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His pro-growth view seems to have run ahead of China leaders' public comments on growth

MR LIN
Stressed the need to allocate resources more effectively.
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JUSTIN Lin, former chief economist at the World Bank, has been a pro-growth champion of the controversial view that the Chinese economy can grow at the rate of 8 per cent, non-stop for the next 20 years. Whether he eventually prevails over the many opponents to his view could shape China's future growth trajectory.

His view matters because he was the only scholar from the emerging world to take the top economist job at the World Bank, with the backing of the Chinese government. From 2008 until June last year, he oversaw the bank's research, coming up with economic guidance to help the global communities cope with the fallout of the recent financial crisis.

His domestic credentials were burnished more than 30 years ago when he defected from Taiwan's army by swimming across a frontline island to the China mainland. An arrest warrant from Taiwan is still out on him.

Those credentials were boosted early this month when he was retained by Prime Minister Li Keqiang as an adviser to China's Cabinet, the State Council. Along with five other fresh appointees, the advisory team is now 64 strong and comprises specialists in fields ranging from art to technology and economics.

Curiously, Mr Lin's expectations of China growing incessantly at 8 per cent seems to have run ahead of what the Chinese leaders are willing to say these days in public. It makes him stand out in Chinese academia, which tilts in favour of a remedy for the country to modify, if not radically alter, its current growth path.

At issue is not his underlying assumption about China's potential, but whether such a high rate of growth would be beneficial to China and the world, or even feasible to pursue.

By now, the magical figure of 8 per cent has virtually disappeared from top officials' vocabulary. Premier Li has been sticking to 7 per cent as the government's bottom line for growth in despatches published at home and abroad by the state media. More recently, on Nov 4, he raised the bar marginally to 7.2 per cent, which he said was the minimum needed to cap urban unemployment at 4 per cent and to ensure the creation of 10 million jobs.

Mr Li made the comment at a national congress of China's trade union, citing a national capacity to generate between 1.3 million and 1.5 million jobs for every percentage gain in gross domestic product (GDP) now, up from a million jobs in the past for the same pace of growth.

His prescription for China's economic transition, along with his vision for it to double the size of its economy before 2020, is fundamentally Keynesian, an approach entailing expansionary fiscal policy and public investment along the lines of China's current investment-led growth model.

When it is done, China will achieve a per capita GDP of US$12,000 by 2020, almost double the current US$6,100 and possibly catapulting the nation into the league of high-income countries.

Mr Lin aired the same optimism in Singapore this week at the inaugural China Forum at the Singapore Management University, and later that same day in Hong Kong to a small evening audience at the Asia Society. This time in Singapore, however, he qualified his view by stressing the need to allocate resources more effectively and remove the distortions and bottlenecks in the official distribution mechanism.

In Hong Kong, he focused on promoting a global initiative to launch a multilateral infrastructure fund, styled in the spirit of the Marshall Plan for post-World War II Europe, and the invention of a currency called paper gold to replace the US dollar as the global reserve currency. These are ideas proposed in his new book, *Against the Consensus: Reflections on the Great Recession.*

At home, Mr Lin, a specialist in development economy, has engaged in heated public debates with economists over China's future course of growth.

Among his adversaries is Gary Liu, the deputy director of Shanghai-based CEIBS Lujiazui Institute of International Finance.

Mr Liu said: "Lin is a radical voice. He is catering to officials' mentality. He provides them (with) an ideological cover. His view poses many dangers (for China). It could mislead officials and cause reform to backtrack.

"The chance for China of achieving such growth rate is very small. Theoretically, we can continue to grow at 8 per cent, but it would come at a huge cost, environmentally and socially."

Another high-profile opponent of Mr Lin's ideas is the founder of Primavera Capital Group, Fred Hu, a former partner and Greater China chairman at Goldman Sachs.

In the same week the Communist Party issued its communiqué for the next decade, Mr Hu voiced his objection to Mr Lin's proposed use of an expansionary fiscal policy to achieve 8 per cent growth over the next 20 years.

"I do not agree with Mr Lin. In effect, fiscal and monetary policies are short-term, counter-cyclical policy tools. For example, in 2008, during the global recession, our government offset the negative impact with short-term demand expansion. But regrettably, this short-term counter-cyclical policy became a long-term policy, causing a large expansion in government spending and leading to over capacity and high local debt. It's a very dangerous situation," he said on Phoenix TV.

Discarding the old growth model may be the prevailing consensus, but Mr Lin's opponents are far from carrying the day. The problem is how much political will the leadership can muster from various political factions to implement reform.

CEIBS' Mr Liu said: "The signal of the current leadership is clear, judging from their statements and official papers that they want structural reform and rebalance away from an investment-dependent model.

"But the government is still very vague on many things, such as on the reform of state-owned enterprises, an issue of popular concern. My personal view is the speed of reform in China will always lag behind public expectations."