South China Morning Post,
28 October 2010

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Count the costs, too

China's sustained economic growth since Deng Xiaoping (鄧小平) launched economic reforms in 1978 has been simply remarkable. The nation overtook Japan this year to become the world's second-largest economy. China's quick recovery from the subprime financial crisis is equally remarkable. What about China's future? One concern is that Beijing has overfocused on gross domestic product growth. I recently taught a class of Chinese government officials. They were all very clear that their KPI (key performance indicator) was GDP growth. Evidently, they have delivered.

However, this single-minded focus on economic growth has resulted in large societal and economic costs. One is the human toll on 200 million migrant workers living away from home, without access to education and social services. Another is the obvious degradation of the environment through air and water pollution. Still another cost is the rush to convert land from agriculture to industrial and residential use.

Until now, Beijing's approach has been to variously use prohibitions and exhortations to direct provincial and city governments to follow national policy. This approach has not worked. For instance, Beijing does not allow local governments to borrow. So, taking a leaf from Western investment banks, local governments set up special-purpose entities to borrow from banks. As of June this year, there were over 8,000 such entities with total borrowings of 7.7 trillion yuan (HK$8.9 trillion).

The contradictions have reached extremes that would be funny if they were not so serious. In recent years China's national growth rate, as published by the National Bureau of Statistics, has been less than the growth rate of all its provinces. Apparently, the drive for growth is so strong that every province recorded faster growth than the nation as a whole.

Another concern is the balance between government and the private sector. Economists worry that, in the course of China's recovery from the subprime financial crisis, the process of economic reform has stalled and, in some dimensions, even reversed. A philosophy gaining traction is that the government should increase its ownership and control of business, and so more effectively manage the macroeconomy.

> Beijing must now assess government performance with a balanced scorecard

China's 4 trillion yuan stimulus plan included directly and indirectly funnelling large funds to state-owned enterprises. The building of new railways and rebuilding of earthquake-devastated counties in Sichuan (四川) boosts the revenues of state-owned construction firms. State-owned enterprises are handy for their quick response to orders from the central government. However, greater state ownership can increase microeconomic distortions. For example, in recent months they have been the top bidders in property auctions, fuelling already overheated property markets.

Even more worrying is that state ownership has increased at the expense of private enterprise. The Shandong (山東) provincial government has taken control of Rizhao, one of China's most profitable private steel manufacturers. After investing in leading dairy producer Mengniu, the government replaced the chairman of Mengniu's main operation.

It is time for Beijing to shift towards assessing the performance of all levels of government with a balanced scorecard – one that takes account not just of GDP growth, but all important societal and economic goals and the proper balance between government and business. This would be a more effective approach than relying on a panoply of prohibitions with loopholes for local governments to exploit. President Hu Jintao (胡錦濤) and Premier Wen Jiabao (溫家寶) are nothing if not pragmatic. Hopefully, they will embrace a more nuanced approach to economic development in the next decade. That would be their enduring legacy to socialism with Chinese characteristics.

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