

Dynamics of A Value-Driven Growth: A Chinese Perspective

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Structure

I. Rise of China: A Dual Image

II. The “Chinese Model”

III. Reinterpretation of the “Chinese Miracle”

IV. Universal Model

V. Problems and Perspectives

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II. The “Chinese Model”

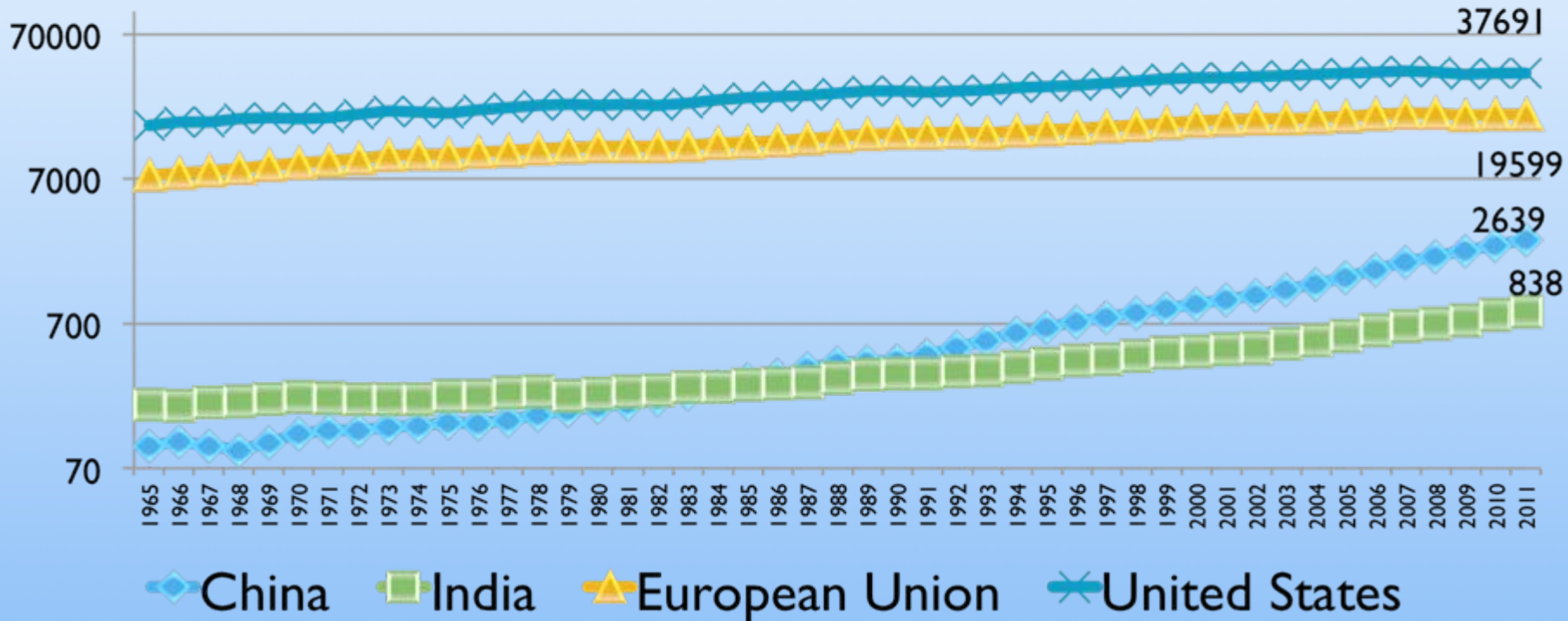
III. Reinterpretation of “the Chinese Miracle”

IV. Universal Model

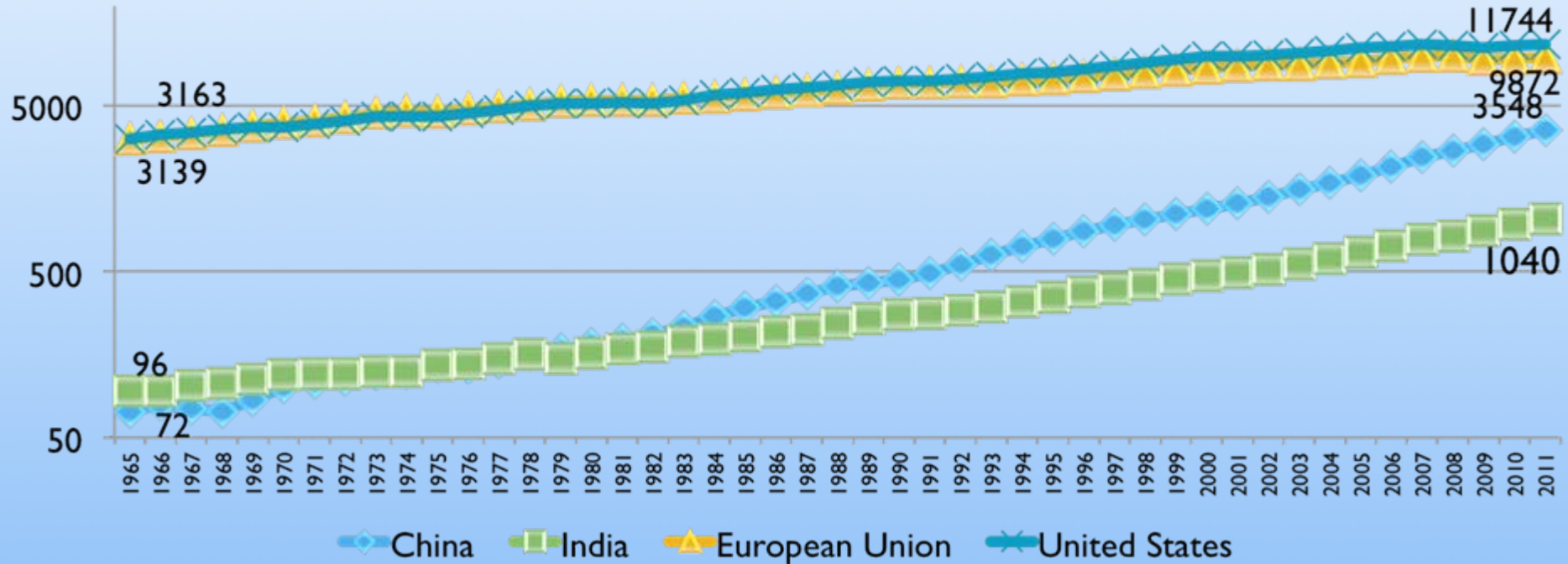
V. Problems and Perspectives

Per Capita GDP Growth

(%, in constant 2000 USD)



GDP in billion constant US\$



Background

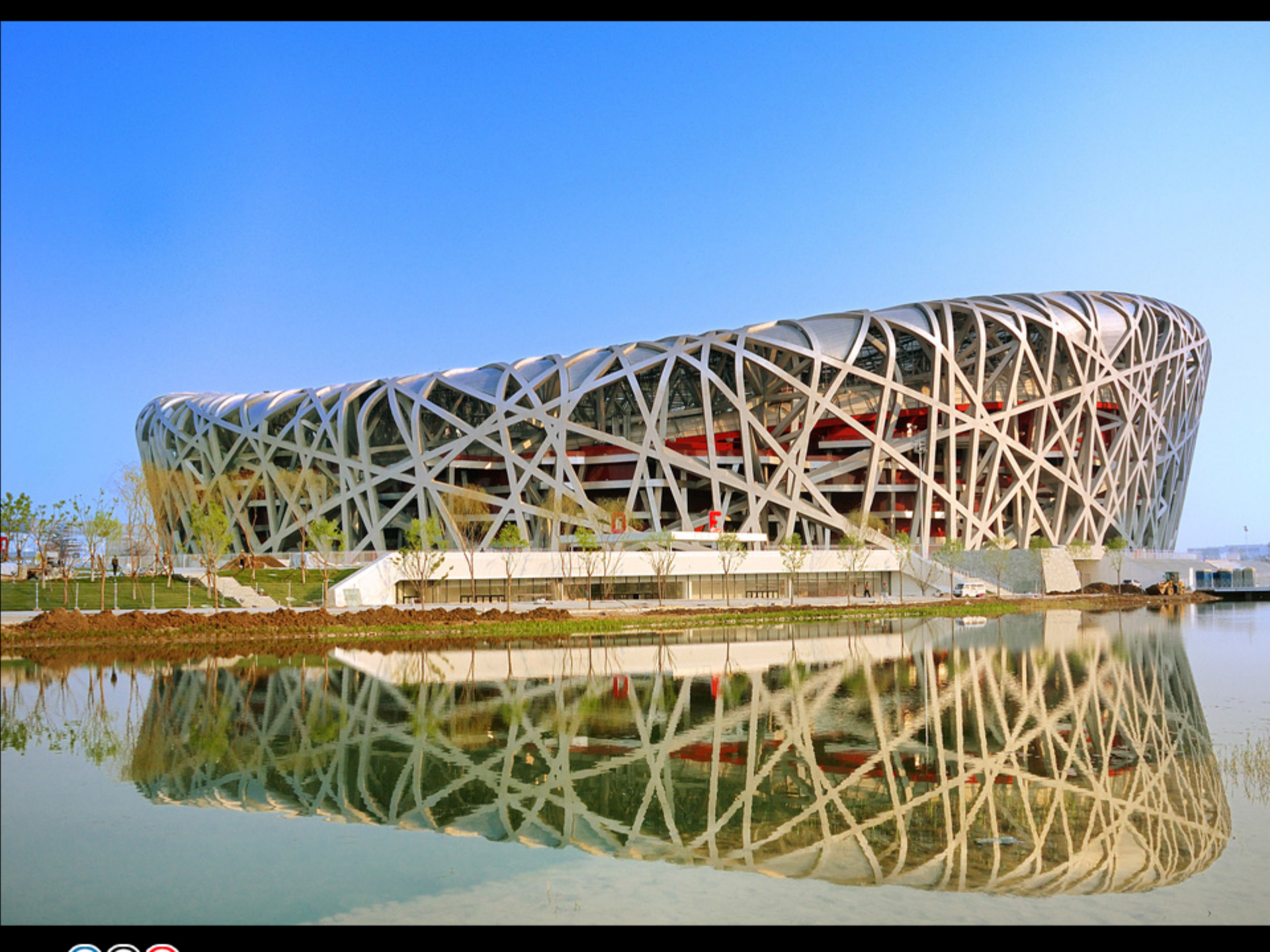
- China has recently become the world's **No. 2** economic power measured by the size of GDP in 2010.
- The country's economic success has won enormous **applauses** within and outside of China.
- Chinese development pattern was coined with **“Chinese Model”**

“Chinese Model”

- ▣ The “Chinese Model” is characterized by preserving a certain degree of economic freedom in combination with political suppression.

Rivaling opinions on the institutional framework behind China's success

- Opinion I: Strong role of the 'visible hand' of an authoritarian, benevolent government.
- Opinion II: Role of an 'invisible hand' in the market supportive of economic liberalization,
- Opinion III: The third opinion emphasizes a combination of the 'visible hand' and 'invisible hand' although its existence is quite weak.





Hangzhou Bay Bridge









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Canghai See Project, Cangwu County, Guanxi, Oct. 13, 2010



山东临沂苍山磨山镇村民李敬刚

我9月大的孩子被引产，死了！



我是山东省临沂市苍山县磨山镇的村民李敬刚。

前段时间网上热炒的9个月大的孩子被引产下来，泡在桶里的照片，就是我们拍的。那个孩子，是我的。

我妻子当时怀胎9月，是二胎。被苍山县磨山镇政府的工作人员强行押着，用车拉到了苍山县妇幼保健院，直接引产。





Xi Jinping: New Party Secretary-General



Jiang Zemin, former former PSG



Hu Jintao: Former PSG(left side)
Jiang Zemin: Former former PSG
Wen Jiabao: Premier (right side)



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- All advocates of the Chinese Model stress the ‘uniqueness’ of the economic and political system transformation in China.
- Pan Wei (2007): The Chinese Model consist of four sub-systems, including a unique way of social organization, a unique way of developing its economy, a unique way of government, and a unique outlook on the world.
- Noteworthy here is that all of its advocates deny the necessity of constitutionalism, rule of law and democracy in China. The Chinese Model suggests supremacy of Chinese authoritarianism over Western democracy, and that of the Chinese ‘uniqueness’ or particularism over belief in universal values such as liberty and democracy.

Is there a “Chinese Model”

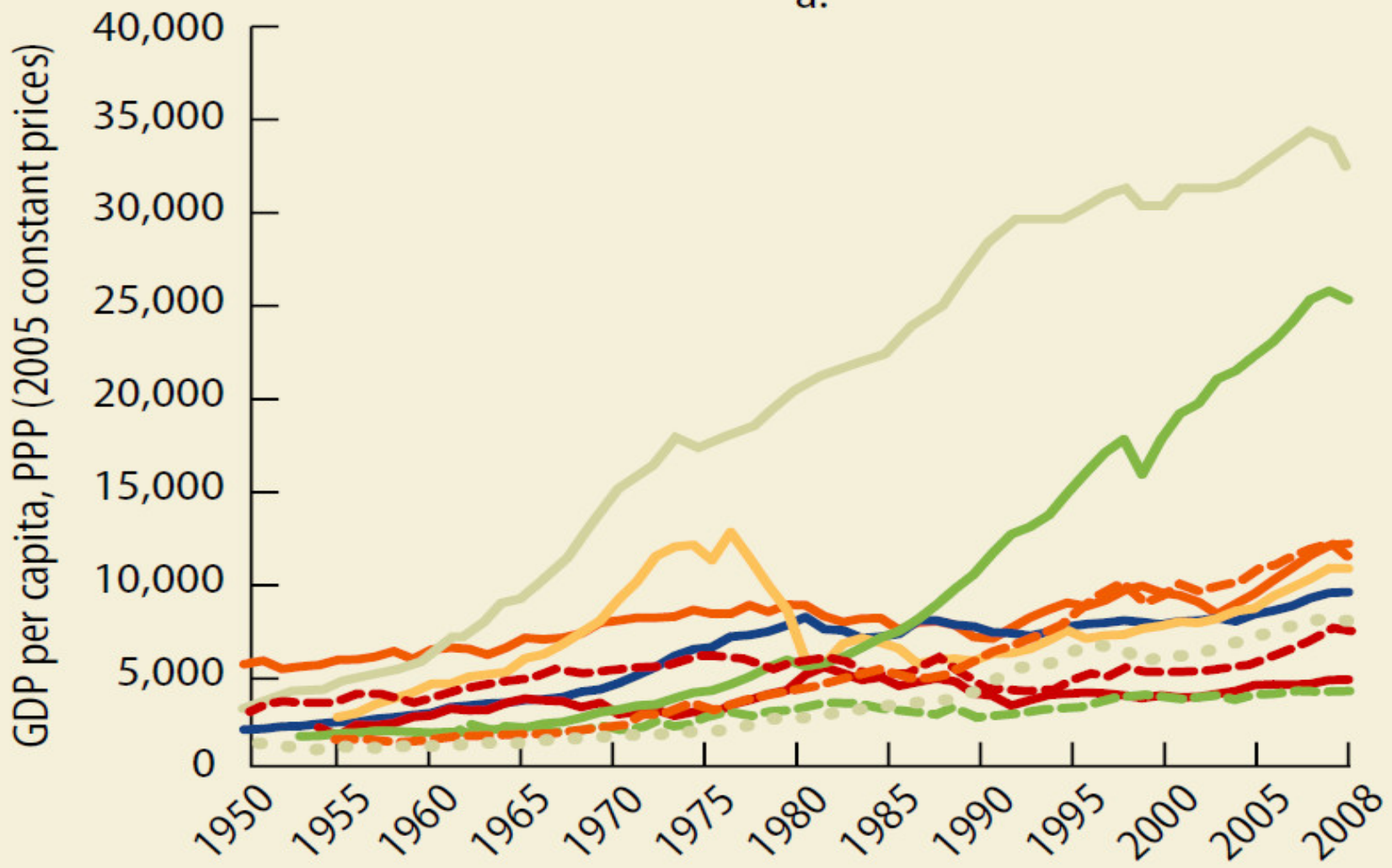
- “East Asian Model” (Developmental State Model)
- “Pinochet Model”

Problems with East Asian Model

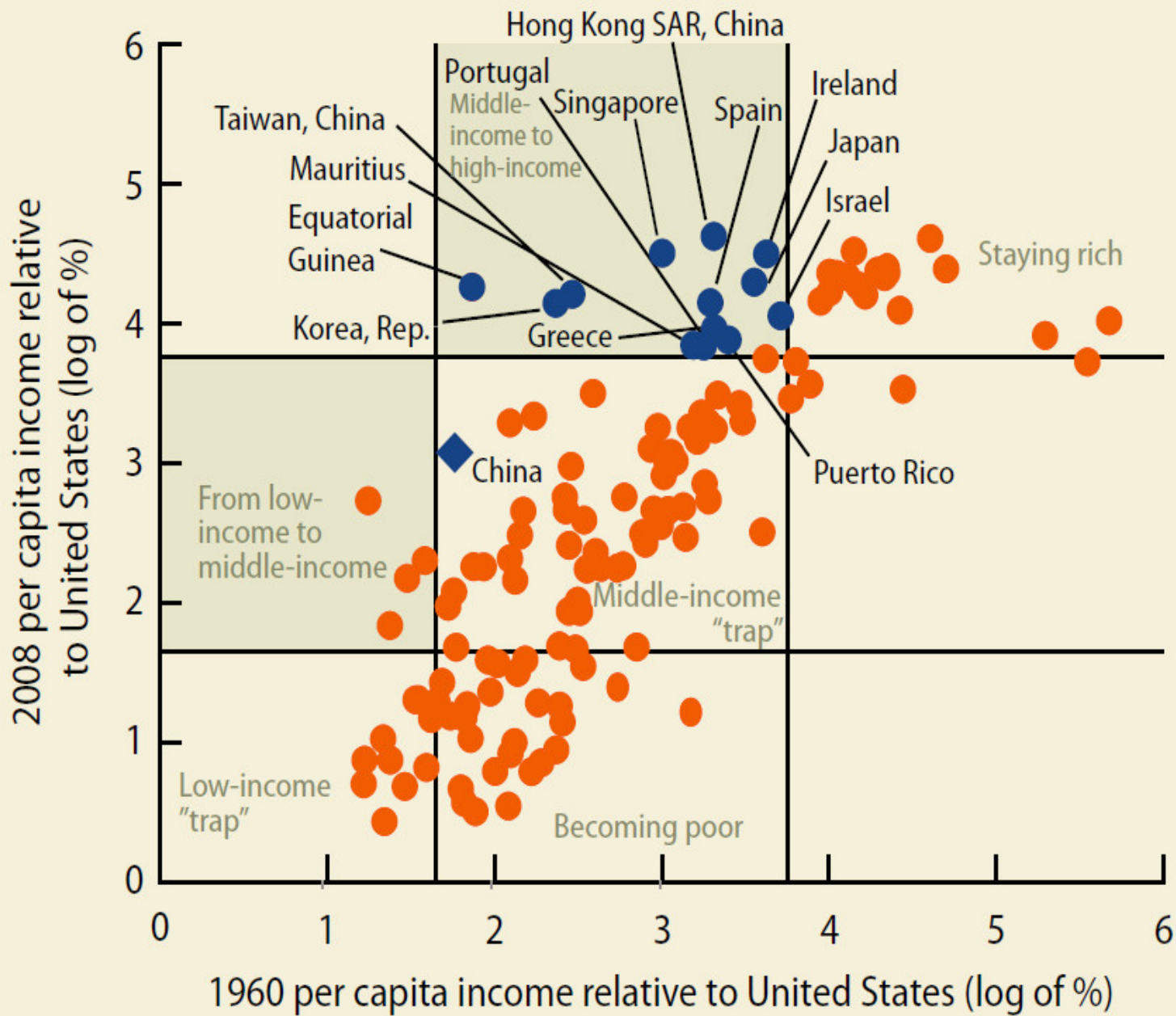
- Few countries came out of the so called “Middle income trap”

Box 1 Figure Few countries escape the middle-income

a.



- Argentina
- Brazil
- Iran
- Japan
- Jordan
- Korea, Rep.
- Malaysia
- Peru
- Syrian Arab Republic
- Thailand



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I. Featuring the Path of Chinese Reform

Featuring the path of Chinese reform

- 1978-2003 in general:
 - ◆ Economic liberalization
 - ◆ Rule making
 - ◆ Building awareness of rule orientation
- 2004-now:
 - ◆ Reform concepts involved mainly departmental interests
 - ◆ Stress one-sidedly redistribution, not at the same time economic principle
 - ◆ Renationalization
 - ◆ Rule jeopardizing
 - ◆ Destruction of awareness of rule orientation

Features of Chinese economy

- ▣ Direction: “Socialist market economy”
- ▣ A mixed ownership economy (Party document)
- ▣ A mixed economy (Stiglitz)
- ▣ Dirigisme
- ▣ Not a market economy
- ▣ Striving for market economy status

State owned enterprises

- ▣ Less payment for loans;
- ▣ Less or no payment for land;
- ▣ Less payment of taxes
- ▣ Subsidies from government
- ▣ X-inefficiency

- ▣ → Net loss



2. Causes for “Chinese Miracle”

Historical Criteria for a “Miracle”

- Relatively high, long-term and stable growth;
- Some or even large contributions of the technical progress to the growth
- Rare case, low frequency among countries

How to look at a “miracle”?

- If productive forces are liberated, no “miracle” is a “miracle” (Leon Louw).

Total Factor Productivity (TFP) and Its Contribution to GDP Growth in China

Year	GDP Growth Rate (%)	TFP Growth Rate (%)	Contribution of TFP Growth Rate to GDP Growth (%)
1978-1985	9.8	3.5	35.3
1986-1989	8.9	2	22.2
1990-1997	11.2	4	36.1
1997-2000	7.7	0.8	10.9
2000-2003	8.4	1.6	19.9
1990-2003	9.7	2.7	28
1978-2003	9.4	2.4	26.2

Source: Li Shantong

Indicators of technical progress

	Unit	1991	1995	2000	2006	2007
Number of Persons in R&D (converted to full time jobs)	10 000 persons per annum	67.1	75.2	92.2	150.3	164.9
R&D Expenditure	100 million RMB		349	896	3003	3664
R&D Expenditure as a share in GDP	%		0.57	0.9	1.42	1.49
Approved patent applications	10 000	2.46	4.51	10.53	26.8	35.18
Domestic	10 000	2.14	4.12	9.52	22.39	30.16
Abroad	10 000	0.32	0.39	1.01	4.41	5.02

Re-interpreting Causes for the “Chinese Miracle”

1. Favorable initial conditions
2. Relatively appropriate path of reform
3. Favorable informal institutions and pressure of life
4. Gradualist approach to reform

1978年12月

地类 平定年款

村四个回到户。每户主屋地基草，如以后路平。每户保地完收粮食的全年
上大批公粮不在向国家伸手要钱要粮如不成。我们平部作斗争斗
也平心。大家社员保地把种的的一粒养活到十八岁

平定昌

周更珠

刘德

马在存

马廷华

马向昌

马廷坤

马金昌

马成志

刘德

马廷华

马向昌

马廷坤

马廷华

马俊昌

马廷华

马廷华

马向昌

马廷坤

马向昌

马俊中

XINHUANE



1. Favorable initial conditions

- Decentralized spatial economic structure
- Multi-divisional structure of enterprises (M-form in China versus U-form in the Soviet Union)
- Low level of development easing the attainment of a high growth rate
- Low labor cost:
 - Freest labor market, least regulation except the “hukou” system (selective urban-rural divide)
- An unfavorable political and socio-economic condition as a favorable condition for a change and reform (crisis in the end of 1970s)

2. Relatively appropriate path of reform

- Gradualist approach to reform due to ideological hindrance and the need of political control by the Party: not the same as “trial and error” approach
- Least resistance path in the beginning, Pareto improvement
 - Rural household responsibility reform
 - Double track (plan and market track) reform
 - Fiscal decentralization, fiscal contract systems
- Selective preservation of currency value
 - FEC (Foreign Exchange Certificate) till end 1993
 - Dollar peg first, currency basket with dollar dominance later
 - Budget Law in 1994, forbidding the borrowing by the Ministry of Finance of money from the Central Bank
- Gradual introduction of property rights
- Gradual introduction of market competition
- Unintendedly introduced local government competition
- Selectively opened market
- Enforced freedom of contract in competitive market sector
- Enhanced liability (for the input of own factors of production)
- Relative consistency and continuity of foreign direct investment policy

Constituting principles of a competition order (Eucken, 1952)

- A functioning price system
- Monetary stability;
- Private property;
- Open market;
- Freedom of contract,
- Liability, and
- Consistency and continuity of economic policy

Pattern of Reform

- In many cases: A pattern of “Spontaneous institutional change first, government recognition later”:
 - Examples:
 - Rural household responsibility system,
 - Emergence of private economy,
 - Informal stock market etc.
 - Reforms seemed to be government dominated, but most reforms were initiated by the market actors, and recognized later by the Party and government passively
 - Reversed transmission of pressures from below

China: A still problematic, but relatively performance oriented competition order in the competitive sector

- Different from a well functioning competition order:
 - Example: State monopoly in banking sector, securities market, major industries.
- German experience with establishing and preserving a competition order:
 - Walter Eucken, Mueller-Armack, Ludwig Erhard,
 - Ideological sources of the social market economy: Ordo liberalism, Christianity and socialism;
 - **Constituting principles of a competition order** (Eucken, 1952)
 - Foundation of the German “miracle”
- Good foundation for entrepreneurship in China

China: A still problematic, but relatively performance oriented competition order

- An unintended approximation to the competition order proposed by Eucken and practiced in early social market economy in Germany

3. Favorable informal institutions and pressure of life

- ▣ “Little tradition” and pressure for life
- ▣ Mentality of pursuing a better life
- ▣ Tradition and attitude of hard work
- ▣ Tradition of emphasis on education

↔ Orthodox ideology:

- ▣ A hindrance
- ▣ Instrumentalized

Value-driven Growth?


- Economic law, no escape
- Little tradition: pro-business culture
- Great tradition in Confucianism:
 - Emphasis on education
 - Open social ladder through education and state exams
 - Disallow government officials to run business

- 
- Ethic values in Confucianism:
 - Benevolence (ren)
 - Righteousness (yi)
 - Rituality [Courtesy+Propriety] (li)
 - Wisdom (zhi)
 - Trust (xin)
 - Honest (zhong)
 - Responsibility or filial piety (xiao)
 - Sympathy (shu)



▣ Christians:

- ▣ 23 million Protestants (CASS data)
- ▣ 6 million Catholics in 2010 (official data)
- ▣ Total 120-140 million, including members of illegal Christian groups

- 
- ▣ Buddhism:
 - ▣ Tolerance
 - ▣ Sympathy
 - ▣ Taoism:
 - ▣ Spontaneous order
 - ▣ Many are lack of real beliefs in religions

4. Gradualist Approach to Reform

- Popper/Hayek: trial and error as an approach to the approximation to the truth: $\leftarrow \rightarrow$ Gradualist approach.
- Change in formal and informal institutions needs time.
- Ordo-Liberalism (Eucken): There is an interdependence of sub-orders in economy and society
- Gradualist approach to reform is a double edge sword
 - Advantages for the Party:
 - Avoid political and socio-economic instability
 - Strengthen the political and ideological control
 - Allow institutional competition, learning, imitation and innovations
 - Disadvantages:
 - Government capture and corruption;
 - Reform might be halted or reversed due to political struggles
 - Reform experiments as excuse for avoiding real reforms

General Assessment of the Gradualist Approach

- In general, the gradualist approach was correct, but abused.
- The bureaucratic capture and corruption prove that a political reform is needed. It is not an evidence to prove that the economic reform was wrong.

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A successful economy relies upon a competition order (Eucken, 1952)

- Monetary stability;
- private property;
- open market;
- freedom of contract,
- liability, and
- consistency and continuity of economic policy

Universal Model

■ Stage I:

- ◆ Preserving a certain degree of economic freedom
- ◆ Ensuring a stable environment for economic activities
 - ◆ By a constitutional system or an authoritarian system

Universal Model

■ Stage II:

- ◆ Preserving a higher degree of economic freedom
- ◆ Ensuring a stable environment for economic activities
 - ◆ By a constitutional system

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Problems

- ▣ Lack of a proper labor protection
- ▣ Lack of social security
- ▣ Severe pollution
- ▣ Peasants' rights have been violated
- ▣ Corruption
- ▣ Lack of protection of basic rights
- ▣ Political reform is lagging behind


→ Do they also causes of the “Chinese miracle”?

Policy Problems

- ▣ Nationalism, populism, dirigism, statism
 - ▣ Development toward a “welfare state”
- A danger of “road to serfdom” in social and labor issue

Changes to be needed

- Reform toward constitutionalism
- Further protection of basic rights, including PPR
- Developing a competition culture and creating and preserving a performance oriented competition order
- Further disenchantment

- 
- Basic values have to be revitalized or introduced:
 - Ethics
 - Democracy
 - Liberty

Thank you!