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China: The road to reform

By Jamil Anderlini

The Communist party's plenary session offered few signs that vital structural changes are imminent

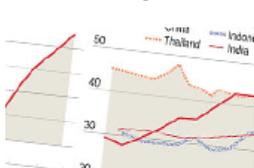


Money pit: large infrastructure projects, such as road building, boost GDP, create jobs and line corrupt officials' pockets

For those who have to endure the toxic smog of northern China, it often comes as a surprise to learn that Chinese environmental laws and emissions regulations are some of the most stringent in the world.

Over the past 10 years, Chinese leaders have insisted that cleaning up an environment devastated by decades of dirty, energy-intensive growth is a top priority.

Chinese economy



But each year the smog thickens and the ecological destruction continues, as officials at every level ignore environmental laws and regulations in their jurisdictions in favour of rapid annual expansion of gross domestic product.

Improving the environment was among the host of reforms announced on Tuesday evening, when nearly 400 of the most powerful officials in the ruling Communist party wrapped up one of the most important meetings on their political calendar.

Their pledge, couched in the turgid language typical of the party, was unlikely to inspire confidence among those suffering from the effects of smog in big Chinese cities.

“To construct an ecological civilisation we must establish systematic and integrated ecological civilisation, institutions and systems, and use institutions to protect the ecology and environment,” said the statement issued at the end of the third plenary session of the 18th Communist party of China’s Central Committee.

Despite slightly stronger language on land reform and market forces, the pronouncements from President Xi Jinping and his comrades at the end of the meeting were met by many in the Chinese system with a cynicism that would have been unheard of just a few years ago.

“These reforms are just like small repairs on an old road,” says Zhang Ming, a professor of politics at Renmin University in Beijing. “In essence, they are about making small adjustments at the administrative level, but these are pretty meaningless and hard to sustain.”

The most striking outcome from the meeting was not a new policy or a reform but the creation of two administrative bodies within the party, which concentrate power over the economy and the all-power security services directly in Mr Xi’s hands.

The potent new councils are an implicit acknowledgment from the leadership that the current Chinese governance system can no longer effectively implement top-down policy measures in the world’s second-largest economy.

In particular, the establishment of a national security council is reminiscent of a similar move by the Qing Dynasty’s Yongzheng emperor who established an “office of military secrets” (later known in English as the “grand council”) in the 18th century to cut through the bureaucracy and push through his policies.

“There tends to be an impression outside China that this is a seamless authoritarian system and when the leadership says jump everyone jumps, but that is a very unrealistic view of how the country works,” says Kenneth Lieberthal, a former senior director for Asia on the National Security Council in the White House. “The reality is yes, everyone jumps but not necessarily in the direction the leadership wants. This is a system that can be highly disciplined and highly centralised but almost never is.”

The contradiction between excellent environmental legislation and terrible pollution problems provides just one example.

Last week, the state council, China’s cabinet, and President Xi separately reiterated their commitment to reining in overcapacity in a wide range of industries, such as steel and cement. China’s leaders have been trying to tackle overcapacity in these sectors since 2004, but all have expanded rapidly and in some cases tripled their capacity since then.

The same is true for surging property prices. The government has tried to douse them since at least 2007 but they have soared instead.

Many of the goals mentioned at the close of the meeting on Tuesday have been part of the government’s agenda for many years, and were included in its 11th and 12th five-year plans, which came out in 2006 and 2011 respectively.

Reducing the economy’s reliance on investment and moving to a more service-oriented, innovation-led, consumption-based growth model have been central government policies going back eight years.

As growth continues to slow from the double-digit rates of the past three decades there is growing international pressure on Beijing to rebalance its economy away from dependence on exports and investment, rein in credit growth and liberalise financial services. Reforms aimed at income redistribution have been talked about since 2004 but, after three decades of market-oriented policies, nominally communist China is one of the most unequal societies on earth.

Despite much hype this year about plans to reform the fiscal system and reduce China’s widening wealth gap, nothing concrete has happened.

“If you look at the broad goals included in the government’s 12th five-year plan you can see that many of them are repetitions of what was in the 11th five-year plan,” says Mr Lieberthal. “That’s because many of the goals of the 11th five-year plan, such as increasing the role of household consumption, decreasing inequality, increasing macroeconomic efficiency, improving energy efficiency, all pretty much moved in the wrong direction.”

In Chinese policy circles, the 2002-2012 rule of President Hu Jintao is now referred to as a “lost decade” because of this striking disconnect between state policy goals and actual outcomes.

By establishing his new “grand council”, Mr Xi is trying to short-circuit a system that has been corroded by perverse incentives and rampant corruption.

For a start, policy directives from the central authorities in Beijing are vague by design in order to give maximum leeway to lower-level officials operating in local economies that are all at different stages of development.

“Crossing the river by feeling the stones” – an emphasis on policy experimentation and gradualism – has been the wildly successful guiding governance philosophy since Deng Xiaoping put China on the path of market reforms in the late 1970s.

Beijing, therefore, sets a broad general direction and leaves it to lower levels of the bureaucracy to experiment and improvise, so that the policy makes as much sense in Shanghai as it does in rural Hunan province.

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Given the sheer number of policies that cascade down from the centre, local officials are forced to prioritise.

Inevitably they will attend to policies that have the biggest chance of not derailing their careers or can provide the most lucrative

opportunities for them and their families.

The government can tell regional officials that it wants more innovation, more consumption and less investment, but in their annual cadre evaluations about 70 per cent of the points are awarded for raising GDP and avoiding any unrest or embarrassing scandal in their jurisdiction.

Few points are given for stated government priorities such as cleaning up the environment, in part because it is so difficult to measure success.

“Unless we see a change in the way officials are evaluated for promotion we will never see serious reforms,” says Guo Weiqing, a professor at Sun Yat-sen University. “But the leadership has made clear that rapid GDP growth remains the priority, so I’m quite pessimistic.”

The myopic focus on GDP growth rates helps fuel over-investment across the country but it also aligns almost perfectly with the corrupt interests of many officials.

By building a large dam, road or giant housing complex, an official can boost GDP and create jobs while also creating a large pot of money he can dip into for himself or spread around friends and family.

An example of this phenomenon played out nearly a decade ago, when the central government ordered hundreds of big cities to build water treatment facilities to handle the growing problem of untreated sewage pouring into China’s waterways.

When the programme ended and government inspection teams were sent out from Beijing they found that virtually all of the facilities had been built on time and to the right specifications. But one year after they were completed only about half of the plants had actually been turned on.

“I saw photographs of sewage pipes leading up to a treatment plant and then going directly around it to dump untreated sewage straight into a river,” says Mr Lieberthal. “Building the plant was a major profit centre for the local officials but putting it into operation made it a cost centre. You can see examples like this over and over again throughout China.”

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Since it remains an authoritarian one-party state, China’s leaders are still able to marshal enormous resources and impose strict discipline when they absolutely have to but doing so depletes vital political capital.

The outbreak of Sars in 2003 provided a clear example of the power of the Chinese system once Beijing decided it could no longer cover up the potential pandemic. Virtually the entire country was mobilised to contain the disease. Within months, that goal was reached.

Apart from national emergencies, local officials know there are only a small number of easily measurable core policies beyond reporting stellar GDP growth that enjoy support among top leaders, and which can make or break the career of a provincial cadre.

First is “stability maintenance” – snuffing out incipient peasant or worker rebellions. This is usually achieved through a measure of good governance combined with a pervasive and iron-fisted array of security and surveillance services.

The other clear priority is the “one-child policy”, which is strictly enforced even though it is hugely unpopular and could be responsible for a looming demographic and economic disaster.

Apart from these priorities it is difficult to identify issues that are easily measured on an annual basis, with clear fixed responsibility for implementation and which the leadership has decided are career stoppers for officials who fail to carry them out.

These priority issues just happen to dovetail neatly with the interests of local officials who rely on the power, budgets, fines and corruption opportunities that inevitably arise when implementing each of them.

“The biggest challenge for the party is the fact that all its traditional methods of governing are no longer effective. What they need is an overhaul of the entire system,” says Chen Min, a former political commentator with a big newspaper who was sacked for his outspoken views. “The problem is that the current leadership has no idea how to quickly fix the system so they find themselves in a situation where it’s over if they reform and it’s over if they don’t reform.”

Golf: Rich man’s game thrives under government ban

A proliferation of luxury golf courses in China provides one of the most striking examples of the disconnect between government policies and how they are implemented, or not in this case. In 2004, the central government banned the construction of all golf courses in the country in an attempt to save water, preserve arable land and reduce the number of peasant farmers who are regularly thrown off their land to make way for property development.

The ban was reissued repeatedly and in 2011 a senior official from the Ministry of Land and Resources told the FT that the construction of any new golf course was completely illegal.

However, since the ban was first announced the number of golf courses in China has more than tripled, from about 170 in 2004 to about 650 now, according to independent estimates from China's top golf research centre in Beijing.

Most of the newly built courses appear to have evaded scrutiny with the thinnest of disguises – by calling themselves “country clubs” or “health and entertainment clubs” and leaving the word “golf” off the signs that hang outside their clubhouses. The real reason these violations of central government directives still exist is that they are often owned and frequented by local government officials or by their friends and relatives.

Some local governments even use state funds earmarked for environmental protection, public parks or green belts to build their golf courses, despite these facilities wasting huge amounts of precious water in a country that is one of the most water-scarce on earth.

Golf was banned entirely in China as a “rich man's game” until 1984 but has made a huge comeback in the past two decades, especially as a way for government officials and powerful businessmen to socialise and cut deals.

Additional reporting by Gu Yu

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