




The China Challenge: Outlook for the 21st Century

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 Good Afternoon. Thank you Professor Hutchinson, for that kind introduction. I am deeply honored to be invited to be this year's Founder's Day lecturer on the occasion of the 222nd anniversary of the founding of the oldest state chartered university in the United States. Let me extend my gratitude to Deborah Dietzler, Alice Vernon, and Marcus Jennings of the UGA Alumni Association for their assistance, to the UGA Alumni Association and the Emeriti Scholars for sponsoring this lecture and to the UGA Teaching Academy for hosting a reception to celebrate the occasion. I also wish to thank Ms. Swann Seiler, President of the UGA Alumni Association, for her courtesy in hosting a dinner associated with this event. I am also delighted to share the podium with my old friend and colleague, Professor Tom Ganschow and my former student now at Cambridge, Yi Shin Lee.

I served on the faculty at the University of Georgia for almost 35 years, and this is a wonderful opportunity for me to continue the scholarly calling in retirement. I follow a group of distinguished faculty luminaries and old friends, some of whom are present today, who have presented this lecture in the past. I will do my best to try to maintain the very high standards set by my colleagues, as I share with you my thoughts and ideas about the China challenge for the 21st century.

Introduction

China, that mysterious and exotic place that has so interested and excited the imagination and thoughts of westerners and others for many centuries, has emerged to occupy not just our thoughts but now shapes the reality of how we live our daily lives as we move full speed ahead into the 21st century. *Zhongguo*, or the Middle Kingdom, as the Chinese refer to their own country, has exploded onto the global stage in the last two decades as its dynamic economy and remarkable society create new trajectories of economic change everywhere and its people continue to spread around the globe with their talents, entrepreneurial skills, hard work, and enduring cultural values and principles.

Most of what we read and learn about China focuses on its economy, for in the U.S. our lives are increasingly dependent on China. China produces so many of the low cost goods we purchase, its industrial machine and economy consumes so much of the energy and raw materials that we compete for, and increasingly it buys our treasury bonds and thus lends us the money we need to maintain our consumer-oriented and somewhat profligate lifestyle. Yes, China is with us Americans in so many ways that it is difficult even to fathom the extraordinary and profound effects it has on our daily lives and the rapidly growing influences it will have on our children and grandchildren. Only last week were we reminded again of China's remarkable technological prowess when its missile forces destroyed an obsolete orbiting weather satellite. This was both a startling and troubling achievement and signal for our own defense and security systems as well.

Today I come before you to share with you some thoughts on the China Challenge for the 21st century. What I propose is to focus on China and its internal development and change, to look at the challenges that China faces from within. It seems to me this may be a more productive and constructive way to analyze this country than to focus on its potential role as competitor and adversary as is so common in much of the political and economic analysis available to us.

My thesis in this presentation today is to suggest that at the end of the day, or in this case the century, the key factor will be how the Chinese deal with their own challenges internally that determine what kind of China emerges, and I am going to focus my remarks on several of what I believe are the most significant themes. First, as a geographer let's review a bit of geography to which I will add history as well, for these are the two key bulwarks of knowledge that form the cornerstone of our understanding of place.

GEOGRAPHY & HISTORY ¹

China is large, about the same size as the United States in its territory. As with the U.S., it sits largely in the mid-latitudes with a major ocean on its eastern and southern flanks, although it differs markedly from the U.S. in being closed on the west, as its high mountains and elevated basins merge into the majestic massif of central Asia, the core of the great Eurasian landmass. Its mountains are the tallest in the world, and its deserts are the driest. Its rivers are among the world's largest, and its landscapes and landforms rival those of any country in their grandeur and beauty (Veeck, Pannell, Smith, and Huang, 2007).

Yet there are problems and indeed shortcomings. Its land resources are limited, and the climate that influences the water and soil resources of the country has not always been bountiful. Only about 12-13% of China's total area is available for intensive agriculture to support a farming system that must provide food and fiber for 21% of humankind. By contrast, the U.S. probably has twice as much arable land available for such crop cultivation. The stress of such demand on these soils and water bodies has led to environmental damage and serious degradation of most rivers and many of the soils that have been so important in sustaining China's people over the centuries. The air in many cities is foul, and respiratory disease is common. A related issue is the enormous output of global gases from the burning of coal, China's main energy source. The effect of this combustion is both a domestic as well as a global concern.

Historically, China has often had trouble feeding its enormous population. Yet paradoxically, today at a time when the population has reached an all-time high, it produces a surplus and its farmers have entered the global marketplace in selling many specialized commodities at very low prices. It has largely transformed its traditional organic farming system to depend on the capital and chemical intensive farming approaches so familiar to us. While this has allowed rapid increases in yields and overall production, it has come with a not so hidden cost in pollution and environmental damage, and these production gains may not be sustainable over the long term.

China's large territory and its position on the globe and the southeastern flank of Eurasia is an enormous advantage. First, it offers a full range of environmental settings and related resources ranging from the tropics to the perma-frosted regions of its high-latitude northeast, from deserts and oases of the Tarim Basin to the well-watered rice fields of the Yangzi River basin. Its coal resources are among the world's largest, although its oil and gas reserves are more modest, and, like the U.S., it must depend on foreign suppliers to meet its rapidly growing demand for petroleum.

Its location is very advantageous, as it lies astride major air and shipping lanes that criss-cross East and Southeast Asia, and it occupies a remarkably strategic location among the main lines of communication and transportation in the western Pacific.

POPULATION AND DEMOGRAPHIC TRAJECTORY

Consider for a moment China's population and demographic path. It is well known as the world's largest population at about 1.3 billion in 2007. Its birth and fertility rates have declined sharply in the last generation owing to the state policy that limits births, and the annual growth rate is approximately 0.6%/annum for an annual net gain of about 7.8 million, a number slightly smaller than the total population of Georgia. The fertility rate at an average of 1.6 children per woman is lower than that of the U.S. which accounts for the rapid decline in the annual population growth rate. At current rates, a mid-range projection for about 2030 puts China's population at just under 1.5 billion with a decline thereafter.

Two potentially serious demographic issues are looming in China's future. First, owing to limits on births that are now allowed to each family coupled with available medical technology, China today is producing far more boy babies than girls; in 2005 this was reported as 118 to 100, whereas only 5 years earlier this was reported as 110 to 100. The average for industrialized countries is roughly 105 to 100. The salient consequence of this, already beginning to show up in some regions of the country and especially pressing for poor, rural boys, is not enough marriageable women to meet the demand (USA Today, 2007). In a society where almost everyone is supposed to get married, this is serious stuff and can be expected to lead to possible threatening social and political uncertainty and instability if it continues.

A second and probably even more challenging and perilous matter is the rapid aging of China's population. In 2006, 8% of China's population was 65 or older. This is up from only 2 or 3% a generation ago, and the share of the older population is growing rapidly. Such a rapid aging of a nation's population raises not just important social questions, but it poses serious economic dilemmas as policy makers ponder who will take care of the rapidly growing older group and how will it be funded.

Japan's experience comes to mind as the first major Asian country to undergo a graying of the population, but Japan has only 125 million people and is an advanced, wealthy state. China remains at a much more modest level of development with far more limited per-capita financial resources and a much larger population to support. The country is already struggling with serious inequalities in income levels among various groups, and its poorly developed social security system virtually excludes rural people and transient migrants to cities who remain outside the established support systems. This is estimated to be 60-70% of China's population. As various commentators have noted, "China is likely to be the first country in the world to become old before it becomes rich!" While this statement may seem almost flippant and trite, it has a profound and ominous ring for China's future.

Hold on! I do not wish to mislead anyone here. My statements on China's huge population may appear somewhat pessimistic, setting this forth as a burdensome problem that has plagued China for centuries. It is well to remind ourselves, however, that China's people are also its greatest resource! For the people provide the labor, the skill, the intellectual and human capital that power this remarkable and dynamic country. It is their energy, hard work, and creativity that have built China over the centuries, and they will determine the China of the future.

CHINA'S ECONOMIC RISE

China today is the world's 4th largest economy. For the last quarter century its annual economic growth rate has been near 10%, and it is probably the fastest growing major economy in the world during that period. In 2005, its overall economy was estimated at \$2.26 trillion, about 1/7 the size of the U.S. economy. Most of this growth has come about since 1978 when the government of China began to implement far-reaching reforms that drew inspiration and impetus from free market principles that incorporated the ideas of comparative advantage and regional specialization of production.²

China elected to use those factors of production most advantageous to it in its large and low-cost supply of labor and its abundance of comparatively low cost land and related resources. At the same time, it allowed regional specialization that focused initially on regions of the country that had traditions of connection to the global and overseas Chinese trading and economic systems such as the Pearl River Delta in the vicinity of Hong Kong.

An export-oriented strategy of production and global marketing was invoked drawing from the examples of Japan, Taiwan, Hong Kong, and South Korea, and this has proved very successful. Foreign capital and innovation have flowed in; factories and production facilities have sprung up, and the sale and exports of manufactured goods have risen exponentially, as regional production and transport facilities emerged all along China's east and southeast coast. The results are astonishing. Today China has more foreign reserves than any other country, almost \$1 trillion, perhaps as much of 60% in U.S. treasury bills; we are enormously in their debt as we buy their goods in prodigious quantities.

On the surface, this seems very positive, and it has been a remarkable economic growth performance, but there some troubling sides to this as well. For example, as noted above, all of this newly created wealth has not been shared evenly, and there are gaping extremes of wealth and poverty both among and within groups and among and within regions of this huge country. Laborers come from impoverished interior provinces to the coastal areas in search of jobs and higher incomes, yet they are treated as second-class outlanders who bring only social problems with them and are afforded few of the privileges and advantages available for local citizens.

The fast growth of China's economy has led to an even faster demand for a variety of commodities to feed its industrial and manufacturing machine as well as to supply its increasingly affluent population. Consequently, it has entered global markets to satisfy these needs and has become a significant competitor for these products.

A related and consequential issue has been the enormous environmental change and sometimes damage done owing to the extensive construction and infrastructural change associated with the economic growth. Typically much of the urban, residential, industrial, and transportation growth associated with China's development takes place on highly productive and desirable agricultural land on the periphery of the many burgeoning cities and towns of the coastal

provinces. This land is lost to farming, and any replacement is typically inferior and less productive. In addition, the various and extensive waste products from all of the building and manufacturing is both costly and toxic to remove.

THE BURDEN OF HISTORY

Thinking about China's economy and recent economic growth brings me to another juncture in today's narrative, and here the story becomes more provocative. I promised at the beginning to bring in some history as a companion to the classical foundation of knowledge when I explored a bit of geography. The country's long and rich history adds another significant component. Rather than go through the traditional litany of dynasties and their ebb and flow, I point to the key traditions and values that undergird the long trajectory of imperial China. Based on the Confucian and related canons in the rich literature, China evolved an imperial system as early as 220 years before the beginning of the Christian era that had at its apex an emperor surrounded by an imperial court that was all powerful in its authority and responsibility for running the country.³

To accomplish this gargantuan task a gentry class of literate scholar-bureaucrats was created whose function was to manage the affairs of the outlying provinces and territories and whose behavior was to follow the model according to the Confucian code. This ideal system was supported by other significant modes of authority including a somewhat harsh legalistic approach that could compel proper behavior among the common folk if they failed to meet their obligations to the central state and the imperial authority. At the same time the emperor, who held the mandate of heaven to govern, was obliged theoretically to govern well and to ensure the well being of his subjects, not always an easy thing when the climate did not cooperate or the barbarians on the northern and western flanks of the country proved hungry and aggressive. Thus was created an authoritarian and somewhat despotic system and unified state that lasted for more than 2000 years and was not terminated until the advent of the Chinese revolution in 1911.

There were periods of disunion and strife, but the central state managed to continue and to correct itself through overturning the dynasty, but the nature and character of the system as a means of operating a unified central state persisted over the centuries only with different actors.

While the 20th century brought an end to the imperial system, in fact it had been undergoing stress and calls for change for at least 250 years, and the challenge of those years was how to cope with the growing population and the new and startling scientific and technical changes taking place in the west. Yet the burden of history weighs heavily and change does not come easily or quickly to China.⁴

Last month in reading an obituary of Milton Friedman in the *Economist* I was reminded of his 1962 book, *Capitalism and Freedom* in which he argued there could be no political freedom without economic freedom, for him of course this was the capitalist free market. The obit went to point out that Hong Kong was Professor Friedman's favorite economy, a Hong Kong whose remarkable economic success "convinced him that although economic freedom was necessary for political freedom, the converse was not true: political liberty though desirable, was not needed for economies to be free."

This is indeed an intriguing and provocative idea which has served as an interesting and perhaps testable proposition for China ever since. Indeed we may argue that since 1989 and the unfortunate and violent incident in Tiananmen Square in Beijing, a spate of writers and scholars have argued over this very point. I bring it up as my concluding and final challenge to leave with you today, for there have been several intellectually stimulating and provocative arguments advanced in new books that seek to probe China's recent development and to argue that without coming political change in China, the outlook for continued economic growth and national development is not so optimistic.

The reality of the China of 2007 is a large, one-party corporatist state. The party of course is the Chinese Communist Party which today claims a membership of approximately 66 million people, about 5% of China's population. Leadership by the party is based on a hierarchical structure of obedience to the center and the party as laid out in the doctrine of V.I. Lenin as was implemented in the early days of the Soviet Union. Today the authority of the communist party extends not just to the county seat level as did the imperial authority in dynastic times, it now extends literally to the household level, although it is the power of decentralized local party members that is pervasive at the local and regional levels. Unlike dynastic times when the scholar-bureaucrats were regularly circulated throughout the country to prevent the rise of local and regional power centers and affiliations that could challenge the center, today it appears that the center has little control over the local and regional cadres and functionaries, many of whom are corrupt and work only to enrich themselves and their families and cronies.

While there are many books on China that offer all kinds of thoughts about the probable success or failure of the future of the People's Republic, I recommend two especially interesting ones for your consideration. First, Pei Minxin, a China scholar, in his provocative and well documented work *China's Trapped Transition: the limits of developmental autocracy* (2006) argues that because the CCP must maintain a high degree of control of the economy, the gradualist approach will eventually fail. This is because such control has allowed a pervasive and growing corruption and a breakdown in political accountability.

What has emerged, he describes as a "decentralized, predatory state in which local party bosses have effectively privatized the state's authority." "Collusive corruption is widespread, and governance is deteriorating. Instead of evolving toward a full market economy, China is trapped in partial economic reforms," and it seems almost paralyzed to progress beyond this condition.

Pei doubts that economic development under the current leadership will lead to political liberalization and further he questions whether a gradualist approach to economic reform is superior to the shock therapy that proved so traumatic to the Russian economy. Gradualism is no longer working, and he asserts it does not appear to be an appropriate long-term strategy for economic growth. He also challenges the proposition that the neo-authoritarian state is a necessary or sufficient condition for economic takeoff, as he does not believe that one-party rule in a Leninist state is appropriate for full and open market reforms. Thus, without change from the party, his outlook for the long-term economic growth and attendant political and national development is pessimistic.

Another work that has recently appeared is that of Will Hutton, *The Writing is on the Wall* (2006). As reported in the *Guardian*, Hutton anticipated writing a book on the emerging success of China's new approach to a capitalist market economy. However, as he proceeded with his research, he rejected those who claim that China's economic growth is based on its embrace of the market and its particular guided or managed approach known as "socialism with Chinese characteristics" or Chinese socialist capitalism. In fact, he argues the approach is Leninist corporatism, which he describes as, "unstable, monumentally inefficient, dependent upon the expropriation of peasant savings on a grand scale, colossally unequal, and ultimately unsustainable."

Hutton goes on. The dilemma for China as he sees it is that such an economic program or course is not sustainable and will not succeed without some kind of change. At the same time, China's government and governing party seem unable to manage its own reform or change, and any imminent change would appear to lead to an even more repressive regime.

Here I will bring my remarks to a conclusion and leave you to ponder the future. I argue then that the real challenge or challenges for China in the 21st century are to be found within. These challenges are big, complex, and daunting. The key ones I have touched on include preserving the environment and resources of the country, ameliorating the egregious pollution, enhancing the livelihood and living condition of China's enormous population now and in the future to bring about a more just and equitable society for all of China's people, continuing the economic growth and labor absorption, and finally the challenge of creating and effecting a program for communist party reform that reduces corruption and allows a long-term liberalization of the society and polity.

The Friedman proposition on the linkage or indeed non-linkage between economic freedom and political liberalization remains to be tested in China. So far the CCP has demonstrated that economic growth can continue without political liberalization, but is it sustainable over the long term, and what does it portend for the 100s of millions of impoverished peasants in China's interior? This then is the fundamental and great challenge for China and the Chinese in the future, and it is their opportunity and their destiny that is at stake.

THANK YOU

End Notes:

¹ Much of the material used in this section is taken from the recent geography text, *China's Geography, Globalization and the Dynamics of Economic, Social, and Political Change*, G. Veeck, C.W.Pannell, C. J. Smith, and Youqin Huang, Boulder, CO: Rowman and Littlefield, 2007.

² An excellent recent survey of the Chinese economy during the last half century is contained in Barry Naughton, *The Chinese Economy, Transitions and Growth*, Cambridge, MA: The MIT Press, 2006.

³ There are many excellent general histories on China. My favorite which is a fast and compelling read especially for American students is the last work of a famous scholar, John K. Fairbank and his student Merle Goldman, *China, A New History*, Cambridge, MA: Belknap Press, 1998.

⁴ For a profound and thoughtful exploration of China's recent history leading up to the 20th century, see the provocative and intriguing work of Jonathan Spence, *The Search for Modern China*, 2nd ed. New York: W.W. Norton, 1999.

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