**Before and After Hu**

Is China Better Off Than It Was Ten Years Ago?

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*A semi-finished portrait of incoming Chinese leader Xi Jinping. (Siu Chiu / Courtesy Reuters)*

For the first time since 1992, the United States’ and China’s political calendars are syncing up, with presidential elections in the former and a leadership transition in the latter. But unlike in the United States, where Mitt Romney would have hadto defeat President Barack Obama in a national election to win the White House, Xi Jinping, who is expected to take office as China’s next president this month, will not face an open contest against the incumbent, Hu Jintao. If the Chinese people were allowed such a choice, however, they would likely ask the [perennial question of U.S. presidential elections since the time of Ronald Reagan](http://www.youtube.com/watch?v=loBe0WXtts8) [1], albeit in a slightly modified form: Are you better off now than you were ten years ago?

Despite all that is made of China’s spectacular rise, the numbers show that many people in China would likely answer no. As Hu prepares to leave office, China is prosperous but staggeringly unequal, and strong but profoundly insecure. Indeed, in recent years, China has experienced intensifying clashes between bottom-up demands for social equality, individual freedoms, and environmental stewardship and the Chinese Communist Party’s aggressive defense of the status quo. On the whole, Hu and his premier, Wen Jiabao, are handing the new Xi administration an economic legacy that is far from stellar and a society that is shakier than the one they inherited. More important, they are leaving behind a political environment that is likely more corrupt and stifling than the relatively entrepreneurial and liberal era of the 1990s. This is in part because the government’s role in the economy grew, which meant that those who possessed political power could translate it into financial gain. Meanwhile, those lacking political connections -- the vast majority of Chinese -- saw their economic opportunities shrink as money flowed toward the political classes.

IT’S NOT CHINESE CALCULUS

One obvious metric to assess the performance of Hu and Wen is economic growth -- and grow China did, from a GDP of $1.5 trillion in 2002 to $7.3 trillion in 2011, while maintaining an average GDP growth rate of ten percent. As the economic pie expanded, overall income surged, with average annual earnings among urbanites increasing from $1,000 in 2002 to $3,500 in 2011. Rural residents saw their incomes rise even more sharply, but given that their earnings averaged a meager $300 in 2002, they had nowhere to go but up.

It is no coincidence that over the same period, China’s exports boomed as industrialization of a monumental scale took place and manufacturing provided income to hundreds of millions of workers who left the farm for higher earnings in the city. Although China’s decade of hyper-industrialization followed its entry into the World Trade Organization in 2001 -- the year before the current regime came to power -- the Hu administration played an important part in the story. By standing fully behind the broad political consensus on the “growth imperative” and championing a liberal trade regime, Hu and his associates consistently helped China achieve growth rates that were the envy of emerging markets.

But this massive growth has come at a cost. As China’s trade surplus ballooned to $155 billion in 2011, its economic prospects became excessively dependent on foreign demand, and its growth has come at the expense of domestic consumption. According to official data from the National Bureau of Statistics, over the last decade the decline in the portion of Chinese GDP represented by domestic consumption has been almost entirely offset by the rise in investment. The transformation of Shanghai, [whose skyline has become one of the most imposing in the world in less than 20 years](http://www.businessinsider.com/shanghai-1990-vs-2010-2010-6) [2], is a testament to the investment addiction. When the financial crisis of 2008-9 swept from Manhattan to Shanghai, the vulnerable Chinese export sector collapsed, prompting Beijing to deploy a hastily concocted $600 billion stimulus package that saved the economy but deepened already significant imbalances. Despite these setbacks, Hu and Wen can claim that they rescued China’s economy from the brink of catastrophe and that average Chinese incomes rose steadily under their watch.

Yet the boom has benefited the Chinese people unevenly while imposing hefty environmental costs on everyone. The amount of energy required to power China’s industrialization led the Hu administration into an aggressive buying spree for natural resources. As a result, China’s total energy consumption more than doubled during the decade, from about 1.6 billion tons of standard coal equivalent in 2002 to 3.5 billion tons in 2011. Moreover, the International Energy Administration reported that China’s energy consumption surpassed that of the United States in 2009 (2.3 billion tons versus 2.2 billion tons), enraging Chinese officials, who vehemently deny that the numbers are accurate. Even more worrying is that energy intensity -- the amount of energy it takes to generate one unit of GDP -- began to climb in the early 2000s, after having steadily declined throughout the previous decade. In other words, Chinese industry was not only expanding at a breakneck pace; it was also becoming highly energy inefficient.

The bulk of this energy consumption came in the form of coal, whose dominance in China’s energy mix has remained remarkably constant despite increases in the use of natural gas and renewables. To illustrate, in 2010 coal still constituted 70 percent of China’s total energy mix. And this is no minor concern: A coal-powered economy possesses severe built-in flaws. The pollution in China today is so bad that, more often than not, the Chinese capital seems to be wrapped inside a gray cocoon of haze. The result is a growing public health issue, where reported cases of pollution-related lung diseases are on the rise. And there is also the risk of death in coalmines. In 2002, there were reportedly some 7,000 coalmine-related deaths, about 20 per day. To be fair, the Hu administration has cracked down on illegal mining activities to reduce fatalities, which became a focus of public concern and embarrassment to the government. The coal safety campaign has been successful in drastically reducing the number of deaths over the past ten years, yet total deaths still hovered around 2,000 by 2011. As if to remind the Hu administration that the problem is far from fully resolved, an explosion in a coalmine in southwest China claimed another 40 lives in August 2012.

This alarming appetite for energy is indicative of a larger narrative about the Hu administration: In its haste to stimulate economic growth, Hu and his associates sacrificed the Chinese people’s quality of life in the process. Combined with relative openness to the outside world, this trade-off has transformed Chinese society in ways that risk destabilizing the political system, by producing unsustainable social inequality even as prosperity created an emergent middle class. Inequality has become such a major political concern for Beijing that it has stopped publishing an official Gini coefficient -- a widely used standard for measuring income inequality. Recently, however, Li Shi, an academic at Beijing Normal University, estimated that China’s Gini coefficient is approaching 0.5, well above the 0.4 level experts consider socially destabilizing.

Beijing now also hides the number of so-called mass incidents -- vaguely defined as localized protests, riots, and other violent actions involving at least 100 people. These statistics had historically been reported by China’s Public Security Ministry. The last government figure, from 2005, reported nearly 90,000 incidents. Although Beijing has been officially silent on the matter, one sociologist from Tsinghua University recently estimated that “mass incidents” doubled between 2005 and 2010. Covering up such data merely heightens popular suspicion that social tensions are worsening in China and that labor unrest has become both more frequent and more intense, with the Foxconn factory riots in September only underscoring the point.

The scarcity of public goods such as health care is also a crucial component of worsening social inequality. Although China remains a nominally socialist country, government spending on health care has declined, while personal medical expenditures have risen considerably over the last decade; in 2010, personal outlays represented 35 percent of total Chinese health-care expenditures, compared with less than 30 percent accounted for by government spending. To put it plainly, over the past ten years, Beijing has allocated money primarily to support economic growth, not the welfare needs of the Chinese people. Indeed, from 2002 to 2011 -- the same period that China’s economy more than quadrupled -- overall health-care spending as a percent of GDP remained constant at 4.8 percent.

Finally, on the foreign policy front, Hu has presided over a number of victories but also some dangerous setbacks. On the positive side of the equation, China has drastically improved its relationship with Taiwan during Hu’s tenure, especially since the election of Taiwanese President Ma Ying-jeou in 2008. Once Beijing’s thorniest national security issue -- and certainly the one that was most likely to cause a military conflict with the United States -- cross-strait relations have entered a period of rapprochement, with economic integration inching Taiwan closer to the mainland every day. Furthermore, Hu’s patronage of China’s space program, which led to the country’s first manned space mission earlier this year, also deserves praise. But Hu’s foreign policy errors have been just as noteworthy as his successes. In Hu’s last two years in office, China flashed its teeth in a show of regional assertiveness, unnerving its neighbors and prompting the United states to rebalance its strategic priorities to Asia. And even as Hu prepares to step down in a couple of weeks, the latest Sino-Japanese tensions continue to boil with no resolution in sight. China’s stable regional security environment, which took at least a decade to build, is on the precipice of disorder.

A NOT-SO-PHOTO FINISH

Under Hu’s watch, China hosted its first Olympics and leapt to become the world’s second-largest economy, inspiring both awe and trepidation. Yet Hu and Wen are leaving office with a slowing economy, increasing popular protests, and a growing credibility gap with the Chinese middle class, which is weighed down not only by inequality but also by constraints on political freedoms. Despite Beijing’s successes over the past decade, it would be difficult to justify a ringing endorsement of the outgoing administration.

That so many domestic problems are coming to a head at the same time reveals that the premises on which China’s economic miracle have rested are proving untenable in the long term. A growth model predicated on investments and exports now faces depressed global demand. A political system that has ostensibly delivered on expanding the economic pie now has to divide that pie more equitably instead of simply enriching itself. And a formerly stable regional security environment is now giving way to fissures that could easily spiral out of control if not properly managed.

It is little wonder that bottom-up social pressures are building in China and that such pressures risk destabilizing the entire political system. Indeed, the most remarkable transformation that the Chinese Communist Party (CCP) has undergone in the past decade is not its shift toward market capitalism but rather its evolution into an elitist political organization that enjoys preferential access to economic opportunities at the expense of the average member of the Chinese middle class. A recent flurry of reports from Western journalists exposed that top Chinese officials have accumulated immense wealth with little transparency. Even Wen’s avuncular and humble public image has been shaken by revelations that he may have amassed as much as $2.7 billion. Consequently, achieving greater equality and economic fairness -- and therefore mitigating instability -- has become as much a political concern for Beijing as an economic one.

Rarely has the Hu administration viewed further political liberalization as the answer to growing economic and social ills. If the incoming Xi administration fails to recognize that political changes are necessary to untangle the complexity of China’s mounting challenges, the CCP could well find its own political resilience seriously tested over the course of the next decade. Tolerating more transparency and accommodating the rule of law are among the key reforms that could mitigate the pressures on the political system. But if Beijing continues to resist, when the next major transition comes in 2021, rather than celebrating its 100th birthday, the CCP could be pondering how it let its power slip away.

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