

## SOCIAL SPHERE IS A VULNERABILITY OF THE CHINESE MIRACLE



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There are several notable aspects to China's economic success. The first of these is the priority that the political elite, the Communist Party, have placed on growth. Their mandate rests on their ability to provide continuous improvements to the quality of life for Chinese citizens. China has benefited from access to the US market, but this has been neither a necessary nor a sufficient condition. More generally, China has embraced globalization nearly from the outset of their reform. Compared to Japan, Korea or Taiwan, **China has been a much more open economy and has encouraged FDI (foreign direct investment) and technology transfer.** Asia has recognized from the outset the potential gains of exporting and is continuing to learn. More than half of China's exports are by foreign-invested firms, but the other half are by growing Chinese firms, who have been successful in narrowing the gap in productivity with their foreign competitors. Indeed, the domestic market in China has become one of the most competitive markets internationally, which has required Chinese (and multinational) firms producing in China to invest and upgrade significantly. China has enormous potential to continue its

economic growth; however, it's not without its weaknesses: there are troubles with its financial system, and the state's continued reliance on the financial sector to fund inefficient investments continues to crowd out a much more dynamic private sector. However, **China's greatest vulnerabilities are social** and not economic. These problems are not related to its growth per se, but rather to perceptions of how the benefits of such growth are distributed. Problems with corruption, the lack of rule of law, as well as weak transparency and accountability in the system have skewed the image of who exactly has benefitted from the system and who will benefit from it in the future.

The inability of an average citizen to seek redress when something happens can contribute to dissatisfaction and disillusionment with the system and become a source of social unrest. Tension between migrants and urban residents, disputes over land and loss of land for development, and other such issues are but a few examples. The Chinese government tries hard to manage these problems, yet in an increasingly complex and sophisticated society, it is becoming much harder to do so in a top down kind of way. ■

## CHINA'S SUCCESS WOULD HAVE BEEN IMPOSSIBLE WITHOUT ACCESS TO THE USA MARKET



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Nowadays, modernization is becoming globally competitive. That is why both Russia and China need to put a great emphasis on establishing strong educational institutions, and diversifying their economy in areas like I-technology capability. China is already a leader of postindustrial development, and it has every chance of becoming a larger and larger player in the near future. China focuses on investing in industries with high economic efficiency, such as high-speed rails and telecommunications. In general, China is very aggressive in attracting foreign technology and foreign investment.

The **success of Chinese modernisation was preconditioned by China's special relationship with the United States.** The Chinese would not have been able to achieve such effective economic development without access to the American market, as it is the biggest market in the

world. So if you have easy access to this market, the potential for your high production productivity is guaranteed. **Every country that has become rich, has become rich by exporting to the US** and this can be seen by looking at Germany, Japan, China and India. That's how nations become rich, by exporting to the American market. China's role in this process is especially great and this was what guaranteed China's success, although it remains also as a potential source for long-term risk.

China is wholly dependent on exports and creates too much capacity. China has an excessively high floating rate as well as excessively high investment. So it is my opinion that the long term stability of the Chinese political system is something we cannot be certain about. ■

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