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# Rich China, poor China

## Reds' refusal to share prosperity with underclass jeopardizes future

By Richard W. Rahn

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"Air in many China cities remains highly polluted." No, this is not a headline in the Onion (satirical newspaper), but the front-page lead headline in the Shanghai Daily on Nov. 8. Shanghai is a city of 23 million people, which at first glance appears to be, perhaps, the most modern city on the planet. The architecture is spectacular and varied, with some of the new edifices exceeding 100 stories. It looks prosperous - nicely dressed people; wide, tree-lined streets; well-maintained flower beds; and the world's newest auto stock on its many crowded expressways. To a lesser extent, the same thing can be said about Beijing and other Chinese cities.

By any definition, China has been an economic superstar. For three decades, it has been doubling its gross domestic product (GDP) on the average of every seven years. My first trip to mainland China was almost 30 years ago, near the beginning of the economic reforms. Private cars were almost nonexistent. Almost everyone got around by bicycle. Today, more automobiles are produced and sold in China than in any other country, including the United States. China has rapidly been building its equivalent of the U.S. interstate highway system. Most of the road signs look identical to those in the U.S. and are written in both Chinese and English, as are many other signs in China.

China, arguably, has more people with a middle-class or higher standard of living than any European country and even Japan, only trailing the United States. However, more than 80 percent of its people have yet to enjoy most of the fruits of this prosperity. It is a bit ironic that a country that calls itself communist has, perhaps, the greatest income disparity on the planet. China is both rich and poor at the same time. Last week, European leaders asked "rich" China to help them bail out their debt-ridden economies by purchasing more European government bonds. Chinese officials with whom I spoke indicated this is unlikely because it would not go over well in "poor" China. (China's per capita income is only about 10 percent of that of the United States, but it is still the world's second-largest economy because it has about four times the population of the U.S.)

There are several things that could derail China's headlong rush into the 21st century. China's Achilles' heel is that it is still a one-party, authoritarian state. The Chinese understand the benefits of competition more than most, and businesses in China are in a highly competitive environment. This competition gives the Chinese consumer many choices, with an ever-improving variety of goods and services. The Chinese also understand that monopolies result in poorer service, less innovation and higher costs. Yet they still tolerate a monopoly one-party state that limits their freedom of speech, press, religion and assembly. This lack of political competition invariably leads to corruption, particularly without a free press to expose it. The leadership rationalizes this state of affairs by claiming that without the Communist Party monopoly on political power, there would be "instability."

China, for all of its manufacturing and technological prowess, has a very underdeveloped financial sector, with state ownership of most of the banks. Despite its having the globe's second-largest economy, China's currency is still not freely convertible. The financial sector is being held back by political immaturity and an unwillingness to acknowledge and come to terms with the crimes of its communist founders, particularly Mao Zedong. Mao was responsible for more deaths than Hitler and Stalin, yet his picture is still on every bank note. Would Germany be accepted as a member of the community of civilized nations if the face of Hitler appeared on its currency? Even Russia acknowledged many of Stalin's crimes long before the fall of communism.

For the most part, the Chinese do not practice communism - even though they still call themselves communists - because they understand it does not work and they prefer to be rich rather than poor. Yet they still adhere to some communist claptrap, which is hurting them both economically and politically. Private land ownership is still prohibited even though long-term land leases are allowed. In some cases, this has undermined the incentives to build high-quality long-standing buildings and other privately built and owned infrastructure and also has made it more difficult to create a sound property-tax system.

As countries become wealthier, the demand for political freedoms increases, Thus, most countries that have enjoyed rapid economic development, such as South Korea, Taiwan and Chile, also have evolved into healthy democratic states. The Chinese have proved themselves to be highly pragmatic and flexible. Much of their rapid growth has been the result of being able to copy the advanced products and systems of the United States and other developed countries. But for China to continue to be a high-growth state, it will have to play increasingly by the international economic, financial and political rules, which will add to the pressures for political reform within China. Those in power in China, like most who have power, are reluctant to give up some of it, but many of them also understand that if they do not relax the reins, they may lose everything. It is in all of our interests to encourage and reinforce the positive trends within China by increasing bilateral investment and other interactions. However, we also must not be naive about the many dark forces still within China, such as those that promote the ongoing cyberpenetration of both foreign governments and businesses, that do not wish us - or the even the Chinese people - well.