



CHINA'S 100TH ANNIVERSARY OF MODERNITY: WHAT NEXT?

Examining a key driver of global business and innovation

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No one on planet earth – and probably not many elsewhere – could even in their wildest dreams have imagined the trajectory that China has come to take. In previous decades, focus was elsewhere as both of us did our PhDs on Japan: Jean-Pierre in the late 60s, when the Japanese “economic miracle” was in full blossom, Japan had taken over Germany in GDP, while China was in the throes of the Cultural Revolution; Dominique in the early 80s, when the Japanese economy seemed to be running on anabolic steroids, Japanese investments were pouring out, eg to buy Rockefeller Centre or Columbia Studios, while China’s initial reform program was underway.

Japan’s successful industrial revolution in the late 19th century with the result of it becoming the only non-Western nation to feature among the “big powers” by the early 20th had spawned what became known as “modernization theory”. In essence this consisted of studying the forces that allowed a nation to become an active actor in the global firmament and not just a passive – and often abused – spectator. Japan had been a brilliant illustration of the former, China a dismal illustration of the latter.

Unlike India, most of South East Asia (with the single exception of Thailand), most of Africa and the Middle East, China had not strictly speaking been colonized. Rather as Sun Yat-Sen, the leader of China’s 1911 republican revolution, the centenary of which is today, China had become a “poly-colony”. In other words, there was no single direct colonial master, as in Indonesia (the Dutch), Indochina (the French), India (the British), the Philippines (the Americans), but all the imperialist powers, big and small, exercised indirect exploitative colonial power over China.

As the world was dramatically changing, the imperial court in Beijing refused to change. In striking contrast to Japan, modernization and the reforms it implied were basically rejected. By the very late 19th and early 20th centuries, as China continued to experience humiliation after humiliation, a number of forward thinking Chinese intellectuals, Sun Yat-Sen among them, recognized that China had to change; it had to adapt to this Western dominated world; it had to absorb and adopt its economic, scientific and political institutions. This was an imperative for survival, not a luxury! China’s first modern revolution occurred on 10 October 1911 when the old imperial order that had existed for millenniums was overthrown.

Things, however, did not go smoothly, to put it very mildly. In the period 1911 to 1 October 1949 – the date when Mao Zedong “liberated” China, thus constituting China’s second modern revolution – the country was wracked by foreign wars, Japanese invasions, civil wars, widespread poverty, endemic corruption, hyper-inflation and a breakdown in governance. During the reign of Mao (1949-1976) China regained its sovereignty, but was isolated from the international economy. It was while Dominique was doing his PhD and the policy, business and economics world was focused on (obsessed by?) Japan, that a quiet third modern Chinese revolution had occurred, albeit little noticed at the time. This was in 1978 when under the leadership of Deng Xiaoping China embarked on probably the most profound and dramatic economic revolution since the industrial revolution. A century later the dreams of China’s modernizers – at least in the economic domain – have been far more than fulfilled. China is an active global actor – Big Time!

Where are we now?

In the words of one of Jean-Pierre’s earlier articles (<http://www.imd.org/research/challenges/TC057-11.cfm>), China increasingly rules the global roost. It is not the world’s number one power, that is still the US and likely to remain for some time, but its global clout extends to virtually every nook and cranny of both the developed and developing world economies. It has changed significantly especially in the last decade. No longer simply a producer of low value added goods for export, Chinese industry is increasingly competitive in high tech, including some key “green” technologies, and from being an exporter of cheap goods it is becoming an exporter of capital in both direct and portfolio investments and across multiple sectors.

This is not to say things have been or will be plain sailing in the course of the decades ahead. China faces many social, economic, environmental and political challenges. Furthermore, while its hard economic power is increasingly seen as Herculean, its soft power is weak. Though commercial ties are strong, there are few countries with which China enjoys cordial political relations, including its neighbors. They (the neighbors) fear that now that China has fully modernized, it may revert to traditional customs, in particular the tributary state system – a sort of feudal arrangement whereby the rulers of all surrounding countries owed fealty and reverence to the Chinese ruler.

Of course it is difficult to predict what will happen. But one needs to have a view. Our view is that the process of reform will continue. Chinese leaders, including the most senior members of the Chinese Communist Party, concede that further economic reforms will not succeed without accompanying political and social reforms. They understand that the rising urban Chinese middle classes especially – those who have most benefited from and contributed to the third revolution – demand more accountability and transparency. On the foreign policy front, the Chinese know full well that in the past all emerging global economic powers became imperialists and waged wars. But, the Chinese argue, not only were these powers rich, so were their people. China is history's first ever case of a global economic power having still a poor population. China is the world's number two economic power in GDP aggregate terms, according to the IMF soon (2016) to become number one, but the 98th in GDP per capita! Hence, the Chinese leadership assert, China is committed to peaceful development as it will need to continue to build its domestic economy and society.

While conscious of the challenges on many fronts China faces, we believe that in the course of the decades ahead we will continue to be surprised by China's achievements not only in the economic domain, but also in environment, governance and the arts. The Chinese remain very keen learners as we see at IMD with all the Chinese MBAs and executives who come to study here. Last year, the number of Chinese executives studying at IMD over passed the number of Japanese. While the number of participants from Japan has declined, the number of participants from the Mainland is booming. For these reasons, we are also convinced as a business school that China will be a key driver not only of global business, but also of business innovation. The IMD strategy is to engage with China on the basis of these scenarios and to contribute what we can to China's peaceful development and prosperity, which in turn will have a great and positive impact on the world's peaceful development and prosperity.

Today there is not only much to celebrate, but, we believe, much to look forward to!

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