



Dialogue with China on “Harmonious Society”: Governance, Participation and Social Cohesion

SGA Report on Wilton Park Conference WP1055, Steyning, November 4-7, 2010

Christian M. Brüttsch

1 Towards a (moderately well-off and) harmonious society

The stated aim of the conference was to explore the Chinese debate on the construction of a “harmonious” society in light of UK plans to build a “big society.” Can economic shocks catalyse social change? How should social development be governed? Is it possible to limit the environmental impact of growth? Is social cohesion compatible with individual rights? Is the Communist Party of China up to its tasks? And how should the West engage with China?

Participants by and large concurred that Beijing’s current policy mix seeks to maximise socio-economic opportunities in China. However, they disagreed as to whether the CPC can achieve social stability without further political reforms, and whether Beijing’s dogged pursuit of domestic “harmony” represents a cause for international concern. In particular, participants debated the terms of a meaningful engagement with China; the implications of China’s growing economic footprint; the state of Chinese society, politics and institutions; and the medium term outlook. The next four sections provide an overview of some of the issues that were discussed.

2 Terms of engagement

Although the conference was cast as a “dialogue”, it showed just how difficult it is to frame the engagement with China. Participants noted that the U.S. remains undecided as to whether it should treat the PRC as a contender, a competitor, or a strategic partner. The E.U. is struggling to come up with a coherent policy on anything but human rights. China’s neighbours worry that Beijing’s growing commercial, military, and cultural clout may soon offset its economic utility. Yet the U.S., the E.U., and Japan all agree that they want “more” out of China. Many businesses and most NGOs, too, believe that the Chinese leadership should be told that they deserve better.

Chinese participants had different priorities. Some sought to “tear down the perceptions gap” that divides China and the world. Others put China’s economic power in perspective, explained why Beijing is so reluctant to lead, or how the authorities tackle pressing social and institutional challenges. Faced with the CPC’s efforts to juggle political constraints and societal demands, the West’s tendency to treat dialogues as auditions seems misguided. Indeed, it is doubtful whether the West can afford to insist on compliance if it really needs co-operation. Deng Xiaoping’s advice to “keep a low profile and bide your time” made sense while the West, and in particular the U.S., was prepared to lead. It has become more difficult to sustain in the current context, where China is not only expected to tag along, but to shoulder the responsibilities of a – perturbing – great power.

3 The Global Economy and Chinese Firms

To calibrate expectations, it is crucial to understand China’s standing and stake in the global economy. China may have surpassed Japan as the world’s second biggest economy. But despite its “epic” catch-up, it remains a large developing country. After thirty years of reforms, opening-up and modernization, the economic output of one fifth of the world’s population still accounts for only one tenth of global GDP. At the same time, China’s economic rise has profoundly altered the economic landscape. Three interconnected developments stand out: a massive shift in relative prices, increased resource competition, and the emergence of Chinese firms with global ambitions.

Over the past decade or so, rising (Chinese) demand for commodities and increased international competition in the manufacturing of finished goods have eroded the favourable terms of trade, and the margins for real wage increases, that have long sustained welfare gains in advanced economies. To preserve prosperity, Western governments, households, and firms may have bought into the idea of the “grate moderation.” But they have also banked on cheap debt financed by Chinese savings, amongst others. The recent financial crisis dashed remaining hopes that the resulting global imbalances could be sustained over time. Arguably, quick fixes, such as a marked appreciation of the RMB relative to the dollar, might ease some of the pressure. But even if – and that is a big if – the Chinese authorities managed to boost domestic consumption to maintain current output, and social stability, an abrupt change in manufacturing costs might disrupt global supply chains and cull (Western) jobs.

In advanced economies, the notion that rebalancing the global economy requires painful adjustments, and not just concessions from China, is a hard sell. But the fact that the West can no longer export its recessions through lower commodity prices clearly marks a turning point. Moreover, as long as Chinese growth rates exceed those of mature Western economies, even a gradual appreciation of the RMB will strengthen China’s hand in the international scramble for resources. Chinese energy and commodity firms have already taken advantage of the downturn to divert resource flows towards the east. Forecasts that put China’s demand for oil in 2030 at par with current total global consumption suggest that the pendulum is not likely to swing back anytime soon. Nevertheless, fears that Chinese firms are plotting to take over the world are overstated. Despite their formidable balance sheets, Chinese firms are at a very early stage of their “going out” strategy, and heavily rely on Western know-how and business solutions. No matter whether they drill for oil, dig for ore, build cars, or provide loans, Chinese companies have “a long way” to go before they catch up, let alone replace their Western competitors.

4 Chinese Society and One Party Rule

Those doubting Beijing’s peaceful intent might take some comfort in the idea that China has a strong incentive to “delay U.S. decline” to maintain its main export market, protect the value of its foreign reserves, and find suitable partners for joint ventures. A stable international environment also buys the CPC’s valuable time to sort out the country’s “internal contradictions.” The provision of economic opportunity may be a necessary condition for social stability. But it is clearly not a sufficient condition. Indeed, some participants noted that China’s growth addiction should be treated as part of the problem, rather than the solution. But even without discrediting the authorities’ relentless pursuit of growth, it is obvious that the rapid transformation of China’s economy and society creates enormous social and environmental challenges.

Some participants argued that, given widespread institutional failures, Chinese policymakers should embrace political reforms, and competitive elections to defuse social tensions. Yet others pointed out that there is little popular pressure to fundamentally transform China’s political system. According to recent polls, trust in government remains high: 95% of respondents say they confide in the central government, 84% in provincial governments, and 74% in local governments. Moreover, most Chinese seem to accept that their political and social rights are less protected than their economic rights. Last but not least, it appears that at present, it may be more important to adjust the political process to accommodate organized interests, rather than individual preferences. While platforms like the Chinese People’s Political Consultative Conference are gaining influence, participation – and interest – in local level elections is declining.

Of course, this does not mean that all is well. The CPC still struggles with the transition from a revolutionary to a ruling party. Official adherence to Jiang Zemin’s “Three Represents” – i.e. the commitment to represent the advanced social productive forces, advanced culture, and the interests of the overwhelming majority – is at odds with the emergence of competing interests. Widespread corruption poses a serious threat to the party’s authority, which rests on its ability to entrench a reasonably responsive and transparent government that creates economic opportunities. Moreover, rising societal demands and inadequate fiscal transfers threaten the ability of local governments of deliver adequate services. But here, too, it is tempting to exaggerate problems, and to oversell solutions. China has comparatively competent and reform-minded administrators. A wide array of legal reforms, as well as legions of freshly trained lawyers and accountants, has changed the context of the rule of law “beyond what many people would have thought possible.” The ascent of a new generation of judges, who seek to justify their decisions on the basis of principled reasoning, suggests that China will continue to progress on the long and winding road towards the rule of law.

Participants noted, in this context, that China is not the only major economy whose legal system accommodates elite interests and responds to political realities, in which policymakers try to find ways around legal constraints, or in which access to legal procedures does not necessarily entail fair chances to gain redress. Indeed, China is not the only place where governments seek to redefine state-society relations. The debate about the UK government’s plans to build a “big society,” which justifies the withdrawal of government services with the need to empower communities and improve social outcomes, shows that the West’s recipes to harness “social harmony” are experimental, at best. Clearly, further dialogues on what works, rather than on what ought to work, are needed.

5 Looking Ahead

A number of participants noted that, faced with the West’s recent problems, China has been overplaying its hand. U.S. and European businesses are grumbling about the deterioration of the business environment. Western diplomats complain that their Chinese counterparts have become “arrogant.” Academics warn that analysts and advisors have drawn the wrong lessons from the financial crisis, and that Chinese policymakers are becoming too complacent. However, the spectre of a spoilt and self-absorbed West that refuses to accept China as a partner as long as it does not adhere to norms often preached, but rarely observed, rather might be greater liability in what will undoubtedly be a bumpy ride ahead. Western diplomats will have to engage with a more complex, and less predictable China. They will also have to moderate expectations as to what China can or cannot do; prioritize areas of cooperation and contestation; make concessions; and reassure China that they will not frustrate its efforts to build a “moderately well-off and harmonious” society.