

CSC China Lectures
"China's Economic Trajectory: Past, Present, Future"

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18 January 2010

Overview Lecture by Professor Wang Gungwu

One of the points highlighted in the opening speech was the insistence that China was still a developing country. But looking back into its history, China was no ordinary developing country. China was a country that has deep roots and a long civilization. It experienced long centuries of high development and was one of the most developed civilizations for centuries. In other words, China developed many times before but it fell behind. Now China was trying to catch up so that it could rebuild and restore its position as a developed country. With this historical mindset, we should distinct China from other developing countries as the latter group mostly started as a nation from scratch.

To go back into the last 150 years of Chinese history, what China experienced in the first 100 years, i.e. from the late Qing dynasty through the formation of the People's Republic of China in 1949, was different from the subsequent 50 years, i.e. from the founding of the PRC through the present. Looking back, the first 100 years can be divided two parts. In the first part, China could be seen as a very large empire in the final years of its grandeur. It was a leading civilization by world's standards and had tremendous wealth. At the end of that perspective, there was nothing wrong with China's economy and the economic instincts of the Chinese. The merchant class in fact had the capability to deal with the economic challenges from the West. The class was able to learn quickly and master the trading methods, economic principles and business practices from the West very well. Technically, there were no problems with the Chinese merchants.

The real economic problem in China during that time was not economic but political. Political leaders of the Qing dynasty were too confident of their principles of governance. This clouded their perspective that some of the political ideas they followed were actually obsolete in a rapidly modernizing world. Ultimately, this led to a series of political miscalculations that eventually resulted in the destruction of the Chinese economy. The situation was worsened by military defeats which forced the Qing government to accept conditions that put Chinese businessmen and the economy as a whole at a disadvantage.

The second part took place after the fall of the Qing dynasty from 1912 through 1949. During that period, the economic situation in China continued to deteriorate. The Chinese republic which was set up to replace the Qing government was plagued by civil wars. It was also fundamentally weak as the country was divided among warlords. The government in Beijing was technically under warlord control and changed hands very frequently. Furthermore, each warlord dealt with foreign powers separately. This included the KMT under Sun Yat Sen and Chiang Kai Shek though the KMT tried to create a unified government to have control over country. But it failed. Largely this was due to the upheavals from within and the tremendous pressure from foreign powers.

In this context, the main issue during that period was not business and economic development. Rather it was sovereignty and legitimacy. Without political control – decisive control over all branches of the government and claimed territories – any discussion on economic development would be meaningless. Indeed, the Chinese government during that time was facing civil wars. There were also threats of dismembering China by foreign powers. For instance, Japan acquired Manchuria from Chinese control, Russians were wresting the control of Mongolia and Xinjiang from China, and the Chinese government had no control over Tibet. The actual area where the Chinese government had control was less than one half of what China is today. Even in areas under Han Chinese, no government had control on more than 2/3 of the region at any one time.

The formation of the People's Republic of China by the Chinese Communist Party in 1949 marked a major change. It resolved the sovereignty and legitimacy issue and allowed a central government to gain unquestionable control over all major territories, apart from Taiwan. Externally, the legitimacy of China was still a question of recognition by international community. But it came quite rapidly after 1949, with exception of the United States and its immediate allies. Over a space of 15 years, the vast majority of countries had recognised PRC a legitimate country and established diplomatic relations with Beijing. With this, it brings up to the next 60 years of Chinese history, i.e. from 1949 through the present.

This period can be divided into two parts, i.e. pre-1978 and post-1978. But clearly sovereignty and legitimacy were no longer the main issues directing China's economic development. Rather it was the political ideology. During the pre-1978 period, which was marked by Mao Zedong's leadership and events such as the Great Leap Forward and the Cultural Revolution, there is no question that politics and ideology were in command. At no time calculation was based on economic interests. Every major decision, including economics, was made with political interests in mind. Economically speaking, the end result from 1949 through 1976 was marked by many developments such as industrialization and the creation of a skilled workforce. But it all ended up with great failure for China.

From 1978 onwards, economic growth and development rather than political ideology became the foundation for China's policies. The basis for this change under the leadership of Deng Xiaoping was to ensure that the Chinese population of 1.3 billion people had enough to eat and given decent housing. Judging from today, these policies were generally successful and had transformed China with tremendous dynamism and speed. But it was important to remind ourselves that the successes of these policies only lasted for 30 years. Furthermore, the transformation took place using what was available blindly, without careful calculation.

Nonetheless, one remarkable thing of Deng Xiaopeng was to remove any inhibitions from learning from the West. This was a remarkable undertaking because of China's past encounter with the West. This liberal mindset allowed the Chinese to master Western technologies. More importantly, it illustrated that Chinese had the capacity to learn quickly and well. This intuition had always been there and for it to occur was simply the question of opportunity and having a stable political and social order.

Another remarkable thing Deng did is to replace "Revolution" with "Reform". It was a big decision as Chinese were obsessed with Revolution since the beginning of 20th century. The idea behind this was to imply that China now a legitimate country that had a system in place. Any attempt to bring back revolutionary slogans and ideology was therefore not appropriate and should be prohibited. The impact for getting rid of that word was huge. For example, freeing people from years of deprivation, it created the excitement and expectations that led to

Tiananmen in 1989. But in their eyes of Deng and the leaders at that time, this was seen that as a potential revolutionary act against the CCP and the country's interests. This led to their decision to end the demonstration and further illustrated Deng's determination to put all revolutionary ideas out of Chinese people. There was no doubt Deng had succeeded.

Deng's successor Jiang Zemin also got rid of another word: "Class". This was to bring in capitalists into the system and to recognise their contribution to China's development. Removing the word was important as it eradicated the old concept of caste conflict and class differentiations thus allowing the CCP to cope with the capitalist system. Jiang did not quite succeed in assimilating capitalist elements into the Chinese system but he managed to reduce the significance of the word "class" and the concept of "class" conflict. This allowed the system to change and operate more effectively based on capitalist elements. In fact, very few today talked about "class" now. Although the word still existed in the background, no one really discussed each other's "class" origins. If you were rich today, it did not matter where you came from. If you are poor, it did not matter who your parents were.

Hu Jintao succeeded Jiang Zemin and he got rid of the third word: "Struggle". This word was a very important word to the CCP as it was used by the party's "class struggle" ideology. With the word "class" gone, it was easy to get rid of "struggle" and replacing "harmony" or "social harmony", which were words deeply rooted in the Chinese civilization. In fact, the word "harmony" could be traced back to Confucianism and it symbolised the desire for order. This was a big step away from the "Class Struggle" and revolution that Mao had believed in.

So what did all these changes imply during this post-1978 period? First, Deng Xiaoping never gave up his belief in the CCP. He was loyal to revolution. The only thing that made him different from the other revolutionary generation of leaders was that he recognised that the revolution is now completed and they won. So the following step for the CCP was to focus on running the government well.

Deng's successors took it well beyond that and one of the major changes started with Jiang Zemin when he introduced the "three represents" in 2001. Broadly speaking, the three represents stipulated that the CCP should be a representative to economic production, cultural development and political consensus. This discussion set the stage for the introduction of the "Yi De Zhi Guo" concept which could be translated to as governance based on Moral Virtues. Most people associated governance with Law or constitution, hence the concept "Yi Fa Zhi Guo". But Jiang believed that a country should not only base governance on Law but also moral or "De". Although the origin of using "De" in governance goes back Confucius, this was not to suggest that Jiang wanted to return to Confucian ways. Instead "De" was a concept that appealed to Chinese people. This was because any discussion on moral virtues would set off measures to address corruption, bureaucracy or abuse of authority.

Hu Jintao went further by building on that by talking about "He Xie She Hui" or Harmonious Society. This concept signified that there would be no more conflicts, struggle or no fighting with each other. Instead, everyone should contribute and work hard to establish a harmonious society. This was returning to something the Chinese people had always understood. Again, this was not to suggest that the Communist leaders wanted to return to Confucian ways. Rather building a harmonious society was the Chinese way of seeking for the deep roots in Chinese culture to deal with the challenges brought about by an increasing complex and uncertain society that was fast growing and constantly being flooded with new ideas.

To end, these ideas were rooted in political ideals and not strictly about economics. There was no real worry about the economic foundation behind China's development. As history had shown, economics could take care of itself and the Chinese people were capable of meeting any economic challenges as they were enterprising, entrepreneurial, and were most willing to learn. Rather the fundamental challenge for China was to ensure that the cement could continue to hold the society together so that a stable environment could be created to allow a strong government to govern the country and society.

Lecture by Professor Huang Yasheng

To discuss the present economic development in China, the focus was to study what China should do to balance the economy between consumption, exports and investment dynamics. In other words, it was to understand what China could do to restructure its economy into one that emphasised on domestic consumption rather than export-led growth. To show this argument, the lecture was divided in five parts. First, it questioned whether or not the Chinese economic model is unique. Second, it highlighted the challenges and issues that China faced in rebalancing its economy. Third, it presented some data on China's structural problem to show the declining share of consumption relative to GDP. Fourth, it argued that the failure or success of China in progressing forward is to develop its rural economy. Finally, it provided an overview to discuss the policy changes that took place in China in the last 30 years.

Was China's economic model unique? To answer this question, a guess the country quiz was given. The clues presented were some key economic features of that certain country:

- Government savings doubled in 10 years
- Rapid industrialisation: Agricultural employment fell by 1/3 in 20 years.
- Gini coefficient was 0.5.
- Wage growth lagged GDP growth
- Actively attracting FDI
- 75% of assets of top 100 firms: state-owned enterprises
- One party system

Contrary to popular belief, the country was not China but Brazil. From 1968 through 1974, Brazil experienced a "miracle" period of economic growth as its GDP grew about 11% annually. But this did not last as Brazil's economy performed very badly afterwards. In fact in the subsequent 20 years, Brazil suffered from hyperinflation and was hit by a severe financial crisis.

Brazil's experience revealed several lessons. First, development story was really not about GDP but income growth. Why was this important? Usually, governments would try to hamper income growth because they were worried if wage increased, it would lead to higher business cost and thus drive away foreign investors. But in truth, there were many benefits to income growth as it resulted in bigger spending power and thus larger income for companies. By observing how Brazil was dealing with this round of financial crisis, it appeared that Brazil had learned from its past experience. Indeed, Lula de Silva had been dealing with the country's income issues aggressively by channelling capital to narrow Brazil's income disparity and to improve its education and healthcare system.

Second, Brazil's experience showed that China's economic development was not unique. It revealed that it was possible to have rapid economic growth with low income growth and

massive government investment. But such growth pattern was not sustainable and was likely to end up in disaster like in Brazil.

Third, what Brazil's economy had undergone presented the urgency that China had to rebalance its economy for sustainable growth. How China should rebalance? It had to restructure its economy into one that is consumption-driven with emphasis on income and employment growth. As Karl Marx noted, the inherent tendency of capitalist economy was that if capitalists did not pay high wages they would commit suicide because this meant that nobody would be able to afford their products. China was able to get away with this because the Americans and consumers from developed countries were buying the cheap products from China. In other words, China was an economy that did not have personal income growth or final consumption but was still able to experience growth because other countries were consuming its goods. But it was possible that this pattern of US-led consumption trend would not continue in the post-financial crisis. Protectionism was likely to rise and there would be economic pressures from developed economies. The strategy to continue to pay low wages to workers and hope someone else would absorb surplus production had ran its course and was showing limitations. Therefore, there was a need for China to undergo fundamental rebalancing, emphasising growth of personal income over production. The 2009 stimulus package unveiled by China showed that Beijing was not heading down this path. The government was still pouring too much money into supply side, i.e. investments. There was no stimulus on the demand side, i.e. income growth.

So what were some of the challenges and issues China faced to rebalance its economy? The biggest challenge was decline in consumption. China's household consumption as a ratio to GDP had been declining. By 2007, the share was 34% of the GDP. This was the lowest amongst major economies of the world. Even countries such as Brazil and South Africa had higher ratio. Compared to the United States, the consumption ratio gap was big and was essentially the cause of the trade imbalances between the two sides. India's consumption ratio compared to China was also much higher despite China having a higher savings rate than India. This was because India's personal income in each unit of GDP is higher than China's and India's household savings rate was quite similar to that of China's.

There was a tendency for people to relate China's high saving rate to Confucius values. This was quite misleading because saving rates had nothing to do with having a Confucius or non-Confucius culture. In fact, other Confucius cultures such as Korea and Japan were actually consuming much more than the Chinese.

There was clear evidence that China's consumption had slowed in recent years. But how should we interpret the positive economic data reported by China in recent months. To be more specific, how should we interpret 15% retail growth in 2009? Should we take it as a sign that China's consumption had rebounded from the crisis or even restructured to become a consumption-led model? Indeed, many economists were using this number to argue that China was turning around. But we should be more careful when we looked at Chinese statistics. Chinese data on retail consumption were known as social retail consumption. They added "social" for a reason. "Social" not only meant household, it also meant government and enterprises. Of the 15% growth, it was important to know how much from household, government and enterprises. Historically, there was a close correlation between the government's massive investment programme and SOE consumption. Unfortunately, the National Bureau of Statistics did not tell you the breakdown of consumption, i.e. which part from government and which part from households. In other words, China had lots of data, but not a lot of information.

Based on estimation, however, the contribution of institutional retail consumption or SOEs had increased from about 25%-30% to over 40% in the past 30 years. Therefore, there was no evidence that China had turned the corner in terms of this fundamental imbalance between lack of consumption and the abundance of investment. The basic economic logic would say these were structural issues, which required some time to resolve. But these were serious problems and it turned out that the solution had nothing to do with savings rate. It was related to personal income growth relative to GDP.

There were two macroeconomic theories why consumption declined: Precautionary savings hypothesis (or you were afraid to spend) or Cautionary savings hypothesis (or you did not have any money to spend). It was likely that consumption decline in China was due to the second hypothesis despite IMF stating precautionary savings as the reason. This was because IMF got the definition for savings wrong and the growth pattern China experienced in the past 30 years.

In the past three decades, China underwent three phases of development: the 1980s, the 1990s and the current period. To rank the performance, the 1980s was by far the best decade for Chinese economy, followed by the current period. The 1990s was the most terrible from a personal income perspective. By comparing the GDP performance, there was not much difference between the three development phases. But there were massive differences between the decades in terms of personal income growth especially for the rural population. Income grew the fastest in the 1980s but slowed considerably from the 1990s onwards. In other words, state-led industrialisation programmes that China undertook in the 1990s had modest income effect on households.

Similar to Brazil, China's economy had rapid GDP growth in the 1990s but personal income growth was very slow. In fact because China experienced more than a decade of depressed income growth during that period, the high growth that it experienced was actually very low. This was because its growth rate was calculated on low base. Fortunately, China was beginning to turn around from 2003. But in order to ensure this change was sustainable, China had to grow out of dependency on US demand. It had to produce growth that matches personal income growth with GDP growth.

To ensure China could restructure its economy, it had to develop its rural economy. China began to urbanise in 1990s. But this process was politically driven. It was more about the government buying and selling land as opposed to market driven urbanisation. Nonetheless, as of the end 2008, about 230 million rural migrants opted to move out from the countryside to find jobs in cities. In a way, urbanisation benefited them in one way as urban jobs allowed them to earn higher wages. But this increased was one-time as most rural migrants did not experience any wage increase. In our survey, we asked rural migrants when they experienced their first wage increase and 95% said it was in 2005. In fact, the first person who was interviewed said he came to the city in 1976 and was not given a wage increase until 2005. But current leadership was beginning to address these rural issues. Between 2005 and 2008, China experienced impressive wage growth at about 10% annually.

To sum up, we could observe that China's development policy back in the 1980s was very different from the 1990s onwards. In the 1980s, it was more meaningful as the policy aimed to bring benefits to the average Chinese. It was not about GDP but income growth. GDP was only seen as an artificial economic measurement. From the 1990s onwards, the focus on GDP growth caused income growth in China to stop advancing. This was why consumption share to GDP declines. So how should China move out of this?

The key solution was not massive investment in infrastructure but employment and income growth. As a start, China should abolish the "Hu Kou" or registration system. Because of a rural registration in place, migrant workers and their families did not have access to local public schools and hospitals. They had to send their children to private schools. According to a survey, the average expenditure including education of a rural migrant household was about 1/3 of their expenditure. This was about the same ratio for an American upper class household that chose to send their children to private school. Because of the high expenditure, these rural migrant families did not have enough money to spend on other things. To tackle this problem, China had to "reform" its current economic structure. This also included liberalising the rural financial sector so that the rural population would have more access to capital to start their entrepreneurial businesses.

Question & Answer

Participant from Shell: It seemed like most of the businesses in China were owned by the government? What should China do to ratify this problem? Did you think the best solution is to continue and step up the privatisation process of SOEs?

Prof Huang's reply: Not all businesses in China were owned by Government. But government ownership was definitely overwhelming in high-margin businesses such as banking, telecom and oil. In fact, 70% of assets belonged to the government. Despite that, China did have a sizable private sector. But still the state controls the vital industries and that remained the same in the last 10 years. The stimulus programme unveiled by the government further indicated that China would continue to maintain and even expand the government's role in businesses. For instance, one SOE had recently acquired a production company in the business of producing yoghurt. I was not sure that was a wise decision as the dairy sector was very different from major sectors such as telecoms or energy. But it illustrated that SOEs were expanding their reach rapidly into non-traditional sectors such as real-estate. What caused this? Back in the 1990s, there was an implicit consensus that SOEs would confine themselves in energy and telecom sectors. But because of the budding ideology among the Chinese that capitalism was bad and deregulation was the main cause of market volatility, there was a certain triumphalism that the state sector was the key to stable economic growth. This resulted in "reversal takeovers" where industries and resources such as coal mines were acquired by SOEs. This was a very worrisome development. I could see the rationale for keeping SOE for capital-intensive and commanding heights industries. But there was no rationale for SOEs to venture into smaller scales industries. For instance, SOEs were expanding into the real-estate industry and other supply industries such as aluminium, concrete and steel. This caused property and commodity prices to soar.

Robin Hu's (SPH) question: China's housing industry saddled with problems. For instance, housing prices were soaring but there was no real growth in personal income. Furthermore, the secondary market was also not well developed and the local government was worsening the situation by using land sales to generate revenue. How should China resolve its housing and real-estate problem?

Prof Huang's reply: The only way out for China was to experience a crash. The local governments derived 50% of its revenue from the sale of land. Usually local governments in the United States and other developed economies were concerned about a sharp rise in land prices. But in China, it was the opposite. Local governments saw it as an incentive and the rise of real

estate prices was a good thing as it helped generate revenue. As a government, when it acquired a land, competition was dampened. But when a government sold land, competition was induced. Land to them was business. The real estate price in China had grown several times more than rental. The rental yield was low but transaction prices were very high. At some point, this imbalance would have to be corrected.

Josephine Teo's (NTUC) question to Prof Wang: Was it conceivable one day to see there would be a United Provinces of China? **Her question to Prof Huang:** Would the Chinese government encounter any financial constraints if it decided to abolish the Hu Kou system?

Professor Wang's reply: It was not likely for China to adopt a federal system. The idea of a one united country was too deeply rooted in China. There was no possibility for them to adopt a Federal system. But in terms of reality, it was more possible for China to adopt a decentralised state. Throughout China's history, the country was for the most part decentralised. The central government's role was to maintain unity and considerable power was given to the local governments. In practice, decentralisation was a part of the tradition in China. In other words, China could have a federal system in practice but not constitutionally.

Prof Huang's reply: I did not see any financial constraints in abolishing Hu Kou system. Yes, removing it might require the government to expand its public service provisions. Because of one Child policy, in fact there were cities in China in which the public schools were running low in terms of enrolment. In other words, it would be cheaper for the government to provide the public services for migrant workers in cities rather than in the countryside. Chinese government was one of the richest in the world. One indication was its government buildings. It was likely that no other country would see a government spend so lavishly on its buildings. Furthermore, the Chinese government was spending so much in building infrastructure such as high-speed trains even though the people were now driving. The ticket price for the high-speed train from Wuhan to Guangzhou was not cheap. It costs about USD500 whereas the normal train service costs about USD100. No migrant worker could travel on it and a city folk would prefer to drive. In other words, the high-speed train service was not efficient. Instead these investments could easily be channelled into more useful public services such as housing, education and healthcare.

Warren Mah's (MAS) question: As lending increased, there would be an increase in Non-Performing Loans in the portfolio of State-owned banks. Therefore, would we see a big dip at the end of the year? Also I would like to know whether or not the statistics provided by the banks were reliable?

Prof Huang's reply: We had to be careful in using Chinese statistics. For instance, when we talked about rural income growth even though I admitted that it was growing but I suspected the degree of improvement (about 8 to 9% growth annually) was exaggerated. It was my habit when I saw a number I always dug and observed what was below it. Between 2005 and 2006, the National Bureau of Statistics began to use higher-income rural households in their sampling. Maybe this method helped to bump up overall rural income growth but speed of the adjustment was surprising. In 2007, 30% of respondents came from highest income group, whereas in 2003, it was only 8%. I would not want to say the authorities were lying but they were certainly doing things on the margins to create better figures. On NPL figures of Chinese banks, it was difficult for me to comment on its authenticity. But my prediction it was quite big especially if we looked at the kind of investment projects they were financing now which in most cases were extremely risky and commercially viable. We could also estimate the size of NPL of Chinese banks by observing the vacancy rate of real estates in China. According to the Financial Times,

real estate vacancy rate of high end properties in Shanghai and Beijing was something like 40-50% and yet the developers were still building more. This was quite bad especially if you compared to the vacancy rate of other cities such as New York which was at about 10%.

KC Lee's (SIM) question: I would like to ask the quality and reliability of China's data on income. It was quite difficult to find any data pertaining to income in official statistics. How did you account for it in your research?

Prof Huang's reply: The simple answer was that it did not matter. We could just look at consumption numbers. What I showed was that consumption in China was declining. This meant income was not growing.

Choy King Min's (NTU) question: I would like to canvass your idea about rebalancing from export-led to consumption-led growth in the Singapore context. Very often our government argued that Singapore could not depend on consumption because of our small population. In fact, Singapore's consumption ratio had been declining since the mid-1990s. This showed that Singapore had similar structural problems with China. Could you recommend some actions that Singapore could undertake to stimulate income growth?

Prof Huang's reply: For Singapore, I would look at the income side more than consumption. Singapore was a rich nation. Its capital per income was about USD20000. Because Singapore was rich, it had more leeway to manage its imbalances. This puts Singapore in a different context with China. However, I was quite concerned with Singapore's declining median income as a percentage to GDP. The reason for the decline could be due to the intense global competition that Singapore faced from China and India. The kind of manufacturing success that Singapore experienced was no longer viable. It was a matter of time before China and India caught up with Singapore in value-added goods such as pharmaceutical. Singapore needed to focus more on income growth by revising its economies of scale. One way was to start learning from developed nations such as the United States and even Israel where their comparative advantage was not on manufacturing but on technological innovation and cultivating risk-taking entrepreneurs. But to make it clear, Singapore's development model had been extremely successful but it was not going to work in the long-run.

Participant from MDA's question: I would like to know what is your take on China's development of its technology sector?

Prof Huang's reply: Earlier I had responded to a question on the privatisation of SOEs with the view that they were now even involved in yoghurt production, which I saw as an extremely bad decision. But at same time, the State was venturing into other sectors such as financing, research and development, and technology development by spending lots of money to attract established scientists and successful entrepreneurs from overseas. The private sector in China definitely did not have the vision and resources to do that. Furthermore, universities were missing in this ecosystem. There was only one player in the system, which was the government. On other hand, if you were to expect government to play an important role, it was in financing tertiary education. Was it possible that there were risks involved in this investment but they were much smaller comparing to ventures into businesses such as the yogurt industry. Nonetheless, China's high-tech sector was showing promising signs. For instance, the number of publications by Chinese scientists in Western Scientific journals was increasing. But on the other hand, the quality of these articles or patents was still debatable.

Robin Hu's question: Some people argued that for China to fully realise its full economic potential, there should be less regulation or a more democratised economy. Did you go along with that view? Also did you think a more democratised economy would be preceded by a democratised political regime?

Prof Wang's reply: It was quite interesting to note that we had not mentioned democracy up to now. Incidentally, this was similar to what China had undergone in the past 150 years where it was all along politics first. That was always the tradition and I did not believe they had moved away even though they might have returned to a gentler version of politics in command. Given that, this question of democracy was not much in people's mind today because of what was happening in the West. If they were any triumphalists amongst them, they would say democracy did not solve everything. So far, they believed the current Chinese system had done very well especially if we compared to how the system had evolved from Mao Zedong. In a way, what we see today was a government that was still reforming, adjusting to a complex world, but learning fast enough to make sure that the mistakes they make were small. In that case, they could survive without democracy. I could not prove it exactly, but I believed in early stages of the development of East Asian economies, democracy was not part of the equation. Democracy came after economic development. A more relevant question was whether China too would turn to democracy after they had achieved economic development. When the Chinese leaders looked around them they might be impressed with Japan, Korea, Taiwan and how they democratised. But were they convinced that this was the outcome? What was more convincing for them might be the Hong Kong model. The HK model was absolute freedom without Democracy or economic freedom but no democracy. The leaders might also look at the Singapore example: tremendous emphasis on economic freedom but not so much on political freedom. But still the Chinese might not look at HK or Singapore directly but they had observed that economic freedom and development was much more important than political freedom.

Prof Huang's reply: Prof Wang was absolutely right. When they looked at the East Asian experience, the Chinese leaders might not be impressed by the outcome of economic development. On other hand, they might not be impressed for the wrong reasons. Korea's economic growth had been quite decent during post-democratic period. In fact, Korean companies were amongst most innovative in the world and it would be a matter of time before Samsung overtook Sony. Taiwan could be a bit of problem and might not a good example of an Asian democratic society when you had the former president behaving way that he did. But to some degree, this was the characteristics of a democratic society. For China, I believed that emergence of democratic-like arrangement, probability was not zero. The reason was the big difference between China and rest of East Asia. In East Asian economies, private property rights were strictly protected. In China, however, local government derived 50% of its revenue from land transactions. The way they did that, they sold high and paid low price. If you were middle class asset owner, when confronted by local government to evict you, you would demand accountability and democracy. That kind of demand never existed in Korea or Taiwan and this might be the impetus for democracy. In fact, more and more lawyers in China were practicing to defend the property rights of Chinese. Other rights-based movement was also gaining traction in China thanks to NGOs. Internet democracy was thriving and growing fast and there was a diversity of views expressed in the internet. In fact, my critical views were published in China in blogs and had drawn millions of Chinese readers. Some newspapers even published my articles. The trick was to know how not to cross the line. For instance, try not to say so and so was wrong or certain government policy was wrong. Not to name names also helped. I was very impressed with how internet democracy was developing in China. In fact, it was progressing so fast that the Chinese government had to start cracking it down. But all in all there was more diversity on Internet in China than on Singapore. In China, could you

read internet blogs and opinions almost everywhere: from rampant nationalists to anti-government critics. All these were creating "democracy by discussion" rather than democracy by institutions.

Prof Wang's reply: I simply said that the Chinese government never had democracy on their mind. As far and as long as they believed they could do without it, they are not going to push for it. They were going to give as much freedom to Chinese people, provided they could see that the Chinese people could not organise themselves in CCP or into other political parties.