

June 10, 2019

## Reflections on Tiananmen

Thirty years ago, on June 4, troops from the People's Liberation Army (PLA) descended upon Tiananmen Square to forcibly remove protestors who had been using the space for about two months. The protestors were agitating for democracy, an end to corruption and a more inclusive political system.

Details of the incident remain unsettled. There are no doubts that hundreds of students were killed or injured. Arrests were made. But, the Communist Party of China (CPC) has studiously avoided publishing a full account of the Tiananmen Square events.

Since [Western media has offered numerous accounts](#) of the events on June 3-4, 1989, we are not going to present a history of the protests or the harsh reaction of the CPC leadership. Instead, we will offer various insights into the aftermath of the event itself and how it affects policy and relations today. As always, we will conclude with market ramifications.

### **Observation #1: The CPC leaders' fear of the student protests at Tiananmen Square were, in part, caused by the Cultural Revolution.**

We want to build a socialist democracy, but we can't possibly do it in a hurry, and still less do we want that Western-style stuff. If our one billion people jumped into multiparty

elections, we'd get chaos like the 'all-out civil war' we saw during the Cultural Revolution. You don't have to have guns and cannon to have a civil war; fists and clubs will do just fine. Democracy is our goal, but we'll never get there without national stability.  
-- [Deng Xiaoping on May 17, 1989](#)

Deng's generation was scarred by the Cultural Revolution. Mao purged what had been the leadership of the CPC and used students as the vanguard of enforcing his goals. Student groups essentially ran wild, arresting leaders with a license for violence. Essentially, the Cultural Revolution was an anti-elite movement. Those who had established positions of power or were believed to have expertise became enemies of the state. The societal disruption that followed the Cultural Revolution was profound. Deng worried that if the protests continued the leadership of the CPC could "[end up under house arrest.](#)"

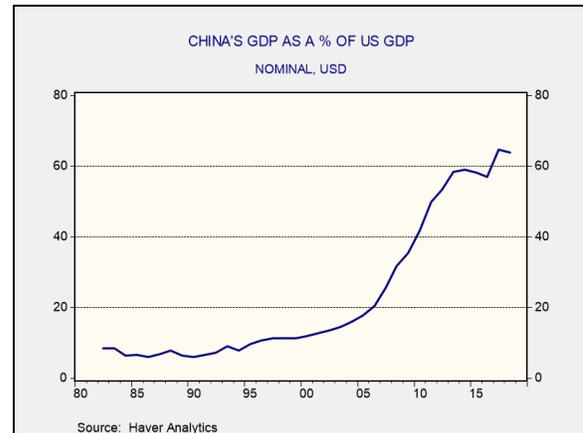
There were divisions within the upper ranks of the CPC on the issue of declaring martial law and bringing in the PLA to quash the protests. Zhao Ziyang, general secretary of the CPC, argued strenuously against using force on the students. Deng seemed to side with liberalization. However, the hardliners were uncomfortable with Deng's economic liberalization and were terrified of the protests, fearing they would undermine stability and weaken the CPC's authority. The hardliners won, mostly because Deng became convinced that it would be impossible to prevent another Cultural Revolution from occurring if the protests did not end.

**Observation #2: Authoritarian-leaning regimes place a high value on stability, something democratic societies, especially the United States, tend to underestimate.**

It isn't just the Cultural Revolution that frightened CPC leaders, but also the turmoil in China that had been occurring for over a century, including foreign colonization, the end of the Qing dynasty, the invasion by Japan and the Chinese Civil War. After the communists under Mao took control, China was occasionally roiled by Mao's disastrous economic policies, such as the "[Great Leap Forward](#)."

Although turmoil seemed to be a constant problem even after the Communist Revolution, Mao did attempt to stabilize China by turning it inward. China's geopolitics usually lead to one of two outcomes. First, China can be wealthy by allowing its coastal regions to engage with the world at the cost of uneven growth. This uneven growth can lead to internal dissension and civil conflict. Or, China can turn inward and have stable development at the cost of being poor. Mao took the latter path. Deng was convinced that China could not remain poor indefinitely but was concerned about the internal dissension that could result from turning the coastal regions "loose" to engage with the world.

Deng decided to try to grow the economy rapidly, while maintaining social stability at all costs. Western analysts held that these goals were contradictory, but the CPC leadership determined it was the only path they were willing to accept. As a result, China has engaged in rapid development using export-promotion and investment. Its growth and development have been historic. In 1982, China's nominal GDP in dollars was only 8.3% of U.S. GDP; it is now 63.9%.



Deng and his successors generally believed that this remarkable achievement would not have been possible without the stability brought by the CPC's guidance and rule. For this reason, Chinese leaders fear dissention not only because it undermines the party's image, but that it might also bring an end to the stability that has supported economic development. Therefore, the CPC systematically tries to undermine ideas or trends that contradict or deviate from the "party line." These ideas include autonomy for regions in China, such as Tibet and Xinjiang, which have faced systematic crackdowns. Additionally, different religious beliefs have faced restrictions and oppression, including indigenous beliefs, such as the Falun Gong, or non-Chinese, such as [Christianity](#) or Islam.

Perhaps even more surprising is that [Marx is now considered subversive](#). The Xi government has arrested university students who were protesting for better treatment of workers. Although these students were committed Marxists, that did not insulate them from a crackdown by the state.

The U.S. has had its own violent past. It was born in a revolutionary war, suffered through a bloody civil conflict and fought wars against the Native population. But, it has never experienced a broad breakdown of

society as China and other nations in the world have. These nations that have suffered through such events will tend to shy away from internal unrest. In other words, where the U.S. sees normal differences in society, authoritarian regimes, including China, view them as threats.

**Observation #3: Inflation in China is a serious threat to stability.**

One of the key complaints of the Tiananmen Square protestors was rising prices.



During the period of the Tiananmen Square event, inflation was approaching 30% per year. Anger at rising prices was undermining support for the government and the CPC.

Although memories in [Western societies tend to fade after a generation or two](#), we suspect that the leadership of the CPC is much more sensitive to inflation pressures because rising prices were a factor in the Tiananmen unrest. This might mean that China will be reluctant to deploy a weaker currency to offset the impact of tariffs, for example.

**Observation #4: The West has assumed that economic development would eventually lead to political liberalization. So far, that hasn't occurred.**

In June 1989, the Communist bloc was still intact but was starting to crumble. In the summer of 1989, East Germans began emigrating to West Germany and the communist government didn't try to stop them. By December, the Berlin Wall had been removed. Tiananmen Square occurred as communism was starting to crumble.

As communism unraveled, the narrative that developed was that the West had won the intellectual war between communism and capitalism. [Francis Fukuyama's End of History](#) paper in the *National Interest* in the summer of 1989 captured the sentiment—capitalism and democracy had won and there was no alternative government or economic structure available. It was generally believed that the remaining communist regimes would eventually give up on communism and adopt capitalism and democracy.

Partly due to this narrative, [the Bush administration](#) took a rather measured response to the crackdown.<sup>1</sup> [Congress generally favored a more aggressive stance, threatening China's Most Favored Nation status in trade, but the Bush administration vetoed it.](#) The veto was narrowly sustained. In the 1992 presidential campaign, Governor Clinton leveled the charge that [Bush was too conciliatory](#) toward dictators, including the Chinese. The stance likely helped his popularity. However, as president, [Clinton tended to follow Bush's policy toward China.](#)

Much of this strategic patience and [George Bush's decision to allow China into the WTO](#) were based on the idea that the more

<sup>1</sup> President G.H.W. Bush was the last of the Hamiltonian presidents in terms of foreign policy. That realist stance was less inclined to punish China for the crackdown compared to the more Wilsonian-leaning administrations.

China's economy developed, the greater the chances were that China would become a democratic and capitalist country. That idea flowed out of Fukuyama's argument that capitalism had essentially "won." Bush's position was to "[trade freely with China and time is on our side.](#)"

[Instead, China appears to have created an alternative economic and political model.](#)

As noted in Observation #2, China's economic growth has been remarkable. Deng's goal was to bring economic development but avoid the potential instability that often comes with democracy. For a long time, Western economists and political theorists postulated that the economy would eventually stagnate without political liberalization. They still could be right. However, the level of development and growth surprised the West; it has led the West to question the notion that democracy is necessary for economic development and it has emboldened China's leaders to believe that they have created a new and better system of development.

**Observation #5: Although China appears to have created a new system of government and economic management, the actions of the Xi regime suggest that controlling social behavior is key to the emerging system. Problems of suppression may prove that the West was correct about economic growth and democracy.**

The Soviets [enforced restrictions on the use of photocopiers](#) in a bid to control the spread of ideas. China has created the "[great firewall](#)" to restrict its citizens' access to information. It is generally believed that restricting access to information reduces the potential to develop new ideas. The fact that China is struggling to create leading

technology suggests that such restrictions may yet prove to cap its development.

The CPC wants to maintain unity. To do so, it uses two tools: nationalism and economic growth. Any dissent or discord is framed as an attempt by Western nations that participated in the humiliation of China during the 19<sup>th</sup> century. Thus, examining history outside of what the CPC describes is a threat to unity.

I was giving a talk about Tiananmen Square's legacy at an Australian university about two years ago when a young Chinese student put up her hand during the question-and-answer session. "Why do we have to look back to this time in history?" she asked. "Why do you think it will be helpful to current and nowadays China, especially our young generation? Do you think it could be harmful to what the Chinese government calls the harmonious society?"

-- [Louisa Lim, NYT](#)

When I was a history student at Avila College in the mid-1970s, one of the nuns that taught history remarked how students would often say, "you are destroying my illusions," when she would talk about "what really happened." I always thought her response to that criticism was brilliant—she would remark that "to be disillusioned one must have an illusion."

No doubt most Chinese students who study abroad are affected by an alternative presentation of events. But, the CPC makes holding such positions risky and suggests that such alternative interpretations are effectively unpatriotic and harmful. To enforce this position, Chinese leaders point to the remarkable growth that China

has enjoyed as proof that the system works. The key unknown is if growth slows, will mere nationalism be enough to maintain unity?

In the West, there were two formative dystopian novels of the 20<sup>th</sup> century—[Brave New World](#) by Aldous Huxley and [1984](#) by George Orwell. The latter is perhaps the more famous of the two and most often referred to when discussing the dangers of totalitarian and authoritarian regimes. Orwell's novel discusses a world where the state manipulates history and uses repression to manage society. Huxley's work instead looks at a society where materialism ranks supreme, and where the utilitarian principles of avoiding pain and accepting pleasure drive policy. In China's case, Huxley's dystopia might be more appropriate, although there are clearly some elements from 1984 for those who oppose the regime. [The CPC tries to get the citizens to buy into the system by promising strong growth and a steadily improving standard of living](#). If conditions change, either due to [China's need to shift away](#) from its development model or due to U.S. actions to weaken its economy, the CPC may find it only has repression available as a means of control.

### Ramifications

Western nations have clearly moved from viewing engagement with China as a way to integrate the country and change it to concluding that its system is not compatible

with Western ideas. As the Trump administration moves to restrict trade and technology transfer, the odds increase for conflict, both in trade and investment. At some point in the future, even the likelihood of a military conflict is growing, though still a low probability.

In the short run, attempts to reduce China's global expansion will tend to weaken globalization as a policy and support regionalization. The most likely outcome from that process is higher inflation. A rise in inflation would come as a surprise to a world that has pretty much moved away from worrying about rising price levels. Even though we noted this is a "short run" outcome, it is a process that might take a year.

The Tiananmen Square event shows that China's views on the world are not compatible with the West. Until recently, the West's response was, "if we support their development, they will change." That position appears to have been undermined and a new policy, likely designed to contain China, is developing. That policy will, most likely, constrain supply and curtail efficiency.

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