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WHAT WILL BECOME OF CHINA AFTER THE OLYMPICS?

Satoshi Amako

As I eagerly watched the opening ceremony on TV on August 8, I recollected the slogan offered by Jiang Zemin, the General Secretary of China's Communist Party, at the party's 16th Congress in 2002 – "the great revival of the Chinese race." The spectacle made me realize how strongly the Chinese people wanted to overcome their humiliating modern history and present to the world a "great revival." Encouraged by the feats of many Chinese athletes, the *People's Daily* published a self-praising editorial on August 25, just after the closing ceremony, saying, "we were able to demonstrate a more open and confident China."

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Although I can understand such feelings among the Chinese people, my frank impression is "it was too much." Many severe criticisms have appeared overseas as well. These are proof that there was a significant "gap" between the Olympic Games for the Chinese in Beijing and those for the world. Domestically, there were two worlds controlled and completely separated from each other. One was orderly Olympic Games stadiums on high alert, and the other was the "beyond the fence" world overflowing with contradictions and dissatisfaction over air pollution, deteriorating food quality, suppressed human rights and democratization, the containment of protests by ethnic minorities and press restraints. The contrast between these two worlds was all the more vivid because of the gorgeousness of the Olympic activities conducted "inside the fence."

Unexpectedly, the Olympic Games did not bring Beijing high special procurement demand. The Chinese economy has faced difficult problems since before the Olympics, the first being a sharp fall in stock prices. The stock market decreased in value from 32 trillion yuan to 16 trillion yuan in the year up to August 2008. Due to this stock market slump, 60% of listed companies are currently having serious trouble with management and production. The second is a deepening export-and-import slump. Due to shrinking exports, about 67,000 small and medium-sized enterprises on the coast went bankrupt in the first half of this year. The third is the end of the bubble in real estate, which remained sluggish for about a decade due to a deliberate lack of support by the Chinese authorities. The fourth is the government's deteriorating fiscal health. Beijing has only 10 billion yuan left in reserve funds after coping with the damage caused by heavy snow storms and the Sichuan earthquake in this fiscal year.

What, then, are the mid-term prospects for the Chinese economy? China is expected to sustain its high economic growth. In the year 2007, the country's GDP reached US\$3,400 billion (up 11.4% from the previous year), the trade surplus jumped to US\$262.2 billion (up 47.7% from the previous year), and foreign direct investment in China recovered and reached US\$82.7 billion (up 13.8% from the previous year). "Overall, the stable and high-paced economic growth will continue," the People's Bank of China noted in its bold statement on


macro-economic prospects for the second half of 2008. However, the noted economist Fang Gang has opined that the Chinese economy will enter an adjustment phase of one or two years, a view that is gaining strength. He predicts that the Chinese economy will soon require structural adjustment by expanding domestic demand and encouraging technological innovation. There is also the view that the Chinese economy has already entered a downward cycle, giving rise to a call for loosening the tight fiscal policy that the Chinese government has adopted to rein in excessive and unbalanced economic growth in the past several years.

Meanwhile, social dissatisfaction among Chinese citizens is increasing year by year due to serious domestic issues such as widening income disparities, failure to successfully address the "Three Nong" problems (concerning farm villages, agriculture and farmers), worsening unemployment, and widespread corruption. According to the Ministry of Public Security, more than 87,000 crowd demonstrations and disputes occurred in 2005. According to the National Labor Union, the number of labor campaigns and disputes calling for the improvement of labor conditions has been increasing at an annual rate of 20% since 1995, amounting to 406,000 cases in 2007. Now that the Olympic Games are over, it is difficult for the Chinese authorities to suppress such protests by force in the name of the Olympics. This makes it even more important for the Hu Wen administration to realize a "harmonious society" while maintaining its high economic growth policy. Beijing has entered a stage where it has to pursue a delicate balance between growth and harmony.

What is important at this stage is coping with the increasing demand for an open democratic political society. The key challenge is developing a policy decision-making and execution mechanism to deal with various pent-up and aggravated problems impartially and effectively, while maintaining political stability. The city of Shenzheng has recently come up with a plan for residents to directly elect the heads of districts and, later, the mayor. This is an important attempt, even though this does not necessarily guarantee the spread of direct elections at the local level in the near future. Should such reforms go wrong, however, corruption, income disparities, poverty and general frustration in

society will become more serious. This could make Beijing strengthen its authoritarian rule in order to suppress dissatisfaction and dissent.

The international community has three fundamental anxieties about an emerging China. The first concerns its expanding economy. According to the International Monetary Fund, the greatest contribution to the world economy in the years between 2008 and 2013 will be made not by the United States (estimated at 11.1%) but by China (15.7%). Many countries are afraid that China will corner the market in energy resources and food to sustain its economic growth. The second concerns China's military buildup. China's defense budget reached US\$50 billion in 2007, up 20% from the previous year (Japan's defense budget is less than US\$45 billion). The US Department of Defense estimates that China's real military budget stands at US\$140 billion. The third is worsening environmental pollution.

Despite all this instability and confusion, however, it is unlikely that China will collapse in the short to intermediate term. How, then, should we cope with this China? Asked whether China would change the world, I once answered "yes," adding, "The world will also change China." Both China and the international community must fully recognize that they have already established a relationship of deep interdependence, with both sides closely entangled with each other. 

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