THREE PRINCIPLES

- Learn from both China’s successes and failures
- Don’t learn the wrong lessons
- Adapt the right lessons to different national contexts, rather than blindly copying.
Part 1:
How have we learned from success cases so far?
WHAT HAVE RICH & POWERFUL NATIONS DONE RIGHT?

Western-style Democracy

Neoliberalism

Strong, interventionist states

Image © 2021 by Yuen Yuen Ang
What the rich did right became what went wrong

Western-style democracy > populism & polarization

Neoliberalism > Inequality & lack of public investment

Interventionist states > corruption and distortions
Behind the façade, every success comes with certain costs, risks, and failures.
WHAT HAVE RICH & POWERFUL NATIONS DONE RIGHT?
What have rich & powerful nations done right & wrong?
WHAT ARE THE UP & DOWNSIDES OF CHINA'S PATH?

- Sustained rapid economic growth; 2/3 of global poverty reduction - no mean feat!
- Corruption and inequality
Part 2:
China’s Strength – Adaptability
THERE ISN’T JUST ONE CHINA, BUT AT LEAST 3 DIFFERENT CHINA/S SINCE 1949
When market reform began, China was a very poor country.
China is still a vast, poor, agricultural country.

No Chinese government, however brilliant, dedicated or capitalist-minded, could possibly bring the per capita Gross National Product (GNP) of the more than one billion Chinese people to US$1,000 by the year 2000.

Ross Terill (1980)  

By 2000 (in 2010 US$): $1,767  
By 2000 (in current US$): $960
A KITCHEN SINK OF FACTORS

- Reform-minded national leadership
- Opening up to global markets
- Stable, welcoming geopolitical environment
- Focusing on right competitive advantages: low-cost, export manufacturing
- Education
- Plenty of cheap labor
- FDI (foreign direct investment)
- Fiscal and political incentives
- Foreign expertise and adoption of global best practices
- Incremental reforms with partial property rights
All the factors are relevant but none is complete
Indeed, even a small location within China can experience multiple “models” over time.
One of wealthiest counties in Zhejiang province today; vibrant private sector; about 800,000 residents; dramatically transformed in 40 years

Early 1980s

2015

Source: How China Escaped the Poverty Trap (2016), Chapter 6
1978 onward: Promoted collectively owned township and village enterprises (TVEs)

Model of “good enough governance”: Incremental changes sufficient to stimulate growth


Source: How China Escaped the Poverty Trap (2016), Chapter 6
1978 onward: Promoted collectively owned township and village enterprises (TVEs)

1993-1995: Collectively owned enterprises privatized en masse. State role limited to facilitating privatization process.

1978-1993: Achieved initial growth spurt (industrial output grew 33 times since 1978), but business expansion constrained by planning mandates and lack of clear private property rights.

Model of “Washington Consensus”: Limited government + private property rights necessary for growth
1978 onward: Promoted collectively owned township and village enterprises (TVEs)

1993-1995: Collectively owned enterprises privatized en masse. State role limited to facilitating privatization process.

2002: County planned the construction of a central business district (CBD) and forcefully relocated businesses into state-designated zones.

Model of “Developmental State”: Highly interventionist state necessary for growth

1978-1993: Achieved initial growth spurt (industrial output grew 33 times since 1978), but business expansion constrained by planning mandates and lack of clear private property rights.

Late 1990s: As local industries flourished, county became congested and chaotic, leading to demand for urban zoning.

After 2002: Structural transformation of economy and rapid boom

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Source: How China Escaped the Poverty Trap (2016), Chapter 6
THE REAL CHINA MODEL: DIRECTED IMPROVISATION

Top-down direction from the central leadership

+

Bottom-up improvisation using local resources and features

Diverse solutions tailored to local conditions & stages of development

Source: How China Escaped the Poverty Trap (2016)
Part 3: Corruption and inequality
“Let some get rich first.”
China had surpassed Japan to become world’s 2\textsuperscript{nd} largest economy.

Simultaneously, China’s income inequality exceeded that of the United States.

According to President Xi, corruption reached a “grave” and “shocking” level.
GROWTH ON STEROIDS

1994 tax-sharing reform centralized taxes and left local governments desperate for revenue

Local governments leased land to corporate entities for one-time fee (land transfer fee)

Set up “government financing vehicles” to borrow from banks + used land as collateral

Growth hungry local officials + double source of funds (land revenue & credit)

Infrastructure boom

High-stakes transactional corruption among elites

Rising inequality

Mounting local government debt

Image © 2021 by Yuen Yuen Ang
Local governments leased land to corporate entities for one-time fee (land transfer fee)

Set up “government financing vehicles” to borrow from banks + used land as collateral

Growth hungry local officials + double source of funds (land revenue & credit)

2008

Infrastructure boom
From 2000s onward, infrastructure boomed
Local governments leased land to corporate entities for one-time fee (land transfer fee).

Set up “government financing vehicles” to borrow from banks + used land as collateral.

Growth hungry local officials + double source of funds (land revenue & credit).

Infrastructure boom

High-stakes transactional corruption among elites.
Growth-inhibiting corruption came under control, but “access money” exploded

Source: China’s Gilded Age (2020), Chapter 3
Local governments leased land to corporate entities for one-time fee (land transfer fee).

Set up “government financing vehicles” to borrow from banks + used land as collateral.

Growth hungry local officials + double source of funds (land revenue & credit).

Infrastructure boom.

High-stakes transactional corruption among elites.

Rising inequality.

Mounting local government debt.
CHINA’S GILDED AGE: RICH(ER), RISKY, UNEQUAL, AND CORRUPT

The Robber Barons of Beijing
Can China Survive Its Gilded Age?
Yuen Yuen Ang

It seemed like a typical story of Chinese corruption. Stealing billions of company shares, the businessman lavished bribes on influential officials in exchange for cheap loans to subsidize his railroad projects. The target of his largesse, those in charge of public infrastructure and budgets, were his friends and business associates. Their family members ran firms in the steel industry, which stood to benefit from the construction of new tracks. Over time, as the ties between the officials and the businessman grew closer, the officialsDouble the financial support for his ventures, including his inflated costs and ignoring the risk of losses. Slowly but surely, however, a financial crisis brewed.

Stories like this are endemic to China: business leaders colluding with officials to exploit development projects for personal enrichment, graft infecting all levels of government, and politicians encouraging capitalism to take on severe risks. No wonder some observers have insisted since the 1990s that the Chinese economy will soon collapse under the weight of its own excesses, and bring down the regime with it. But here’s the twist: the businessman is not Chinese but American, and the tale took place in the United States, not China. It describes Leland Stanford, a nineteenth-century railroad tycoon who helped catalyze the United States’ modernization but whose path to immense fortune was paved with corrupt deals.

The Gilded Age, which began in the 1870s, was an era of crony capitalism as well as extraordinary growth and transformation. Following the devastation of the Civil War, the United States rebuilt and boomed. Millions of farmers moved from fields to factories; infrastructure opened up long-distance commerce, new technology spawned new industries, and unregulated capital flowed freely. In the process, swashbuckling entrepreneurs who seized on the right opportunities at the right time—Stanford, J. P. Morgan, John D. Rockefeller—amassed titanic levels of wealth, while a new working class earned only a pittance in wages. Politicians colluded with tycoons, and speculators manipulated markets. Yet instead of leading to disintegration, the corruption of the Gilded Age ushered in a wave of economic, social, and political reform—the Progressive era. This, along with imperial acquisitions, paved the way for the United States to rise and become the superpower of the twentieth century.

China is now in the midst of its own Gilded Age. Private entrepreneurs are growing fabulously wealthy from special access to government privileges, as are the officials who illicitly grant them. Recognizing the dangers of crony capitalism, Chinese President Xi Jinping is attempting to summon China’s own Progressive era—an age of less corrup-
Part 4: What to learn and not to learn
**WRONG LESSON TO AVOID**

- Frequently touted wrong lesson: Authoritarianism is the path to growth
  - A single-party autocracy can incorporate adaptive governance
  - But adaptive governance is not unique to autocracies.
RIGHT LESSONS TO LEARN

- Directed improvisation: Government’s role should be to direct, support, foster innovation from the ground, rather than command and control
Bureaucracy should be incentivized not only to pursue growth, but the right type of growth/development.
Like buying a car, know pros & cons of any development model, whether it is European, American, or Chinese.
Thank You