

China trip an eye-opener

Peter Larson, Past FCCFA President

Having visited China about 20 years ago, and having more or less followed developments in China through the Western press, I thought I knew something about the country. But I am still rubbing my eyes, and shaking my head as a result of my recent tour to China with the Canada China Friendship Society.

China is booming. Construction cranes are everywhere. Shops are full – of goods and people. And everyone I talked to – young and old – sounded optimistic about the future. Definitely, today's China is a very different place than the one I visited in 1990.

The Chinese explain it as a result of the policy of “opening up”, now thirty years old. In fact, in 1978, under the leadership of Deng Xiaoping, the Chinese Communist Party decided that even more urgently than socialism, China needed economic progress. Deng's strategy for achieving these aims of becoming a modern, industrial nation was called the “socialist market economy.” Today the Chinese refer to it as the strategy of “opening up”.

Whatever you call it, the results speak for themselves. The Chinese economy has increased at a sustained rate of around 10% per year for nearly 3 decades. Living conditions have improved markedly in all areas of China. According to a recent article in the Economist, living standards improved 10% last year overall in China, and 20% in rural areas.

The policy of “opening up” has also encouraged foreign investment from other countries. Billions of dollars have flowed into China in joint ventures and in outright purchases. The resulting investment is overwhelming. China now sports thousands of kilometers of new autoroutes, dozens of new airports, tens of thousands of new offices and apartments. In the two years prior to the Olympics, Beijing alone constructed more than 50 new metro stations.

The Chinese economy has also been privatized to a large extent. Hundreds of former state enterprises have been closed or sold to private investors. Official statistics indicate that the private sector now controls over 60% of the Chinese economy. The sectors which remain under government control are ones judged key to China's economic success – sectors like banking, transportation, infrastructure, energy, and telecommunications.

The Chinese government still plays an important role in other areas of the economy as well – often acting as banker of last resort. With recent bailouts of major companies in the western world, the Chinese approach does not seem all that unusual.

Competitive capitalism in China is most apparent in the retail sector. China's cities are now crammed with clothing stores, furniture stores, jewelry stores, shoe stores, electronic stores, automobile dealers. And those stores are crammed with shoppers seven days a

week. All of China seems to be on a permanent shopping binge. International brands like Nike, Benetton, BMW, and Pierre Cardin jostle with local high quality Chinese brands. In the fast food and hotel business McDonalds, KFC and Pizza Hut seem to be on every corner, and Hilton and Sheraton have found their way into every corner of the country.

China now also has a stock market. Actually, it has three – one in Shanghai, another in Shenzhen and a third, much older – based in Hong Kong. Although it has only been operating for 18 years, The Shanghai Stock Exchange (market capitalisation \$ 3 trillion US) is the fifth largest in the world. Along with the stock market, of course, there are brokers, venture capitalists, banks, insurance companies and a range of other financial institutions commonly associated with capitalism.

China now also has a real estate market. On the main street of Zhangjiajie, (a provincial town in Hunan Province) is the sales office of a local developer. Smartly dressed young sales people show prospective buyers just which apartment they can buy, as soft music plays in the background. A penthouse suite on the 23rd floor was selling for about \$120,000 Canadian. Mortgages are readily available and Chinese financial regulators demand a minimum of 20% down payment. Many young Chinese people are saving their money for the day they can leave their parents' crowded apartment and buy their own home.

In broad strokes, then China's economic framework today seems rather similar to what we had in Canada back in the 70's. At that time, most of the economy was in private hands but different levels of government owned major companies in various parts of our economy including Petro Canada, Air Canada, CN, various Hydro companies, CBC, etc. etc.

Too little free enterprise... or too much?

Many of the "high profile" failures of the Chinese economy can be attributed to an **excess** of free enterprise rather than a **lack** of it. The recent milk scandal, for example, in which milk product was tainted with melamine, causing health damage to thousands, arose because of a lack of government regulatory capacity.

China's ability to deal with its notorious environmental problems is also weakened by a lack of government regulatory capacity. Too many private companies can and do pollute watercourses and the atmosphere because they can do so with impunity. While China's western critics complain about the heavy hand of government, to many Chinese the problem appears to be that private owners have too much leeway and can make fortunes at the expense of others.

There have also been many reports of developers and speculators who take advantage of a weak legal framework to expropriate peasants or other poor homeowners in favour of big and very profitable building projects.

In its enthusiasm for encouraging free enterprise, China has loosened the rules to a degree that most of us in the Western world would find uncomfortable. Although there is debate on whether or not Deng actually said it, his perceived catchphrase "To Get Rich Is Glorious", unleashed a wave of personal entrepreneurship that continues to drive China's economy today.

The rewards for those who are successful are extremely high. There are now thousands of Chinese "self made men" who have risen from rags to riches. One Canadian colleague of mine was astonished to find out, when visiting a Chinese friend who works in the financial industry in Beijing, that her bonus for last year was 5 million yuan (approximately \$1 million Canadian)!! This is on top of her already significant salary. This new class of Chinese yuppies thinks nothing of buying a \$10,000 Rolex, a \$50,000 BMW or flying to Macao for the weekend to gamble away thousands of yuan....

But China is still a long way behind us...

These emerging characteristics indicate that the major economic difference between China and the west is no longer that we are "capitalist" and they are "communist". The major difference is that China, despite its very rapid economic growth is still very much a "developing country" facing some huge economic and social challenges. Three jump to mind.

The first is that China's vast countryside is still extremely poor. According to the Economist, China's GDP per person, including (including, of course, its bulging new urban middle class) is about \$2000 US per person. In rural areas, the number could be less than half that. (The same source estimates Canadian GDP per person at \$39,000.) Agriculture is still characterised by small plots using farm animals or human labour.

The second dramatic difference is that unbridled "free market" economic development has brought about a dramatic increase in disparities between the rich and poor. In today's Beijing and Shanghai, BMW's now sidle along bicycles and even a few rickshaws. In the developed capitalist economies, progressive taxation tends to redistribute wealth from the richest to the poorest sectors of the society. (Some people call this "socialism" of course.) Only recently has the Chinese government agreed that "growth at any cost" needs to be moderated by other considerations.

Of course all this newfound, and newly flaunted, wealth is causing its own social and political problems. Few pedestrians like to be honked at by a pair of young Chinese yuppies in their new black Audi. Before the introduction of the reforms, China was poor, but the poverty was generalised. Now everyone is getting richer, but the very rich are getting very much richer. This has led to increasing pressure for the state to play a stronger (not weaker) regulatory role.

The third significant difference between China and any other country in the world (except, perhaps, India) is that the rising economic demands of its massive population are running up against the physical limits of the country. Only a generation ago, the material

aspirations of Chinese were summed up as “a watch, a radio, and a bicycle”. That objective has been long since attained, and the new generation of Chinese want things that are much closer to what we want – a car, an apartment, a television and a fridge, and perhaps a 2 week vacation.

Take automobiles as an example. At the present time, there are only 4 private vehicles in China for every 100 of population. (Compare this to North America, where there is approximately 1 vehicle per person.) Yet China’s highways and expressways are already near the saturation point in many cities, and this despite a huge investment in public transportation. And China’s auto sector is booming because of huge pent-up demand. Will it be physically possible for China to come anywhere near the North American level of auto use?

And what about energy consumption? On a per capita basis, China is much more environmentally friendly than Canada, using only 15% as much energy as the average Canadian. But its population is 42 times that of ours. A rising standard of living will rapidly increase energy consumption far beyond China’s current petroleum reserves. China desperately needs sources of energy. But its use will also intensify the already difficult environmental issue. If there are “physical limits to growth”, China will face them.

What about the censorship, human rights abuses and political control?

China remains a “one party state”, something that no Canadian would like to see in this country. Even Chinese authorities agree that there is less political freedom in China than in Canada, the rule of law is less well developed and human rights abuses are more widespread.

However, I was surprised to see how little this seemed to affect any of the Chinese I spoke to. Most of the students I met, for example, were much more concerned by the control their parents exerted over their lives than by state control.

After centuries of poverty and social disruption, most Chinese seem to think that things are finally getting better. Not surprisingly, they don’t really feel very sympathetic to anybody (or any group) who threatens to disrupt that progress. In fact, a recent poll undertaken by the Pew Research Centre in Washington, DC revealed that 81% of Chinese approve of the leadership of the Communist Party and feel that the country is heading in the right direction.

It’s tempting to put that down to “brainwashing”. But a simpler explanation is that the Chinese are happy because for 30 years in a row, life has been getting better. China’s ranking on the UN’s “Human Development Index” (which in addition to GDP per capita also factors in health and longevity) has risen 50% over the last 3 decades. According to David Kang, China has brought over 400 million people out of poverty in the last 30 years – the biggest such improvement in the history of mankind!

They know that this improvement in living standards has come about because the Chinese government has led the country with a very strong hand. When roads need to be built, or rivers dammed, or an Olympic site constructed, it has plowed straight ahead.

They know, of course, that these actions hurt some people and have sometimes caused strenuous resistance. According to figures from the Ministry of Public Security, 87,000 "mass incidents" were reported in 2005, including a deadly clash between police and villagers over the seizure of land for a power plant. However, in the interests of the majority, the government has pressed on.

For the same reason, censorship does not seem to be a major concern for most people. Although western reporters have focused on China's "pervasive" censorship, the Chinese young people I talked to in my recent trip seem to be very well versed in what is going on in the west (and certainly much better versed than their Canadian counterparts would be about developments in China). At the main bookstore in Nanjing, Barak Obama's autobiography in Chinese was prominently displayed, for example. Chinese youth are avid users of the internet. Several "blew off" my questions about censorship indicating that it was a "snap" to get around.

Although I am not particularly internet savvy, at several internet cafés in different cities in China, I had no trouble accessing the Globe and Mail, the New York Times, the BBC and any other newspaper I could think of. Nor did I have any difficulty in finding articles in Wikipedia which were quite critical of Mao Zedong. (NOTE: I did see some evidence of censorship, however. When I googled "Falun Gong" in China, all I got were articles critical of that movement. When I do the same thing in Canada, most of the articles I find support Falun Gong and criticise the Chinese government).

It is now surprisingly easy to travel around China – and millions of Chinese do. We were able to travel freely by taxi, subway, bus, train and airplane. On a couple of occasions we were offered a lift in a private car by friendly locals. But in general, nobody appeared to care in the least where we were going, who we were talking to or what we were doing. At our hotels we did have to produce a passport, but then we have to do that in Europe as well.

"We know there are problems – we want someone to keep them under control"

The Chinese are worried that any one of its many problems could boil over and disrupt the phenomenal growth of the last 30 years. Anger over a growing gap between rich and poor and an inadequate social security system could threaten the country's stability. Retirees increasingly cannot live on their pensions, crime and divorce rates have apparently escalated, and clashes have broken out between security forces and farmers whose fields and villages have been swallowed by development. Ethnic tensions in Tibet and Xinziang are also bubbling. (All of these tensions can expect to be worsened if, as expected, the growth of the Chinese economy slows as a result of the global economic crisis.)

In 2006, as a result of these pressures, China's Communist Party formally endorsed a political doctrine laid out by President Hu Jintao that called for the creation of a "harmonious society," a move that signaled a shift in the party's focus from promoting all-out economic growth to solving worsening social tensions. The four-day plenary session, according to the Washington Post, "was the first in 25 years to focus on social issues rather than on economic or political development."

The Chinese seem to feel that these tough challenges demand a strong hand from their government – that in a country of 1.3 billion people, a "heavy hand" is sometimes the only way forward, and they are not particularly worried if some individual rights get squished in the process. Some examples:

- They want the government to deal with the population problem. (76% of Chinese approve of the 1 child policy. (Pew Research)
- They want the government to do something about the environment. In Beijing, for example, the city has banned 2 cycle motorcycles as an environmental measure. It has also restricted the number of days you can use your car in the city. Some car owners have complained loudly about their rights, but the majority seems to be fully behind the measure.
- They want their government to deal firmly with corruption, and do not seem in the least upset when a few greedy party bosses were executed for extensive graft.
- They also want their government to protect China's sovereignty and borders (and that means finding a way to deal with unrest in Tibet and Xinjiang).

What should Canada do?

Canadians and their government need to take a careful and pragmatic look at our approach to China today.

It is in our interest to help China grow and find solutions to its environmental, economic and social challenges. A growing Chinese economy, particularly the elimination of poverty in the rural areas, will help stabilize the Chinese population, and solidify an economic market for our goods and services.

On the other hand, if the current government of China is not able to solve its huge problems, the potential for political and social unrest is immense. Famine and huge internal migration is possible. China's potential as an economic partner could be diminished for a generation. And we also face the possibility of vast waves of immigrants – both legal and illegal flooding into neighbouring countries, including Canada.

Here are 7 steps we can take to help China evolve in a direction that is in our interest:

1. We should start by recognizing that the Chinese leadership faces huge challenges and adopt a positive, helpful approach that focuses on what we can do together, rather than leaping on every opportunity to criticize the country.
2. We need to recognize that Canada needs China much more than China needs us. This is true not only in an economic sense, but also in a geopolitical sense. What happens in Canada does not make much of a difference to China. But what happens in China will affect our world.
3. We should help China in its search for energy sources. China needs oil and gas, and we have lots of it. This is in our interest as a producer of oil and gas. And at a geo political level, it does not serve our interests to make it difficult for China to get access to the energy sources it needs to help its people move out of poverty.
4. We should reinforce current efforts to help China modernize its political infrastructure. Currently, for example, Canada is helping train Chinese judges and is helping to modernize its public service. Both of these actions are in our interests because they help promote the rule of law and the merit based public service.
5. We should continue to criticize human rights abuses in China. Canada has a good record in human rights and this is one of our important values. But we should ensure that our approach is even handed and consistent with our approach to other countries. To focus on Chinese human rights abuses, while closing a blind eye to well documented abuses by some of Canada's "friends and allies" seems overly ideological.
6. We should be very careful about what we say and do with respect to Chinese internal affairs – particularly the sensitive (and complex) issues of Taiwan and Tibet. We should remember that China has carefully refrained from making any statement in respect of Quebec independence, for example. Nor am I aware of any criticism it has made with respect to our handling of aboriginal issues. The Chinese rightly regard these issues as "internal Canadian affairs". We should show similar caution.
7. We should encourage exchanges between Canada and China at all levels – government, business and civil society. We should also encourage tourism - both ways. We can make it easier for Chinese visitors to come to Canada to see our country and how we do things. China's tourism infrastructure – roads, hotels, restaurants, national parks - has developed tremendously in the last decade. Canadians should take advantage of the "opening up" of China to take a look at the new China.

The Chinese have ditched their ideological approach to public policy in favour of a pragmatic one. Isn't it time we did likewise?