



## **START OF TRANSCRIPT**

CLEMENT PALIGARU:

Hello. I'm Clement Paligaru and welcome to *Ear to Asia*, the podcast from Asia Institute, the Asia research specialists at the University of Melbourne. In *Ear to Asia* we talk with researchers who focus on Asia and its diverse peoples, societies and histories.

In this episode, is China's selectocracy the secret to its economic success?

How do we explain China's economic miracle without taking into account the nature of its political system? In the four decades since the so-called opening of China in 1978, hundreds of millions of Chinese people have been lifted out of poverty, an economic feat without precedent. Yet the image of China's political order with its one-party, non-democratic and historically anti-capitalist structure may seem at odds with the country's achievements.

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Some argue that China's success comes in spite of, not because of its political system, that it's down to merely economic reforms and good policy, or that it grew from China's entrepreneurial culture, or that the astonishing economic and business expansion we have seen are thanks to factors like corruption and clientelism.

But according to our guest on *Ear to Asia*, development economist Yang Yao, those factors can be found in other less successful developing economies, and so don't give us the whole story. He argues that China's practice of selecting rather than electing its leaders, together with ensuring a pragmatically disinterested government offer real economic benefits and provides key lessons to other developing economies.

Yang Yao is a professor at the China Center for Economic Research and the National School of Development at Peking University. He has published numerous articles and books on economic transition and development in China and is also a prolific writer whose work appears in the *Financial Times* and *Project Syndicate*. Professor Yao is in Melbourne as an Asia scholar at Asia Institute's Centre for Contemporary Chinese Studies.

Yang Yao, thanks for joining us on *Ear to Asia*.

YANG YAO:

Thank you, Clement.

CLEMENT PALIGARU:

Firstly, you claim that the ways that many, especially in the west, have tried to explain China's amazing record of economic growth over the last four decades, don't stand the test of international comparison. What do you mean by that?

YANG YAO:

I think that it's not just western scholars but also Chinese scholars. To me, I think they have all missed this international comparison aspect of China's economic growth. Let's just think about economic reform. China used to be an planning economy; after reform, China has been transformed at least to a mixed economy, capitalism plus economic planning. That's a model that has been adopted by many, many countries. If you look around the world, which countries still have this planned economy? Probably you can only name one or two.

So I don't think [the] market can completely explain China's economic success. It probably is a necessary condition but it's not sufficient. Then people have said, hey, it's because of the Chinese culture, Chinese people work so hard. That may explain some aspects of China's success but we have to admit most peoples in this world are hardworking people. They all work very hard. You go to Africa, African people work so hard; you go to South Asia, they all work very hard, but not all the countries have succeeded. That's why I just came down to the political economy side, to study the interplay of politics and political system and economic performance.

CLEMENT PALIGARU:

So what's different about China's system? What's unique about it? And this is the political system I'm talking about.

YANG YAO:

Well, the Chinese system definitely is a non-western-style democracy. I can characterise it as a mixed polity. It certainly has democratic elements. We do have elections, particularly at a grassroots level. If you go to the village, village government is elected by the people. Then we also have the indirectly-elected system to elect what we call the People's Delegates to the People's Congress, which is the legislative body in China. But those elections are indirect.

We only elect those delegates up to the county district level and up from there delegates are elected by those representatives. But I think a distinctive feature of the Chinese political system is there is a central organisation which is called the Communist Party of China, or CCP. The CCP controls the appointment of most local and central leaders; those leaders are not directly elected by ordinary people like in a western democracy. That is a distinctive feature and also a defining feature of the Chinese system. And for that matter, I can also call the Chinese system a CCP system.

CLEMENT PALIGARU:

Chinese Communist Party System.

YANG YAO:

Right. But the Communist Part is not a western-style political party. Probably in the past it was, but now I don't think so. It has gone back to the Chinese tradition. In historical China

we had a selection system called a keju ( 科举). Keju means if you want to become government official, you take a keju, then if you succeed you become a government official. But now the Communist Party just takes that role. So the party selects young people into the party, you become a party member, and if you want to enter the government, even if you are not a party member you can do that but you have to take the exam.

CLEMENT PALIGARU:

And this is why you use the word selectocracy to describe this unique political system.

YANG YAO:

Exactly, right. It is not a full-fledged democracy. So the CCP selects young people into the system. Now also, CCP controls the promotion of the government officials.

CLEMENT PALIGARU:

And you have identified some gaps and some improvements you see that can be made, but at the same time the Chinese constitution does still claim to be open, meritocratic and competitive. How does the constitution at this stage ensure that indeed, those are followed through?

YANG YAO:

That's actually one of the big myths to outsiders and western people believe that the Chinese system is closed because it is just a one-party system but the problem is that they haven't realised the party is open. When I say the system is open, basically the party is open to anyone who is willing to work for the country, particularly to work towards a goal to make China great again. If you have that conviction and you are good enough, then the party is going to take you into the system.

It's open but with qualification; that's why I say it's meritocratic. You have to meet a certain standard in order to get in. That's also a defining difference between the Chinese system and a democracy. In a democracy, there are a lot of shortcuts, like in the United States President Trump could just take the shortcut. He didn't have any governance experience but he could become the President of the United States. Not in China.

CLEMENT PALIGARU:

You're talking about a career shortcut there?

YANG YAO:

Right. The Chinese system is totally meritocratic. You have to meet certain standards otherwise you cannot get into the system. And also, it's competitive because you have to compete with your peers in order to get into the system and get promoted in the system.

CLEMENT PALIGARU:

Is there a tension between this process of political selection by the CCP and political representation of what the CCP stands for?

YANG YAO:

So when I say the Chinese system is a mixed system, I also want to point out we also have the People's Congress, the legislative body. Actually, by our Constitution, the power only rests within the People's Congress, so the delegates to the People's Congress should represent people. You are right, in China political representation and the selection process are just separate. It's not in a democracy, particularly in a parliamentary system. In a parliamentary system the leaders have to represent a section of the population, but in China the selection is through the Communist Party system; representation is done separately.

CLEMENT PALIGARU:

Where does China lie along the spectrum of democracy at one end and autocracy on the other?

YANG YAO:

That's a good question. If we say from zero to 100, zero means autocracy, 100 means a democracy, I would put China probably between 40 and 50.

CLEMENT PALIGARU:

Professor Yao, you alluded to the historical roots. What are the historical roots of China's selectocracy?

YANG YAO:

China started this meritocratic system in the Han dynasty, Western Han dynasty, which actually started from 200 BC. Now, starting from there we had a system of recommendation. Suppose you are a government official at a local level, at a county level,

you are responsible to discover new talent and you have to recommend talents to the central government. So that's the recommendation system. But after several 100 years, this system just became corrupt because you recommended, so there is a kind of clientelism developed in our system. So then in [the] Sui dynasty, particularly in [the] Tang dynasty, we developed this keju system, examination system. So everyone can take this exam. Everyone can become a government official if you are prepared to learn, if you successfully pass the exam. That system was in China for 1500 years until just shortly before the fall of the Qing dynasty in 1905 that system was abolished.

CLEMENT PALIGARU:

You have mentioned how officials are selected, but at the level of the individual, how do you become selected as a leader in China's selectocracy?

YANG YAO:

There is a debate over there among economists and political scientists. One group of people believe that the selection process is based on this patron-client system, so political connections were important in determining the promotion. Another group of people believe merits play a big role over there. I probably belong to the second group because I have done research on this and we have found that merits do play a role over there.

Of course, in our study we measure merits by leaders' capability to develop a local economy because that's the only measure we can find, or systematic measure we can find across region and across time. And we find that if you grow your local economy faster than your peers, you are going to have a higher probability to get promoted. I'm not denying political connections are important. Political connections are important in every country.

Even in the United States where you have a new President, 3000 positions are going to be changed, so that's kind of a political connection. That should not be the central issue. The central issue is whether merits do play a role in a system and whether this role is significant enough. If it is just trivial, now of course do need to care about it, but I think there are quite a few robust evidence to show that merits do play a significant role.

CLEMENT PALIGARU:

How does an individual actually make a career, and how long does it take?

YANG YAO:

The Chinese system, to a large extent, takes your determination. You have to enter the system when you are really young, like after university graduation. For example, in our university, our university actually has a program with the central organisational department. Our graduates, college graduates, master's graduates or even PhD graduates can volunteer to enter the system.

So they go down through the grassroots level, they start from a very low government official in their early twenties, and so they have to work there for 30 years in order to get to the top. But of course, many of them fail the competition, they just stop at the medium level. Nowadays, many of them actually just quit because they just sense they don't have a chance to get promoted. So it's a long, long process.

And for that, probably the system has to a large extent becomes rigid. It's very hard for creative people to enter the system because you have to stay in the system for 20 years, 30 years. You have acquired certain talents which are quite important to run a country, but also has the downside because you don't have creative people to enter the system. I'm not going to say that selectocracy is better than democracy on every aspect; definitely there are both pros and cons in both systems.

CLEMENT PALIGARU:

I'm Clement Paligaru, and on *Ear to Asia* we're talking with development economist Professor Yang Yao about the influence of China's political system of selectocracy on the Chinese economic miracle. Professor Yao, the Chinese Communist Party, as its name suggests, has clear ideological roots, yet you argue that the party has been depoliticised. How deliberate has this depoliticisation been?

YANG YAO:

It used to be a political party in a period of time. It was purely ideologically driven, particularly in the Cultural Revolution, and that was a disaster. I think the change has been brought out by the reform process. At the end of the 1970s, Deng Xiaoping became the leader of the party and he was always very pragmatic. He made this clear, we have to develop our economy.

CLEMENT PALIGARU:

So this is an international context that he's speaking?

YANG YAO:

Right. He's a great guy. He had this international perspective. He was comparing China with the rest of the world, particularly with east Asia. He had this idea that China lagged behind, so what can we do? We catch up by developing our economy. So in the '80s we had a series of changes then in the '90s we had this grand reform process to privatise our SOEs, state-owned enterprises.

Actually, in that 10-year period of time many people didn't know this, we actually privatised about 80 per cent of the SOEs. Of course, we still have a problem with SOEs but we got rid of most of the SOEs in this 10-year period of time. Because there were all those changes, the party just could not still claim it's an ideologically-based party. The party used to claim it's a working-class party but in those 10 years period of time, 50 million SOE workers lost their jobs. How can you still claim you only represent the working class? So by 2002 the party just launched the Three Representations, which means the party represents the fundamental interests of all Chinese people, not just the working class, and also the most advanced culture and also the most advanced productive forces. So the so-called Three Representations.

CLEMENT PALIGARU:

You have also labelled the Chinese Government as disinterested and that that's a good thing. What do you mean by that?

YANG YAO:

In any societies you find struggles between groups of people. You have poor people, you have rich people and there's sometimes a division. In western democracy you have parties that represent different groups of people, but in China the CCP does not represent any group of people.

In that sense, I call the CCP disinterested. Because there is a disinterest it has a free hand to do whatever it believes is good for the country in terms of economic growth and can put more resources for long-term economic growth. In many cases, it can be biased in terms of the policies. It gives a lot of resources, for example, to the SEZs, special economic zones. I still remember 30 years ago when I was young I really hated the SEZs because they enjoyed so many preferential treatments from the government. We outside the SEZs really hated them, but it turned out the SEZs were so important for China's opening-up.

CLEMENT PALIGARU:

From the outside, we do tend to see China's central government as all powerful and that it sets the rules at all levels, but how have local and regional governments in China played a role in China's economic growth?

YANG YAO:

Many people haven't realised China is the most decentralised country in terms of economic activities. Local governments have a lot of say for local economic affairs. The Chinese system is very interesting. Economically, is it really decentralised? Politically it is probably the most centralised country in the whole world, so that's a strange combination. But that has been a kind of solution for such a country.

You know, China is a unitary system. Of course, in the past we had a kingdom and we had the Emperor, the Emperor ruled the whole country, and then we had CCP. This is a vast, vast country and we don't have a federal system, and we have a unitary system. But in a unitary system you have to solve the incentive problem, how to give incentive to local government officials. So then we have found oh, economic decentralisation can give those guys a lot of incentives, but on the other hand, the central government has to control those guys. So by controlling their promotion, the central government just controls them. It turned out to be quite an interesting and effective system to give local government officials freedom and then also the central government controls power.

CLEMENT PALIGARU:

What are the limits then to the actual power that Beijing as the centre of government has at that local and regional level?

YANG YAO:

The limit is actually on the economic front. There's a lot of bargaining between the local governments and the central government, and believe me, in many cases local governments win. There's only one case in which the central government won, and that's our tax reform in 1993. At that point in time, the central government budget became so small, the budget was only about 20 per cent of the total government budget. The central government didn't have any power to do any redistribution let alone spending on investments.

So that was a dangerous point for the central government, so finally the central government decided to centralise some of the revenues. After that tax reform, central government controls a half of the regular budget, local government the next half. But local governments also have extra-budgetary income, in many cases, as large as their regular income. So the central government in terms of revenue is still weak.

CLEMENT PALIGARU:Clement Paligaru:

And yet you did say that it still controls the promotion of officials.

YANG YAO:

Right.

CLEMENT PALIGARU:

Now, does that mean that it's about economic growth and you'll be promoted?

YANG YAO:

Right. For a long time, it was just economic growth, that's the only criterion. That gradually has been changed, I think, over the last 10 years and the party wants to put more criteria into the promotion. For example, now environmental protection has become really, really important. If you have an environmental disaster, almost for sure you just are finished, you cannot get any promotion.

CLEMENT PALIGARU:

What are some of the internal contradictions or challenges that China's political system still needs to work on?

YANG YAO:

I want to mention several. One is that probably the CCP needs to develop a new theory for what has been done right in the last 40 years. So the CCP still has this orthodox Marxist doctrine in its formal documentary; it's not that related to reality. That I think is a huge challenge for the CCP.

The second, as I said, representation and selection are separate. We need to enhance the representation side to follow our Constitution to allow those people who have the capability, and also who have the willingness to serve as People's Delegates to enter the

system. And we need to strengthen the selection process to make the criteria kind of more broadly-based, not just economic growth.

CLEMENT PALIGARU:

Prof Yao, what are the challenges of researching this area?

YANG YAO:

There are a lot of challenges. My research is both theoretical and empirical. Theoretically, it's very hard to find a ready model to study China. Political scientists and economists have a ready model to start a democracy, for example the median voter theorem to start a democracy. But for China, we don't have a theory. I myself had to create a new theory. For the empirical side, you have to collect a lot of data; that's really time-consuming. The good thing is that I really have good students, master's students and PhD students and also some undergraduates, so I can rely on them to collect good data. Now I'm working with two young professors and about 15 graduate students, so we have built up a team so we collect a huge amount of data so we can work out many things in China.

CLEMENT PALIGARU:

Professor Yang Yao, many thanks for joining us on *Ear to Asia*. Those were very interesting insights and appreciate your company today.

YANG YAO:

Thank you very much.

CLEMENT PALIGARU:

We've been speaking about China's unique political system of selectocracy with development economist Professor Yang Yao from the China Center for Economic Research and the National School of Development at Peking University.

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