

Development that leaves no one behind



Learning from China's Transformative Experience




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Abstract

Over the past 30 years, China has been encountering an astounding growth unprecedented in human history considering its scale and diligence. China's growth, even if the economy slows, is a dream for many countries. This study explores several features of modern China that have significantly changed between the pre-reform period and today which provide interesting lessons for other developing countries such as South Asian countries. This paper is going to examine the development and economic transformation of China and lessons for South Asian countries. The paper also delves into the reasons behind such reforms and how the indigenous characteristics of the Chinese population have helped the reforms to be successful. The paper found that the combined effect of these reforms has helped China get out of extreme poverty at a pace never seen before in human history, pulling out 800 million people out of poverty. It also pointed out the limitations under which it may not be possible for countries to achieve the same growth as China's with the same steps. It does not ignore the limitations the Chinese model offered but maintains a focus on its three decades of success. The paper concluded that the increasingly flourishing China does provide important development lessons for developing countries in the world from their 40 years of transformative experience. But the limitations and the drawbacks of this growth must also be kept in mind.

Keywords: China, China's development lessons, China's Economic Reform.

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1. Introduction:

Over the past 30 years, China has clocked astonishing economic growth rates which is unprecedented in human history considering its scale and diligence. China's growth, even though currently experiencing a gradually slowing trend, is a dream for many countries. The picture of present-day China is a stark contrast of China from 40 years ago where hundreds of millions of Chinese people were struggling with poverty, malnutrition, deprivation of basic rights. From being a poor, backward country that missed two industrial revolutions, China has now the world's second-largest economy((Chow, 2010).

In this era of globalization, countries have become much more connected. Now, the growth and development of one country have a spillover effect around the world. Thus, it is important for all nations to work together in the pursuit of helping each other and attain development that leaves no one behind. Many developing countries in the world are struggling with slow growth, high poverty and a myriad of other problems like China did 40 years ago. Thus, other countries can take lessons from China's experience and apply these learnings in the pursuit of achieving economic growth and development (Yinuo, 2016).

This paper focuses on several features of the reform process that has helped China transform drastically in 40 years. It is also going to examine the development and economic transformation of China and lessons for developing countries. It does not ignore the difficulties the Chinese model currently faces, rather maintains a focus on its three decades of success.

2. Reasons for Reform in 1978:

According to Chow (2010), the year 1978 was high time for China to adopt changes to its economy for four reasons:

Firstly, as the Cultural revolution was very unpopular, the government had to leave the old regime and bring changes in order to win the support of its population.

Secondly, after years of experience in economic planning, government officials understood the shortcomings of the planned system and the need for change.

Thirdly, the successful economic development in other parts of Asia-especially the 'Four Tigers'¹ demonstrated to the Chinese government officials and the Chinese people that a market economy works better than a planned one.

Fourthly, for the reasons stated above, the Chinese people were ready for and ready to support economic reform.

3. Special Characteristics of the Chinese People:

China had plenty of high-quality population as the Confucian ethic emphasized on education strongly. In 1870, 21% of the adult population in China was literate compared to other parts of the world such as Latin America (15%), and South Asia (3%) (Morrison & Murtin, 2005). According to (Zhao, 2018), one of the major drivers for China's success is the Chinese people. The great culture that shapes their characteristics: goal-oriented, assiduous, frugal, strong family tie and craving for

¹ Taiwan, Hong Kong, Singapore, and South Korea.

knowledge. Much of the investment that has fueled China's exceptional growth has been facilitated by strikingly high savings rate of households, which has been possible for the thrifty nature of Chinese people.

4. Features of Modern China

According to Dollar (2008), the Chinese call their economic reform program as "Gai Ge Kai Feng", which means "Change the system, Open the door". There are four features of this reform which have helped China take the shape it has today which are: Change in the system, Trade Liberalization, Infrastructure Development, and Agricultural reform. Another feature that also helped the process heavily is the extensive focus on research & development.

4.1 Change the System:

Before the economic reform, China had a planned economy that was based on collectivized agriculture, state-owned enterprises (about 77% of industrial production) and a small number of local state enterprises. Change the system means shifting the economy from near-total state ownership to one where the private sector is dominant. This reform allowed both the state and non-state sectors to co-exist and compete. Since 1995, the private sector has prospered widely and by 2003, it consisted of 72% of industrial output. In this time-frame, many collectives and state firms were privatized and a new private firm's entry was encouraged. (Dollar, 2008). According to a World Bank survey (2005), only 8% of the firms were majority state-owned, 27% were foreign-invested and the lion's share of firms were domestically-owned private firms. (Woo, 1999)

4.2 Liberalization of Trade:

China was one of the highly closed economies in the world before 1978 (Dollar, 2008). The 11th Central Committee of the CPC adopted a reform, called "Open the door". It means liberalizing trade and foreign direct investment (Chow, 2010). This initiative was complemented by the decentralization of trade. The provinces of China were given the power to engage in trade, quotas to fulfill which promoted competition and a percentage of the foreign exchange earned (Joseph, 1999). These policies helped to burgeon the trade and led China to achieve technology, management skills and global production of networks. This reform resulted in China's exports and imports increased at an annual rate of 16% in the period 1990-2006. Also, China emerged as the largest destination of FDI, a manufacturing and trading superpower (Dollar, 2008).

For example, Shenzhen was a fishing village with a population of just 30,000 in 1979. The introduction of free-market policies into this newly designed special economic zones unleashed investment that triggered a boom. The city achieved an extraordinary 22% annual average growth rate from 1980-2016, according to The Economist. Today, Shenzhen is home to 12.5 million people. Poverty has been nearly eliminated, and per-capita GDP was nearly \$50,000 in 2016 which is on par with some US states. Shenzhen's achievements are a microcosm of China's progress over the past four decades (Chen & Ogan, 2016).

4.3 Development of High-Quality Infrastructure

China became a vibrant private sector to foreigners for the following reasons: high quality in both hard and soft infrastructure, good investment climate in Chinese cities, a lower burden of bureaucratic red-tape compared to many developing countries (Hallward-Driemeier, Wallsten, & CollinXu, 2003).

4.3.1 Physical Capital

The development of infrastructure has been a significant factor bolstering China's growth (Yinuo, 2016). The capacity of the power sector has grown at a rate of 10% per year to keep pace with the necessity of the economy. China has invested in physical capital heavily². Some studies showed that investment in physical capital contributed to 50% of China's growth in the post-reform years.

4.3.2 Skill Development for Workers:

China targeted at capacity building of its workers. They adopted a few measures in this regard such as

- i. Foreign investors in China were made to hire a maximum amount of Chinese staff and provide training.
- ii. China developed very sophisticated training institutes which specialized in technical skills development in order to prepare them for the industry.

4.4 Agricultural Reform:

China is a densely inhabited, resource-scarce country that started reform with 80% of its population rural. Grain output per hectare was very high, thus, raising income for the huge rural populace needed a number of corresponding measures. Growth in the agricultural sector has reduced rural poverty immensely. The number of rural Chinese people in extreme poverty plummeted to less than 15 million in 2007 from 250 million in 1978. This growth has been possible for the combination of various institutional reforms such as the adoption of the 'Household responsibility system' from collective farming, a technological change adopted through the R&D system, shift from a planned economy to a market one and agricultural investment (Huang & Rozelle, 2018).

4.5 Extensive Focus on Research & Development (R&D):

The country's leadership focused on R&D, which helped China immensely in the shift to a service-based economy. China placed innovation at the epicenter of its strategy for development. Chinese R&D expenditure accounts for 15% of the world's total and this is only likely to escalate (Yinuo, 2010). As Cook (2010) remarks, the China Model is one of pragmatism, experimentation, and gradualism, looking for success, keeping what works, and discarding what does not. This approach is reflected in widely-cited slogans of the Chinese communist part-state, such as "Crossing the river by feeling the stones."

5. Effects of Reform on Poverty Reduction:

According to Nobel Prize-winning economist Joseph Stiglitz, "No country in recorded history has grown as fast- and moved as many people out of poverty as China over the last 30 years." Poverty alleviation remains one of the top priorities on China's domestic development agenda.

² An estimate from the early 2000s suggested that more than 45% of national income in China was invested in physical capital.

In 1978, China was one of the poorest countries in the world. In about 25 years, China has set an unprecedented example in the world, lifting out 439 million people out of extreme poverty since 1990. According to UNDP (2015), China had contributed to 76% of all global poverty reduction until 2015.

China witnessed an average GDP growth of almost 10% per year until 2014, raising per capita GDP almost 49 times, from 155 current US Dollars (1978) to 7,590 US Dollars in 2014, lifting 800 million people out of poverty (Eckart, 2016). Poverty reduction is stimulated by growth in both agriculture and non-agricultural sectors.

6. Lessons for South Asian countries

6.1 Why should South Asia take a lesson from China?

36% of the world's poor reside in Asia and this region and suffers from development and infrastructure gaps. At the beginning of the reform, China was also in the same situation fighting with three problems: Inadequate finances, weak infrastructure, and outdated technology. It had to work on its economic growth, social development, and environmental protection simultaneously, which it has been able to do successfully. On the other hand, in terms of the size of the economy, population size and endowment of natural resources, as well as cultural aspects, South Asian countries, are much comparable to its Asian neighbor than to other countries such as European countries. Thus, South Asian countries should take lessons from China with the aim to achieve SDGs.

6.2 Lessons:

- i. From the experience of China, it is evident that countries must give attention to raising agricultural productivity and incomes in those areas that have not enjoyed the benefits of new technologies. At the same time, emphasis should be given on creating job opportunities in the non-farm sector.
- ii. A higher amount of savings at both public and household levels is required to sustain the required level of investment and sustainable economic growth over time.
- iii. One of the crucial obstacles to development in South Asia is the lack of good physical capital. From China's experience, the importance of good infrastructure is pellucid. Therefore, South Asian countries need to emphasize the investment of infrastructure development.
- iv. Human capital is one of the many enabling factors in China's extraordinary growth. Thus, South Asian countries need to invest in the skill development of their labor force to produce high-quality human capital.
- v. The investment in research and technological development in agriculture is low in South Asia, which needs to be increased as China did.
- vi. The tax-to-GDP ratios in South Asian countries are as low as 10%, compared with China where it is closer to 20%. Hence, there is scope for increasing domestic resources by enhancing the tax base and strengthening tax administration and tax compliance. This could be done by plugging loopholes to prevent the leakage of tax revenues, through regional tax cooperation and innovative new taxes. In Bangladesh and Pakistan, less than 1% of the population pays income tax, and in India, the figure is less than 3%, with collection efficiency between 29% and 40%. UNESCAP has estimated that the potential tax gap (the gap between actual and potential revenue) varies between 17% and 72% across countries in the sub-region.

6.3 Limitations:

Even if China holds important lessons for South Asia as well as the countries have some common characteristics, it may not be possible to apply all the lessons due to some reasons.

- i. The Maoist legacy of “self-reliance” resulted in a debt-free economy for pre-reform China. Thus, China had almost no foreign debt when the state initiated its economic reform. On the other hand, South Asian countries rely largely on foreign aid and have incurred huge debt for their development projects.
- ii. China’s sharp decline in fertility rate has resulted in fewer young dependents to support for a given size of the working cohort. The fraction of the prime-age population in the total population rose steadily for three decades, creating an unusually large demographic dividend, which in turn contributed to economic growth (Cai and Wang 2008; Wei 2015).

7. Criticism:

7.1 Income disparities:

China’s real GDP has grown by an average of 15% each year³ (CSB, 2006). However, this economic growth has been accompanied by increasing income disparities. The income gaps among regions, and particularly between urban and rural residents, have increased steadily since the mid-1980s (Hang, Jun, Xu, Rozelle, & Li, 2007). Researchers have pointed to worsening income inequality in China. The Gini coefficient for household income in China, for example, rose from 0.33 in 1980, to 0.40 in 1994, and to 0.46 in 2000. The last figure surpasses the degree of inequality in Thailand, India, and Indonesia. (Hart-Landsberg and Burkett 2004).

7.2 Environmental degradation

China is the world’s largest emitter of Carbon-dioxide with an emission of 8.29 billion tons in 2010, which is a side effect of its high industrialization. It has taken a toll on people’s living. About 15 of the world’s dirtiest cities are in China which is very alarming.

Countries taking lessons from China’s development should keep in mind the side effects of such drastic growth and take action accordingly.

8. Conclusion:

Developing countries can take lessons from other successful countries and adapt the learnings for their own growth. China’s success with growth and poverty reduction in 40 years provides fascinating lessons. It is almost impossible to find another country’s example where an economy changed drastically in such a short time and the population witnessed a leap in standard of living (Yao, 2018). South Asian countries can take lessons from China’s experience. While countries should not attempt to blindly copy China’s development lessons, they must pave the paths to create their own growth pathway, based on their own history, culture, and society.

³ From US\$44 billion in 1978 to US\$1655 billion in 2004

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