaders are very much aware of these problems, and they are addressing these issues through proper economic and social policies.

Yet these and other problems are a serious challenge, also for the prospects of Chinism. The evolution and development of China’s dynamic system is not just a domestic issue, since it

has significant implications for world economic, political, and security affairs. I think that Chinism can contribute positively to a better future not only for most of the Chinese people, but for globalisation too, making it more inclusive and fruitful.



Professor Grzegorz W. Kolodko of Kozminski University in Warsaw, academic, public intellectual, and politician, was a key architect of Polish economic reforms. He is the creator of New Pragmatism, a paradigmatic theory of economics and economic policy addressing civilisational challenges and the transformation of economic systems.

He is a member of the European Academy of Arts, Sciences, and Humanities, Doctor Honoris Causa and Honorary Professor of numerous universities. He is the author of numerous books and research papers published in over 20 languages, including international bestseller *Truth, Errors, and Lies: Politics and Economics in a Volatile World*, nominated for the William Harrington Award for an ‘outstanding book that demonstrates how scholarship can be used in the struggle for a better world’.

Grzegorz Kolodko was a participant in the historic Polish Roundtable, which led to the creation of the first post-communist government in Central and Eastern Europe. While Deputy Prime Minister and Minister of Finance (1994–1997), he led Poland into the OECD. Holding the same positions in 2002–2003, he played an important role in Poland’s integration within the European Union.

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