BOOKSHELF: *New Markets and an Old Monopoly on Power*

THE COMING COLLAPSE OF CHINA

By Gordon G. Chang

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By MARGARET SCOTT

CHINA'S COMMUNIST GRANDEES may be gloating now, but by 2008, when the coveted Olympic Games roll into Beijing, the People's Republic will be gone, swept into the dustbin of history. Even Mao's body will have been tossed out of Tiananmen Square. So says Gordon G. Chang in "The Coming Collapse of China."

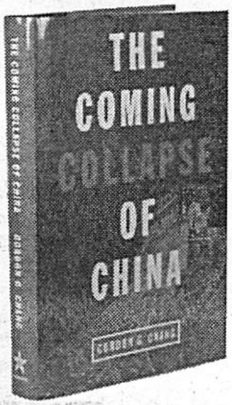
Mr. Chang, who works in Shanghai for the American law firm Paul, Weiss, Rifkind, Wharton & Garrison, has a simple thesis: China's upcoming membership in the World Trade Organization spells the collapse of the Communist Party. He gives China's economy, and hence the party, about five years from WTO accession to implosion. The WTO's Web site predicts that "ministers should gavel the terms of China's entry" at the November meeting in Qatar. It is then that Mr. Chang's clock starts ticking.

Mr. Chang repeats his thesis often, and with every repetition it seems more hyperbolic. Yet "The Coming Collapse of China" at least tries to reframe the argument over whether the market will transform China's political system. Ever since the failed rebellion of 1989 ended with the Tiananmen massacre, China's leaders have invoked Deng Xiaoping's slogan "to get rich is glorious" and turned to a headlong pursuit of high growth rates as a way to regain legitimacy and retain power.

And indeed, China has boomed. Meanwhile, American politicians, businessmen and pundits have fought over what to do. For years, members of the engagement school have been telling us that China's economic opening will lead to open politics and democracy. Meanwhile, the naysayers keep asking where the democracy is, as they note yet another political crackdown, the latest one ensnaring Chinese-born U.S. academics.

No doubt the debate will continue indecisively for some time to come, but in the realm of policy the engagement school has clearly won. President after president, swayed either by ideas or by the allure of the Chinese market, has asserted that trade will usher in democracy. In 1992, Bill Clinton the campaigner went after Bush père for coddling the Butchers of Beijing, but as president he became a cheerleader for U.S.-China trade. And now George W. Bush declares: "Trade freely with China, and time is on our side."

Mr. Chang wants to add a twist to this conversation. His claim is that China's WTO membership will render irrelevant the "will so/will not" debate about trade bringing democracy. The reason is competition. Joining the WTO, Mr. Chang insists, will force real competition—with outsiders—on the party and the party-controlled economy for the first time.



Will competition from outsiders *topple China's political structure?*

The effect will be cataclysmic: The festering economic inequalities and discontent will explode, the horrific inefficiencies of state-owned enterprises and state-controlled banks will be exposed, the state sector will collapse, and Chinese consumers and the unemployed will revolt. "China is like a lake of gasoline," Mr. Chang writes. It is only a matter of time before someone will "throw a match."

Well, maybe, but Mr. Chang's writing is too slapdash and formulaic to be convincing. Even so, he clearly knows something about the Chinese economy, though he offers more a portrait of economic troubles than a manifesto of imminent collapse. His chapters on state-owned enterprises (SOEs) and the banking system, for instance, deliver a one-two punch on why a decade of economic reforms, divorced from political reforms, has created a terrible mess.

SOEs—there were some 110,000 of them in 1999, which at least pretended to employ 41% of the urban work force—started out as the urban equivalents of Mao's communes, those rural utopian fiascos. Communes were finally disbanded after the horrors of famine and the Cultural Revolution; not so the SOEs. Mr. Chang calls them the core of China's problems. Their books are cooked to hide huge losses; they eat up about 70% of domestic lending; most are unproductive, with about 30% of their workers idle; and many are actually bankrupt.

Mr. Chang is hardly the first to discover this mess; in fact, a few party bosses, especially Premier Zhu Rongji, have tried to sort it out. Mr. Chang does a good job of tracing why these attempts stumble, starting with the party's top leadership, which, since Deng's death, has been rigid and corrupt. But the heart of the matter is that the Communist Party, through greed and ideology, refuses to forsake its monopoly on power. This is a political stance, but its economic ramifications are immense.

China's banking system, despite one of the highest savings rates in the world, is a case in point. In the late 1980s and early 1990s, as Mr. Chang notes, the SOEs were kept afloat through subsidies and the occasional joint venture. Confronting huge deficits and eyeing that pool of savings, the party started ordering up loans to the SOEs. By the end of the1990s, hopes for a sound banking sector were drowned in a sea of nonperforming loans. "The SOEs are sick," Mr. Chang writes. "The only difference is that now the banks are as well. It was a financially transmitted disease."

Thus the dilemma: China's problems of debt, unemployment and poverty are getting worse, but they are exacerbated by party control. Surely Mr. Chang is right to argue that economic progress cannot continue if the party retains its power. But will the WTO be the magic bullet that topples it?

In fact, overthrowing one-party rule and establishing democracy is not simply a byproduct of economic forces or organizational rules. It is an act of political will. If China's membership in the WTO creates real competition and gives the Chinese people more opportunities to challenge the party's monopoly, then it may indeed help transform China. Mao's body may even be moved. But it will be done by the people and not by the WTO.

Ms. Scott is a journalist living in New York who writes about Asia.