



## **Will China Become Another Indonesia?** by Minxin Pei

The fall of the Suharto regime in Indonesia in May 1998 was one of the swiftest reversals of national fortune in the developing world in this century. Although the immediate cause of its demise was the East Asian financial crisis, the deeper and more fundamental causes of the country's economic collapse and subsequent political turmoil were the accumulated institutional decay and stresses within the Indonesian political system.

The collapse of Suharto's regime had a profound impact on policy makers in China, who faced similar problems. To their credit, Chinese leaders quickly learned the main economic lessons of the crisis and adopted several reform measures that have temporarily shored up China's shaky financial system. Unfortunately, the preoccupation of China's leaders with the economic causes of the crisis has also made them oblivious to its deeper political and institutional roots.

Although a swift and spectacular regime collapse may be less likely in China than in Indonesia, the Chinese political system must contend with nearly identical weaknesses: systemic corruption and feeble state institutions that are incapable of protecting property rights or resolving conflicts between the state and society.

Together with Indonesia, China shares the distinction of being one of the most corrupt countries in East Asia. Data released in the Chinese official media show that corruption may cost China about 4 percent of gross domestic product each year. Measured in broader terms, however, corruption may take a much greater toll on the Chinese economy: stifled markets and looted public assets, weakened state capacity and increased financial risks, and undersupplied public goods.

China's dysfunctional fiscal system and weak institutions of political accountability (a concept without a full Chinese equivalent) are the two most important causes of systemic corruption. The political origin of such endemic corruption is the Chinese Communist Party (CCP)'s chronic inability to cleanse itself. The dilemma faced by the CCP was best summarized by the late Chen Yun, a senior leader known for his conservative ideology and economic policy: "Not fighting corruption would destroy the country; fighting it would destroy the party."

China's weak legal institutions incur real economic costs. Investors cannot be certain that their contracts and property rights will be secure. Although it is difficult to measure the economic costs of a weak legal system, reports in the official press indicate that they may be substantial, leading to fragmented markets, curtailment of private investment, and greater personal risks to business executives and entrepreneurs.

The weakness of the legal system reflects a larger problem that is the principal source of tensions within the Chinese state: the lack of federalist institutions and constitutional guarantees protecting the power of local governments from the infringement of central authorities. There are no effective constraints on the abuses of power by the central government. Local authorities thus protect themselves against such unpredictable shifts through well-known subterfuges. This cycle of opportunism is at the heart of the paradox of centralization and ineffectiveness—a seemingly all-powerful central government constantly stymied in its effort to implement its policies and enforce its laws.

Such puzzles are not unique to China. The Chinese state in the post-Deng Xiaoping era is among a handful of countries that have retained a peculiar 20th-century invention—the party-state. There are, however, long-term degenerative flaws in a party-state, which are all too visible in present-day China. The organizational decay and ideological decline of the CCP have greatly impaired state effectiveness. And despite an expansion in personal freedom and progress in creating mechanisms to mediate conflicts between the state and society, China still lacks effective and inclusive institutions and processes to resolve such conflicts and express the interests of its people.

Scholars of Indonesian politics believe that President Suharto had the opportunity to implement political reforms in the early 1980s after achieving a period of impressive economic growth and restoring political order to his country. However, instead of strengthening key political institutions and opening up the political process, the Suharto regime retrenched. For those who hold that autocrats never give up power voluntarily and must be ousted by their people, Suharto's fall was perhaps predetermined.

Will the same turbulent course of events repeat itself in China? Present-day signs are not encouraging. Beijing's procrastination on reform will only undermine China's political stability, instead of strengthening it. It is difficult to imagine that China can maintain high rates of growth (upon which the party's legitimacy precariously rests) if the costs of corruption are not cut through reform. The level of political instability may also rise, and internal tensions could build.

Then again, Chinese leaders today are perhaps better positioned than Suharto was at a comparable stage. A combination of pressures from the market and tactical political decisions has created or revitalized institutional arrangements that could constitute the building blocks for reform. But this window of opportunity for political reform will not remain open for long. Experience shows that autocratic regimes that reform from a position of relative strength generally fare better than those forced to reform by crisis.

The cold and cruel logic of political reform--those who can, will not; those who try when forced, cannot--has been tragically validated in all too many countries, Indonesia included. Now it falls to China to prove whether this logic is right or wrong.

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