

Notes for comments on talk by Professor Wu Jinglian

Challenges in China's economic policy and system reform'

I first met WJ on 17 October 1980, in the Institute of Economic Research of CASS. I still have my notes! I was a member of the first World Bank economic mission to China, and WJ was one of a small group of IER economists. The big economic issue at that time was the relative importance of adjustment and reform. In a heated debate, WJ argued for the minority view that reform was more fundamental (reform meaning a reduction in centralised control of the economy). He also argued, remarkably at that time, that both economic and political reforms were required.

Since 1980, WJ has continued to make this case, and this evening we have heard his latest statement, as ever clearly and compellingly argued. Over this period, China has made enormous progress, largely as a result of the reforms. Important to recognise the contribution to this progress of WJ and other Chinese economists, who made the intellectual case for a series of reform steps and advised on how to implement them. This story is nicely told in WJ's Fitoussi lecture (in M. Aoki and J. Wu (eds), *The Chinese Economy: a New Transition*, London: Palgrave Macmillan, 2012).

But as WJ rightly argues, the reform process in China is not yet complete, and further reform is urgent, for two reasons:

1. Combination of old and new systems is generating huge distributional problems. Corruption is a big part of these problems, but the definition of corruption is difficult, since there is also a lot of legal but inequitable rent-seeking (and rent-gaining). Many people are not gaining enough or are losing because they are shut out of the system: migrants with no social service entitlements, rural people with inadequate education, and ordinary people without official connections. The result has been social corrosion and a decline in the legitimacy of the Party and the government, as both Hu Jintao and Xi Jinping emphasised in their speeches to the 18th CPC congress.

2. The current semi-reformed system is not capable of delivering the next big step in China's economic progress, namely to rise from a middle income to a high income level. Economists are not entirely clear what this step requires: clearly a lot more accumulation of physical and (especially) human capital, and also big increases in efficiency and innovation (to earn technology rents). But it will clearly require a far more competitive economy, in which firms are easier to establish, markets are easier to enter, the playing field is levelled between state and private firms, and business success depends not on official connections but on being able to produce newer, better and cheaper goods and services.

So I entirely agree with WJ on the need for further reform. Two big questions:

A. Exactly what steps need to be taken? In general terms, many of them are clear – for example, as WJ says, more rule of law. But who needs to do what to establish more rule of law: specific changes to specific laws or legal procedures, or just some way of ensuring that currently prescribed legal processes are actually followed? In the area of competition, some specific changes are needed to China's Anti-Monopoly Law and procedures for its enforcement. And so on, in many other areas. This is what WJ means by the need for 'formulating ... an integrated comprehensive plan'.

B. Can China's leaders implement these reforms? WJ sees implementation as the most difficult part, and I also have some doubts. As I see it, (a) some quite radical steps are needed and (b), and paradoxically, the leaders may not be powerful enough to carry them through. The Party as a whole is very powerful and ideally placed to implement further reforms if directed to do so. But can the new leaders provide this direction? China has moved from 'rule of man' to 'rule by committee', but what it may now need is a bit more 'rule by man' – another Deng Xiaoping. Committees are not good at taking difficult and bold decisions: they compromise and choose lowest-common-denominator and lowest-risk solutions. So even though there is, as WJ rightly says, now more agreement in principle that more reform is needed, there is a risk that in practice what will emerge will be too little and too late. I very much hope I am wrong, and that China will yet again surprise me in a positive way.

I said earlier how much China owes to the brilliant and sustained work of WJ on reform. Let me end by saying how much I personally have learned from him about China's reforms, starting with that very first meeting in 1980. I am deeply grateful to him for that, and also to the organisers of this evening's lecture for giving me the chance to say so.