



A CHINESE PROFESSOR'S TAKE ON CHINA'S ECONOMIC AND SOCIAL PROGRESS

Posted by Michelle Chen | May 15, 2012



Professor Mao Yushi. (Photo: NED)

CIPE recently had the honor of inviting Professor [Mao Yushi](#), the [winner](#) of the Milton Friedman Prize for Advancing Liberty awarded by the CATO institute, to share his valuable insight on the current events in China. Professor Mao is the founder of Beijing Unirule Institute of Economics and is one of the [ten most influential economists in China](#). In his opening remarks, Mao declared that China's dramatic improvements to individual freedom are visible through its citizens' abilities to travel and study abroad, to purchase foreign goods and services, and to invest in real estate properties and gold,

which have all increased since 1978. He further stated that over 300 million Chinese citizens no longer live in extreme poverty, which is a great improvement when compared to other developing countries in Asia. Despite these improvements, Prof. Mao also pointed out several major issues that act as stumbling blocks to China's economic development, among them, income disparity between the rich and the poor, and between coastal and the rural areas, is becoming a significant problem in China. Furthermore, Mao suggested that the enormous amount of money invested in newly built and unoccupied real estate represents an incipient housing bubble; fewer than 30% of high-rises in big cities are occupied. Mao also stressed that the failure of the high-speed railways to turn a profit is especially detrimental to the economy – without profits, the huge loans that financed construction of the railways cannot be repaid on time, and may have to be written off. Mao also argued that the low fertility rate and distorted gender ratio in China will hinder the country's ability to stabilize its labor force over the next 5 to 10 years. He stated that the environmental issues caused by the rapid economic growth are neglected and that there is a lack of motivation to address them, noting that all the lakes and the air in China are heavily polluted. Similar to [Justin Lin's](#) point of view in his newly published book, "[Demystifying the Chinese Economy](#)," Mao believes that in order to continue the country's remarkable economic growth, the Chinese government must address the above issues more aggressively.

When asked whether [China 2030](#)—a recent report by The World Bank that called for more private sector reforms in China – would have any impact on Chinese policy, Mao held that the real issues lie within state-owned-enterprises (SOEs). Prof. Mao stressed that the SOEs hold privileges over large amount of resources, as well as political power. SOEs often receive much lower interest rates on loans and also enjoy tax exemption privileges. Mao said that economic and political reform would be difficult if such privileges continue. In his view, should a major financial crisis occur in the future, the Chinese government must help pay off the debts of SOEs with state resources.

In his overall opinion on the last several decades economic development in China, Professor Mao acknowledged remarkable improvements in terms of both individual freedom and poverty levels in China. Nevertheless, he also demonstrated several major issues that could hinder China's ability to continue with its high economic growth rate. These concerns included income disparity between the rich and the poor, the housing bubble in major cities, the bad loans invested in unprofitable high-speed railways, potential future labor shortages, and the environmental issues caused by the rapid growth rate in China. Mao's unique outlook on China's economic development and the future of SOEs provided a well-rounded conclusion for his visit at CIPE.

For another perspective on the forces driving China's economic 'miracle' — and the reforms that will need to happen for it to continue — read the latest Economic Reform Feature Service article by Xingyuan Feng, Christer Ljungwall, and Sujian Guo, [Re-Interpreting the 'Chinese Miracle': A Multi-Dimensional Framework](#).