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Some comments on the Chinese Development Model

Visiting China after a long period of absence cannot fail to make one reflect on the reasons behind this country's success. Paradoxically China's economic success story has neither deepened media interest in the European Union, nor has it provoked any serious reaction from neoliberal economists. Meanwhile, developments in China during the last 25-30 years, require serious reflection on the part of economic theorists and practitioners of business. One should note that for more than a quarter-century, western specialists have focused on the effectiveness of the neoliberal model.

In the Washington Consensus, which was adopted in late 1980's and at the beginning of the 1990's by many developing and former socialist countries, deregulation, liberalization, openness, privatization and democracy were seen as the most significant factors, apart from capital inflows (mainly foreign direct investment). Openness and privatization strategies in the last 25 years have become worldwide processes covering many countries. This process had many elements of universal significance, but there were also many elements specific to the group of countries with similar socio-economic structure and a certain position in the world economy. The Washington Consensus development model was implemented in some 40-50 countries of the world. Unfortunately, the results were rather mixed and a lot of countries ended up strongly disappointed.

China is a special case of economic success not fully understood by economists from the so called mainstream economics. They took for granted the main development paradigm which embraces liberalization and privatization in the context of full western style democracy. In the case of China's success, we have instead the Beijing Consensus, which is the adoption of a market economy and a strong state (with limited democracy).

The Beijing Consensus (also sometimes called the "China Model" or "Chinese Economic Model") refers to the political and especially economic policies of mainland China after the death of Mao Zedong and the rehabilitation of Deng Xiaoping (1976) and are thought to have contributed to China's spectacular growth in gross national product over the last 25

years. The phrase "Beijing Consensus" was coined by Joshua Cooper Ramo (the former editor of Time magazine) to pose China's economic development model as an alternative — especially for developing countries — to the Washington Consensus of market-friendly policies promoted by the IMF, World Bank and U.S. Treasury.

The term (Beijing Consensus) has been described variously as the pragmatic use of innovation and experimentation in the service of "equitable, high-quality growth", and "defense of national borders and interests" as well as the use of "stable, if repressive, politics and high-speed economic growth". There are 3 main guidelines according to Joshua Cooper Ramo:

- The first guideline involves a "commitment to innovation and constant experimentation."
- The second guideline states that GDP/per capita should not be the sole measure of progress. Rather, Joshua Ramo feels that the sustainability of the economic system and an even distribution of wealth, along with GDP, are important indicators of progress.
- The third guideline urges a policy of self-determination, where the less-developed nations use leverage to keep the superpowers in check and assure their own financial sovereignty. This includes not only financial self-determination, but also a shift to the most effective military strategy, which is more likely to be an asymmetric strategy rather than one that seeks direct confrontation. Unlike the Washington Consensus, which largely ignored questions of geo-politics, Joshua Ramo argues that - particularly in China - geo-politics and geo-economics are fundamentally linked.

You don't need to be a very keen observer to see the huge leap forward this country has taken in the period since 1990 (at least an 8-fold increase in GDP in this period). At every step one can see the huge amount of investments, thousands of cranes, skyscrapers, a vast network of high-speed rail (10000 km), the rapid development of the internal market and consumption. All young people talk on iPhones, the largest global brands are present in the cities of China, there

are plenty of well-stocked shops etc. Such a major turnaround in overcoming the underdevelopment of China could only be possible under the conditions of a long-term, continuous very high economic growth rate at 8% -12% per year. Of course, these achievements are most apparent in the cities, and much less in the countryside. Many western economists accuse the Chinese authorities of having created several different Chinas (rich east and poor west).

The development of each country has its historical roots. The development of China must be observed with increasing attention, because the transformation of economic and social life in this country seems to be much more durable than many Western experts previously believed. The main features of this transformation can be listed as follows:

1. Incremental reform (as opposed to a Big Bang approach),
2. Innovation and Experimentation,
3. Export Led Growth,
4. State Capitalism (as opposed to Socialist Planning or Free Market Capitalism),
5. Authoritarianism (as opposed to Democracy).

In other words, China joined the free market in a very successful way, as a strong state.

In the West there still remain a number of negative myths about the country with regard to the falsification of statistics, "impermanence development," the weakness of the private sector, overinvestment (too many roads, bridges, buildings, etc.), little innovation, environmental degradation and growing social inequality. In reality, the situation looks much better. There is no evidence that there is a real threat to the sustainability of development in China. The share of the state sector decreased from 78% in 1978 to 22% in 2015, and the development of the private sector is impressive. The economy is becoming more innovative (2% of GDP devoted to R & D). Chinese authorities are, slowly but surely, caring more about the environment (eg. in large cities electric motorcycles and scooters now dominate, which has clearly improved air quality). Growing inequality is not just a problem in China, but also in the USA, and in many European countries.

Moving around the country by train at a speed of over 300 km per hour (Shanghai Maglev even reaches 431 km per hour on a stretch of 40 km), one tends to forget that only 30 years ago it was still a country of starving people. The past is gone. It is too pejorative today to say that "the Chinese people work for a bowl of rice." A young person out of college receives 3000 yuans, nearly 500 euros per month (lunch in the canteen employees is 1-1,5 euros), a good professional earns 1000-1500 euros, and a high-class manager or engineer in Shanghai up to 4500 euros per month. On the congested streets in many cities mostly new and modern automobiles can be seen, such as BMW, Audi, Volkswagen etc. China produces more than 18 million vehicles, the same as Japan and the US combined.

China's economic success is the result of firstly, opening itself up to foreign direct investment. Whereas in the initial period, investors were arriving in this country in search of cheap labor, now they are benefitting from strong demand in the internal market which is becoming wealthy. Secondly, China has become a world export centre. Thirdly, the policy of the state is coherent, thoughtful and far-sighted. Fourthly, we must not forget about the hard-working Chinese citizens.

It is understandable that an important issue for the West is the lack of (the limited nature of) democracy in China. In fact it is a separate topic, inspiring a lot of emotion. Given the historical particularities of the country, the diversity of ethnic and regional disparities, social inequalities, but also cultural conditions and a tradition of strong central government for more than 2 thousand years, one should not expect major adjustments to government policy in this regard. One thing is for sure: The undeniable economic success of China is a major challenge to many largely accepted and even "sacred" paradigms of mainstream economics (eg. regarding privatization, property rights and democracy).

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