

BERGGRUEN GOVERNANCE INDEX



China / SUPPLEMENTAL COUNTRY CASE STUDY 2019

BERGGRUEN INSTITUTE

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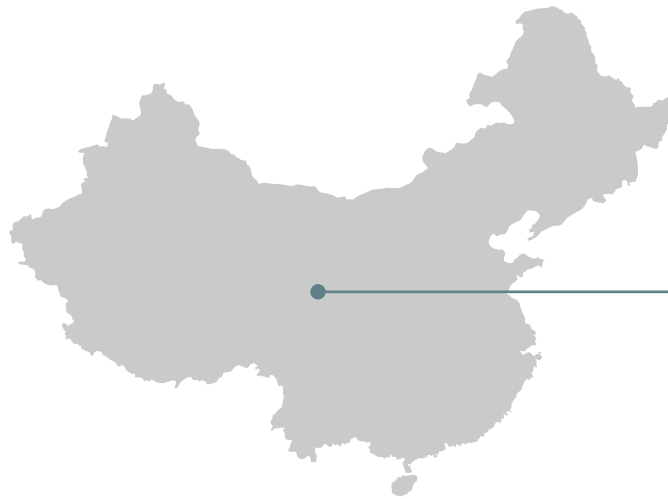
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This profile on China is a supplement to the 2019 Berggruen Governance Index which analyzes the quality of Democracy, Government and Life for 38 countries. In 2019, five countries from the 38 were selected to have special profiles created about them to supplement and enhance the findings in the Index. These countries were selected because they performed better (Overachiever) or worse (Underachiever) than expected on the Quality of Life given their scores on one of the other indices (Quality of Democracy or Quality of Government). To create the supplement, new data was sourced from outside the Governance Index, to further explain these results. This profile is not intended as a stand alone document and is best understood after reviewing the full report which can be found at www.berggruen.org.

China, the world's most populous country, and with GDP growth well above global averages, hovers at the bottom of the Berggruen Index ranking in 31st in Quality of Democracy (31st) faring just slightly better in Quality of Government (27th). Still, it manages to maintain a fairly high Quality of Life (15th). This discrepancy between Q of D, Q of G and Q of L seems attributable to China's rapid economic growth since 2004, fueled by direct foreign investments and massive investment in infrastructure. But there are concerns about China's increasing debt levels to maintain growth rates, questions about the sustainability of costly infrastructure investments domestically as well as international through the Belt and Road Initiative.

China has made it clear it is not concerned with improving democracy, yet even with its low score in Q of G, it has taken steps to try and improve government efficiency, governance and to reduce corruption. But the country still flounders in Q of G and Q of D. With rising wealth gaps and lack of feedback mechanisms, China may see a slowdown in both its trajectory of growth and Quality of Life.

FINDINGS

IMPLICATIONS

1

China has been an outlier in its ability to achieve and sustain Q of L (15th) with low Q of G (27th) and low Q of D (31st).

Sustained GDP growth and investments in infrastructure and education have delivered higher Q of L than China's ranking for Q of D or Q of G would indicate.

2

China's infrastructure building programs have produced high Rail & Road satisfaction, but ridership is declining.

China's ability to match funds to citizen-desired projects would improve with better quality of feedback mechanisms. Declining ridership indicates a mismatch between investments and the needs of citizens. Better quality of feedback mechanisms could improve this.

3

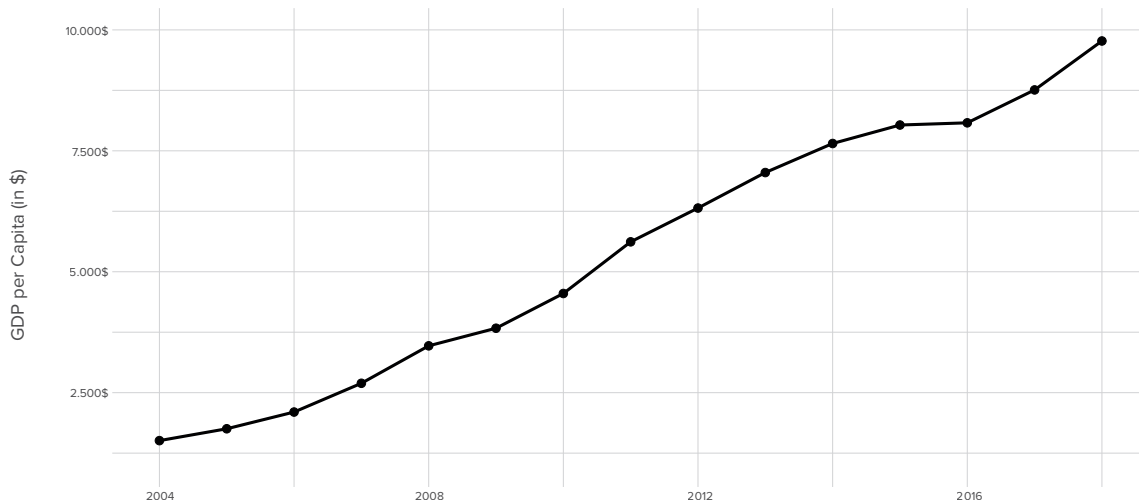
China weathered the Global Financial Crisis and stimulated its economy by using debt-funded investments to propel rapid long-term economic growth.

With high debt to GDP and concerns it is risking "debt addiction", China needs to develop a sustainable domestic growth model to maintain its rapid ascent.

BACKGROUND

GDP per capita (current US\$) 2004-2018

GDP per capita is gross domestic product divided by midyear population.

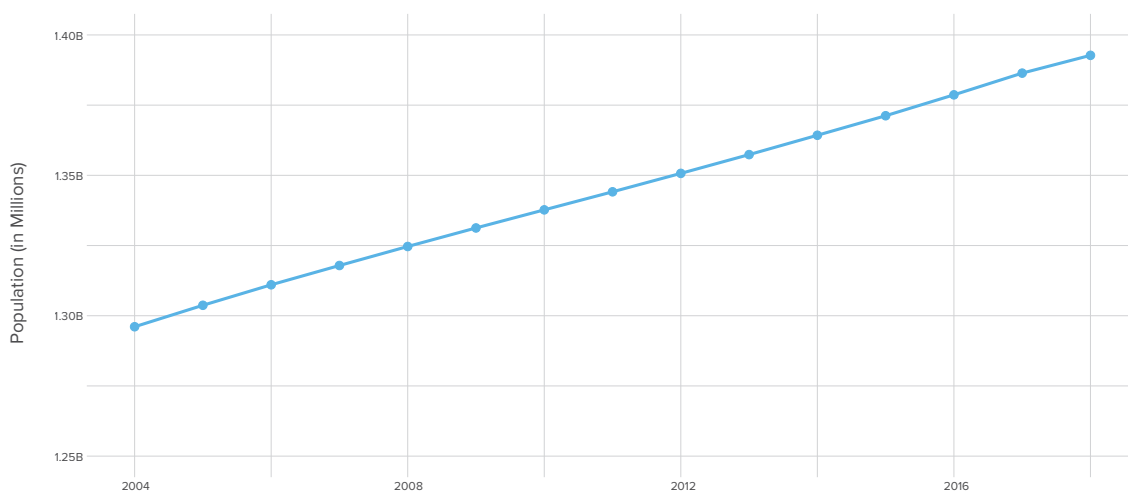


Source: World Bank 2019

- China is a middle-income country. Its 1.4 billion inhabitants have a GDP per capita of \$9771, placing it 64th worldwide and 20th among all countries in the Berggruen Index, according to the World Bank (2018).
- GDP per capita growth has averaged 6.75% over the past four years (2015-2018), well above regional and world averages. China's impressive economic expansion has accounted for over nearly one third of global growth over this time period.

Total Population, 2004-2018

Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship.



Source: World Bank 2019

- China is the most populous country in the world. Along with India, China is one of two countries with a population of over a billion people.
- Its population growth rate of .52% was slightly lower than other the average for East Asian countries.

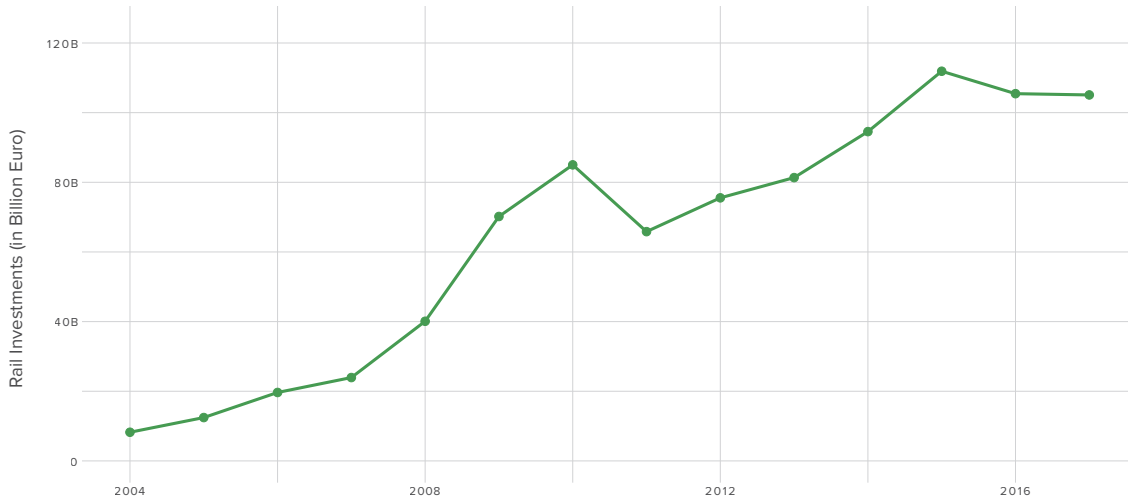
- China has invested substantially in infrastructure over the past fifteen years. This is particularly evident in rail investment, which has surpassed 100 billion EUR in recent years. The **rate of investment increased substantially after the 2008 Global Financial Crisis (GFC), which prompted China to spend on large projects in order to stimulate its economy.**
- By contrast, the next closest country in rail investment, the United Kingdom, invested less than 15 billion EUR in 2017.

Trailing the UK were the United States, India, France, and Germany, with 11, 10, 9, and 6 billion EUR, respectively.

- Despite this substantial investment, **rail ridership has actually declined since 2008.** Ridership in 2017 measured in rail-passenger-kilometers was slightly less than 700,000, roughly the same level as a decade prior.

Rail Investments, 2004-2017

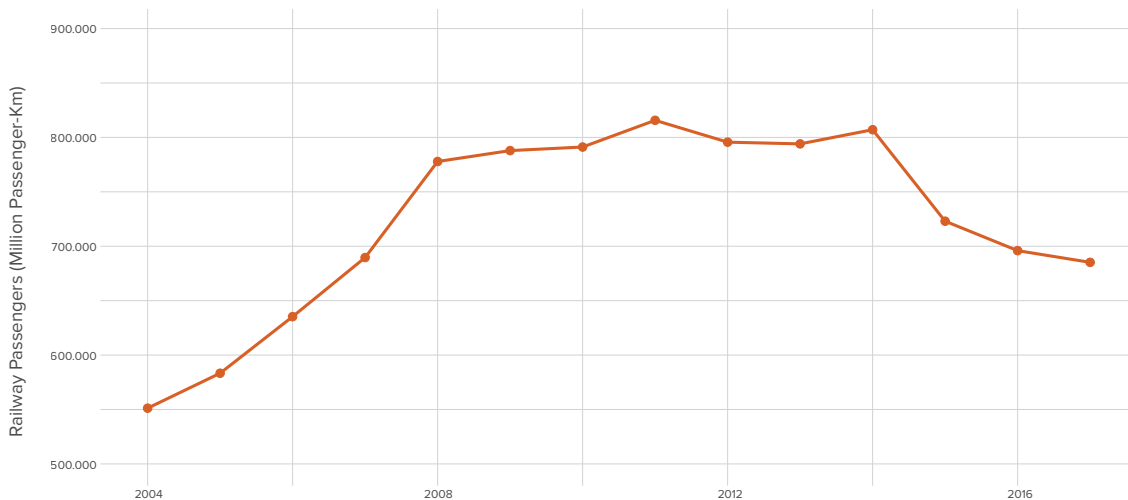
Rail investment covers spending on new transport construction and the improvement of the existing network.



Source: ITF Transport Statistics: Transport infrastructure investment and maintenance 2019

Railway Passengers, 2004-2017

Passengers carried by railway are the number of passengers transported by rail times kilometers traveled.

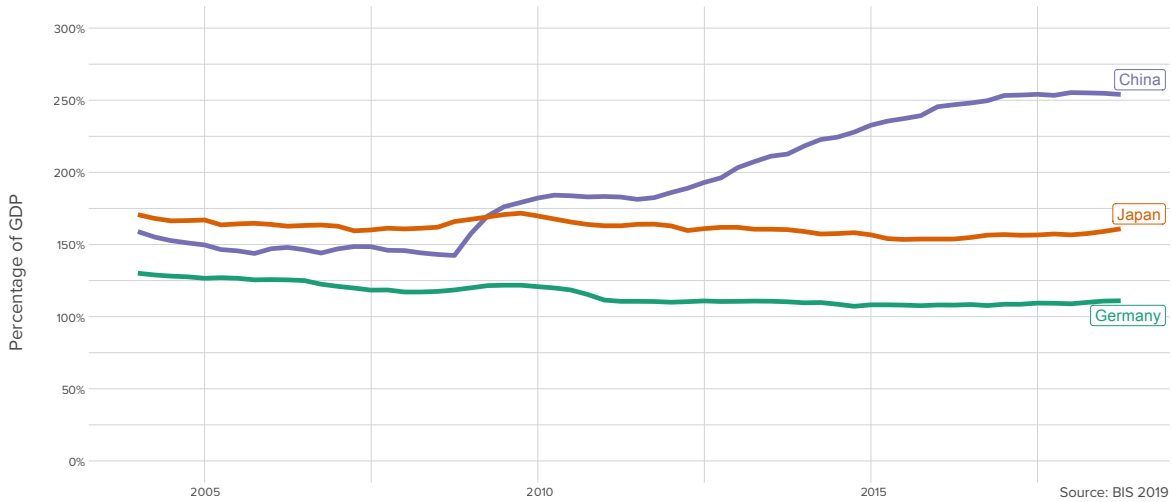


Source: International Union of Railways (UIC) 2019

- Related to this rail investment is an overall surge in debt, particularly following 2008. **After the GFC, China enacted the perhaps largest Keynesian stimulus in world history**, spending lavishly on debt-financed projects to boost the economy.
- In 2017, China's total credit to the non-financial sector exceeded 250% of GDP. Early in the 21st Century, this figure had been declining, but following the 2007-08 financial crisis it jumped dramatically, and has increased at a large rate ever since.
- Credit/GDP surpassed famously debt-saddled Japan in 2009. It has long had more credit as a share of GDP than Germany, which is known for debt-aversion.
- Chinese debt, however, is relatively unique. **It is concentrated in non-financial corporations, which is unusual by international standards.** Although household and central government debt has increased since 2008, it is not the main driver in the credit expansion.
- The distinct nature of Chinese debt is a result of the governance structure of its economy, particularly the prevalence of state-owned enterprises (SOE). **Following the financial crisis, several state-owned banks were instructed to provide stimulus to the economy, particularly through infrastructure projects.** Thus, while debt may not show up on the balance sheet of the central government, the vast majority of it is the direct result of state action and direction.

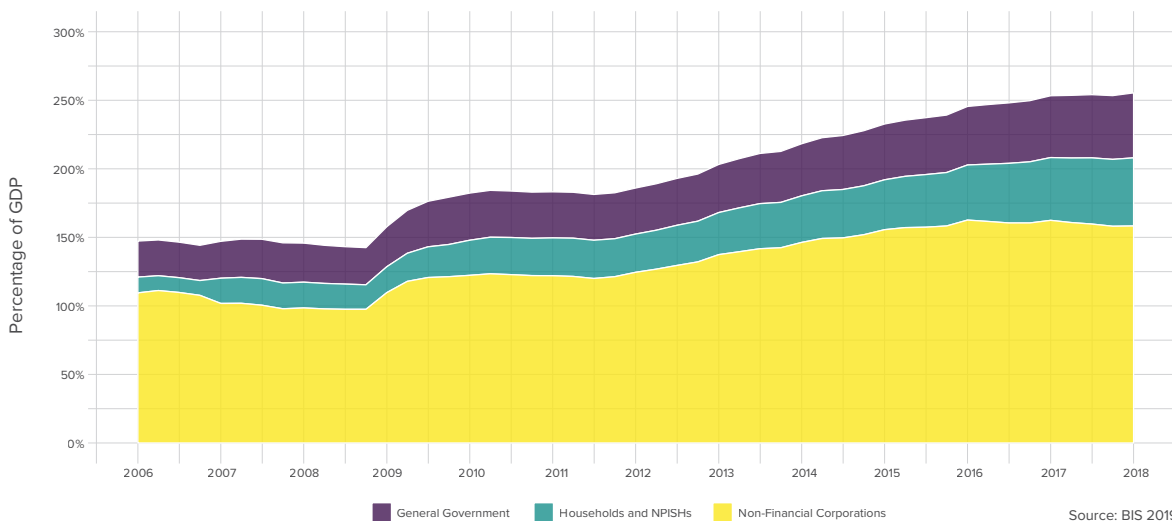
Total Credit to Non-Financial Sector, 2014-2017

Credit is provided by domestic banks, all other sectors of the economy and non-residents. The 'private non-financial sector' includes non-financial corporations (both private-owned and public-owned), households and non-profit institutions serving households as defined in the System of National Accounts 2008.



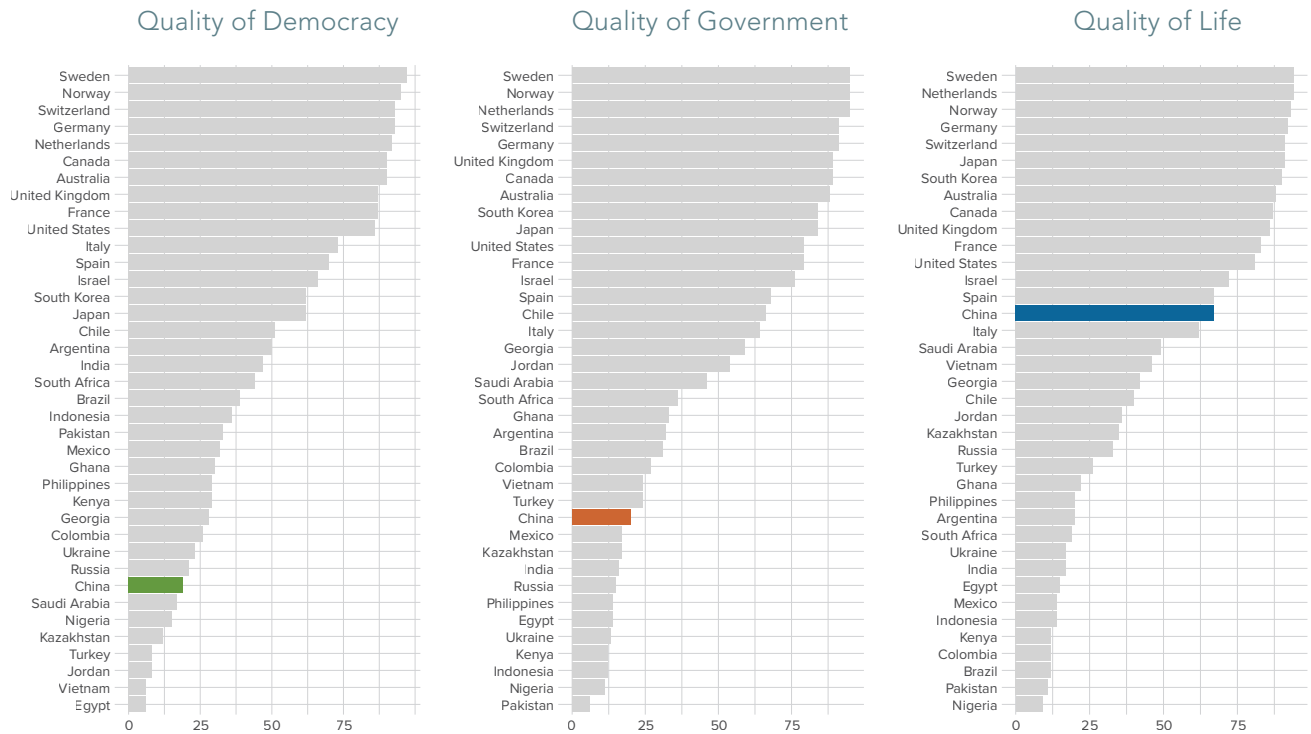
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CHINA'S BERGGRUEN INDICATOR OF GOVERNANCE SCORES

- China's score in the **Berggruen Quality of Democracy Index (QoD)** was near the bottom of the countries examined, placing 31st of 38 countries (data collected 2004-2018).
- China's score in the **Berggruen Quality of Government Index (QoG)** is slightly higher, ranking 27th.
- China's ranking in the **Berggruen Quality of Life Index (QoL)** is dramatically higher than its QoD and QoL rankings. It places 15th.
- China's case is a **remarkable example of one indicator ranking far above the other two**. For most countries, there is a strong co-movement of the indices, but China's QoL far outstrips its results on the other two indicators.
- It's QoL ranking is also relatively high compared to its GDP/capita ranking of 20th among all countries in the Berggruen Index. This shows that, **despite China's low QoG and QoD, it manages to punch above its weight with regard to converting wealth to quality of life**.

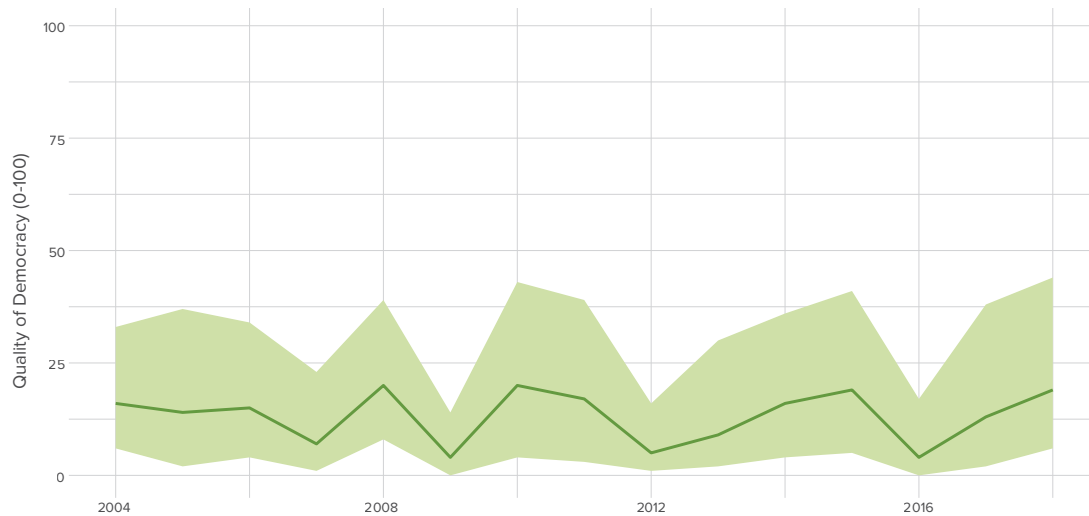


2018

QUALITY OF DEMOCRACY (QoD)

- China's 2018 Quality of Democracy score is slightly higher than it was in 2004. However, this small overall shift belies several ups and downs over that time period.
- Despite the label of a 'socialist democracy' that many Chinese leaders use, few scholars regard China as a democracy in any traditional sense. Although there are some elections at the village level, the candidates are carefully vetted by the Chinese Communist Party (CCP).
- China has **hovered near the bottom of the QoD rankings throughout the last fifteen years**. Unlike many countries, in China there is little pretense about a desire to improve democracy. The CCP has taken well-documented measures to improve its control over Chinese society. President Xi Jinping – who remarked on a 2014 trip to Europe that multi-party democracy 'would not fit us' – has strengthened his hold on power.

Berggruen Quality of Democracy Index, 2004-2018

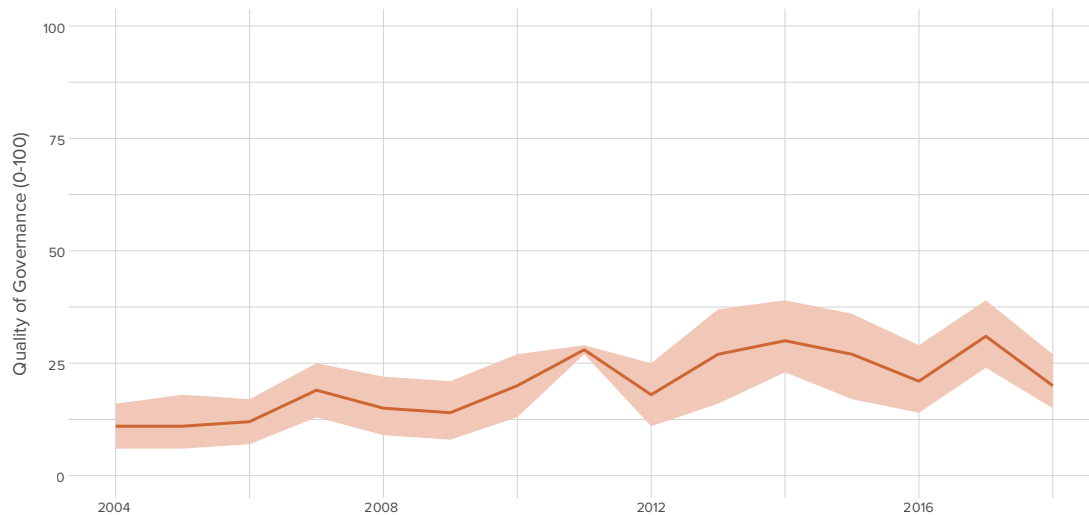


Lines indicate 95% credible intervals for the average score, a measure of uncertainty.

QUALITY OF GOVERNMENT (QoG)

- Quality of Government in China has improved slightly since 2004, with a mostly steady upward trend.
- Over this time period, **China has been undergoing well-documented efforts to increase governmental efficiency, crack down on corruption, and improve on governance.** This process has included devolving powers to local governments, increasing the amount of public services accessible online, and reducing regulation.
- While these efforts may be partially responsible for China's improvement, they have not been successful in boosting China's QoG substantially. At 27th of 38, China's quality of government still falls near the bottom of the data set.

Berggruen Quality of Government Index, 2004-2018

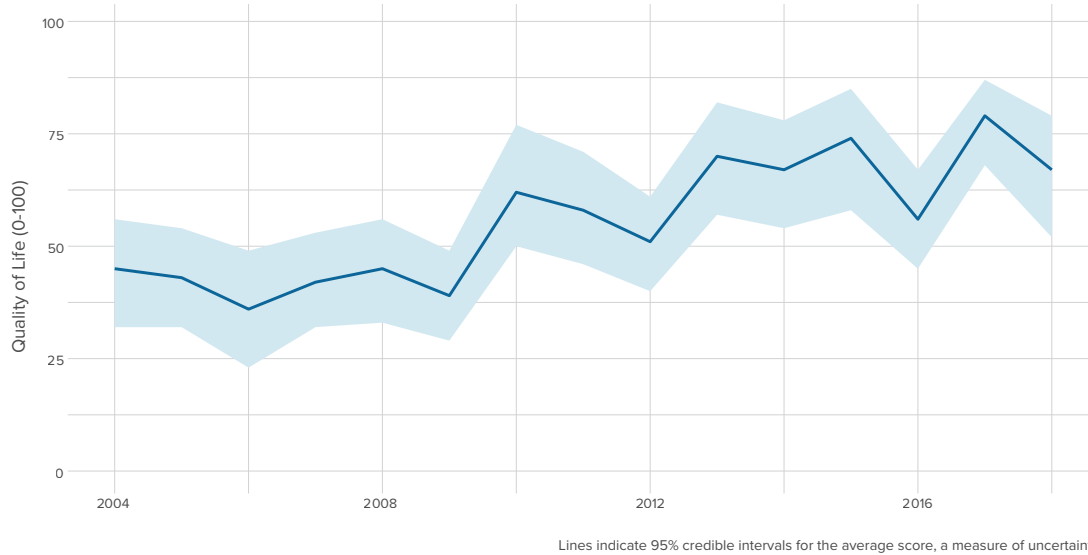


Lines indicate 95% credible intervals for the average score, a measure of uncertainty.

QUALITY OF LIFE (QoL)

- Quality of Life has improved substantially since 2004. While there have been some years in which it declined, the overall trend is unmistakably upward.
- Given China’s rapid economic growth over this time period (China’s GDP/capita was only \$1508 in 2004; in 2018 it was \$9771), this boost in QoL is not entirely surprising.

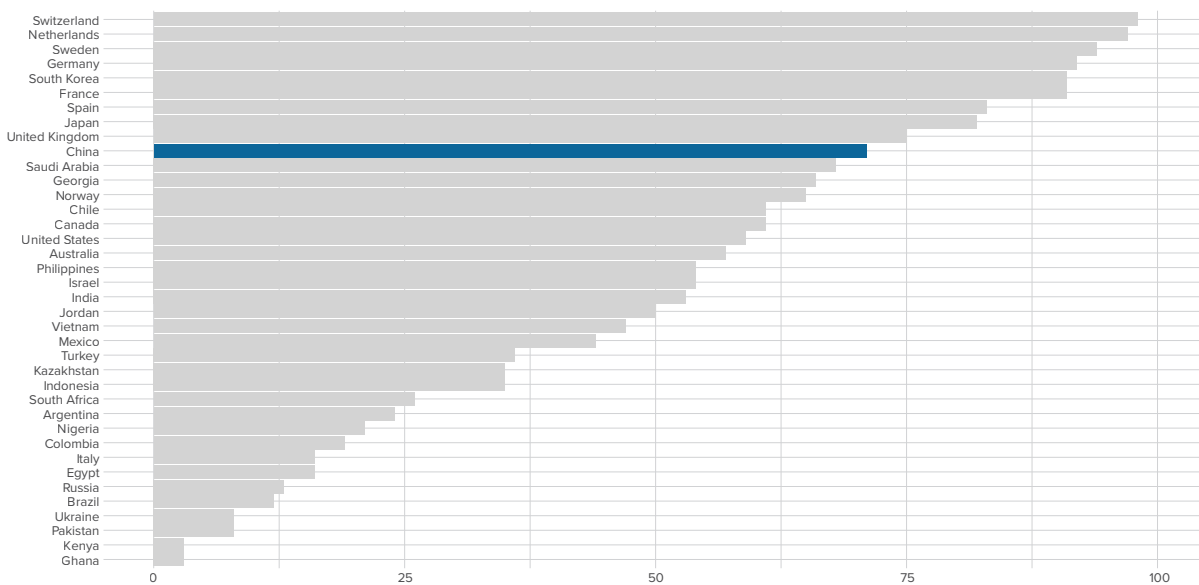
Berggruen Quality of Life Index, 2004-2018



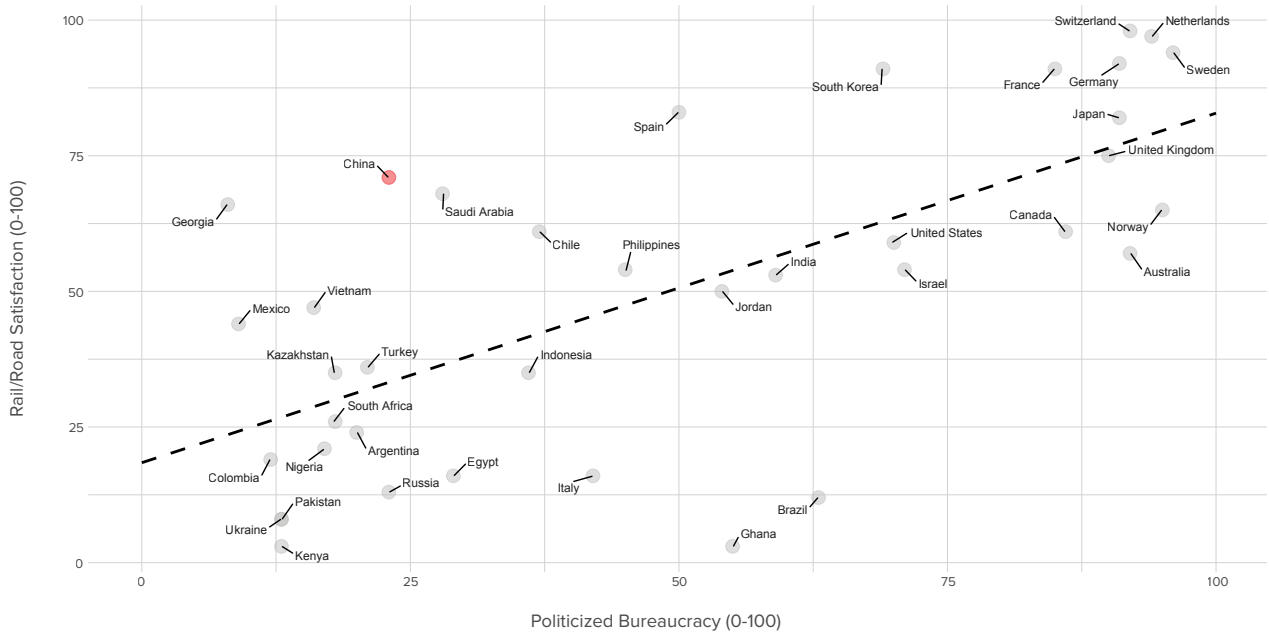
WHAT RELATIONSHIPS BETWEEN QoD, QoG, AND QoL CAN BE OBSERVED?

EXAMPLE 1: RAIL/ROAD SATISFACTION

Satisfaction with Roads and Highways
Sub-Index of Quality of Life

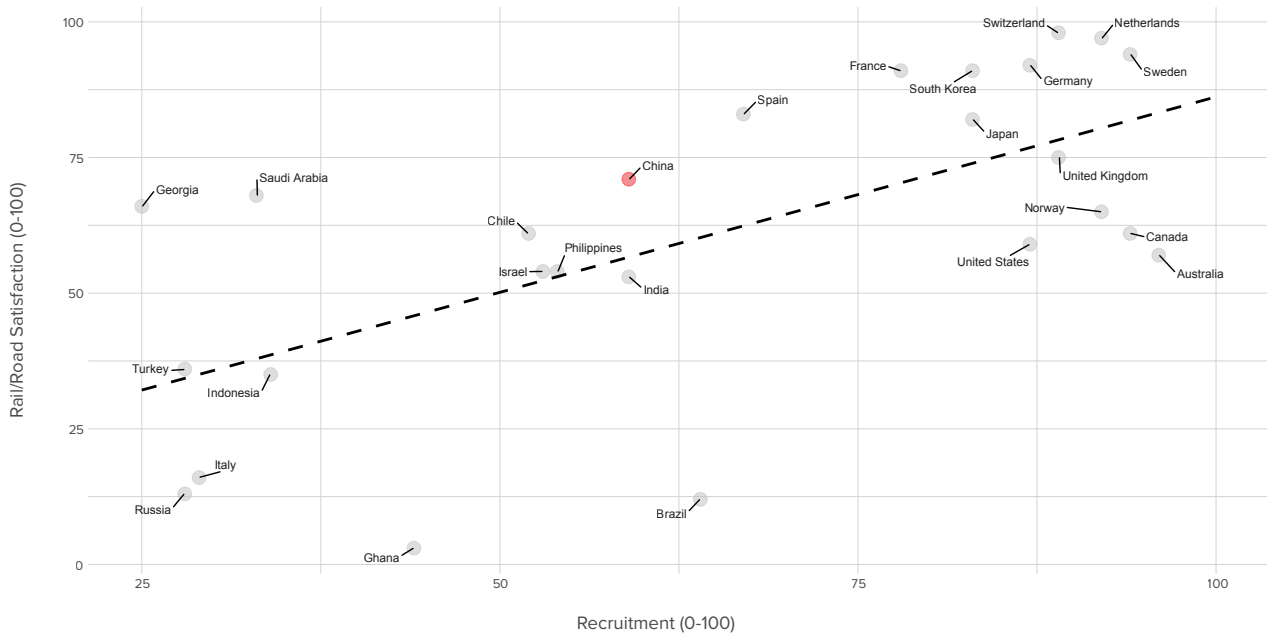


Rail/Road Satisfaction and Politicized Bureaucracy



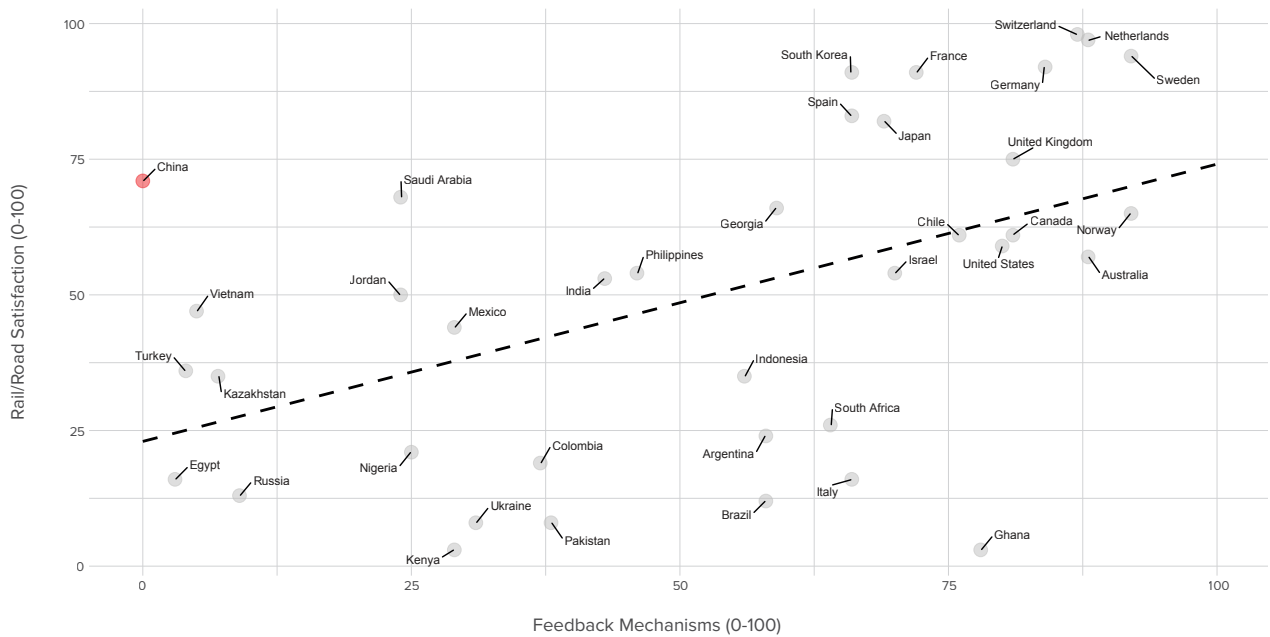
Source: Berggruen Quality of Governance Index; Berggruen Quality of Life Index

Rail/Road Satisfaction and Recruitment



Source: Berggruen Quality of Governance Index; Berggruen Quality of Life Index

Rail/Road Satisfaction and Feedback Mechanisms

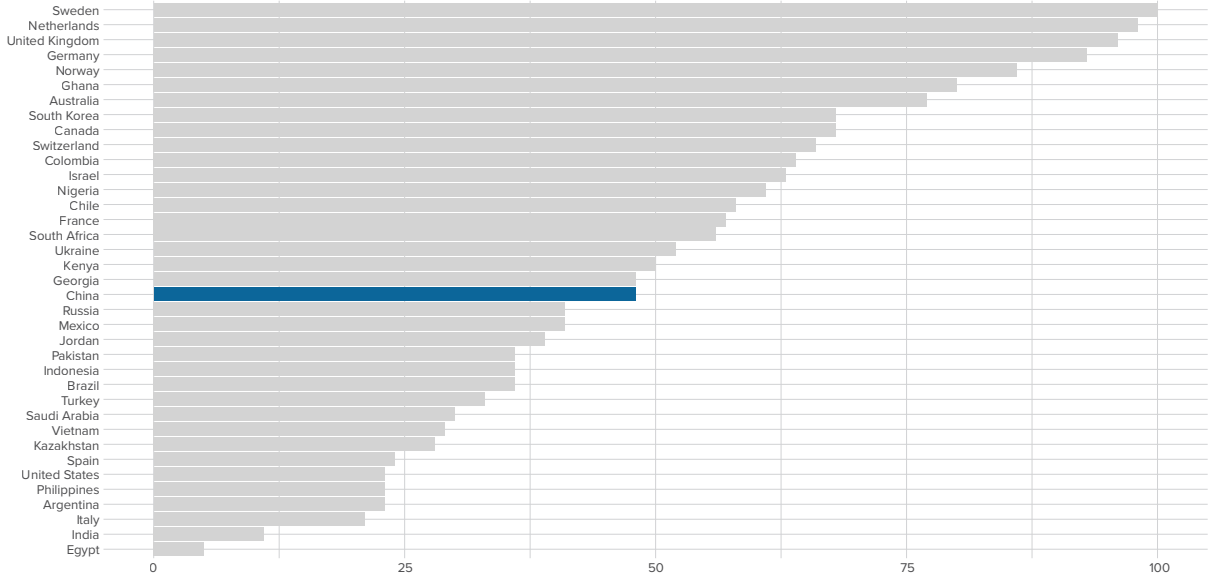


Source: Berggruen Quality of Governance Index; Berggruen Quality of Life Index

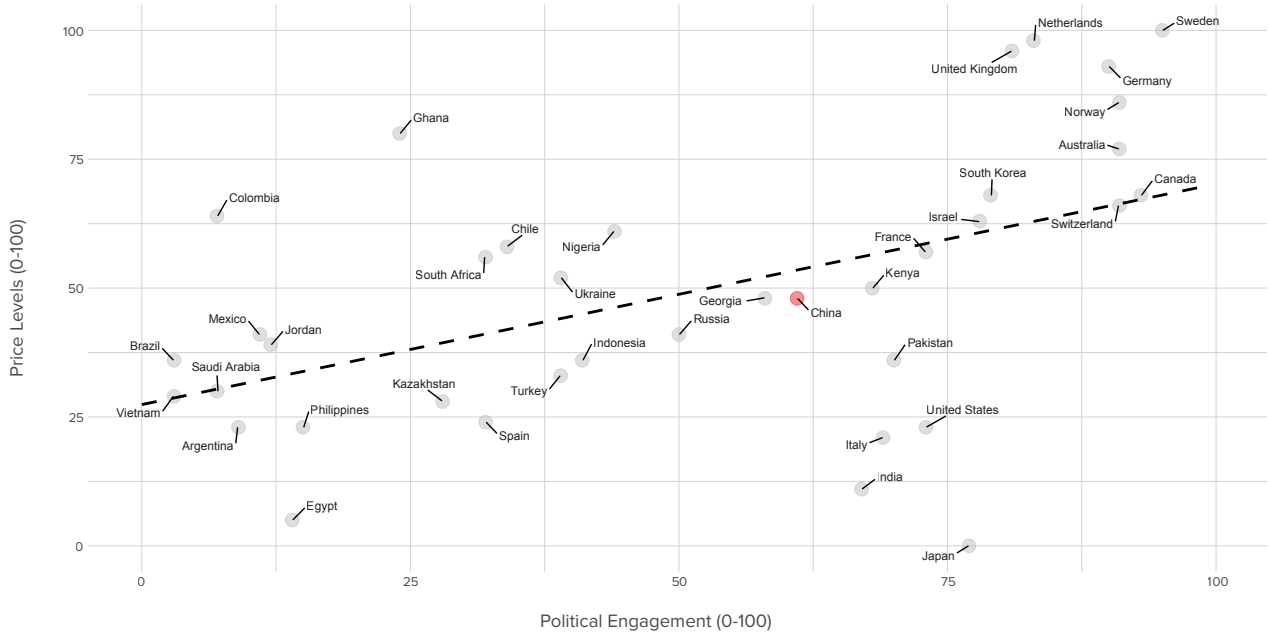
- China is very satisfied with the overall quality of its rail and highway system. **Rail/road satisfaction (QoL) ranks 10th among countries in the Berggruen Index, trailing only much more developed countries.** Notably, it easily surpasses the United States, which places 16th.
- Given the breakneck pace of China's infrastructure investments over the past decade, the quality of roads and rail is unsurprising. **Likely as a result of this significant investment, road/rail satisfaction is higher than the QoL ranking overall (15th) and GDP/capita (20th).**
- Across the data set, there is a positive correlation between rail/road satisfaction and *politicization of bureaucracy (QoG)*. **China is somewhat of an outlier in this trend**, placing near the developed Western European countries in road/rail satisfaction, but scoring similarly to countries like Turkey and Russia in politicized bureaucracy.
- *Quality of feedback mechanisms (QoG)* is also positively correlated with road/rail satisfaction. Again, China is an outlier. **It manages to sustain high-quality roads and highways despite placing dead last in feedback.**

EXAMPLE 2: PRICE CONTROL IN NATURAL MONOPOLIES

Price Control in Natural Monopolies
Sub-Index of Quality of Life

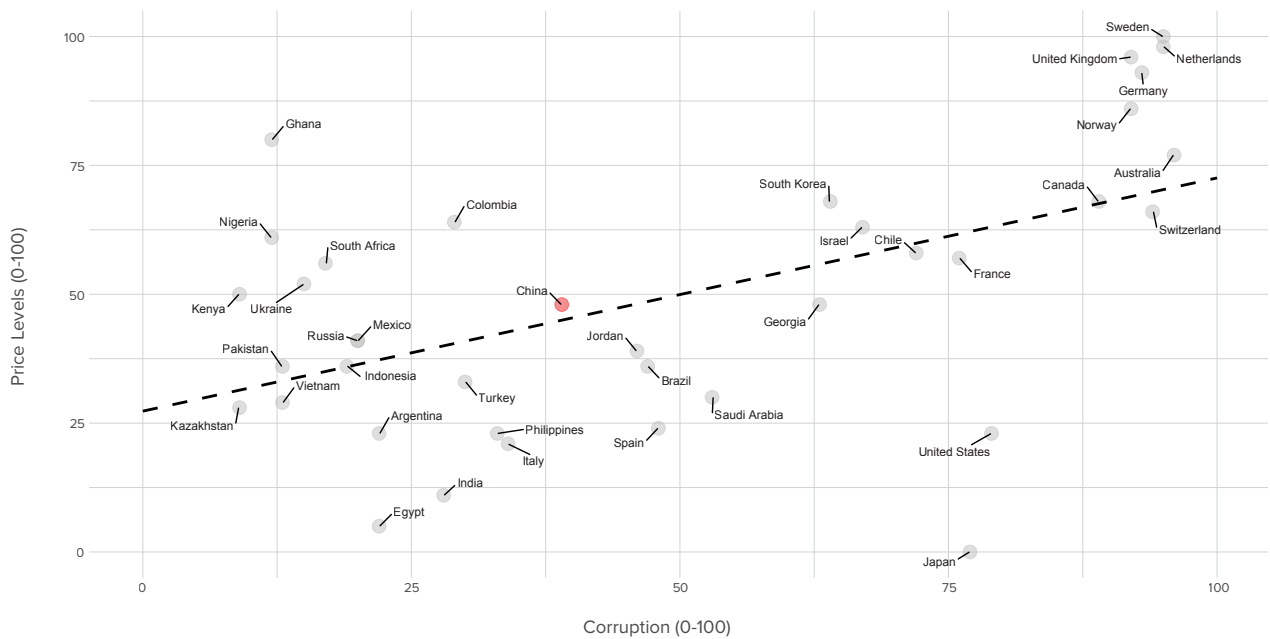


Price Levels and Political Engagement



Source: Berggruen Quality of Democracy Index; Berggruen Quality of Life Index

Price Levels and Corruption



Source: Berggruen Quality of Governance Index; Berggruen Quality of Life Index

- China's *price control in natural monopolies (QoL)* ranks 20th of all countries in the Berggruen Index. This is slightly lower than its overall QoL ranking of 15th.
- This sub-index, which includes energy, telephone and medicine prices, is positively correlated with level of *political engagement (QoD)*. China fits this trend, **placing near the middle of the pack for both price control and political engagement.**
- *Level of corruption (QoG)* is also linked to price control. In this scatter plot, two rough clusters can be observed: several Western European (plus Australia and New Zealand) countries who score well on both measures; and a large group of countries from the Global South, who fair more poorly. **Although China is among the better of the latter group, it is still far closer to OECD countries.**

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