

China's Future: The Path to Prosperity and Peace

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Enrich Series on Insights into China

China has made enormous economic progress over the last 30 years. The nation is now an economic and international superpower. What are the secrets behind China's success? With an aim to provide a glimpse into China's possible future, *Insights into China* offers an in-depth look into the lessons learned by the leaders of China, as well as an exploration of the reforms and policies since the start of Deng Xiaoping's Reform and Opening Up.

Preface

With the established international order in flux, the world today is in a state of great development and significant adjustment. The effects of the global financial crisis are deepening, the economic recoveries of nations are not progressing evenly, and the emerging market economies are quickly rising. So we have every reason to believe that the world is entering into a new phase of great economic transformation, systematic reform, and structural adjustments.

In such a complicated international environment, China remains steadfast and unshakable and maintains steady and rapid development in areas where other world economies are still struggling. China has shown the world her ability to resist financial risk and deal with these tough problems. The country has also played a vital role in promoting global economic recovery and balanced global development. Evolved into a progressive “exceeder,” China has surpassed Japan to become the world’s second largest economy and has the world’s largest foreign exchange reserves which continue to increase. Additionally, China has overtaken Germany in trade exports to become the world’s largest commodity exporter and China’s manufacturing output is valued at more than that of the United States. China has also become the largest industrial manufacturing country. Economic growth remains robust and Chinese society is full of energy. Due to all these achievements, China has attracted worldwide attention. Facts have proven and will continue to prove that China’s voice cannot be ignored; her participation is indispensable; and her role is irreplaceable. Undoubtedly, China is stepping to the center of the international arena and has naturally become the focus of attention in the current era: the world is highly concerned about China’s achievements, China’s development direction, and China’s influence on the world.

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China is developing at a speed that may not have been anticipated by the country itself. However, China has been alert to the problems and difficulties lying in the way. From the decision-makers to common citizens, all Chinese people have kept in mind that they should stay calm and take rational actions. In the early 1990s, Deng Xiaoping, the general designer of the Reform and Opening-Up policy, clearly pointed out: "In the past, we proposed that development should come first. But now it seems that the problems arising after development are no fewer than without development."¹ Indeed, China is the home to more than 1.3 billion people and has undergone a long phase of poverty, weakness, and repeated sufferings. The nation will always reveal the national characteristics embedded with its "dual identity." On one hand, China sees itself as both an emerging country and the largest developing country where the developed eastern region and the backward western region coexist. To some extent, the outlook of Chinese cities is similar to that of the European cities, while the rural areas of China, on the contrary, resemble African areas. It is so obvious that the internal development of China is imbalanced, discordant, and unsustainable. Although China is considered to be an economic giant, when it comes to per capita income, she can only be called a "small country" which ranks at about 100 and even lags behind Angola and Azerbaijan. (According to the statistics from the IMF released in September 2011, China's per capita GDP ranked 91st in the world in 2010.² The statistics from The World Bank put China at 100.)³ There are 135 million Chinese people living on less than USD1 a day. According to the newly adjusted poverty line in China, there are 128 million people being stricken by poverty. There is still a wide gap between China and developed nations. On the other hand, China is a huge country with the largest population in the world and its size is nearly as large as Europe. In the past 30 years, China's economy has maintained rapid growth. At the same time, its comprehensive national strength has leapt to the forefront of the world.

However, China is also the only country among the big powers which has not achieved unification yet. With surging problems such as internal ethnic issues, environmental pollution, polarization of the rich and the poor, corruption, demoralization, and the loss of core values, the Chinese people are afraid that any social problems will be enlarged sharply to a huge issue when being multiplied by 1.3 billion people. In addition, the external world is worried about the high-speed development of China and it is hard for them to fully adapt to the new situation. Due to these factors, China will be doomed to be an introverted country focusing on internal development in the next 20 to 30 years. Moreover, the nation will give its priority to solving internal problems including maintaining political stability, promoting a sustainable economy, upholding national unity, unswervingly following the road of peaceful development, and maintaining the existing international order. In this regard, the international society should correctly and fully understand China.

It is never easy to develop anything and the process simply cannot be accomplished in one stroke. This is particularly true for a huge country like China. At present, China is in a crucial period of reform and development. In 2010, China's per capita GDP exceeded USD4,000, which rendered China one of the middle-income or relatively high-income countries. Now, together with a variety of increased conflicts and serious problems, China is also facing a critical transitional period that offers a broad road leading to a moderately modernized and developed country. Both history and reality have proven that it is crucial and dangerous at this stage and China may encounter the "middle-income trap" which is becoming more common. First put forward in the *East Asian Economic Development Report of World Bank* in 2006, "Middle-income trap" is a concept referring to a "development paradox" which may occur when the per capita GDP of a country or an economy reaches somewhere between USD3,000 and USD10,000 — the standard of a middle-income country. When this paradox occurs, a country can hardly

achieve the smooth transition of development strategies and modes. A country will also experience the strategic failure and external shocks while having some difficulties in overcoming their own economic development contradictions. Thus, the economic growth will be hindered or stay in a period of long-term stagnation. At the same time, the problems accumulated in the fast development process will break out intensively, resulting in sharp polarization between the rich and the poor, hardships in industrial upgrading, social unrest, and a lack of faith. Consequently, people of that the country will not necessarily enjoy higher incomes. Instead, there will be troubles, frustration, and even failures in the country's development. From a global perspective, some Latin American and Southeast Asian countries have become middle-income countries as early as the 1960s or 1970s; but until today, their per capita GDP still lingers around USD5,000. Some of them have been stuck in the period of middle income growth for as long as 40 to 50 years.

Therefore, it is crystal clear that there is no "free lunch" for economic growth and that growth does not necessarily mean progress. China is now at this critical stage. In the midst of such an important and historic period, no one can say that the "middle-income trap" will not emerge, since the country now faces many prominent domestic, and the internal and external development environment is getting increasingly complex. China is still exposed to economic, social, political, and diplomatic risks and challenges at home and abroad.

Challenge 1: Bottlenecks in Economic Restructuring and Increasingly Challenging National Development

Over the past 30 years, China's economy has been promoted

mainly through a reliance on resources, including cheap labor, reasonably priced materials, and so on. However, such growth is unsustainable, considering the soaring prices of land, labor, and other resources. In the meantime, the “Lewis’s turning point” is approaching while the marginal effects for demographic dividends are diminishing. Also, China’s comparative advantage in development has weakened. The structure of China’s economic growth is not reasonable enough yet. Of the “troika” for stimulating economic development, export and investment play a leading role, while domestic consumption obviously lacks strength. It is easy to find out that China’s economy excessively depends on exports and investments. In this regard, in 2009, the chief economist of Morgan Stanley Stephen S. Roach expressed that “it is definitely the time to ring the alarm bell for China’s economy.” The growing pattern of the China’s economy is in a tough and stressful transitional period. China’s modernization is primarily contributed by industrialization and the nation is in the phase of consuming immense resources. Concurrently, the country faces shortage in energy and resources; on the other hand, there appeared environmental pollution, which has brought about degradation of the environment. The quality of economic growth needs to be improved. Owing to the lack of core technology and core competitiveness, China’s manufacturing industry is huge yet being enervated or unprofessional. There is an urgent need to change the situation of “Made in China” into “Created in China.” There is still uncertainty and instability in economic development. The financial crisis may even worsen while the external demand tends to decline. Trade protectionism resurges and more trade disputes surfaced. Exports have gotten into a grim situation and there is a high dependence on foreign resources and energy. For example, in June 2011, the external dependence of China’s crude oil approached 55%, which makes the country vulnerable to the

impact of international market turmoil and pushes up economic costs and risks.

Challenge 2: Increasing Social Contradictions and Risks in Social Transition

China has paid a high price for its rapid development. In just over 30 years, China has completed her journey to industrialization — which developed Western nations had spent over a century's time on. China is now one of the major industrial countries in the world, but in the last 30 years, the nation faced intense contradictions which may occur at different stages in the future. The rapid development leads to the high frequency and concentrated resonance of social contradictions and problems such as the widening gap between the rich and the poor. Now the Gini Coefficient of China has exceeded the alarming line, reaching 0.46, thus wide attention has been drawn on issues such as social equity and social justice. There are big changes in social structure, organization, and values. Various ideas are colliding with each other. The problem of demoralization became much more obvious and a sort of “spiritual anarchism” has occurred. In general, social management still lags behind economic development and social progress. Given an increasingly prominent aging population and the accelerating flow of the population, people's well-being is likely to be threatened. The phenomenon of getting old without getting rich gradually revealed itself. Although the spending on public services such as education, health care, and social security is increasing continuously, it still cannot keep up with the rapid development and diverse needs. Social development focusing on safeguarding and improving people's well-being still falls behind economic growth. With the market-oriented transition, a large number of new economic and social organizations have come

into being. However, the traditional management structure and institutions have yet to adapt to the most active component of economic and social development. It has become more difficult for the traditional way of political and economic interaction to comply with the new requirements of national governance.

Challenge 3: Difficulty in National Governance along with Political Transition and Decline of Political Authority

Under an authoritarian structure of “Totalism (*Quanneng zhuyi* 全能主義)”, a consensus can be easily reached and advantages of concentration of efficiency can be reflected. The government will spend less on social management but achieve much more effective results. However, with the transition from charismatic leadership to normal politics, China bid farewell to charismatic authority as defined by Max Weber. Personal political authority is declining and authoritarian and its mystery begin to dispel. Leaders’ personal prestige has differed from that in the past. Politicians of the new generation, no longer being the revolutionaries in war, build their leadership on personal efforts and good performance. It will be a major challenge for these leaders to promote unity through a new consensus. Traditionally, the leaders are strong in control and weak in coordination. But now due to the diversification of domestic demands, there are different interest groups with different demands and value orientations. Coupled with external pressures, coordination will be quite arduous. It is also very difficult to reach a social consensus of “the greatest common divisor.” In addition, public participation in politics is expanding. There are nearly 500 million “independent” Internet users, and information “barriers” are disappearing. The changes in state-society relation have led to the significant enhancement of social forces, which is becoming a

remarkable factor that affects China's future development. Thus besides stimulating social vitality, it also brings complexity to the environment for national decision-making. Gradually, the government needs to strike a balance between rational decision-making and responses to sentiments of the people, in order to avoid major and strategic mistakes.

Challenge 4: Growing Pains of a Great World Power

The rise of China will inevitably invoke a certain response from the outside world. More and more countries regard China as a great power. Most countries in the world are glad to see China's great achievements and developments, but there are still some countries which feel uncomfortable with China's identity as a big power. Thus, there are terms like "the China Threat," or hear comments about China's responsibility and the "tough" and "arrogant" attitude of China. All these theories have destroyed China's image and there spread doubts, misunderstandings, worries, and prejudices. Some countries take an ambiguous view of China. In the hope to cooperate with China and share China's fruits of development under a win-win situation, these countries, contradictorily, express doubt and worry about China's rapid development. Still, they maintain a friendly relationship with China. Some countries, such as those with vested interests in the existing international order, take a negative attitude toward China. They are unwilling to recognize China's rise and set up barriers to obstruct China's development. From time to time, they issue some discordant notes and deliberately sing a different tune, or even implement "soft containment" toward China. For example, Sino-American relations have been very tense recently. The U.S. makes claims and conducts military exercises in the region, making the

situation of the surrounding areas complicated and confusing. The maritime disputes between China and its neighboring countries arise frequently, throwing the South China Sea region into chaos. Some countries attempt to find a balance between the great powers so as to benefit from both sides. Some countries even try to blackmail China by flaunting their powerful connections. Some have misinterpreted the meaning of China's rise, thus they start to guard against that. Some countries use financial weapons and try to suppress China by means of exchange rate issues and trade protectionism. All these factors have revealed the tension and anxiety of the outside world as a result of China's rise. These feelings are based on the fact that China is developing at full speed. Obviously, neither China nor the outside world has prepared fully for this fact. Therefore, in this situation, China needs profound reconsideration and adjustment. She should learn to implement a better diplomatic strategy. In addition, she needs to constantly adjust to the outside world, to maintain a modest and responsible attitude and to improve its international image.

History has shown that the road to modernization is long and formidable. In a country with a large population and complex conditions like China, it is extremely difficult to bring about reform and development. The country, on the whole, may be strong but the people could be underprivileged. For the coming future, problems and challenges which are very arduous, complex, and difficult to deal with are very likely to emerge.

Since China is now facing so many problems, is it possible that there will be an economic recession and stagnation? Actually, I do not think so. In fact, China has a strong ability to self-adjust, solve problems, and learn. The country is able to successfully relieve the growing pains to achieve modernization. The first thing for China to do now is to make things right domestically and this requires the country to cast aside all distractions and seize every minute to

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focus on construction and development. All the work and efforts should serve the purpose of improving people's well-being, promoting harmony, and solving all the problems that hamper economic and social development. China will rely on herself to achieve the established goals.

Practice has shown that the reason for China's remarkable achievements is that the nation has selected and kept going on a peaceful development road. China will adhere to this road in the future.

China's achievements in modernization benefit from the insistence on peaceful development. While striving for a peaceful international environment to achieve self-development, China also maintains world peace and promotes mutual development by self-progress. By choosing such a road, China inherits and adheres to its unique history and culture, complying with the trend of seeking peace, development, and cooperation in the international community.

At the same time, this path also corresponds with China's strategic thinking of scientific development and opening-up to the outside world. The development is conducive to a balanced development of the world pattern, a new path for global governance, and a new historic stage of this industrial civilization. China has enriched the theory and practice of national development.

In addition, China's modernization achievements benefit from the stable environment for development. China has a stable political regime and a relatively perfect political system. The intergenerational handover of political power has been gradually institutionalized. On the whole, China enjoys political stability and unity. It is a consensus in China to maintain a harmonious and stable environment at home and abroad. Thus, China will spare no efforts in striving for this. Lastly, China's modernization endeavor

also benefits from the opening-up policy, the integration into the international system, and the close and universal connection to the world. China's fate is bond together with the future of the world. China's development is inseparable from the world's and the world can hardly maintain prosperity and stability without China.

In the process of pursuing her own development, China gradually becomes a constructive participant and partner of the existing international system, rather than a destroyer or challenger.

China will not seek its own development at the cost of other countries' interests. On the contrary, Chinese people have been working hard to provide affordable consumer goods for Western consumers. At the same time, China, in order to support the stability of the world's financial system, uses the foreign exchange benefits gained by exports to purchases U.S. bonds. China's every progress will be a positive force to the peace and development of the world and bring more development opportunities to the world. It is believed that China will definitely try its best to undertake international obligations which match her national strength, identity, and status. As a responsible stakeholder, China will play its role in the world.

It is undoubtedly true that China sincerely hopes that the international environment is equitable and rational, free and open, peaceful and cooperative. However, it should also be recognized that it is almost impossible for a country's interests to be fully consistent with those of other countries. China is no exception. It is an objective fact that competition exists among all the countries in the world. With competition, we can achieve greater development. By competing through cooperation, the countries can enjoy a win-win result. The world today is undergoing profound and unprecedented changes. International relations have been developing and progressing all the time. It is not a pessimistic

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historical cycle. The development of China has already provided the world with useful and valuable experiences and these prove that China shall never go against the historical trend and never pursue hegemony. The response of other countries to China's peaceful development efforts will have an important impact on China's internal orientation, external behavior, and the direction of development. The true threat is the failure of China, but not the nation's development. The international community should make corresponding adjustments to give China due respect, understanding, and trust. The international system should also be more open to the peaceful rise of China. With a relatively developed economy and better-off people, China also has a democratic and law-based, fair and just, open and inclusive, civilized and harmonious society. The international community should sincerely welcome China as the nation is willing and able to make a greater contribution to the world.

In the rise of the great powers, conflicts and confrontations have gotten us nowhere. Like people in other countries, we also want to live in a harmonious world where there is prosperity, peaceful coexistence, and the opportunity to enjoy the blessedness brought by splendid human achievements.

I believe that this wish will be realized.

Jin Canrong
December 2011