

lack of skilled labor will halt continued growth. There are structural limits to growth, and China is reaching them.

#### CHINA'S POLITICAL CRISIS

Japan solved its problem with a generation of low growth. It had the political and social discipline to do this without unrest. East Asia solved it in two ways. Some countries, like South Korea and Taiwan, imposed painful measures and came out stronger than ever, but this was possible only because they had strong states able to impose pain. Some countries, like Indonesia, never really recovered.

The problem for China is political. China is held together by money, not ideology. When there is an economic downturn and the money stops rolling in, not only will the banking system spasm, but the entire fabric of Chinese society will shudder. Loyalty in China is either bought or coerced. Without available money, only coercion remains. Business slowdowns can generally lead to instability because they lead to business failure and unemployment. In a country where poverty is endemic and unemployment widespread, the added pressure of an economic downturn will result in political instability.

Recall how China split into coastal and interior regions between the British intrusion and Mao's triumph. Businesses on the coast, prosperous from foreign trade and investment, gravitated to their foreign interests, trying to break free from the central government. They drew in European imperialists—and Americans—who had financial interests in China. Today's situation is potentially the same. A businessman in Shanghai has interests in common with Los Angeles, New York, and London. In fact, he makes far more money from these relationships than he does from Beijing. As Beijing tries to clamp down on him, not only will he want to break free of its control, but he will try to draw in foreign powers to protect his and their interests. In the meantime, the much poorer people in the interior of the country will be either trying to move to the coastal cities or pressuring Beijing to tax the coast and give them money. Beijing, caught in the middle, either weakens and loses control or clamps down so hard that it moves back

to a Maoist enclosure of the country. The critical question is which outcome is more likely.

The Chinese regime rests on two pillars. One is the vast bureaucracy that operates China. The second is the military-security complex that enforces the will of the state and the Communist Party. A third pillar, the ideological principles of the Communist Party, has now disappeared. Egalitarianism, selflessness, and service to the people are now archaic values, preached but not believed by or practiced by the Chinese people.

State, party, and security apparatus are as affected by the decline in ideology as the rest of society. Communist Party officials have been the personal beneficiaries of the new order. If the regime were to try to bring the coastal regions under control, it is hard to imagine the apparatus being particularly aggressive, as it is part of the same system that enriched those regions. In the nineteenth century the same problem emerged when government officials along the coast didn't want to enforce Beijing's edicts. They were on the side of doing business with foreigners.

If there is indeed a serious economic crisis, the central government will have to find a substitute ideology for communism. If people are to sacrifice, it must be for something they believe in—and if the Chinese cannot believe in communism, they can still believe in China. The Chinese government will attempt to limit disintegration by increasing nationalism and the natural companion of nationalism, xenophobia. Historically, China has a deep distrust of foreigners, and the party will need to blame someone for economic devastation. As Mao blamed foreigners for China's weakness and poverty, the party will again blame foreigners for China's economic problems.

Since there will be substantial confrontations with foreign states on economic issues—they will be defending their economic investments in China—playing the nationalist card will come easily. The idea of China as a great power will substitute for the lost ideology of communism. Disputes will help bolster the position of the Chinese government. By blaming foreigners for problems and confronting foreign governments diplomatically and with growing military power, the Chinese will generate public support for the regime. This is most likely to take place in the 2010s.

The most natural confrontation would be with Japan and/or the United States, both historical enemies with whom smoldering disputes already ex-