

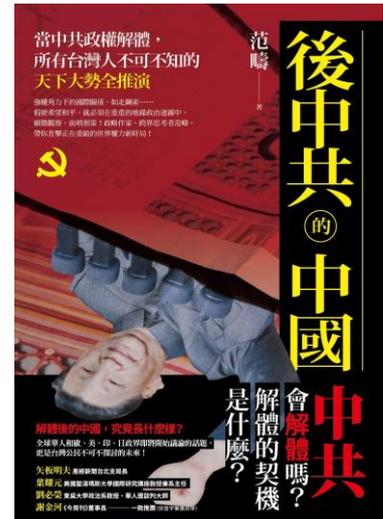
POST-CCP CHINA: AN OVERVIEW OF POTENTIAL OUTCOMES FOLLOWING THE DISINTEGRATION OF THE CCP

後中共的中國：當中共政權 解體，所有台灣人不可不知 的天下大勢全推演

Could the Communist Party of China simply dissolve of its own accord? If so, what would a post-CCP world look like? Risk management strategist and author Fan Chou guides readers through the new world order that could emerge as various actors respond to a post-CCP power vacuum.

The prospects of the collapse of China, or, alternatively, Taiwan being subsumed under communist China's autocratic rule, have been perennial topics of geopolitical debate for over three decades. Given current trends in world affairs, and the lessons learned from the dissolution of the Soviet Union and Yugoslavia, it is once again time to question how long China can withstand the unprecedented internal and external pressures it currently faces.

This analysis of the dissolution of China's political regime begins with an assessment of various measures of fiscal health, concluding that the CCP's fiscal framework for maintaining political power has already substantially weakened. Attention then turns to the obstacles and incentives presented by various internal, external, regional, and international factors that will influence outcomes in a



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post-CCP China, with a focus on how China's internal politics will likely evolve in response, and what form the resulting post-CCP political structure will take. Finally, the author develops a "prognostic strategy" for Taiwan consisting of domestic, foreign, defense, and economic policies that will allow Taiwan to optimally prepare for and respond to a post-CCP world.

Adopting the macro perspective, author and political strategist Fan Chou applies his impressive depth of knowledge to the problem of predicting the political future of China, Taiwan, and the world. Convinced of the inevitable dissolution of the CCP, he walks readers through the most plausible scenarios and geopolitical responses, helping them to understand what to expect from this monumental shift in the world order.

Fan Chou 范疇

An authority on political and economic risk assessment in the Asia-Pacific region, Fan Chou (1955-2023) received his master's degree in philosophy from Columbia University and founded the InsightFAN online strategic risk platform. Over his lifetime he gleaned insights from over three decades of work experience in the US, Taiwan, China, and Singapore in the fields of cross-border venture capital, organizational risk management, and regional economic planning. He authored numerous books including *If Push Comes to Shove Is Taiwan Ready to Fight?*, *2022: Taiwan's Last Window of Opportunity*, and *Taiwan and China: In Conversation with Xi Jinping*.

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By Fan Chou

Translated by Petula Parris

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Chapter 1: Post-CCP China

What is China without the Chinese Communist Party (CCP)? What happens when it is gone? General political discourse tends to skip these questions. For sure, the “collapse of China” has been debated since the turn of the century – but such arguments generally view the CCP and China as one. This book makes a different assumption: China in the post-CCP era is not necessarily the “China” you know today.

To understand this better, we can look back at post-1949 Taiwan, when the Kuomintang (KMT) Party imposed four decades of martial law over the island. While the KMT’s authoritarian methods of governance were, on the whole, less draconian than the CCP’s, Taiwan was nonetheless a dictatorship governed by a single political party.

In the 1980s, if you were caught declaring that “The KMT is not Taiwan!”, you would have been promptly dragged off the street and incarcerated. Fast forward to today, and such behavior would attract little more than a few curious stares. Indeed, should you wish, you could now quite safely walk the streets of Taipei declaring that “The DPP and Taiwan are not one!” This is because the name “Taiwan” has already evolved far beyond its past associations of one-party KMT rule – and lightyears on from Taiwan’s old name “Formosa”.

So why, then, do we blur the lines between the CCP and China? Is it because of the blanket control the CCP seems to hold over the lives of ordinary Chinese citizens? Post-CCP China does not automatically refer to China in its current state. We only need turn the clock back on Europe to understand that “Europe” and the “European Union” were never meant to share the same destiny. Similarly, after almost a century as a de facto European nation, the country of Yugoslavia now exists only in history books. Time does not stand still.

As such, we should start asking what shape a post-CCP China might take. How would the current political, social, and economic dynamics at play within China affect the outcome? And what role would international forces play?

Scope and Definitions

It is first necessary to define the overall scope of, and key terms used in, this book. Most of the world’s nation states recognize the People’s Republic of China (PRC) as a political entity, with the CCP as its steward.

“China” is, in itself, an ambiguous concept – and “Chinese” even more so. Someone talking about “China” may be referring to the nation state ruled by the PRC, a geographical region, or even a cultural tradition; while “Chinese” can encompass ethnic, political, or cultural matters. As such, clarity is required when applying these terms.

For the purposes of this book, “post-CCP” refers to the period *after* the disintegration of the CCP. Anything prior to this will be considered the “CCP era”.

What Constitutes the Disintegration of the CCP?

Having studied this topic for years, I have settled on a single indicator to signal the disintegration of the CCP (although there are, of course, many alternative analytical perspectives from which to approach this question). The CCP is a political regime sustained by a power structure that has already entered its final phase – the indicator for this being fiscal competence. We can, therefore, use the CCP’s fiscal competence in each of China’s provinces and regions to assess whether the CCP is still “breathing”.

In 2022, due to geopolitical factors and China’s own internal political struggles, only Shanghai, Guangzhou, and Guangdong appear to have balanced their books – with all other Chinese provinces, regions, and cities chalking up deficits. In the meantime, China’s land financing and export-led growth models (both keystones of Deng era economic reform) are both rapidly

losing steam, which makes it difficult for the central government to prop up local public finances any longer. In short, the Hong Kong-inspired land financing model has already exhausted demand and begun to atrophy, while revenues from China's export-led manufacturing sector (originally based on the Taiwanese industrial park model) have also almost dried up due to US containment efforts and China's zero-Covid policies. In my opinion, even if China tries to revive these models, results will not be seen for at least five years – and the CCP leadership in its current form is simply too unstable to last that long.

Therefore, while the collapse of a political regime necessarily involves various factors, in the case of the CCP, we can take fiscal competence as our patient's "vital sign".

Based on this, I propose the following definition: When more than 80% of China's provinces, municipalities, and autonomous regions have been unable to maintain fiscal balance for a period of at least two years, the post-CCP era has begun, regardless of whether this situation is brought on by war, economics, or social factors.

A word of warning: While we now have a quantifiable indicator with which to gauge the CCP's fiscal health, the CCP is prone to "withholding" unfavorable economic data. This makes it difficult to accurately measure its true fiscal position. We should, therefore, not be surprised if China's "fiscal disintegration" presents itself like a stroke patient – one minute the patient seems fine, the next they are struggling to function.

Of course, a post-CCP vacuum may very well see China fumble along in a zombie-like existence, where it becomes isolated internationally and its citizens live in hardship. If such a scenario were to prevail, all kinds of domestic and foreign forces would vie for influence, and it is exactly these forces that this book aims to predict.

Why Can't the CCP Just Print More Money?

One of my friends (he's a little naïve when it comes to economics) asked me why the Chinese government couldn't simply print more money when its coffers run dry. When I heard this, I burst out laughing, and offered him a precautionary tale: "My good friend, Old Wang, was very wealthy until some bad investments left him broke. One day, Old Wang was passing a shoe shop with his young son, when the little boy started nagging him for the latest Nike sneakers in the shop window. 'Daddy can't afford them right now,' Old Wang told his son. 'I'll buy them for you another day when I've got some money.' To which the child replied: 'Can't you just use your credit card, Daddy? Isn't that how you get money?'"

Before delving further into Old Wang's financial troubles, I should explain why I say the CCP engine can only run on empty for two years. Why two years, rather than five or ten? Didn't the CCP shore up its economy during the 2008 credit crisis with a generous four-trillion-yuan stimulus package? If that helped China and the global economy through a sticky spot in 2008, can't the CCP do it again?

The answer to this requires some understanding of the relationship between public finances, debt, and foreign exchange reserves.

In 2008, China's GDP stood at \$4.6 trillion US dollars. By 2021, this had risen to \$17.7 trillion (the dollar to yuan exchange rate was roughly the same in both years). For the same two years, China's debt-to-GDP ratio stood at 140% and 300% (\$6.44 trillion and \$53 trillion), respectively. If we borrow my friend Old Wang here, we could say that Old Wang's domestic and foreign credit card debt was 1.4 times his net worth in 2008, and three times his net worth in 2021.

Next, we look at the relationship between external debt and foreign exchange reserves. In 2008, China had \$375 billion worth of external debt and \$1.95 trillion in foreign exchange reserves. In 2021, it was \$2.75 trillion and \$3.25 trillion, respectively. Put another way, if Old Wang had \$1.95 trillion worth of cash stashed under his bed in 2008, he owed \$375 billion of that to his fellow villagers. In 2021, the pile of cash under his bed had grown to \$3.25 trillion, but he owed his fellow villagers \$2.75 trillion.

In March 2022, NetEase reported that China's fiscal revenue and expenditure for 2021 were 11.13 trillion yuan and 20.99 trillion yuan, respectively. This resulted in a self-sufficiency ratio of 53 percent, adding some 9.8614 trillion yuan to China's total fiscal deficit (there were some discrepancies between NetEase's figures and those released by Beijing at the end of January 2022). So, in 2021, as the family breadwinner, you could say that Old Wang earned 11.15 trillion yuan and ran up household expenses of 20.99 trillion – meaning his income only covered 53 percent of his costs.

Let's assume that 2022 goes roughly the same as 2021 for Old Wang. He will still have \$500 billion under his bed left over from 2021 (that's \$2.75 trillion subtracted from \$3.25 trillion), but that isn't enough to cover his \$1.45 trillion deficit in 2022 (based on 9.8614 trillion yuan and an exchange rate of 6.8 yuan to the dollar). Old Wang still can't afford those Nike sneakers for his son!

Of course, Old Wang could just apply for some new credit cards and keep spending that way. But as soon as his income falls short of his interest payments (which won't be long!), creditors will start knocking at his door. Declaring himself bankrupt is also an option. Either way, Old Wang doesn't have the best relationship with his wife, and so he is probably also heading for divorce. As chance would have it, Old Wang's wife and son have been asking about the family finances – for example, they'd like to know what happened to all the money the family made over these past 30 years. "Look at all this!" Old Wang exclaims, pointing at the expensive marble floor and ornate Italian furniture. "Look at all the things I bought us!" Puzzled, Old Wang's wife digs out all their old receipts from a kitchen cabinet and runs some calculations. "These only account for half our earnings. Where's the other half?" she asks. This is how Old Wang's wife discovers that not only has her husband squandered a good part of the family fortune on living it up with his friends, but he also a string of mistresses and several secret offspring to boot.

This is, to put it figuratively, where the CCP's finances currently stand. How will the Evergrande real estate crisis impact the CCP, given that trillions of US dollars in assets are affected? Now, the future of another Chinese property developer, Country Garden, is also in jeopardy – but what does this have to do with the CCP's own financial standing? The answer lies in the bedrock

of the CCP's finances: land financing. Most of China's central and local fiscal revenue is derived from industries connected to the real estate sector, where corruption is rife. The central Chinese government website itself tells us: "In 2021, revenue of local government-managed funds totaled 9.3936 trillion yuan, signaling a year-on-year increase of 4.5%. Of this, revenue from the sale of state-owned land use rights was 8.7051 trillion yuan." Yes, that's right: that's 92.67 percent of the government's fiscal revenue! If China's real estate sector implodes, the CCP's balance sheet and entire Chinese economy can only follow suit.

So where exactly *did* the rest of the money go? It is true that China's infrastructure frenzy consumed vast quantities of cash but (following the wisdom of Old Wang's wife) we should probably take a thorough look through the books. Have you ever heard the Chinese saying: "Take a feather from a passing goose"? Please allow me to elaborate. I once worked out that any business dealing in China involving officials from state-owned enterprises or government departments (at any level) will see around 30 percent of the total deal "skimmed off" into somebody's pocket. When I shared my findings with a prominent Chinese economist, he grinned at me and said: "How naive you are, my friend. Thirty percent? Are you kidding me? It's *much* more than that!"

I also once attended a meeting where a district governor from one of China's centrally administered municipalities was discussing an international exhibition project with his staff. Someone from the finance department asked the governor to look over the budget proposal for the project. The governor glanced at the proposal, threw it straight back, and scoffed: "Two hundred million? You expect me to apply to the National Development and Reform Commission with two hundred million yuan? You'd better add a zero to those numbers and make it two billion!"

The CCP is running out of money. Public servants are having their pay slashed; local governments are setting up "salary reduction departments"; teachers are being asked to sign promissory notes for unpaid wages (taking them back to the IOU era of the 1980s and 1990s); companies in Shenzhen are holding "salary reduction competitions", where employees propose their own salary cuts, with only the lowest bidders getting to keep their jobs; the number of unemployed college graduates has reached the tens of millions; small businesses are going under due to supply chain disruptions; mortgage defaults have caused the number of property foreclosures to skyrocket; banks are setting limits on cash withdrawals; the government is preventing citizens from leaving the country; China's army of PPE-clad workers (the very same ones who were berated endlessly during the Shanghai lockdown) are now taking to the streets to protest against unpaid wages; temporary workers in Shenzhen are accepting hourly rates of just five yuan an hour (seven yuan in Suzhou); and local officials are simply opting to *tang ping* or "lie flat". Indeed, the money is gone, but to where exactly?

I therefore predict that, should such financial conditions persist, the CCP regime will be unable to function in its current form for a period of more than two years.

Chapter 2: Fiscal Troubles Will Lead to the CCP's Disintegration

When people tell me the CCP won't fall, I ask them to consider the September 11 attacks in New York. Prior to September 11, 2001, no one in the world (least of all the architects involved) thought two airplanes striking the Twin Towers with the force and at the floor levels they did would be of enough consequence to bring the two buildings down.

The CCP is a giant political apparatus that governs 1.35 billion people and a territory of 96 million square kilometers, with its vertically integrated administration maintaining a firm grip on Chinese society at all levels. Could such a mammoth machine really come to a standstill?

In my opinion, it certainly could, and may do so sooner than people think. I say this for many reasons: First, on what core, guiding principle is the CCP regime built? In my opinion (and I have mooted this point for several years), the CCP runs on a principle of "power", which permeates the behavior of all social organizations and individual citizens.

This is the concept of "Powerism" I have referred to repeatedly over the years – and this also happens to be the CCP's structural weak spot. The CCP relies on centralized power to operate its state machinery, unlike capitalist countries and market economies such as the United States, which have adopted decentralized power and checks and balances as the basic structure with which to safeguard their state and political systems.

Consider the following scenario: If the US president were assassinated tomorrow, how would the country's political system respond? To what extent would US national security and social stability be compromised? And what if it happened in China? If the leader of the CCP was assassinated tomorrow, how would this impact the PRC as a nation state and all those living within its geographical borders? We only need make this comparison to understand the differences between the two political systems.

When the disintegration of the CCP occurs, it will be caused by a hit to the CCP's weakest structural link. Some people believe the CCP could fall after a single, black swan event; others view its disintegration as an inevitability. Regardless of who is right, the fatal blow will occur at the weakest point in the CCP's power structure.

So where exactly is this "weak spot" to be found?

Before answering this question, let us return to the metaphor of the Twin Towers. Until those two specific moments of impact, which duly lead to the structural disintegration of the towers, there were endless, perfectly logical explanations as to why the towers would never collapse: the buildings were designed to be highly robust; Manhattan doesn't have earthquakes; the structures were capable of withstanding extreme wind loads; a single explosion in one location would be too isolated to affect the entire building structure; there were security systems in place...

To be fair, we have seen similarly rigorous arguments made throughout history. When the Titanic departed from the port of Southampton on April 10, 1912, nobody understood that a breach to a specific location in the ship's hull could devastate her entire structure. Indeed, the Titanic's chief designer had no qualms about traveling onboard the vessel himself, such was his confidence. Unfortunately, as we all know, the largest and most solid ship the world had ever seen "happened" to collide with an iceberg. As the collision occurred late at night, when the captain

and senior officers were sleeping and on-duty sailors also “happened” to be taking a moment’s rest, the warning signal was sounded too late. This delayed the ship’s attempt to change course by several minutes, which meant that the ship’s hull “happened” to scrape along the side of the iceberg. Thus followed a systematic chain reaction where, within an “unthinkably” short three hours, the colossal structure split in two and sank to the bottom of the ocean.

Again, such was his overconfidence in the ship and his ability to navigate familiar waters, the captain had opted to reduce the number of lifeboats required on board, so as to be able to accommodate more passengers in all classes – especially world-renowned passengers traveling in first class.

If the examples of the Twin Towers and Titanic seem too out of date, then there is also the Russian flagship Moskva, which went down in the Black Sea in 2022 after being hit by two run-of-the-mill standard Ukrainian missiles. It is now generally understood that, as the flagship was originally designed by Ukrainian engineers, the Ukrainian forces were able to target the most vulnerable point on the ship.

As such, whether we are recalling the Twin Towers, the Titanic, or the Moskva flagship, we arrive at the same conclusion: a strike to a vulnerable point on even the most colossal structure – coupled with a fluid force (such as stress or water pressure) under systematic propagation – can cause a structure to disintegrate at unimaginable speed.