



THE FUTURE OF DEVELOPMENT

The Future of Development: Lessons from China

THURSDAY, JUNE 24, 2021 - 9:00AM TO 10:15AM WASHINGTON DC TIME [Online](#)

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24 JUNE 2021

CENTER FOR GLOBAL DEVELOPMENT

SERIES ON THE FUTURE OF DEVELOPMENT-CHINA



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



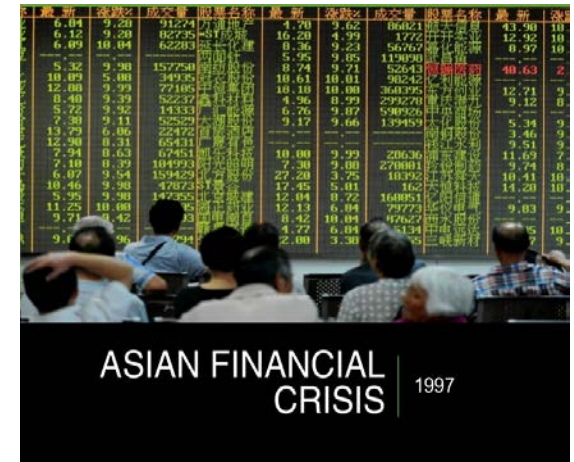
WHAT THE RICH DID RIGHT BECAME WHAT WENT WRONG



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



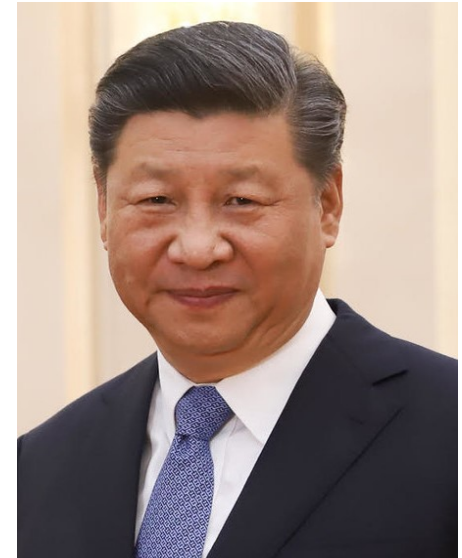
THERE ISN'T JUST ONE CHINA,
BUT AT LEAST 3 DIFFERENT
CHINA/S SINCE 1949



MAO



DENG

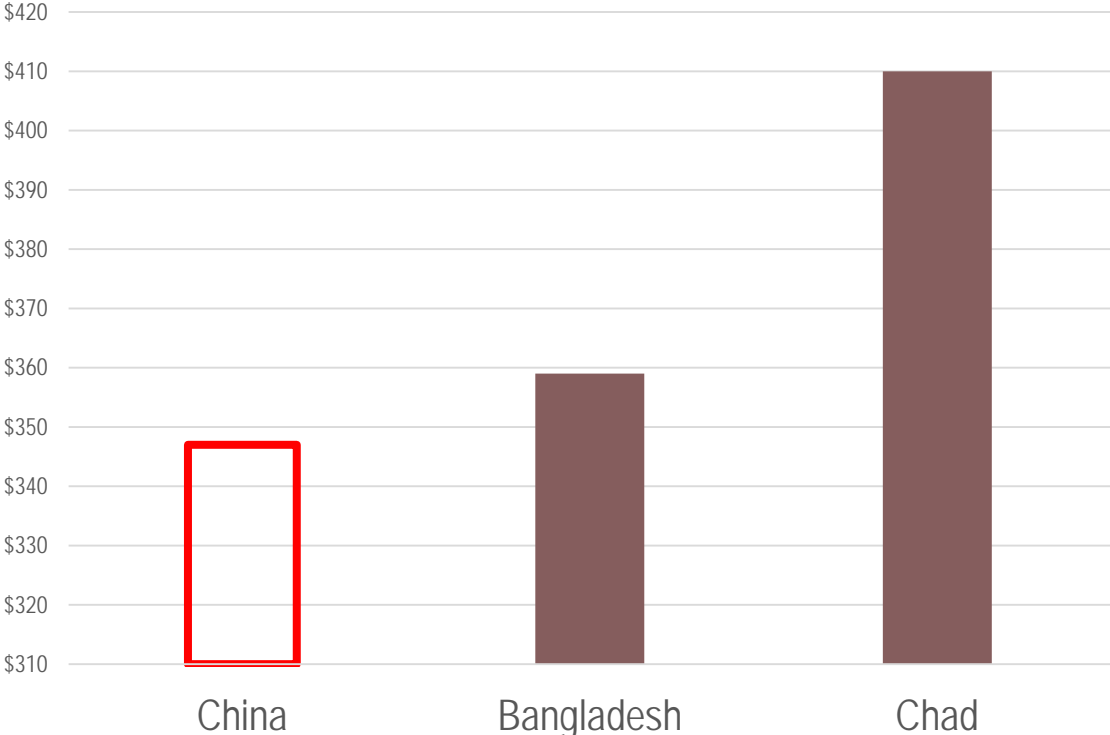


XI



WHEN MARKET REFORM BEGAN, CHINA WAS A VERY POOR COUNTRY

GDP per capita (in 2010 US\$) in 1980



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)



FOREIGN
AFFAIRS



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



THE PATH OF BLESSED COUNTY

- One of wealthiest counties in Zhejiang province today; vibrant private sector; about 800,000 residents; dramatically transformed in 40 years



Early 1980s



2015



STATE

1978 onward: Promoted collectively owned township and village enterprises (TVEs)



MARKET

1978-1993: Achieved initial growth spurt (industrial output grew 33 fold).



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



STATE

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.

Model of “Washington Consensus”:
Limited government + private property rights necessary for growth



MARKET

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.



STATE

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



MARKET

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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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



Part 3:

Corruption and inequality



“Let some get rich first.”



DENG



2012

- China had surpassed Japan to become world's 2nd 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



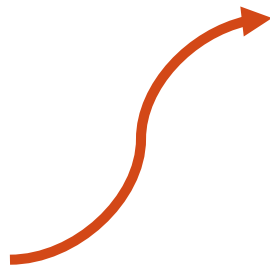
1994 tax-sharing reform
centralized taxes and left
local governments
desperate for revenue



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)



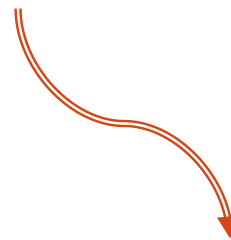
Infrastructure boom



High-stakes transactional
corruption among elites



Rising inequality



Mounting local government debt



GROWTH ON STEROIDS



2008

Infrastructure boom

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

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

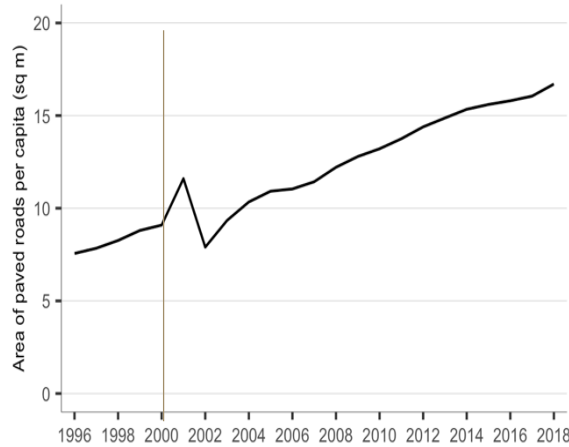
Set up "government financing vehicles" to borrow from banks + used land as collateral



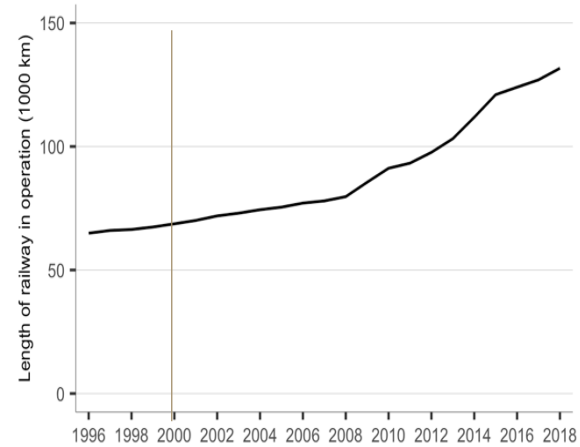
From 2000s onward, infrastructure boomed



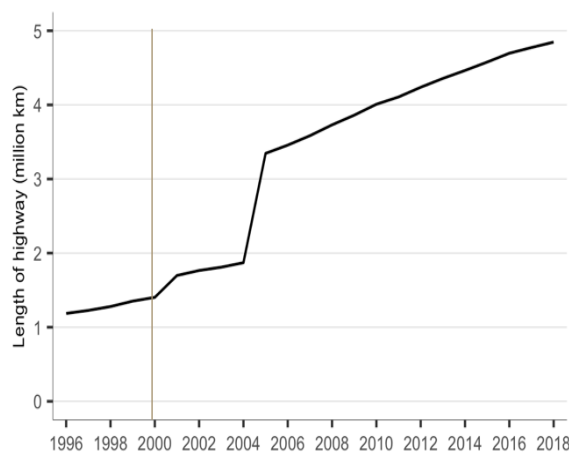
Paved roads



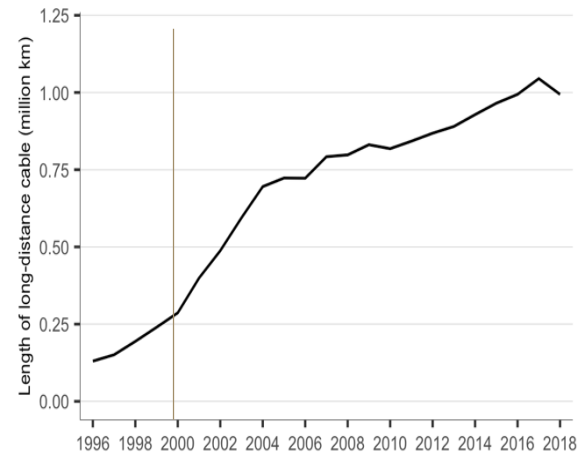
Railway



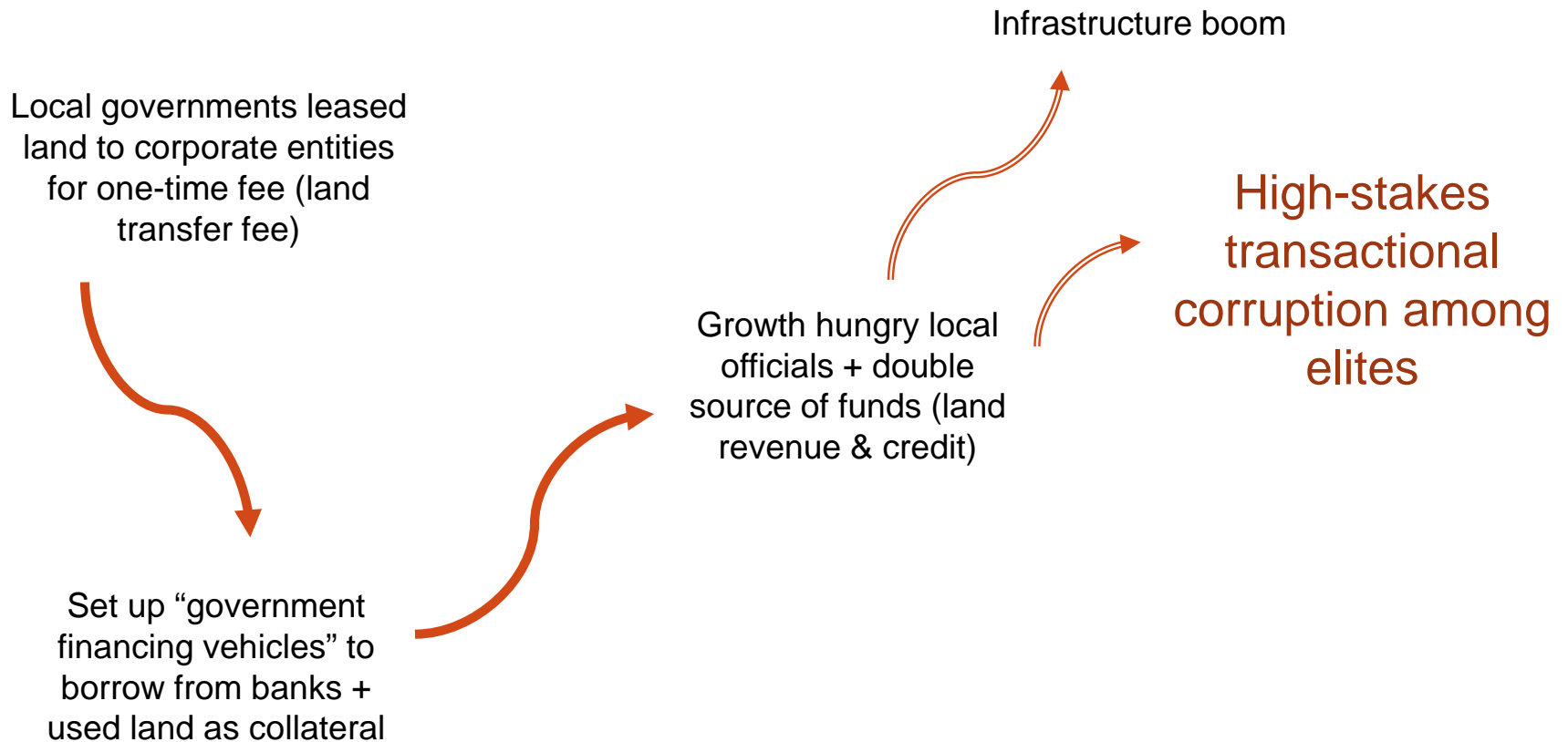
Highway



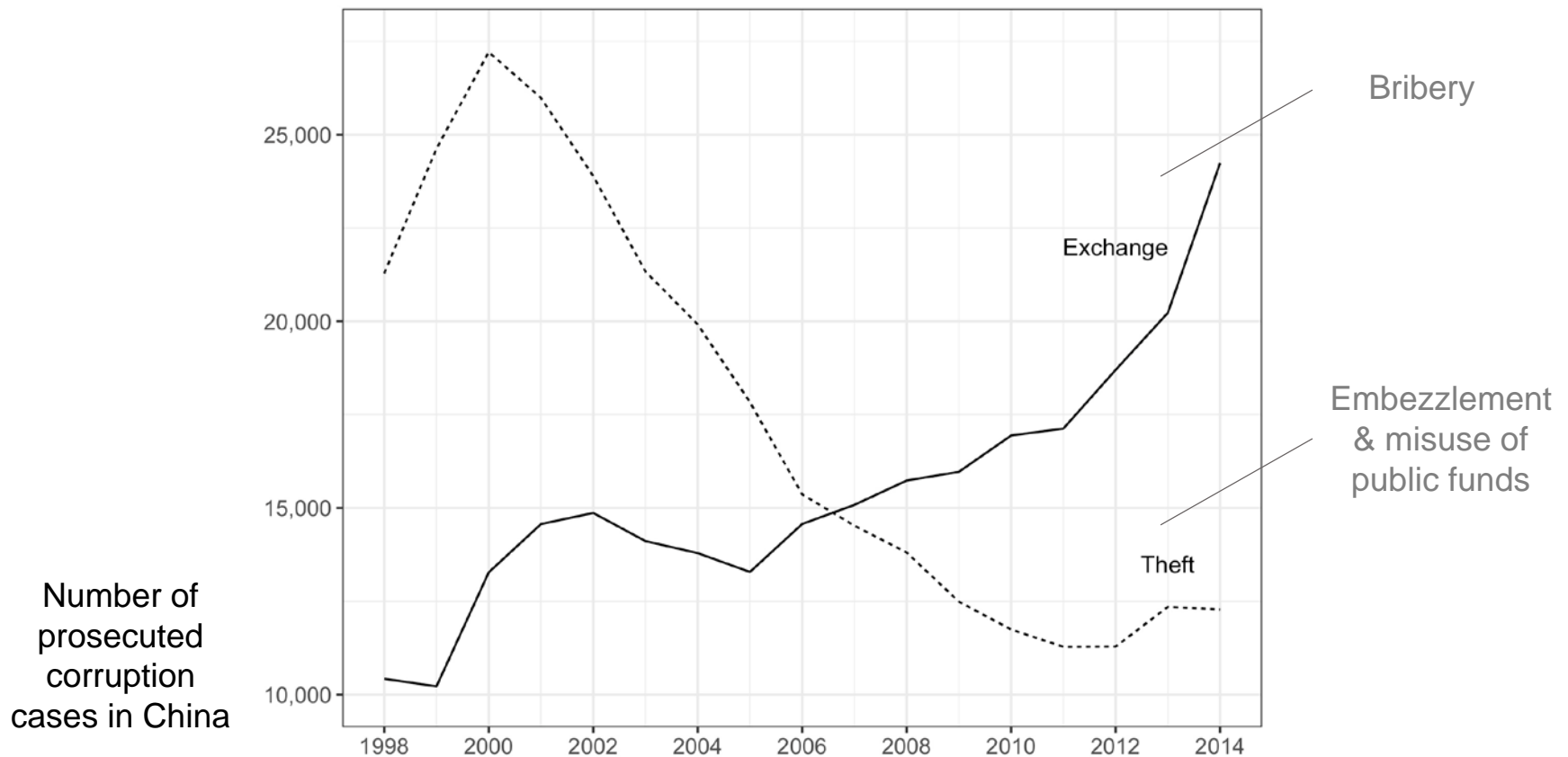
Long-distance cable



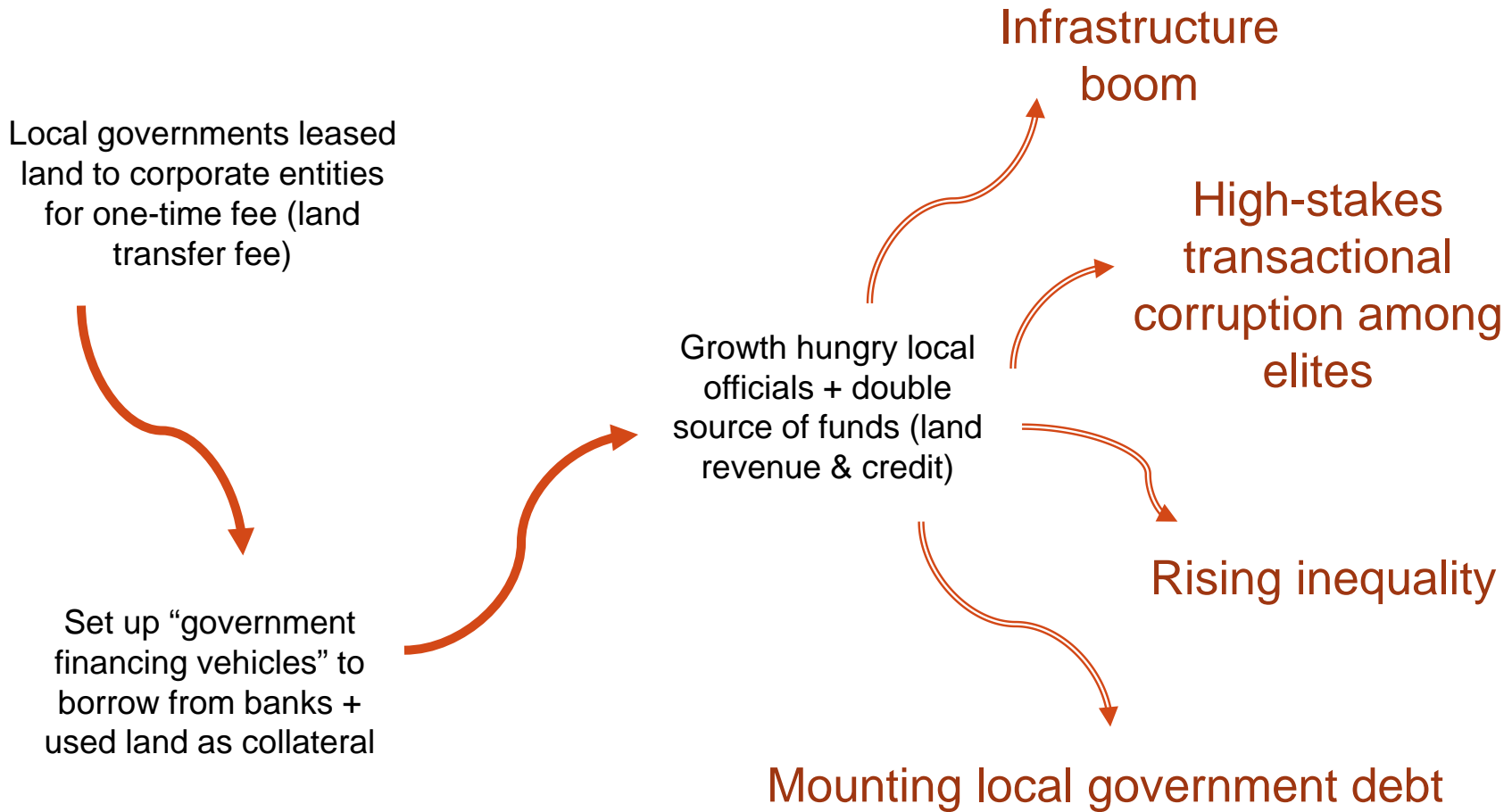
GROWTH ON STEROIDS



Growth-inhibiting corruption came under control, but “access money” exploded



GROWTH ON STEROIDS



Source: "Can China Survive Its Gilded Age?" Foreign Affairs (2021)



CHINA'S GILDED AGE: RICH(ER), RISKY, UNEQUAL, AND CORRUPT

CAN CHINA KEEP RISING?

The Robber Barons of Beijing

Can China Survive Its Gilded Age?

Yuen Yuen Ang

It seemed like a typical story of Chinese corruption. Stuffing suitcases full of company shares, the businessman lavished bribes on influential officials in exchange for cheap loans to subsidize his railroad projects. The target of his largess, 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 track. Over time, as the ties between the officials and the businessman grew closer, the officials doubled their financial support for his ventures, indulging 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 capitalists to take on outsized risks. No wonder some observers have insisted since the 1990s that the Chinese economy will soon collapse under the

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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 catapult 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 reforms—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



RIGHT LESSONS TO LEARN

- Bureaucracy should be incentivized not only to pursue growth, but the right *type* of growth/development.



RIGHT LESSONS TO LEARN

- Like buying a car, know pros & cons of any development model, whether it is European, American, or Chinese.



Thank You

