# ISAS Brief

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China and South Asia-VIII

# 'China 2030: Building a Modern, Harmonious, and Creative Society'

*China is unique among developing countries in achieving sustained economic and social success. So, policymakers in South Asia will do well to factor a robust Chinese economic future into their thinking about their own future.*

Shahid Javed Burki[1]

'Building a modern, harmonious, and creative society' – this phrase is taken from a 2013 World Bank report on China.[2] It painted a rosy picture that would be in full display a decade and a half from now. After providing an overview of the main conclusions reached by the

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2 The World Bank, *China 2030: Building a Modern, Harmonious, and Creative Society*, Washington DC, 2013.

institution that has been deeply involved in studying the country, I will examine whether some of the optimism is justified in the light of the events of the summer of 2015.

There are impressive and ongoing changes in the global political and economic systems. Some of the changes are worrying. There is a marked slowdown in the rate of increase in global output. This is partly the consequence of the 30 percent decline in the rate of increase in China's national product. There is growing tension between Washington and Beijing as each attempts to protect what are considered to be its national interests in the western part of the Pacific Ocean. This has led to a realignment of nations around the Pacific Rim, with the United States seeking close collaboration with Japan, India and Australia, and with China looking west and developing close relations with Russia, Pakistan, the Central Asian republics and possibly Afghanistan. There is turmoil in the Middle East with four ongoing civil wars that have displaced almost 4 million people from their homes. A large number of these people, having given up all hope of returning to their homes, are heading towards Europe. The Middle East crisis has spilled over into Europe. This has reaffirmed once again what has been described as the process of globalisation.

Change almost always is disruptive, and the one occurring now in 2015 is no exception. In addition to the wars in the Middle East and the refugee crisis in Europe, enormous turbulence has also hit the world's financial markets. This has been attributed to the secular decline in the rates of growth in the old economies of Europe and North America, and the significant structural changes that are underway in China. The latter is of enormous significance for South Asia, given the increasingly close relations of some of these countries with Beijing. If China stumbles, South Asia will be deeply affected. I will examine what is expected of China in the decade and a half to the year 2030.

In 2013, about the time the reins of government in China passed into the powerful hands of President Xi Jinping, the World Bank published a report titled "China 2030". The authors asked two questions: Can China's growth rate still be among the highest in the world even if it slows from its current rapid pace? And can it maintain the rapid growth with little disruption to the world, the environment, and the fabric of its own society? Its answer to the two questions was a qualified “yes”. The qualification to this positive view was whether China will be able to transition from the policies that served it so well in the past to the ones that address the very different challenges of a very different future.

Over the past four decades, China had broken the trend of the past two centuries, and had moved to where it was half a millennium ago. From the early-1500s until the early-1800s, China’s economy was the world’s largest. By 1820, it was one-fifth as big as Europe’s and accounted for a third of the world’ combined gross domestic product. But the next two centuries were tumultuous, largely because of the intrusion of several European states as well as the United States in its affairs. China was not colonised as South Asia was, but lost a great deal of its independence. As a result, the country went through a catastrophic decline from 1820 to 1980.

However, that trend was reversed by the careful adoption of growth-inducing policies. A rate of growth of 9.9 percent, on average, was achieved over the last 35 years. In 2015, the size of the Chinese economy was 32 times larger than in 1980. During this period some 500 million people had been lifted out of poverty and into the middle class. But that break-neck speed could not be maintained. Even a rate of growth of 7 percent a year in the next half decade, which President Xi has called the “new normal”, will require hard policy work.

China is unique among developing countries in achieving sustained economic and social success. Its uniqueness is not what it did to achieve success, but how it did it. Its approach was to “cross the river by feeling the stones”, which encouraged governments at all levels as well as large state-owned enterprises to undertake bold pilot experiments within the broader context of reform priorities. By introducing market-oriented reforms in a gradual, pilot-tested way and by giving incentives for governments and agencies to come up with workable transitional institutions at each stage of development, the reformers were able to feel their way and move forward.

This way of proceeding is not always appreciated by those who watch the country, and it contributed to the chaos in the global financial markets in August 2015. One of the key elements of this approach to reform is its "dual track" nature – supporting state-owned-and-managed firms in old priority sectors such as banking and infrastructure development, while liberalising the development of private enterprises in the new sectors. The spectacular rise of some Chinese firms in the information technology area is an example of the second approach. Firms such as Alibaba and Huawei have become world players in their areas. This way the economy was allowed to grow "out of the plan" until the administered material-planning system gradually withered. The growth of the privately-developed housing sector is a good example of this approach. As the World Bank wrote in its report, "as a result of continuous and decentralized trial-by-error exploration, institutional arrangements evolved as new and additional challenges needed resolution. Indeed different localities often adopted their own unique institutions tailored to specific institutions".[3]

What are the policies that should be adopted? In its report, the World Bank proposes six areas of policy attention. The first is the implementation of structural reforms to strengthen the foundations for a market-based economy. That has been done to a considerable but more will be needed. The second is to adopt a set of policies that will be friendly to the environment. This is required to save its own citizens from hazards such as atmospheric pollution that is so severe in some cities that it has begun to seriously affect citizens' health. China also has to meet its obligations to the international community to control the emissions of greenhouse gases to reduce global warming. China has announced an ambitious plan to reduce the amount of carbon it sends into the atmosphere. This was done in preparation for the climate summit to be held in Paris in December 2015.

Third, China will need to accelerate the pace of innovation and create an open innovation system. The fourth area will require expanding the opportunities and promotion of social security for all citizens. Without it the Chinese will continue to save more than they should and not spend enough on current consumption, seen as another driver of economic growth. The fifth area requires strengthening of the fiscal system so that the state can pay for providing better health and education to the rapidly growing middle class. Sixth, China will

[3] Ibid. p. 4.

need to focus on developing mutually beneficially relations with the world. But for that to happen, the world will have to be less grudging in accommodating China.

With these changes in place, the World Bank estimates that the rate of growth of the Chinese economy will decline to 7 percent a year in the half-decade 2016-21, to 5.9 percent in 2021-26 and to 5.0 percent in 2026-30. Will the Bank's projections be realised? In a speech on 10 September 2015 at the World Economic Forum meeting at Dalian, Chinese Premier Li Keqiang sounded a note of optimism about his country's economic future. "We have plenty of tools at our disposal", he told his audience. "You need to be careful with immediate moves you take…we need to build a momentum to resist downward pressure on the economy; at the same time, we need to build a momentum for sustainable and healthy economic growth".

Policymakers in South Asia need to factor a robust Chinese economic future into their thinking about their own future. As I have suggested in other papers in this series, South Asia should resist being sucked into the Beijing-Washington rivalry and become a player in the new "great game". It should, instead, take full advantage of the continued Chinese economic advance. As the World Bank wrote in its report a couple of years ago, China can be expected to join the ranks of world's rich countries in the next decade or so.

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