

# BIG DATA CHINA

CSIS Trustee Chair in Chinese Business and Economics and  
Stanford Center on China's Economy and Institutions

TRANSCRIPT

*Big Data China Microfeature*

## **China's Post-Reform Trajectory: An Interview with Yasheng Huang**

FEATURING

**Yasheng Huang**

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MIT Sloan School of Management

Interviewed by:

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Ilaria Mazzocco: Welcome everyone my name is Ilaria Mazzocco and I'm a Senior Fellow with the Trustee Chair in Chinese Business and Economics at CSIS. Today, I'm here to conduct an interview for the Big Data China project, this is an initiative that the Trustee Chair has with Sanford's Center on China's Economy and Institutions, where we try and bridge academia and the policy making world.

Today, I have the pleasure to of having with us Professor Yasheng Huang, who is Epoch Foundation professor of global economics and management at MIT Sloan School of Management. Professor Huang is the author of 11 books in Chinese and English and two more books on the way as well as many academic papers. And for those who studied China's politics and economics like I did, I'm sure you have read many of his books and articles over the years so it's a real pleasure to have you here professor.

Yasheng Huang Thank you so much for inviting me here.

Ilaria Mazzocco This is the question I always ask all the scholars we engage with through Big Data China because we worry about research and making academic research accessible. I also wonder about how you conduct research. And so, you've been doing research on China's politics and the political economy for decades now. How has this changed over time, and, of course, I'm thinking about tensions between the US and China, Zero-Covid, the political environment in China, but also new technologies and access to different things. And I will note that your latest book is largely a historical analysis and relies on historical data.

Yasheng Huang The change is in one way from easy to difficult. In terms of doing field research, it was quite easy before 10 years ago, 20 years ago, you could just go and you could through your own connections or through the collaborators that you had in China, gain access to businesspeople officials, local officials, central government

officials, very easy. That has basically become extremely difficult and almost impossible right. So now to do that kind of research, especially talking to officials and even businesspeople, if you want to get their kind of honest opinion of what's going on it's almost impossible now.

In the other way it's become easier in the sense that data are more available. Data not only in the sense of released data by the government or survey data now we have the ability to construct data sets, websites, and documentary data. So increasingly we are pivoting from the kind of underground research to this kind of a data approach, for necessity as well as data research gives you kind of different insights as compared with the field research. Ideally the two should complement with each other, they should go together, but now given the political situation we just have to settle for data.

Ilaria Mazzocco

Yes, and speaking about research, collecting data, and fieldwork, you were one of the authors of the [landmark MIT report](#) on engaging with China as a university. This was a report that was widely read within academic fields but also in the think tank world. We looked at it very closely here. And so, I was wondering how is that going? Has the university adopted those recommendations and how is how has have things been playing out? And with the end of Zero-Covid, how has engagement with China at the university-level sort of proceeded?

Yasheng Huang

The report was written at the time when the U.S. government was actively targeting professors and many of them but not exclusively of Chinese ethnic backgrounds. Targeting them for performing and doing standard routine academic research with Chinese colleagues or having Connections in China. I have to say that the report played a very important role in highlighting those issues and highlighting the importance of open science, fundamental research, and the need to continue to collaborate with our Chinese

colleagues in this new geopolitical environment on critical issues such as climate change, public health food safety, and whole range of issues. But in the report, we also recognize that geopolitics has changed. There are extraordinarily complex issues between the U.S. and China. National Security, human rights, economic competitiveness. So, the report tries to chart a course where we can continue with the kind of productive research we have been doing with Chinese colleagues before but being mindful of these difficulties and challenges.

I think we're now in the stage where we're working on implementation and one of the key components of that is to raise the awareness of faculty, of graduate students, and of the university administrators about these complicated issues. I think we are doing a fairly good job with the report. That report has been cited and has been emulated by other universities and I think another purpose of the report is to send a message to the government that academia, and MIT in particular, is proactively thinking about this issue. We don't want the heavy hand of the federal government to regulate academic research.

Ilaria Mazzocco

That's great to hear because obviously it was a big issue and even on our Big Data China website we published some of the research that was done on the impact on actual academic output of these tensions. And of course one of the things that I heard repeatedly was that both professors and government wanted universities to take a more proactive stance of regulating itself on this front, so it's good to hear that that the impressive report that you put out has had a positive effect.

But let's move on to actual research and the research you've done. Your book [\*The Rise and Fall of the EAST\*](#), which is your last book and of course we'll talk a little more about your upcoming books, is – you know in political science there's always the people lament that there's no big idea books anymore and I would say this is a big idea book. It's bold, it's sweeping, it covers hundreds of years in

terms of history, and it makes some really interesting, it links very different issues and makes very interesting conclusions. I wanted to bring up a sentence that that really struck me in the book: “Chinese history is stacked against democracy.” I thought this was really a really striking sentence. I was wondering if you could speak a little bit about it and what you mean by this, and how it ties to the argument.

Yasheng Huang

One way we can think about democracy, the standard way, is separation of powers, elections, press freedom and all of that. Another way to think about democracy is that it has heterogeneity: diversity of views, diversity of party affiliations, and even diversity of personal choices in terms of gender, in terms of all these things at the personal level. Autocracy has the homogeneity, sometimes constructed, sometimes enforced, but a sharp difference between autocracy and democracy is the difference between that. I said that in the sense that Chinese history is all about homogeneity and they are building institutions, they're building mental habits, they are building traditions that are designed or have the effect of enforcing homogeneity and that makes adoption or migration to a democratic system more difficult.

By saying that I'm not arguing against democracy at all. All I'm saying is that it requires more efforts, more investments, more engagements to make sure that democracy can also develop and flourish in that environment. In East Asia we have successful examples of democracy: Japan South Korea and Taiwan. So, there's nothing about the culture in that region that says you cannot adopt democracy. What I'm trying to say in the book is that given how the culture is, given how the history is, it is unlikely that democracy is going to emerge organically and spontaneously. Therefore, it requires extra efforts and extra investments.

Ilaria Mazzocco

You make also this argument that this tension between heterogeneity and homogeneity within states also shapes the innovation and sort of the human capital within a country. Can you speak a little more about that?

Yasheng Huang

I talk about democracy and autocracy in terms of heterogeneity vis-à-vis homogeneity but one thing at least I have observed is, not just of China, but also of other countries, is that successful economic development, successful technological development, requires a balance between these two forces you can't just have one at the expense of the other. I think China scaled too much; I would argue. And you could argue that there are other countries that scoped too much. And when you look at these countries when they're most successful, they tend to be at the moment when they balance these two forces successfully. I would argue that between 1978 and 2018, China handled the balance of these two forces effectively and productively. And that's why the country had an economic miracle, had a degree of technological and scientific achievements, had globalization, innovations, prosperity. That was a rare moment in Chinese history because Chinese history tends to stack against that, it tends to go overboard on scale rather than on scope.

Now, my view is that China is moving back to its old formula of emphasizing scale at the expense of scope and there's a view among Chinese policy elites, and by the way this is not just Xi Jinping, it is actually a very pervasive view, that Chinese success is a result of government power. It is the result of the industrial policy, it is result of the organizational capacity of the government to construct big projects, to scale technologies, to launch big projects. I'm not saying that's completely wrong, all I'm saying is that that took place in the middle of evolving diversity of economic conditions, political conditions, and social conditions. That's not the single factor driving the success, it is also the diversity that was driving the success.

Ilaria Mazzocco

That really resonates with me because I have spent a lot of time the past few years looking at industrial policy in the context of Clean Tech supply chains, and in many cases, these are very creative, innovative private companies. It's just that they've received an extra boost by the government and so I think that's sometimes not even well understood outside of China. I think increasingly in the U.S. maybe there's this sense that these are sort of engineered companies that the governments decided to create and that's just not the case. Certainly there's been pervasive subsidies and help on the part of the government but you needed this other ingredient which was sort of company entrepreneurship and global supply chains.

Yasheng Huang

There is already diversity embedded in your observation. These are private sector companies. I cannot name a successful globally competitive state-owned enterprise. That enterprise can have all the support it wants to, and the government wants to lavish on such an enterprise, but because it's state-owned it has not been successful. TikTok is not state-owned, right. In a traditional sense, BYD is not state-owned. Huawei is not state-owned. Government operations now influence these companies, for sure, but in terms of ownership they're private ownership.

Ilaria Mazzocco

I think that raises the question for policy makers outside of China that the fact that now there is this creeping sort of influence or blurring of the line between exactly what is private and what is public makes a little harder to then sort of decide how to consider these companies as they become multinationals. In some ways it may not be to the benefit of these companies that there are such blurred lines within Chinese corporate ownership.

Yasheng Huang

I agree with that, I actually think that these subsidies and the government support today are doing more harm to these companies than they were benefiting these companies. I believe that the

competitiveness of these companies is sufficient enough to propel them to the global stage and the subsidies are an extra push, but I don't think without those subsidies those will be total failures.

Ilaria Mazzocco

Yes, and maybe the ones that wouldn't succeed would be the companies with the less attractive or good products. I completely agree with that.

Let's shift gears a little bit and talk a little bit about your next upcoming book which is an update on your previous book [\*Capitalism with Chinese Characteristics\*](#) and the new book will be called *Statism with Chinese Characteristics*. I think the topic will be this right, the sort of statism in China and opening and reform. Is opening reform over?

Yasheng Huang

In a very real sense, yes. The way I define the open era, the reform era is that it was a movement moving from Mao Zedong. It was an official act to move away from the era of Mao, and Deng Xiaoping engineered that shift in 1978. If you go back to 1978 and read the party document on the Cultural Revolution and Mao Zedong, it was a very honest and straightforward critique of Mao. It was official act to move away from Mao Zedong. One of the things that happened in 2018 was the revision of the Chinese Constitution that got rid of the term limits, mandatory retirement age, instituted by Deng Xiaoping. And Deng Xiaoping instituted those changes specifically to move away from the Mao Zedong era, so the way I define the reform era is from 1978, when the Chinese Communist Party officially moved itself away from Mao Zedong and then 2018, when officially the Chinese Communist Party decided to go back to the live tenure of the Mao Zedong era. That doesn't mean to say that economically speaking China now is exactly the same as China in 1976. Clearly there are some substantial differences. But I define the reform era first and foremost as a political act. In that sense, the reform era is over.



Ilaria Mazzocco

Picking up on that, you've argued that politics have shaped economics very deeply in China. You've sort of I would say rejected the idea that you have these economic reforms in a vacuum with no political reform in China and Tiananmen has been really a watershed moment in Chinese history, is that right?

Yasheng Huang

Yeah, so that's the key argument both in my 2008 book as well as in my fourth coming revised version of that book. But in this version, I make it even more clear that the pivotal moment was 1989 and the biggest change was politics. There were also economic changes, especially in rural China, but there were also economic reforms in the urban area that to some extent compensated for the reversions of the reforms in the rural area. So, it came out as a wash. So, you don't really observe that change very clearly, but because of these political changes that the leaders instituted after 1989 lay down the foundation for future political changes in a way that were quite damaging to economic reforms.

In particular the changes that Zhao Ziyang proposed in the 1980s to separate the function of the party from the state, to separate the political management of the government from the economic management of the government, transparency reforms, a degree of media freedom, and depoliticization of the Chinese bureaucracy, all these reforms were reversed immediately after 1989. So those were Zhao Ziyang reforms, what I argue in the book is that once you weakened or reversed these Zhao Ziyang reforms, you expose Deng Xiaoping, right. So, the bigger reforms introduced by Deng Xiaoping: term limits, mandatory retirement and government objective should be about economic development. These are the three biggest things that Deng Xiaoping introduced as political changes, you expose these three changes to an act by a future strong leader and that's exactly what has happened since 2018.

Ilaria Mazzocco

And so what is this new era?

Yasheng Huang

I think this era is going to be this tension between economics and politics. The Chinese economy moved away from central planning, from socialism, far away enough so that that reversing them will not be something very easy, unlike politics. So if the leaders after 1989 didn't reverse Zhao Ziyang reforms, it would have been much more difficult for them to reverse Deng Xiaoping reforms in 2018. But economics, that's more difficult because it's more distributed, because of the global connections, and also very importantly because the Chinese economy in a very strange way is extremely dependent on Western rich countries. We can talk about Russia, we can talk about global south all the way we want, the simple fact is that the biggest customer, the richest customer, and the customer that observes contracts and sales contracts is the Western countries. And China now has created this situation in which the final demand is weak, but the production capacity is incredible.

Overcapacity, the issue that Washington now is talking to Beijing about, that kind of situation forces China to be more dependent on the West. So we are seeing this kind of a curious situation in which politics and economics are moving in the opposite direction. On geopolitics, China is moving closer to Russia. Economically speaking, China is actually still quite dependent on the U.S. in terms of product market, to a lesser extent factor market, but technology I think we're going to see technology whether or not China is still quite dependent on the U.S. I believe it is, although Chinese leaders would disagree. But economically speaking, China is still quite dependent on the West but politically it is moving opposite from that, so within China you are also going to see these tensions.

The current government talks about big projects, industrial policies, science, semiconductors, big city developments, infrastructure. Okay you can talk about these things all the way you want, but these things require resources. Who is going to

generate resources? It's going to be the private sector. So there are tensions domestically between the political policy of cracking down on private sector and the financial and economic dependency on the private sector. These are the tensions that didn't exist before Xi Jinping and now these tensions are coming to the forefront of the Chinese economy, the forefront of the Chinese politics. They really have to resolve these tensions. Either they just go all the way to crackdown and private sector – then forget about these big things you want to do – or they have to revise their private sector policy to accommodate these big expenditure requirements.

Ilaria Mazzocco

I think this framework is actually quite helpful in understanding some of the inconsistencies in policymaking in China today, where you see this big push to attract foreign capital and at the same time you know the security state continues to expand, and you have actions that are actually quite threatening to foreign companies. And the same goes for private Chinese companies as well and you actually see all these Chinese companies that are setting up a headquarters in Singapore, for example. Which I think is certainly a reaction to de-risking in the West, but I think potentially also a derisking from China themselves.

You know I was hoping this was going to be the one conversation today where we didn't talk about overcapacity, but it seems like it's unescapable as a topic. But I think it actually ties into something else I wanted to ask you about which is, which you've written about over the years, and I think continues to be important, which is the sharpening inequality between rural and urban living standards, and also economic policy. Which you've argued are sort of a feature rather than a bug in the Chinese system. Can you talk a little bit about how that ties into consumption imbalances and inequality and etc.

Yasheng Huang

Currently in Washington the policy discussion is on EVs and solar, overcapacity is actually a macroeconomic concept not a microeconomic concept. The bigger issue for the Chinese economy is this macroeconomic imbalance between supply side and the demand side. For a continental economy the size of China, the second GDP in the world, the largest country in the world in terms of population, it is actually not so obvious it should be so dependent on the overseas market in the first place. The GDP has been growing 8-9% a year for 30 years and in the last 10 years it's growing 6% but still that's pretty fast. So, think about all these elements together: fast GDP growth, big population, big continental size, big GDP. One would think you would have this huge domestic consumption capacity to absorb the production that has been created and it shouldn't be so dependent on the rest of the world. In fact, one of the arguments for the rise of China is that the rise of China is going to bring about this huge demand for goods coming from other countries, from America, from Europe, and from other countries. That has not happened.

The way that the Chinese economic strategy is geared toward the production side, supply side of the economy, rather than to the final demand side. The fundamental reason for that, there are many reasons, but let me just name one is that the rural Chinese are essentially the missing picture here. The whole property boom and much of the GDP growth did not benefit proportionally the rural Chinese. Even today by the hukou standard, the rural Chinese still constitute 60% of the population, by residency standard it is constituting about 40% of the population. If 40-60% of the population are now gaining as much from 8% GDP growth rate, 10% of GDP growth rate, and from this massive property boom then you're going to losing they're going to lose that purchasing power from a significant portion of the population right. So that's actually the fundamental problem with the Chinese economy today. It is not narrowly about subsidizing EVs and subsidizing solar it has fundamentally to do with factor market, the land reforms are not happening, and the hukou reforms are not happening, the labor market reforms are designed to benefit the

capital at the expense of the labor. Scott Rozelle together with Natalie Hell wrote an [excellent book](#) about lack of investments in rural China in terms of education and public health. Those are actually the fundamental reasons driving up Chinese overdependency and I don't see any evidence of, first of all even awareness, of that problem among Chinese policy makers and let alone any concrete step to deal with that situation.

Ilaria Mazzocco

I will note that we had both an [event](#) and [a feature](#) highlighting the work of Scott Rozelle and in this area.

One final question is what you would think would be necessary to change this and fix this problem?

Yasheng Huang

Yeah, so if I were-

Ilaria Mazzocco

If you were Xi Jinping.

Yasheng Huang

Okay so that's a, that's a big task. I would deemphasize GDP, I would implement some of the reforms that have been happening experimentally at the local level, the hukou reforms were experimented in Chengdu, land reforms were experimented under Hu Jintao. There was a blueprint, and they were actually quite successful in terms of experiments. I would scale up and nationalize these reforms. You may not get an immediate bump of the GDP but fundamentally what you care about is not the GDP growth per se, it is the ability of the GDP growth to deliver tangible gains to the Chinese people. I would argue land reforms and hukou reforms are 20 years later than they should be, but you know it's better than never. And if they implement these reforms, you don't necessarily get a big bump of the GDP growth, you probably have to sacrifice a few percentage points of GDP growth, because those reforms are not going to give you bridges and

airports and new cities, that are in oversupply in any case. But those reforms are going to make sure that for each percentage point of the GDP growth the rural Chinese are going to benefit more from the GDP growth. So, even if you have 3% of GDP growth, 4% of the GDP growth, then you still benefit the Chinese people. So that would be the first thing I would do.

The second thing I would do is scale down the operations of the Chinese government. The Chinese government is actually extraordinarily expensive to operate. When the economy is growing at 8-9% a year, you don't notice how expensive the government sector is. When it is growing at 4-5%, you're going to notice how expensive the government operations are, and this is a perfect time to cut down on the size of the government in order to make sure that the households still get decent returns on their labor, on their investments. Private sector still gets decent returns.

And the third thing I will do is to repair the relationship with the West.

So, I will do these three things rather quickly.

Ilaria Mazzocco

I think that's a great agenda and we'll see if anybody in Beijing is listening to our program and find out if they decide to do anything. But I actually agree and actually have been arguing that the best thing that China could do right now to solve some of these tensions on the trade front is to signal that there's they're willing to take into consideration or even look at the kinds of reforms that might be necessary. That might actually be the least painful approach rather than sort of trying to deal with specific overcapacity in one factory versus another which I think is probably less in the long-term.

Yasheng Huang

Let me just add one observation to that. Which is that I think the fundamental issue now between China and the U.S. is lack of trust

and the way to reestablish that trust is not really meeting with CEOs and those people. It's really to decentralized government operations, give beneficial rights to the Chinese people, in addition to repairing relationship with the West. Once you show that you're willing to delegate your power, you're willing to give up some of your power, I think the trust will come back. Just as it did after Tiananmen when China signaled that it was going to continue on economic reforms on some issue areas.

Ilaria Mazzocco

I agree with you, unfortunately I fear that's going to be politically very challenging but you know let's hope that there's a pathway to improving trust again between the two countries.

I think with that we're going to wrap it up. Thank you so much for joining us. As always, our website [Big Data China](#) has many features, events, data and resources that help bridge the gap between academia and policymaking, and the broader public so continue to follow us on social media and online. Thank you.