

**Demetri Kofinas:** What's up, everybody? Welcome to this week's episode of Hidden Forces with me, Demetri Kofinas. Today, I speak with Elizabeth Economy, the CV Starr senior fellow, and director for Asia Studies on the Council on Foreign relations. Dr. Economy's an acclaimed author and expert on Chinese domestic and foreign policy [00:00:30] issues. She is the author of numerous books, the most recent of which is The Third Revolution, Xi Jinping and the New Chinese State, a wide ranging exploration of the Chinese leader's top political, economic, and foreign policy priorities and their implications for the rest of the world. Dr. Economy has published articles in Foreign Policy and scholarly journals, including Foreign Affairs, Foreign Policy, and the Harvard Business Review, and op-eds in the New York Times and the Washington [00:01:00] Post, among other newspapers and publications. Dr. Economy, welcome to Hidden Forces.

**Elizabeth Economy:** Great to be here, Demetri.

**Demetri Kofinas:** How are you feeling?

**Elizabeth Economy:** Feeling good.

**Demetri Kofinas:** You've been on a media blitz.

**Elizabeth Economy:** I have.

**Demetri Kofinas:** A Blitzkrieg.

**Elizabeth Economy:** It's been a good day. This is my fourth appearance.

**Demetri Kofinas:** So, you are coming from MSNBC. That was a short walk from here, right?

**Elizabeth Economy:** Yeah. Very short.

**Demetri Kofinas:** That's Rockefeller Center.

**Elizabeth Economy:** About three blocks.

**Demetri Kofinas:** What did you have before that today?

**Elizabeth Economy:** I had a talk at the Lotus Club on the Upper East Side, which was very nice.

**Demetri Kofinas:** It sounds elegant. I've never been there.

**Elizabeth Economy:** Well, we'll have to take you some time. ... and an interview [00:01:30] earlier on a foreign policy podcast.

**Demetri Kofinas:** The Lotus Club, is that an Asian club or a Chinese club?

**Elizabeth Economy:** No. It's a longstanding club from the 1800s that's renowned for its sort of literary, cultural, history membership, so it's a beautiful, beautiful, old townhouse.

**Demetri Kofinas:** You CFR Swankies. It's the CFR Swanky community. You guys have access to all the old school institutions and clubs in New York.

**Elizabeth Economy:** Well, that's the only access that I got, going to give a talk.

**Demetri Kofinas:** All right. [00:02:00] Well, I'm very excited to have you on. As you know, and I'll mention to the audience, Anne Stevenson-Yang introduced us, who came on the show for episode 16 on the Chinese economy and banking system. That was a great show, and she was a very popular guest. I'm very excited to have you on. You come highly recommended and on a wave of media. You've got your new book that's just come out. I've read it, and I'm very excited to review it here today. Could you give us some background about yourself, kind of where you came from, how you found [00:02:30] your way studying Chinese, China, and sort of the foundation of your work?

**Elizabeth Economy:** Sure. Actually, my original interest was in the Soviet Union, and I studied the Soviet Union, Soviet history, Russian literature. I actually studied in Leningrad back in the 1980s. Leningrad when it was still Leningrad.

**Demetri Kofinas:** Leningrad, for those who don't know, that's Saint Petersburg.

**Elizabeth Economy:** Exactly. Exactly. Now Saint Petersburg. So, I studied there. Then I did my masters work, also focusing on the Soviet Union and Eastern Europe. I worked at the CIA [00:03:00] for a couple of years in the mid-1980s as the Gorbachev analyst-

**Demetri Kofinas:** Wow.

**Elizabeth Economy:** ... which was quite interesting, but then when I went off to get my PhD in the late 1980s, someone in the political science department, a professor, said, "You know what? You know a lot about the Soviet Union already. Why don't you think about studying China, do some comparative communism?" I thought that sounded really interesting.

**Demetri Kofinas:** When was this?

**Elizabeth Economy:** This was 1987.

**Demetri Kofinas:** Right. Very prescient.

**Elizabeth Economy:** Yes. So, I began my study of the Chinese language and Chinese history. [00:03:30] I did comparative communism, until of course the Soviet Union

turned into Russia in the middle of my graduate work. So, when I finished my dissertation, there was no more comparative communism.

**Demetri Kofinas:** Comparative means comparing different types of communist countries, like China versus Russia, for example?

**Elizabeth Economy:** Right well, China-

**Demetri Kofinas:** Or USSR.

**Elizabeth Economy:** ... versus the Soviet Union. Right. By the time I finished though there was no more Soviet Union. It was Russia.

**Demetri Kofinas:** That's interesting.

**Elizabeth Economy:** And it wasn't really communist. They'd had free and fair elections, and it was a very different system.

**Demetri Kofinas:** When did Condi Rice graduate or finish her PhD?

**Elizabeth Economy:** [00:04:00] Well before I did, because she actually was my professor at Stanford when I got my masters.

**Demetri Kofinas:** Really?

**Elizabeth Economy:** Yes.

**Demetri Kofinas:** What was she like?

**Elizabeth Economy:** She's very smart. You know, she runs her seminars in a very structured way.

**Demetri Kofinas:** She seems stern.

**Elizabeth Economy:** I would say-

**Demetri Kofinas:** She can be stern.

**Elizabeth Economy:** Stern is fair. She's got a reasonably warm personality, but she always knows the answer. It's not a free flowing discussion where anybody can pop in with things.

**Demetri Kofinas:** Soviet style.

**Elizabeth Economy:** She's got the answer at the end of the day. Yes.

**Demetri Kofinas:** Learn by doing, as they say. Interesting. So, the wall [00:04:30] fell, and then you basically continued your studies focusing just on China?

**Elizabeth Economy:** So, then it was time to get a job, after I finished my PhD, and there were no Russia jobs, because the universities, the US government, it was a little bit less interested in Russia at that time than in China. Russia was a little bit in the decline, or seeming to be so. It was a much smaller place, right? It wasn't the Soviet Union with all those republics, but there were a couple of China jobs at universities, and so I applied for one out at the University at [00:05:00] Washington, and I started teaching, but then I got married, and I needed to move back to New York. Thus began my two decade odd stint as the Council on Foreign Relations as China fellow and now director of Asia Studies.

**Demetri Kofinas:** That's great. That's great. I used to, when I had more time and it was more relevant to my work, because now so much of what we cover is in technology and the sciences, I used to indulge heavily in CFR's Podcast, which is [00:05:30] basically just on the record conversations from the Council on Foreign Relations. I love that stuff.

**Elizabeth Economy:** Great. Maybe we can get you out to hang out sometimes.

**Demetri Kofinas:** Sure. Yeah. Why not? But before we continue, this is really interesting, what you said about working at the CIA in the 1980s as the Gorbachev specialist. What was that like, and what did that entail?

**Elizabeth Economy:** So, mostly it entailed coming in early every morning and reading everything that he said and trying to put together a picture of who he was and what he was driving to do. [00:06:00] So, I started working there just a couple of months after he came into power, so there really wasn't a lot of knowledge about him at the time. I was one of the few people at the agency who really focused all of our attention on him and began to develop a picture of what Gorbachev was all about and where he was gonna take the country. There were a lot of fun things I got to do, a video for the Reagans on Raisa Gorbacheva. It was a great time to be at the CIA working on the Soviet Union.

**Demetri Kofinas:** Very interesting. [00:06:30] So, you have a portrait of Gorbachev that's very detailed, certainly by the standards of the average student of Russian history.

**Elizabeth Economy:** Certainly. I did, but of course it's classified, so I can't tell you anything about it.

**Demetri Kofinas:** That's so cool. That's so cool. All right. Let's pivot then to China, to the Middle Kingdom, to the land of Asia. Well, Asia at large has been in the news obviously, because of North Korea. That's been the big ticket item since Trump took office. I do want to talk about North Korea at some point, because it [00:07:00] is news related. We'll probably touch on it at the end, get into a bit. I'd love to hear your take on China's relationship with North Korea and sort of maybe that foursome of North Korea, South Korea, China, and the he United States and how that dynamic is working right now.

But before we do that, I feel, having read your book, I think you're in a unique position to inform me and our audience on giving us a larger picture of China, starting I think with its history and how [00:07:30] China and the Chinese see themselves in relation to the rest of the world, couched with sort of their dynastic history. How does the period before 1971, before Mao even, how does that inform China's policy today, both domestically and its foreign policy?

**Elizabeth Economy:** Well, I think if you look back into imperial China and then the republican era, which was right before the establishment of the People's Republic of China in 1949, when the Chinese people look back at that time, it's with a mixture or both pride [00:08:00] in many of the accomplishments that ancient China accomplished, you know, as an innovator, paper, the compass, the printing press. They have a lot to be proud of, you know, China's, it's centrality in the global system, but at the same time, there's a sense of humiliation. They call in fact the period from 1849 to 1949 the 100 years of humiliation.

That really refers to the fact that China during that period was often, for most of it, in some aspects, [00:08:30] either invaded by or occupied by foreign powers. So, they didn't have control over their own territory. They'd gone from being this enormously proud empire to this decaying, non-innovative, behind the time in terms of the Industrial Revolution, country that could be occupied by other powers. It's a mixed legacy that the Chinese people feel when they look back.

**Demetri Kofinas:** Is there a lot of [00:09:00] lingering resentment felt towards the Japanese for that period in China, or is that overblown?

**Elizabeth Economy:** No. There is a fair amount of resentment. In fact, the Chinese government over the past few decades has done a lot to encourage that sense of resentment, you know, everything from television shows to video games tend to portray the Japanese in a very unfavorable light. Many times they are sort of set up as the enemy. Much of what Japan has [00:09:30] done for China over the let's call it 1980s and into the 1990s in terms of assisting them with foreign direct investment or overseas development assistance, Japan has done a lot, for example, in the area of the environment to help China. None of that is really known to the Chinese people, so the Chinese government has very carefully crafted a narrative about Japan I think that continues to support a degree of resentment.

**Demetri Kofinas:** Hm. That's interesting. You think it's mostly [00:10:00] something that serves the governing members of China's elite? It's a narrative that they push, but in the inner circles, it's not a type of resentment that they really feel, quite the contrary.

**Elizabeth Economy:** No. I think there's an element where it's quite self-serving, but of course there's an element of reality too in that the Japanese haven't quite revised all their history books to acknowledge the role that they played in world-

**Demetri Kofinas:** The atrocities.

**Elizabeth Economy:** Right. ... in World War II. For example, the Nanjing Massacre. So, there's a sense that, yes, Japanese [00:10:30] leaders have apologized, but do they really feel it in the same way that, for example, the Germans have acknowledged their crimes against humanity?

**Demetri Kofinas:** You kind of touched on something when you were talking about that period that ... What'd you call it, the period of shame?

**Elizabeth Economy:** The 100 years of humiliation.

**Demetri Kofinas:** 100 years of humiliation. I think that speaks partly, if not directly, to this notion of continuity and renewal. It seems, in reading your book and also in other things I've read over years about China, there is a desire [00:11:00] to sort of skip over that period and kind of cut and paste. I think similar to your Greek, we were talking about this before, there's a similar case I think with Greece and its Ottoman history.

**Elizabeth Economy:** Yes.

**Demetri Kofinas:** There's this desire to sort of cut and paste that 400 years out.

**Elizabeth Economy:** Yeah. It's a long period.

**Demetri Kofinas:** Right. Yeah. Snip it out. I think it seems, just from an outsider's perspective, there seems to be something similar with China, and I think also there's this sense of, especially since it is such a powerful, central bureaucracy, a sense in which they ... You see this also with countries also in [00:11:30] Dubai, an expanded sense of what the government can accomplish in terms of remaking history, and remaking the future, and forming the future, which sort of pervades all of this. That kind of leads us to get deeper into the question of how the Chinese government works. I mean, even to call that a government I think is confusing, and that's something I've only learned as I've gotten into the subject more deeply. How does governance work in China?

**Elizabeth Economy:** There are entire books written about this, but let me try to [00:12:00] parse it down. I think the most important thing in terms of Chinese governance is really the Chinese Communist Party. There are 89, 90 million members of the party, but it's not like joining the Republican Party or the Democratic Party. You can't just say, "I'd like to be a Communist Party member." It's actually something that you have to earn, and the party recruits ostensibly the best and the brightest, certainly those who don't show any tendency to deviate in their thinking towards liberal, Western ideals. They want those who [00:12:30] are committed to the ideals of the Communist Party and who will be good implementers of whatever policy the senior officials decide to pursue.

So, you had these 90 million members of the Communist Party. On top of them sits the general secretary, who is Xi Jinping. He's the general secretary of the Communist Party. Under him there are six other members of the Standing Committee of the Politburo, so they are kind of the seven most powerful people in the country. Then you have another 25, 24 [00:13:00] of whom are men, by the way ... There's only one woman in the most senior leadership of China. That's the Politburo. Then below them you have the Central Committee, which is about 200 some full members and another 197 alternate members. Then finally, you have the broader Communist Party. This is really the group, the Central Committee on up, that sets the broad policy for the country, the broad directions. Are we going to have economic reform? If you look back during the time of Deng Xiaoping, when economic [00:13:30] reform was first announced, it was during a party Congress, a plenum of a party Congress.

**Demetri Kofinas:** 1979.

**Elizabeth Economy:** Exactly. It comes through Deng Xiaoping's auspices as general secretary of the Communist Party. Then you look back under Xi Jinping, and you see the same thing, right? His was during the third plenum of the 18th party Congress in 2013. He announced a big program of economic reform. Of course, it hasn't come to pass, but the ideas were there in any case. So, the party's responsible for setting the broad [00:14:00] policy direction of the country. Then you actually have the state or the government, and the government's really responsible for passing the laws and implementing policies. The government is divided into two parts really. You have the president, who again is Xi Jinping, and he sits on top of the National People's Congress, which is kind of a rubber stamp legislature, as well as sort of is in charge of appointing people to the State Council, which oversees all the [00:14:30] ministries, like the Ministry of the Environment or the Ministry of Foreign Affairs.

These are two different parts of the state government, but the truth is that the party penetrates all of it. So, the most senior people in the Communist Party also occupy the most senior positions in the government side. This is matched all the way down. You have a provincial party secretary, a province being a little bit akin to a state, and you have a provincial governor, who's the state side, [00:15:00] but the provincial governor will also be a party member. That's the way in which there's the party and the state, but really the party is the essence. It is the heart of the Chinese government.

**Demetri Kofinas:** That's really interesting. So, is it fair to say that the organs of state are sort of like the mechanical suit, and the Communist Party is the animating spirit of the Chinese government, the ideology?

**Elizabeth Economy:** It's the spirit. It's the brain. It's the body. The mechanical suit part is [00:15:30] really just to part that maybe executes things. The driving force is the Communist Party-

**Demetri Kofinas:** The driving force.

**Elizabeth Economy:** ... for the broad policy.

**Demetri Kofinas:** Mm-hmm (affirmative). How does that factor into the Xi Jinping thought? That was something I think that also Deng Xiaoping and Mao Zedong are the only other ones that had that.

**Elizabeth Economy:** Well, yes. Deng Xiaoping had his thought, but the difference is that Xi Jinping, like Mao Zedong, was able to have his name and his thought enshrined in the constitution, which was shocking to many people, because-

**Demetri Kofinas:** [00:16:00] Xi.

**Elizabeth Economy:** Xi. Mm-hmm (affirmative). Because that elevated him in some respects above Deng Xiaoping. He earned something that only Mao Zedong had done before him. It was really one of the many signals we've had of the extraordinary amount of power that Xi Jinping has managed to amass in his own hands in just the first five years of his leadership. I don't think anybody would have anticipated that.

**Demetri Kofinas:** Can you explain for our audience what that is when we talk about thought? Then lead us into his biography, a little bit of sort of [00:16:30] what we know about where he came from.

**Elizabeth Economy:** Okay. Let me start with his biography and come to his thought. You know, Xi Jinping was born to privilege. His father was one of the original revolutionaries, at the same time as Mao Zedong. He was a leader in the propaganda effort. After the new government was formed, he was appointed as a vice premier, which is one of the most senior positions within the Chinese government, but then during the Cultural Revolution, which was this period of extraordinary [00:17:00] tumult and chaos in the country, when Mao Zedong essentially called for the broad masses to rise up against the bureaucratic elite, and all the young children or teenagers of privileged families, like Xi Jinping's family, were sent down to the countryside. Xi Jinping's family suffered a lot during this period. Xi Zhongxun, who is Xi Jinping's father, was put in jail. Xi Jinping himself was sent down-

**Demetri Kofinas:** What years were these?

**Elizabeth Economy:** The Cultural Revolution was [00:17:30] from the mid to late 1960s through mid-1970s. Xi Jinping was sent down to the countryside for seven years. His sister was killed during the Cultural Revolution. His own mother denounced him publicly. She had to or she herself would have suffered in some way.

**Demetri Kofinas:** Wow.

**Elizabeth Economy:** A very challenging time in China's history that they actually have not fully acknowledged, but he was sent down to the countryside. There he read a lot.

He toiled with the villagers. What's [00:18:00] surprising about his time there was that being sent down, having all of this pain inflicted on his family, didn't turn him against the party. If anything, it made him more committed to the party. He reportedly applied 10 times to become a member of the Communist Party before he was finally accepted.

**Demetri Kofinas:** Is that true or folklore do you think?

**Elizabeth Economy:** You know, it's been-

**Demetri Kofinas:** It's a nice, round number.

**Elizabeth Economy:** It is a nice, round number. I would say for sure it's multiple times, but the number 10 has been said by many people, so [00:18:30] 10 times, until he was finally accepted. Then he went to Tsinghua University in 1975, before Tsinghua had reinstated examinations though, so this was still a time when if you went to a university, part of your training was in Marxism. You were trained as a laborer, as a military person. It was a very practical kind of education, in addition to sort of learning about engineering or whatever. From that point, Xi Jinping, after he graduated, he took a job with one of his father's old [00:19:00] secretaries and then began to move up the food chain of the party.

His rise was not terribly distinguished. He was known mostly for his stance on anti-corruption, which of course has been a hallmark of his first five years in office. He tended to lead in the coastal provinces, which were the wealthier, more successful, economic rich areas of the country. That's just where he was placed. He didn't stall reform, but nobody ever talked about him as a great reformer. [00:19:30] It wasn't until 2008, when he was selected to the Standing Committee of the Politburo that he really began to distinguish himself. He was put in charge of the Olympics, which were of course a great success. He was put in charge of policy on the South China Sea in 2010, which has emerged as a pretty significant area in the past several years.

He also was responsible for the Party School, which is the place where the party thinks about its new theories and its new directions and it has its ideological [00:20:00] debates. That's a very important stepping stone to further leadership positions within the Communist Party. It's at that time that you began to see Xi Jinping emerge, but even still I would say when Xi Jinping, in 2012, stepped onto the stage, the Great Hall of the People, having just been selected as the next general secretary, nobody would have anticipated the transformative impact that he would have on the Chinese political system or on its foreign policy.

**Demetri Kofinas:** [00:20:30] How is that. Can you explain I guess, A, what was so transformative about it, and B, why was it so difficult to anticipate or in retrospect it wasn't anticipated, at least by foreigners? Do you think that the same applies to people in China as well?

**Elizabeth Economy:** Absolutely. I think the same applies to people in China as well. I have spoken to many Chinese who worked around Xi Jinping, knew people who knew Xi. I think most people have been astonished at the direction in which [00:21:00] he's taken the country. To begin with, the ability that he's had to just amass enormous amounts of institutional power in his own hands-

**Demetri Kofinas:** How does that work? Is that just by force of character?

**Elizabeth Economy:** It must be. There are only seven people at the top, and-

**Demetri Kofinas:** Remarkable.

**Elizabeth Economy:** ... and he has been able to put himself at the top of all of the most important committees and commissions, whether cyber security, or foreign policy, or national security. He has, as we mentioned, been able to get his thought and his name enshrined in the constitution in a way that only [00:21:30] Mao Zedong had succeeded in doing before him. The most recent example, he managed to get an amendment on the presidential term limits, so that now there's no longer two terms for president. He can be president for life, which means he holds the three most important positions, president, general secretary, and chairman of the Central Military Commission for as long as he wants, or until the Chinese people decide they don't want him, but really, it's been I think an astonishing [00:22:00] feat that he has accomplished in just five short years.

**Demetri Kofinas:** In that sense, he's the most powerful leader of China since Mao?

**Elizabeth Economy:** He's definitely the most powerful leader since Mao. I think some people might even say at some points more powerful than Mao, because Mao at various points was still constrained by others around him. Now, having said that, I do want to make the point that it's difficult to know how much dissent and discontent there is in China.

**Demetri Kofinas:** So, there's that. Who are the king makers? I mean, he didn't obviously [00:22:30] rise out of thin air. Do we have any sense of who some of the powerful players are behind the scenes in China that enable the rise of people like this?

**Elizabeth Economy:** Well, Deng Xiaoping was always the person behind the throne, the king maker, as you put it.

**Demetri Kofinas:** After he left his official role as-

**Elizabeth Economy:** Exactly. He was responsible for selecting every general secretary up until Xi Jinping. Xi Jinping emerged as a kind of compromise candidate between [00:23:00] Hu Jintao and Jiang Zemin. Even there, I don't think that either one of them expected the direction in which Xi Jinping would take the country. In fact, there were a lot of discussion about the fact that the retired party elders, like

Hu and Jiang, have complained bitterly about the extent of Xi Jinping's anti-corruption campaign. They didn't like the removal of the presidential term limits. They don't like a lot of what he's doing, the direction in which he's moving the country. They picked him, [00:23:30] but that doesn't mean that they're very happy with a lot of what he's been doing.

**Demetri Kofinas:** Let's talk about the anti-corruption campaign, because that'll get us into some of these other subgroups, like the surveillance state and state owned enterprises. Is it fair to even call it corruption? I mean, is that almost like a western misnomer for what it is in China, because it's so embedded? Is this really a populist measure to win over public support, or is it something that really is important for the functioning of the state and a requirement in order to root [00:24:00] out this, quote unquote, corruption?

**Elizabeth Economy:** Yeah. When Xi Jinping took power, one of the first things he said was that corruption would be the death of the Communist Party, even the death of the Chinese state, if it were not addressed, because it was so endemic, and it was at the highest levels, and it was at the lowest levels, down to a parent in a village having to pay a teacher on the side, so that his or her child could sit next to a heater. At every level of society you had corruption engraft. [00:24:30] Xi Jinping started off his tenure with really corruption being the most important focus of his agenda, and he has I think done far more, again, than anybody might have anticipated. You know, typically, beginning with Mao Zedong in the early 1950s, anti-corruption campaigns, they've been a staple of Chinese political life, but they usually start, they go for about a year, maybe a year and a half. Then they'd sort of slow down. People would forget about them. They'd come back a few years later.

[00:25:00] But Xi Jinping, for five years every year more people have been detained, arrested, and prosecuted, and put in jail than the year before. The intensity of this anti-corruption campaign has not subsided. Not only that, but he's broadened the remit of the anti-corruption campaign to include not only party members, but also senior government officials who are not party members. If you're the head of a school or a university, or the head of a hospital, or a manager in [00:25:30] a factory and you're not a party member, a Communist Party member, you now can be investigated, and arrested, and detained for graft.

**Demetri Kofinas:** Oh. Wow.

**Elizabeth Economy:** It's part of this whole campaign. This is a major element of Xi Jinping's agenda. It's real.

**Demetri Kofinas:** You know, it reminds me in a way of what's been going on in Saudi Arabia. Is there a sense in which this anti-corruption campaign is also about solidifying his power? He must have obviously his own set of alliances in order to be able to do that, because he's going after well connected, powerful [00:26:00] people through this anti-corruption campaign.

**Elizabeth Economy:** No doubt. To run the anti-corruption campaign he had for his first five years one of the most respected senior leaders in the government, Wang Qishan, who's known to many Americans, because he often played an important role in bilateral negotiations with the United States during the Hu Jintao era, but no. Xi Jinping has also used the anti-corruption campaign to go after his political enemies. There was a good study done by a professor up at Harvard that demonstrated that slightly [00:26:30] less than half of the senior officials, the vice-ministerial level and above, who've been arrested for corruption are tied in some way to Xi Jinping's enemies, so it serves a dual purpose. You know, on the one hand, there's a deep and abiding issue with corruption in China. On the other hand, he's able to consolidate his power and get rid of his political enemies.

**Demetri Kofinas:** Well, let's stick on that consolidation of power for a moment, because the anti-corruption campaign, obviously there is a component of that with respect to the [00:27:00] elites in Chinese society. The surveillance state, the apparatus that controls, that censors the internet in China, something that we don't have here in the United States, nothing comparable. Of course, we have NSA snooping and mass surveillance in the US, but nothing really comparable to what we have in China. I think this is fascinating. I mean, I know just a fraction of what the Chinese do, the lengths to which they go to control the internet, both through software and hardware. What can you tell us about [00:27:30] surveillance and censorship in China and the extent to which the internet is controlled, and what is that like if you're living in China, you've never traveled abroad? What is the internet experience for you, and how would that compare to what we have?

**Elizabeth Economy:** So, under Xi Jinping the level of control over the internet and the development and expansion of the surveillance system has intensified many fold. This is a central element of his effort to [00:28:00] centralized power, to control society, to eliminate opportunities for dissenting voices to be heard. With regard to the internet he has, as you suggest, a number of tools. There are technological tools, like the great firewall, which can just block an IP address outside the country, so the average Chinese cannot access the New York times, for example. He has control over the Chinese internet companies. He can tell them which words he wants censored, and they can [00:28:30] simply go after all those words in any message that's being sent across the internet and just block that message from going anywhere.

He also has censors, who sort of screen what's on the internet for content and look for things that they believe shouldn't be there. Then he has people who actually create content, so almost 500 million pieces of content on the Chinese internet are created, are fabricated, you know, voices in debates and discussion to develop the narrative [00:29:00] of the Chinese government by these 50 cent employees, many of whom are government employees. So, it's a whole system by which Xi Jinping attempts to restrict the flow of information on the internet. Of course, there are just punishments. He has just made it so that if you put a rumor out on the internet and it's read, you know, it's passed along 5,000 times, that you can be detained, put in jail for a few years. He's really gone to

extraordinary lengths to try to intimidate [00:29:30] the Chinese people into not voicing opinions that would be considered sort of outside the domain of the party.

**Demetri Kofinas:** Well, he's called it the battlefield for public opinion, right?

**Elizabeth Economy:** Right.

**Demetri Kofinas:** I mean, that's telling right there.

**Elizabeth Economy:** Yeah. It's a war.

**Demetri Kofinas:** It's informative.

**Elizabeth Economy:** It's a war against-

**Demetri Kofinas:** A propaganda war.

**Elizabeth Economy:** It's a propaganda war against what the Chinese media and he himself often call hostile foreign forces, these bad ideas that want to come in.

**Demetri Kofinas:** Hm. That's interesting. You know, that brings us to the questions of values and ideally, [00:30:00] which I think is what's most interesting here, but before we move off this, you mentioned about the people that create content in China. How many people are engaged in that? Do we have any idea how many people are employed in the project of creating propaganda or controlling public opinion from the standpoint of content?

**Elizabeth Economy:** A couple million.

**Demetri Kofinas:** I've seen that number as well.

**Elizabeth Economy:** For sure.

**Demetri Kofinas:** Remarkable.

**Elizabeth Economy:** It is. It is. But, you know, they have 1.4 billion people, so they've got plenty of people around to do that work.

**Demetri Kofinas:** Right. They have a lot of people. I've seen news of a new social credit system [00:30:30] that they're rolling out. Not to overstate things, because I've never been to China. I don't want to act like I know what I'm talking about, because I don't actually. Let's be very clear, but it's almost like Black Mirror stuff. That's a show that I've mentioned on the program often, because I think it parallels real life in many places. Certainly this is just one more case. How does the social credit system work? Or it's being rolled out now, right? It's brand new, right?

**Elizabeth Economy:** Right. It's being rolled out. To date, for the most part it's voluntary, but by 2020 there [00:31:00] will be a government database and everybody will have a social credit, a number, a score associated with them. You know, scores are determined by a range of factors, and that's part of what all the experimentation has been about, figuring out what those factors should be.

**Demetri Kofinas:** Crazy.

**Elizabeth Economy:** Yeah. Everything-

**Demetri Kofinas:** That sounds crazy.

**Elizabeth Economy:** Have you participated in a protest? Have you defaulted on a loan? There's even a report that it's gonna include how many hours of video games you're playing. That's one part of it.

**Demetri Kofinas:** That seems so insane.

**Elizabeth Economy:** Yeah. Some of its technologically based. Some of it can be reports by [00:31:30] your neighbors, if they see you doing something wrong, jaywalking for example. The party at one point was saying they wanted the neighbors to report on people who were jaywalking, but most people said, "We're not going to do that." Then that lead to-

**Demetri Kofinas:** How nice of them.

**Elizabeth Economy:** Your score leads to either opportunities or constraints, you know, opportunities, for example, to jump ahead of the line in a popular restaurant or to send your children to more competitive schools. Constraints like not being able to board an airplane or a train if you've defaulted on a loan. It's a very [00:32:00] punitive system for those people who have low credit scores. It seems to me that the opportunities for abuse are enormous.

**Demetri Kofinas:** This sounds. I mean, again, I don't want to be alarmist, because I don't know what I'm talking about, but when I hear this, it sounds so Orwellian that it's almost like a caricature of Orwell. Am I missing something, or is it really that bad? Are they able to do that, in a sense, because ...? This'll bring us back to values and sort of what the Chinese have been accustomed to for all these years. If you're comparing [00:32:30] today to 50 years ago, it's still better, and primarily because of that deal that they've made ever since Tiananmen for sort of giving up their political freedoms in return for economic growth.

**Elizabeth Economy:** I think certainly there is an element of Chinese history and how the Chinese people have generally grown up within their society in which the government has always been much more intrusive in their lives than the US government is in our lives. From the time that they're born, beginning in school [00:33:00] and going all the way through their work, there's always a dossier on their

performance. People are always writing about how they're doing and what they're doing, and that carries with them wherever they go, so they know about that. Back in the 1950s, 1960s they had these neighborhood committees. Old people would sit and report on what everybody was doing. Was somebody reading a book they shouldn't be reading? Was somebody pregnant with a second child that shouldn't be pregnant, because there was a one child policy? There's always been this sense of reporting on each [00:33:30] other, informing on each there, and that's one of the things ...

It's funny. I did some interviews on the social credit system for the book, and one of the things I found surprising was the number of people who were okay with that. They said, "Look. We don't have a lot of trust between us. The trust is really held within the family, within the confines of the family, but among just strangers on a street or even just some casual friends there's not a lot of trust, and this will allow us a degree of trust."

**Demetri Kofinas:**

[00:34:00] That's really interesting. You know what? Maybe it's not so surprising, because things have gotten way worse for our freedom, and privacy, and agency of thought in the United States since 9/11, and we've gotten used to it. Things were way different before that. I mean, anyone who had to board a plane back then or got on the internet or whatever, things have changed so much. This notion of values is interesting, and it has a direct application in foreign policy, right? You actually have a quote in your book. I should find it here somewhere, but you say [00:34:30] for the first time China is an illiberal state seeking leadership in a liberal world.

Talk to me about what it means that China, an illiberal state with the types of policies that we're talking about, is now exercising power on a regional and in some places global, like Africa, scale with its bilateral relationships at the same time as America is receding in certain areas. How does that factor into what we're seeing in international [00:35:00] relations, and how do you expect that to play out going forward, as China perhaps becomes more powerful and as America begins to experience its own issues internally, political say, with populist elections, et cetera?

**Elizabeth Economy:**

I think if you look back to 2014, Xi Jinping gave a speech in which he said that he wanted China not only to help write the rules of the game in an international system, but also to construct the playgrounds on which the games are being played. I think it's a really good example of how [00:35:30] he views his role and China's role in the world. So, we can see that play out in a number of ways, first in his efforts to reclaim what he considers to be sovereignty, the parts of China that don't belong to China right now, like South China Sea, and Taiwan, and even Hong Kong, which is one country, two systems. He has worked very hard to begin to move from sort of staking claims, staking those sovereignty claims that have been around for so long to actually realizing them. [00:36:00] Most recently, just in March of 2018, at the National People's Congress, in his big speech he said that the reunification of the motherland would occur, needed to occur by 2049. This could not go on indefinitely. He has now signaled-

**Demetri Kofinas:** 2049

**Elizabeth Economy:** 2049, but he has now signaled that he expects-

**Demetri Kofinas:** Again, why that date? So interesting. I'm sorry to interrupt you. It's something that came up for me in our interview with Anne Stevenson-Yang, where she mentioned this, that [00:36:30] nothing happens in China ... I think my question had to do with what the Chinese people thought or wanted. Her point was really that what matters is the directives and that when we're talking about economic growth, for example, what matters is the number that the government puts out, that that number is very, very important, that when the government says we're shooting for 7% economic growth, that's not just a projection or a hope. It's actually a directive. So, 2049, that's a signal to the rest of the government and the people to sort [00:37:00] of get the message. What message does that convey for the operations of the state, and what does that mean that they're putting that hard number out there?

**Elizabeth Economy:** Well, I think the message is as much for the Chinese people and the bureaucracy inside as it is for the people in Taiwan and the rest of the nations in Asia that have claims in the South China Sea that this is what we're planning to do, so get ready. This means that China's going to continue to invest in its military very heavily, because it's going to want [00:37:30] to reclaim more of the South China Sea. It's going to want to develop the capacity to take Taiwan over by force if necessary, that it will probably continue to ramp up the coercive efforts that it's already put in place with regard to Hong Kong and Taiwan to try to get reunification moved along, to erode the autonomy of both islands. So, I think that's the signal that Ann Stevenson-Yang is sending. It is a signal to the people at home, but it's also a signal to people outside the [00:38:00] country.

**Demetri Kofinas:** What did Trump do recently with respect to Taiwan that ruffled some feathers in China?

**Elizabeth Economy:** So, President Trump signed into law the Taiwan Travel Act, which for the first time made it possible for senior American officials to meet with their counterparts in Taiwan. Before this time, it really wasn't possible for senior officials on both sides to meet, because Taiwan is not recognized as an independent state. We don't formally recognize Taiwan. We have a representative office there, and they have one here, but this [00:38:30] really was transformative from the perspective of the Chinese. When I was in China at the end of March, the Chinese were upset about the impending tariffs that President Trump had announced. They were upset that President Trump had announced that he was going to be meeting with Kim Jong-Un. They didn't see to know about it, but more than anything, they were upset about the Taiwan Travel Act. They said, "If the United States follows through on this, there are going to be serious repercussions."

**Demetri Kofinas:** Why has that been such a sensitive point [00:39:00] in diplomatic relations between the United States and China?

**Elizabeth Economy:** Well, the reason that Taiwan is such a sensitive issue is because Taiwan maintains an extraordinary degree of autonomy from mainland China, even though China says that Taiwan is a renegade province.

**Demetri Kofinas:** They say it's renegade, because it was a counterrevolutionary faction. What was it? It was the original members of the dynasty that left?

**Elizabeth Economy:** It wasn't members of the dynasty. It was Chiang Kai-shek.

**Demetri Kofinas:** Chiang Kai-shek.

**Elizabeth Economy:** Right. Right up in the Chinese Civil War. They fled. The Nationalists fled to Taiwan. [00:39:30] Many of them fled to Taiwan and established China, and we recognized Taiwan as China for several decades, until we didn't and we switched formal recognition to the mainland China, but at the same time, we weren't prepared to completely throw Taiwan over the ledge. So, we've maintained this relationship with them. We have the Taiwan Relations Act, which is a law in the United States that says we will provide for the adequate defense of Taiwan. They're not an ally. It doesn't say that we will come to their defense [00:40:00] if they're attacked, but it does say that we will basically sell them arms and ensure that they are able to defend themselves.

**Demetri Kofinas:** We've been doing that for a long time.

**Elizabeth Economy:** Exactly. For a very long time, but this Taiwan Travel Act takes the relationship up a notch, and it sort of points the United States/Taiwan relationship, gives it a formalized structure that it didn't have before, and further sort of makes fiction the idea that China likes to perpetuate that Taiwan and the mainland, it's [00:40:30] just a matter of time and they're going to be reunified, because the more that the United States and other countries recognize Taiwan as a separate entity, the less that China can really maintain that story.

**Demetri Kofinas:** The Trump administration did something a bit more dramatic in the Middle East with the recognition of Jerusalem as part of Israel, but that seems to have been more strategic at least or more long running. Do you think that Israel and Netanyahu were not surprised by that announcement? Do you think this caught even the Taiwanese off guard?

**Elizabeth Economy:** [00:41:00] I'm sure that the Taiwanese leadership knew about it in advance. Certainly they knew it was being discussed in Congress. There's very popular, favorable sentiment with regard to Taiwan in the US Congress. It's a small island, 21 million people. It's a democracy, and they're also very effective lobbyists, so they have a lot of allies in Congress. Compared to the big, bad bully that's mainland China, I think there is a desire to offer a degree of protection from Beijing.

**Demetri Kofinas:** [00:41:30] This is a good probably opportunity to get into North Korea and recent news with North Korea, because of the foreign policy issue. Of course, China has had a longstanding relationship with North Korea. It's not clear to me how tight that relationship is. I think in some sense the media has I think made it sound that the Chinese exercise a level of control or power over North Korea that maybe is exaggerated. What is that dynamic like, [00:42:00] North Korea, China, now South Korea, and the United States?

**Elizabeth Economy:** It's a very complicated kind of dance where each of the four members of the quad have different relationships with each other the others. I mean, China and North Korea have had a close relationship for many decades, but interestingly, when Kim Jong-Un, who's now in power in North Korea, came to power, he and Xi Jinping, they never met. For the first five years of Xi Jinping's tenure [00:42:30] he did not meet with the leader of North Korea. That was unprecedented. They had a rocky relationship. You know, Xi Jinping didn't appreciate Kim Jong-Un's testing of the missiles, didn't appreciate the continued development of North Korea's nuclear capabilities, and certainly didn't appreciate it when Kim Jong-Un had his uncle assassinated and his uncle executed, who was the closest partner of China. They didn't have any relationship, and it wasn't until President Trump announced that he was going to be meeting [00:43:00] with Kim Jong-Un that in fact President Xi met with President Kim, because it would have been really-

**Demetri Kofinas:** Well, that caught the Chinese government off guard as well, right?

**Elizabeth Economy:** It did.

**Demetri Kofinas:** If there's one thing the Trump Administration has done is they've really shaken things up.

**Elizabeth Economy:** They have definitely shaken things up, and frankly speaking, I think it's not a bad thing when it comes to China, because they've certainly gotten used to the United States talking, and talking, and not doing much of anything. So, certainly President Trump has been the fly in the ointment. The real question is whether there's a path forward or whether he's all [00:43:30] about the shock value.

**Demetri Kofinas:** Right. Well, there's been a lack of reciprocity in this relationship, right, for a long period of time, between the Chinese and the United States?

**Elizabeth Economy:** I think when you look at the economic relationship certainly, I think the United States has operated for decades, since the opening up in the early 1980s, under the assumption that as China developed economically it would begin to look more and more like the United States. It would uphold the liberal, international trade rules that if the United States modeled best behavior, [00:44:00] China would gradually accommodate to that, so sooner rather than later, it would begin to protect intellectual property. Well, 30 years later and IP theft, intellectual property theft, is still an enormous problem in the US/China

relationship, so I think the Trump administration walked in the door and said, "We have all of these outstanding problems with the Chinese. They've made all of these promises with regard to market opening, and intellectual property, and we don't see any of it." So, that I [00:44:30] think precipitated the kind of tough actions that we've seen over the past several months.

**Demetri Kofinas:** How much do you think that was part of a large strategic vision by the US Foreign Policy Establishment, that idea of opening up China and leading by example with our values, right? How much was it really about money, and access to cheap labor, and the lobbying of US corporations and manufacturing?

**Elizabeth Economy:** I mean, I think the two went hand in hand. There's no denying that [00:45:00] the opportunity to sell to 1.4 billion people in China is an attractive, if often elusive one, not just for American companies, but for multinationals around the world, but that opportunity came at a time as well when you had a sense that China was opening up. It wasn't just about the market. It was about Chinese civil society. It was about the flowering of non-governmental organizations and the advent of the internet. So, there was a sense that [00:45:30] China as a whole was opening up and was beginning to develop some of the attributes potentially or moving along the path toward a more open and democratic society.

**Demetri Kofinas:** You know, one of the things that got a lot of play leading up to 2008 and I think during sort of the intervening years after that is the US Treasury bond holdings of the US government. That's something that we don't really hear much about anymore. Is that something that gets any play in China? [00:46:00] Do the Chinese even sort of see that as a strategic holding anymore? It just doesn't seem to be as important as it was.

**Elizabeth Economy:** No. I think that economists on both sides have, for the most part, put the idea that China is the US's banker and therefore holds an enormous amount of leverage over the United States, they've put that idea to bed, because of course if China began a rapid sell off of all of its treasury holdings, the price would fall, and it too would suffer, so it's not in China's interest either.

**Demetri Kofinas:** [00:46:30] Well, that brings us to the yuan, because so much of what Chinese policy has to do with, with respect to US treasury holdings, has to do with its currency, and it's currency of course is central to the health of its export sector. There's of course, not to make it sound like the only thing supporting the Yuan is the purchase of US treasury. It's quite the opposite. In fact, they have a lot of malinvestment in that economy. I guess that brings us to a larger question of the economic health of China. What is your [00:47:00] take on the state of that economy? How much of that is smoke and mirrors, and how much of it is real growth that will be sustained? If it isn't, what does that fallout look like, because that's a real possibility?

**Elizabeth Economy:** That's the trillion dollar question, of course.

**Demetri Kofinas:** Yeah. Multi-trillion.

**Elizabeth Economy:** Exactly. Frankly, I've never really gotten a good answer from any China economist about the reality of the Chinese economy.

**Demetri Kofinas:** That's like Tesla.

**Elizabeth Economy:** Growing at 6.9%, no, not really. Growing at about 4%. [00:47:30] What can we see? Rapidly rising debt, right? So, debt in the corporate sector, government debt, and now even household debt. You can look ... The IMF has a report that says when you experience this kind of very rapid rise in debt, that that often precipitates a financial crisis. So, that's one marker out there. Xi Jinping had tried, since the beginning of this year, to begin to deleverage the economy, but he's also trying to address poverty alleviation, and he wants to fight on the environment, and he wants [00:48:00] to ensure that the economy continues to grow at a rate that allows him to double incomes between 2010 and 2020, because that's another one of those numbers out there that he set.

How does that all balance? I think we've seen over the past five years, indeed over the past 30 years, that whenever the Chinese economy seems to be sputtering, they just turn on the stimulus, and credit flows. So, I think it's unclear to me sort of the real strength of the Chinese economy. [00:48:30] They're pouring money into research and development, into innovation. Much of that is wasted, but some of it's gonna work, and some of it's gonna pay off. Belt and Road, similarly, this grand scale project for infrastructure connectivity that China is commanding 89% of all of the infrastructure products, they're all being done by Chinese companies, but a lot of them are money losing. How do we understand all of that? It's very complicated. I think the best we can do is sort of begin to look at each part of it and try to understand [00:49:00] what is the reality on the ground, and how does it all fit together?

**Demetri Kofinas:** So, what does that mean for us or for American corporations? We have a more liberal, democratic order here, and not just in the United States, but in Europe. We hold our government to some level of accountability. It's not perfect, but it's certainly better than what they have in China, but the way in which the Chinese economy and government is organized allows its corporations to project power internationally in ways that American corporations can't, and [00:49:30] that puts our corporations and us at a disadvantage, but at the same time, in order to right that wrong we would have to give up the types of freedoms and rights that we value.

So, there's this tension with the rise as you say, of an illiberal state in a liberal world, because ultimately this isn't really about America versus China. This is about you, and me, and my engineer here, and those of us who live in this country, who live under this constitution, and the [00:50:00] international forces, the illiberal forces that we're talking about today and others that challenge that, whether it's North Korea with its nuclear missiles, or China, or Russia. How does that balance itself in the context of China?

**Elizabeth Economy:** Look. I think for the United States it has to be a two pronged fight. On the one hand, we have to push back against practices, whether on the political front ... For example, China's desire to export its autocracy and to change sort [00:50:30] of the charter of the human rights in the United Nations, you know, we need to push back against that. We need to work with our allies to do that. On the other hand, we have to strengthen ourselves at home. We don't like made in China 2025, China's industrial policy. Let's take them to the World Trade Organization, but at the same time, let's invest more in our own research and development.

You know, a number of the major discoveries in American history, you know, scientific breakthroughs, came at least in part with the support of government funding. [00:51:00] We shouldn't be afraid to use our government to help drive innovation. So, I think there's both a strengthening of our own values that we need to articulate and to advance to combat what China's trying to do on the global stage. By the same token, we might be able to learn a little something from the way that they do business as well, without compromising ourselves.

**Demetri Kofinas:** Yeah. It's interesting though hearing you talk about that. To me there's a real tension. The things that get a lot of play in the media are like the Thucydides' Trap, this idea, for example, that [00:51:30] the rising China and a declining America will somehow at some point intersect and go to war. There's North Korea. We talked about that. There's the malinvestment, et cetera, but this tension, this clash between centralized systems and decentralized systems is something I don't think is appreciated enough. Culturally there's a certain section of society in the West, particularly in the United States, with some of the technologies that we've covered on this show, like block chain and distributed ledger technologies, and we covered those also I should say recently [00:52:00] with Africa and the push to sort of take advantage of the lack of institutions with these technologies that allow for people to organize and develop societies and economies in new ways.

There's this tension between that decentralized culture of organization globally and these old, legacy institutions, countries, et cetera, and China I feel like is the prime example, because they have such a strong top down bureaucracy. That to me, even more [00:52:30] so than the classic institutions of the United States, its military, and the Chinese, for example, this clash and this Thucydides' Trap, I think that is the one that's more difficult to resolve. I wonder what you think about that.

**Elizabeth Economy:** I think it's an interesting way to posit it. The one thing that maybe it misses is the sense that even within China there is decentralization in the sense that you have a very active Chinese society. You know, innovation occurs now in China, not only through [00:53:00] state owned enterprises, which in fact are not very innovative, but not only through government directed research, but just in garages, and in apartments, and in universities, just like it does here. Those people want access to information outside the country. You have civil society. You have a massive feminist movement developing in China today. You have

LGBT rights activists. You have environmental activists. It's not all about the top down nature of the Chinese government. [00:53:30] We never want to forget that there's an enormous amount of bottom up pressure in China as well.

**Demetri Kofinas:** Well, that's a great point, but for example, we talked about the firewall. They've been shutting down the VPNs, right, the Chinese government. There is, you're right, this bottom up pressure, but the question is the government in China prepared to accept an empowerment of the bottom? It's not clear to me from our conversation today or anything I've read that they are. I think if anything that perhaps could complement [00:54:00] what I'm saying before, which is that that same pressure can create problems and instability within China, in particular when they've wasted so much money. They've created so much malinvestment, because of their top down programs and their state directed investments that are meant to achieve some large scale national foreign policy objective.

That to me is also part of the same risk, and I think in a sense all of us who have liberal values are at risk of this pressure to centralize from the top [00:54:30] from some of these institutions, including the United States. I mean, in order to combat terrorism, for example, the US took away privacy and freedom of American citizens. What would happen, for example, if China becomes more and more powerful and their values, as you've written in the book, become part of the equation, part of the offering, right?

**Elizabeth Economy:** Well, and that's exactly why I say we need to push back against that happening, that we need to understand our own strength and also to recognize this isn't simply a battle between the United States [00:55:00] and China. Most of the powerful economies, most of the great economies of the world, with the exception of China, are liberal democracies. So, it's really not just China versus the United States, and I think that's in part where Graham Allison and his Thucydides' Trap and where he gets it wrong is that we have India, right? The largest democracy in the world. There's Japan. There's the EU. There's Australia.

All of these actors together, and many more frankly, pitch in and push [00:55:30] back in different ways. Even, for example, one very small example, when China wanted Huawei to lay the fiber optic cable from Solomon Islands to Australia, Australia said, "No way. We're not having this Chinese company and Chinese government involved in this. We'll take care of it ourselves." People tend to cast everything in sort of a US/China bilateral conflict, but that's not the way the world works. When you look at what's going on in Asia, you begin to see that there are many [00:56:00] powerful, regional actors that are also willing to stand up to China and push back.

**Demetri Kofinas:** Dr. Economy, there was so much I think we covered. I hope we did it justice. There were some things that I wanted to touch on, but I had to do my best to thread the needle here. I appreciate you so much for coming on the program. Thank you so much.

**Elizabeth Economy:** Thanks, Demetri.

**Demetri Kofinas:** That was my episode with Elizabeth Economy. I want to thank Dr. Economy for being on the program. Today's episode [00:56:30] was produced by me and edited by Stylianos Nicolaou. For more episodes, you can check out our website at [HiddenForces.io](http://HiddenForces.io). Follow us on Facebook, Twitter, and Instagram at [@HiddenForcesPod](https://www.instagram.com/HiddenForcesPod), or send me an email. Thanks for listening. We'll see you next week.