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China: Can Economic Growth Continue without Political Reform?
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EXECUTIVE SUMMARY

This chapter examines whether political reform is necessary in China in order for the country to sustain economic growth into the future.

MAIN ARGUMENT:
Though the Chinese government so far has managed the rising tensions between economic modernization, on the one hand, and the many institutional flaws of authoritarian rule (e.g., lack of political accountability, weak rule of law, bureaucratic ossification, and endemic corruption), on the other, China will not likely continue this course of rapid growth without undertaking the necessary political reforms to make the Chinese political system more responsive and respectful of property and individual rights.

POLICY IMPLICATIONS:
• Western policymakers need to re-examine their assumptions about the sustainability of China’s authoritarian developmental model.

• The U.S. government would benefit, in particular, from rebalancing and shifting U.S. policy toward China from the current focus on security issues to a new focus on non-traditional threats such as corruption, environmental degradation, and public-health disasters.

• A re-energized human rights approach to China by the West could emphasize domestic political change in China as the measurement of China’s performance as a responsible global power.

• Given that China’s political system is unfriendly to competitive markets, Western businesses have the same interests as Western governments in promoting democratic change in China. Western businesses would benefit from building a united front in their dealings with China.
China: Can Economic Growth Continue without Political Reform?

Minxin Pei

Though having become a great power, China faces a highly uncertain future. This uncertainty has now become one of the decisive factors influencing the policy of the West toward China. In the minds of key Western decisionmakers and strategic thinkers loom two questions: whether China will democratize and whether China can continue its rapid economic ascendance without democratic reforms. The strategic uncertainties facing these policymakers are illustrated by the matrix of potential outcomes based on the interplay between the two crucial variables: democratization and economic growth in China (Table 1). The most desirable outcome is Scenario I, which sees a China that has successfully democratized its political system, developed its economy, and become a strong partner of the West and Asian allies of the West. Each of the three other outcomes would create a different set of difficulties. Notably, sustained growth under authoritarian rule (Scenario II) would allow China to acquire military capabilities and economic influence with which to challenge and compete against the West. Yet an authoritarian China that falters economically (Scenario IV) is also likely both to experience political strife at home and to behave unpredictably abroad. If economic growth were to stagnate despite the democratization of the Chinese political system (Scenario III), China likely would pose a lesser traditional security threat but, due to its economic weakness, would generate many non-traditional threats, such as illegal immigration, environmental degradation, and epidemics. (These non-traditional threats are equally likely under Scenario IV.)
The primary objective of this chapter is to address the question of whether China will continue to maintain rapid economic growth without undertaking democratic reforms. Although the most haunting specter for most Western strategic thinkers is Scenario II, this chapter argues that the country’s economic rise is unlikely to continue if China fails to pursue the long-delayed political reforms. That the Chinese Communist Party (CCP) has consistently resisted democratic reforms in the last three decades while delivering impressive economic growth does not necessarily indicate that the party will be able to successfully do so in the future. On the contrary, the CCP’s ability to delay introducing regime-changing political reforms has contributed to the accumulation of massive governance deficits and systemic risks; to the extent that these deficits and risks have real and substantial economic costs, China’s economic prospects will suffer. In other words, without democratic reform the most likely outcome for China is Scenario IV—a faltering authoritarian giant beset by internal woes. Unfortunately, Western policymakers seem to be unprepared for this outcome.

This chapter first briefly reviews the history of rapid economic growth in post-Mao China, analyzes the main factors behind such growth, and then explains why massive socioeconomic modernization has not led to a democratic breakthrough in China. This is followed by a description of the economic and social consequences of lagging democratization. The next section explores the various mechanisms through which the absence of political reform would likely become a drag on China’s economic performance in the next ten to fifteen years. The conclusion presents an analysis both of the prospects for political reform and of the policy implications of China’s uncertain future.

The Chinese Economic Miracle

China’s rapid economic growth—averaging about 9% a year since the late 1970s—has defied projections of not only pessimists skeptical of the capacity of China’s authoritarian regime to deliver long-term superior
economic performance but also of optimists confident of the democratizing effects of sustained economic development. In less than three decades China has increased per capita income 1,000%, more than doubled the urbanization rate, and transformed itself from a negligible participant in the world economy to the third-largest global trading power. This process of fast-paced economic modernization and liberalization also has produced millions of professional workers and private entrepreneurs who have become a vital source of social dynamism and—potentially—political change. Indeed, judging by any measurement of economic development, the Chinese experience during the reform era has been nothing but a resounding success.

Such an assessment may fit well the theory of the developmental state derived from the historical experience of rapid industrialization in East Asia (Japan, South Korea, Taiwan, and Singapore). In particular, the earlier literature on the developmental state implicitly credits authoritarian rule with the capacity to overcome the collective action problem of providing leadership in late-developing societies and to mobilize the financial and administrative resources in achieving rapid growth; to this extent the Chinese case provides yet another empirical confirmation, albeit on a gigantic scale. To advocates of the theory of the developmental state, the Chinese experience is thus hardly surprising. The linkage between democratic reform and superior economic growth performance is (if such a link exists at all) most likely to be negative: democratic reform may be not only unnecessary but also positively harmful for sustaining economic growth.

Yet, the theory of the developmental state may be useful only in explaining *ex post facto* how some states managed to achieve rapid growth while others did not. The implicit linkage between authoritarianism and superior growth is tenuous because of the selection bias problem. A review of empirical evidence shows no systematic relationship between regime type and growth performance. At the same time, the theory of the developmental state must contend with the powerful insights of the institutionalist school.

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