Introduction

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The year 2008 marks the 30th year of China's reform era.[1] By any measure, it has been a remarkable three decades for China and the world. Thirty years ago, China languished as a closed economy with several hundred million people living in abject poverty. Today, it is a major engine for world economic growth and boasts of a rising middle-class and the world's largest foreign exchange reserves. One cannot talk about world trade without mentioning China. While direct trade between China and the United States was minimal at the end of the 1970s, today it would take the American consumer extraordinary perseverance and ingenuity to live without goods "Made in China".[2]

Though China celebrates 30 years of near-double-digit economic growth, the mood in China is not nearly as festive as the fireworks at

[1] Here we are following conventional wisdom and date the start of the reform era from the Third Plenum of the 11th Party Central Committee held in December 1978. We recognize, however, that other perspectives on the start of the reform era exist.

[2] Sara Bongiorni, *A Year Without "Made in China": One Family's True Life Adventure in the Global Economy*, New York: Wiley, 2007.

the Beijing Olympics seem to indicate. China has come a long way in the transition from state socialism to a modern market economy and there have been significant increases in terms of both individual and national wealth as well as national power. Yet, there is also considerable reflection on where China has fallen short and how China should do better. In laying out a vision for building a well-off society (*xiaokang shehui*) by 2020, China's leaders have emphasized the need to shift from an all-out pursuit of economic growth to more balanced development, which means less income inequality, less regional disparity, more social justice, better protection of the disadvantaged, more energy efficiency and more environment-friendly development. Maintaining a high level of economic growth remains important, but the pattern of growth should shift from urban-biased to broad-based, from fixed investment-driven to domestic consumption-driven. With one-party rule as the bottom line, the CCP (Chinese Communist Party) is redefining its policy priorities to better tackle socioeconomic issues arising in the process of transition.

To take stock of China's accomplishments over the past three decades and to consider the challenges it still faces, the East Asian Institute at the National University of Singapore convened an international conference on *China: The Next Decade* in 2007. The conference was part of a series of lectures and conferences held to commemorate the East Asian Institute's 10th anniversary. The chapters in this volume are selected from the papers presented at the conference, except for the contributions by Eswar Prasad and Sarah Tong and Yi Zheng. With eight papers divided evenly on China's economic, social and political development, we believe this volume offers a balanced yet in-depth assessment of the challenges facing China in the next decade.

Economic reform has been central to China's reform agenda in the past three decades. Yet, China's very economic success, especially its reliance on export-oriented growth, has engendered new complexities for policymakers. Take the issue of foreign exchange reserves. In 1993, the Chinese government had to sharply devalue the Chinese currency because it had virtually run out of foreign exchange. Since then, however, China's foreign exchange reserves have ballooned to some US$1.5 trillion (as of the end of 2007) and the hefty reserves have become a symbol of China's trade prowess, a sign of trade imbalances, and a potential source of liability for China's foreign exchange managers. In Chapter 1, Eswar Prasad makes the case that China has reached the point where reforming its exchange rate regime should become a priority. Prasad notes that China's tightly controlled foreign exchange regime has hindered financial sector development and lowered real rates of return for households. He suggests that it would be in China's own self-interest to shift to a flexible exchange rate. Exchange rate flexibility is a prerequisite for an independent monetary policy, which in turn is a prerequisite for financial institutions to operate in accordance with market principles. Exchange rate flexibility, in connection with a more independent monetary policy and a more market-driven banking system, will likely better prepare China's economy for internal and external shocks.

The impact of China's rise to the ranks of the world's leading trading nations is the subject of Chapter 2 by Sarah Tong and Yi Zheng. In particular, Tong and Zheng highlight China's role in global production networks. On the one hand, China buys heavily from neighboring economies for further processing and assembly. In this process, while China has become the center of regional production networks, it has nonetheless accumulated a large trade deficit with its neighboring economies. On the other hand, products made and assembled in China based on imported inputs from the region are destined for export to the United States and the European Union, resulting in mounting trade surplus on the Chinese side. Tong and Zheng conclude that as China remains competitive in labor-intensive industries, China's trade imbalance with its major trading partners will persist for years to come.

China's breakneck growth has not only given rise to external imbalances, but has also been accompanied by unbalanced development domestically. Despite the continued leadership of the CCP, China has over three decades transformed itself from one of the most egalitarian economies to one of the most unequal in Asia. Even though various welfare measures have been introduced in recent years, protection for the vulnerable remains minimal. Meanwhile, rapid economic growth has come at the expense of the environment. In response to various injustices as well as corruption, there has been a sustained rise in strikes, protests and riots. It therefore behooves us to ask whether China is facing a revolution of rising expectations and whether the large number of "mass incidents" poses a significant political challenge to the Communist Party-controlled regime. Andrew Walder addresses this issue in Chapter 3. He analyzes the causes of recent protest waves, disaggregating them into three broad categories depending on whether they are related to the decline of the previously dominant state industrial sector, the expropriation of farmland for non-agricultural development, or the rapid commercial real-estate development in urban areas. He notes that by and large the recent protests do not involve politically strategic populations, such as rank-and-file Party members, government officials and white-collar workers and professionals who are winners in the recent rapid economic expansion. Except for purchasers of apartments, few of the protest groups are located in politically strategic regions or enterprises. In sum, the recent waves of protest are a response by scattered pockets of the population in a period of rapid structural change and are unlikely to culminate in a serious political threat to the CCP.

Not that China's leaders are taking any chances. Despite all the talk about promoting democracy and the rule of law, the Chinese leadership has invoked various measures including the presence of widespread social pressures to justify taking a tight rein. Politically, the ruling oligarchy in the CCP has paid special attention to leadership succession, crucial to the survival and vitality of any organization. At the 17th Congress of the CCP held in late 2007, leadership reshuffle for the next five years and beyond topped the agenda as the Chinese leadership begins to prepare for the post-Hu Jintao/Wen Jiabao era. In Chapter 4, You Ji dissects the political significance of the 17th Party Congress. You argues that since the death of Deng Xiaoping, China's elite politics has been shifting from one ruled by a supreme leader to one where informal politics and deepening institutionalization prevail. You suggests that a consensus has emerged among Party elites that all should rally behind the successor regardless of one's "factional" affiliation. Seen in this light, the 17th Party Congress and its initiatives represent another step to hold the Party together and in power.

Besides political and social changes, demographic change is also an important factor affecting China's long-term prospects. In Chapter 5, Ding Lu offers a demographic perspective on China's growth sustainability. In the past three decades, China's economy has benefited from an abundant supply of cheap labor. As the Chinese population is ageing rapidly, such a "demographic dividend" is likely to diminish quickly. The proportion of China's population aged 15–64 is projected to peak around 2015 and to decline thereafter. This change will undermine China's comparative advantage in labor-intensive exports. Lu reviews different proposals for tackling this emerging new challenge, and suggests that China should capitalize on what he calls a "second demographic dividend" as demand for assets to support old-age consumption is likely to motivate the working population to save more, invest more and work more efficiently.

After the SARS outbreak in 2003, China's leaders recognized the need to pay more attention to social development. Concerted efforts have been made to reduce peasant burdens and to expand the social safety net to rural residents, workers in the non-state sector, and non-working populations in the cities. In Chapter 6, Edward Gu provides a timely update on China's new healthcare insurance reforms. China has established three public health insurance schemes — one for the working population in the cities, one for the non-working population in the cities, and one for rural residents. Launching a new round of healthcare reforms in early 2008, the Chinese government will increase public spending on healthcare and may consolidate the three public health insurance schemes into a three-tier public health insurance system, with an ultimate goal of expanding basic health security to the entire population. In this connection, significant reforms to improve the delivery of healthcare services are also being considered. The changes in the Chinese government's health policies as well as welfare policies in general will in time result in a significant redefinition of China's frayed social contract.

Another dimension of China's dynamic state–society relationship is ethnicity. While ethnic minorities comprise a relatively small percentage of the total population, they nonetheless number more than 100 million. In recent years, China's leaders have invoked the need to combat terrorism to highlight the challenges from Turkic separatists in Xinjiang. In Chapter 7, Peking University Professor Rong Ma proposes that China learn from its own historical heritage for ways to maintain good ethnic relations. Over thousands of years, China has developed a tradition of "culturalization" in dealing with ethnic relations. According to Ma, the tradition of culturalization helped produce a united-pluralistic polity with a huge population that was culturally assimilated and economically integrated until the late Qing dynasty. This tradition was interrupted, however, when the CCP took control and began to adopt the ethnic policy of the former Soviet Union in the 1950s. The Soviet-style ethnic policy has served to accentuate ethnic differences and led to the "politicization" of ethnic minorities. In Ma's view, "politicization" reinforces the identity of individual ethnic minorities at the cost of a unified national identity. As an advocate of nation building, Ma calls for the Chinese government to adjust its rigid ethnic policies and return to the traditional strategy of "culturalization".

In the final chapter, Tianjian Shi uses survey data to assess public attitudes towards democracy in mainland China by comparing them with those in other Asian societies, including Hong Kong and Taiwan. While democracy is a widely accepted value, Shi makes some interesting inferences about the popular understanding of democracy in Asia. He suggests that Asian values seem to exist as far as democracy is concerned. In particular, Chinese on mainland China were of the view that they are already enjoying much democracy, while the people on Taiwan thought that there was more democracy than they wanted. To many Chinese, a democratic government is a government "for the people", not necessarily a government elected "by the people". Thus, the Chinese public's commitment to "democracy" does not lead to a straightforward rejection of authoritarian regimes. The existence of such public attitudes towards democracy thus raises provocative questions about the prospects for democratization in China.

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