FOREIGN AFFAIRS
Published by the Council on Foreign Relations

February 2, 2010
SNAPSHOT

The End of the Beijing Consensus

Can China's Model of Authoritarian Growth Survive?

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Since China began undertaking economic reforms in 1978, its economy has grown at a rate of nearly ten percent a year, and its per-capita GDP is now twelve times greater than it was three decades ago. Many analysts attribute the country's economic success to its unconventional approach to economic policy -- a combination of mixed ownership, basic property rights, and heavy government intervention. Time magazine's former foreign editor, Joshua Cooper Ramo, has even given it a name: the Beijing consensus.

But, in fact, over the last 30 years, the Chinese economy has moved unmistakably toward the market doctrines of neoclassical economics, with an emphasis on prudent fiscal policy, economic openness, privatization, market liberalization, and the protection of private property. Beijing has been extremely cautious in maintaining a balanced budget and keeping inflation down. Purely redistributive programs have been kept to a minimum, and central government transfers have been primarily limited to infrastructure spending. The overall tax burden (measured by the ratio of tax revenue to GDP) is in the range of 20 to 25 percent. The country is the world's second-largest recipient of foreign direct investment, and domestically, more than 80 percent of its state-owned enterprises have been released to private hands or transformed into publicly listed companies. Since the Chinese Communist Party (CCP) lacks legitimacy in the classic democratic sense, it has been forced to seek performance-based legitimacy instead, by continuously improving the living standards of Chinese citizens. So far, this strategy has succeeded, but there are signs that it will not last because of the growing income inequality and the internal and external imbalances it has created.

The CCP's free-market policies have, predictably, led to major income disparities in China. The overall Gini coefficient -- a measure of economic inequality in which zero equals perfect equality and one absolute inequality -- reached 0.47 in 2008, the same level as in the United States. More disturbing, Chinese city dwellers are now earning three and a half times as much as their fellow citizens in the countryside, the highest urban-rural income gap in the world.

How, then, has the Chinese government been able to adopt the principles of neoclassical economics while still claiming Marxism as its ideological anchor? The answer is that China has for three decades been ruled by a disinterested government -- a detached, unbiased regime that takes a neutral stance when conflicts of interest arise among different social and political groups. This does not mean that Beijing has been devoid of self-interest. On the contrary, the state is often predatory toward citizens, but its predation is "identity-blind" in the sense that Beijing does not generally care about the social and political status of its chosen prey -- unlike many governments elsewhere that act to protect and enrich specific social or political groups. As a consequence, the Chinese government has been more likely than other authoritarian regimes to adopt growth-enhancing policies.

For the last 30 years, the CCP has intentionally adopted policies favoring specific groups or regions to promote reform and economic growth. It has helped that the disinterested CCP government was not permanently beholden to certain groups or regions. China's integration into the world economy is a case in point. At the end of the 1970s, the United States was eager to bring China into its camp as a buffer against Soviet hegemony, and China quickly grasped the opportunity. Yet that early adoption of an "open-door" policy gave rise to domestic resistance: special economic zones, such as Shenzhen, enjoyed an abundance of preferential treatments that other parts of the country envied. Moreover, the CCP's export-led growth model required that Beijing embrace an unbalanced development strategy that encouraged rapid growth on the country's east coast while neglecting the interior; today, nearly 90 percent of China's exports still come from the nine coastal provinces.

China's accession to the World Trade Organization in 2001 was also a calculated move. Before accession, it was widely believed that China would have to endure painful structural adjustment policies in many sectors in order to join the WTO. Even so, the central government actually accelerated negotiations with the organization's members. Despite the burdens it placed on the agriculture and retailing sectors, accession boosted China's exports, proving wrong those who worried about its effects. Between 2002 and 2007, Chinese exports grew by an annual rate of 29 percent, double the average rate during the 1990s.

China's astronomic growth has left it in a precarious situation, however. Other developing countries have suffered from the so-called middle-income trap -- a situation that often arises when a country's per-capita GDP reaches the range of $3,000 to $8,000, the economy stops growing, income inequality increases, and social conflicts erupt. China has entered this range, and the warning signs of a trap loom large.

In the last several years, government involvement in the economy has increased -- most notably with the current four-trillion-yuan ($586 billion) stimulus plan. Government investment helped China reach a GDP growth rate of nearly nine percent in 2009, which many applaud; but in the long run, it could suffocate the Chinese economy by reducing efficiency and crowding out more vibrant private investment.

The economy currently depends heavily on external demand, creating friction among major trading partners. Savings account for 52 percent of GDP, and consumption has dropped to a historic low. Whereas governments in most advanced democracies spend less than eight percent of government revenue on capital investment, this figure is close to 50 percent in China. And residential income as a share of national income is declining, making the average citizen feel poorer while the economy expands. As the Chinese people demand more than economic gains as their income increases, it will become increasingly difficult for the CCP to contain or discourage social discontent by administering the medicine of economic growth alone.

Despite its absolute power and recent track record of delivering economic growth, the CCP has still periodically faced resistance from citizens. The Tiananmen incident of April 5, 1976, the first spontaneous democratic movement in PRC history, the June 4 movement of 1989, and numerous subsequent protests proved that the Chinese people are quite willing to stage organized resistance when their needs are not met by the state. International monitoring of China's domestic affairs has also played an important role; now that it has emerged as a major global power, China is suddenly concerned about its legitimacy on the international stage.

The Chinese government generally tries to manage such popular discontent by providing various "pain relievers," including programs that quickly address early signs of unrest in the population, such as reemployment centers for unemployed workers, migration programs aimed at lowering regional disparities, and the recent "new countryside movement" to improve infrastructure, health care, and education in rural areas.

Those measures, however, may be too weak to discourage the emergence of powerful interest groups seeking to influence the government. Although private businesses have long recognized the importance of cultivating the government for larger profits, they are not alone. The government itself, its cronies, and state-controlled enterprises are quickly forming strong and exclusive interest groups. In a sense, local governments in China behave like corporations: unlike in advanced democracies, where one of the key mandates of the government is to redistribute income to improve the average citizen's welfare, local governments in China simply pursue economic gain.

More important, Beijing's ongoing efforts to promote GDP growth will inevitably result in infringements on people's economic and political rights. For example, arbitrary land acquisitions are still prevalent in some cities, the government closely monitors the Internet, labor unions are suppressed, and workers have to endure long hours and unsafe conditions. Chinese citizens will not remain silent in the face of these infringements, and their discontent will inevitably lead to periodic resistance. Before long, some form of explicit political transition that allows ordinary citizens to take part in the political process will be necessary.

The reforms carried out over the last 30 years have mostly been responses to imminent crises. Popular resistance and economic imbalances are now moving China toward another major crisis. Strong and privileged interest groups and commercialized local governments are blocking equal distribution of the benefits of economic growth throughout society, thereby rendering futile the CCP's strategy of trading economic growth for people's consent to its absolute rule.

An open and inclusive political process has generally checked the power of interest groups in advanced democracies such as the United States. Indeed, this is precisely the mandate of a disinterested government -- to balance the demands of different social groups. A more open Chinese government could still remain disinterested if the right democratic institutions were put in place to keep the most powerful groups at bay. But ultimately, there is no alternative to greater democratization if the CCP wishes to encourage economic growth and maintain social stability.

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