

UC Professor Explains China in Transition at CalChamber International Gathering

As China's phenomenal economic growth of the last three decades is slowing, Chinese leaders are committing to a new round of reforms, a University of California, San Diego expert recently explained to a California Chamber of Commerce audience.

Market-oriented economic reform is one of three possibly contradictory priorities for the president of China, Barry J. Naughton, UC San Diego professor of Chinese economy and chair of Chinese international affairs, said at a CalChamber international trade breakfast on September 13.

New Style

Xi Jinping, president of the People's Republic of China since last November, is trying to reinvent the style of the current regime and distinguish it from its predecessor, Naughton noted.

One element of Xi's agenda is a dramatic anti-corruption effort, said Naughton, commenting that the Chinese people see corruption as the biggest problem in China today because it "undermines their sense that they have a future, that they can get ahead through hard work and creativity."

The anti-corruption campaign includes strict limits on spending by Chinese officials and an increase in the number of officials being charged with corruption. Expected to be charged is a high-profile retired Communist Party official, Naughton said.

A second "basket" of Xi's effort, according to Naughton, is a push for "increased ideological conformity." That effort involves tightening controls on the Internet and China's Twitter (*weibo*).

Reform Program

The economic reform program, the third "basket" of Xi's agenda, is being developed now behind closed doors by

six writing teams and will be presented at the November gathering (Third Plenum) of the Chinese Communist Party, Naughton said.

Based on past Chinese efforts, Naughton predicted that the market reforms will work around the massive

decline in the working-age population—a consequence of China's strict policy of one child per family, in force since the early 1980s. The labor force grew rapidly through the 2000s, but peaked and began to decline in 2010.

At the same time, there has been a sharp increase in the number of high-skilled Chinese workers with science and engineering backgrounds (either college degrees or technical school graduates), he said.

"The low-wage China is a thing of the past," Naughton observed, adding that the change marks a shift to a "middle-income society" where labor conditions matter more.

The simultaneous increase in wages coupled with a decline in the labor force distinguishes China from other Asian growth miracles, such as Japan and Korea, Naughton commented.

Making the transition to a more diverse economy with economic power distributed more equally

"will demand things of the Chinese system that it has never succeeded in providing in the past," Naughton said.

The processes driving change in China over the next five years are known, he observed. What's unknown is how Chinese leaders will respond to short-term economic shocks that are likely to occur as the Chinese economy shifts.

China Trade/Investment

In 2012, China continued as California's third largest export destination, with more than \$14 billion in exports. Chinese direct investment in California is increasing. The Rhodium Group estimates that Chinese firms now employ 27,000 people in the United States, up from fewer than 10,000 five years ago.

More information on China is available at www.calchamber.com/china.
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Barry J. Naughton

state-owned enterprises, and will instead focus on "creating more equal competitive conditions" through financial reforms (capital markets and interest rates); fiscal reforms; pricing of natural resources and energy; and reducing legal discrimination against rural Chinese.

Changing Economy/ Demographics

In implementing their economic reforms, China's leaders will encounter opposition from lots of people who are making money from the current system, Naughton commented.

So far, China has dealt with the slowdown in economic growth by ramping up government investment in areas such as infrastructure (high speed rail) and housing, Naughton said.

Another transition that has begun already, according to Naughton, is a