

Peak China: Personal Observations as a Western Businessperson in China

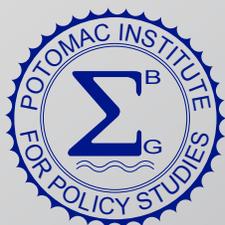
Patrick Ennis, PhD

**STEPS: SCIENCE, TECHNOLOGY,
ENGINEERING, AND POLICY STUDIES**

ISSUE 9, 2024

STEPS (Print) ISSN 2158-3854
STEPS (Online) ISSN 2153-3679

Patrick Ennis, PhD. "Peak China: Personal Observations as a Western Businessperson in China," *STEPS* 9 (2024): 8-15.



POTOMAC INSTITUTE PRESS

Copyright © 2024 by Potomac Institute for Policy Studies

STEPS: Science, Technology, Engineering, and Policy Studies
is published by Potomac Institute Press of the
Potomac Institute for Policy Studies.

Disclaimers: The Publisher, Institute and Editors cannot be held responsible for errors or any consequences arising from the use of information contained in this publication; the view and opinions expressed do not necessarily reflect those of the Publisher, Institute and Editors. The Potomac Institute is non-partisan and does not take part in partisan political agendas.

Copyright Notice: It is a condition of publication that articles submitted to this magazine have not been published and will not be simultaneously submitted or published elsewhere. By submitting an article, the authors agree that the copyright for their article is transferred to the Potomac Institute Press if and when the article is accepted for publication. The copyright covers the exclusive rights to reproduce and distribute the article, including reprints, photographic reproductions, microfilm, or any other reproductions of similar nature and translations.

Access to *STEPS* is available free online at:
www.potomac institute.org/steps.

FEATURED ARTICLE

PEAK CHINA

Personal Observations as a
Western Businessperson in China

Patrick Ennis, PhD

Article published online in September 2023 as the white paper: *Peak China: Personal Observations as a Western Businessperson in China*. The Potomac Institute and Editors cannot be held responsible for errors or any consequences arising from the use of information contained in this publication; the views and opinions expressed do not necessarily reflect those of the Potomac Institute, Editors, or any Government Agency.

The background features a blue-toned artistic illustration of a city skyline. A prominent pagoda-like structure is in the foreground, and several skyscrapers are visible behind it. A large, dark, ink-like splash or smudge is overlaid on the scene, partially obscuring the buildings and creating a sense of depth and texture. The overall aesthetic is modern and artistic.

Many facts, figures, and concurring opinions support the impressions conveyed in this article. Deliberately, data has been omitted to emphasize that these anecdotes and thoughts are not always quantifiable. This can lead to conclusions that might differ from common wisdom. Nonetheless, recent literature contains much data and concurring opinions that corroborate the views of this article. Further reading can be found at the end of the article.

INTRODUCTION

It is fashionable to talk about a “China Rising.” China itself declares its rise, attributing it to a growing economy fueled by manufacturing prowess and increased investments in technological advancements. China boasts of its ascent through statistics, expositions, and Olympics. As a businessperson with years of experience in Asia, including over 50 trips to China, I offer a personal perspective on China’s standing. My view is neither based on official economic data (which is suspect in any case), nor based on China’s propaganda. Instead, I observe that we are currently witnessing “Peak China,” and I believe China will soon start to decline in multiple ways. In my opinion, China is undergoing a process of breaking—and that is not good.

Adversaries tend to be most dangerous when they perceive themselves as weakening. The window of opportunity to win wars is rapidly closing, potentially leading to more belligerent and unpredictable behavior than usual. In our competition with China, if the US can navigate the next several years without a major confrontation with China, the US will emerge victorious. The China of 2030 will be far weaker than the China of 2023. This is a controversial view, as many still believe in China’s growing military and economic strength. My personal observation is that Chinese society is rotting from the inside, and the government is failing politically, beset from all sides. Chinese institutions, including the government, do not have a lot of friends within or outside of China.

The Chinese people, Chinese Americans, and Americans of Chinese descent have nothing to do with the government of China. They did not vote to elect President Xi, and very few individuals truly support him. Criticisms of China as an adversary, whether from the left or the right, target the government or the party, rather than the people. Generalized prejudice against Chinese individuals is counter-productive to US national interests. Indeed, as this article will elucidate, one of the best ways to win against China is to promote increased immigration from China to the United States, especially focusing on attracting young and talented individuals.

CULTURAL IMPACT OF DEMOGRAPHICS

Demographers will tell you that China has a huge problem, resulting from a disastrous 35-year-long one-child program and a historically strong preference for male offspring. However, my observation is that the situation is far worse than the numbers imply.

China has more young single men than women. While the media often quotes the China male-to-female ratio of 105 males to 100 females—this pertains to the total population. Given that women generally live longer than men, the gender imbalance is far greater within the younger age group. This imbalance is evident in practices in society. One egregious example is the importation of young women from countries like North Korea and Vietnam to serve as wives, especially in rural areas. Having a vast population of young men with limited prospects for starting a family is not good. Throughout human history and across the globe, the cohort of young single men often contributes the most to societal turmoil and unproductive behavior.

In China, the society has gotten old before they got rich. This results from a demographic time bomb—an aging society, an incredibly low birth rate, and a per capita income that remains very low. In contrast, other Asian countries, like Singapore, Japan, and Korea, have aging and shrinking populations, but their per capita incomes have already reached world-class standards. In China, except for a few rich cities like Shanghai, Beijing, Shenzhen, and Chengdu, the per capita income in China remains shockingly low. While young people might hope to get rich, the prospects are not great. This reality fosters discouragement. A low-paying factory job does not serve as a good stepping-stone. Fierce competition for slots in top universities persists, yet recent college graduates struggle to find work. The government tries to convince these college graduates to consider factory work. For those students that have the opportunity, pursuing higher education abroad is viewed as a ticket to more opportunities.

It is too late to turn around the birth rate, in China as well as other Asian countries. Efforts to increase birth rates have proven ineffective in countries such as Japan, South Korea, and Singapore, where failed policies included cash payments for children, free daycare, workplace flexibility, and even government-sponsored speed dating. Nothing seems to work and people have seemingly made their choices. In such circumstances, the only alternative to growth is immigration—the lifeblood of a wealth-growth country. Yet, in China, a discussion of immigration is absent. Unlike Korea and Japan, where immigration is increasing despite traditional reputations for being less welcoming of newcomers. China is not very hospitable to immigrants. Immigrants are more inclined to move to places like Singapore, Korea, Japan, Australia, Canada, England, and notably, the United States.

Conversely, the youth—particularly the talented and ambitious youth—in China want to emigrate. One potent strategy to win against China is to increase immigration from China to the United States. Over time, numerous brilliant Chinese scientists and entrepreneurs have come to America to engage in research, education, business ventures, and personal growth. Also on the immigration spectrum, many industrious, hard-working Chinese immigrants have contributed to the United States for generations by aiding in nation-building, raising families, and enriching communities. Welcoming a greater number of Chinese immigrants will weaken President Xi and the Chinese government while strengthening America across the board.

DEFIANCE OF AUTHORITY

The prevailing trend of placing China on a pedestal has often led to the dismissal of voices positing China's upcoming decline. Indeed, China has achieved much, and in some cases, has outperformed the US—for example, in GDP growth rate and in the fielding of certain new weapons systems. This achievement is often attributed to a powerful autocratic government that orchestrates well-planned campaigns. However, my perception is that China's strengths arose despite the autocratic central government and Communist Party—not because of them.

China's innovation and business and cultural vigor have come from the relatively less-regulated entrepreneurial sector that has developed over the past three decades. This vitality is not attributed to government-run, state-owned enterprises. The good things in China are not enabled by the writings of Mao or "Xi Jinping Thought." Instead, they stem from a cultural heritage of social harmony and hard work rooted in thousands of years of family and community focus, underpinned by various religious and philosophical traditions such as Confucianism, Buddhism, and Taoism. However, this vibrancy is independent of the central government. In my view, China is becoming an unhealthy society with a corrupt central government that inevitably paves the way for anarchy and the demise of the ruling system.

President Xi has consolidated power and possesses strength greater than his predecessors. However, many of the local officials and people merely offer superficial agreement while waiting for his tenure to end. The truth is, lawlessness and defiance of central authority is rampant. The military operates with impunity, as evidenced by events like the 2007 satellite explosion that created a space debris field, resulting

in world-wide condemnation and central government embarrassment. I am convinced that similar incidents persist. In the run-up to the 2008 Beijing Olympics, I recall the paid killing and removal of wild dogs from the streets, in defiance of an embarrassed central government that recognized how negatively it was perceived by external cultures. These instances are still discussed to this day. Local governments turn off the required electrostatic scrubbers on coal power plants to enhance efficiency, only activating them for a day when the Beijing inspectors visit. President Xi attempts to consolidate power that he has not yet achieved.

A long-standing policy requires foreign businesses in China to employ a senior member of the Communist Party, which deters international investors. In one of my companies' office in Beijing, we had to create a position for someone who nominally reported to the CEO of our China entity. The government in Beijing filled the position, assigning an older gentleman who had been educated in the United States. Although we knew he was always reporting back to the government, I believe he had mixed allegiances—it was not clear whose side he was on. Many of the ruling elite in China have children who have settled abroad in wealthy countries. The government may think that their central control is benefitting China, but it has led to a cadre of people with split loyalties and freelance operations.

China is frequently accused of propelling their rise by stealing US intellectual property. Many documented cases of this theft exist, especially from the 1990s.

Many Chinese companies are based upon Western ideas, and some on stolen intellectual property. During one of my trips to Shanghai about 10 years ago, I was at a government research institution meeting with several top R&D people to discuss potential collaborations. In one session, a series of professors were proudly presenting their reverse compiler work. There was no sense of shame and no ambiguity that the whole purpose of this work was to steal source code from other developers. They knew this was illegal and indefensible but assumed it was socially acceptable to be in open violation of laws and rules.

In other cases, they steal from one another. When establishing our Beijing office and hiring about 15 individuals, our local advisors informed me to expect that everyone in my group would have one or more additional employers (potentially competitors). In the relevant field in the US, this would be unallowed, and I had to ensure that our staff were not

overtly stealing information to share with other employers. Their motivation likely stemmed from a desire to earn extra money, but there was little impunity or effort to conceal this secondary employment. While from my Western cultural perspective, theft is morally wrong, the culture accepted some amount of theft as the way to succeed.

Some companies have succeeded. Seeded by global technology innovations, some Chinese companies have become international competitors. However, the notion that somehow the Chinese government is responsible for China's world-class companies is a misconception. In reality, companies like Lenovo, Huawei, ZTE, Tencent, and others, arose expressly because the Chinese government intentionally took a hands-off approach. These companies thrived under a capitalist framework, while it lasted. In contrast, typically state-owned enterprises neither operate on an international level nor engage in significant exports.

WHO IS CHINESE?

China is a far-flung, diverse country with a population of more than 1.3 billion. Ethnically, Han Chinese make up approximately 70% of the population, according to official records. However, numerous other ethnic groups and mixed ethnicities contribute to the diversity. The term "Han" is a default category encompassing many subgroups, rendering it too broad to be meaningful. The term is similar to saying someone in Portugal is the same as someone in Switzerland because they are both "European." Despite this, the Communist Party tries to promulgate a perception of uniformity among Han Chinese, and by extension, the entire population of China. For the increasing portion of the population not categorized as Han Chinese, their position in one or more ethnic underclasses leads to them feeling marginalized and discriminated against. China exhibits this distinctive characteristic in contrast to countries like Japan or Korea, which are closer to true monocultures. Yet, China's government tries to run China as a monoculture, championing the "China way." This practice of pretending a country is a monoculture when it is not is destabilizing. Diverse countries can be challenging to govern, but they are impossible to govern if the diversity is not acknowledged.

The central government in Beijing is not as powerful as commonly believed. The local governments retain substantial power, and many people simply ignore the government rules. Society is based on who you know and who you can bribe. I have not seen the equivalent in modern Japan or

Korea, for example. Xi has forcefully attempted to exert the primacy of central control over the provinces and cities, but a natural tendency in China is to resist control.

PHYSICAL AND CULTURAL ROT

Behind the glittering façade of the fancy buildings and upscale hotels lies a story of shoddy workmanship and pervasive corruption. Take, for example, two exclusive high-end business hotels in Beijing, where I frequently stayed after their openings in 2007. When they first opened, these hotels looked amazing, yet after a couple of years, the hotels were literally falling apart. The glass roofs were leaking because the panes were installed improperly. Bathrooms were malfunctioning because the plumbing contractors omitted p-traps to save time and money. Tilework was disintegrating after a few years. According to my Chinese friends, even the most high-profile architectural projects involve shortcuts by corrupt construction companies.

Equally astounding is the sight of countless empty modern high-rise condominiums—a glaring misallocation of capital. These structures hold little to no value, like worthless stock, given their low quality and redundancy in light of China's shrinking population and hostility to immigration.

Wasted investment can be a form of corruption. China has been successful in developing technical expertise in certain areas; however, its efforts in advanced semiconductor production have fallen flat. Over 20 years ago, I visited China on behalf of a Seattle semiconductor startup. Our search for fabs to manufacture our chips led us to deep discussions with various Asian chip manufacturers. In China, Grace Semiconductor and SMIC, whose capabilities were inferior at the time, spoke of the billions of dollars of government investments that would soon elevate them to world-class status. Yet, 20 years and the equivalent of many billions of dollars later, China remains far from attaining the capabilities of TSMC, Samsung, or Intel. It takes more than just financial infusion to achieve excellence in a field.

Corruption further taints business deals. Business everywhere is based on relationships to impress partners, but in social settings involving business counterparts, I have observed open behavior that I have not seen in other countries.

At dinners with senior business executives and government officials, these older male executives were accompanied by younger female companions who were literally introduced as their "second wives." Some executives even boasted of

having third wives. In China, if you are a senior government official or businessman, having a second wife is exceedingly common. You would in fact stand out if you didn't have a regular companion to bring to the business dinners and karaoke evenings. The unabashed disregard for the law in China speaks to a state of official business and government culture that undermines trust and defeats sound international business practices.

CHINA'S DEPENDENCIES

The US enjoys abundant natural resources, including energy supplies, food production, and mineral deposits. In contrast, China faces problems in certain areas. China relies on massive energy imports for power. While they have ample coal reserves and a nuclear program, China remains a significant importer of fossil fuels. China also struggles to feed and hydrate its population.

At the same time, China exports some of its best human resources and investment capital—a phenomenon known as brain drain. This trend has been ongoing for decades and has recently accelerated. Various centers, such as Vancouver, New York City, San Francisco, Seattle, Sydney, and Singapore have welcomed Chinese immigrants. In recent years, significantly higher numbers of Hong Kong Chinese have relocated to Singapore due to China's unilateral abrogation of the Sino-British Joint Declaration, which promises "one country—two systems." Each of these centers provides a cultural environment conducive to Chinese relocation outside of China. For example, Singapore citizens are predominantly ethnically Chinese from southern China—with many having been in Singapore for two or more generations. Consequently, these individuals feel little affinity towards China as a government, while retaining a strong connection to Chinese culture and people, including aspects like food, literature, and religion.



During my trip back to Singapore last year, which marked my first return since the COVID lockdown, I learned that the influx of people from Hong Kong to Singapore had been so significant that it sparked the development of anti-China sentiment. I observed this judgement in Singapore for the first time in my 20+ years of visiting the country. The derogatory comment heard originated from a third-generation Singaporean of high social class, who viewed Hong Kong immigrants as less desirable individuals despite their wealth and education. This phenomenon underscores the massive emigration from China.

Additionally, there is a money drain. China's much touted Belt and Road initiative is floundering. Many of the projects constructed by China were poorly executed and are deteriorating after just a few years (much like my luxury hotel experience mentioned earlier). Foreign countries may accept the Chinese money and projects, but they do not envy, respect, or trust the Chinese government. The Chinese government dispatches their own workers who treat local residents as inferior and incapable of handling complex endeavors. This approach does not engender goodwill, and the potential return on investment for these projects remains uncertain.

Even private investors spend as much money abroad as possible due to their lack of confidence in prospects within China. If sufficiently affluent, they acquire second homes in the United States, Australia, Singapore, England, or elsewhere. They also prefer sending their children to schools in the United States or abroad. Furthermore, they distrust the cleanliness of their food, water, and air. What does this signal for a country that aspires to become the world's most powerful? It just does not add up.

Chinese banks are generally unhealthy, as the debt burdens carried by Chinese entities are far worse than in the United States. The focus on real estate as the main source of savings and wealth creation poses a big problem for China.

LET THEM STAY

When I started graduate school in 1985, the entering PhD class in physics at Yale consisted of 20 students, including 6 American citizens and 2 students from mainland China. I became acquainted with those two students, both of whom were among the brightest students in China, earning them the opportunity to study in America. They are both now long-time US citizens, enjoying productive careers on Wall Street, in management consulting, and as startup founders.

Today, graduate schools are filled with Asian students, with many from mainland China. Numerous factors drive Asians to American schools; with some Chinese students citing the reasons I have discussed. But another powerful reason is the limitations of the Chinese educational system, which focuses heavily on tests, rote learning, and deference to professors as authority figures.

In my own experience within a graduate program, recent Asian immigrants routinely outperformed Americans on placement tests and classwork exams. However, over the course of the multiyear program, Americans (and immigrants who studied in America as undergraduates) usually produced more creative and influential research. Today, graduates of American doctoral programs are more likely to publish their original creative work, rather than solely implementing the plans of a thesis advisor.

While certain Chinese universities have attained world-class status, prospective students in China are aware of the prestige and creative research training at US institutions. Consequently, they flock to US educational programs if given the chance, or at least attend schools outside of China when possible. Students that come to the US generally want to stay in the US after graduation. Perhaps this is a testament to the breadth of topics covered in the American education system, where students are taught to ask "why" and to question their professors and academic dogma. These are attributes that I believe lead to more creative and productive technologists.

WHAT IS NEXT?

While many supporting facts and statistics exist, quantifying many of my anecdotes proves challenging. No single factor alone points to China's demise, but my overall impression is that we have witnessed "Peak China." This does not mean that China will cease to pose problems for the US in military, economic, or political affairs. Indeed, the challenges could intensify as the government in China increasingly and desperately clings to the illusion of China's continued rise. President Xi, who has become increasingly autocratic, already points to this phenomenon. His legitimacy depends upon perpetuating the charade and convincing the Chinese populace that their nation will soon emerge as the strongest, richest, and most respected in the world.

After the Tiananmen Square massacre, I attended a lecture by one of their top student leaders, who had escaped to

America. She spoke optimistically, saying that China would change because the youth yearned for democracy. For decades, I shared her optimism as China seemed to be transforming into a freer society both economically and culturally. However, President Xi has turned back the clock, reversing this progress. Recently, I spoke with a young Chinese colleague working in the US and about to obtain a green card. This colleague's sentiments mirrored those of the student leader 33 years ago—that the arc of history is against President Xi because the youth want democracy. Why would it be any different this time? While young people may feel change is inevitable, history suggests otherwise.

I fear that without a change in regime, President Xi and his party will cling to power, preventing a peaceful, smooth transition to democracy and free markets. Moreover, a new regime may be as bad as the old. Thus, the apparent opportunity lies in welcoming talented young individuals to the United States, where they can become citizens and start businesses. However, this leaves over a billion Chinese lacking the means to emigrate in a precarious situation. This situation affects not only the United States and the free world, but also China, itself. The US and Chinese economies are intertwined, with continued cultural mixing. China possesses modern military technology. Alongside our allies such as South Korea, Japan, and Taiwan, we should fear not only an ascendant China, but rather a collapsing China.

ACKNOWLEDGEMENT

I thank Dr. Robert Hummel, Chief Scientist of the Potomac Institute, for his expert energetic assistance with this article.

FURTHER READING

Adam S. Posen. "The End of China's Economic Miracle, How Beijing's Struggles could be an Opportunity for Washington," *Foreign Affairs*, Aug 2, 2023.

Sandan and Dhume. "China Can't Seem to Make Friends or Influence People," *Wall Street Journal*, Opinion. Aug 3, 2023, <https://www.wsj.com/articles/china-cant-seem-to-make-friends-or-influence-people-popularity-beijing-economic-rise-asia-polls-2779690b>, and Aug 4 print edition.

Michael Bluhm, "End of an Age," *The SIGNAL*, Sept 29, 2022, Subtitle: "What's wrong with China's economy? Jeremy Mark on the property crisis, income inequality, and the need for a new economic model." <https://www.thesgnl.com/2022/09/china-economy-challenges/>.

The Economist, "How much trouble is China's economy in?" "Growth is faltering and country is flirting with deflation," July 17, 2023, <https://www.economist.com/finance-and-economics/2023/07/17/how-much-trouble-is-chinas-economy-in>, Print edition "Feel-bad recovery" July 22, 2023

Bloomberg News. "China's Economic Woes are Multiplying – And Xi Jinping Has No Easy Fix," June 29, 2023, updated June 30, 2023, Subtitle: "China is facing a confluence of problems: Sluggish consumer spending, a crisis-ridden property market, flagging exports, record youth unemployment and towering local government debt." Paywall: <https://www.bloomberg.com/news/features/2023-06-29/china-economic-rebound-falters-weighted-by-debt-property-slump-little-stimulus>

