

Leninist logic says China must be checked, and soon

[Henry Ergas](#) November 2, 2018



Illustration: Sturt Krygsman.

As Bill Shorten noted in his address to the Lowy Institute on Monday, China is likely to remain Australia's largest trading partner "for the foreseeable future". However, that doesn't mean our interests are necessarily aligned.

Australia is best served by an open, rules-based, international order that provides opportunities not only for China but also for other emerging economies to prosper, including India and our neighbours in Southeast Asia.

However, China's economic policies, and the reaction from the US that they have predictably provoked, pose the greatest threat the open trading system has faced in decades.

Those policies are inextricably linked to the recentralisation that has occurred under “paramount” or “core” leader Xi Jinping, whose goal is to entrench the Chinese Communist Party’s grip on power.

Accompanying the CCP’s tightening grip is the reassertion of the party’s control over significant parts of the economy, and especially over its technologically most advanced sectors.

As well as increasing the resources the party can command, the leadership’s aim is to strengthen China’s defence industry base, thereby ensuring the country has the capabilities needed to realise its regional ambitions, not least with respect to Taiwan, and to flex its muscles on the world stage.

To achieve that objective, the Chinese government has ramped up its role in and influence on high-technology firms, provided those firms with preferential credit and facilitated their access to the latest technologies.

While the Chinese government has used some conventional instruments to those ends, such as R&D subsidies, it has also resorted to industrial espionage and to coercion; for instance, by forcing foreign firms to disclose trade secrets if they are to avoid prosecution for alleged offences.

Even putting aside the question of whether those measures are consistent with China’s international obligations, whatever China gains from the transfers is offset by losses to the investors whose assets are being expropriated, undermining the incentives for innovation and the prospects for global growth.

With those losses falling largely on the US, it was never likely that China’s conduct would be tolerated indefinitely, all the more so once China had gone from being a fledgling participant in international trade to having a massive presence in world markets. The intensifying strategic rivalry

between the US and China merely heightens those tensions, increasing the probability of a brutal confrontation.

There is, however, little prospect of China backing down. The Chinese leadership's choices are not driven by the capricious preferences of an autocrat; rather, they reflect the underlying logic of a Leninist state.

Xi relentlessly emphasises the importance of Leninist doctrine and the need for cadres to follow what he refers to as the "correct line", using the term Stalin adopted at the 16th Congress of the Soviet party in 1930 and which was then popularised by Mao Zedong. That he is closely familiar with Lenin's writings and a committed Leninist is beyond doubt.

Two points Lenin stressed are particularly important. The first is the "primacy of politics", which means that protecting the party's supremacy overrides all other objectives. The second is that while the "dictatorship of the proletariat" can accommodate different ways of structuring the economy, there are inherent tensions between "allowing capitalist relations to develop" and the party's ability to perpetuate its rule.

As the Chinese leadership well knows, those tensions came to the fore in the Soviet Union during the so-called New Economic Policy, which was launched by Lenin in 1921 and ended by Stalin in 1928.

The NEP, which allowed market forces to operate in the countryside, in services and in light manufacturing, played a crucial role in resurrecting the Soviet economy, which had collapsed during the civil war of 1917-21.

Recovery under the NEP was surprisingly rapid. Despite setbacks, the agrarian economy returned to pre-war levels of output by the middle of the 1920s, when peasant incomes attained levels only reached again in the 1960s. Industrial production also grew strongly, surpassing pre-war levels by 1926-27.

But precisely because it encouraged entrepreneurial activity, the NEP facilitated the emergence of new social forces, undermining the party's monopoly on power. Additionally, in a state unconstrained by the rule of law, corruption flourished, as entrepreneurs sought favours and bought off rapacious officials, further eroding the party's control.

Coming on top of a war scare in 1927 and the belief that the "imperialist powers" were preparing to attack the Soviet regime, that weakening in the party's authority precipitated Stalin's "swerve to the left" in 1927-28.

The state's dominance over the economy was re-established, while the social forces the state did not fully control were intimidated and ultimately crushed, as were the ethnic groups that resisted the return to extreme centralism.

To say that is not to imply that Xi is another Stalin: if anything, the closer similarity is to Brezhnev. Nor would anyone suggest that Xi's policies simply replicate, in a Chinese context, the sequence that played itself out in the Soviet Union.

For example, with Maoism having destroyed the traditional property-owning classes, the CCP has been willing and able to accommodate the rise of a new, relatively pliant bourgeoisie to an extent the Bolsheviks, who always feared the restoration of the ancien regime, could never have imagined.

But the CCP has not escaped the dynamics of Leninist regimes, which lead it to impede, distort and suppress market forces so as to ensure the party's absolute primacy. Moreover, in China's case, the pressures in that direction are reinforced by resurgent nationalism, which (in one of the world's most unequal economies) has replaced the communist utopia of radical egalitarianism as the CCP's motivating myth and historic mission.

The result is a combination of mercantilism at home with belligerence

abroad that is starkly at odds with an open, rules-based international order. Coexistence might have been feasible when China was an insignificant player; now that China is the world's second or third largest economy, it is increasingly difficult to envisage.

If an enormously harmful clash is to be avoided, China's leaders need to understand that they cannot persist in their present course. Australia should therefore endorse the US administration's demands for far-reaching economic reform and for China to desist from its bellicose international posture, including its encroachments on the freedom of navigation and its accelerated accumulation of nuclear weapons.

Those demands will be credible only if they are backed by the threat of force; and we must prepare for the possibility that they will fail. To that extent, there can be no question that China is, and must be considered as, a potential strategic threat. To do otherwise would be an abdication of responsibility.