

Will Hutton: "China, the West and the Credit Crunch" 5th May 2009

At a time when the turmoil of the financial sector and the trajectory of China remain prominent issues in current affairs, the Institute was fortunate to secure a speaker well-qualified to speak on both topics. Hutton's lecture turned on its head the usual expectations that the 21st century belongs to China's ascendancy on the world stage much in the way the USA did in the 19th century. Sketching out the context in which China's extraordinary growth in the last decades has been achieved, he argues that many of the hopes for China will be disappointed and outlines a worrying conundrum that faces it.

Hutton posits that China's growth does not offer a new model for development, based as it is on high savings and low tech manufacture. Hutton contends that the story of China's economic growth is not actually a story of China becoming progressively capitalist under the market reform programme. Rather growth has been brought about by the mobilisation of savings on a phenomenal scale alongside a flight to the land occasioned by the reversal of agricultural collectivisation. The high savings rates in China have come about as an unintended consequence of its population control policies. The One Child Policy effected a seismic change in peasant savings, as savings rather than children became the means by which to ensure support in old age. The phenomenally high savings rates of the Chinese (around 40%) have allowed for massive investment. It is staggering to consider that the rapidly changing skyline of Beijing, its roads, rail, and docks, has all been financed by peasant savings. To drive the point home: state owned enterprises in China remain as inefficient now as they were in 1976. And, while on the surface these businesses appear to have been privatised, this masks pervasive state control. Of the 1105 enterprises floated on the stock exchange 81% are actually state controlled. Of the 6000 restructured state owned enterprises the members of communist party committees have become non executive directors in 70 per cent. China's growth, it appears, is not the same as its economic development.

Exposing the pervasiveness of graft in the Chinese economy highlights the need for an 'enlightenment infrastructure' within which an economy can develop. Hutton provided several examples of how the lack of such an infrastructure provides obstacles to development in China. The relative certainties of legal processes, the standards of accounting practice, the reliability of statistics are the crucible in which Western capitalism has flourished. In China it is the lack of this infrastructure, Hutton argues, that makes it difficult for carbon emissions to be regulated and for companies to be held accountable. Instead the Communist Parties reach goes so far as to influence the \$586bn reflationary package such that much of it resembles an uncollateralised loan. [CHECK not sure this is right 'sub prime lending china-style'] There is a web of enlightenment institutions and practices that allows the West to continue to pull away from the rest in terms of its economic growth and advantages. Growth requires an educated and productive workforce, discerning consumers, property rights and the capacity to innovate. A telling statistic is that China currently accounts for only 0.1 per cent of international patents.

The need to rebase the Chinese economy was apparent before the current economic crisis. However, the crisis makes this problem more urgent and more intractable. China's model relied on the rest of the world, particularly the USA, to act as the buyer of its exports. Now America can no longer afford, even if it wished to, to act as the world's buyer of last resort. China faces the collapse of its principle export

market. It needs to rapidly increase domestic consumption and now has to accomplish this task in an atmosphere of global gloom rather than prosperity. China will have to replicate the difficult transition, managed by Japan in the 1980s, from an economy specialised in low cost production to a knowledge economy. Yet, unlike Japan, China has no International brands and no top flight corporations.

Alongside a critical look at China's recent economic growth Hutton raised the spectre of its political instability. The next generation of Party leaders will face a crisis of legitimacy as links to the revolution fade. While the party has tried to open out its remit, now claiming to represent all advanced and productive people and all cultural forces as well as the workers, its opening out means it can no longer justify itself as representing a triumphant proletariat having won a class war. The Party's broadened base makes limiting political contestation through an authoritarian state more difficult. While the liberal wing of the Party may intend to keep its promise of establishing some form of democracy by 2020, the conservatives will point out that without a strong centre China risks fragmentation and 'war lordism'. Economic stagnation will not help to quell unrest –already rife with growing inequalities and high rates of unemployment. The challenges are great, the Minister of Labour is currently tasked with creating 24 million more jobs a year, when at the time of 8 per cent annual growth only around 12 million jobs were created each year. Unofficial reports indicate that strikes are rife. Hutton predicts that the fifth generation of Chinese leaders due to take power in 2012 will face a stark choice between taking China back to old style communism and retaining control by authoritarian means or aggressively progressing towards establishing a liberal democracy but risking strife and fragmentation.

Hutton's analysis poses a radically different set of questions on how to engage with China as its projected dominance is called into question. Rather than be threatened by China's might, we are threatened by the prospect of its collapse. This collapse would not only destabilise the entire region, but also have dire consequences for the environment where the need for China to regulate its carbon emissions is critical.

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