Countering the Conventional View: Will China Deliver?

Conventional wisdom was a concept invented by economist John Kenneth Galbraith. He said society associates truth with what most closely accords with self-interest. As a result, be believed conventional wisdom was usually untrue. With this in mind, let's review three supposed truths about China:
&#149 The state-owned enterprises (SOEs) will continue to be successfully reformed. This will ensure that capital is much more efficiently allocated into either higher value innovative industry or to lower value sectors where China still has competitive advantage.
&#149 The pragmatic and wonderfully efficient Chinese government will be successful in tackling corruption and in closing the gap between incomes in the East and West, thereby controlling social unrest.
&#149 China will continue to import huge amounts of petrochemicals for the foreseeable future.
Can we all relax then and be certain that the huge investments being made in China will pay off? No, of course not, which is why Galbraith got all worked up about conventional wisdom in the first place. It is so often drastically wrong because an ever-growing herd of economists, journalists, companies, bankers, and consultants ignore counter arguments for the sake of an easy life. So, let's now examine some counter arguments that might also be equally wrong but are worth considering.
Economist Will Hutton in his new book, "The Writing on the Wall: China and the 21st Century," writes of the crippling effects of corruption on the economy &#151 the result of the obscene opportunities for graft created by the one-party system. According to local economist Hu Angang, corruption cost between 13 and 16 percent of the gross domestic product in the late 1990s. Hutton argues that political interference by the Communist Party hinders the efficiency of the SOEs and the 57 sectors of the economy, including energy and chemicals, which are still state-controlled. He adds that one in three SOE employees are structurally idle and believes it would take only a slight upward movement in interest rates or a decline in sales to force the supposedly reformed SOEs into bankruptcy. The resulting surge in non-performing loans could bring the banking system down. Furthermore, Hutton disagrees with the popular perception that China copies and then improves on what the West does. He says innovation is stifled by the one-party state, which is why half the country's patents are sourced from overseas. He also says capital will continue to be badly allocated without political reform. Reform would lead to genuine improvements in the way SOEs are managed and greater innovation through a more open and, therefore, creative environment.
In the end, China's government might fail to tackle the corruption that is placing such a big strain on the economy because it's in the vested interest of party members to keep things as they are.