

## Understanding China's Economic Miracle: Reasons and Lessons

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### Abstract

*Within a span of three decades, China has become an economic superpower and a major factor in shaping global political order. China is now the world's second largest economy; second largest trading nation (with trade volume more than EU); and holder of largest foreign currency reserves, now over US\$ 3 trillion. This is a giant leap from 1976 when "one-third of industrial enterprises in China were losing money, nation's trade was a meagre US\$ 13.4 billion and its foreign exchange reserves US\$ 580 million."<sup>1</sup> Today, China's exports of one day equals its exports for the entire year of 1978.*

*China's miracle is not just the difference in national economic figures of the last forty years but the fact that this transformation has been achieved without altering the country's political system, which remains centralised under the Communist Party of China (CPC). In China, Marxist-Leninist political philosophy and capitalist business models seem to be complementary and locked in symbiotic relationship. The key to understanding the Chinese miracle is finding how the Communist leadership has created a system that harmonises Marx and Lenin with Adam Smith and Keynes.*

*China's economic miracle inspires many developing countries to adopt similar policies and approaches. Notwithstanding the inimitability of China's model, developing countries, including Pakistan, can draw critical lessons from China in reforms and governance to optimise their own pursuits of national economic and social development.*

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## **Introduction**

This article seeks to understand China's economic rise by studying the underlying factors and different methodologies to improve its economy and enhance generative capacities for overall national development. It also endeavours to find out how China achieved phenomenal economic transformation without altering its single-party political system or compromising on political stability. Perhaps the answer lies in analysing the political structure that has anchored China's economic rise and provided sustainability to policy formulation and implementation. Examining the possibility of emulating Chinese model elsewhere, the paper tries to identify lessons for developing countries, including Pakistan.

### **Build Strong Fundamentals - Strengthen Roots**

#### Learning from History

The phoenix of China's economic development rose from the ashes of the Great Proletarian Cultural Revolution (1966-76).<sup>2</sup> The Cultural Revolution had propelled China into the decade of ideological frenzy, vicious fractional politics and near civil war. The result was "a spectacular human and institutional carnage that stagnated non-agricultural production, disrupted transportation, created shortage of raw materials, shut down factories and banished Chinese technical people to the countryside to 'participate in labor', where their talents were lost to China's economy."<sup>3</sup>

Yet the Cultural Revolution set the stage for China's reform. As argued by Chinese scholar, Hu Angang, the Cultural Revolution underscored that right strategic decision is the greatest success, and failing to do so would result in a national calamity. The Cultural Revolution made clear to the Chinese that ignoring collective decision making on whims of an individual results in catastrophe, which must be avoided at all cost.<sup>4</sup>

### Four Modernisations – 1975

A Chinese nation wary of hardships yearned for change. That was when Premier Zhou Enlai, in 1975, called for technological advancement and economic liberalisation. At the session of National People's Congress (NPC)<sup>5</sup> held in January 1975, the frail and terminally-ill Premier Zhou (in his last public appearance) propounded that China should strive to achieve “comprehensive modernisation” in four key sectors: agriculture, industry, national defence and science & technology, before the end of the century.<sup>6</sup> However, Zhou's call was to fall on deaf ears for another three years as the remnants of old guard remained at the helm and neutralised any sane voice to reform the system.<sup>7</sup>

### Reform and Opening up - 1978

By 1978, the old guard had been neutralised and Deng Xiaoping was firmly saddled as top leader of the Communist Party to prevail upon the Party's Central Committee<sup>8</sup> (at its Third Plenum in December 1978), to dust off Zhou Enlai's “Four Modernisations” and formally adopt the concept as official Party's Policy. This marked the beginning of the “Reform and Opening up” era.

In essence, by “opening” to the outside world, China drew on foreign experience, expanded economic and trade cooperation with foreign countries and procured foreign funds, technology and management expertise. This way, “it blazed a new trail and greatly sped up the process of industrialisation and modernisation”, thereby “enormously improving comprehensive national strength, economic power and people's living standards.”<sup>9</sup>

In prescribing a vision and supervising its implementation, Deng is rightly credited for being the mastermind and principal architect of China's economic rise. Fortunately for China, Deng not only prescribed a policy, but also lived long enough to oversee its implementation. He abolished communes, fostered provincial autonomy, maximised productions and profits to introduce what he called “socialism with Chinese characteristics”. Making a break with Maoist orthodoxy, Deng issued a clarion call for the need to loosen ideological constraints,

emancipate minds, use common sense, seek truth from facts and unite as one. In that sense, Deng's reform was "not only an economic but also a spiritual endeavour."<sup>10</sup>

Deng's reforms began with the phasing out of collectivised agriculture and reforming key industries; then expanded to include the gradual liberalisation of prices, opening to foreign trade and investment, fiscal decentralisation, increased autonomy for state-owned enterprises (SOEs), creation of a diversified banking system, development of stock markets and rapid growth of the private sector.

In 1979, Deng introduced the 'One Child Policy' that controlled a growing population and made economic planning more predictable. It was not an all-encompassing rule because it has always been restricted to ethnic Han Chinese living in urban areas. Citizens living in rural areas and minorities have usually been spared of harsh penalties like abortion. The policy reduced population growth in the country of 1.3 billion by as much as 300 million people over its first twenty years.<sup>11</sup>

After initial burst of Deng's reform (1978-1984), income of Chinese peasants doubled. "The private sector, driven by the renewal of individual economic incentives, rose to constitute nearly 50 per cent of the gross industrial output in an economy that had order entirely by the government fiat. Gross domestic product grew at an average of over 9 per cent throughout the 1980s."<sup>12</sup>

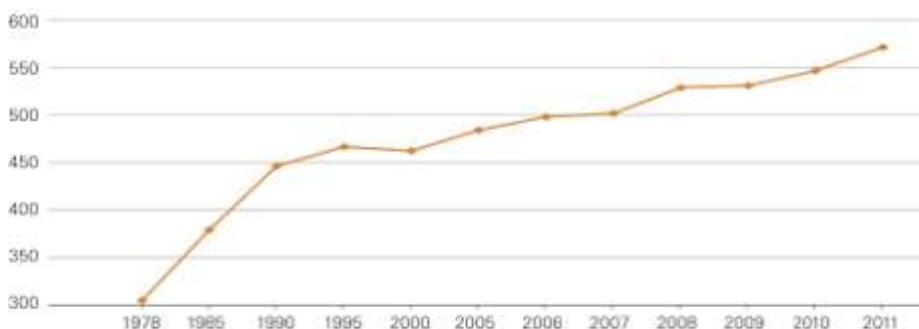
The China of today – with the world's second largest economy and the largest foreign exchange reserves – is a testimonial to Deng's vision, tenacity and common sense. A lasting legacy of Deng and his generation of leaders is that they replaced the zeal of 'perpetual revolution' with the spirit of 'constant reform', which in its underlying ethos, continue till today. Close inter-linkage between development and reform is institutionalised in the form of "National Development and Reform Commission" (NDRC), which is Beijing's principal organisation for economic planning.

## Agricultural Reform

The first focus of Deng's reform was agriculture. By the time Deng assumed power, China was on verge of famine. A government report in 1978 admitted that nearly 100 million Chinese peasants went without sufficient food.<sup>13</sup> The situation warranted reform measures or else sizeable Chinese population faced extinction. As a first step of rectification, communes were abolished to decollectivise agriculture. A household responsibility system was introduced that divided the land of the People's communes into private plots. This practically amounted to family farming. Private initiatives in agriculture were again permitted and farmers were able to keep the land's output after paying a share to the state. This move increased agricultural production, increased the living standards of hundreds of millions of farmers and stimulated rural industry. Agricultural reform and development initiated China's growth path and provided the foundation for a wider urbanisation/export-oriented growth process.<sup>14</sup>

Over the years, China invigorated its agriculture through scientific and technological innovative capacity. Today, China is able to feed its population of 1.4 billion and produce certain items in surplus quantity for exports. There has been a steady rise in China's grain production (in million tones) in the last three decades as shown below.<sup>15</sup>

### China's Annual Grain Production



**Source:** *China Statistical Yearbook 2011* (Beijing: China Statistics Press).

## Industrial Reform

Putting a premium on productivity, the first set of industrial reform was achieved by incentivising surplus production. In 1981, the central government allowed some enterprises, which had fulfilled their planned production quotas, to sell their surplus output at market prices, while their planned quota production was sold at state-set prices. This created dual-track price system, which basically incentivised surplus production, and was the first step towards an incremental move from a planned to a market-oriented economy, which in many ways continues till today.

Parallel to innovations in price mechanism, the Chinese Government allowed private businesses to operate and produce in surplus to the planned quota. Eventually, they began to make up a greater percentage of industrial output. Price flexibility was also increased, expanding the service sector.<sup>16</sup> As a first priority target for industrial reform, China focused on steel, coal and linked industry. As a result of focus on steel, steel production in the country increased four times between 1980-2000. Steel technology was improved through domestic research, import of machinery, technology and better managerial skills. By 1995, China became the largest producer of steel.<sup>17</sup>

Benefitting from world's largest coal reserves, China optimised use of coal as the primary source of energy, which was to fuel economic growth for next three decades. This was an important decision considering coal's cheap rates, easy availability and price stability. Besides increasing production, China developed a series of deep seaports with large network of railways to the interior's coalfields,<sup>18</sup> which emphasise the utility of comprehensive planning.

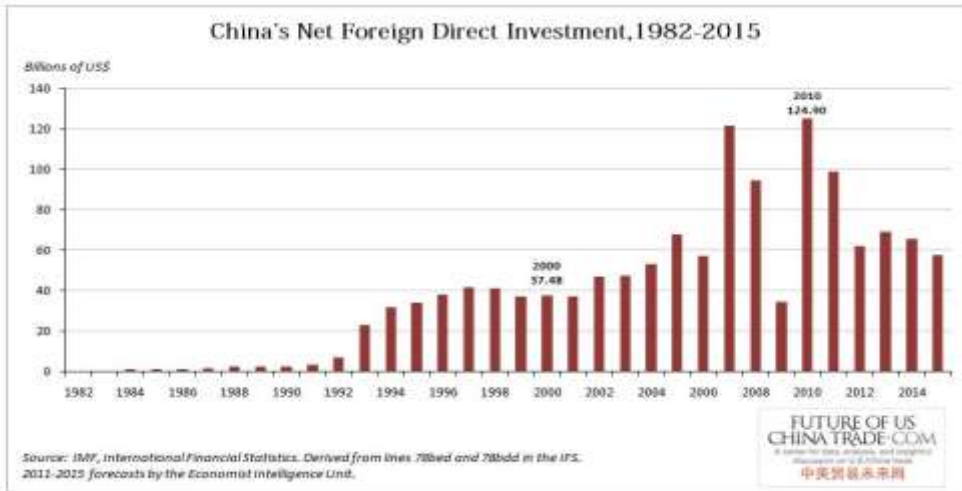
Industrialisation in China grew largely through investments in the key generative and linked industries. It helped economic growth by enhancing material input and increasing energy requirements through promotion of generative sectors. China followed the Japanese model and initially installed the production units along coastal belts (Pearl and Yangtze Rivers Deltas). Foreign capital attracted by these and other units played a key role in transfer of technology and restructuring Chinese industrial economy for a sustained economic growth.

## Foreign Direct Investment

Early in the reform period, China took a strategic decision to prefer “attracting foreign investment through running equity joint ventures than to procure foreign loans, on the ground that such ventures could effectively forestall debts by way of joint investment and management, which allowed both partners to share the interests and risks.”<sup>19</sup> Later, “limits were restricted (sic) to allow all forms of Foreign Direct Investment (FDI) - wholly foreign-owned enterprise, plus portfolio investment (stocks and bonds) and commercial lending.”<sup>20</sup>

To facilitate FDI, a series of Special Economic Zones (SEZs) for foreign investment were created, relatively free of the bureaucratic regulations and interventions. Enterprises were given wider latitude and investors were offered special concessions.<sup>21</sup> Two such zones established in Shenzhen near Hong Kong and Zhuhai near Shanghai are bustling cities, forming nucleus of industries and production areas along the Pearl and Yangtze Rivers Deltas, promoting emergence of southern and eastern China as the engines of country’s economic growth. The SEZs in Shenzhen opened the way for a supply chain-based model of industrial learning, which was also replicated in other SEZs and various industrial clusters and networks.<sup>22</sup>

FDI inflows in the 1980s were modest. The FDI surge started in the 1990s. This can be explained in the context of political stability China enjoyed under the new dispensation of President Jiang Zemin and Premier Li Peng; both virtually handpicked by Deng Xiaoping after the Tiananmen Square protests. Except for the slight downturn in 1998-2000 (due to Asian Financial Crisis), FDI levels recorded a steady rise, and reached peak levels in 2010. This is documented in the figure below from an IMF source.



### Opening up to International Expertise

The results of initial reform measures were spectacular as China progressively opened to the outside world. By 1980, it had joined the World Bank and the IMF and started accepting foreign loans on the pretext, “borrow hen to lay eggs”. The first major tranche of loan went to education, laboratories and teachers’ training. Around this time, the United Nations Development Programme (UNDP) started operations in China. The initial projects by the UNDP included the establishment of overseas on-the-job training and academic programmes, set-up of information processing centres at key government units, and the development of methods to make informed decisions within the Chinese context based on market principles. Through these measures, China was able to make up for decades-long isolation of Chinese scientists from the international community, outmoded universities, and an overall lack of access to advanced scientific equipment, information technology, and management know-how. This was key to modernisation in science and technology – the fourth of “Four Modernisations”. China’s accession to World Trade Organisation (WTO) and negotiations in the run up to that accession generated wide discussion and learning in China about engagement in the global economy, which later helped its swift



integration to international trading system, and later, rising as a key player within that system.

### Reform of State-owned Enterprises (SOEs)

China's large SOEs created in the formative years of the Communist rule were the main skeleton holding Chinese economy, particularly in transport, machinery, energy and service sectors. A study shows that in 1978, centrally controlled SOEs accounted for three-fourths of industrial production. Confined to centrally planned output targets, most of these SOEs were underperforming.<sup>23</sup>

SOEs' initial impetus for reform was derived from the liberalisation of industrial markets, which allowed entry of large numbers of new non-state enterprises. Expanded role of these non-state companies pushed the drive within SOEs to reform and stay competitive. On its part, the government also pushed for reform of managerial control rights, including the strengthening of managerial incentives through the enterprise contract responsibility system. The later phase of China's SOEs reform involved the change in asset structures resulting from non-state investment in the state sector. With growing non-state investment, many SOEs were reclassified as State-holding Enterprises (SHPs). To summarise, the convergence of three factors, i.e., "new entry and competition, strengthened managerial control, and the accumulation of non-state assets, created the conditions for formal conversion of SOEs beginning in the latter half of the 1990s in China."<sup>24</sup>

By 2003, Chinese SOEs had grown into big multinationals and a need was felt for their supervision by the state. Accordingly, in 2003, State-owned Assets Supervision and Administration Commission of the State Council (SASAC) was established. By assuming investment oversight of the state-owned assets, SASAC creates the institutional framework that separates the fiduciary responsibility for the state-owned assets from the government's social and public management functions. SASAC, like many other central institutions in China was replicated at provincial and city (region) levels. The establishment of SASAC and related statutes and regulations creates the institutional framework to oversee SOE management reform and restructuring.<sup>25</sup>

## Recent Shift in Economic Growth Model

China entered another phase of economic development with the adoption of the 12<sup>th</sup> Five Year Plan, in March 2011.<sup>26</sup> Reinforcing the concept of “perpetual reform”, the Plan basically emphasises the need to increase domestic consumption in order to make the economy less dependent on exports in the future. It also underscore the priorities of the new Chinese leadership in terms of pursuing harmonious and peaceful development,<sup>27</sup> improving governance, fighting corruption, adhering to the principle of ‘putting people first’<sup>28</sup> and most significantly, producing consumer demand and promoting innovation.<sup>29</sup>

Stephan Roche of Morgan Stanley terms the 12<sup>th</sup> Five-Year Plan as a watershed event in the development of modern China. It has triggered a significant shift in the nation’s economic strategy in terms of moving away from a powerful export/investment led growth dynamic towards a consumers’-spending triggered growth internal private consumption.<sup>30</sup> This is the third significant shift in the nation’s economic strategy since reforms began. The 5<sup>th</sup> Five-Year Plan (1978) ushered in the “reforms and opening up” of Deng Xiaoping. The 9<sup>th</sup> Five-Year Plan (mid-1990s) set the stage for an ownership transition – leading to an era of state-owned enterprise reforms and the corporatisation of China’s increasingly marketised economy.

China’s future economic challenges or how far its planning and reform measures address these challenges are beyond the scope of this study. It is, nevertheless, clear that by incrementally shifting towards a consumption-led growth model, China has yet again proved its adaptability to changing realities and demands.

### **Political Correction – The Importance of Being Earnest**

Parallel to building strong economic fundamentals, Chinese leaders undertook political corrections to minimise the political and the social fallout of economic reform and ensure that tutelage of the CPC remains unchallenged. This was achieved through a number of ways.

## Sequential and Incremental Approach

Leading Sinologist Andrew J. Nathan attributes China's critical balancer between economic progress and political stability to Deng Xiaping's "wise sequencing of reform". Nathan argues that in contrast to Mikhail Gorbachev, Deng prioritised economic reform and postponed political change. Among economic reforms, he started with the more dispersed and lower-risk rural economy before moving into the concentrated and politically volatile urban economy. In opening China to the world market, he started with the more entrepreneurial coastal areas before moving to the conservative hinterland. The modest reforms that he allowed in the political system were focused on creating legal institutions and avoided moves towards political democracy. To the extent that he allowed experiments with democratic practices such as elections, Deng limited them to the lowest levels of the political system where they presented no threat to Party control.<sup>31</sup>

Another balancer between economy and politics is 'incremental approach' or 'gradualism', adopted by China. In transitioning from the Soviet-style heavy industrialisation towards a market economy, China moved at a measured pace to carry out institutional innovation (SOE reforms, public sector overhaul) and regional experimentation (SEZ creation, rural/urban and coastal areas/inland distinctions). As argued by Linda Yeuh, China "injected market-oriented incentives across a myriad of sectors in the economy without wholesale privatization", which "enabled economic growth but did not result in macroeconomic instability, for example, rise of unemployment"<sup>32</sup> that could have led to political or social instability.

Override – "Policy" over "Personality", "Pragmatism" over  
"Ideology"

Nathan argues that as Deng's legacy, China imbibed the character of according primacy to policy over personality and emphasis on pragmatism over ideology. Indeed, this was a bitter lesson of the Cultural Revolution. With the start of reform process, ideological rhetoric gave way to pragmatic discussion. This pragmatism was not a rejection of ideology, but the use of it to render initiatives acceptable to elite through

plain logic. Deng would often say, *mou shi tong he* “crossing the river by feeling the stones”—as a description of his policy process. This implied not just a method of finding policies that worked, but even more of persuading a querulous collegium to go along with them. Focusing on policy through meetings, memos, and nuanced signals in editorials in the official press enabled Chinese leadership to accomplish politically difficult measures without splitting the Party or creating serious polarization within.<sup>33</sup>

### Accommodating Opposing Views

Quite unlike popular perception, the Chinese leadership was able to adjust to opposing views in conceiving a policy of inclusive or collective decision-making. Ezra Vogel's seminal work *Deng Xiaoping and the Transformation of China* provides insights into the political struggle over the reform process during the 1980s, which evolved into collectivisation of decision-making. This created space and flexibility within the Communist Party, to the extent of accommodating divergent views.<sup>34</sup> Vogel notes that the point of reference marking the start of such accommodation was the struggle between Deng Xiaoping and Vice Premier Chen Yun over nature, scope, implementation and pace of different reform measures.<sup>35</sup> In many ways, protests that led to the famous Tiananmen Square incident were a consequence of the reform process and its different interpretations for the leadership and the people. Weathering the storm with considerable dexterity and preventing its recurrence show both the pitfalls and the extent of the CPC's ability to create space for policy dissensions without breaking the system altogether.

### Four Changes in Governance

Ezra F. Vogel also points at four changes in Mao Zedong's political system that made it possible for the CPC to oversee the economic transformation without compromising its position:<sup>36</sup>

a. *Instituting System of Retirement for Party's Top Leadership:*

In 1982, China established a Central Advisory Commission that identified nearly two hundred superannuated civilian and military

officials and encouraged them to leave their frontline posts in exchange for stipends and fringe benefits. In 1985, sixty-four elderly members of the Central Committee were replaced with new middle-aged members. In 1987, although still in good health, Deng stepped down from his post as a member of the peak decision-making Politburo Standing Committee, taking Chen Yun and President Li Xiannian with him. These Party Elders returned to political scene to manage 1989-protests (Tiananmen Square incident) without formally assuming office. Deng's only official position after 1989 was Honorary Chairman of China Bridge Players Association. Yet, he continued to work towards a system of orderly succession by selecting Hu Jintao to join the Politburo as the member of the younger generation designated to succeed to power ten years later, when Jiang Zemin was scheduled to retire. When Jiang indeed retired in 2002 and Hu succeeded him, Deng's strategy achieved its goal, even though Deng had died five years earlier.

b. *Meritocracy in the CPC:*

Deng valued anybody he saw as performing well. He re-established the role of the Party's Organisation Department, which had been sidelined under Mao, in "cultivating successors." He created a system of performance benchmarks and training programmes and put in place what has become a regularised, competitive career ladder that rewards cadres who prove capable of achieving centrally designated policy tasks.<sup>37</sup> The system contributes to stability by rewarding compliance with central priorities, creating an *esprit de corps* among the political class, and reducing the incentive to form cliques.

c. *Delegation of Power to Departments and Local Leaders:*

Autonomy given to departments and local leaders allowed informed and quick decision-making as well as finding policies that worked. The de-collectivisation of agriculture, the creation of special economic zones, the reform of state-owned enterprises, and the promotion of large-scale foreign direct investment in Guangdong were all policy experiments that made orthodox officials nervous, but which Deng allowed and which got results. In contrast to the shock reform tactics of the former Soviet Union and Eastern Europe, the diffusion of power within the official class

allowed for more creativity and adaptation to local needs, while reducing the risk that any particular experiment could bring down the whole system.<sup>38</sup>

d. *Division of Labour Among Top Leaders:*

Deng's style of leadership helped to foster a division of labour among top leaders. What evolved over time, during Deng's life and afterwards, was a system in which the Premier handled the economy, the Party's Secretary-General handled ideology and foreign affairs, the security chief handled security. Of course there were settings available in which to conduct the necessary coordination across fields - the Politburo, the State Council, the party Secretariat, and various "leading small groups" - but the system came to function with far less of the confusion and unpredictability that characterised Mao's era.<sup>39</sup>

Jiang Zemin's 'Three Represents Theory'

After splendid economic performance of the 1980s-90s, China had unleashed strong corporate and mercantile forces. In a bid to establish a relationship between the Communist Party and emerging forces of private businesses, in 2000, President Jiang Zemin propounded 'Three Represents theory'. The theory prescribed that the CPC must always represent the development trend of China's advanced productive forces, the orientation of China's advanced culture, and the fundamental interests of the overwhelming majority of the people. The theory of Three Represents was rooted in Jiang's belief that "economic practice and political theory were partners, that China's development needed both policy and ideology to be real world, up to date, and enabling."<sup>40</sup>

The Three Represents Campaign enabled the Party to "expand its membership to include private entrepreneurs, redefine its societal role, modify its core tenets, and institutionalise its rule."<sup>41</sup> 'Three Represents' were enshrined in the CPC's constitution in 2002 and in the State Constitution in 2003.

The Three Represents theory is linked to the need of co-opting the most dynamic social forces in China to avoid the fate of the communist

parties of the former Soviet Union and the socialist countries of Eastern Europe. It is the recognition that technology, domestic economy, and globalisation were changing very quickly; and new forces unleashed as a result need to be incorporated into the Party. Zemin raised to prominence the idea of “governing the country through law” and greater institutionalisation if the Party is to act more as a ruling party and less as a revolutionary party.<sup>42</sup>

### **Anti-Corruption Measures**

Controlling corruption has provided legitimacy to the CPC. Since 1978, the Chinese government has launched four anti-corruption campaigns with distinct themes: economic crimes, consolidating party organisations (a large number of party members who had violated party discipline or engaged in corrupt activities were punished), self-regulation of senior officials; strengthening the investigation/prosecution of large-size corruption cases and forcefully curbing unhealthy tendencies within government departments.<sup>43</sup> Premier Zhu Rongji, while in office (1997-2003), launched a crusade against corruption, once famously remarking: “I have prepared one hundred coffins for my anti-corruption campaign—ninety nine for corrupt people, one for myself.”

China’s anti-corruption drive continues to this day, as seen in recent high-profile convictions of former State Councillor and Minister of Public Security Zhou Yongkang and former Commerce Minister Bo Xilai, both high-ranking CPC members. The central argument in ongoing anti-corruption efforts is that there is no member in the CPC who is above the Party’s discipline; and that officials and Party members will eventually pay the price if they unscrupulously pursue selfish ends or abuse their power.

### **China’s Democratic Credentials – “The Five Collectives”**

Chinese government officials and scholars often point out that whilst the political system of the country is not based on ‘one-man, one vote’ or the ‘Westminster model’, the inherent traits of an inclusive and populist government are built into the system. In this context, Hu Angang identified “five collectives”, basically explaining the longevity of a

political system despite economic changes.<sup>44</sup> These include: Collective Collaboration - the process of collective decisions at the top-most level; Collective Power Transition - the system of collectively selecting, evaluating, and grooming future leaders and sequencing their careers in provinces and later at the Centre;<sup>45</sup> Collective Learning and Research - a multi-faceted practice that entails expert consulting, information-sharing, international exchange, and learning from best practices; and Collective Decision-Making - a system of information exchange and consensus seeking that promotes collective decision-making.<sup>46</sup>

## **Lessons from the Chinese Model**

### The 'Inimitable' China

A view exists that while China's track record is unquestionably impressive, the Chinese model is inimitable, particularly for developing countries. Four sets of arguments support this view.

One, unlike many emerging markets, China's growth has been driven largely by exports. Its success has been achieved by manufacturing goods that are in demand among free markets of the West. Most other developing economies are based on agricultural commodities — just the sort of the produce that the US and Europe undercut with their own domestic subsidies. These developing countries do not manufacture goods or add value to their raw material. Therefore, a Chinese-style take-off is somewhat out of their reach.<sup>47</sup>

Two, an economic system with the state at its heart is inefficient because it dislocates markets. When the government is the ultimate economic arbiter, assets are inevitably 'mispriced', which hinders sustained, longer-term growth. It also creates imbalances between supply and demand, which can spark inflation and distort interest rates. While China has neutralised micro-economic pitfalls of strong state intervention by undertaking strong reform measures, most of developing countries would not be able to do so.<sup>48</sup>

Three, policies that mimic China may yield a short-term burst in employment but they also produce serious negative externalities and



economic dead weight. China itself is now grappling with massive debt woes in its financial sector, a property bubble that could burst at any time and pollution that slows growth. While China is meeting the challenge by ingenious planning, other developing countries may not achieve such critical balance in economic planning due to internal weaknesses and unpredictability.<sup>49</sup>

Four, Henry Kissinger describes the inimitability of China as “China’s exceptionalism.”<sup>50</sup> He points that, as heir to the “Middle Kingdom-traditions” of three millennia, modern China “does not proselytise” or claim relevance of its national institutions outside China.<sup>51</sup> China’s tradition of not proselytising is evidenced by Deng’s remark made to the President of Ghana Jerry Rawlings, in September 1985: “Please don’t copy our model. If there is any experience on our part, it is to formulate policies in light of one’s own national conditions.”<sup>52</sup>

China’s inimitability is a lesson in itself. Other countries in the region and beyond should formulate policies in light of their own national conditions and not blindly mimic China - as sanely advised by Deng.

### Broad Policy Lessons for Developing Countries

Another key lesson from China’s economic rise is the importance of top leadership making prudent and pragmatic choices. China’s experience shows that rapid economic and social development in poor countries can happen, when strong development-oriented leadership emerges, focused on development performance rather than on entrenched policies and interests. In such a context, the articulation of a national project for economic transformation can motivate and activate people across the country in a new national consensus.<sup>53</sup>

Chinese scholar Zhang Weiwei outlines following set of lessons from Chinese economic rise on a broader policy level:<sup>54</sup>

#### a. *People Matter:*

Since 1978, China has pursued a people-centric strategy for modernisation based on: “seek truth from facts” not from dogmas;

“emancipate the mind” and; “think local” and “deliver tangible benefits on ground”.

b. *Constant Experimentation:*

Seek a process of trial and error of a reform measure on a small scale; apply it at large scale only if it works.

c. *Gradual Reform, Not Big Bang:*

Reject “shock therapy” and work through the existing, imperfect institutions while gradually reforming them and reorienting them to serve modernisation.

d. *Correct Sequencing and Priorities:*

China's post-1978 change has had a clear pattern: easy reforms first, difficult ones second; rural reforms first, urban ones second; change in coastal areas first, inland second; economic reforms first, political ones second. The advantage is that the experiences gained in the first stage create conditions for the next stage.

e. *A Developmental State:*

China's change has been led by a strong and pro-development state that is capable of shaping national consensus on modernisation and ensuring overall political and macro-economic stability in which to pursue wide-ranging domestic reforms.

f. *Selective Learning:*

China has retained its long tradition of “selective cultural borrowing” - including from the neoliberal American model, and especially its emphasis on the role of the market, entrepreneurship, globalisation and international trade. It is inaccurate to describe the Chinese model as the “Beijing consensus” versus the “Washington consensus”. What makes the Chinese experience unique is that Beijing has safeguarded its own policy space as to when, where and how to adopt foreign ideas.

## Pakistan-specific Lessons

Former Vice Premier Li Lanqing recalls that during early days of Opening Up Policy in 1980, a Chinese delegation visited Pakistan to study its experience of handling international development loans. Among numerous things that impressed Chinese visitors, Karachi Port stood out, which at that time had the handling capacity of 14.5 million tons, whereas Shanghai Port could handle only 8.5 million tons. By 2002, when China started work on Gwadar Port, Shanghai's capacity had reached 260 million tons, while Karachi stood at 25.9 million tons.<sup>55</sup> Vice Premier Li also marvelled at Pakistan's robust infrastructure, exemplary law and order and contented society of 1980. This depiction is different from the situation of Pakistan now. The contrast warrants introspection and quickening the pace of reform on our part.

China is focused on a long-term commitment to its policies, and that allows its policymakers to implement them in a gradual, evolutionary and practical manner, rather than mid-term second-guessing. The emphasis is on institutions and rarely on individuals. Trends in Pakistan are different.<sup>56</sup>

By promoting social cohesion, China offers a critical lesson of fostering the emergence of a responsible, development-oriented state with a political consensus that reaches across competitive elites and ethnicities. This lesson is particularly relevant for Pakistan where ethnic diversity and income equality widely prevail.

Chinese development based on wider regional connectivity with East Asia and Europe through sea ports, gas pipelines and railways shows that pushing ahead with the regional integration agenda and finding creative solutions to the development of inter-regional infrastructure can generate a variety of economic dividends. In this context, Pakistan has associated itself with President Xi Jinping's vision of "Silk Road Economic Belt" and "Maritime Silk Road" to speed up the work on China-Pakistan Economic Corridor (CPEC). On its part, China already terms the CPEC as an important part of "One Belt and One Road" initiative and indeed its 'flagship project'.

Pakistan can also learn from China's FDI policy. China attracted a large amount of FDI by encouraging foreign manufacturers to set up production houses in the country. In the 1970s, due to the rising wage costs, Japanese firms shifted the labour-intensive stages of the production to Newly Industrialised Countries (NIEs) i.e. South Korea, Taiwan, Singapore and Hong Kong. After these NIEs, the turn was of main ASEAN countries i.e. Philippines, Indonesia, Thailand and Malaysia. China elevated the ability to attract foreign manufactures to a new level. Now, both India and Vietnam are fast catching up with the West in regional production hierarchies. It is very important that Pakistan should follow the model to "ensure the export-led growth of Pakistani economy."<sup>57</sup>

Many successive governments in Pakistan have considered privatisation of SOEs as a panacea for economic reform. Chinese experience shows greater value in reforming SOEs than their privatisation. We will probably do well to study China's policy of reforming the SOEs before opting for wholesale privatisation.

China's deft handling of the agricultural sector reinforces the priority for agricultural modernisation and its role in creating a broadly-based growth dynamic, nationally and regionally.

Pakistan will also do well to follow the Chinese example in social sectors, like education and family planning. China's emphasis on improving education, as evidenced by the allocation of multilateral loans to universities, is worth emulating. While it would not be possible to follow 'One-Child Policy', perhaps a relentless reform of our education system would create sufficient buy-in for population welfare and family planning.

Pakistan must also learn from China's anti-corruption efforts. The three themed anti-corruption campaigns can be of relevance for Pakistan i.e. addressing the issue of self-regulation of politicians and government officials; strengthening the investigation and prosecution of large-size corruption cases; and forcefully curbing unhealthy tendencies within government departments. Like China, we should not hesitate to catch the big fish in anti-corruption nets. In this context, our political parties can

emulate Communist Party's practices of targeting both "high-ranking tigers" and "low-ranking flies" within their cadres and ensure that Party members would eventually pay the price if they pursue selfish ends or abuse their power. This may sound idealistic, but our national development objective would remain elusive if political leadership does not strive for such standards within their cadres.

Pakistan can also learn from the people-centric model of growth identified by Zhang Weiwei. A people-centric rather than vote-centric approach is advisable. Similarly, we can learn from China about the value of gradual reform, right priorities, prudent sequencing and finally creating pro-development state that is capable of shaping national consensus on modernisation and ensuring overall political and macroeconomic stability in which to pursue wide-ranging domestic reforms.

China's economic rise is often rather simplistically reduced to its hardworking people or harsh discipline imposed by its leadership. This kind of interpretation ignores many critical factors underscored in this paper. A greater understanding of China is required among politicians, civil servants, as well as the public and private corporate leaders to replicate and emulate best practices of the Chinese system. For this purpose, studying China, its history, language and growth models should be mainstreamed in our education curricula.

## **Conclusion**

China's economic rise is neither accidental nor inspired by exogenous factors. It is based on pragmatic and introspective policies of limiting weaknesses and enhancing strengths. Through trials and tribulations of bitter civil conflicts and foreign invasion in first four decades of the twentieth century, China learnt the lesson of valuing national freedom and independence. The Great Proletariat Cultural Revolution exposed China to the vagaries of ideology and sloganeering, making clear that right strategic decisions through collective approach are indispensable for national development.

In embarking upon a steady rise to economic prosperity, China successfully replaced the spirit of 'perpetual revolution' with the quest for 'perpetual reform'. The reform process since 1978 has been comprehensive, multi-sectoral, incremental and timeless. In essence, the reform process started with identifying basic underlying problems and adopting corrective measures. Once implementation of a reform measure commenced, the process would be taken to its logical conclusion. There is no room for half-hearted or incomplete attempts of reform.

China's economic rise offers critical lessons that whilst solutions cannot be replicated, the basic approach of pragmatism and common sense must prevail. Clarity of underlying problems is essential to take remedial measures.

For developing countries like Pakistan, China offers a critical lesson of fostering the emergence of a responsible, development-oriented state with a political consensus that reaches across diverse competitive elites and groups. We must emulate China's long-term commitment to policies that allows policy implementation in gradual, evolutionary and practical manner, instead of mid-term second-guessing or playing to the gallery. Like China, we should focus more on institutions and less on individuals, and build a narrative of national economic development through pragmatism and hard work.

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7. Four leaders notoriously called 'The Gang of Four', which included Mao Zedong's second wife Jiang Qing (1914-1991) represented the Old Guard. The Gang was purged in 1978, which led to the rise of Deng Xiaoping as China's supreme leader.

8. Central Committee, with over 200 members, is a main decision-making body of the CPC.

9. Lanqing, op.cit.,425

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27. Concept of Harmonious Social Development: adopted by the Communist Party in 2006 as President Hu Jintao signature initiative, it highlights the importance, guidelines, goals and principles of building a socialist harmonious society; coordinated development; social equity and justice; cultural harmony and the ideological and ethical foundations of social harmony; and the need to improve public administration to build a vigorous and orderly society.
28. Concept of Four Comprehensives: presented by President Xi Jinping in February 2015, it spelled out to comprehensively build a moderately prosperous



society, comprehensively deepen reform, comprehensively implement the rule of law, and comprehensively improve governance of Party discipline

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35. Chen Yun, like Deng was among the Party elders. He had been the chief economic planner in the 1950s and wielded considerable influence in the Party, particularly on economic matters. Chen saw danger in Deng’s experiments. He thought imported technology would cost more than China could pay, and that enterprise reform would produce raw materials shortages, and that rapid growth would trigger inflation. He had many followers, good arguments, and mainstream ideology on his side, and he was often right, at least in the short run. To avoid a debilitating power struggle, Deng had at times to yield to Chen and at times to experiment quietly and then show the results. In 1980-1982, for example, he acceded to an economic slowdown demanded by Chen, and in 1988 he reversed a hastily conceived decision to end price controls on most goods when it triggered panic buying. Chen Yun’s dissatisfaction with the liberal political atmosphere fostered by one of Deng’s favourites, Hu Yaobang, was a key reason Deng agreed to dismiss Hu from the post of general secretary in 1987. Two years later, this event unwittingly precipitated the Tiananmen Square incident.

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43. Center for International Business Ethics, “Corruption and Anti-Corruption in China,” <http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan047857.pdf>.

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45. For example, Meng Jianzhu, now a central government high-ranking Party official, began his career as a county Party Secretary and then Vice Mayor of Shanghai. Subsequently, he headed the provincial government and Party Committee of Jiangxi (a province in eastern China with over 45 million people and a GDP equivalent to that of Pakistan), before he was able to serve on the Central Committee of the CPC.

46. In the latest edition of China's Collective Presidency, chronological record showing in detail that by the end of 2013, how President Xi spent nearly 10 per cent of his time on 14 inspection trips that covered one third of China's provinces and all seven military regions. Prior to the Third Plenary Session of the 18<sup>th</sup> Central Committee meeting of the CPC, topics such as rural land reform were most controversially debated. In order to have a better understanding on those key issues, in addition to official reports, Xi Jinping purposefully visited

farmers in Hubei province and gathered firsthand information from the grassroots level.

47. Dambisa Mayo, "For poor countries, China is No Role Model," *The Wall Street Journal* (New York), September 19, 2014.

48. Ibid.

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51. The word "China" in English or "*Zhongguo*" in Chinese literally translates as 'Middle Kingdom'. Ancient Chinese used the metaphor of Middle Kingdom to believe that their country was the center of the Universe. Many Chinese carry the belief in centrality of China in the cosmos to this day.

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