

Cracks in China's Statist Consensus?

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In recent months, scholars in China have taken advantage of the trade tensions and the fortieth anniversary of reform and opening to voice their dissatisfaction with the status quo and to advocate major economic changes. Some very established figures, either directly or indirectly, criticized China's political system. The main participants were economists who came of age in the 1980s, who perhaps saw this as their last chance before retirement to make a major push for reform. However, the reaction has ranged from lip service to policies that introduce even more distortion to the economy. Meanwhile, it is notable that the younger generation of economists and scholars has largely stayed out of the debate, which does not bode well for internal reform pressures in the future.

For the past ten years, Chinese scholars and government officials have grown confident about China's statist growth model. At a time of escalating trade and security tensions with the United States, a surprising reformist chorus has emerged to challenge the statist consensus. Instead of circling the wagons around the existing consensus, scholars have taken advantage of the trade tensions and the fortieth anniversary of reform and opening to voice their dissatisfaction with the status quo and to advocate major economic changes. Some very established figures even directly or indirectly have criticized China's political system. In addition to external spats and the anniversary providing a strategic opportunity for reformist scholars, many economists who came of age in the 1980s perhaps see this as a last chance before retirement to make a major push for reform. Although this chorus has caused some stirs in official circles, the reaction has ranged from mere lip service to policies that introduce even more economic distortions. Similar to other reformist "tides" during the past thirty years, this tide likely will not yield a fundamental liberalization of the Chinese marketplace. Meanwhile, it is noteworthy that the younger generations of economists and scholars have largely remained out of the debate, which does not bode well for pressures for internal reform in the future.

The Statist Consensus

Just as the "Washington Consensus" encapsulates a set of policies that would produce a set of ideal policy outcomes, Chinese scholars and policy makers in the 2000s and 2010s have gradually developed a "Beijing Consensus" model which, according to them, has helped China weather the global financial crisis in 2008–9 and has allowed China to become the second largest economy in the world. In articulating new structural economics, a version of the statist consensus, Justin Lin succinctly states:

economic development as a dynamic process requires industrial upgrading and corresponding improvements in "hard" and "soft" infrastructure at each level . . . thus,

in addition to an effective market mechanism, the government should play an active role in facilitating industrial upgrading and infrastructure improvements.¹

Echoing similar arguments made by officials in Japan and Korea during an earlier era,² Lin argues that because “capital,” or infrastructure, is exogenously given in classical models of growth and plays an important role in determining a country’s optimal industrial structure, the state must forcefully intervene to improve the infrastructure and even the scientific know-how so as to increase the value-added of the industrial structure in a developing country.³ Anticipating criticism that new structural economics is just another form of the failed import substitution model, Lin outlines a new model in which the state astutely gauges where the market is going and formulates infrastructure plans and policies for future market development.⁴

For example, a concrete proposal by scholars of new structural economics was for the government to coordinate large-scale infrastructure-building on the basis of future income from resource extractions.⁵ Because the market often saw such bets as risky, it likely would not have provided as much investment in “bottleneck release” infrastructure as would state investors or private investors enjoying government guarantees.⁶

In official think-tanks, scholars have derived even more comprehensive justifications for state intervention. In a report commissioned by the State Council on the role of state-owned enterprises, senior State Council Development Research Center scholar Chen Xiaohong catalogues the needs and benefits of the large state sector in China.⁷ According to Chen, state-owned enterprises help the government resolve market failures, invest in areas underprovided by the market, and pursue long-term developmental and strategic objectives.⁸ When faced with development and strategic needs in a world of unfair global competition, “the state must enter and initiate industrial development.”⁹

The proponents of the statist view have been rewarded with major grants and support from the Chinese government. Chen Xiaohong’s research was funded by a major grant from the Development Research Center under the State Council.¹⁰ With large government grants, in 2011 prestigious Peking University established its own institute of new structural economics, and in subsequent years research institutes of new structural economics were set up at several of China’s top universities.¹¹ Dozens of economics professors are now employed under the aegis of new structural economics.

Cracks in the Statist Consensus

After over a decade of official support for the statist consensus, official documents and speeches have been saturated with the language of statism. For example, the 2017 political report at the Nineteenth Party Congress seeks “the improvement, enlargement, and strengthening of state capital.”¹² While aiming to stimulate market forces, the report also calls for “innovating and improving macro adjustment capacity in order to make use of the state’s planning and strategic guidance roles. ...”¹³ To be sure, as Ferchen notes, within

China there has been a persistent critique of the Beijing Consensus, or at least certain components of it.¹⁴ However, due to official support, statist rhetoric and research have enjoyed much more currency in academia and in the media within China than they have outside of China.

The year 2018 saw the escalation of trade tensions between the United States and China, coinciding with the fortieth anniversary of reform and opening, as introduced at the Third Plenum of the Eleventh Central Committee in the fall of 1978. This has encouraged existing critics of the statist model to begin another round of polemics surrounding the “China model,” whereas some previous supporters of the statist model have begun to question China’s past growth trajectory and have challenged, at times quite fundamentally, whether the current path will be the right one for China in the future. Notably, this was not a wave of criticism led by “young turks” in China’s economics or policy circles. Instead, the main participants in this wave of critiques were the same people who had been active in policy and academic debates surrounding the reforms since the 1980s.

The most widely reported critique of the “China model” appeared in a mid-October speech by Peking University professor Zhang Weiying, who excoriated the “China model” as “not only not consistent with facts, but also will produce very bad results for China in the future.”¹⁵ If the statist interventionist model was responsible for China’s great success, Zhang asks, why is it that the most successful provinces in China, i.e., provinces along the east coast, all have the highest levels of market penetration and the lowest levels of state intervention?¹⁶ Meanwhile, in localities where the state still plays a dominant role, the economies lag behind the rest of the country. Zhang’s most acerbic criticism is reserved for advocates of the “China model”:

[the China model] will mislead us and destroy our progress. If we single-mindedly emphasize the uniqueness of the China model, internally we will strengthen SOEs, enlarge the authority of the government, and rely on industrial policies, which will lead to a retrogression of reform and a total waste of the great strides in reform. The economy will lapse into a quagmire.¹⁷

Although Zhang had been a vocal critique of state intervention since the Moganshan Conference of 1984, his previous remarks, even those in 2018, focused on the achievements of the market reforms rather than being pointed attacks on the advocates of statism.¹⁸ His most recent remarks reveal a deep level of frustration after decades of very mixed success in advocating reform.

In recent months, more moderate reformers, such as Liu Shijin at the Development Research Center under the State Council, have also voiced warnings about the statist model. Liu contends that “we cannot wear the hat of low quality and an imperfect market economy on our own heads.”¹⁹ Instead, China should pursue the multiple objectives of ending policies that maintain monopolies, ensure fair competition, reform state-owned enterprises, and protect intellectual property rights, workers’ rights, and the environment.²⁰

Other establishment scholars similarly criticized the pace and approach to reform without fundamentally criticizing the system. For example, Yao Yang, dean of the National School of Development at Peking University, lambasted policy makers for using macroeconomic adjustments as a substitute for economic reforms. According to Yao, “in the past few years, policy makers have treated macro policies as tools of structural reform, but this has led to no real progress in structural reforms, and to even greater volatility in the market, which has created the greatest harm to the crucially important private industries.”²¹ Of course, policy makers in China have been forced to use macroeconomic levers because they have been asked to achieve mutually exclusive goals, such as freeing up the financial market at the same time as maintaining absolute stability in the financial market. The only way to achieve these contradictory goals was to engineer even more macro-economic cycles.

Because 2018 marked the fortieth anniversary of reform and opening, a certain degree of regret and introspection was expected for those who for decades had advocated complete marketization. However, some previous proponents of statist interventions also began to voice their doubts about statism. The most notable example is Jia Kang, previously head of the Fiscal Science Research Institute under the Ministry of Finance. Jia had long been an advocate of stronger central fiscal capacity and central control over local debt.²² Jia’s criticism is notable in two ways. First, he continues to benefit enormously from the status quo as a senior researcher at the Fiscal Science Research Institute and as a member of the expert committee of the public-private partnership program at the National Development and Reform Commission (NDRC). Because every major state project requires “expert verification” by an NDRC-approved expert, these experts stand to reap substantial financial gains from their status. Yet Jia Kang was willing to jeopardize his privileges by sharply criticizing the status quo. Second, in addition to criticizing China’s economic model, Jia also touched on China’s political system, a forbidden zone among China’s expert class.

In a speech at a closed-door meeting, which immediately spread widely via WeChat, Jia began by saying that China should take advantage of U.S. pressure to reform its economy and to overcome entrenched interests.²³ In the summer and fall of 2018, he was by no means the only person making such an argument. What caught many by surprise, and the reason why his speech spread quickly and then was censored by the Chinese government, was his deeper critique of the socialist system. He observed that even though freedom is enshrined by the government as one of the “socialist core values,” if one were to walk around with a sign that says “freedom” on it, one would be considered a “negative force” by the government. According to Jia, the argument that socialist freedom is different from capitalist and Western notions of freedom is a false argument. Jia argues that freedom should be combined with democracy and rule of law to form a “republic.” For Jia, “even back in the 1911 revolution, China had a clear idea of this concept, which is to progress toward a republic. This concept should be ‘locking authorities and human nature into the cage of rule of law.’ It can be discussed as such around the world, I think.”²⁴

Equally surprising for an establishment scholar, Jia makes the very sensible observation that:

According to my understanding, the vast majority of Marx's ideals was first realized in northern Europe and the United Kingdom. Welfare states of the "from the cradle to the grave" type represent the future, as expressed in the *Communist Manifesto*.²⁵

By saying that the true realization of Marxist ideals was in the "capitalist" countries of northern Europe, Jia was negating the official claim that the Chinese Communist Party "has not forgotten the original intentions" (*buwang chuxin*). Again, this was a perfectly sensible, even mainstream, observation for global Marxist scholars, but among scholars in official circles, such a deviation from the statist consensus and the current mode of governance was rare.

Around the same time of the fortieth anniversary, Hua Sheng, another established economist with high-level connections, also criticized the current political system. More subtle than Jia Kang's critique, Hua Sheng, who had been a close associate of Vice President Wang Qishan since their days as government advisers in the 1980s, criticized the Eastern European communist regimes for "having an unprecedented expansion of state power, which meant that everyone, from ordinary people to high-level officials, could not avoid having their rights assaulted."²⁶ Clearly, this was a thinly veiled criticism of contemporary China, as such conditions are on display daily.

Like Jia Kang, Hua Sheng also outlined his vision of a true communist society, which was diametrically opposite the conditions in contemporary China. As Hua put it:

The basic quality of communism is a union of free people, as defined by Marx. In a communist society, there will not be exploitation, oppression, or special privileges, and the free and comprehensive development of everyone is the condition for the free development of everyone else. This can be said to be the common objective of many different utopian thinkers in human history. Just think, besides those maniacs who insist on having more money or power than others, who would not want to live in such a society.²⁷

In discussing communist ideals, Hua also managed to insert a critique of much of Chinese officialdom, including possibly Xi Jinping himself, for being "maniacs." Although this speech has been taken down from most major portals in China, due to Hua Sheng's stature and connections, it has not been taken down from all Chinese websites.

In late September 2018, the Institute of New Structural Economics at Peking University, a bastion of statist economic thinking, published a WeChat debate between Justin Lin and several scholars about the contributions of deceased economist Yang Xiaokai.²⁸ This was a notable event because in the 1990s Yang Xiaokai had been a strong advocate of political liberalization in China. He had argued that without political liberalization, government officials would be too tempted to expand the power of the state to the detriment of the market and individual freedom.²⁹ His predictions were spot-on, but his ideas on democratic reform were also on the list of banned topics for public discussion, as revealed in Central Committee Document No. 9 of 2013. Nevertheless, the Institute of New Structural Economics still published the debate

on its website. There was no need to do so in the first place because the debate had originally been a private discussion in the members-only WeChat group hosted by Institute of New Structural Economics professor Wang Yong.

The debate initially unfolded as one might expect, with Justin Lin defending the status quo while paying proper homage to his good friend Yang Xiaokai. Meanwhile, Wang Yong presented his model of sequential reform, which shows that with each stage of development, institutional bottlenecks create pressures for the next stage of reform.³⁰ With endogenous pressures for reform, China had no need to pursue a “big bang” institutional reform, as Yang Xiaokai had suggested. Then, the discussion took an interesting turn as Guo Qiang from the Central Party School, one of the few reformist thinkers from among the younger generation, rebuked Wang and Lin’s endogenous reform model and warned that such a model might become an excuse for not advocating bolder institutional reforms. Guo also suggested that the enshrining of the “China model” may become an obstacle to reform: “Just because we are not learning from the West does not mean we stop reform. The problem today is that many people do not even acknowledge that there are problems.”³¹

Guo Qiang, similar to Jia Kang and Hua Sheng, highlighted the deep-rooted inadequacy of the current political system—“politically, power has not been locked in an institutional cage. The current anti-corruption methods only cure the symptoms but not the disease and cannot truly eradicate corruption. ... Also, ordinary people are increasingly dissatisfied with only basic material comforts, which means that their quest for social and political rights has increasingly become an orthogonal variable driving social change.”³²

To be sure, the debate, at least the heated portion of it, ended with Justin Lin having the last word: “Reform desired by society often was a product of intellectual dialogues, but such intellectual dialogues often did not prescribe the right medicine for the disease.”³³ Essentially, the argument centered on the reality that wishful idealism often did not produce scientifically verified policies that actually solved problems. Of course, defenders of the status quo did not acknowledge the powerful incentives in China for scholars to justify and defend the status quo. Nonetheless, it is noteworthy that such a sensitive debate surrounding a much-admired but controversial scholar was published on the public portal of the Institute of New Structural Economics. This suggests that the leadership of the institute, the National School of Development of Peking University, and perhaps others at this juncture were seeking a public airing of the reform debate.

Sounds of Thunder, but Only a Few Drops of Rain

Has this tide of reformist rhetoric by some of the most senior economists in China generated any policy change? On the surface, the government, even Xi Jinping himself, heeded this wave of reformist rhetoric and convened a special forum of top private entrepreneurs to directly listen to their concerns. During the meeting, Xi provided additional assurances to the private sector:

Here I must emphasize again that the status and role of the non-public sector in our economic and social development have not changed. Our principles and policies to unswervingly encourage, support, and guide the non-public economy have not changed. Our principles and policies of working hard to create a good environment and to provide more opportunities to the non-public economy have not changed! Our basic economic system has been written into the state constitution and the party constitution, which will not change and cannot be changed. Any speeches or actions that deny, doubt, or waver about our basic economic system are inconsistent with our national principles and policies, so you should not listen to them or believe them! All private enterprises and private entrepreneurs can take a chill pill and develop with ease!³⁴

In addition to the general assurance, Xi also identified a list of concrete policies that the government will roll out, including tax reductions, greater incentives for banks to lend to private enterprises, and an equal playing field for private firms, as well as legal protections from unreasonable charges of corruption.

Although such remarks provide some comfort to the private sector, they do not suggest any additional reforms that will improve the status of private entrepreneurship. For a man who just changed the state constitution to allow himself to be president for life, promises that the state constitution will not be changed do not provide much assurance.

Also, even at this event focusing on the private sector, Xi stated: “Our state economy was formed during the long road of national development and has accumulated a large pool of wealth, which is the common wealth of the people. We must preserve, use, and develop it well so that it can continue to grow in value. We must not allow state assets to lie fallow, be lost, or be wasted.”³⁵ Clearly, allowing the private sector to take over a significant share of state assets will not be on Xi’s agenda in the near future. Also, the imperative to “develop” and “grow” state assets likely means that unequal treatment will continue to apply to purely private companies, especially those that compete directly with the SOEs.

Xi’s call for greater financial help for the private sector has produced responses from the Chinese government, but the key change, a new credit quota for the private sector, will likely introduce greater distortions that ultimately will harm the private sector. Just days after Xi’s meeting with the private entrepreneurs, the China Banking and Insurance Regulatory Commission, headed Guo Shuqing, himself a young reformer in the 1980s, announced a credit quota for the private sector. According to remarks by Guo Shuqing, one-third of new bank loans will have to go to private firms, vaguely defined, with the ratio increasing to 50 percent within three years. This has caused a sell-off of bank shares and has led to frustrations within the banking community as bankers realize that they will have to lend to firms that objectively are the most likely to default on their loans.³⁶ Even private firms that receive loans will face higher interest payments at a time of sluggish growth, thus hurting their bottom-line.

The Future of Reform Debates

The sharp and unorthodox nature of the current wave of critiques against the statist model shows that daring voices continue to speak out against perceived policy problems or even against shortfalls in the political system. This willingness to voice dissent is notable in the midst of increasing ideological pressure from the government. Yet almost all of the vocal participants in the latest round of reform debates are the same people—Hua Sheng, Justin Lin, Jia Kang, Yao Yang, Hua Sheng, Liu Shijin, and Wu Jinglian—who took part in the debates in the 1980s and the early 1990s. Few among the younger generations, with the exception of Guo Qiang, took part as vocal participants in the current round of debates. This is markedly different from current trends in the United States and Europe, where the global financial crisis and the election of Donald Trump have given rise to a substantial wave of youth activism and vocal criticism of the status quo.

Why? Without further data, it is difficult to determine why there is a generational difference. But younger scholars see nothing much wrong with a system that has generated double-digit growth rates during much of their lifetimes. Nevertheless, there are widely acknowledged problems of income inequality, housing prices, residency requirements, food safety, and gender equality that deeply affect the younger generations. However, at least among the economists, few among the younger generations have researched these issues or have publicly commented on them. Another explanation is that patriotic education and increased censorship, beginning in the early 1990s, have engendered generations of scholars who were either unwilling or afraid of criticizing government institutions, if not policies. Meanwhile, in recent decades, those who prefer to live elsewhere have increasingly attained the ability to “vote with their feet.” Finally, some reformers from the 1980s today are senior officials, including Wang Qishan, Guo Shuqing, Yi Gang, and Lou Jiwei, and thus their status affords their friends in academia some degree of protection.

If the first and third explanations are correct, then the reform debates in China will continue, especially as China faces slower growth and greater economic and social challenges in the future. However, if decades of intense ideological efforts and emigration have succeeded in producing generations of relatively docile elite, even as China careens in directions harmful to its growth and development, few will dare to speak out about these ills and warn the leadership.

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Victor C. Shih is Associate Professor at the School of Global Policy and Strategy at the University of California, San Diego, specializing in China. He is the author of *Factions and Finance in China: Elite Conflict and Inflation*, published by Cambridge University Press in 2008. He is also the author of numerous articles appearing in academic and business journals, including *The American Political Science Review*, *Comparative Political Studies*, *Journal of Politics*, and *The Wall Street Journal*. Shih has served as principal in The Carlyle Group's global market strategy group and continues to advise the financial community on China-related issues. He is currently working on a book manuscript about elite coalition strategies under Mao and Deng as well as several papers using quantitative data to analyze the Chinese political elite.

Notes

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⁵ Justin Yifu Lin and Yan Wang, "New Structural Economics and Resource Financed Infrastructure," *Pacific Economic Review* 21, no. 1 (2016): 102–117.

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