

The China Model is Broken

Episode 16 | Everything is Everything

Ajay Shah, Amit Varma

Transcript

October 13, 2023

Shah, Ajay, and Amit Varma. “The China Model is Broken.” Episode 16 of Everything is Everything. XKDR Forum, October 13, 2023. Podcast, video, 1:28:51. <https://www.xkdr.org/viewpoints/the-china-model-is-broken-episode-16-everything-is-everything>

Abstract

Can a society achieve sustained prosperity without embracing liberal values like freedom, consent, and autonomy? This question frames a wide-ranging conversation about China’s economic model and what its apparent breakdown reveals about the relationship between freedom and growth.

The discussion traces two major historical experiments that challenged liberal democracy: the Soviet Union’s state-controlled industrialization and China’s unique blend of economic openness with political authoritarianism. While both models initially appeared to deliver rapid growth, the speakers argue that China’s recent struggles under Xi Jinping reveal the same fundamental flaws that doomed the USSR. They explore five key factors behind China’s current crisis: the abandonment of Deng Xiaoping’s pragmatic approach, COVID mismanagement, unsustainable macroeconomic control, confrontational foreign policy, and attacks on non-state elites.

The conversation ultimately returns to the opening question about whether prosperity and illiberal values can coexist, with implications that extend far beyond China to any society grappling with the tension between rapid development and individual freedom.

Supplementary Resources

- **China’s Future** by David Shambaugh (Book) [2]
- **Red Roulette** by Desmond Shum (Book) [3]
- **The Party** by Richard McGregor (Book) [1]

Contents

1	Introduction: Do We Have to Stop Beating Our Wives?	3
2	Chapter 1: The Soviet Backdrop	5
3	Chapter 2: The China Model	12
4	Chapter 3: China Through the Decades	29
5	Chapter 4: Ajay's Recco	43
6	Chapter 5: Amit's recco	44

- [00:00:00] **Ajay Shah:** So all this has come together, and the China model is under acute stress. And I want to say that this is more like the USSR of 1989 than meets the eye.
- [00:00:12] **Ajay Shah:** In 1989, the state fell apart. The regime fell apart. The USSR broke up and many interesting countries came out of the wreckage of the USSR.
- [00:00:24] **Ajay Shah:** So simultaneously, there was a disruption of the previous conception of the state, and there was a disruption of any kind of respect for the Soviet model.
- [00:00:34] **Ajay Shah:** In China’s case, what we have got is a disruption of the China model that I think any reasonable person understands that this ain’t working. The politics, the economics, the growth, this whole combination of grievance and resentment and hostility and picking fights with all the advanced economies and central planning, control, macroeconomic management, suppressing freedom, state coming after the other three elites—this whole package of grievance and anger and nationalism is really toxic.
- [00:01:06] **Ajay Shah:** And the China model is broken and it will not work.

Introduction: Do We Have to Stop Beating Our Wives?

- [00:01:25] **Amit Varma:** Hello and welcome to Everything is Everything. I’m Amit. This is my good friend Ajay. And Ajay, I have a question for you at the start of this episode, and this is a beautifully formulated question.
- [00:01:36] **Amit Varma:** I had traveled outside the country recently. I was chatting with a friend of mine and he told me this question. And I was so blown away, I said, “Can I quote you on this?” And he said, “No, you can’t quote me.” He, you know, runs one of the biggest businesses in Asia, and he’s not in India. So don’t try to guess who it is.

- [00:01:54] **Amit Varma:** But he said, “You can’t quote me on this, but you can use the question.” And the question is, can we grow rich and still beat our wives? Or do we have to stop beating our wives to grow rich? I’ll read that out again.
- [00:02:05] **Amit Varma:** Can we grow rich and still beat our wives, or do we have to stop beating our wives to grow rich? And at its heart, it’s a question about modernity and the relation of modernity to prosperity. And modernity, I’m defining in this sense as liberal values, classical liberal values, freedom, consent, autonomy, all of those things.
- [00:02:23] **Amit Varma:** And his question is that is it a necessary condition that if we want to be rich, we have to be modern in this sense. And my instinctive answer to him as we sat over dinner was that, you know, if I think of the median Indian male, I know the median Indian male’s answer.
- [00:02:39] **Amit Varma:** And that answer is that we can grow rich and still beat our wives because to that person, modernity does not matter. Prosperity and tradition can come together. And I’m using tradition loosely. You know, in it, there is illiberalism and misogyny and so on, not that all traditions go there.
- [00:02:57] **Amit Varma:** But, you know, the implicit sort of understanding there would be, I can grow rich and I can continue doing all the things that I do that might otherwise be frowned upon in a more liberal society, right? And that’s what the median Indian male would feel.
- [00:03:11] **Amit Varma:** And my controversial position, the normative position that I hold on this is that actually in the long run, true prosperity in all its senses, not just the material sense, but even the material sense, is impossible without modernity.
- [00:03:25] **Amit Varma:** That, you know, we have spoken in an earlier episode, which I loved so much and was appreciated by so many people, about how economic freedom is necessary for economic growth and prosperity and so on. But I would take that argument further and say that if we are to prosper as people, to grow as individuals, all kinds of freedom have to come hand in hand. What’s your response to this?

- [00:03:46] **Ajay Shah:** It's a great question and it's beautiful writing. Okay? So whoever he is, is a master of the language. He's written it beautifully.
- [00:03:55] **Amit Varma:** I should point out that even though he's a business leader and runs one of the biggest businesses in Asia, he's got degrees in philosophy and anthropology, but anyway, never mind.
- [00:04:03] **Ajay Shah:** Okay. A true Renaissance man. I find it interesting to play in a couple of directions. One question is, are you asking that question as an individual, or are you asking that question as a society? And sometimes maybe there are interesting divergences between these two.
- [00:04:17] **Ajay Shah:** So imagine if I'm one guy, can I get ahead while having Neanderthal values? And I am just seeking prosperity versus what is a view for society? So is there a gulf between the view of an individual and the view of a society?
- [00:04:35] **Ajay Shah:** The second interesting line of attack that I think we should be pursuing is like, there is an analytical question, okay? So suppose, hypothetically, either at the level of one individual or at the level of one society, suppose I bestow the answer upon you from the mountain that the answer is no.
- [00:04:56] **Ajay Shah:** i.e., that you need the full package of enlightenment values in order to be able to master and participate in the glories of the modern world. That it is not divisible. You can't have a narrow conception of economic prosperity without having the whole package.
- [00:05:15] **Ajay Shah:** Just hypothetically, suppose the answer was no. It's very interesting to wonder, some individuals may say, "Very well, I'll make my peace with enlightenment values and I'll take a smattering of enlightenment values." Could there be some people who will say, "In that case, I'll sacrifice the prosperity."

Chapter 1: The Soviet Backdrop

- [00:05:43] **Amit Varma:** So that's a lot to process and I'm going to kind of think about all of these issues much more deeply. But one of the things that, you know, when I first told you about my friend's question a while back, immediately you said, we should have this in our China episode because it is pertinent.
- [00:05:58] **Amit Varma:** So let's talk a little bit about China, the China story. And in a sense, it's not really about China. The China story is not really about China. It's about all of us, what we can learn from it, what do we want? What are our means of achieving those ends? So there's sort of a long arc that you're going to take us through today.
- [00:06:16] **Ajay Shah:** Okay. There has been a great debate around freedom, around enlightenment values for as far back as you can go. Okay? And the first big alternative idea on this was the Soviet Union.
- [00:06:33] **Ajay Shah:** Okay? So you have to always look back at history. In 1905, Czarist Russia lost a war to Japan. And that in a way was symbolic of the internal failures of the imperial Czarist regime. After that came 1917, the Russian Revolution.
- [00:06:55] **Ajay Shah:** And there was a forced modernization and mobilization of the society in certain superficial respects. Okay? So they built factories. They adopted science, they adopted technology. So there was a certain kind of mobilization of resources in a state top-down way with central planning, five-year plans, mind-boggling levels of cruelty, where anybody that stood in their path or disagreed with them was, you know, treated horribly.
- [00:07:22] **Ajay Shah:** Millions of people were murdered by the regime. The levels of cruelty imposed by the regime upon its own people were out of this world. And you could say that this was the raw material, the foundation which led up to the situation of 1945 where Soviet Russia won the Second World War against Adolf Hitler with a great deal of Western help.
- [00:07:47] **Ajay Shah:** It was not done alone. I think somebody asked Churchill about how the Second World War was won. Or was it Stalin about how the Second World War was won. And he said, "The Americans gave the treasure and the Russians gave the blood and the British gave the time."

- [00:08:10] **Ajay Shah:** Which is a deep insight into what happened in the Second World War. So I don't want to overstate the extent to which Soviet Russia did this alone. But hey, they did it. In 1945, they were the great land power of the world.
- [00:08:25] **Ajay Shah:** Similarly, in 1946, one of the most amazing technologies of the world was the nuclear bomb, which was tested by the United States in 1945. As quickly as 1949, Soviet Russia was up and running with a nuclear bomb. Again, the scientific and engineering achievement is overstated because a lot of the knowledge and ideas were stolen from the Manhattan project. But hey, they got there in 1949.
- [00:08:50] **Ajay Shah:** So there was a sense in which something remarkable was achieved in the Soviet Union where over a very short time, there was dramatic economic growth. And then people thought that this could go on.
- [00:09:02] **Ajay Shah:** So the most famous and important economics textbook in world history was the book written by Paul Samuelson. And in edition after edition, when you opened the front cover, on the inner cover of the book, there was a graph of the GDP of various countries, you know, which Samuelson correctly considered was the most important set of facts around which you had to ground your knowledge of economics.
- [00:09:27] **Ajay Shah:** And in that graph, Samuelson always had the dot-dot-dot line with projections for the future where he expected that the USSR would beat the United States in terms of its aggregate GDP. Okay, and now we know that never happened, but this is giving us a flavor of how it was felt that that model works.
- [00:09:49] **Ajay Shah:** You may have had an ethical problem with that model, okay? So you look at all the great people of the 20th century—George Orwell, Arthur Koestler, Jawaharlal Nehru—they all rejected the cruelty of the Soviet model, but it was felt that in a purely instrumental way, this stuff is gonna work. Okay? We now know with the benefit of hindsight that that instrumental view of the achievements of the Soviet Union was wrong.

- [00:10:18] **Ajay Shah:** And that actually the Soviet Union collapsed in 1989 under the weight of its own contradictions. Its economic failure, its failure as an empire, the hatred and the resentment festering in all the occupied parts of the USSR. The moment they got an opportunity, they walked away and they said, we don't want to be any part of this country.
- [00:10:42] **Ajay Shah:** And you got the independent Baltic republics and Ukraine and the Central Asian republics and so on. So the whole thing fell apart. And when it fell apart, there was also a better understanding and recognition that the Soviet model was wrong.
- [00:10:58] **Ajay Shah:** That it was actually not possible to create a prosperous, successful society on foundations of that level of government control and government cruelty and government oppression. So even if you were going to be merely instrumental about it and you did not have the ethical sense of a George Orwell or an Arthur Koestler or a Jawaharlal Nehru, even if you were merely instrumental about it, you had to wake up in 1989 and say that, look, this didn't work.
- [00:11:28] **Ajay Shah:** Okay, so that was like one edition of this debate around the extent to which you can make progress. And another way in which this story is told is that you can get brief sprints. You accumulate too much debt along the way. In modern computer engineering, the phrase that is used is technical debt. That you can run up a lot of debt and you can appear to make some progress, but your sins are going to catch up with you, and then the whole thing falls apart.
- [00:11:58] **Amit Varma:** So there are, you know, a couple of points and, you know, one for the sake of our listeners, I'll just take a step back and point out what is at stake here in terms of the principles we spoke about earlier, that here, the implicit claim in the Soviet Union's rise is that freedom does not matter in any domain.
- [00:12:15] **Amit Varma:** Personal freedoms, economic freedoms, nothing matters. The enlightenment values are not required and we can build a prosperous society without any of these, right? And this was a lie at two levels. It was a lie at one level that the prosperity was a lie. That eventually when you peer behind the curtain, you realize that there were lives of impoverishment.

- [00:12:32] **Amit Varma:** You could see the difference between East Germany and West Germany, for example, just to understand what happened there. And we know that was a lie and we also know that a system like that had to give at some point.
- [00:12:45] **Amit Varma:** You know, we have spoken earlier about Timur Kuran's great phrase, preference cascade. In his fantastic book, **Public Lies, Private Truths**, you know, he wrote about how, you know, while the Soviet Union was active, it never seemed like anybody was against it because every individual was scared to speak up because, you know, what if she was alone? But once people began to realize that others are also against it, they all began to speak up, and that preference falsification became a preference cascade.
- [00:13:11] **Amit Varma:** And suddenly you realized that man, everybody was unhappy, everybody was poor, people were sick of, you know, food lines and etc, etc. And everybody aspired to the prosperity of the West. And there, like you said, you know, Francis Fukuyama wrote that famous essay, *The End of History?* you know, and the end in a means and ends kind of way.
- [00:13:33] **Amit Varma:** And there it seemed that the point being made is that freedom matters. Now, whether you approach it from a moral standpoint, means and end standpoint, you know, that you should, that coercion is bad period. So no end justifies coercion, no end justifies the means.
- [00:13:50] **Amit Varma:** Whether you take it from that angle or whether you take it from a consequentialist angle, because some would argue that screw your moral bullshit, I don't care about freedom and all that, did we get rich? And the answer to that was, no, we did not get rich and this was unsustainable.
- [00:14:03] **Amit Varma:** So, you know, and there like you said, there is that sense that many got which perhaps led to some kind of complacency, that *theek hai*, you know, we've seen how that worked out. Everybody will now agree liberal democracies are the best way to go. Political freedom, economic freedom, personal freedom, they're all necessary in a fine balance. But there's another story brewing here. Tell me about that.

- [00:14:23] **Ajay Shah:** I want to stay on the Soviet Union for just two more quick points. The first is that I want to focus on the history of ideas on thinking because, you know, ultimately the world is made of thought. The grotesque disasters and the achievements of the Soviet Union were the consequence of an academic scribbler called Karl Marx who never saw the outside of the world other than sitting inside the British library. Okay, so in the end, it is all about ideas. Nothing matters more than ideas.
- [00:14:53] **Ajay Shah:** So let's stay on the journey of ideas. There were many people in the west who never made their peace with liberal values, who never made their peace with the word freedom. And for them, the Soviet Union was a bit of a model. Okay, they liked this idea that, you know, a lot of state control is a good thing.
- [00:15:14] **Ajay Shah:** So there were some people who were social conservatives, who viewed the exercise of freedom by human beings as something degenerate and barbaric. There were individuals who craved that power for themselves, who envied the power of a Joseph Stalin or a Beria and would have liked to lord over their own countries in that fashion, who didn't want the petty little difficulties of checks and balances and rule of law and all that. So there were a variety of compulsions.
- [00:15:46] **Ajay Shah:** But there has always been a camp. In every free country, there has been a camp of thinkers who have argued in favor of less freedom. So the debates around freedom have been alive and well as long as you can go back into history.
- [00:16:02] **Ajay Shah:** And so it's important to see that the Soviet Union was well loved and admired by people in free countries who advocated that, you know what, we should have a little less freedom for this country. And that's a recurring theme we'll see as we go further. So freedom is a central idea which defines our questions in the modern world.
- [00:16:23] **Ajay Shah:** Like really, if there's a single big idea to understand and debate and think deeply about, it's about freedom. And there are many, many thinking people, knowledgeable people, well-educated people who were quite supportive of the Soviet model.

- [00:16:38] **Ajay Shah:** The second quick last comment I want to make about the Soviet Union is that once again, just being consequentialist, being instrumentalist, some people have argued that look, when you start out at a very low level of development, a la the Russian empire as of 1917, it's okay to be thuggish for some time. You do a little bit of sprinting, gain some minimum economic prosperity, do some industrialization. And then after that, you can get niceties like democracy.
- [00:17:06] **Ajay Shah:** And as an example, this was a great debate of the Indian freedom movement that in 1947, female literacy in India was 6% or 7%. And do you really have a hope of building a decent society, of building freedom in such a society? There were people who genuinely believed that no, the people are illiterate, how will they vote?
- [00:17:28] **Ajay Shah:** You should just make do with something more thuggish. First get rich and then afterwards you can be on the journey to opening up and introducing more freedom. So a question was asked that starting from the wreckage of the Soviet empire of 1989, could you rapidly transition into something better?
- [00:17:50] **Ajay Shah:** And the quick answer is, no. Because the entire society is held together by incentives, by individuals, by behavior and optimizations of those individuals, by mechanisms of production that are sustained through wrong policies and coercion all over the place.
- [00:18:07] **Ajay Shah:** So there's no ready transition out of that. You really have to burn it down to the ground and you have to start over. And it's very difficult to start introducing liberal values and rule of law at a late stage in such a country.
- [00:18:21] **Ajay Shah:** There are very successful countries that have begun authoritarian and transited, and more power to them. Think Chile, Taiwan, South Korea. Okay, these are countries that started out as military dictatorships and made these transitions, but it's not easy. And in the case of the Soviet Union, the economic distortions in the country were so great that 1989 was literally burning that economy down to the ground.

[00:18:44] **Ajay Shah:** And in some ways, till today, the Russian economy has not recovered from that collapse. Today, Russia has a very weak economy. It's a Spain-sized GDP. Frankly, it's just Saudi Arabia with nukes. Okay, so they've really never got their mojo back.

[00:19:01] **Amit Varma:** Everybody from Spain and Saudi Arabia listening to this is like, "Boss, humko kyu taana diya? Humko kyu beech me laya?" But kind of leaving that aside, and the other point that some people may make is look what happened to Russia after the Soviet Union collapsed.

[00:19:14] **Amit Varma:** And my point is exactly that, that what happened there was that you could not just, you know, remove communism and expect that things would work. You still didn't have freedom. You know, you did not have free markets. You had crony capitalism and cronyism and we see where that led us.

[00:19:28] **Amit Varma:** You did not have the rule of law, which is essential to maintain the freedom of the people. You did not have all those institutional qualities, so it kind of went to hell. But I think, you know, most people watching this would kind of agree on that whole story. So let's move past that and let's talk about China.

Chapter 2: The China Model

[00:19:49] **Ajay Shah:** Now, this great debate was run all over again around China. Okay, so the Chinese intensively studied the fall of the USSR. They tried to draw lessons from it for the Chinese Communist Party and the possibilities of the People's Republic of China.

[00:20:06] **Ajay Shah:** And the regime swore to itself that we will do whatever it takes to preserve ourselves. They understood that the Soviet Union collapsed because they were not able to make more than four kinds of flavored yogurt.

- [00:20:20] Ajay Shah:** So they said, we've got to open up to a private consumer economy where there will be 400 kinds of yogurt. That this is an essential part of any meaningful economy. There should not be shortages of consumer goods, you know, those basic blunders of the USSR were avoided. They opened up to globalization. The Soviet Union was a closed economy. China significantly started engaging with the world both in terms of importing goods, exporting goods, in terms of FDI. Okay, so there were many things that the Chinese did different and it is not true that China is a simple reproduction of a Soviet model.
- [00:20:55] Ajay Shah:** It's a different model, and particularly after the collapse of the USSR, they set about trying to build a new model. In that new model, they were very clear, fundamentally, it is state on top. There is only one party rule, the Chinese Communist Party and freedom will be limited. It is a state-led regime. It is state domination, it is state central planning. There's all kinds of limitations on personal freedom.
- [00:21:22] Ajay Shah:** But can we ignite a growth process? Okay, and by God, they did ignite a growth process. So once again, a global debate started and many thinkers and intellectuals in free countries got back to their griping against freedom, griping against the West, turning to China as a model.
- [00:21:47] Ajay Shah:** So there became this big idea called the China model, that actually, you know what, you need industrial policy, you need the wise scientists and engineers and officials who will guide the economy.
- [00:22:00] Ajay Shah:** As in the Soviet Union, there are a lot of quick gains by state-induced mobilization of resources. This is a key theme. Let's think about it for a moment. The free market, the self-organizing system is a messy process. Many, many people coordinate with each other by looking at prices, by looking at each other, by engaging in private bargains. And there is no telling which way a country will go.
- [00:22:26] Ajay Shah:** And of course, under conditions of freedom, a country is embedded in the world economy, and there's no telling how a world will go. A state-led industrial policy can, however, align everybody in the country around one project, one standard. Okay, so for example, the Chinese basically did the same as UPI, that there shall be one payment standard.

- [00:22:46] **Ajay Shah:** State coercion was used to force everybody to use that standard. And suddenly, lo and behold, you're up and running with a big payment system where everybody is exchanging payments to each other, and it looks like a big victory, because, you know, in the short term, it feels like we are actually up and running. We've got a lot of electronic payments.
- [00:23:04] **Ajay Shah:** So like this, China became the exemplar in the eyes of many people who have always grumbled about freedom. So, you know, there is a certain kind of global left that has always been unhappy at freedom, either for moral and ethical reasons because they view free human beings as morally degenerate, or they have a commitment to conservative values, traditional culture and family structures, or because they view themselves as wannabes, that you would like to be that policy maker that will straddle the country and tell all private people what to do.
- [00:23:40] **Ajay Shah:** I will decide, I will instruct. You know, there is a lust for power that comes readily. And there has always been this skeptical streak about enlightenment values, dreams of industrial policy and so on. So China became that great exemplar.
- [00:23:57] **Ajay Shah:** And for some years, it seemed to work. China got a glorious rise in GDP and millions of people, hundreds of millions of people came out of poverty, and a lot of people got comfortable that this is all working and this is going to work indefinitely.
- [00:24:14] **Ajay Shah:** It was felt that this growth model is indefinitely feasible and China will just keep going like this until it becomes a rich country, until its per capita GDP matches a poor OECD country, in which case, its aggregate GDP would be higher than the United States. And also there were many optimists who felt, look, it's just a matter of time. They're very smart people. See, when you meet strong men and the officials of authoritarian countries, they can often appear suave and sophisticated.
- [00:24:46] **Ajay Shah:** Not always, okay? There are many stupid authoritarian countries where bureaucratic quality is very poor. China had extremely skilled, well-educated people who were able to speak effectively and persuade an overseas visitor that they know what they're doing.

- [00:25:02] **Ajay Shah:** And it was felt that these people are smart. They know what they're doing. And it is inevitable that they will see that freedom is a good idea and gradually freedom will come. So there'll be some ups and downs along the way, but there's no big political risk because it's all going to work out. So, one of the most important constituencies that bought into this optimistic message was the world of global capitalism. Okay?
- [00:25:30] **Ajay Shah:** Practitioners inside firms, practitioners inside non-financial firms and inside financial firms are often not very intellectual. They go along with a prevailing consensus. And the prevailing consensus was China has had high GDP growth, will keep on having high GDP growth for very long periods of time.
- [00:25:51] **Ajay Shah:** And there is no real political risk. The regime is sound, the regime is stable. There will be no 1989 USSR event. And yeah, by and large, freedom will come. The human rights will get a wee bit better. So there is nothing to fear.
- [00:26:11] **Ajay Shah:** And so global corporations completely committed themselves to becoming part of the China story.
- [00:26:17] **Amit Varma:** I have a little anecdote here in Richard McGregor's book, **The Party**, he has this anecdote about how there was a 2008 meeting that happened where a bunch of American businessmen and capitalists kind of went to China and they met with Wang Qishan. Apologies if I'm pronouncing the name wrong. Wang Qishan who was vice premier in charge of the financial sector.
- [00:26:35] **Amit Varma:** And they sat together in 2008, so the crisis has just happened in America. And Wang tells his guest from America that, you know, "You have your way, we have our way. Our way is right." So already you have that confidence coming and the Americans sitting there would, you know, could be sort of forgiven for thinking to themselves that yeah, there is something there.
- [00:26:57] **Ajay Shah:** Yeah. As the great social scientist, Karl Marx said, capitalism is vulnerable to extreme ups and downs. The second part of his prediction was all wrong that the ups and downs are going to get worse, but he had the correct insight that the free market system works with boom and bust. I will go so far as to argue that it works through boom and bust. It needs booms and busts to create the correct incentives.

- [00:27:24] **Amit Varma:** We'll elaborate on that some other time, but continue with your China story.
- [00:27:26] **Ajay Shah:** So. So this is where we were around the China model, and many people all over the world started seriously thinking that the China model is a viable counterpoint to the mainstream view, which is enlightenment values. Okay?
- [00:27:46] **Ajay Shah:** Uh, the interesting and exciting thing to talk about today is that we're standing in 2023 and I think we are at an important moment in the journey of ideas and that important moment is that it is now increasingly hard to think that the China model works. Okay?
- [00:28:05] **Ajay Shah:** And I'm being purely instrumental. I'm not on an ethical discussion around freedom. I'm just saying it is increasingly clear that the China model is not working too well. So, let's talk a little about all the things that have come together to generate this change in views.
- [00:28:21] **Ajay Shah:** Uh, in 2012, 2013, uh, China got a new head of state, Xi Jinping, and there was a considerable deterioration in the political climate of China.
- [00:28:33] **Ajay Shah:** Starting with Deng Xiaoping in 1978, who himself had suffered intensely in the cultural revolution. So when Mao Zedong pulled off that giant trauma, which was the cultural revolution, things had gone very badly personally for Deng Xiaoping. Specifically, Deng Xiaoping had a son who I think was about 11 years old or 14 years old.
- [00:28:57] **Ajay Shah:** The red guards threw the boy out of a first floor window onto the ground, and he crashed and broke his bones and he was crippled for life as a consequence. Okay? That's the personal cruelty that was experienced by Deng Xiaoping.
- [00:29:13] **Ajay Shah:** So in a way, Deng Xiaoping deeply knew the horror of Chinese communism. He had no illusions about what had happened in the cultural revolution. And he tried to gradually build that transformation of China into a better country.

- [00:29:29] **Ajay Shah:** So Deng Xiaoping had personally experienced the cruelty of the Chinese Communist regime and he had no illusions about what that was. He was on a journey to find a wise path out of that. This included many ingredients.
- [00:29:46] **Ajay Shah:** For example, it included term limits that any head of state should be there for only 10 years. He created a whole succession system which had not previously existed with Mao Zedong or for that matter with the old Soviet Union.
- [00:29:46] **Ajay Shah:** There was no succession system. So nobody knows what happens when Putin finishes because there's no telling when Putin finishes. He's the king. He's going to be there for a long time.
- [00:29:56] **Ajay Shah:** So, Deng Xiaoping built a succession system. Deng Xiaoping created a whole approach towards being non-confrontational towards the West. So his worldview was, we are weak, and our job is to maintain good relations with the global mainstream.
- [00:30:14] **Ajay Shah:** We need technology, capital, access to trading with the West. And so, this is not a time to pick fights. This is not a time to do nationalism. This is not a time to get into conflicts.
- [00:30:28] **Ajay Shah:** He had a beautiful phrase, this is, we should bide our time. Okay? So it's a Deng Xiaoping phrase that, don't, don't pick fights on these things. And Deng Xiaoping himself was a part of an old elite. And he understood how difficult it was to manage these kinds of transitions.
- [00:30:44] **Ajay Shah:** Xi Jinping, on the other hand, built towards a very different China. He turned into a populist regime where he built and fanned hatred against the elite. As with many other authoritarians all over the world, the excuse used was anti-corruption campaigns.
- [00:31:00] **Ajay Shah:** Okay? So, the claim was anti-corruption, but basically they went after every pocket of opposition and political strength that was not aligned with the Xi Jinping regime. He abandoned the term limits.
- [00:31:14] **Ajay Shah:** So it is the rule of Xi Jinping for as long as he likes. He consolidated power to himself and his cronies. All the dispersion of power that had been achieved by the Deng Xiaoping reforms was eliminated in the Xi Jinping period.

- [00:31:30] **Ajay Shah:** He fanned nationalism. So the entire party apparatus was devoted to making young men, okay, (bracket) very often men without women because of the one-child policy.
- [00:31:44] **Ajay Shah:** He started amplifying the hatred and the anger of these people around concepts like nationalism and hatred of the West. A language of grievance that for centuries, China has been oppressed by foreigners and now we will get back against the foreigners.
- [00:32:02] **Ajay Shah:** That kind of culture of grievance that is a common theme across populists across so many countries.
- [00:32:09] **Amit Varma:** I was thinking all of this sounds familiar, but carry on.
- [00:32:11] **Ajay Shah:** And so this is domino number one, that if you thought that China was on a path to a gradual, stable improvement and evolution of the political system, the emergence of Xi Jinping proved that wrong.
- [00:32:27] **Ajay Shah:** That in fact, China took a huge step back towards Maoism. It is a more Maoist regime, a Leninist regime than anything we have seen after Deng Xiaoping.
- [00:32:38] **Ajay Shah:** Well, what do you expect? Will this work? Will this work well? Will this work badly? You and I will not be surprised to think that this worked pretty badly. Okay? So let's go one by one. First came COVID.
- [00:32:53] **Ajay Shah:** There is little doubt that COVID came out of China. There is a possibility that COVID actually came out of a biological warfare lab in China. We don't know the correct answer to that question. We will never know because the Chinese government will not do an honest, ethical investigation of that subject.
- [00:33:12] **Ajay Shah:** But there is no doubt that COVID came out of China and that COVID got amplified and got explosively bad because that regime is a populist authoritarian regime which obsesses on managing the headlines, on concepts like honor.

- [00:33:29] **Ajay Shah:** So they suppressed the bad news. They hid the bad news. They made life difficult for the individuals that tried to say that there is a serious epidemic going on here in Wuhan. And this was a big milestone where I think the whole world started seeing China in a new light that, are you a first-class partner in the committee of nations?
- [00:33:54] **Ajay Shah:** Or are you a little bit of a rogue nation? Okay, China started being seen as a little bit of a rogue nation. Then you got to COVID management. China came up with the world's most extreme lockdowns saying that we will manage COVID our way.
- [00:34:09] **Ajay Shah:** And they started getting into a certain triumphalism and nationalism that the Chinese way is better where unlimited coercion was used. Again, the most authoritarian countries did the worst lockdowns.
- [00:34:22] **Ajay Shah:** And China was one of the worst lockdowns in the whole world where they just tried to shut down the entire country in blocking the evolution of the pandemic and we know with the benefit of hindsight that that did not work.
- [00:34:36] **Ajay Shah:** Then the process of vaccination was messed up because of nationalism. Okay? The honest answer for China was to say that, look, we're a poor country. We don't have that scientific heft. We don't know how to build high-quality COVID vaccines.
- [00:34:50] **Ajay Shah:** So, we want to ride on vaccines that were developed abroad. So for example, a country like India did a great job saying we have no pretense of building a domestic COVID vaccine. There is a good vaccine developed at Oxford, which was called Covishield, the AstraZeneca vaccine.
- [00:35:09] **Ajay Shah:** It was brought into India with great help from people like the Gates Foundation. Giant manufacturing capability was built by a private Indian company with no help from the Indian state. The Indian private sector worked with global philanthropic capital, namely the Gates Foundation, with global science and technology, namely AstraZeneca and Oxford University, and built a giant vaccine manufacturing facility in India.
- [00:35:34] **Ajay Shah:** So there was no attempt in India to try to claim vaccine nationalism. In China, nationalism was strong. They tried to claim that, oh, we are China, we're a first-world country. We have arrived. We are as good as everybody.

- [00:35:48] **Ajay Shah:** And they started pushing domestic Chinese-produced vaccines, which just unfortunately were not good enough, that the level of protection was actually quite poor. They also harvested the consequences of decades of state coercion.
- [00:36:05] **Ajay Shah:** Many wise people in China would just stubbornly refuse to take a vaccine given by the government. Okay, so if you are in China and you've experienced state coercion, you're not going to trust the government.
- [00:36:18] **Ajay Shah:** So if the government says, this is a made-in-China vaccine, you know something is wrong. And many older people just doggedly refused to take a made-in-China vaccine. Okay, so there are many people in China who will not drink made-in-China milk.
- [00:36:32] **Ajay Shah:** Okay, things like that. So there was a lot of suspicion in China about the vaccine. So partly the vaccines were not effective, and partly many people in China, particularly older people who are the most vulnerable to COVID, just would not trust a government that an authoritarian government cannot be trusted is the fundamental wisdom that goes into the heart of every quiet citizen.
- [00:36:54] **Ajay Shah:** And I don't mean intellectuals. I just mean the lived experience. When you've lived in an authoritarian country, you know the government is an enemy and not a friend.
- [00:37:02] **Amit Varma:** And I want to add the nuance that an authoritarian government is not trusted, not because of moral reasons, because you don't like authoritarianism, but because they're authoritarian. The incentives are bad. They don't need to do anything well. They will always be incompetent. They will always screw things up, and that is why they are not trusted.
- [00:37:17] **Ajay Shah:** And they will thoughtlessly inflict cruelty on people, and each one person who is at the receiving end of the cruelty of an authoritarian regime changes, generates a Bayesian updation on the part of a hundred friends and family.

- [00:37:32] **Ajay Shah:** And again, you see this all over the world that every one intellectual in Soviet Russia who was crushed under heel of the Soviet regime, there were 100 people surrounding that person who understood that this regime is rotten and this regime cannot be trusted.
- [00:37:48] **Ajay Shah:** So that was what happened in China. So suddenly you had a persistent COVID problem in China which would not go away, that the lockdowns were getting worse and worse. And far from being a great achievement of Chinese COVID management, actually China turned into the world's worst COVID nightmare, where there was really no improvement in herd immunity because ultimately, when in a democratic country lockdowns don't really last and the disease spreads.
- [00:38:20] **Ajay Shah:** And also you need first world vaccination capabilities. You need the good vaccines that are built by high quality scientists. You need the Gates Foundation participating in your country, okay, all these things. So China had none of these and then it just turned into a nightmare where month after month there were lockdowns.
- [00:38:39] **Ajay Shah:** And there were heart-rending stories coming out from inside the country about people who were just trapped in their houses with unbelievable levels of cruelty. This is where a digital nightmare emerged. The use of mobile phones and digital identity and tracking of individuals was used by the government to crush personal freedom, where people could not move into the next street because the app would start screaming and then a government official would come after that person.
- [00:39:06] **Ajay Shah:** So you really understood the ability of the modern digital revolution to destroy the lives of individuals when placed in the hands of an authoritarian country. So China was that living nightmare for many, many people. It also disrupted production in China.
- [00:39:20] **Ajay Shah:** So imagine, China was a vital part of supply chains for companies all over the world. And things just went berserk. The flights stopped. People were trapped in their houses. They couldn't go to office. They couldn't run a factory.

- [00:39:33] **Ajay Shah:** There was a very large production disruption all over the world that came because of this. Okay? So this is the first part of how the Xi Jinping regime started faltering. So at some point, the regime gave up. There were even protests on the streets, which is very unusual in China, against these lockdowns.
- [00:39:51] **Ajay Shah:** And finally the regime gave up and there was a great surge of COVID and lots of people died and so on. So far I talked about COVID, COVID management, COVID response. There are two other elements of what went wrong in China in the recent years.
- [00:40:06] **Ajay Shah:** The big piece we should think about is economic management. For 30 years, 40 years, China ran a centrally planned country. There were officials, there were bureaucrats, they called the shots. They told people what to do. And they controlled the economy.
- [00:40:22] **Ajay Shah:** There is a very uncomfortable phrase that is used in China that I have an ear for and that no free country should use. It's called macroeconomic management. Okay, the idea that some official controls the macroeconomy.
- [00:40:37] **Ajay Shah:** Okay? In a free country, what happens is that in capitalism, there's always a business cycle and there are certain levers of state policy that can reduce the severity of business cycle fluctuations, but you can't manage an economy.
- [00:40:51] **Ajay Shah:** But the word macroeconomic management is and was used quite merrily in China. So the government had a bunch of levers with which they tried to always amp up the growth and generate high growth.
- [00:41:05] **Ajay Shah:** These levers included rules around construction, rules on the land market, public expenditure on infrastructure, rules around credit. And the all-knowing wise officials at the top would keep on fiddling with these levers and consistently deliver on some GDP target year after year.
- [00:41:26] **Ajay Shah:** So whenever there's a GDP target, you got to get nervous that something is not going right in this country. Now, who knows what errors and imprecise information was being pushed out by the government statistical bureau.

- [00:41:41] **Ajay Shah:** But at least on paper, it looked like China had conquered the business cycle. Okay? This was not a capitalist country. Year after year, GDP growth was the same. And it appeared to be a whole solution to the problem of economic stability.
- [00:41:57] **Ajay Shah:** But when you look further actually, this whole thing was going wrong and it was falling apart. When they needed to prop up the economy, they would build more infrastructure. But when a government just builds more and more infrastructure, it can be a road to nowhere. It can be a bridge over a river where nobody wanted to cross the river.
- [00:42:12] **Ajay Shah:** So the economic viability of infrastructure should always be considered.
- [00:42:16] **Amit Varma:** So I want to ask you a question that you know, one of the fundamental problems I've had with GDP and something we discussed in detail in an episode on GDP of The Seen and the Unseen with our mutual friend Rajeshwari Sen Gupta, a fine scholar.
- [00:42:28] **Amit Varma:** And is that government spending is included in GDP, right? Now that means that a government, if it wants to show that the GDP is going up and do narrative management can build ditches, fill them up, build ditches, fill them up, which is called make-work.
- [00:42:41] **Amit Varma:** And you can basically go like that. And a more sophisticated version of that would be you build roads to nowhere. You build large cities which no one occupies, which become ghost cities. And at the same time, there is a logic which I understand that look, if we spend money on infrastructure, eventually people will use them.
- [00:42:59] **Amit Varma:** If you build them, they will come. And that's a Keynesian approach. That you build the infrastructure, you make the roads, people will use them, trade will happen, prosperity will happen. But what it seems to me is that while that Keynesian argument might be a rationale for what China was doing, in another sense, a lot of what they did was this kind of empty GDP growth where it's just, you know, you're loosening the interest rates, more money out there.

- [00:43:20] **Amit Varma:** Yeah, GDP goes up, so does inflation. And yeah, you have, you know, all these great public works money spent, the GDP top line is amazing, 10% year-on-year, but it is a shadow, it is a chimera. So, you know, to what extent is that also a part of?
- [00:43:36] **Ajay Shah:** It was there and over the years it got worse and worse. So as the economy grew and there were genuine difficulties in the economy, but they were sought to be overcome by the great managers of the economy. And it this gets betrayed in rates of return.
- [00:43:51] **Ajay Shah:** Okay? So either you take financial rates of return on an infrastructure project. I do not believe that all infrastructure projects should always be undertaken by society. It depends. By the state you mean? By the society. So, see, in the hands of a private developer, they will not make the mistake.
- [00:44:08] **Ajay Shah:** They will not build a road to nowhere because they will worry how am I going to get paid. Those mistakes then get made by the state. But the words return on equity remain the correct metric. How do you think about a good infrastructure project?
- [00:44:21] **Ajay Shah:** A good infrastructure project is one that earns some plausible return on equity.
- [00:44:26] **Amit Varma:** I must point out that we are private capitalists and everything is, everything is like a road to nowhere. Where are the returns? We are just spending on it. It's a labor of love, no returns, but anyway, that's a different matter. I'm joking, continue.
- [00:44:36] **Ajay Shah:** Yeah, we are socialists in our personal life. So, the Chinese management of the economy just was increasingly toxic. It involved violating market principles. So, a great deal of credit was pushed out to prop up the economy.
- [00:44:54] **Ajay Shah:** But within two, three years, it turns into non-performing loans, and that creates questions around financial sustenance. So, as I said, there were levers around the land market, there were levers around infrastructure, there were levers around construction, there were levers around credit.

- [00:45:10] **Ajay Shah:** All the four levers were being used heavily, and it only goes so far. And in the end, these levers started becoming increasingly ineffectual that compared with the scale of the problem. And remember, the scale of the problem kept on growing because as the economy goes bigger, you start getting to problems of hundreds of billions of dollars.
- [00:45:29] **Ajay Shah:** And then you need to do massive scale of intervention through these levers. And that just started becoming less and less effective. And the Chinese economy started getting into a lot of trouble. So there was a fundamental unsustainability of that growth paradigm.
- [00:45:44] **Ajay Shah:** The second part of this the policy strategies that went wrong in China were the increasingly confrontational approach taken with the rest of the world. Xi Jinping diverged from the Deng Xiaoping regime of bide your time.
- [00:46:01] **Ajay Shah:** He started saying, he started believing their own press releases that we have arrived. This is China's moment. Now China is the great leader of the world and we shall contribute Xi Jinping thought to make the world a better place.
- [00:46:15] **Ajay Shah:** We have better ways of doing things and started getting pretty confrontational with the West in many, many things, whether it is war in Ukraine, or it is intellectual property theft, or an array of issues turned into live battlefronts between the Chinese government and the advanced economies.
- [00:46:37] **Ajay Shah:** The advanced economies had been quite indulgent towards China in the past. They had tolerated many kinds of misbehavior. But this was because the mood was, look, give it time, they'll figure it out, they'll get better. But in fact, they got significantly worse.
- [00:46:51] **Ajay Shah:** China started building large scale lending operations to poor countries all over the world, including Sri Lanka and Pakistan and Bangladesh, where they started trying to throw their money around and gain diplomatic and military clout.

- [00:47:07] **Ajay Shah:** And again, these things are not well appreciated because this starts really creating trouble all over the world and it interferes with a certain rhythm of how international finance has gone into many poor countries balancing some considerations around freedom and democracy promotion and preventing wars has been a part of the recipe about how the international financial institutions have engaged with poor countries all along.
- [00:47:36] **Ajay Shah:** So this was, this turned into a conflict and a battlefield. And finally, I want to go closer into the mind of a person in China because we should always understand that the wellsprings of all societies come from individuals.
- [00:47:48] **Ajay Shah:** It is people, it is the individuals. It is private decisions by individuals that are ultimately make or break. Every society ultimately is about the aggregation of those decisions. There were two problems here. The first problem was that many adults of age 50 in China in the recent few years had never known a downturn, had never known hard times because the government had been doing that pump priming.
- [00:48:14] **Ajay Shah:** In that sense, they fundamentally did not know what it is to do business. Okay, business is risk. There is a raw red-blooded risk in the world of business. Things go wrong, firms go bust. There are boom times and there are bad times.
- [00:48:27] **Ajay Shah:** There are business cycle downturns where large number of firms go belly up. This is core to being a capitalist economy. And a large number of the adults of China who were occupying positions of influence in the private sector had actually not seen this ever.
- [00:48:43] **Ajay Shah:** So in some ways, they were new to facing these difficulties. In some ways, their learning, their training, their human capital was fundamentally limited because they actually didn't know what is risk. They didn't know how to think about risk.
- [00:48:55] **Ajay Shah:** They were always protected because there would be high economic growth assured by the party. And this creates bad decisions. There is always a bias in favor of more leverage, more investment. It became a game of who can cozy up with the government and get more credit, because if you took more leverage, it always worked.

- [00:49:14] **Ajay Shah:** The winner was a person who took higher risk and more leverage and cozied up more with the Communist Party. And these are not ways in which to allocate capital wisely. This doesn't create a wise, sensible, thoughtful business community that weighs risks and takes risks, takes risk knowing that many things will go wrong.
- [00:49:32] **Ajay Shah:** Finally, with Xi Jinping came the populism. Xi Jinping unleashed the state against the other three elites of the society. In every society, there are four elites. There is the state, which is the officials and the politicians.
- [00:49:47] **Ajay Shah:** There is the business elite, there is the intellectual elite, and there is the cultural elite. And like other populists, Xi Jinping unleashed state power against the other three elites. And a lot of those individuals, a lot of those families shrugged and said, okay, in that case, I can't feel confident and I can't take risk and I can't commit to building organizations in this country.
- [00:50:16] **Ajay Shah:** Families started putting their children out of the country, families started taking money out of the country. And that loss of confidence again was a body blow for the optimism of the economy. So this is my narration about that perfect storm that has engulfed China.
- [00:50:30] **Ajay Shah:** It is the decline of a political system where Xi Jinping has gone back to a Maoist and a Leninist doctrine of one party and concentration of power. It is COVID mismanagement.
- [00:50:45] **Ajay Shah:** It is conflict with the world because of the explicit arrogance of China and its hostility towards all the advanced economies of the world. And while the word the West is often used, this includes all the prosperous economies of the world.
- [00:51:01] **Ajay Shah:** Is Japan a Western economy? Is Taiwan a Western economy? These are all the prosperous, important, successful economies of the world. They make up for 60, 70% of world GDP, and it is unwise to pick fights with them.
- [00:51:16] **Ajay Shah:** Then it is the illusion of macroeconomic management of the country done in unsustainable ways through credit, real estate, construction, infrastructure. And finally, it is Xi Jinping's populist attack upon the other three elites.

- [00:51:34] **Ajay Shah:** All these five have come together. They have fundamentally changed the optimism in China. They have fundamentally changed the optimism about China. Global firms have all become much more hesitant, much more skeptical.
- [00:51:46] **Ajay Shah:** Global firms were key to the rise of China. Global firms have understood that they were wrong to overemphasize and put too much in China in the bet that Chinese economics and politics was going to work out.
- [00:52:02] **Ajay Shah:** And this is connected to the concepts around the third globalization. We'll discuss this on another day. So all this has come together and the China model is under acute stress. And I want to say that this is more like the USSR of 1989 than meets the eye.
- [00:52:20] **Ajay Shah:** In 1989, the state fell apart. The regime fell apart. The USSR broke up and many interesting countries came out of the wreckage of the USSR. So simultaneously, there was a disruption of the previous conception of the state, and there was a disruption of any kind of respect for the Soviet model.
- [00:52:43] **Ajay Shah:** In China's case, what we've got is a disruption of the China model that I think any reasonable person understands that this ain't working. The politics, the economics, the growth, this whole combination of grievance and resentment and hostility and picking fights with all the advanced economies and central planning, control, macroeconomic management, suppressing freedom, state coming after the other three elites.
- [00:53:09] **Ajay Shah:** This whole package of grievance and anger and nationalism is really toxic, and the China model is broken and it will not work. The Chinese regime is very much in charge. The border is intact. So there has been no disruption of China as a country.
- [00:53:26] **Ajay Shah:** There has been no disruption of the Chinese regime. But I think to thinking people all over the world, the blush is off the China model rose. And I think thinking people are increasingly able to see that, you know, you may have been infatuated with a China model earlier, but, you know, all in all, it didn't work.
- [00:53:46] **Ajay Shah:** These things are not sustainable. And really, there is only one game in town in terms of that path to sustained growth and a civilized society. And that is enlightenment values and checks and balances and rule of law.

[00:54:07] **Amit Varma:** So, you know, fantastic narrative, and I love your line, the blush is off the China Model rose. What a line. I would urge my writing students to not learn from this and do things like this, but a beautiful narrative and, you know, I will listen to this episode again and process all of this.

Chapter 3: China Through the Decades

[00:54:20] **Amit Varma:** I want to underscore some of your points and kind of make them concrete. So, I'm going to go over this territory again, exactly what happened to China. And I'm going to start with pre-history and modern China's pre-history is really Mao.

[00:54:32] **Amit Varma:** So, I'm going to start by, you know, quoting three paragraphs about something that Mao did in the late 1950s. And I won't tell you yet who wrote these, but let me just read these paras out. In 1958, Chairman Mao ordered that all sparrows of over China should be put to death.

[00:54:47] **Amit Varma:** It was hailed as a necessary step by a strong leader. Farmers were suffering because sparrows tended to eat their grain seeds. For the good of the nation, they had to be protected. Thus began the Great Sparrow campaign.

[00:54:58] **Amit Varma:** A countless number of sparrows were indeed wiped out, but there were unintended consequences. Sparrows ate locusts. And once a balance in the ecosystem changed, locusts proliferated and destroyed China's crops. There was famine, hunger, starvation.

[00:55:12] **Amit Varma:** No less than 45 million people died in the three years following Mao's orders. At the start, Mao exhorted them to bear with the inconvenience, but then the pain piled up. Mao's infamous great leap forward included plenty of edicts besides a death warrant to sparrows.

- [00:55:28] **Amit Varma:** They all stemmed from the delusion that the leader of a country, as if he was God, could redesign an entire society to conform to a master plan. The 20th century is full of cautionary tales that warn against such delusion, such as the communism of Mao and Stalin and the fascism of Hitler.
- [00:55:44] **Amit Varma:** Yet, we do not learn. And now we'll scroll down a little bit, and you'll find that this is from a piece I wrote on Narendra Modi's demonetization, kind of the definitive piece at that time in the Times of India, went madly viral.
- [00:55:55] **Amit Varma:** And from this, I also want to, you know, a phrase that you often use is "man of system," right? A phrase coined by Adam Smith in the *Theory of Moral Sentiments*, a great book that is often overlooked. And I want to, you know, quote that entire passage where he coins the term.
- [00:56:11] **Amit Varma:** Smith writes, "The man of system is apt to be very wise in his own conceit and is often so enamored with the supposed beauty of his own ideal plan of government that he cannot suffer the smallest deviation from any part of it.
- [00:56:23] **Amit Varma:** He goes on to establish it completely and in all its parts without any regard either to the great interests or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as a hand arranges the different pieces upon a chessboard.
- [00:56:40] **Amit Varma:** He does not consider that the pieces upon the chessboard have no other principle of motion besides that which the hand impresses upon them. But that in the great chessboard of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it, right?
- [00:56:59] **Amit Varma:** Incredible quote, and a similar sentiment is aptly expressed in a beautiful phrase by one of our favorite Freddys, Friedrich Hayek, "the fatal conceit," right? And that's exactly what it is. And after Mao died and Deng took over, this then becomes a great problem that millions of people have died.
- [00:57:15] **Amit Varma:** There has been, you know, great suffering. As you pointed out, Deng himself had his own son being crippled because he was, you know, thrown off a first floor balcony. And the question that then arose is that how do we see our own history?

- [00:57:28] **Amit Varma:** Even if we make changes, how do we put a spin upon this? And then they came up with a formulation, and this happened in a 1981 party conference, if I remember, where they decided that the official party line was going to be that Mao was 30% wrong, but 70% right, or, in other words, his merits were primary and his errors were secondary.
- [00:57:48] **Amit Varma:** So this at that point became the party line. And Richard McGregor when he's writing about this period in his great book, **The Party**. And McGregor is writing this in Deng's time, you know, after Deng has done all the things that he did, supposedly liberalized, etc, etc. He's writing about Deng's time, not Mao's time.
- [00:58:05] **Amit Varma:** And McGregor writes, "Peak under the hood of the Chinese model, however, and China looks much more communist than it does on the open road. Vladimir Lenin, who designed the prototype used to run communist countries around the world, would recognize the model immediately.
- [00:58:18] **Amit Varma:** The Chinese Communist Party's enduring grip on power is based on a simple formula right out of the Leninist playbook. For all the reforms of the past three decades, the party has made sure it keeps a lock hold on the state and three pillars of his survival strategy, control of personnel, propaganda, and the people's liberation army."
- [00:58:38] **Amit Varma:** And, you know, Robert Service, the great historian, made a checklist of, you know, communist regimes across the world. And by his ranking, China remained under Deng a communist regime with most of those unfreedoms remaining in place.
- [00:58:51] **Amit Varma:** You know, McGregor in his book quotes a university professor saying about, you know, the communist party. "The party is like God. He is everywhere. You just can't see him." And in another place, McGregor quotes, you know, He Weifang, a law professor at Peking University as it was at the time, saying, "As an organization, the party sits outside and above the law.
- [00:59:14] **Amit Varma:** It should have a legal identity, in other words, a person to sue, but it is not even registered as an organization. The party exists outside the legal system altogether, right? And there's a fascinating anecdote of a story about how there was something called a red phone.

- [00:59:31] **Amit Varma:** We've heard of red tape. In China, something called the red phone was famous where all state-owned organizations and whatever, a few hundred of them, the leaders of those organizations would have a red phone on their table. It had a four-digit number. And all red phones had a particular four digit
- [00:59:31] **Amit Varma:** digit number assigned to them. And that is, and when it rang, it was a party high command. You had to kind of pick it up, or you could call other people on that line. And it became a symbol of power and a symbol of corruption and decadence and whatever.
- [00:59:44] **Amit Varma:** So, you know, an incredibly powerful symbol. And, you know, going back to the Leninist playbook, what do you have to control? You know, McGregor again writes in his book, "To uphold the leadership of the party in political reform," and he's quoting a Chinese leader saying this.
- [01:00:02] **Amit Varma:** "Three principles must be followed, that the party controls the armed forces, the party controls cadres, and the party controls the news." And in 2007, you know, an edict was given to the press, which is like a demonstration of this. McGregor writes in his book.
- [01:00:17] **Amit Varma:** "Ahead of the 2007 Party Congress, the authorities were still on the lookout for any mention of the Soviet collapse in the Cold War that had preceded it. Before the meeting, the department issued 20 general guidelines for editors and the choice of news for the year. Edict 19 directed them to strictly control reports of the 19th anniversary of the October Revolution and not play up the disintegration of the Soviet Union."
- [01:00:41] **Amit Varma:** And at a later point in time, and we think that, okay, you know, political freedoms, personal freedoms not there, don't get on the bad side of these guys. Lekin economic freedom to hai. Prosperity is happening. And in a sense, a beacon of this was Shanghai, right?

- [01:00:52] **Amit Varma:** And McGregor in his book quotes a lawyer in Shanghai, Zhen Enchong, writing about those years and he says, “People have been driven from one corner to another corner of the city. Many among us also have to endure illegal surveillance, home searches, forced repatriation, detention, re-education through labor, being locked in psychiatric asylums, phone tapping, harassment, and other ways of suppression.”
- [01:01:16] **Amit Varma:** And there was actually a government department in China called Measures for internment and deportation of urban vagrants and beggars, right? And it’s self-explanatory kind of what it’s what it’s for.
- [01:01:28] **Amit Varma:** So there are all of these lack of freedoms. And this brings me to a series of questions for you. I’ll begin my first question by talking about what McGregor calls the take it or leave it compact. I’ll quote what he writes where he says, “In place of Mao’s totalitarian terror, the party has substituted a kind of take it or leave it compact with society.
- [01:01:48] **Amit Varma:** If you play by the party’s rules, which means eschewing competitive politics, then you and your family can get on with your lives and maybe get rich. But the ideal does not exist in isolation. It is buttressed by a pervasive propaganda system which constantly derides alternatives to the party.
- [01:02:03] **Amit Varma:** The underlying message is that the party alone stands between the country and the kind of murderous, impoverishing instability that has engulfed China at numerous times in its history. Recalibrated along these lines, the compact also reads, get rich or else.
- [01:02:18] **Amit Varma:** Even with this qualification, the space for individual Chinese to grow and prosper has expanded enormously since the late ’70s. The rank and file of Chinese citizenry these days lead vastly different lives from their parents a generation ago.” And I did a great episode recently with Pallavi Aiyar, just a fantastic writer.
- [01:02:36] **Amit Varma:** You know, she doesn’t write just travelogs, she’s a great analyst as well. And she wrote a book called **Smoke and Mirrors**, her first book, circa 2007-2008, about China. And she recounts in that that somebody came up to her, one of her students, and said that listen, a generation ago, my father used to ride a bicycle so many miles to work every day. I have two cars.

- [01:02:57] **Amit Varma:** So I asked Pallavi about this on my episode with her which hasn't yet released, it will release in three weeks from now, I think. And she said that this was not just one student. In her book, she reported one incident. Everybody would say this, that look at the standard of my life.
- [01:03:10] **Amit Varma:** And you know, it is so much better than my parents.
- [01:03:16] **Amit Varma:** So, I have two questions for you over this. You know, one is the undoubted fact that it improved whatever Deng did, whatever China put in force, it lifted hundreds of millions of people out of poverty. You know, people who people could live lives they could not have dreamt of a generation ago.
- [01:03:27] **Amit Varma:** There was that generation mobility, which frankly we don't see in India even today. And that was there and that is, you know, one side of the equation. But the sort of two questions, the first two questions I, you know, have for you over this is that number one, would you argue that it was nevertheless wrong in the sense that this end of increased prosperity was achieved through the wrong means of suppressing freedoms?
- [01:03:58] **Amit Varma:** Because an argument could be made that okay, there were many domains in which there was no freedom. They opened up some of those domains and people got rich and that was great. But would you say that hey, nevertheless, I have a moral problem with the means that were used?
- [01:04:11] **Amit Varma:** A similar example I think of is, you know, what Sardar Patel and V P Menon did right after independence, where over a few months, they put together the Indian Union in what I consider an act of fast-track colonization. What the British took hundreds of years to do, they did in just, you know, two years, two and a half years or so where they put the country together through a mixture of coercion, promises that were later broken and so on.
- [01:04:35] **Amit Varma:** And when you look at that, I think that hey, the end is great. I love my India, I love this country. But were the means necessarily correct? And they give me some disquiet and I don't really have an answer to this. So, question number one that in your view would the end justify the means?

- [01:04:50] **Amit Varma:** And question number two would be that was it did something always have to give? The fact that it was based on a lie that, you know, the freedoms did not extend all the way to the personal domain. For example, you had the horrendous, you know, one-child policy.
- [01:05:06] **Amit Varma:** That is it inevitable that the Soviet Union collapsed and that this Chinese model will break? So, these are my first two questions to you. I have more.
- [01:05:14] **Ajay Shah:** So, the first is an ethical question, the second is a consequential or an instrumental view. In my ethical view, state cruelty and state murders of millions of people are beyond the pale. There is no economic prosperity that justifies that.
- [01:05:33] **Ajay Shah:** Human beings have welfare and utility functions that are actually quite elastic. The gains in subjective happiness when income goes up are relatively modest. So, the thrill that you and I got as a child when we got our first bicycle is not that different from the thrill when we got our first car.
- [01:05:56] **Ajay Shah:** So these things are not that different.
- [01:05:57] **Amit Varma:** Can I make a shameful confession? I love my car, but I don't know how to ride a bicycle. I never quite got down to it. I'm sorry.
- [01:06:03] **Ajay Shah:** So I am cautious about interpreting welfare gains expressed in money. The gains from money are actually lower than meets the eye. And in my ethical code, the state cruelty, the murders of people, imprisonment of people are just not acceptable.
- [01:06:22] **Ajay Shah:** That should never be the case. And then we turn to the instrumental view that if your only objective was getting to the present Chinese levels of GDP of 10 to 15 trillion dollars, depending on who you ask, is this a good way to get there?
- [01:06:39] **Ajay Shah:** And are there other ways that are better in a purely instrumental way? I think this is a pretty bad way to get there. For all the reasons that I described because this doesn't work beyond a point, and when it gets stalled, it gets stalled badly. When you have been an economy where the behavior of individuals was all distorted in the presence of state control and state coercion and industrial policy and all those things.

- [01:07:05] **Ajay Shah:** You cannot turn on a dime and suddenly say, now let's be free. So the institutions of freedom, the knowledge of the people on how to be free cannot be switched on at will. And just as we saw with the USSR, my claim is there is quite a stall there and it won't readily resolve itself.
- [01:07:22] **Ajay Shah:** So, you get stuck for a long time. Now, when a country like China gets stuck for a long time, it could actually go pretty badly. There could be a good deal of social unrest. Potentially having a large number of young men without prospects is the natural pathway to then do nationalistic, militaristic propaganda and that may have been the source of Chinese aggression by military means against other countries, including India.
- [01:07:55] **Ajay Shah:** Maybe much more horrible things happen when those foundations are broken. And we ain't done yet. So, we'll see how Xi Jinping and the party navigate the next few years. So it's by no means assured that they will find a wise, quiet resolution to the problem.
- [01:08:15] **Ajay Shah:** It could get worse.
- [01:08:16] **Amit Varma:** So I have more questions for you, but before that, a lament and this is a passage that when I read it in **Smoke and Mirrors**, Pallavi's great book, made me both very sad and very worried. And the reason for that is that I often, you know, one part of me says that listen, bottom up survives, top down always fails, right?
- [01:08:33] **Amit Varma:** We have there is a society, there is a culture. It has certain values. It functions in a certain way. It will continue doing so despite the state. But another part of me says that cultural change can often be driven by state coercion and by institutional change and all of that.
- [01:08:48] **Amit Varma:** And there is, you know, Pallavi in her book writes about in Beijing and in China cities, you have vast new cityscapes come up which are completely discordant with, you know, the lives that people are leading around them. But at one point, she writes, "Beijing was a surrealist paradise, old bent men in mouse suits taking their cage song birds for a walk along an expressway, a group of elderly women practicing tai chi surrounded by bulldozers."

- [01:09:14] **Amit Varma:** These were common sights as I explored the city. The clash of the past and the the clash of the past and present was certainly highlighted by these juxtapositions, but what struck me most was the fluidity with which the Beijingers I observed negotiated this tension, the lack of visible trauma or resistance.“
- [01:09:32] **Amit Varma:** You know, and this is especially so the longer an authoritarian regime lasts because as they say, paradigms change one funeral at a time. And you might think that hey, our culture is incredibly vibrant in all ways, it will be thus. But it is it doesn't always have to be thus that sometimes in this clash between an oppressive regime and a liberated culture, you know, the oppressive regime may win out.
- [01:09:53] **Amit Varma:** And I remember seeing this stark dichotomy in Pakistan in 2006. I had gone to follow the Indian cricket team's tour there. I was a journalist and I was writing for the Guardian and the Wall Street Journal and was also working for Cricinfo. And one of the things I realized in Lahore was that I found it A, a beautiful, beautiful city.
- [01:10:11] **Amit Varma:** And my father was born there but he had no nostalgia for the place. So I asked him where should I go and visit? Should I go and see where you were born? And he said like, "I don't even remember. What are you talking about?" So, and in that city, I found that dichotomy.
- [01:10:23] **Amit Varma:** That dichotomy of this vibrant, effusive Punjabi culture. People are so friendly, hugging, shugging, all of that. There's a warmth and a generosity. I'm exaggerating with the hugging, shugging, but there's a warmth and a generosity and, you know, and even a liberalism in there in that vibrant Punjabi culture.
- [01:10:40] **Amit Varma:** But at the same time, there is a darkness that is coming from the ideology of the regime. And and you know, regimes come and go, but there's been a darkness there which is in contrast with that. And beyond a point you begin to wonder that how long can that culture remain that you know, especially the longer it goes on.
- [01:10:59] **Amit Varma:** So it's a lament, it's not a question but you have any thoughts.

- [01:11:02] **Ajay Shah:** No but it's entirely connected to what I was describing as the ethical foundation. Cruelty by the state is the worst thing that any society can experience. And that takes me to the essence of the ethical question. Uh, when a authoritarian regime runs along for years and years, for generations, it messes with the culture.
- [01:11:24] **Ajay Shah:** Authoritarian regimes create a culture of obedience. So they kill off initiative, they kill off the innovation, they kill off the creativity. People want to look up and take orders and not think for themselves. So these are long-term consequences, the long-term adverse consequences and that's where I say I talk about the sustainability.
- [01:11:46] **Ajay Shah:** You can't switch off communism in Soviet Russia and suddenly you're back to the concept of a liberal democracy from that high platform of the GDP. And the same is the case with China. You can't turn on a dime and suddenly say, "No, no, no, now we will do enlightenment values."
- [01:12:03] **Ajay Shah:** Everybody's behavior, everybody's optimizations, culture is what we do when we don't know what we are doing. We make instinctive decisions and judgments all the time. It is the culture that has to prize innovation, uh, thinking in new ways, being a maverick, being disobedient.
- [01:12:24] **Ajay Shah:** All these things are what make a country great. And when a couple of decades of this kind of regime comes about, it has lasting consequences.
- [01:12:33] **Amit Varma:** And another example of the culture being affected by the institutions and the state to me, comes from when people speak of India's rent-seeking mentality. That so many Indians just want to start a business to exploit someone, and you're always thinking that you know, how can you get something more out of yourself and all of that.
- [01:12:49] **Amit Varma:** And my thesis is, and me and, you know, my good friend, your former colleague Kumar Anand, we were once going to write a piece on it together. We never did, but now I'm open sourcing the idea, anyone else can. And the idea was that this particular facet is not something part of Indian culture or Hindu culture or anything like that.

- [01:13:06] **Amit Varma:** It has come out of the institutions that we built in the '40s and '50s and '60s and '70s and that we have with us today, where you had an all-powerful state, you know, with complete dominance over society and private enterprise was suppressed.
- [01:13:19] **Amit Varma:** And the only way you could really make money, the most viable money was by either being part of the state, where you're doing rent seeking and you're getting ahead at the cost of others, or by colluding with the state to play a similar sort of zero sum or negative sum game, right?
- [01:13:34] **Amit Varma:** And my sense is that that cultural facet comes from this. My next question kind of goes back to economics, and it's a pure economics question and you're a card-carrying economist as you have described yourself, though I've never seen your card. And we shall now come to that question.
- [01:13:49] **Amit Varma:** And I picked this up from this really interesting book I read by Yuen Yuen Ang called *How China Escaped the Poverty Trap*. And I'll quote these lines. "Imagine a popper who turns to two finance gurus for advice. Not only is he broke, this popper is poorly educated and lives in a rough neighborhood.
- [01:14:07] **Amit Varma:** The first guru urges, 'Earn your first paycheck. Once you start making money, your circumstances will improve and you will eventually escape poverty.' That quote ends. "like you can tell I'm quoting someone by my change in voice. Okay. "The second guru counsels differently.
- [01:14:21] **Amit Varma:** 'Start by doing as my rich clients do. Attend college, move to a safe town, and buy health insurance. You can only escape poverty by first creating the prerequisites for wealth.' And now it's Ang's voice where she says, "The two gurus mean well, but the advice of both experts clearly falls short.
- [01:14:38] **Amit Varma:** The first guru provides no clue as to how the popper might earn his first paycheck, much less how to sustain a stable income. Conversely, the second guru ignores the realities of poverty. If the popper could afford to, he would have obtained the prerequisites for a better life long ago.
- [01:14:53] **Amit Varma:** Attaining such prerequisites is not the solution to poverty. The difficulty of attaining them is itself the problem. " Stop quote. And I actually have a problem with the formulation of this itself. And, but I want to ask what your reaction to this is.

- [01:15:07] **Ajay Shah:** I count myself as an optimist on this problem. First, I will go back to that great thinker in 1776, Adam Smith, where he's got this beautiful quotation where he describes that if as long as there is a government with a tolerable level of justice, then growth will happen and it is the norm, it is not exceptional to get growth.
- [01:15:29] **Ajay Shah:** It is oppression by the state that suppresses growth. But left to itself, the natural lot of humans is to aspire to do a little bit better, and as long as there's a tolerable level of justice, there will be progress. My second idea is I think of two kinds of alternative choke points.
- [01:15:47] **Ajay Shah:** Uh, imagine a country where there is an elite that is capable. Okay. Then once freedom comes, you're a poor country, but there is a capable elite. Once freedom comes, there are pretty explosive possibilities to connect up into the world economy, to do production in a poor country and sell to the world and you get a dynamic of export led growth.
- [01:16:09] **Ajay Shah:** You do need an elite that is able to create organizations, run firms. Okay, and I'm not first about ownership. It could be FDI, but you need the kind of people that can be the leadership cader of a foreign company setting up operations in a poor country.
- [01:16:27] **Ajay Shah:** It can't be expats alone. Uh, so, as long as there is a certain level of elite capability, it can be the bridge and connect into globalization, and then you're off to the races. Then a growth story has begun. And then, yeah, it will take time.
- [01:16:41] **Ajay Shah:** Uh, it takes many generations for the full transformation of people to happen. So, once again, if somebody says that within 50 years, I want to be an advanced economy, by and large, I'll say, no, it can't be done. Okay, it takes many generations.
- [01:16:56] **Ajay Shah:** The distance from our parents to us, okay, we have experienced how much of a transformation happens in one generation and you and I, you know, had it as good as it could possibly be. It takes many generations for the intellectual and cultural transformation to play through.

- [01:17:13] **Ajay Shah:** And I don't rage against that. That's the reality of the world. So, this is one way to think about it. Alternatively, imagine you're a country with great equality. You're a poor country with great equality, and everybody is equally bad in terms of the human capital. Now, there's a serious problem, because you don't have that connector community, the elite that can connect up the country into the world of globalization is lacking, then it's a really hard journey, because then you have to first create that seed corn of capable, sophisticated people, a tiny pool of high levels of human capital and commercial knowledge, scientific knowledge and connections into the world.
- [01:17:51] **Ajay Shah:** So, then it will take much more time to get going.
- [01:17:55] **Amit Varma:** Rhetorical question if not a rhetorical question, a thought experiment rather. If you were in Deng's place, having the power that he did, which is enormous, but also limited by, you know, the party apparatus and all that, what would you do differently?
- [01:18:07] **Amit Varma:** Because I can understand Deng's thinking, that listen, I can't turn this all around in one go. So let me at least get the economics of it right to some extent, get some people to prosperity and otherwise the system is what it is, but I'll manage well within those constraints.
- [01:18:21] **Amit Varma:** Now, given those constraints, uh, you know, so I'm introducing practical constraints in a thought experiment, sorry for that, but within those constraints of you were in his place, what would you do?
- [01:18:31] **Ajay Shah:** So with the benefit of hindsight, I think we know that Deng's project did not work. And the most important recipe inside that project that was wrong was the perpetuation of the high modernism of a bureaucratic, scientific, technical class that is going to oppress the rest of the country, that is going to direct the country.
- [01:18:49] **Ajay Shah:** There will be industrial policy, people will be told to behave like this, not behave like this. Deng thought that that's okay. Let's get going on the poverty project, whereas today with the benefit of hindsight, we would be arguing that you need to really fix the freedom side first.

- [01:19:05] **Ajay Shah:** You need to get on the journey to a lot more freedom. Then good things will come. But what Deng has the architect of modern China needed to do was to build a lot more freedom. So I find a similarity with the different thought experiment. You're given a time machine and the time machine can carry only one book to give Jawaharlal Nehru.
- [01:19:27] **Ajay Shah:** And what should that book be? And that was one of the concepts around what Kelkar and I did for the book **In Service of the Republic**. And you know what? It would be a very good book for Deng Xiaoping as well.
- [01:19:38] **Amit Varma:** Wow, wonderful. That is the greatest plug I've ever seen somebody give for their own freaking book. And I'm reminded of Margaret Thatcher, you know, despite how she's derided by the left, certainly one of my heroes of the 20th century, at her first cabinet meeting as Prime Minister, slamming a book down on the table and saying, "Gentlemen, this is what will guide us."
- [01:19:57] **Amit Varma:** And that book was **The Road to Serfdom** by Friedrich Hayek. So she had the same favorite Freddy as I do. And you know, I agree with your larger point completely as you know, freedom is everything. I would just say that if you're to define whether Deng failed or Deng succeeded, I think we first need to decide what his objective could have been.
- [01:20:16] **Amit Varma:** And if his objective was to take China out of its morass completely and find and fix everything, then of course he failed. But if his objective was that within my bounds, if I can get a few hundred million people out of poverty, that's a humanitarian good in itself, I would argue that he succeeded in that limited end.
- [01:20:34] **Ajay Shah:** I suspect that Deng, like all great thinkers and statesmen, was playing for 50 years and 100 years. And our modern terminology around sustainability would have been very important to him, saying, no, I don't want a 30, 40-year growth spurt that then turns into a political system crisis and economic stagnation.
- [01:20:54] **Ajay Shah:** I want to get on a journey that we keep going and we become like an advanced economy that we match the greatness of Taiwan. Okay. Today, there is no question which is the better country. Taiwan has got its act together in a way that China has not.

- [01:21:08] **Amit Varma:** I'll just end by saying that if instead of Deng, Xi Jinping took over from Mao at around that time, none of this would have happened. China would be in a far worse place. But leaving that aside, we've spoken a lot about China.
- [01:21:24] **Amit Varma:** So Ajay, what are you going to recommend for us today?
- [01:21:27] **Ajay Shah:** Uh, if there is a single book on China that you should read, in my opinion, it is **China's Future** by David Shambaugh. Uh, we'll put the link in the show notes. It's a small compact book. Uh, it's 2016 and effectively he has the complete insight and understanding on everything that happened from 2016 to 23.
- [01:21:46] **Ajay Shah:** So, you know, time has been very kind to that book. At that time, that book ran against many other pro-China intellectuals who were starting to sing the China song and drink the Chinese model Kool-Aid. Hindsight has been very good for this book.

Chapter 4: Ajay's Recco

- [01:22:02] **Amit Varma:** I hadn't heard of this book till 30 seconds ago. Boss, if you had told me, I would have read it and taken notes and seemed more knowledgeable than I am.
- [01:22:15] **Ajay Shah:** And Amit, tell us your recommendation for today.
- [01:22:17] **Amit Varma:** So my first recommendation today is for an episode, we will link from the show notes and you can click on it now, which is the episode you and I did on the importance of freedom where we traced India's journey from well before Independence centuries ago to the modern day, breaking it up into all kinds of micro periods and talking about how we've done and why freedom is important.
- [01:22:36] **Amit Varma:** So, I feel that that's a companion to this conversation. It's coming from the same place that both of us deeply care about. The other book I'd like to recommend is from this pile here. Like last week we had the same books over here and people kind of looked at these books and they said, hey, you recommended the three red books at the bottom.

Chapter 5: Amit's recco

- [01:22:52] **Amit Varma:** What about the other ones? They look interesting. So I'm going to recommend one of them today, which is **The Essential Dykes to Watch Out For** by Alison Bechdel. Now, this book and Bechdel's entire work, her brilliant 2006 memoir **Fun Home** is a masterpiece. Uh, demonstrates how number one, comics can be an art form, a profound, deep art form.
- [01:23:12] **Amit Varma:** They can compete with the best of literature and the best of art and, you know, works like **Fun Home** by her or **Blankets** by Craig Thompson and, you know, **Ghost World** by Daniel Clowes, all masterpieces. Maybe someday I'll do a full list of recommendations of all the graphic novels and comics I deeply, deeply love.
- [01:23:28] **Amit Varma:** Now, the essential **Dykes to watch out for** was a comic strip she ran uh for from 1985 to 2008, something like that, right? All of these years, and it became iconic. And she basically did cartooning week after week, week after week, edition after edition, edition after edition, she came out with this and it was just brilliant.
- [01:23:48] **Amit Varma:** It first began to sort of try to capture what was there of a counter culture and many would argue that it created a counter culture, that it enabled that and spread that and just a brilliant book. And there is one strip in that called "the rule," from which emerges what is famously known as the Bechdel test.
- [01:24:04] **Amit Varma:** Have you heard of the Bechdel test?
- [01:24:05] **Ajay Shah:** No, I have not.
- [01:24:05] **Amit Varma:** So the Bechdel test is this, that when you're watching a film, you got to apply three criteria to it. Criteria one, the film has to have at least two women in it. Criteria two, those two women have to be talking to each other. Criteria three, they have to be talking to each other about something other than a man.

[01:24:23] **Amit Varma:** Right? And it's a very interesting test to apply to cinema, especially to mainstream cinema, to see this glaring flaw in not just a lot of art up till that point and up till today, but in perhaps all of history, right? History written by men about men, etc, etc.

[01:24:40] **Amit Varma:** And in a lot of cinema, you kind of see this because our studio companies are, you know, run by men and etc, etc. You find male dominant narratives. Everything is from the man's point of view. And the Bechdel test is one interesting frame to kind of look at cinema and uh, you know, and perhaps, I mean, I don't know if any graphs exist of how more and more films conform to this over time, but I'm sure things have gotten much, much better.

[01:25:05] **Amit Varma:** And things get better when writers like Bechdel do the kind of work they did week after week, you know, talking about all of this and formulating a specific frame that you can look at and you can say, this movie fails the Bechdel test, which almost every Bollywood film I guess would.

[01:25:23] **Ajay Shah:** So, I want to continue on this, uh, around a question Ayush Patnaik asked me yesterday. He said, at every percentile of the income distribution, if an Indian woman was transplanted into that same percentile of the Chinese income distribution, would she be better off?

[01:25:44] **Ajay Shah:** Okay, would she choose? So, you take a 98th percentile Indian income, move that woman to 98th percentile Chinese income and live in China. Okay. So I think at different, different points in the income distribution, at what points would people choose that China is better than India and women?

[01:26:03] **Amit Varma:** There's, so my issue with the question is this that I would assume that every woman at a particular income distribution might say that China personal freedoms, or whatever. I don't know. But the, you know, before even attempting to answer this difficult and thought provoking question like the one we started with, I would just say that many more women in India are poorer than in China, in both percentage and absolute terms.

[01:26:26] **Amit Varma:** So where would you rather be a woman? I think the answer has to be China because there's far greater chance that you have more material prosperity there and therefore more voice.

- [01:26:36] **Ajay Shah:** Because I'm doing it around percentiles, we're controlling for that. Meaning that the 25th percentile woman in India when transplanted into China gets a higher income because the 25th percentile income in China is higher than the 25th percentile income in India.
- [01:26:49] **Ajay Shah:** So you're getting the income. Over and above that, how do you view the rest of the question? And where Ayush would go is that Indian society is way more oppressive towards women than Chinese society except at the top. So, the Indian elite women have a first world life, better than Chinese elite women, but everywhere else in the Indian in the income distribution, even though there is a big jump in the Chinese income, there is another powerful factor encouraging the Chinese version, which is that Chinese society is fundamentally better for women than is the case with India.
- [01:27:25] **Ajay Shah:** So, this is a very bracing thing for us in India to think about.
- [01:27:29] **Amit Varma:** And we should immediately coin a term here immediately. And the term can be Patnaik Shah Verma Bridge or the Patnaik Shah Verma discount. And this can delineate the amount by which an Indian woman of a certain wealth would choose to be poorer in China just because there are more social freedoms there.
- [01:27:46] **Amit Varma:** So perhaps a point to think about.
- [01:27:49] **Ajay Shah:** And I like the name, no.
- [01:27:50] **Amit Varma:** So on that note, gentle readers, we are, you know, done with this episode. It's been a long one, subject we care deeply about by which I mean freedom. And of course we care deeply about China because hey, all the world is one, we contain multitudes, everything is everything, everywhere is everywhere.
- [01:28:04] **Amit Varma:** So thank you for watching. Like and subscribe and also, this is a labor of love. Please share this episode with anyone who may be interested. And we'll see you again next week. We're going to talk about the three globalizations, you know, big topic ahead of you.
- [01:28:18] **Amit Varma:** Uh, lots to learn from Ajay over there. So see you next week.

References

- [1] Richard McGregor. *The Party: The Secret World of China's Communist Rulers*. Harper Perennial, 2010.
- [2] David Shambaugh. *China's Future*. Polity Press, 2016.
- [3] Desmond Shum. *Red Roulette: An Insider's Story of Wealth, Power, Corruption, and Vengeance in Today's China*. Scribner, 2021.