Liberalisation needed again in China: don't

By JAMIE LEE

CHINA needs to return to its policy of liberalisation in the 1980s and curb its addiction to fixed investments because its current model is not sustainable, says a professor of political economy and international management at MIT's Sloan School of Management.

Throwing cold water on praises for the "Beijing Consensus" - which focuses on state-directed finance, a one-party system, and a preference for political rather than private entrepreneurship - Professor Huang Yasheng told a corporate governance forum here yesterday that there has not been strong statistical evidence to prove authoritarian rule as an advantage.

This instead highlights a selection bias, because the failures of rule by an iron fist, as seen in North Korea and Myanmar, are not highlighted as much as the success seen in China, said Prof Huang.

"The Beijing Consensus is not very sustainable and is showing signs of fragility as we speak," he said at NUS Business School's forum on the Asian model of governance.

"I'm not going to say that the Washington Consensus is perfect," added Prof Huang, referring to the Western model that hinges on financial reforms and private property rights.

"The worry is whether (China) is moving away from it, with the state advancing and the private sector retrograding."

Prof Huang drew out the example of Brazil, which saw strong economic growth between 1968 and 1974 with a one-party system and having 75 per cent of assets of its top 100 firms held by state-owned enterprises. But because of the oil crisis that followed, its economy slumped.

Prof Huang argued that the period of sustainable growth in China's history was in the 1980s - which saw some strong private sector reforms and financial liberalisation - and was lost when this liberalisation policy was reversed.

This was seen in the significant drop in the number of poor people in China in that period. The number of rural poor by China's definition fell to 34 million in 1999 compared to 250 million in 1978 - with the bulk of the drop seen in the 1980s, Prof Huang noted. By 1988, the number of rural poor fell to 96 million.

There were also some signs of political reform, as the press enjoyed more freedom and the level of corruption was low, he added.

"We don't have to take lessons from other countries. You can illustrate the importance of liberal policies by pointing to the history of your own country. That's more convincing."

He also pointed out that despite China's eagerness to learn from Singapore's state-owned enterprise model, there are doubts that China can replicate this.

"There is a lot of interest in the Temasek model," he said. "The basic difference between China and Singapore is that Singapore faces fierce external competition, whereas China can make up their own rules of competition. And I would argue that the management system is not similar."