

Sustaining China's Development: Challenges and Choices

HUANG Jing

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Major Findings and Arguments

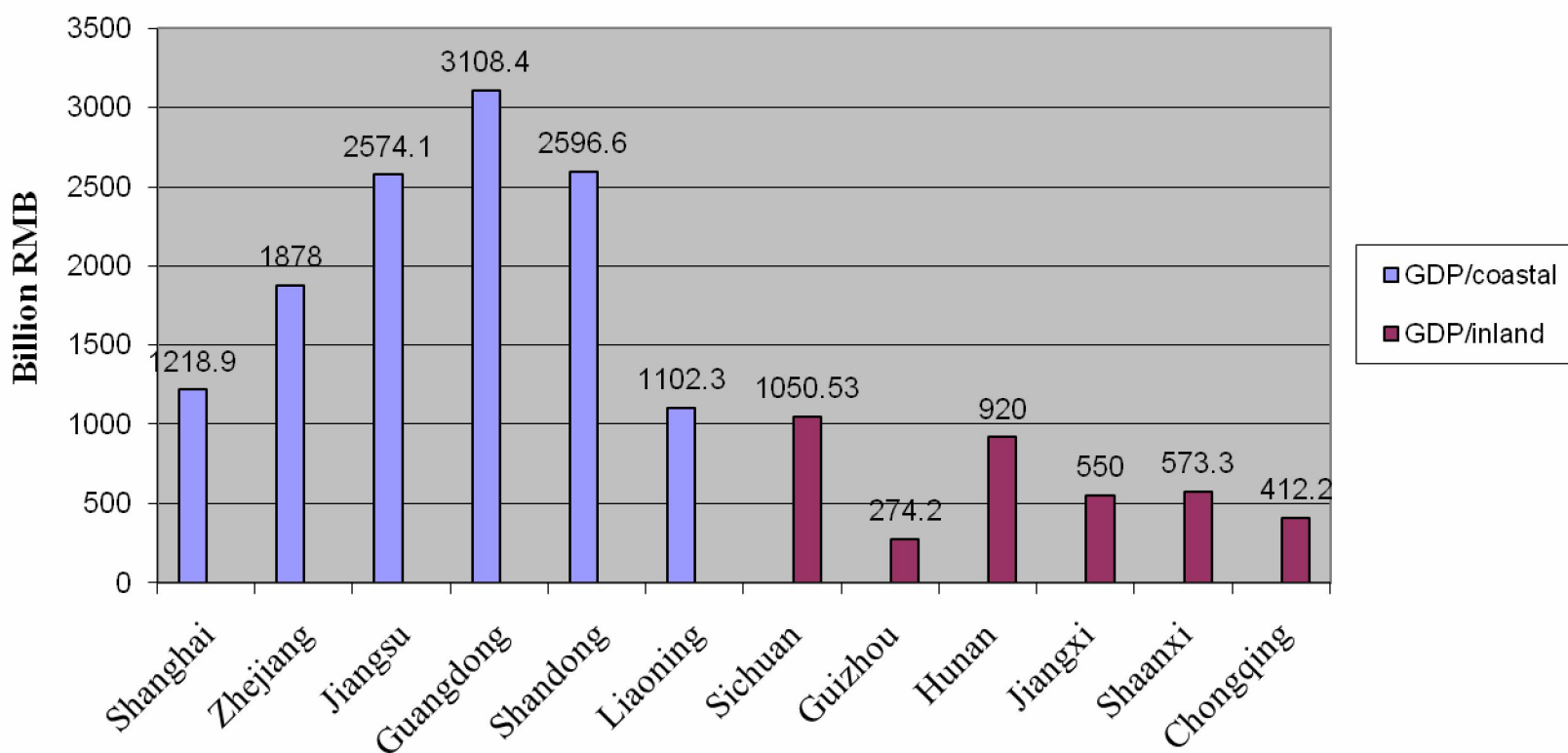
1. China's development is hitting a bottleneck in both economic and socio-political areas.
2. China's leaders have diagnosed the problems accurately and made feasible prescriptions.
3. The adopted policies have failed to achieve the desirable outcomes.
4. This *policy ineffectiveness* is caused not merely by poor policy coordination and strong resistance from interest groups/local governments, but it reflects the fundamental tensions arising from the fast but uneven development in the last two decades.
5. It's high time to restructure the socio-political system, focusing on developing new *political institutions* to
 - a) **consolidate the “collective leadership”**
 - b) **improve policy effectiveness and coordination**
 - c) **broaden participation in the policymaking process**

Seven Fundamental Challenges

1. Increasing difficulties in managing the officials/cadres
2. Uneven development
3. Investment-led growth
4. Over-dependence on foreign trade
5. Energy (in)security
6. Deteriorating environment
7. Reforming socio-political system

Uneven development (1) – regional gaps

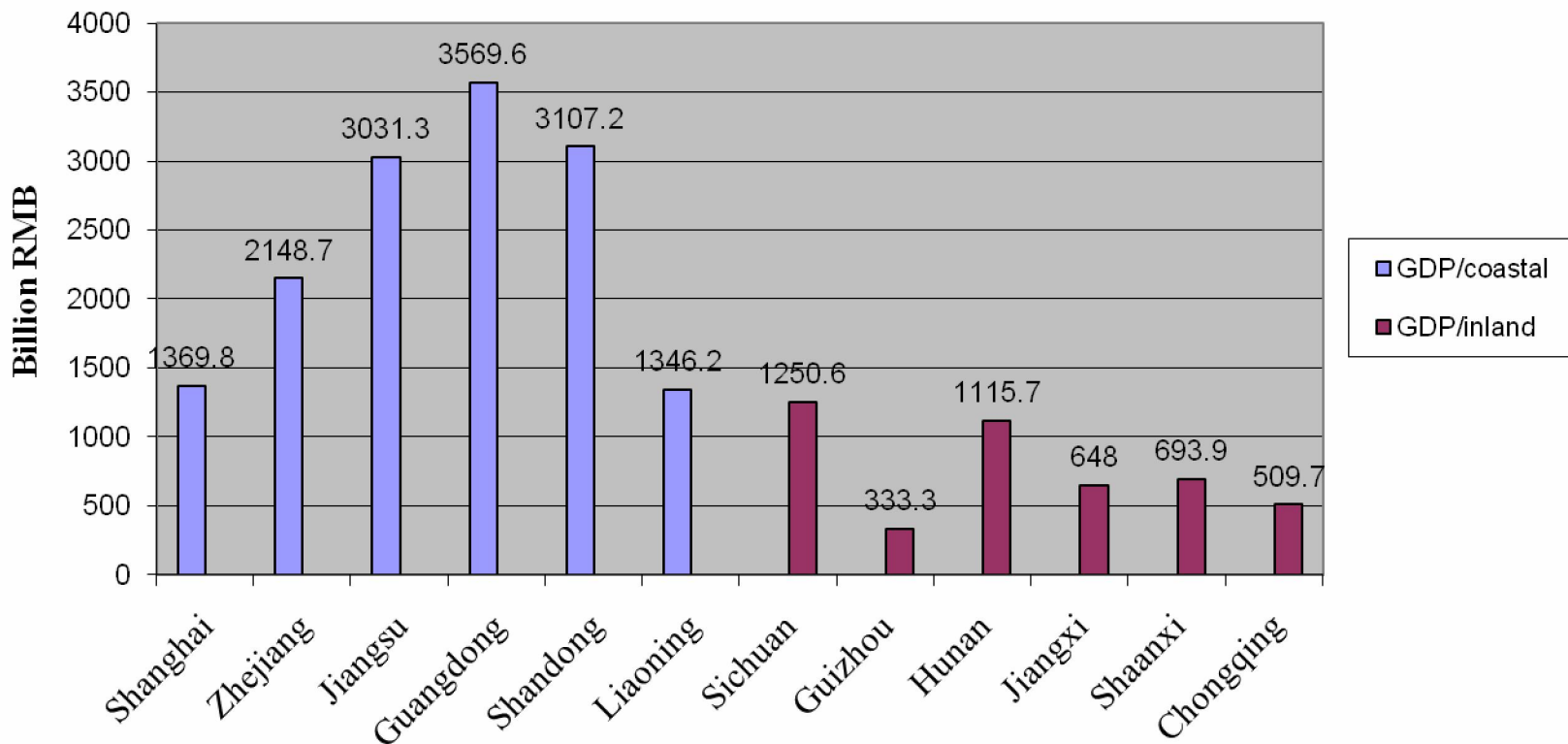
Figure 2a: China' 12 Provincial Gross Regional Product, 2007



Source: The PRC National Bureau of Statistics

Uneven development (1) – regional gaps

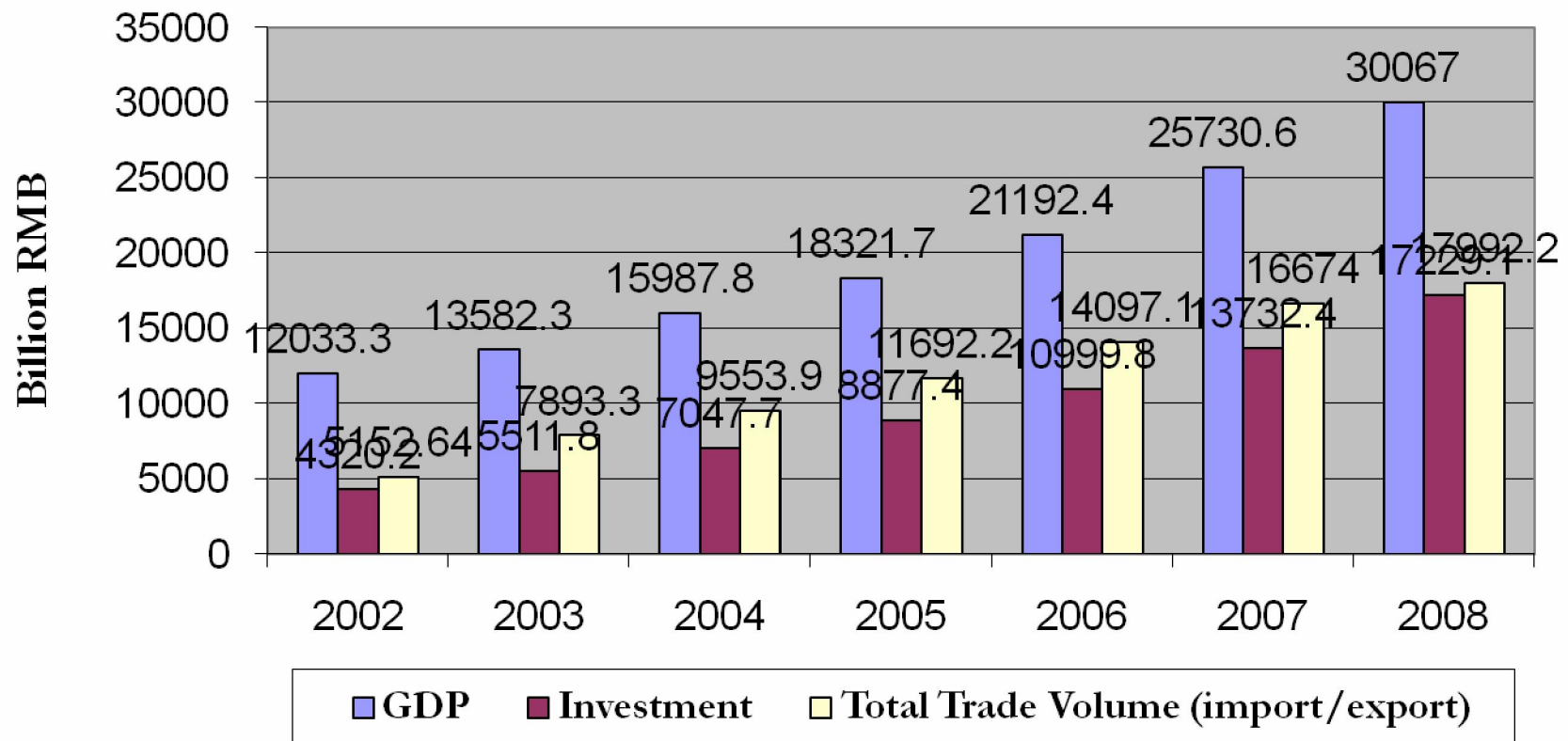
Figure 2b: China' 12 Provincial Gross Regional Product, 2008



Source: The PRC National Bureau of Statistics

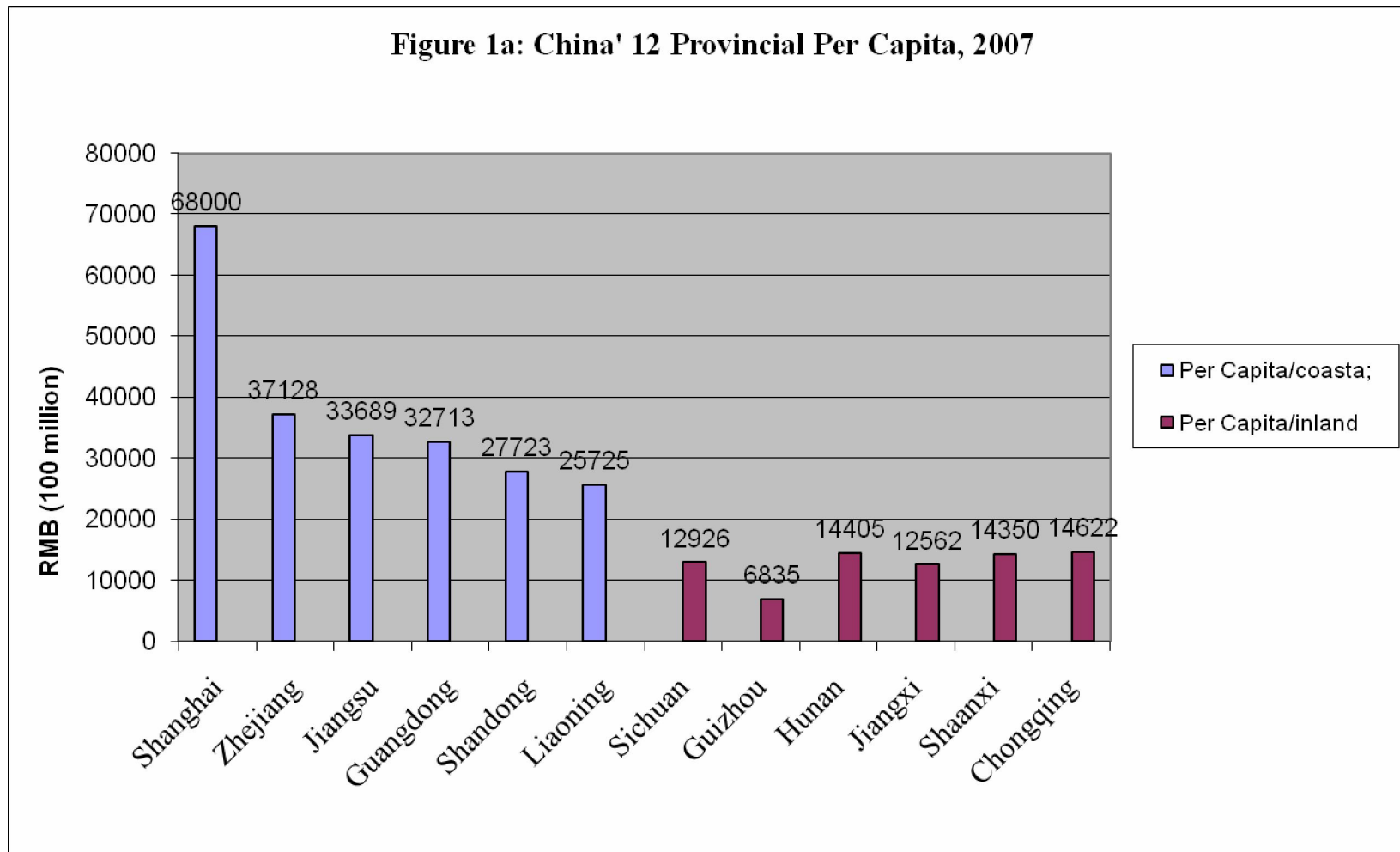
Investment-led growth & dependence on foreign trade

Figure 1: China's GDP, Investment & Total Trade Volume
2002-2008



Source: The PRC National Bureau of Statistics

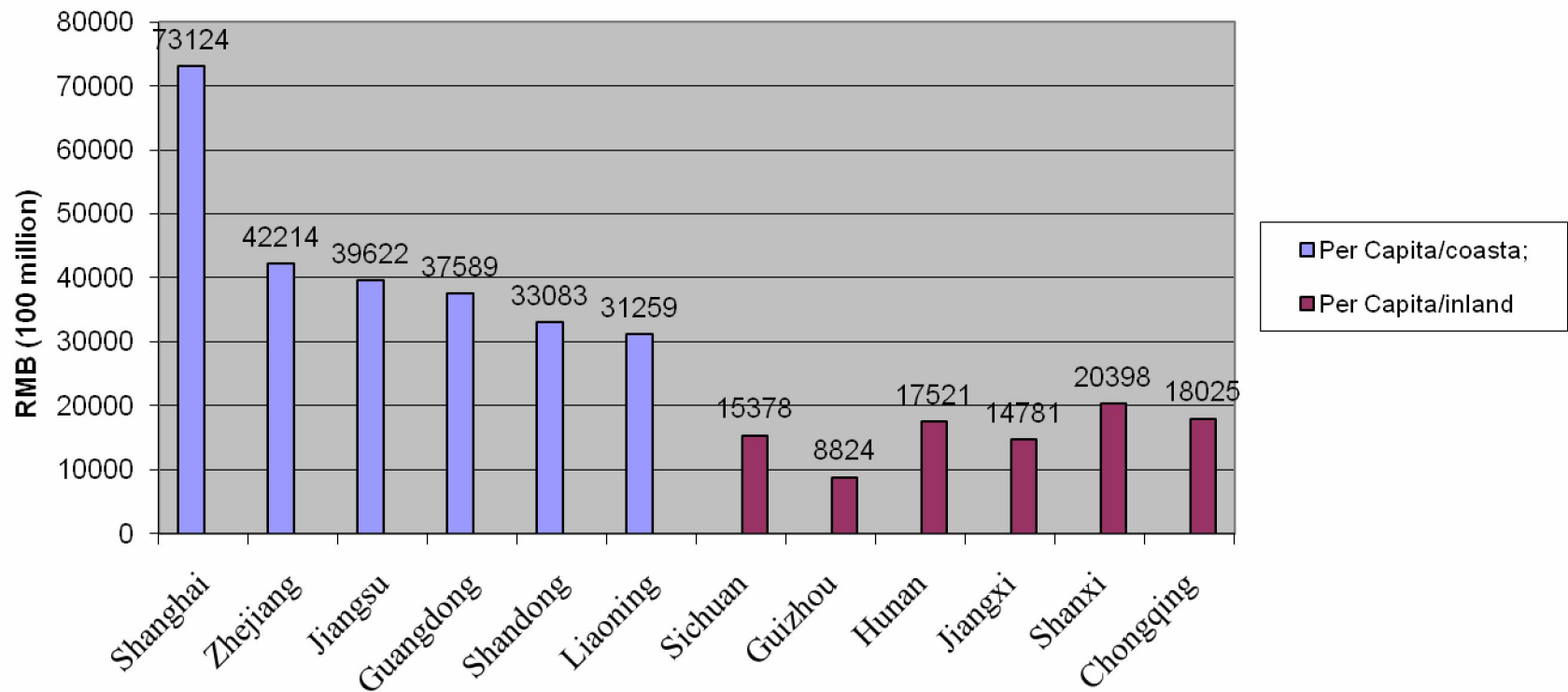
Uneven development (2) – per capita gaps



Source: The PRC National Bureau of Statistics

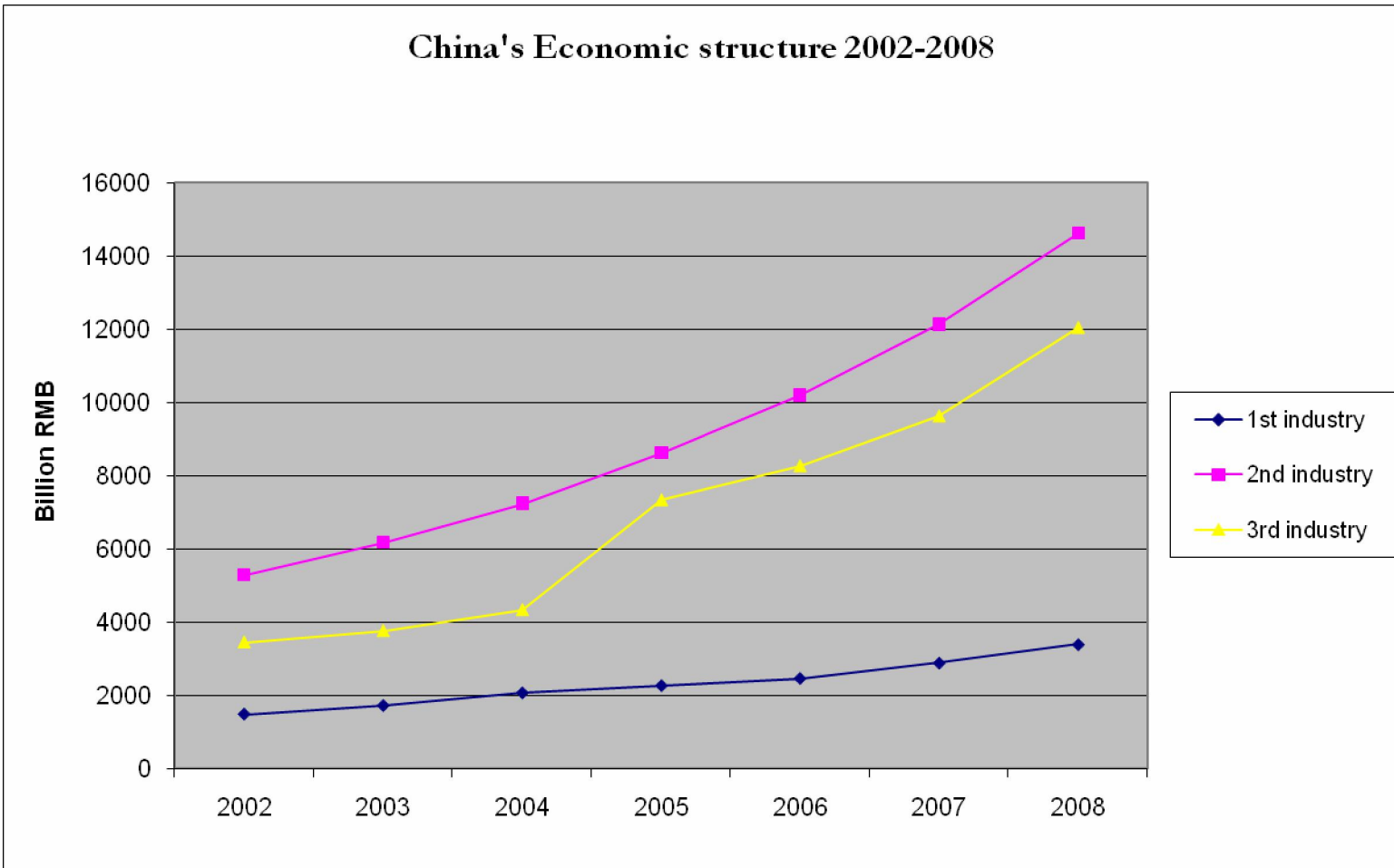
Uneven development (2) – per capita gaps

Figure 1b: China' 12 Provincial Per Capita, 2008



Source: The PRC National Bureau of Statistics

Uneven development (3) – economic structure



Source: The PRC National Bureau of Statistics and the author's calculation

Energy (in)security & deteriorating eco-environment

Supply side.

1. China is the 2nd largest oil consumer and 3rd largest oil importer.
2. Now 55% of China's oil consumption (4 million barrel/day) comes from overseas, and the demand keeps rising.
3. China's oil reserve is equivalent for 4 weeks of consumption

Demand side.

- Energy intensive industries engine economic development
- Highly distorted energy price system
- Energy inefficiency (e.g., China's energy consumption per unit of output value is 2 times of the world average)

Eco-environment Crisis

The Hu-Wen leadership's policy (1): Economy

“**Scientific development**”: restructure the economy and
“deepen economic reform”

Four Shifts in policy priorities:

1. from *quantity* of the growth to *quality* of the growth
2. from coastal areas to hinterland, and to agriculture;
3. from promoting export-led industries to developing internal market
4. from creation of wealth to distribution of wealth.

The Hu-Wen leadership's policy (2): Energy and Environment

Strive for “sustainable development”

1. “Go out” strategy to diversify and secure energy supply from overseas
2. Readjust the energy-consumption structure to maximize the internal energy resources
3. Promoting high-tech, high value-added and energy-saving industries
4. Strengthen demand-side management to improve efficiency
5. “Green indexes” are embodied in all the major development targets
6. Tough measures to shut down polluting plants and enterprises
7. New regulations to curtail environment-unfriendly industries

The Hu-Wen leadership's policy (3): reform the socio-political system

“Enhancing governing capacity” and developing a
“harmonious society”

1. Strengthening the system of “collective leadership”
2. Restructuring the administrative system to improve efficiency and coordination
3. Reinforcing the high-ranking cadre rotation system
4. High-profile anti-corruption campaign
5. “Cadre education and training” program
6. “Incremental democracy” and “intra-party democracy” in policymaking

Dilemmas & Bottlenecks (1):

Central vs. local governments

1. Tensions over the distribution of resources
2. Conflict interests
3. Decentralization (to maintain economic growth) vs. centralization (to ensure Beijing's authority in policymaking)
4. Policy distortions (or local policies)

Dilemmas & Bottlenecks (2):

Winners vs. losers

1. Enlarging socio-economic disparity
2. Emergence of interests groups
3. Rise of localism
4. Stagnation in policymaking – it is very difficult for Beijing to adopt a policy that can win nation-wide support (e.g., energy price)
5. Poor policy coordination because of conflicts among the vested interests in the process of policy implementation

Dilemmas & Bottlenecks (3):

Market economy vs. single-party political system

1. Economic competition requires the rule of law
2. Market forces pushes for policy transparency
3. A system of checks and balance is necessary for prevention of the abuse of power (i.e., absolute corruption)
4. The “bird cage” dilemma in the political reform

Dilemmas and Bottlenecks (4):

Society vs. state

1. Accountability dilemma in policymaking
2. Political participation dilemma
3. Inconsistent nation-state identifications – people are patriotic, indicating their strong identification with the Chinese *nation*, but they are critical to the political system, indicating their less enthusiastic identification with the CCP *state*
4. Strong patriotism, with skepticism towards the political system, makes the society vulnerable to socio-political unrests, especially in times of crisis

Institutionalization of the Political Process

1. The myth of “democracy (or democratization)” – the concept pre-designs a politically correct “path” for China’s development, but it hardly fits China’s reality
2. Democracy as a political system is established on a set of political *institutions*.
3. *Institutionalization of power* – “power stays in the office,” with the Constitution as highest political authority and clearly-defined distribution of power in policymaking.
4. *Institutionalization of the policymaking process* – formal arrangements, with abiding rules, compliant procedures, and standard operating practices, in the policymaking process, which embodies a system of checks and balance in decision making.
5. *Institutionalization of political participation* – developing a vibrant but stable civil society indispensable for an inclusive and pluralistic socio-political system