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Back to the spirit of Deng Xiaoping

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Forty years after the opening-up of China by Deng Xiaoping, IDDRI examines the priority given to sustainable development in China, and the country's role in global sustainable development. We discussed these issues with Thomas Spencer, a TERI researcher, IDDRI research associate, and author of [several publications on China and climate](#).

2018 marked the 40-year anniversary of the beginning of China's process of "reform and opening up", initiated by Deng Xiaoping. That spirit of reform and liberalisation has now been lost, with the Chinese economy growing more state-centric and the state more authoritarian. That shift has profound consequences for international relations, including China's positioning on climate change and its domestic actions on the issue.

A weakened growth model

2018 marked 40 years from the beginning of China's epoch-making process of economic transition, begun in 1978 after Deng Xiaoping secured for himself the succession after Mao. In this 40-year period, China has achieved what it took the United Kingdom almost 250 years, namely transforming from a poor country with incomes per capita of around \$1,500 to a relatively wealthy country with incomes above \$12,000. This growth represents the most remarkable leap of human progress ever achieved.

The foundation for this was laid by Deng, who set the Chinese economy on a path of prudent liberalisation and integration in the world economy. China's hybrid capitalism, combining private property and market pricing with a widespread state involvement in the economy, proved remarkably successful during this phase.

That model, however, is now facing its sternest test. The origins of its fragility go beyond the current trade war with the Trump Administration. In the 2000s, Chinese growth was turbocharged by its trade surplus with the advanced economies, which peaked around 7-8% of GDP in 2007. When the Global Financial Crisis knocked out that engine of growth, the Chinese government ignited another, unleashing a huge investment package. Investment rates soared, led by easy money from the state-owned banking sector.

What is now clear with hindsight, is that this stimulus has two profound consequences, one economic and the other political. On the economic front, the Chinese economy became addicted to [debt-fuelled investment in order to maintain growth](#). On the institutional front, the impetus to reform stalled, as the Chinese Communist Party became ever more reliant on the nexus of [state-owned enterprises and state-owned banking system](#) to maintain economic control and growth.

Instead of becoming more market oriented, China is becoming less. Instead of the private sector growing, it is shrinking. Instead of China becoming more liberal, it is becoming more authoritarian.

“One world, two systems”

This is the key to understanding the current US-China confrontation. The two countries are facing what the military and legal historian Philipp Bobbitt called a “constitutional confrontation”. Neither can abide the success of such a constitutionally different competitor, because it would call into question the validity of its own domestic political, economic and social model. That is why, beyond the small fry of tariffs and intellectual property rights, the US government is calling for an end to China's model of state-led industrial development. The Chinese Communist Party cannot accept that demand, because it is akin to ending its own *raison d'être*.

This is the difference between this trade war and the US Japan confrontation in the 1980s, which was a liberal democracy under the US security guarantee, and hence not an ideological competitor.

The problem the world now faces is that this confrontation is taking place in a much more interconnected world, where both sides are facing problems that neither can solve alone. This predicament was aptly summarised in the title of Financial Times columnist Martin Wolf's piece [“The Challenge of One World, Two Systems”](#). The spate of poor results from US tech companies in 2018 suggests that we may have to turn around the old adage about the US—now it is “when China sneezes, the world catches a cold”.

China-US relations: a barometer of the state of the world and of world sustainable development

No issue typifies the one-world-challenge more aptly than climate change, where it is impossible to imagine any kind of solutions emerging without more concertation between China and the US. Domestically for China, the continued reliance on its infrastructure-led, cement-and-steel style growth is retarding its economic transition to a cleaner model. In 2017 and 2018, Chinese emissions rose again, [as the industry sector reacted to additional stimulus measures](#). Desperate for any kind of investment project, local governments are pushing for [new coal projects](#), despite the manifest level of overcapacity in coal-fired power plants. Seeking to export its development model, China has been investing heavily in regional infrastructure projects under the Belt and Road initiative, [including numerous coal-fired plants](#). China is turning into a large international financier, without—yet—the concomitant commitments to transparency, environmental sustainability, and fiscal prudence that characterise Western lending.

The good news in all of this is that we have here what environmentalists call a “stock problem”. Infrastructure, debt and atmospheric carbon dioxide concentrations are all stocks, rather than flows. There are limits to the extent that each can grow. Infrastructure can only grow until the stock of housing, road, and rail are adequate for the national economy. Debt can only grow so far, until the return on capital invested is too low to generate the returns necessary to service that debt.

China’s astronomically high savings and investment rate have brought forward in time the growth of its stock of physical capital and financial debt. It has also done the same for China’s emissions. Eventually, when China’s investment rate slows, as it must through either economic reform or economic gravity, the rate of growth of emissions will slow, and may even turn negative. We saw a precursor of this in 2014-2016, when Chinese emissions stagnated. If this can be achieved sooner rather than later, it would give the world a fighting chance of meeting the goals of the Paris Agreement.

The question, therefore, is what can be done to promote economic reform in China—call it a return to the spirit of Deng Xiaoping. Confrontation, the line being taken by the Trump Administration, seems likely to lead to cosmetic concessions, and strategic retrenchment. Trump, with his apparent motto of “shout loudly and carry a white flag”, may ultimately be happy with that. But by threatening economic and potentially social disruption, confrontation raises the fear factor of the Chinese government, which in turns tightens the reins on the economy and society.

Self-interest implies that the West needs China’s success. China is too big, too integrated, and too advanced to go the way of the Soviet Union. [A shock in China would ripple around the world](#), not least on the domestic and international politics of China’s involvement on climate change. “One world, two systems” demands cooperation with China, not least on climate change. Deng Xiaoping was an arch pragmatist, but he also combined a self-awareness with self-confidence. He continues to show the way forward 40 years on.

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