



China: Can Economic Growth Continue without Political Reform?

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Introduction

- Will China democratize?
- Can China continue its rapid economic ascendance without democratic reform?
- Four available scenarios for China's future

TABLE 1 Democracy and economic growth: four scenarios for China

	Democratic reform	Authoritarian rule
Sustained growth	Liberal Dream: A strong partner for the West (<i>Scenario I</i>)	Authoritarian Nightmare: A formidable competitor (<i>Scenario II</i>)
Faltering growth	Democratic Disappointment: A weak, peaceful power (<i>Scenario III</i>)	Frail Giant: A stagnant and insecure regime (<i>Scenario IV</i>)

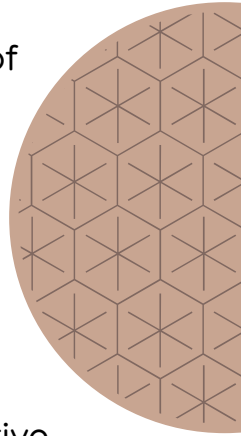
The Chinese Economic Miracle - Part I

- In the past decades, China has increase per capita income by 1000%, more than doubled its urbanization rate, and became the third largest trading power in the world.
- Development State Theory: It credits the authoritarian rule the capacity to overcome the collective action problem. Democratic reform may be unnecessary, and it might actually be harmful for sustaining economic growth.
- Institutionalist School: Superior long-term economic growth can only be sustained by political and legal institutions that protect property rights and restrain predatory appetite of the state. An autocracy is unlikely to sustain economic growth unless it implements political reform.
- The most important aspect of China's economic modernization is the impressive growth of its foreign trade, gaining unprecedented economic influence in the world economy, mainly in East Asia.
- Geographic Advantage: China is located in the fastest-growing region in the world economy → Proximity to “Dragon Economies”.

The Chinese Economic Miracle - Part II

How much of China's economic growth should be credited to its government? There are other factors that need to be taken into consideration here.

- China's gradualist reform strategy was responsible both for its massive expansion of output and minimization of transition costs.
- Policy of decentralization stimulated elites to promote economic growth.
- Globalization and foreign direct investment helped China maximize its comparative advantage and significantly expand its foreign trade.
- Compared to a democratic regime, China's authoritarian political system facilitates mobilization of resources for rapid economic development.
- China's authoritarian rule has suppressed labor costs, helping the country comparative advantage in the world economy.
- Adopting democratic reform prior to economic reform can generate social unrest given the public's increase political power → Anti-regime revolutionary forces.

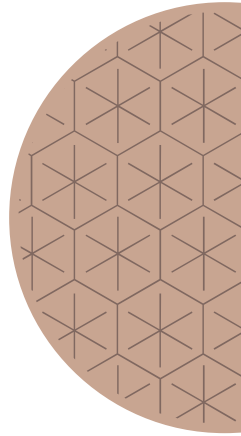


The Chinese Economic Miracle - Part III

Will China's economic growth continue to surge without political reform?

The most favorable economic factors include:

- National savings rate will remain well above 30% for at least a decade.
- Migration of rural labor to modern sectors in urbanized areas.
- Growing and dynamic private sector has become the main engine for economic growth and employment generation.
- Spreading growth clusters.
- Globalization has enabled China to maximize its comparative advantage.



Political Reform

China's political system remains authoritarian. Even with the country growing richer, China's political system has failed to become more democratic.

The reverse relationship between economic development and democratic change in China can be seen more clearly given three reforms done by the CCP since the 1970s → Strengthening legislative branch, building a modern legal system, and instituting semi-competitive elections in villages.

Strengthening legislative branch is a crucial reform. If successful, this reform will introduce institutional pluralism in an authoritarian political system.

Unfortunately, this does not mean that the legislative process in China has been democratized. Most of the laws accompanying the reform are meant to maximize flexibility and discretion of the government rather than to constrain the power of the state.

Legal Reform in China

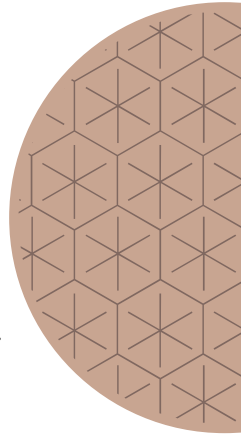
Since 1976 China has been dedicating efforts to build an efficient, modern legal system. As stated in the text, ensuring a modern legal system is built is key to successful Chinese economic reform. China has made huge investments intended to raise the professional qualifications of judges and lawyers. They have also made general improvements with regards to their judicial process through investment. While these actions are great and should resultantly lead to a stronger justice system, the Chinese legal system is under strict control imposed by the CCP. No matter how much is invested in the Chinese judicial system it will stay corrupt because the justice system lacks necessary independence to function fairly. The growth of civil and administrative litigation has been reported to have experienced a net decline in recent years... Below is some statistics backing the above claims.

- Key indicators suggest China has begun to lose momentum in its push toward legal reform since the 1990s. Analysis of the win rate in lawsuits among plaintiffs vs the government shows in 1996, plaintiffs were getting favorable court rulings and settlements in 41% of cases. As of 2002 the plaintiff vs the government win rate has fallen to 20.6%. This shows us over recent years the courts have been much less willing to rule against the government.



Autocracy - China's Developmental Model

While China has been able to achieve high rates of growth over the past century, it is important to remember that economic growth is not the only measure in determining the progress of a society as a whole. China's economic developmental model emphasizes exports, investment and infrastructure development and this approach has been successful in generating growth. However, this approach also comes with drawbacks, such as environmental degradation, corruption, rising inequality and more. Public policy within an authoritarian state unavoidably favors the politically powerful and discriminates against the weak. In addition, China lacks charismatic leaders, and ideological appeal which makes it very difficult for them to motivate their own supporters and retain their loyalty. We now begin to see the inherent flaws of autocracy and how it undermines efficiency, distorts incentives and exacerbates existing problems. I do not believe China will be able to escape the underlying growth limiting institutional barriers unless major political reform takes place.



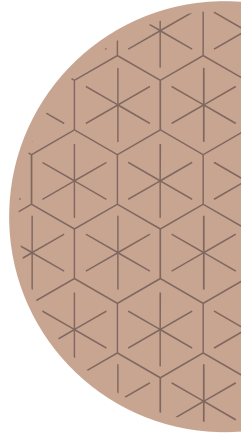
Social and Environmental Issues

- Social

- Widening wealth gap between urban and rural populations is indicated by gini coefficient of income rising over recent decades. (Crony-capitalism/pro-elite policy are contributing factors to rising inequality).
- Unfair and uneven allocation of resources and opportunities due to crony-capitalism. Flawed property rights and political patronage result in enormous waste and inefficiency, as indicated in miserable financial performance of SOE's. More than 35% of SOE's lose money and one is six has negative equity.
- China's aging population and shrinking workforce could impose further implications for economic growth.

- Environmental

- Environmental degradation is already a massive problem China is facing. Estimates suggest the cost of environmental damages will amount to 8% of China's GDP to repair.
- China is experiencing massive water-related environmental strains, due to severely polluted major rivers, depleted underground aquifers, and an overall inefficient use of water.
- Additional health-care costs associated with pollution will be considerable and increase due to China neglecting public health concerns.
- Unsustainable exploitation of resources and water scarcity will force China to strengthen environmental regulations or it will directly correlate to rising inequality.



Worsening Political Decay in China

Based on the history of autocratic regimes in the past, there is little promise in effectively stopping, combating and reversing the well-advanced corruption China has. The recent accelerated political decay in China will likely only increase in the decade to come. It will eventually get to a point where China's economic vigor will run dry, beginning in its financial sector. Investment will leave and reallocation of capital will occur. Interestingly enough, the greatest victim of political decay will be the CCP itself, due to collusive corruption.

This will fragment the party and could cause local-elites to usurp party power, making it increasingly difficult to implement policy changes, as the central government's agenda will not align with its own local agents. Networks formed by collusive officials could grow resistant to purges and anti-corruption campaigns. Furthermore they lack means to motivate party agents, and would not be able to use coercive instruments to force compliance, which would further alienate the people from the government, delegitimizing the ruling elites.



Conclusion

Political reform is essential for China in order for it to continue experiencing successful economic growth. Establishing judicial independence would help improve transparency and accountability within the judicial system. Also protecting individual property rights and ensuring proper enforcement of contracts will be necessary in the process for fair treatment. Strengthening freedom of the press will also help people access information instead of being fed curated content and information that the government wants the people to see. Prioritization of public health, education and social welfare will help to address the widening inequality

China's population has experienced in the past few decades. Investment in eco-friendly, green technologies and tightening of environmental regulations will help to ensure successful economic longevity for China. The future for China will depend on its ability to adapt to changing circumstances and addressing the systemic challenges by shifting the political structure of the country to one with more transparency and accountability.

