Better Governance, not Democracy, as China’s Immediate Development Challenge

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Instead of plunging itself straight into an instant democracy solution, China is placing strong emphasis on improving governance and operational efficiency of its governmental system. This is considered politically, economically and socially less disruptive and better for China. Better governance is not a substitute for the final goal of democracy; indeed, it can lay a strong foundation for a better democracy in future. China will eventually achieve its final goal of democratisation, albeit democracy with many Chinese characteristics.

ON ACCOUNT OF its successful economic reform and the open-door policy since 1978, China’s economy has chalked up spectacular performance, growing at an average annual rate of 9.8% for over three decades. It did not suffer from the 1997 Asian

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financial crisis and was also relatively unaffected by the recent global financial crisis, which brought down most economies, with many experiencing negative growth. China’s economic growth for 2009 remained at nine percent and is widely forecast to register another 9.5% growth for 2010. In fact, China’s economy has quickly bounced back in high growth from the crisis; it has also been leading the global economy to recovery (Figure 1).

With its total (nominal) GDP at about US$5 trillion, China has just replaced Japan as the world’s second largest economy. In PPP (purchasing power parity) terms, China has long been the world’s Number Two economy, after the USA. For a few years now, China has already been the world’s largest exporting country. In the post-crisis world, China has further distinguished itself as a robust economy with the world’s largest reserves (US$2.7 trillion) and as the only large economy that is not burdened by domestic and external debts. Viewed from whatever angle, China’s economic growth has been a great success story.

However, dynamic economic growth over such a sustained period has inevitably brought about a lot of institutional stress and strains, particularly in political and social spheres. In recent years, the Chinese leadership has undertaken measures to address China’s rising social problems from rural development to social protests. Many scholars, both in and out of China, are arguing that it is high time for China today to step up its political reform process.
Political reform means different thing to different people. To many Western scholars, political reform basically refers to “democratisation”—even equating it to a Western form of democracy. To be sure, China has already opened up and improved its political and government systems quite a lot over the years, or the economy (now primarily market driven) would not have chalked up such dynamic growth. But it is also true that the Chinese leadership does not see eye-to-eye with many Western scholars with regard to both the notion and process of political reform.

First, the Chinese leadership argues that China’s development has been shaped by Deng Xiaoping’s basic tenets of “Economic reform first, political reform later”. And China’s economic success owes a great deal to Deng’s policy. Secondly, for political reform its priority lies in improving governance and increasing the operational efficiency of the government. Third, if the main thrust of political reform in China is about political democracy, the leadership takes the view that democratisation is a slow and gradual process—presently, it is proceeding with intra-Party democracy at the top and village election at the bottom. This is considered to be politically, economically and socially much less disruptive, and ultimately better for China.

This paper finds great merit in this argument. It was very wise of Deng Xiaoping to put economic reform ahead of political reform. In the past East Asian development, it was basically “economic development first, and democratisation later”. If China continues to enjoy good economic growth with good social development (e.g. better education and a larger middle class), it will eventually achieve its own goal of democratisation.

The East Asian Experience of Development and Democratisation

East Asia (EA) is, historically speaking, defined as comprising Japan, China, the four NIEs (newly industrialised economies) of South Korea, Taiwan, Hong Kong and Singapore, and the four ASEAN economies of Indonesia, Malaysia, the Philippines and Thailand. These are well known high-performance economies, which have experienced dynamic economic growth for a sustained period since the second half of the 20th century. (Table 1) EA’s growth process is marked by three distinctive waves. Japan led the first wave by sustaining near double-digit rates of high growth from 1950 through the 1970s. The four NIEs (dubbed “East Asian Four Little Dragons”) led the second wave, with high growth spanning the period of early 1960s to the early 1980s. The ASEAN-4 and China took up the third wave, starting their high growth respectively from the late 1970s to the early 1980s. Japanese economists called this the “Flying Geese” pattern, with Japan taking the lead in the formation with others progressing in succession in an orderly manner. (Figure 2).

The underlying economic theory for such a growth pattern is associated with shifting comparative advantage. In other words, high costs and high wages in Japan caused it to lose its comparative advantage for labour-intensive manufactured exports to the NIEs, with the NIEs similarly passing their comparative advantage onto other late-comers in East Asia later on. The World Bank in its well-known study of this phenomenon of high growth refers to it as the “East Asian Miracle”.
The “Flying Geese” theory has provided a convenient and useful explanation of the historical process of economic growth in EA until the recent economic rise of China. A pertinent question can then be posed: Since economic development in EA has followed a certain orderly sequence, does this also apply to its political development? Have individual countries (economies) in EA also followed a similar sequence of political development for their democratisation? More specifically, in the “flying geese” model, China starts off as a laggard both economically and politically; but economically China has been fast catching up with the rest. How fast will China also catch up with the rest politically?

Development First, Democracy Later

Broadly speaking, EA’s political development has interestingly followed more or less similar “flying geese” models, with Japan taking the lead in democratisation. This was later followed by the NIEs of South Korea, Taiwan and Singapore (Hong Kong is excluded here because it used to be a British colony and now a special administrative region of China), and still later by some ASEAN countries like the Philippines and Thailand. More importantly, all these economies started to open up their political systems after, but not before, their industrial take-off. Such is the theory of “development first, democratisation later”.

To begin with, EA’s dynamic economic growth can be adequately explained by neo-classical economic theory. To achieve high growth, all these EA economies had high levels of domestic investment, matched by equally high levels of domestic savings.
Furthermore, they all pursued export-oriented development strategies, reinforced by frequent pro-growth and pro-market government intervention—the so-called Developmental State model.\(^1\) The East Asian experience shows that political democracy or the lack of it has little to do with successful economic growth.

For years, scholars have been hotly debating on the relation between democracy and economic development, without any conclusion. There is actually no clear-cut correction between the two, particularly if “democracy” is treated as an ideology.\(^2\) If democracy were to be treated in a less emotive manner, just as a political theory, then development economists can easily point out that political democracy, while desirable on its own, is actually not an essential precondition for successful industrialisation, and not even crucial for rapid economic growth. Historically, successful economic development has taken place under almost all sorts of political regimes, be they truly democratic or not. Beyond the basic political and social stability, what is really needed for economic development is an effective and enlightened political leadership which can galvanise consensus and mobilise all resources for the single-minded pursuit of economic growth.

Good government (or good governance) and good policy are, in fact, more directly relevant for economic development while a pseudo-democracy or a half-baked democracy may not be conducive to economic development. One can find numerous Third World countries as examples for this phenomenon.\(^3\)

Economic growth is measured by increases in GDP. Any political and social system which can generate more GDP by increasing production, consumption, investment and exports is good for growth. Not surprisingly, many democratisation experiments in the Third World have turned out to be even “anti-growth” or “growth-unfriendly”. Too much politics can delay economic reform and can actually hurt the investment climate. Over-contentious election campaigns can disrupt production. The call for greater workers’ rights can frighten away foreign investors. Democratisation is generally good for equity, but the populist advocacy for income redistribution can undermine capital

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accumulation. In short, for a developing country to rush into a full-fledged liberal, competitive democracy in their early development phases, there can be unacceptable economic trade-offs in terms of poor economic performance.

It is to be remembered that in the EA context, Japan’s industrialisation occurred before World War II when Japan was under an aggressive military dictatorship. South Korea’s industrial take-off took place also under a military dictatorship while Taiwan’s was under the martial law. Hong Kong’s industrialisation was carried out under colonial rule with zero political democracy. For years, only Singapore had operated a one-man one-vote parliamentary system. But many Western scholars have refused to recognise Singapore’s political system as a liberal democracy because of its one-party domination. Pro-democracy scholars refer to these countries as “developmental authoritarian regimes”.

The Philippines case can even end up as a counter-argument. Philippines’ economic growth had actually plunged and remained low for years after it had achieved the so-called democracy following the downfall of Marcos! In the Philippines (as in many other developing countries), corruption was rampant before democracy. However, after their achievement of democracy, corruption is still rampant. If anything, democracy offers a fertile ground for new forms of corruption such as rent seeking and pork barrel politics or vote buying. The most recent example is India, which is proud to call itself the world’s “largest democracy”, but it is also riddled with rampant corruption. Indonesia is another case, whose economic growth plunged after its democratisation in the post-Suharto era. Both India and Indonesia scored higher than China in terms of political democracy but lower than China in terms of corruption.

Likewise, in other EA economies such as South Korea and Taiwan, their economic growth came down shortly after the introduction of democracy. It may be argued that by the time these countries introduced democracy, their economies had already become mature or had lost their high growth momentum. But the more important reasons for their lower growth are associated with the “growth-diluting” forces that usually accompany the introduction of liberal democracy. For instance, a democratic society is under greater pressure to divert resources meant for economic growth to address many social issues such as more healthcare provision and more pensions, which is an economic trade-off for greater equality or social justice.

While the implications of the foregoing arguments, based on the EA development experience, show no direct relations between political democracy and economic development, they nonetheless strongly suggest that democracy follows closely at the heels of successful economic development. In other words, all successful economies will, in time to come, become politically democratic. Once they have achieved their economic take-off, domestic political forces and social changes will be fast at work to push the country towards a more democratic system.

The reasons are very simple. Successful economic growth, in bringing about a general rise in incomes, will also bring about the rise of a better-educated middle class, who will want a greater say in social policy and the political process. And that sows the seed of a sustainable democracy. Therefore, one can argue that it is just a matter of time, and a
matter of sequence. Every country will get there, first economically and then politically. Such is the underlying meaning of the “Political Flying Geese” model for EA democracy!

**For China Now, Faster Democracy?**

The Chinese pattern of economic development and political reform can fit in very well with the EA model of development. The Chinese leadership believes that it would be plainly unrealistic for a big and diverse country like China at its present stage of development to take such drastic political transformation as instituting a Western style of liberal democratisation. This would simply bring more disorder (luan) to China. Nor will political democracy necessarily facilitate or sustain China’s present dynamic economic growth.

At the same time, the Chinese leadership in recent years has undertaken many reforms and introduced many measures to make the political system more open. These include greater intra-Party democracy, local elections, legal and constitutional protection of the citizens’ rights, appointments of officials based on merits, and the like. Without doubt, the Chinese leadership has taken its first steps in political reform. The critical question is whether the time is now ripe for China to undertake bigger stride towards bolder political reform.

Looking from the outside, one can see at least two favourable preconditions for China to move faster towards greater liberal democracy in the not-too-far future. Firstly, the Chinese economy today without doubt has achieved successful take-off, and its growth is sustainable. With its per-capita GDP currently around US$3,800, China has just fulfilled its broad development goals in terms of provision of basic needs for the people and the reduction of poverty —i.e. towards what the Chinese called the *xiaokang* (moderately well-off) society. This is by no means a simple achievement for the Chinese leadership, which has earned its well-deserved economic legitimacy. In contrast, many Third World countries, which may have elected governments, remain politically and socially unstable precisely because they have failed in their economic performance and hence gained little legitimacy. Hence we can see in China an increasingly confident and highly adaptive political leadership. And this provides optimism for greater political reform.

Secondly, China at its present stage of development is actually facing many political and social challenges from rising income inequalities and regional disparities to rampant corruption and rent-seeking activities. To be sure, many of these problems are the by-products of fast economic growth and successful market reforms. With further economic growth, many of these problems can be resolved or alleviated. But a more pluralistic political system and a more open society can certainly help the government to cope with these problems. The Chinese leadership will sooner or later come to realise this and move ahead with faster political reform.

In the experience of East Asia, once its economies had attained self-sustained growth, political and social conditions would surface to bring about a smooth transition to political liberalisation and democracy: Japan in the 1950s, Korea and Taiwan in the late 1980s, and Hong Kong after 1997. For these economies, their democratisation drive was
mounted only after they had experienced successful economic development, i.e. when their per-capita GDP had exceeded US$10,000, which is the common standard for a developed economy. Incidentally, this also explains why the democratisation experiments in many Southeast Asian countries have proved more problematic because their democratisation is ahead of their successful economic development.

China today is still clearly a developing economy with many formidable economic and social problems. But does it need to wait for another 10 years or so to introduce liberal democracy in one shot, in a manner of a great paradigm shift? In the meanwhile, would better governance be a better choice for China at its present stage of economic development?

**Or Better Governance?**

Broadly defined, “good governance” is about the “exercise of economic, political and administrative authority to manage a country’s affairs at all levels”, with special consideration for such good universal norms and practices as participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness and

| TABLE 1 EAST ASIAN ECONOMIC PERFORMANCE INDICATORS |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                   | Population (mn)   | GDP per capita (US$) | Total GDP (US$ bn) | Growth of GDP (%) |
| China                             | 1338             | 3,248              | 4,222             | 5.2               | 5.5 | 10.3 | 9.7 | 10.4 | 9.6 | 8.7 |
| Japan                             | 127              | 38,100             | 4,844             | 10.9              | 4.3 | 4.1 | 1.3 | 1.6 | -0.6 | -5.3 |
| **NIEs**                          |                  |                    |                   |                   |     |     |     |     |     |     |
| South Korea                       | 48               | 17,445             | 857               | 8.6               | 10.1 | 8.9 | 5.7 | 4.5 | 4.6 | 0.2 |
| Taiwan                            | 23               | 17,340             | 401               | 9.2               | 9.7 | 7.9 | 5.7 | 4.1 | 1.9 | -4.0 |
| Hong Kong                         | 7                | 31,867             | 224               | 10                | 9.3 | 6.9 | 3.8 | 5.2 | 2.8 | -3.0 |
| Singapore                         | 4.6              | 33,475             | 154               | 8.8               | 8.3 | 6.7 | 7.4 | 5.8 | 1.9 | -2.1 |
| **ASEAN-5**                       |                  |                    |                   |                   |     |     |     |     |     |     |
| Indonesia                         | 240              | 2,175              | 510               | 3.9               | 7.2 | 6.1 | 3.8 | 5.2 | 6.1 | 4.5 |
| Malaysia                          | 25.7             | 8,497              | 215               | 6.5               | 7.9 | 5.3 | 6.5 | 5.5 | 5.1 | -2.2 |
| Philippines                       | 98               | 1,735              | 169               | 5.1               | 6   | 1   | 3.3 | 5.1 | 4.6 | 0.9 |
| Thailand                          | 66               | 4,179              | 272               | 8.4               | 7.1 | 7.6 | 3.8 | 5.2 | 3.6 | -2.8 |
| India                             | 1,166            | 1,060              | 1,237             | 3.4               | 3.6 | 5.8 | 5.5 | 7.9 | 6.6 | 7.4 |

*Source: World Bank, World Development Report, various years*
efficiency, accountability and strategic vision.\textsuperscript{4} It is clear that good governance is vital for successful economic development, which depends heavily on adequate institutions such as a good regulatory and legal framework, and effective government. Indeed, good governance has been the underlying factor for EA’s economic success.

At the same time, good governance is also most crucial for the establishment of a functioning liberal democracy. Scholars have written a lot about the close relationship among good governance, democracy and economic development.\textsuperscript{5} In the words of Nobel laureate Douglas North, good institutions beget good governance. It follows that good governance begets successful economic development while it also begets good democracy, as both successful economic development and sustainable democracy depend on good institutions.

For China today, therefore, its immediate challenge and high priority is to concentrate more on strengthening its institutions and improving governance, not introducing liberal democracy. Basically involving institution-building, good governance will not only further promote China’s economic growth and social development, but also prepare the ground for the realisation of democracy in future. It may be stressed that better governance is not a substitute for the final goal of democracy; and indeed, it just lays a strong precondition for a good democracy to evolve.

Still Ground for Optimism

In recent years, the Chinese leadership has been under mounting pressures to carry out more and fast political reform. In response, the Chinese Communist Party has started to expand “intra-party democracy” and hold local elections. One may take issues with the speed and scale of such political reform process, but the direction is nonetheless clear. The top leadership is fully aware of the need for more political reform and greater political and social opening-up. President Hu Jintao during his visit to Washington DC (April 2006) openly declared that “without democracy, there would be no modernisation”. More recently at a meeting in Shenzhen, Premier Wen Jiabao had also reaffirmed China’s long-term goal of democratisation.

There is therefore ground for optimism that eventually China will be democratised, albeit gradually, as its economy continues to sustain high growth. China’s economic reform and development has been so eminently successful precisely because it has followed Deng Xiaoping’s gradualist approach. Such is the “reform and development with Chinese characteristics”. China’s political reform or democratisation is now being carried out also gradually and experimentally. The process may be long, but step by step, it will get there. Such is “democratisation with Chinese characteristics”. \textsuperscript{5}

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\item \textsuperscript{4} UNDP Report, Governance for Sustainable Human Development (1997)
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