

China's Economy: What Everyone Needs to Know
by **Arthur R. Kroeber**
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Chinese economy rose to an unprecedented level and has stumbled recently, but it continues to spring at home and abroad. What makes it work and what not are some of the interesting questions that tickle everyone's mind, be it a layman or a scholar. It is changing the world, so, what exactly should it be called — socialist, capitalist or market economy? As current Chinese leadership has been disentangling itself from the legacies of the old political and economic systems, what does it need to manage a tightrope walk in order to handle China's economy and its sheer size?

Arthur R. Kroeber, the managing director of a research firm, Gavekal Dragonomics, and editor of China Economic Quarterly has answered these questions amazingly well in his latest book, *China's Economy: What Everyone Needs to Know*. This book is a thorough examination of China's recent economy. The book is a crisp overview of every aspect of China's economy: micro, macro and political. It explores the nuances of politico-bureaucratic involvement in its economy. The book is a good read even for a layman as it is free of technical details and economic jargon. The book presents an unbiased approach to China's future. It is divided into thirteen chapters. These chapters pose certain fundamental questions about China's urbanisation, finance, industry, agriculture, rural economy and its role in the world. In every chapter, the contents have been organised to provide a well-articulated explanation of all these questions. The book appears to be a semi-dialogical piece of writing that helps slay the myths as the argument proceeds.

The first such myth the author considers is of looming house market bubble. He shows that the initial large scale sale off of property to the people from the late 1980s developed into the biggest ever transfer of wealth in history, from a state to its citizen. It is, basically the largesse from the state for its people that makes Chinese less indebted than their

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counterparts in the US and Europe. Perceived through this dimension, Kroeber sees China's economy as stable. The author's take on China's growing public debt is also very optimistic. He does not view this problem as apocalyptic as some of the external splenetic analysis of China's economy implies. He assesses this part of the discussion by taking into account China's idiosyncratic political system: a highly centralised taxation system administered by the central government that runs in parallel with the provincial governments. This is a peculiar characteristic of China's system, as the provincial governments has been granted enormous discretionary powers to raise their revenues through land sales, earn profits from locally owned state enterprises and convert a large amount of capital into fixed assets. The author believes that these are indices to infer that the country holds much to get out of the trouble.

Kroeber discusses how taxes are levied in the Chinese fiscal system. It is seen as an anomaly of the country's financial system because the actual amount of the tax levied on any individual accounts for a very small proportion of the overall amount of taxation. A large bulk of these taxes comes from the state companies and their contributions. To the author, the reason is that the state collects taxes from a few parties instead of gathering it from hundreds of millions of individuals. Apart from this economic reason, he also provides a political reason for it. In fact, the people's immediate ardor for political participation dampens when they do not pay direct taxes. The author quotes Thomas Paine that there is no representation without taxation. He then gives an insightful answer to a fundamental question: As the state sectors' profitability falls and the wages of the middle class rise, will the Chinese government ever be able to look away from this enormous source of state revenue despite the massive political reforms it demands? Kroeber answers it as 'not any time soon.' But it also makes the reader question whether the time may be closer than he thinks.

Some of the author's judgments are impeccable. The three decades old One Child Policy, revised in 2015, was, in the author's view, an unmitigated disaster. It wasn't necessary either. This policy, Kroeber believes, has got China focused on catering to the needs and age-related problems of the elderly and ageing population. For this, he suggests an immediate set of education and workforce reforms. He compares President Xi Jin Ping's era with Hu Jintao's. He thinks that Xi's efforts

to implement the reforms have been very productive. Though there have been major reforms in the Huera, Xi's efforts to rationalise and organise the country's national revenue system have proved productive at various levels of the government. In conclusion, Kroeber argues that Chinese leadership is as yet undecided whether to opt for a decisive role for markets, or go for a dominant state sector. This, according to the author, poses a fundamental challenge to China's future economic progress. He believes that if China wants to grow more influential and richer, it has to keep its political system more open and less paranoid.

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