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## **Time for China New Deal**

By Guy de Jonquières

China's planned economy is dead. Long live Chinese state economic control. Both messages have rung out from this month's National People's Congress, the giant rubber stamping machine that passes for China's parliament. Which message should the world believe?

After 25 years of rushing to embrace market-economy principles, China seems to be nearing a crossroads. Its headlong reform drive is running into growing resistance. Once-heretical demands to slow, even reverse, it are now openly expressed.

They have not, so far, extinguished the flames of liberalism. That is clear from this month's abandonment of decades-old economic growth targets on grounds of giving freer play to market forces. In truth, the skids have been under state planning for years. China's boisterous "new" economy, the fastest growing part of which is in private hands, defies micro-management or even accurate monitoring by planners, repeatedly confounding their forecasts. Centrally set targets have become self-defeating, as local governments have treated them as minima to be exceeded, adding to chronic over-investment in fixed assets.

However, Beijing's clarion calls for market freedom, repeated endlessly in NPC policy papers, are struggling to be heard above a growing chorus of dissenting voices. Its refrain is that enough is enough and it is time to bring back the bad old Marxist command economy.

So far, the revisionists remain a disparate group, without clear leadership. They do not – yet – set the agenda. But they increasingly exhibit the power to frustrate it. Just last week, they beat back proposals to strengthen private property rights.

Their arguments resonate for three reasons. First, tacit support from government bureaucrats eager to grab back roles lost to liberalisation. Second, a groundswell of hostility to foreign capital, evident in accusations that stakes in state banks have been sold to foreigners on the cheap. Third, and most important, mounting popular resentment at an alarming rise in income inequalities that has sparked growing protests in the countryside and jolted a nervous leadership into increasing rural spending – though by so little that it seems largely a symbolic gesture.

In fact, much rural discontent is inspired by greed and corruption among Communist Party officials – a problem that demands more reform, not less. However, the reformers have made themselves easy scapegoats for their critics by often riding roughshod over a populace unsettled, and sometimes made poorer, by rapid economic change.

The big question is whether rising economic recidivism is just a nostalgic yearning for old certainties, or the start of a serious backlash. To answer that, Chinese reform must be seen in perspective. The reformers view market capitalism as a means, not an end in itself. They have no intention of surrendering state – or, more accurately, party – control of industries from banking to telecoms, which continue to enjoy preferential access to credit and markets at the expense of privately owned rivals.

Beijing expects market forces to make state enterprises perform better, not to put them out of business. Inward investment policy is dictated less by hunger for capital than for access to the modern technology and management know-how that China needs to build competitive industries of its own.

The greater goal has been the enrichment of China, as much for political as for economic reasons. An ideologically bankrupt Communist party has sought legitimacy by delivering steadily rising living standards. Breathless growth rates, an onslaught on poverty and a flamboyant get-rich-quick culture in the big cities testify to its success.

But the gains are uneven. Inequality has grown, as urban incomes have outpaced rural ones: rising expectations have sharpened the sense of injustice among the less well off. No longer do they pliantly accept Deng Xiaoping's warning that "some will get rich faster than others".

The recidivists' only answer is policies that would make everyone poorer. However, they have placed the leadership on the back foot. Letting up on growth would risk antagonising the urban middle classes and deplete resources needed to help underdogs. Yet the traditional growth model has become a source of social divisions and discontent.

That is Beijing's dilemma. There is a solution: a New Deal, including more balanced regional development policies, better education to improve equality of opportunity and a proper social safety net. It would all cost money. But China can afford to spend far more. However, effective delivery requires much more: a massive effort is needed to build proper institutions, make local government more accountable and excise official corruption and mismanagement.

Those are long-term tasks, to which Beijing has yet to offer much more than token responses. Until it does so, expect the going to get a bit rougher for economic reform.