Project Syndicate

How Xi Jinping Can Strengthen the Chinese Economy

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CHICAGO – Xi Jinping is poised to become the first three-term president in Chinese history when the Communist Party of China's 20th National Congress convenes this month. That makes this an opportune time to take stock of Xi's economic-policy record from the past ten years and explore some obvious steps to improve economic performance in the next term.

When Xi assumed China's top political position in 2012, the economy was thriving, but it also had many serious problems. GDP had been growing at an average annual rate of 10% for over a decade. But a slowdown was inevitable, and GDP growth rates have indeed declined almost every year since 2008. Moreover, inequality was rising, with the Gini index having increased by 13% between 1990 and 2000. By the start of this century, inequality in China had surpassed that of the United States for the first time in the post-1978 reform era.

Meanwhile, pollution was literally killing China. By 2013, Beijing's air had an average of 102 micrograms of PM2.5 particles per cubic meter, whereas Los Angeles – a city historically known for its air pollution – had a PM2.5 reading of only around 15. Chinese city dwellers increasingly complained about the cardiopulmonary illnesses and early mortality associated with pollution. And China was also plagued by water pollution, owing to the chemical runoff from its factories, farms, and mines. In rural areas, entire villages and towns sometimes had to move because their water supply had been irreparably contaminated.

China was also gradually losing its workforce. Historically high fertility rates of around six children per woman started to decline in the 1970s and reached their current levels of under two children per women in 2000. China's working-age cohort shrank from 80% of the total population in 1970 to only 37% in 2012. The share of individuals over age 65 doubled, from 4% in 1970 to 8% in 2012. These trends left the government stuck between a rock and a hard place. Though policymakers needed to keep the overall population from ballooning further, they also needed to maintain the supply of young working people to support the growing elderly population.

Social discontent was rising and, according to one popular index, public perceptions of government corruption had doubled between 1991 and 2012. Around 1,300 labor strikes were documented in 2014; by 2016, that figure had more than doubled, to 2,700.

When Xi came to power, he took great pains to confront these challenges head-on. But the results have been mixed. On a positive note, PM2.5 readings in major cities like Beijing and Shanghai have been halved over the past ten years, and China's Gini coefficient today is back below that of the US and 13% below its 2010 peak.

But other indicators are less favorable. Between 2012 and the beginning of the COVID-19 pandemic, China's annual GDP growth rate has either remained flat or declined. Even though the government has abolished its stringent one-child policy, fertility rates have remained very low. The share of individuals aged 65 and older today is nearly 13%, a new peak for the modern era.

Still, it would be misleading to lay all of the past decade's accomplishments and failures at Xi's feet. Xi inherited the biggest problems he has faced, which were the unavoidable consequences of China's previous rapid growth and political and economic history. At the same time, Xi also inherited the main policy solutions to these problems.

After all, China started requiring state-owned energy grids to invest in renewable industries all the way back in 1994, and earlier governments also emphasized policies to improve conditions for the poor. Basic medical insurance was introduced to urban areas in 1998 and to rural areas in 2003. Aggregate inequality began to decline two years prior to Xi taking office, and earlier governments regularly pursued their own anti-corruption drives.

As Xi continued many of his predecessors' policy initiatives, the things that were improving continued to improve, and the problems that were hard to fix remained unfixed. What changed most under Xi was not the ostensible policy aims but the mode of implementation. With a few exceptions, such as the one-child policy, post-1978 Chinese policymakers before Xi tended to be cautious and discreet. Important changes, like the introduction of rural elections, were usually piloted quietly and only announced as a "national policy" when the central government felt confident that it understood how the policy would work.

This trial-and-error method had the advantage of creating political space for deliberation among important stakeholders, leading to the success of highly complex initiatives such as China's national health policy. It also allowed for flexibility, with policies being revised to account for changing conditions or unforeseen side effects. And because these policies were not associated with any one person, the political costs of admitting mistakes were low.

Xi has dispensed with such subtleties, announcing policies personally, suddenly, and without much, if any, apparent deliberation. This modus operandi has clearly been economically harmful, even when the motivations behind the policies are benign or well-meaning.

Consider the 2021 ban on private tutoring, which was intended to curb the punishing hours that Chinese children spend studying and to reduce wealthier students' advantages over their peers. But the rollout was so blunt and sudden that it reduced major Chinese education companies' market capitalizations by tens of billions of dollars and simply created a black market for the same services. The economic ramifications reach beyond education. The possibility of sudden and unanticipated policy changes discourages future investments in all sectors.
Another example is Xi's zero-COVID policy. Though it was very successful in keeping the coronavirus at bay when there were no vaccines, it has fared poorly with changing conditions. While all other countries are shifting back to business as usual – or have already done so – China seems stuck in an endless game of Whac-a-Mole.

The implications for the Chinese economy are clear: the authorities should stay the course in terms of economic-policy goals, but change their policymaking methods. Moving slowly and cautiously served China well for more than 40 years. It could work well for many more.

NANCY QIAN

Nancy Qian, Professor of Managerial Economics and Decision Sciences at Northwestern University's Kellogg School of Management, is a co-director of Northwestern University's Global Poverty Research Lab and the Founding Director of China Econ Lab.