

By Rodger Baker

Something extraordinary is happening in China, and we are not talking about the Olympics. Rather, Chinese officials have been clamping down on visa applications and implementing bureaucratic impediments to new and renewed visa applications under the guise of pre-Olympic security.

In some ways, Beijing's plan for a safe and secure Olympics appears based on the premise that if no one shows up, there can be no trouble. But placing restrictions on the movement of managers and employees of foreign businesses operating in China, even if for a limited time as Chinese officials have been at pains to reassure, makes little sense from the standpoint of gaining political and economic benefits from hosting the Olympics. Something just isn't right.

#### The Post-'70s Economic Framework

Since China's economic reform and opening in the late 1970s, China's economic policy — and thus the basis for the overall development of the nation — has been based on a simple two-part framework. First, draw in as much foreign investment as possible and use the money and technology to strengthen China while using the subsequent economic leverage to secure China. And second, encourage growth for growth's sake to ensure an ever-increasing flow of money through the system to provide employment and social services to a massive and urbanizing population.

Key to this policy has been creating a very open environment for foreign businesses, which bring money, technology and expertise and use their influence with their own governments to keep stable international relations with China — hence reducing international and economic frictions and increasing the efficiency of the supply chain. For more than two decades, Chinese national strategy has thus revolved around the principle of encouraging investment, joint ventures and wholly-owned foreign enterprises in China. There have been two foundations for this strategy: the evolution of financial facilities for transferring and controlling foreign money with a level of transparency nearing international standards, and the ease of movement of personnel in and out of China.

It is this latter point that recently has been hit the hardest. Over the past several months as the Beijing Olympics drew nearer, the Chinese government has effectively frozen up most financial reform plans. It also has issued a raft of new security measures not entirely unlike other host cities in the post 9/11 security environment. But China has gone several steps further than its predecessor hosts, placing official and bureaucratic impediments on visa applications. This not only has targeted potential "troublemaking" rights advocates, it has also impacted foreign businesses ranging from invited guests to the Olympic games to managers and employees of foreign companies in China.

#### Business and the New Visa Hassles

The visa restrictions in particular have been a source of angst for foreign businesses and business associations. Many smaller operations may circumvent Chinese regulations and travel on tourist visas (provided they can still obtain them). And there are ways around the tighter regulations or bureaucratic hurdles if one has the right connections or the willingness to apply several times or from different locations. But multinational corporations are less willing to jeopardize their operations by skirting the laws. Instead, they are making their concerns known to Beijing and hoping that restrictions are eased in September, as Beijing has rumored and hinted will occur.

In general, these visa restrictions have been brushed aside by foreign observers as simply paranoia on China's part regarding protests or terrorist attacks during the Olympics. In many ways, however, this makes little sense. First and most obvious, the Olympics were supposed to highlight the opening of China — not restrict the very people who have made China a key part of the global economy. Second, imposing tight restrictions in Shanghai, the center of the Chinese foreign-domestic economic nexus, makes little sense on grounds of Olympic security since Shanghai is playing only a minor role in the games compared to Beijing and Qingdao. (Think shutting down visas to New York during the Atlanta games in the name of security, though Shanghai admittedly is hosting some soccer matches.)

Shutting down business visas to keep terrorists out makes little sense anyway — it is hard to imagine Uighur militants traveling on business visas as representatives of foreign multinationals. Furthermore, by restricting business visas — even if not across the board in a coherent fashion — China is putting a massive strain not only on the ability of businesses to trust Chinese regulations and business relations with the government, but also on the fluidity of the global supply chain. Shutting down or impeding visas affects much more than delaying the movement of a single individual into China; it impacts the ability of multinational corporations to move, replace or supplement managers and dealmakers in China. A delayed visa applications of just three months still represents an entire quarter that multinational corporations cannot reliably manage their businesses operations in China, and that doesn't take into account the visa backlog when restrictions are loosened or lifted.

Disrupting an integral part of the global economy for a full quarter because of an international exposition makes little sense. The Germans in 1936 didn't do it, the Russians in 1980 didn't — no one has. One doesn't simply shut down international business transactions for three months or more to stop a terrorist — and particularly not China, which depends on foreign direct investment. This is not simply an inconvenience for some people: It is the imposition of friction on a part of the system that is supposed to be frictionless. And it is not merely individuals who are affected, but the relations between mammoth companies.

### A Period of Erratic Policies

China's behavior has been erratic for several months now, if not for the past few years, with the implementation of new and often contradictory security and economic policies. These have all been brushed aside as somehow related to preparation for the Olympics. But they are in fact anomalous. China's behavior is not that of a country trying to show its best side for the international community, nor that of a nation simply concerned about potential terrorist or public relations threats to the Olympic games. In another two months, after the Olympics and

Paralympics have ended, it will become clearer whether this was a spate of excessive paranoia or a reflection of a much more significant crisis facing the Chinese leadership — and the evidence increasingly points toward the latter.

As mentioned, China's economic policies in the reform and opening era have been based on the idea of growth. This in many ways simply reflects the Asian economic model of maintaining cheap lending policies at home, subsidizing exports, flowing money through the system and focusing on revenue rather than profits. In essence, it is growth for the sake of growth. This was the policy of Japan, South Korea, Indonesia, Malaysia and Thailand. And it led each of those countries to a final crisis point, striking Japan first in the early 1990s and the rest of the Asian tigers a few years later. But China managed to avoid each of the previous Asian economic crises points, as it was on the lagging end of growth and investment curves.

Following the Asian economic crisis, China fully recovered from the international stigma of Tiananmen Square and became the global economic darling. By the time the 21st century rolled around, China was already taking on the mantle of the Japanese and other Asians. It began to be labeled both an economic miracle and a rising power; a future challenge to U.S. economic dominance with all the political ramifications that brought. Were it not for 9/11, Washington would have squared off with Beijing to prevent the so-called China rise. The reprieve of international pressure that came when U.S. attention turned squarely toward Afghanistan and then Iraq freed China's leaders from an external stress that could have brought about a very different set of economic and political decisions.

With the United States preoccupied, and no other major power really challenging China, Beijing shifted its attention to domestic issues, and its review quickly revealed the stresses to the system. These did not primarily come from "splittist" forces like the Tibetans or the Falun Gong, but rather from the economic policies that had brought China from the Third World to the center of the global economic system. Beijing is well-aware that should it continue with its current economic policies, it will face the same risk of crisis as Japan, South Korea and the rest of Asia. It is also aware that growing internal challenges — from the spread and invasiveness of corruption to geographic economic imbalances, from rising social unrest to massive dislocation of populations [ 2; are causing immediate problems.

#### Economics from Mao to Hu

Mao Zedong built a China designed to be self-sufficient and massively redundant. Every province, every city, every factory was supposed to be a self-contained unit, making the country capable of weathering nearly any military attack. Deng Xiaoping didn't get rid of these redundancies when he opened the economy to foreign investment. Instead, he and his successors encouraged local officials to work to attract foreign investment and technology so as to raise China's economic standard more rapidly. By the time Jiang Zemin was in power it had become clear that the regionally and locally driven economic policies threatened to throw China back into its old cycle of decentralization — and, ultimately, competing centers of power. Attempts by Jiang to correct this through the Go West program, for example, came to naught after meeting massive resistance in the wealthy coastal provinces. The central government accordingly backed off, shifting its attention to reclaiming centralized authority over the military.

Hu Jintao has sought once again to try to address the problem of the concentration of economic power in China's coastal provinces and cities through his Harmonious Society initiative. The idea is to redistribute wealth and economic power, regain central authority over the economy, and at the same time reduce redundancies and inefficiencies in the Chinese economy. With minimal external interference, Hu was able to test policies that by their very nature were going to sacrifice short-term social stability in the name of long-term economic stability. Growth was replaced by sustainability as the target; longer-term redistribution of economic growth engines would replace short-term employment and social stability.

This was a risky proposition, and one that met strong resistance in China. But the alternative was to sit back and wait for the inevitable economic crisis and the social repercussions thereto. In some ways, Hu was suggesting that China risk stability in the short term to preserve stability in the long run. But Hu didn't anticipate the massive surge in global commodity prices, particularly of food and oil. This was compounded by increased international scrutiny over China's human rights record ahead of the Olympics, natural disasters hitting at the availability and distribution of goods, a rise in domestic social unrest triggered by local government policies and economic corruption, several attempted and successful attacks against China's transportation infrastructure, and the uprising in Tibet. Thus, the already-risky policies the central government was pursuing suddenly looked more destructive than constructive from the point of view of continued rule by the Communist Party of China (CPC).

The global economic slowdown was the external impetus China feared — something that could undermine the flow of capital and leave Beijing unable to control the outcome of a reduction in the inflow of capital. At the same time, the internal social tensions triggered both by Hu's attempts to reshape the Chinese economy and by the slow pace of those changes created a crisis for the Chinese leadership. It was hard enough internally to control a measured economic slowdown to reshape the economic structure of China, but quite another thing altogether to have such a slowdown imposed on China from outside at the very moment social stability was in a critical state at home.

#### A Government in Crisis

China's rapid and contradictory economic and security policies, rising social tensions, and seemingly counterproductive visa regulations appear to be signs of a government in crisis. They are the reactionary policies of a central leadership trying to preserve its authority, stabilize social stability and postpone an economic crisis. At the same time, we see signs that the local governments, and even organs of the central government, are putting up steady resistance to the announcements coming from Beijing. Slapping restrictions on foreign businessmen may make little sense from a broader business continuity sense, but if the point is to begin breaking the backs of the local governments — whose strength lies in their relations with foreign businesses — then the moves may make more sense.

If the central government has reached the point that it is willing to risk its international business role to rein in wayward local officials, however, then the Chinese leadership sees a major crisis looming or already under way. It is one thing to toss out a few local leaders and replace them, quite another to undermine the structure of the Chinese economy for the sake of regaining control over local officials. But if Chinese history since 1949 (and really quite a ways before) is

any guide, the core of the CPC leadership is willing to sacrifice social and economic stability to preserve power. One need only look at the Great Leap Forward, the Cultural Revolution or the crackdown at Tiananmen Square for evidence of this. Revolution is not, after all, a dinner party, and maintaining CPC control is paramount to the government.

After each major revolution or crisis, China eventually has recovered. The Cultural Revolution was followed by diplomatic relations with the United States, Tiananmen Square was put aside as China joined the World Trade Organization and surged ahead in gross domestic product (GDP). Certainly, there was change among the leadership and in the way the party dealt with policies at home and abroad. But if there is the likelihood of loss of control due to an impending economic crisis, better to have some role in shaping the crisis to preserve the chance of maintaining a role in the future political structure than to sit by and try to clean up as things fall apart. The Party in fact has a long history of taking a self-generated crisis/revolution over an externally or domestically initiated one.

It may be that the contradictory policies Beijing is tossing around these days will simply fade away after September and things will get back to "normal." But already, Chinese officials are downplaying the previously hyped political and economic benefits of the Olympic games. They are now warning that economic conditions may not be so strong in the future, and at least internally discussing the distinct possibility that at least certain regions of China are facing the same economic crises faced by their mentors Japan, South Korea and the Asian tigers.

### Internal Crises vs. the Economy

A recent article in the Global Times, a paper that addresses myriad topics of domestic and international significance and is read among China's leaders, discussed how economics is not the best measure of strength. It referred to the overall comparative GDP and the size of China's military in the late 1800s. Then, China was considered at its weakest, but from an economic or military perspective it could have been considered comparable to the global powers of the day. This hints at the deeper internal debate in Beijing, where true national strength and the role of the economy is under discussion. Assumptions that China is only focused on continued good economic ties with the world shouldn't be taken as gospel — China has a track record of shutting down external connections when internal crises brew.

Numerous policies are being thrown around in firefighting fashion, including blocking or at least hindering foreign business movement in and out of the country and tightening the flow of foreign capital in both directions. They are coming in reaction to flare-ups in economic, environmental, public relations and social arenas. Energy policies are making less sense, imbalances in supply and demand are growing and seemingly contradictory policies are being issued. Social unrest, or at least local media coverage of such unrest, seems to be increasing; either is a sign of weakening control. Local officials are still failing to fall in line with central government edicts. Strategic state enterprises like China National Petroleum Corp., China Petroleum & Chemical Corp. and the China Development Bank are all defying state-council orders — and the State Council itself is apparently going head-to-head with major policy bodies long given control over economic policies.

Something extraordinary is happening in China. And while not everyone may want that to be

the case, and so have sought to use the Olympics to explain things away, the easy explanation simply doesn't make enough sense.

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