

## CHOICES FACING THE FOURTH GENERATION

By Sarah Hill

**Summary:** This article looks at some of the challenges facing the leaders of China's fourth generation and the choices they will have to make between traditional Confucian practices and international standards. It particularly looks at whether the generational change will affect business practices, especially now China has joined the World Trade Organisation (WTO) and formally opened its doors to global business.

Hu Jintao's succession to the presidential seat in Beijing, November 2002, signals the start of a generational changeover in China and in Asia generally. Over the next decade, China's 'fourth generation' leaders, those now in their forties and fifties, will make their way into the highest ranks of government ministries, financial institutions, think tanks and business networks.

Political and economic analysts are watching this period of transition not without a little apprehension. Over the past twenty years dazzling economic growth in China has made it a rich and powerful nation, a new heavyweight in the global economic order. China's economy doubled in the 1980s and then doubled again in the 1990s. According to reports such as the Department of Foreign Affairs and Trade's *China Embraces the World Economy*, China is now set to outstrip the United States to become the world's largest national economy sometime in the 2030s.

Yet there remains a certain amount of danger associated with China. The devastation inflicted upon China's people by the Cultural Revolution and the horror of the 1989 Tiananmen Square incident are still vivid collective memories for many in China and around the world. For the West, China is also a perplexing problem ideologically as its new wealth has challenged the presumption that a capitalist democracy is the best formula for economic success; instead, China has retained its communist political system (even if it is a spurious form of communism), and nurtured its own ways of doing business, inscrutable to many a Western eye, to achieve its current state of prosperity.

For outsiders, this has resulted in an economic regime that is opaque and unpredictable. It is a more informal system of business based on inside knowledge and on a highly cultivated use of *guanxi* and personal networks. This, on top of the language and cultural barriers, means that conducting business in China can be a very risky proposition.

The coming of a new generation of Chinese leaders who are more globally aware, of whom many have been educated in the West, means China's old ways could change.

So, whether the fourth generation will do business differently, especially now China has joined the World Trade Organisation (WTO) and formally opened its doors to global business, is a question many an analyst is anxiously trying to answer.

Amongst the many theories concerning China's future trajectory, the most hopeful one is that the fourth generation will gradually bring in political and economic reforms such as the rule of law, improved public and corporate governance, better fiscal transparency, and the regulation of accounting and banking procedures. Essentially, this theory is based on the argument of convergence, the idea that China and indeed many Asian countries will over time gravitate towards the liberal democratic norms and structures espoused in the West.

Indeed, many prominent figures of the fourth generation, unlike those of previous generations, were educated at top universities in the US and in Europe and were therefore schooled in the liberal traditions of Western civilisation. Also, entry into the WTO entails the expectation that China will conform to WTO standards by implementing a more transparent and open trade regime and abiding by the WTO system of dispute resolution. These reforms, if brought into practice, would make trade with China more predictable and therefore more attractive to overseas businesses and foreign investment.

Hopes for such a course however, may rest on shaky grounds. The fourth generation may not be the generation to readily embrace a structural overhaul of its political and economic systems. To truly gauge the mettle of China's fourth generation leaders, it is essential to look at the life experiences and the historical context that have shaped their values and perspectives and that will ultimately determine policy and practice.

This generation grew up under Mao Tse-Dong's China. They lived through the Cultural Revolution, and as young people, spent their time fighting zealously for Mao Tse-Dong's communist vision. Displaced by the upheavals, many of them ended up living under extremely harsh conditions in rural China. Yet the Revolution they had risked their lives for eventually threw their country into turmoil, chaos and starvation, and the experience of this horror totally shattered the belief systems of this cohort.

Having lived through such a brutal revolution and then having watched the bloody clamp down at Tiananmen Square, the fourth generation has had enough of radical political change. If Hu and his contemporaries are to introduce institutional reforms they will be nothing but gradual. Furthermore, any impulse towards a swift unleashing of free-market forces and the instituting of a democratic regime in China has been strongly dampened, if not extinguished, in light of Russia's disastrous experiment with democracy. The economic stagnation and social fragmentation of Russia's *perestroika* stand as very good reasons for Beijing not to relinquish its authoritarian control and its communist/socialist veneer.

Yet the experience of national hardship for the Chinese also extends further back than the Cultural Revolution. Defeat in the Opium Wars one hundred and fifty years ago and the experience of foreign exploitation during Great Britain's pursuit of a colonial empire left

China with a severe loss of pride and a distrust of the West and any ‘gifts’ it comes bearing. After the past century of harsh historical experience, confidence has really only flowed back into China as a result of its economy undergoing this recent period of high growth. Economic success in other East Asian countries, such as Japan, has boosted confidence in the region too and led to a renewed sense of pride in Asian values.

This revitalisation of traditional cultural principles for China is manifested most significantly in the revival of Confucianism. Classic Confucian values include rule of man rather than rule of law; obedience to a strict code of rituals and hierarchy; and authoritarian patterns of leadership. These doctrines profoundly clash with a Western liberal democratic philosophy enshrining principles such as the rule of law, equality and all the civil and political liberties (freedom of information, expression and assembly) that allow a dialogue between governing and governed.

Whilst the above differences are of a philosophical nature, they infuse all social and cultural practices, including most significantly the way business is done. For example, freedom of information is considered a fundamental liberty in many Western countries, and strategic decision-making depends very much on risk-related information being available to the public. In contrast, China is characterised by an autocratic control of information by the government and a culture of secrecy. In fact, China and Russia are the only two nations in the G22 not to subscribe to IMF’s Special Data Dissemination Standard (SDDS). The SDDS is a main source of standardised information on varied economic and financial factors. This is extremely problematic for Western companies wishing to invest or trade in China because they are denied reliable information on business and market risks.

The fundamental challenge facing the leaders of the fourth generation will be whether to keep these traditional structures or whether to replace them with ones which conform more to international standards. The alternative is of course to blend them and the fourth generation stands in a position to do this more comfortably and pragmatically than any of its predecessors in China’s modern history. Yet the question is how assertive these leaders will be innovating and applying hybrid solutions to China’s problems. The hardship, demoralisation and extremism the fourth generation has experienced may prevent it from initiating real and effective reforms.

Internal pressures and problems facing Chinese leadership will be the real test of the fourth generation’s capacity to embrace change. For example, traditional Confucianism suited a civilisation based on tight family hierarchies, within which obedience to a whole series of obligations was strongly enforced. This paternalistic code of conduct was in turn reflected in the relationship between the state and people.

The one-child policy, however, threatens to undermine this entire family structure. The future generations of Chinese, the fifth and sixth if that is what we call them, are growing up free of these traditional family duties and will be more individualistic than any previous generation. Furthermore, access to the worldwide web and the global cyberculture will provide these generations with a plenitude of new ideas and new

expectations. Unencumbered by old cultural practices, these age groups will lose the traditional ethical codes that regulate Chinese society instead of formal legal institutions. For this reason, it may be critical to strengthen political institutions that support the rule of law in order to define which practices are legitimate and which are illegitimate in social conduct as well as in business.

Other domestic troubles that will challenge fourth generation leaders include escalating environmental degradation, severe industrial pollution, extensive corporate and political corruption, cronyism and a formidable wealth divide between the affluent coastal provinces and the interior regions. All these problems threaten to destabilise the environmental and social fabric of China. In the long term, this can be counterproductive to any economy no matter how thriving it may appear to be in the present. Once again, it may behove the fourth generation leadership to borrow some Western values such as meritocracy, effective judicial system and the rule of law to curb destructive practices such as corruption and nepotism.

Under Jiang, China has experienced a sustained period of relative political stability and rapid economic growth. This has been achieved within a regime that has strongly encouraged wealth creation but in the absence of liberal democratic institutions. As the third generation slowly relinquishes control to Hu and his contemporaries, this balance will change. It will not however change as fast as many hope.

With increasing interaction between cultures by virtue of technological advancement, Chinese society will become increasingly pluralistic. It will also diverge, if only gradually, from traditional beliefs and patterns. At the same time, membership of the WTO and participation in the global free trade system, will put pressure on China to undergo extensive political and economic reengineering to remain competitive. These forces will present the fourth generation with a new set of challenges which must be overcome if China is to stay on its upward economic growth curve.

If Hu and his fellow leaders possess enough intellectual and innovative capacity, they will increase and strengthen the political and economic infrastructures that lead to better public and corporate governance. The outcome of this would be a reduction in some of the structural risk factors involved when doing business in China. The reduction will not be great however because China will remain more authoritarian and opaque than many Western business people and economists are used to. The case may be that real and effective transformation may only happen when the fifth generation come into power.

Finally in terms of doing business, the alternative to waiting for China to bring in reforms agreeable to the Western mindset, is that companies adapt and accommodate more to Chinese custom. This involves gaining the inside know-how by establishing strategic partners and emulating the network of contacts through which Chinese companies operate. In any case, this is beneficial. For even though China may bring in reforms that are more democratically inclined or at least more palatable to the West, it will always retain certain traditions that form part of its cultural heritage.

