



## Transcript

# China: The Road Ahead

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**Robin Niblett:**

Welcome to Chatham House, thank you very much for joining us here today where we are delighted to welcome a delegation here visiting from China to be able to discuss the very simple title of 'China: The Road Ahead', which I think is almost British in its understatement in the sense that it is a road ahead that I know there is an enormous amount of interest at least given the fact that we are at the front end now of a new leadership of the Chinese Communist Party and, in the new year, of the government, and given the recent speeches and decisions taking place at the National People's Congress. I am, therefore, delighted to be able to welcome this congregation led by Ambassador Zha Peixin, who I think many of you will remember from his time here as ambassador in London from 2002–7. And he is now serving as vice chairman of the National People's Congress Foreign Affairs Committee and who is leading this delegation as somebody with a very distinguished record in the Chinese Ministry of Foreign Affairs. He is accompanied here and will be followed in his remarks by two speakers. We have with us Professor Wang Tongshan. Professor Wang is a senior research fellow at the Chinese Academic of Social Sciences; he is the director general of Society of Quantitative and Technical Economics, and we will be speaking in a minute, particularly looking forward at prospects for the Chinese economy, where he is an expert and helps put together the China Economy Yearbook, which obviously provides an annual assessment of China's economic forecasts. Professor Xie Zhiqiang, who is the deputy director of the Department of Sociology at the Central Committee Party School, and he acts as the chairperson of a number of research programmes looking at China's social situation and the social developments taking place in China.

This meeting is on the record. We will hear some presentations; we will then have time for Q&A. There will be some translation taking place, so we've allowed ourselves an hour and a half rather than just the usual hour for many of these meetings, so I hope you're all prepared to remain with us here through to 11:30, but I think even that amount of time will probably be insufficient to cover the amount of topics that we'd like to be able to cover today. But I must say to Ambassador Zha, if I could say first of all: welcome back. And welcome back to Chatham House as well, we are delighted to see you here again; we look forward to your opening remarks and then on to the comments from your delegation.

## Zha Peixin:

Thank you, Mr Chairman. Ladies and gentleman, distinguished guests, it is real a pleasure to be back in London and to be back in Chatham House. When I was ambassador here in the United Kingdom, I was invited to give speeches at Chatham House from time to time. Chatham House is a well-known institution not only in the United Kingdom, but throughout the world, so it is really a great pleasure to be back. I wish to take this opportunity to brief you briefly about recent developments in China.

Of course, the most important event over the last few months was the successful convocation of the 18th Communist Party National Congress. This conference not only summed up the work of the past five years and the experiences in the last decade since General Secretary Hu Jintao served as the general secretary of the Communist Party, but at the conference we elected a new leadership and also worked out a blueprint for the future development of China.

The conference set two goals for China's modernization. The first one is to complete the building of a moderately prosperous society by the year 2020. Economically, that means that China is going to double the GDP of 2010 by the year 2020, and not only double the GDP, but also double the per capita income of 2010 by the year 2020. Of course, when I say the complete building of a prosperous society in all respects, it is not limited to economic development, so it also worked out plans for practical development, social development, cultural development and ecological development. And the second goal is that by the mid-century – say, at the time when China celebrates the 100th anniversary of the founding of the People's Republic of China – China should realize socialist modernization and build China into a society that is prosperous, strong, democratic, civilized and harmonious. Those are the two main goals set by the 18th Party Congress.

As you all know, China adopted the policy of reform and opening up in the late 1970s. Over the 30 years, we have witnessed great changes in China. For the past 30 years, China's growth rate, on average, is about 10 per cent, for three decades. So, great changes have taken place in China and people are living a better life. I still remember when China first adopted the policy of reform and opening up China ranked 32nd country in foreign trade, and by the end of last year China was the second-largest trading nation in the world and the largest exporter. So far as the aggregate volume of the economy is concerned, China is now number two in the world. I remember clearly that in 1990 the GDP in China was about one-eighth that of Japan. By the end of the last century, the year 2000, China's GDP was about one-fourth of the

Japanese. But in 2010 China overtook Japan as the number-two largest economy in the world. So, the facts show that great progress has been made over the years.

But, nevertheless, China remains the largest developing country because although the total volume is huge, as per capita income is concerned, China only ranks around 90th in the world. It is a little over \$5,000 – much, much lower than developed countries, even lower than many developing countries. Although the growth rates have been very impressive – it is about 10 per cent every year – the quality of growth is not so satisfactory. So, on the whole, China is still the largest developing country.

The two goals for China are really ambitious and the tasks ahead are arduous, but based upon past experiences, we are fully confident that these two goals can be met. We will fulfil the goals in the years ahead. Our confidence is based upon facts: first of all, over the past 30 years, China has successfully accumulated a large amount of wealth, which has laid a solid foundation for further development. As you all know, China does have the largest foreign reserves now in the world. The second reason is that there is huge domestic demand because China is still in the process of industrialization and urbanization. The huge demand will definitely give a great impetus for economic growth in the future.

And the third reason is that China still enjoys a rich amount of human resources. We have 1.3 billion people, and with the advancement of education, the labour quality is improving all the time. For instance, right now we already have a nine-year compulsory education, a free, nine-year compulsory education in China, so every kid does have the chance to go to receive nine years of free education. In recent years the higher education has also expanded rapidly. Right now each year, we have 6.3 million university graduates going into the market, every year. So, the labour quality is improving all the time.

And the fourth reason is that, right now, I think throughout the world, we are expecting some new breakthroughs in science and technology, and likewise China also has invested heavily in science and technology in recent years. China is now one of the major countries doing research and development in the world. The scientific breakthroughs, the new technologies definitely will give great impetus to economic growth in the future.

The last but not the least, over the years China has already found a path, a way of development that is suited to the Chinese national conditions. That is what we called 'socialism with Chinese characteristics'. The past 30 years

have proven that this is a very successful road. By continuing along this path, definitely we can reach our new goals.

I wish to emphasize that the further development of China will not only benefit the 1.3 billion Chinese people, but also will contribute greatly to peace and stability and world prosperity. As you all know, China is now one of the major engines for world economic growth. I think that in recent years, the contribution of the Chinese economy to the gross world economy is above 20 per cent each year, much larger than many other countries. So, when China is becoming more prosperous, it will provide huge opportunities for cooperation with other countries. For instance, this year the trade between China and the UK will be close to \$60 billion, I think. And China's trade with the EU as a whole will be about \$600 billion. The trade between China and the UK, between China and the EU, have expanded rapidly over the past 30 years. The growth rate is in the double digits; it is very impressive. Why?

Simply, I think one of the most important reasons is that there is a rapid growth in China, so this provides huge opportunities for trade and investment. We have adopted the policy of opening up; it included two aspects: we are not only attracting investment, foreign investment in China, but China is also encouraging companies, Chinese companies that are competent and competitive to go abroad. We are expecting that during the 12th Five-Year Plan, China will import about \$1 trillion, over five years, and China's investment overseas will come close to \$500 billion. So, you can see, this really provides many opportunities.

I can cite another example, I mean, for instance, I have learned recently that there are 120,000 Chinese students now studying in the United Kingdom, and they are all supported by their families. This shows that the living conditions of the Chinese people have indeed improved a great deal, so their families can afford to send their children to study abroad. And this – I mean, overseas students here in the United Kingdom have not only contributed academically to the universities, but it is also a great financial contribution to higher education here. So, I think that the growing of the Chinese economy, the further development of the Chinese economy and the improvement of the living standards of the Chinese people not only benefits the Chinese people, but also people throughout the world.

And China has been a staunch force for peace and stability in the world. The Chinese people are a peace-loving people, so when China is becoming stronger, the force for peace and stability is also becoming stronger. Since China and the EU established the comprehensive strategic partnership, our

relations have witnessed huge progress. I think that both the China–UK relationship and the China–EU relationship are facing new opportunities, but also some challenges. Our task is really to meet the challenges square on, and take up the opportunities, so that by joining hands we can raise the comprehensive strategic partnership to a new high. We sincerely hope that this can be achieved. So, looking forward, I am, say, optimistic about the future.

I should make my remarks short so that we can have more time for questions, so I will stop here and let Professor Wang take over. Thank you very much.

**Robin Niblett:**

Thank you very much, Ambassador Zha. Thank you for setting the scene here and, as you said, very much painting the picture of the coming years and the opportunities. We will get to the questions and maybe the challenges in a minute.

So, let me turn now to Professor Wang, and let's hear him make some remarks focusing in particular on the economic dimensions.

**Wang Tongsan:**

Okay, thank you very much. Good morning, it is my great pleasure to be here in so beautiful a house to talk something about China's economy. Just now, Ambassador Zha already introduced the overall contents of the 18th Party Congress. I will only focus on the economy because I am an economist.

So, what I would like to say, firstly, is what China's economy achieved in the past 10 years. Let me say, the past 10 years, because in the year 2002, the Party held its 16th Congress and at that year Mr Hu Jintao became the Party's secretary general, so he is in the position of party secretary general for 10 years, so that is fine. I will be focused on the past 10 years to show you what China has achieved in the economic respect.

So, in the beginning of China's economic reform and the opening to the outside world – that was in the late 1970s and early 1980s – at that time Mr Deng Xiaoping proposed three stepped goals for China's economic reform. The first step is from the years 1981–90; the goal for that decade was to double the GDP. And the second step was from the year 1991 to the end of the last century; we would double our GDP again, and by the end of the last century the Chinese people's life should reach a level... the 'well-off' level.

And at that time Mr Deng Xiaoping also emerged [with] the third step, that is that by the middle of this century – the 21st century – that China's economy could re-double again, and China will reach the level of moderately developed countries. So, now just as Ambassador Zha emphasized, China is still a developing country. We hope that in the middle of this century we can become not too strong, but a developed country. Those are the three steps designed by Mr Deng Xiaoping in the last century.

When the Party held its 16th Congress we should say we had already achieved the first step and the second step because at that time the per capita GDP in China reached \$848. In Mr Deng Xiaoping's mind, the per capita GDP should have reached \$800 by the end of last century, but we, overall, we got more than \$800 in terms of the per capita GDP. In the details, we should say that during the past 10 years our GDP increased by 1.5 times, with our average annual growth rate 10.7 per cent; I think this is the fastest one among large economies in the world. In the same time, the annual average growth rate for the whole world was only 3.9 per cent. So, China's rate was almost three times the world level. And in the year 2002, in terms of the aggregate amount of the GDP, China was sixth in the world, but now China becomes the second-largest economy in the world. And the proportion of China's GDP to the aggregate output of the world, the proportion in 2002 was only 4.4 per cent, but now it has risen to around 10 per cent.

Next one: in terms of the per capita GDP during the past 10 years it increased by 1.4 times calculated by the average exchange rate per capita GDP. In the year 2002, it was only \$1,000, but in the year 2011 it had raised to more than \$5,000. According to the World Bank statistics, in the year 2011 China's per capita income was \$4,930. By the standard of the World Bank, China was already into a middle-high income country level.

Next: achievements I would like to introduce to you are on the residents' income. In the year 2011, last year, per capita urban residents' disposable income was more than 21,000 yuan; it is more than 1.8 times higher than that in the year 2002. The average annual increase rate was 9.2 per cent. For the rural area residents, the income annual average increase rate was 8.1 per cent. I think it is enough high compared with other countries for the residents' income, but there behind these figures we can find some problems.

The first problem is that residents' income increased lower than GDP growth rate. Our GDP growth rate during the past decade was more than 10 per cent, but both of the rural and urban residents' per capita income was lower

than 10 per cent. So, that is why the Party asked to set up a goal that is that the residents' income should match with the economic growth.

The second problem with these figures is that the urban residents' income is [growing] faster than the rural residents' income. That means that the disparity between rural residents' income and the urban residents' income becomes larger and larger. That is a problem for China; we should pay enough attention to change it in the coming years.

This is the first part: what China achieved. This is the good news. For the second part, I will talk about some difficulties, problems, challenges China now is facing. In the Party Congress report, Mr Hu Jintao listed many, many problems or difficulties, but now I only focus on those difficulties or problems in economic areas. In terms of the economic problems or difficulties, I would like to mention eight points.

The first one is that the unbalanced, uncoordinated and unsustainable development remains a big problem. These terms are qualitative descriptions of what difficulties China has now. What is unbalanced? The example is the industrial – no, the example is the disparity between urban residents' incomes and rural residents' incomes, the gap between the coastal areas and the middle part of China, the inland regions. This kind of problem we call it as a balance problem. What is an uncoordinated problem? Maybe we talk about the unreasonable industrial structure because we have comparatively too much secondary industry, but not enough service industries. And what are the unsustainable difficulties? The example is the environmental problem or the energy problem. So, that is why I say this first difficulties described here are qualitative descriptions.

The second is that the capacity for scientific and technological innovation is weak. At this moment, we shall say that in terms of the quantitative, the Chinese economy has already become large – the second-largest economy in the world – but the quality is not making the Chinese people very happy because the quality of our economy is still too low. How to improve the quality of the economy? The key factor is the capacity of scientific and technological innovation. So that is a problem for China in economic areas as the second.

The third one, we should say the industrial structure is not balanced; it is not quite reasonable. So, what it is, we say the service sector is much behind the ratio of the industrial sector to the whole GDP. For example, the proportion of service sector to GDP in your country or other advanced countries must be more than 60 per cent, the best ones more than 80 per cent, but in China this



ratio was only a little more than 40 per cent. So, we have to make enough efforts to raise the proportion of service sector in the total GDP.

The fourth one is agriculture. So, we say agricultural infrastructure remains weak. This is a very old, for a long time problem. Since the beginning of the new China, in the 1940s, 1950s, 1960s, even the 1970s and even now, the agriculture is always top, or among the top problems for China.

Next difficulty: we should say the resource and environmental constraints have become more serious.

The next one: we say that many systematic barriers or institutional barriers are standing in the way of promoting development in a scientific way. That means we need more, is why we need more, reforms because we have a lot of these systematic or institutional problems.

So, the next one...we say that the tasks of deepening reform and opening up and changing the growth model remain arduous

And the last one is: the development gap between the urban and the rural areas and between regions is still large and so are income disparities. So, we have to narrow the gap between the different regions, we have to narrow the gap between the urban and the rural residents' incomes.

I think that those eight points were listed in the Party Congress report to describe what difficulties and problems we have in economic areas. Next, I will talk about the goals described by the Party Congress. Simply said, it is completing the building of a moderately prosperous society in all respects and deepening reform and opening up in an all-around way. That is a description for our goals in the coming 10 years.

The focus point is completing. For the moderately prosperous society, we already mentioned it for at least 20 years. Even in the 1980s, in the last century, Mr Deng Xiaoping already gave this kind of concept, and in the Party's 16th Congress emphasized the building the moderately prosperous society. At that time we focused on building, but in the 18th Party Congress the emphasis was on the completing. That means by the year 2020 we should have completed this way to building the *Xiaokang* society.

If we say what the *Xiaokang* society is, the Party Congress report listed five respects to describe what the *Xiaokang* society is. The first one is the economy should maintain a sustained and sound development; the second one is people's democracy should be expanded; the third one is the country's culture, soft power, should be improved significantly; and then the fourth one is living standards should be fully raised; and, the last one is major progress

should be made in building our resources, conserving and creating an environmentally-friendly society. So, that is the content of the so-called *Xiaokang* society.

The quantitative goal: Ambassador Zha already introduced it in detail, but I will repeat it here again. So, we should have a two-double. The first double is to double the GDP, and the second double is to double the per capita income both for urban and rural residents. For the GDP double, we already did a lot. We already did three doubles. The first double was in the 1980s, we made the first double; in the 1990s, we made the second double; and, in the first decade of this century, we made the third double. But in the coming 10 years we will make our fourth double.

These kinds of double were only focused on the aggregate amount; it is maybe easier to do that than other things. So, the second double – the per capita income double – I think by some kind of qualitative difference compared with the GDP double because the residents' income double not only means the total amount of the economy should increase, but also that we have to do some other things. The first one: we have to change our economic structure, because if you can change your economic structure, make lower the ratio of investment or saving and raise the ratio of consumption, you can also increase the residents' income. The second aspect is: if you adjust your income distribution structure to reduce the Gini coefficient among residents income for the whole society, you also can raise the per capita income in average level. To lower down the Gini coefficient is the right way to income per capita residents.

How to achieve the goal, to achieve the two doubles in GDP growth and per capita residents' income to as facts? Two aspects. The first one is accelerating the improvement of social market economy. The second is accelerating the change of the growth model. So, we have to pay attention in these two aspects for the goal of the two doubles.

In details, we should do our job for achieving the two doubles in the following five areas. Okay, I will read out the five areas to save time. The first one is: deepen economic structural reform across the board. The second is: implement the strategy of innovation-driven development. The third one is: carry out strategic adjustment of the economic structure. The fourth one is: integrate urban and rural development. The last one is: promote all-around improvements to China's open economy.

So, I think I should stop here. Thank you very much.

**Robin Niblett:**

Thank you very much indeed, Professor, for laying out the very big challenges that are ahead, and I think it will be great to have an opportunity to go into some of these in the question and answer in a minute.

But first of all, let me turn to Professor Xie, who will make his remarks, and these will be translated as we go along. Hopefully we will have... half an hour for questions would be good, if we can.

**Xie Zhiqiang (translation from Chinese):**

Ladies and gentlemen, good morning. The title of my presentation today is 'The four major challenges', or what we call the four major contradictions that China needs to address during the period of social transformation.

Through 30-some years of opening up and reform, China has scored brilliant achievements, but China is still confronted with a lot of challenges and problems. Personally speaking, I think all these problems and challenges are caused by the period of social transformation.

And the first challenge, or what we call the first pair of contradictions, is the contradiction of rural residents and urban residents, which also reflects a pair of relationships, that is, the rural area and the urban area. Many problems crop up due to the system of *hukou*, a system in China which is also called the household registration system, which created the scenario of the dual situation, which is the urban and the rural. And the major problem is that the now gap between the rural area and the urban area is hugely big. And there is a great amount of migrant population [moving] from the rural area to the urban area; the total number is about 230 million. So, an important task or priority for the government in the future is to reform the *hukou* system, or the household registration system, and to make equal access for both urban citizens and rural citizens to public services.

And to achieve this goal, the central government has already initiated two pilot programmes, which have already been put into practices in Chengdu and Chongqing, two major cities in China. These two pilot programmes are actually at the state level. And I have visited these two cities six times myself and I really have the feeling that the gap between the urban area and the rural area is reducing, and the income of both the urban residents and the rural residents are on the rise, and the income gap between the two groups is reducing. For instance, in the city of Chengdu, the rural residents can enjoy the equal and same access to public services as that enjoyed by the urban

residents; for instance, they have a similar access and quality of education, healthcare and also social security, etc. I think if the pilot programme in Chengdu can be such a success, the gap in other areas in China can also be reduced.

The second challenge is to properly deal with the relationship between the high-income group and the low-income group, which actually reflects the pair of relationships in terms of income distribution. I know that the income distribution, or reducing the gap between the high-income group and the low-income group, is an issue that the Chinese people, Chinese leaders and other people in the world care a lot about.

Premier Wen Jiabao actually pointed out there are many issues that China needs to address in the coming five years in the 18th Party Congress. He said that there are three major problems that need to be prioritized in the government's work. The first one is the income distribution; that means how to reduce the gap between the high-income group and the low-income group. The second task is anti-corruption work. And, the third one is how to introduce more reform of the party-building.

In terms of the gap, there are many gaps, such as the gap between rural and urban areas, the gap between different regions and also the income gap of different social groups. Reducing the gap is an issue of great importance because it is an issue that is the core thing... that is, equality and efficiency, how to balance the relationship between equality and efficiency. If we can't deal with this issue properly it will actually undermine the future growth and development of China. It will also undermine the confidence of the Chinese people, and also the people of the world.

Now in China, many research institutions, many think tanks, many scholars, including myself, have considered ways and methods to address the issue of how to reduce the gap. And I come from the Central Party School, and the Central Party School and also those officials who received their training there, also cared a lot about this issue. And to reduce this, to address this issue, I think one principle is that we should establish an oval-shaped society, which means that the two ends are smaller and the middle part is bigger.

And how to achieve this goal? The way is as follows: first we need to increase the income of the low-income group of people, and second we should expand the proportion of the middle-income group in the total Chinese population. At the same time, we also need to adopt measures to do some income redistribution so that those people who enjoy excessively high incomes can actually make more contribution to society through taxation reform. And at the

same time, we need to combat or fight against those illegal incomes, or the incomes through illegal measures. Through the above-mentioned measures, we hope that different social groups and people at different social strata can actually enjoy a fair distribution of income so that their relationship can be more harmonious.

And the third pair of contradictions, or a third challenge, is to properly deal with the relations between the employers and the employees, which reflect the labour relations. While the market economy is being accelerated, this problem or this contradiction becomes more prominent because the awareness of the employees or the workers to protect their legitimate interests is on the rise. At the same time, due to some institutional holes or some institutional deficiencies, there is actually some kind of bomb, which might trigger some kind of tense relationship between the employer and the employees. For instance, sometimes there are many cases where the employers do not pay the income to the employees on time or in full. And, at the same time, another problem is that sometimes the employees do not enjoy the full democratic rights to have a say in the determination, in the policy, decision-making process of the unit that they work for. So, in the future, we are going to make more efforts to raise the awareness of the employees to protect their legitimate rights and interests, and at the same time to improve and perfect the market mechanism and system. At the same time, we need to have more scientific designing of the institutions so as to reduce the occurrence of the problem.

And fourth, the fourth challenge or pair of contradictions is how can we properly manage relations between officials and the general public, or how can we manage the relations between the managers and those who are managed? I think the main problem in dealing with this pair of relationships lies mainly with the managers or the officials or what we call the administrative class members. For instance, sometimes the officials attach too much importance on only formats instead of the contents. And there is also a type of bureaucratic procedures which might be criticized by the general public and some of the working style or the lifestyle are too extravagant; there are also corruption cases. And all these problems actually trigger the tense relations between the two.

The 18th Party Congress report actually proposed a lot of good methods to address the above-mentioned problems, and in summary I think there are two important points: the first is to expand people's democracy, and the second is to enforce the rule of law.

The ultimate goal of political reform in China is to fully and authentically realize the people's democracy, and we have already regional consensus that people's democracy is the lifeline of the socialist system. China is just a popular term that we use, that we call our own country. Actually the full term is the People's Republic of China, and that means the people should be the master of the country, and should be the persons who make the decisions and who manage their own country. And this is the goal of our country and of our party. I still recall that Dr Sun Yat-sen once mentioned the San-min Doctrine and the San-min means that there are three people-related ideas. The first one is people's liberation or the liberation of nationalities; the second one is people's rights; and the third one is the livelihood of the people. As for people's rights, I think it actually means people's democracy.

I think democracy should be an orderly democracy. That means that democracy is achieved in the stable, secure and orderly manner and atmosphere. That also means that we need the rule of law as a guarantee for the realization of democracy. And to realize this goal, we, in China actually initiated many pilot programmes at the grassroots level, including in some of the villages and some residential communities in urban areas. I went to several provinces in China in the previous months, and I discovered that the results of these pilot programmes are quite effective. I went to do my own spot investigation in Beijing, Chongqing and Anhui, and the results are quite impressive. And I think by a combination of excellent design at the top level and a creative acceleration at the grassroots level, we can find the proper way to address the above-mentioned problems.

Personally speaking, I think the four pairs of contradictions, which reflect four pairs of relations, are issues that have long-term impact for China's future growth, which need to be and must be properly dealt with. Problems that crop up in the period of transformation can only be resolved by reforms or by transformations of ourselves. And the problems cropping up in the process of development can only be addressed by development itself. I think it is not a great havoc, or not a big deal, if we have problems; that is quite natural. What is more important is we must not avoid those problems; we need to face up to them. In the 18th Party Congress report actually it admits that China is confronted with six areas of problems. I think it shows the confidence of China by pointing out the problems that we are faced with and I have the confidence that by addressing the issues in the process of development, China will become better and better.

Thank you.