

András Inotai – Ottó Juhász (editors)

The Changing China



AKADÉMIAI KIADÓ, BUDAPEST, 2009

China is a major player in the world economy and in international politics; it is the 20th and 21st century workshop of the world and is, as for today, the most populous country in the world with by far the largest foreign currency reserves in the world. For these reasons, no serious world economic reviews can avoid dealing with China's development and evaluate it in one or another way. This popularity certainly involves as an inevitable consequence that even those who have superficial (or, in better cases, distant) knowledge of China make a firm, sometimes irrevocable, judgement about this Asian superpower, its development, economic and human rights "performance".

The researchers whose efforts have produced this volume do not belong to the latter category fortunately. Although not all of them by far are genuine sinologists, they were all extensively prepared and informed in making their analyses on the various aspects and correlations

of Chinese development and, let us not be shy to point out, they formulated their opinions with the humbleness of a researcher. The World Economic Research Institute of the Hungarian Academy of Sciences was thus able to find experts who not only "flew above" the country of the size of a continent but went deep into the political, social and, most importantly, economic reality of China. Yet, their approach did not lack the necessary perspective, either; the authors include versatile world economists as well as experts who have spent a many decade career analysing China exclusively or primarily, having thus an adequate time perspective for viewing the most important events of this fast developing country. The development of China's economy can be followed week by week in the statistics of *The Economist*, for example, where the major economies of the world are characterised by twelve indicators. But a lot deeper information is offered on the

correlations by a book whose authors have studied the Chinese press directly or can make their own predictions on, say, cement production in China or even on the likely changes in the complete factor productivity until 2030 (the way *Barna Tálás* did)!

For those wishing to learn about Chinese development, it is wise to rely on specialists. The country is different from other leading market economies almost in every respect: it has a different system, different scales, different motivation and a different control system. The fundamental philosophy of the operation of the state is not a customary one, either. Even the state form is hard to define: while there is a growing number of privately owned plants and in 2005, for instance, over 80 per cent of city dwellings were in private ownership (p. 57), according to official documents “China is at an early phase of constructing »socialism with special Chinese characteristics«, which »may take as long as a hundred years«. (p. 13) The socialist character is still reflected, if not in ownership relations, in the methods by which the country is governed: Chinese leaders incorporate the country targets and nationwide tasks into ever newer slogans: “the peaceful unification of fatherland”, “rich country, satisfied nation” (p. 13), “harmonic society”, “good and fast” economic development. (p. 14)

The volume comprises *five summary studies*.

■ The first study (The development of the inner situation of China, perspectives) was written by *Ottó Juhász*, retired Hungarian ambassador to Beijing. He is a genuine sinologist with the most versatile knowledge of China, accordingly giving us a *comprehensive* picture of the most important social, political, ideological and regional processes going on in China, with meticulous, careful consideration, noting even minor shifts of emphasis or just unfolding trends.

There are just a few thoughts that can be highlighted here from his exciting analysis. Let

us mention the most surprising one first: The economic successes of China justify both current Chinese leaders and those of the recent past; what is more, they guarantee that the system as a whole is accepted by the people in the country: “The influence and legitimacy of the party are stronger today than ever.” (p. 35) Secondly, we must speak about the adjusting and renewing ability of the Chinese “model”. The former is well illustrated by the new slogan announced in the report on the October 2007 party congress: “keeping up with time”. (p. 13) The latter is indicated by the fact (among others) that, since 2000, among all the countries in the world, China has spent the second most on research and development. They take innovation, too, most seriously; this, “similar to other fields of the economy, has been subject to top down decision making or, in other words, the latest success story of the Chinese development state.” (p. 63) Although *Ottó Juhász*, just like the other authors of this volume, is careful about recommending the adoption of Chinese solutions, he formulates a specific recommendation in this field: “...some elements of the Chinese success story can indeed be adopted. First we should underline the systematic learning process of Chinese decision makers: when working out the vision and, more importantly, the implementation strategy, they systemised the innovation policy experience of developed countries and adopted the elements thereof that had proved to be successful, into their own practice.” (p. 66) Hungarian economists of a more mature age are well aware of the fact that, from the second half of the 1970's, when Deng Xiao Ping became the leader of the party and thus of the whole country, China started studying Hungarian economic reforms in detail. (This is proved by the fact, for example, that the book of academician *Béla Csikós-Nagy* on socialist price theory and price policy was translated into Chinese in the mid nineties; in Hungary it had certainly been published much

earlier.) Let us note the fine irony by which Ottó Juhász formulates a lesson for us, once “reform country”: “We should similarly adopt the political practice that, in parallel with the reform measures, they pumped new funds into the system so that the shrinking direct institution financing should lead to the strengthening of competitive fields instead of a general disintegration of the whole system.” (p. 66)

There is another important warning that should be quoted by all means, for one thing because the idea is repeated in all the studies in the book: “Hungarian administration and society should count with a constantly changing China. The relations with China must not be based on a few “eternal” patterns. China has not only become stronger; it also has a growing self awareness. (...) Hungarian politics should avoid hurting the national feeling of the Chinese and is not entitled to meddle with the affairs of China, a country with growing international influence both economically and politically.” (p. 64)

Many experts with a very positive attitude (especially those who have specialised on a single country or region) tend to grow fond of the subject of their analysis so much that that this might go at the detriment of their scientific objectivity. Fortunately, none of the authors of this volume fall victim to this researchers' “Pygmalion-syndrome”, not even the two sinologists most endangered in this respect, Ottó Juhász and Barna Tálás (the author of the second study). The former (also chairman of the Hungarian Chinese Friendship Society) gives a 12 point summary of the serious contradictions and harmful concomitant phenomena that overshadow the undoubtedly imposing Chinese economic performance on the third page of his study already, starting from the alarmingly fast growing income differences to the reproduction of unemployment, to deep-rooted corruption and rising ethnic tension.

■ The author of the study entitled *The perspectives of China's social and economic development until 2030* is Barna Tálás, the doyen of Hungarian China research, an expert in the ninth decade of his life, who also makes it clear at the beginning of his writing already that he is not biased towards China; he is well aware that the success story that has taken place in the past three decades cannot be continued the same way. “...the real great difficulties and problems, which seem almost impossible to solve at the moment, are in fact only to come, in the decades hereafter, challenging both China and humanity as a whole. China will then be only the second most populous country after India and, similar to other countries and country unions in the world, it will have to fight a chronic shortage of food, energy, labour, raw material, soil and water, as well as growing environmental problems and the gloomy worries of an aged society.” (p. 73) Thus, China will illustrate the restrictions of growth well known since 1970: “*When talking about the “blessings” of globalisation, referring to the accelerated social-economic development and modernisation of China and India as well as to the spectacularly rising living standard of some social groups in these countries – who are significant in number – is a deception and delusion comparable to a pyramid scheme.* This development, without the transformation of the current model of economic growth and a fundamental change in our attitude to social-economic development, i.e. without a complete paradigm change, would lead to a catastrophe, and not only in the two above countries, but at the global level.” (p. 135; italics in the original). Fortunately, however, “the current leaders of China (...) have already started working out a cost-minimising economic growth model aimed at the gradual reduction of expenditure and sustainable growth”. (p. 136)

They have started this in proper time indeed since economic growth has been unbroken to

this day: in 2007, GDP per head was almost eight times higher than in 1980 (p. 79); what is more, even the world economic crisis that unfolded in 2008 was only able to moderate the pace of growth, while there was no decline in production! For economists primarily interested in monetary policy indicators, various money market indicators and stock exchange indexes, let us quote a sentence by Tamás Barna that will probably make them (too) realise how the historic performance of a developing country should be appreciated: “In China, (...) for almost fifty years, starvation has been essentially unknown, while in certain African countries, as well as, occasionally, in some countries in South Asia and Latin America, too, it is an everyday, customary phenomenon.” (p. 126) Eliminating starvation is of course only the first step, but probably the most significant one, towards economic rise. Chinese leaders certainly have a further vision: by the mid 21st century, they wish to make their country into a modern state, one of the leading world powers and, as regards GDP per head, a medium developed country. (p. 104) It is still a question, however, how much assimilation this will require of China: to what extent it will have to give up its historical characteristics and identity: “The real question is if, *through globalisation and the world wide web, the ideas, moral norms and forms of behaviour and attitude mostly alien to China until now but to spread inevitably, will change the traditional way of thinking, moral norms and habits of Chinese people and, if they will, to what extent?*” (p. 133, italics in the original)

■ The third chapter in the book, written by *András Hernádi*, analyses China's international relations. The study accurately examines the country's relations with the superpowers first, followed by a survey of its relations with the major regions, presenting the characteristics of both goods and capital turnover. From this chapter, it is the groups of Central Asian as

well as black African countries that deserve a special mention. With the former, China cultivates relations within the framework of the so called Shanghai Cooperation Organisation. These partners are important considering the growing demand for raw material and energy primarily. Remarkably, the Silk Road, built in the antiquity, may become an important transport channel in the 21st century once again, connecting China with the Middle East Region. Black African countries, on the other hand, may be important for China as the suppliers of raw material in the first place: there are real legends going on discussing in the quarries and mines of how many African countries China has made acquisitions. Several studies in the volume raise this issue and the authors come to the unanimous conclusion that, despite the undoubtedly existing trend, it would be an exaggeration to believe that China has an intention to 'conquer' Africa as a kind of 'neo-colonial superpower'. Certainly, for us it is not the 'China/Africa axis' that is the most important relation but that of the European Union and China, with special highlight upon China's relations with Central East European countries. Concerning this issue, *András Hernádi* is once again not the only one to point out in his study that this region must take China most seriously, while it is he who makes the most definite, probably a little exaggerated, stance about this: “An economy [in Central Eastern Europe] may be successful only if it is able to meet the new challenges of the economically emerging China, a country on the way to becoming a superpower.” (p. 223) It seems that all Hungary's neighbour states are aware of this: “It was an interesting finding in our investigation that almost all countries in Central and Eastern Europe have made an attempt to become some regional, trade/logistic/financial bridgehead for China and they have become competing rivals in this respect (too).” (p. 226)

■ In the fourth chapter entitled Possibilities to develop Hungarian–Chinese bilateral relations, *Lajos Rácz* draws attention to an interesting correlation: “...There is a clear positive correlation between China's position in the foreign trade rankings of respective countries and the pace of the economic development of the countries concerned.” (p. 240) Another observation of the author that can be read in relation with China here holds for several other eastern countries: many members of the current and now ageing leading stratum know (and love) Hungary because they pursued their university studies here, which is an opportunity, fading by time, absolutely unused by Hungarian foreign economic diplomacy. What is more, this fondness towards us is mostly unilateral: Hungarian decision makers tend to be rather distrustful and reserved towards Chinese investors. (p. 243) Even though Hungary is much more in need of a favourable judgement by China than the other way around, not only considering size differences but also because of the imbalance in bilateral trade. China is the most populous country in the world today; it is a huge existing and potential market, so this is one reason why it is indeed astonishing that “... there is just a single Hungarian product that has a stable position at the Chinese agricultural market (which is fluff and feathers)”. (p. 245)

This chapter, too, ends with recommendations certainly, of which the author's urging that Hungary should join the Chinese education and research market is especially interesting. (p. 250) *Lajos Rácz* also repeats the warning quoted from *Ottó Juhász* above: “The public opinion forming elite in Hungary qualifies the objective contradictions of Chinese development (which, by the way, are often reminiscent of the problems in Hungary) morally, assigning China the role of a “bogey”; calling it a scapegoat responsible for global problems. The Hungarian prime minister, the president of

parliament or members of the government always have to make excuses to the press, the opposition or to human rights organisations about their visits to or negotiations with China.” (p. 255)

■ The closing study of the volume by *András Inotai* is an energetic, good to read and thoughtful piece of writing. The chapter examines China's role in world economic processes in the fields of goods turnover, capital flow, international raw material markets, aid policy and the international financial system. A depressingly high rate of the world's currency reserves is concentrated in China's hands, which fact, well known by now, is put into a new and interesting light by the current international financial crisis. The fast advance of the Asian superpower in world trade has not been such a new phenomenon but it is just as much imposing: “In the mid eighties, China's weight in world exports was about 1 per cent; currently it is above 8 per cent (goods exports, excluding services exports). (...) in the past years, exports have approached and then surpassed 50 per cent of China's GDP.” (p. 263)

András Inotai does not regard China's raw material import disproportionate or dangerous, either, and, similar to *Barna Tálás*, he implies that the popular belief about China's 'conquering' Africa's mineral treasures is not supported by facts. The rumours are proven false considering a wider circle of countries, too: “...China's raw material purchases are by far not restricted to developing countries only; in many cases, developed countries considered stable or fast developing countries, too, have a determinative share”. (p. 305) “Chinese corporate activity is especially lively in Australia, Canada and South Africa.” (p. 308)

The most interesting issue discussed in the closing study is aid policy: China is a major provider of aid, donating more aid than what it receives. Its aiding activity is complex, target-oriented and risk-taking. It provides aid under

less strict conditions than is internationally common; Chinese experts work for low fees: for not much higher than is typical in the beneficiary countries. (Interestingly, this modesty is to be led back to *Chou En-lai*, i.e. the early 1960's.) "...the awarding and payment of aids and their utilisation later on are not subject to an administrative-bureaucratic order of procedure consuming most of the money available for the project", András Inotai adds with some irony. (p. 318) Another reason why China is popular especially with developing countries is that it has shown to the world in a credible way how mass poverty can be reduced. This is a trust capital that the majority of developed countries lack." (p. 317) "... Several, mainly African, countries are of the opinion that the Chinese approach to development policy is easier of adapt to African conditions than the European, still post-colonial attitude. African leaders first of all hope that Chinese aid can significantly reduce poverty, while, for decades, European subsidies only improved the living conditions of the African elite." – András Inotai quotes the painful lesson of an article by the Senegal president published in *The Financial Times*. (p. 319)

In this chapter once again there are important lessons for Hungarian economic policy. Let us choose only one, arbitrarily: the well known financial and logistic restrictions of the potential circle of Hungarian exporters and the regionally different characteristics of the Chinese economic policy are two arguments in favour that "certain regions (and not necessarily the most developed ones) should be selected for a duly prepared export development policy." (p. 283)

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This is a volume of studies commissioned by the government. Being familiar with the expertise and knowledge of the authors and having read the "end product", one can say with confidence that the Prime Minister's Office made the right decision three years ago when including this China research among the issues regarded as strategic. All the lessons and recommendations formulated in the studies should be given heed to; it is the reviewer's sincere hope that this volume will not be the only achievement of the extensive research efforts.

When you watch a film, the long list of credits at the end of it takes several minutes to show on the screen: you can read the names of all those without whom the film concerned could not have been made. This is certainly the same with research, even though the list of contributors is considerably less lengthy and many of those who midwife the research activities never get publicity. This research on China, with a great many people involved, was conducted within the framework of a strategic research cooperation renewed annually between the Prime Minister's Office and the Hungarian Academy of Sciences. The engine of the cooperation on the part of the government was the indefatigable István Szemenyei, who closely follows events in China and whose enthusiasm, agility and good-humoured encouragement have been indispensable also for the birth of this book. If his name was not remembered in the book, he should be expressed gratitude here by one of the readers at least.

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