



DEVELOPMENTAL INSIGHTS

REFLECTIONS ON A SHORT PASSAGE THROUGH CHINA

EXPERT VIEW

SUDIPTO MUNDLE

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Far removed from the boiling tension in the South China Sea, ours was a peaceful journey through South Central China.

On arrival in Guangzhou, we had our first experience of a Chinese bullet train. The bullet trains are symbols of the new 21st century China. High investment in globally competitive, top quality, modern infrastructure, deployed on a massive scale, is one of the two pillars of China's new development model, the other being a rapid increase in domestic consumption. The question is whether the new model can deliver a moderately high growth rate of 6.5%, the "new normal" target over the medium term (Justin Lin, *China Daily* 28 June 2016).

There are three key challenges to implementing this model. Maintaining a high rate of investment, environmental sustainability and achieving an income distribution that can drive domestic mass consumption. Our short passage through China gave us a glimpse of how the new growth strategy and the challenges are playing out on the ground.

We took our first bullet train from Guangzhou to the resort town of Guilin. These trains are punctual to the minute, unlike flights that are often late, sometimes very late. They are also modern in design, comfortable and clean, similar to the TGV in France or the Shinkansen in Japan. The difference is scale. China probably has more than a hundred of these bullet trains crisscrossing the country over the largest bullet train network in the world.

Guilin is one of China's most popular, picturesque resort towns, located in southern China. Apart from the Reed Flute Cave and many other natural attractions, Guilin is the starting point of a fascinating cruise down the picturesque Li river that winds its way through ranges of Karst hills to a quaint hill resort called Yangshuo. I had always wondered about Chinese paintings of oddly shaped hills, tumbling one upon another, until I saw these limestone formations along the Li river. The paintings are remarkably faithful depictions of the real thing.

Yangshuo Mountain Retreat is located in a serene setting on the banks of the Yulong river surrounded by Karst hills. I was tempted to wade into the Yulong, but was dissuaded by hotel staff who said the water was not very clean. Next day, as we

rafted down the river, I noted that the froth on the water was not just surf. Pollution is a problem that China is yet to crack.

That is not to suggest that it is not trying. I describe below the efforts being made in Chongqing and elsewhere to diversify from coal to renewable sources of energy on the supply-side. In Guilin and Yangshuo, we saw how the challenge is being addressed on the demand side. With incomes rising, the Chinese are moving on from cycles to motorized personal transport, mostly low-cost two-wheelers. But these are powered by electric batteries, not diesel or petrol. China is producing millions of these two-wheelers every year. I was also amused to see how *jugaad* has been raised to another level in China. Many of these two-wheelers had shades mounted on steel rods to protect rider and pillion from sun and rain!

From Guilin, we flew to Xi'an to see the famous terracotta army of Qin Shi, China's first emperor. They attract millions of tourists every year. However, Xi'an is also emerging as a major industrial hub of west-central China under the Go West

policy, shifting the investment focus away from the eastern seaboard to cities in the western hinterland. Unfortunately, Xi'an also sports the "ghost cities" that have sprouted in different parts of China. Though there is a housing shortage in metropolises like Beijing and Shanghai, in the smaller cities, too many apartment blocks have been built and prices have collapsed. There are no takers. Hundreds of high-rise apartment blocks remain unoccupied, dark, and unsold, reminiscent of Bangkok during the Asian financial crisis of 1997.

From Xi'an, we went on to Chengdu, which is best known for its pandas. We spent a whole day attending to these loveable but fragile animals as volunteers. But beyond pandas, Chengdu is also the capital of Sichuan province, the home of the fiery Sichuan cuisine, and an intellectual hub with many universities and research centres. It is also an important base of the People's Liberation Army. That has given Chengdu a comparative advantage in emerging as a leading centre for high technology industries like electronics, robotics, biotechnology and defence production, with spin-offs for civilian industry. Chengdu has produced China's first indigenous regional jetliner, the ARJ21-700, now flying commercially.

The C919, a large passenger aircraft, has also reached production stage.

What charmed us most about Chengdu were the dozens of men and women dancing in the setting sun in many squares and parks around the city. This seems to be the new trend for workouts all over China. In the morning and after work at dusk, people join different groups in public spaces, practise the steps and dance. It is such a wonderful, enjoyable form of exercise.

From Chengdu, we went on to Chongqing to start our Yangtze cruise. Over three days, we cruised past countless misty peaks stretching into the horizon, awesome gorges, and the almost tactile softness of beautiful bamboo forests. The sheer beauty of these landscapes are as inspiring for the tourist as they have been for countless generations of painters. But the cruise begins in a very different, modern, urban setting, Chongqing—one of the largest cities in the world. And the cruise ends shortly after passing through another icon of modern China, the Three Gorges Dam.

With a population of 33 million,

Chongqing is the largest of five centrally administered regional municipalities, the others being Beijing, Shanghai, Tianjin, and Guangzhou. One of China's major manufacturing hubs, it has traditional smoke-stack industries like steel, cement and chemicals as well as electronics, transport equipment

and other new industries. The city reportedly accounts for more than half of all the laptops produced in the world, and Changan, one of China's oldest and largest car manufacturers, is located here.

The city has adopted a novel approach towards addressing a rural-urban land imbalance that may have useful lessons for the rest of China. Rural areas account for about 45% of the population. Many rural households are migrating in search of jobs, leaving behind uncultivated land. But urban Chongqing is short of land. A Rural Land Exchange established in 2008 buys the homestead land of migrants and develops it for alternative urban land use.

The Three Gorges Dam, near the other end of the Yangtze cruise, is the largest dam in the world, with a length of 2.3 km and a height of 185 meters, with an ingenious two-way system of five locks to move ships across the dam. Built primarily to control the frequent floods which have killed hundreds of thousands of people in the past, the dam now protects

millions of people living in the flood plain of the Yangtze, spread over 607,000 hectares. Additionally, the 26 massive turbines of the dam generate 18,000 megawatts of power.

This mammoth dam has predictably raised many controversies, some of which have been addressed. The dam displaced an estimated 1.3 million people. All of them have been relocated in new apartments in many new townships along the river which we passed. Silting at the dam could eventually choke the dam. However, spillways have been built all along the dam wall that force out much of the silt at high pressure. It is estimated that the dam will remain functional for about 100 years. However, there remains the risk of natural disaster. The dam has been designed to withstand the pressure of even very heavy "once in a century" floods. But the possible consequences of a very strong earthquake that might crack the dam are too frightening to contemplate.

As the cruise ended and we flew back to Guangzhou on our way out of China, I reflected on all that we had seen and how things might play out.

The investment pillar of China's new growth strategy seems to be quite firm. There are clearly huge opportunities for such investment. Given the fiscal headroom and a high savings rate of nearly 50%, financing should also not be a constraint. That is, provided China can avoid the risk of zombie state enterprises and zombie banks undermining the system as in Japan's lost decades (Stephen Roach, *China Daily*, 30 June 2016).

The other pillar of the new growth strategy, rising domestic consumption, is subject to greater risks. China's rising dependency ratio will constrain the growth in per capita consumption.

The other risk is the low wage of unorganized sector workers: restaurant waiters, shop assistants, house-hold help and others who make about \$84,000-\$5,000 per year (RMB 2,000-3,000 per month). China needs an incomes policy to substantially raise the purchasing power of this class of workers to secure the consumption pillar of its new growth strategy.

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NEXT ESSAY

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