

Clicker quiz: Which model of development is most feasible for today's poor countries?

- A. Liberal growth using decentralized market, gradual stages of industrialization
- B. Import substitution and protection of infant industries to block the core's exploitation
- C. State-led investment in key industries, using foreign capital and tech to catch-up
- D. It depends on the region or country...

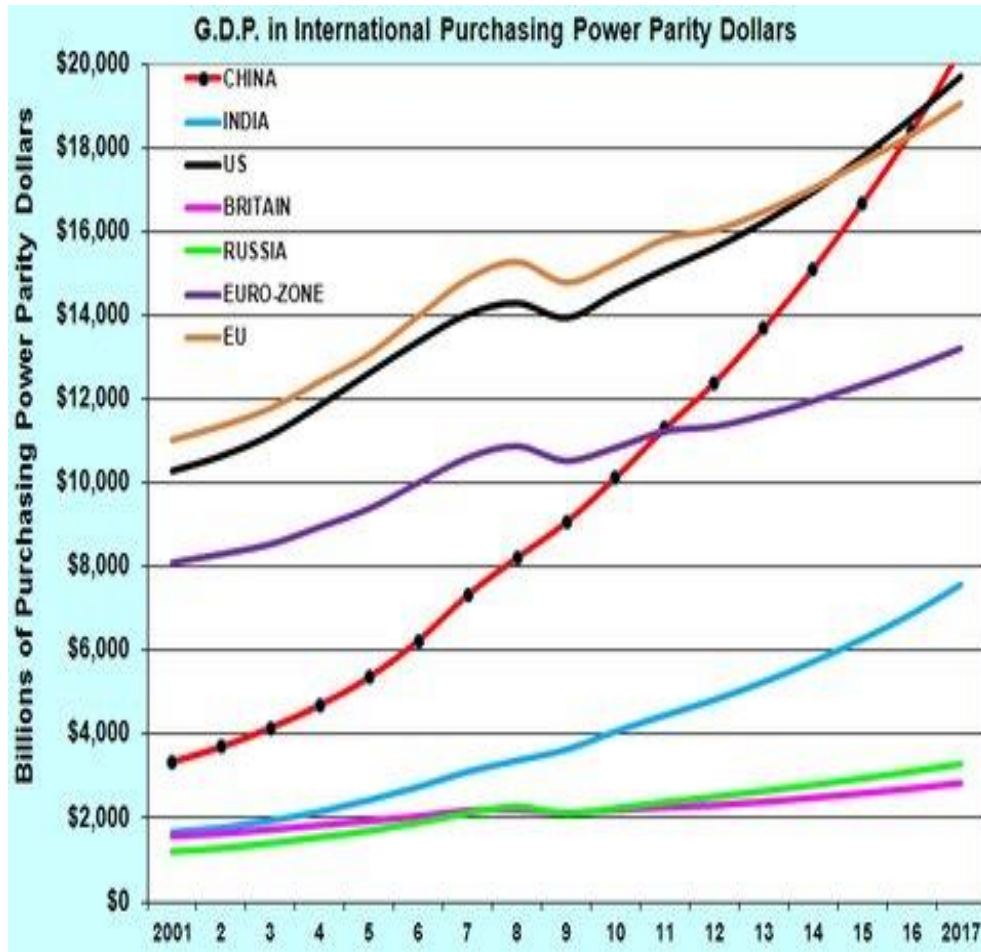
China: Testing Theories of Development



Review: Theories of Development

- Liberal Explanations – use market, accumulate capital to take off, export staples, reinvest profits, build industry, reach mass-consumption society
- Dependency Theory – underdeveloped countries are the periphery in capitalist world-economy, core exploits them, keeps profits and tech
- State-Led Liberalism – late-comers can catch up using state-directed investment, development banks, foreign investment and borrowed tech, leap-frog to competitive export markets

China's rapid GDP growth

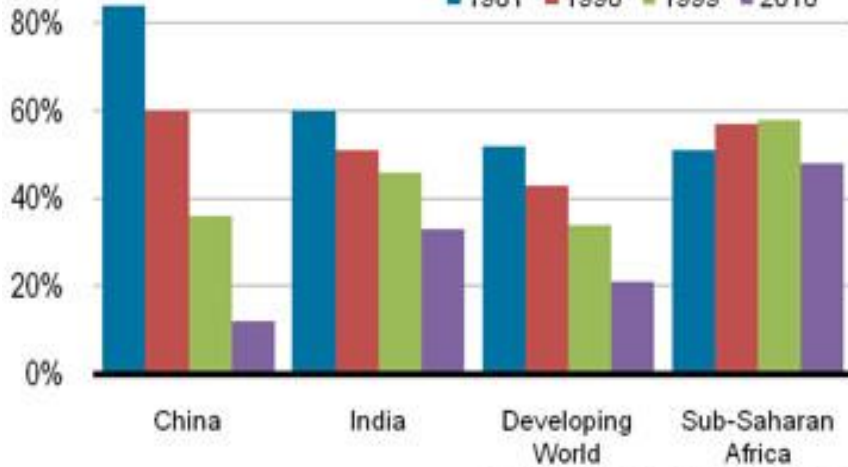


Declining poverty

Evolution of Poverty

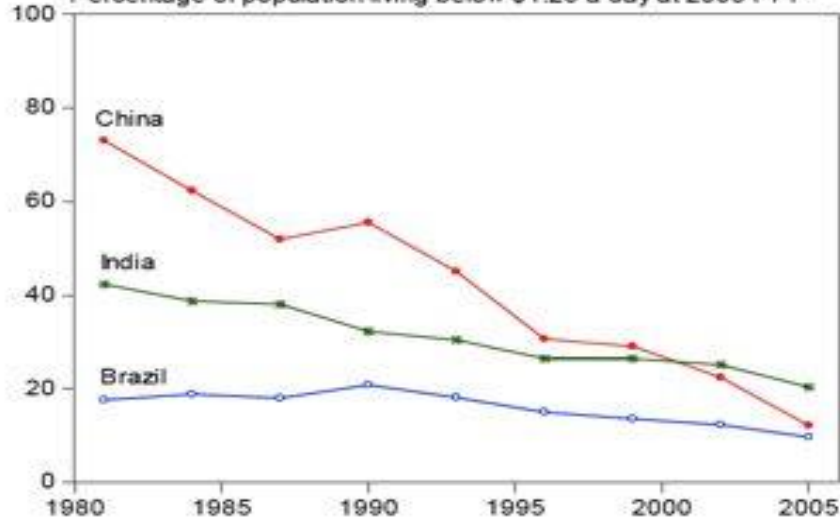
Rates of extreme poverty.

■ 1981 ■ 1990 ■ 1999 ■ 2010



Source: World Bank staff estimate

Percentage of population living below \$1.25 a day at 2005 PPP



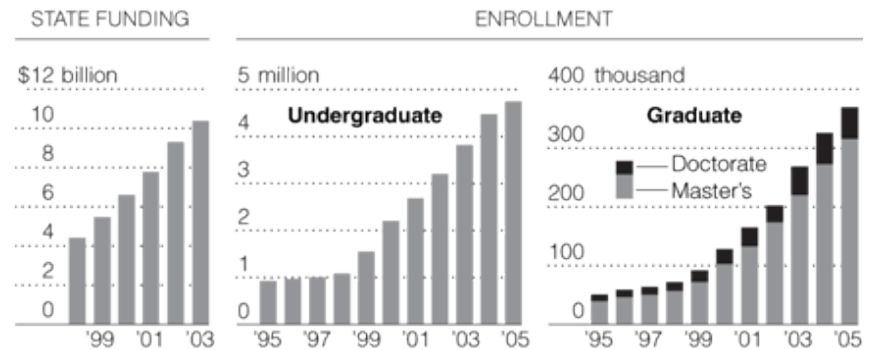
Rising education, health care



PHOTO: CHINA PHOTOS/GETTY IMAGES

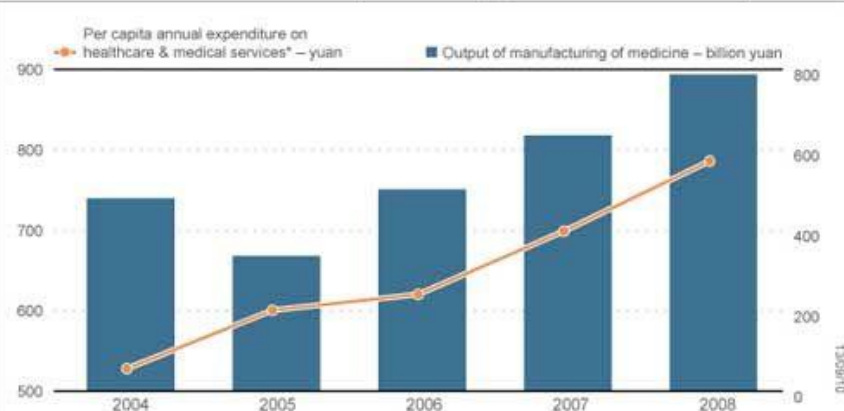
China's Boom in Higher Education

In China, state funding for higher education has increased sharply, as has university enrollment.



Source: China's Ministry of Education

China healthcare spending rises steadily



*China's urban households, national average.
Source: China National Bureau of Statistics



Reuters graphic by Christina Chen

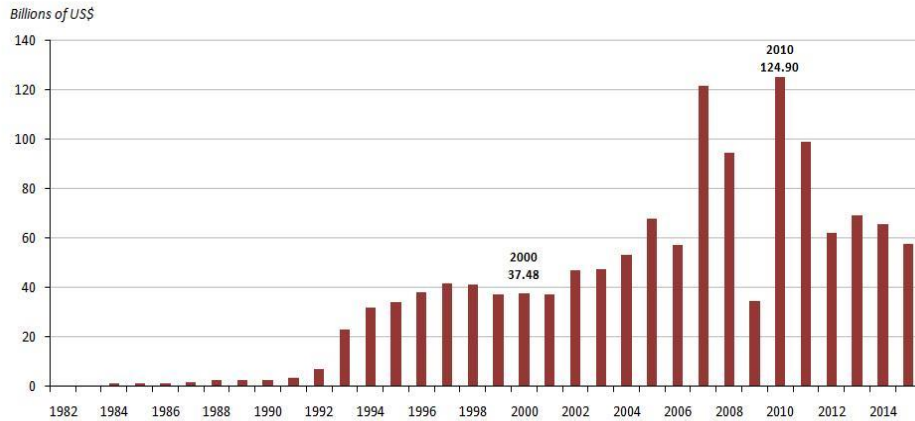


How did they do it? State-led market-oriented development



Attracting foreign investment, accumulating capital

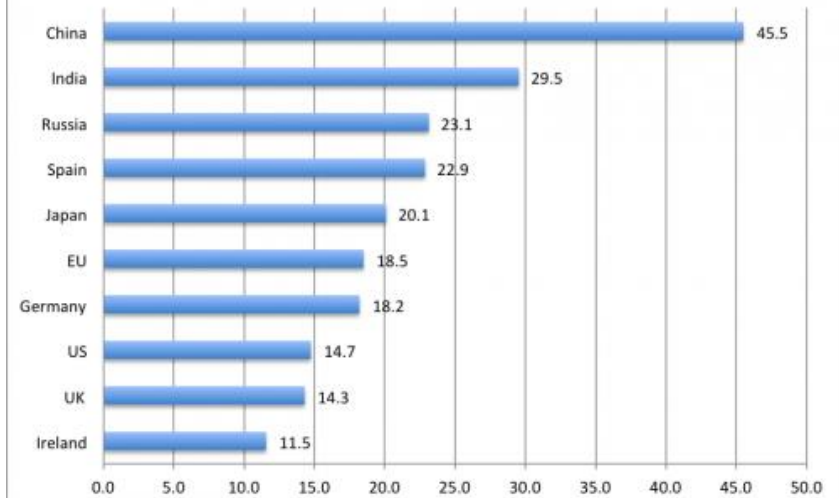
China's Net Foreign Direct Investment, 1982-2015



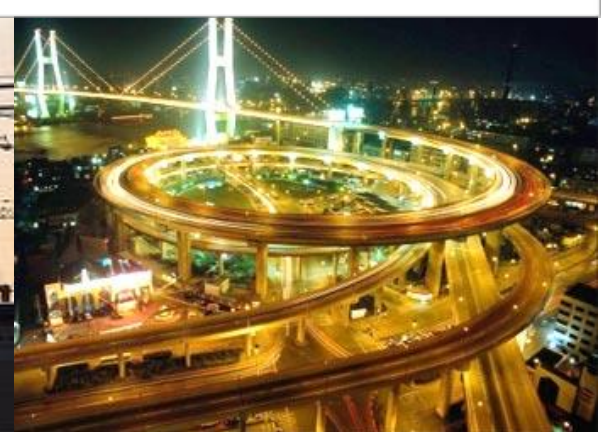
Source: IMF, International Financial Statistics. Derived from lines 78bed and 78bdd in the IFS. 2011-2015 forecasts by the Economist Intelligence Unit.

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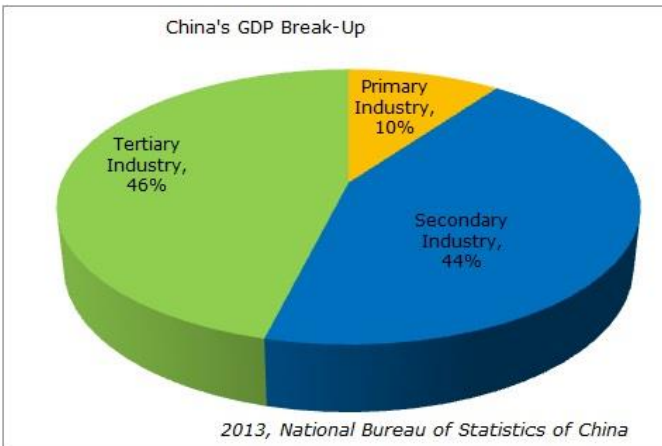
Gross Fixed Capital Formation % of GDP



www.economicshelp.org | Source: World Bank, 2011



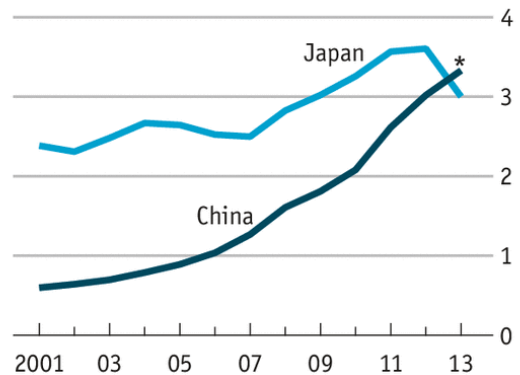
Focusing on exports, leaping stages



Toward services, mass consumption

Consumer of second resort

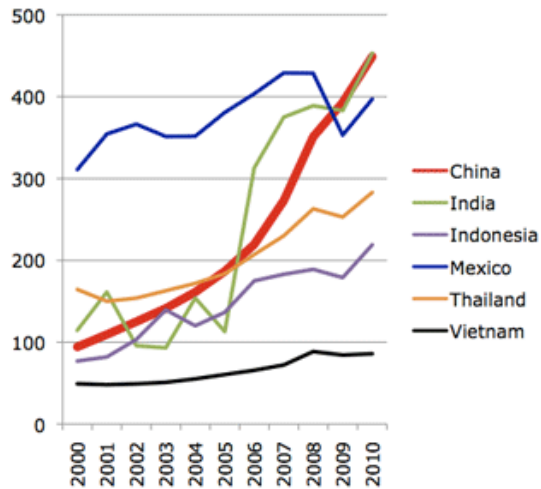
Private consumption, \$trn at current prices



Sources: Federal Reserve Economic Data; *Estimate
The Economist

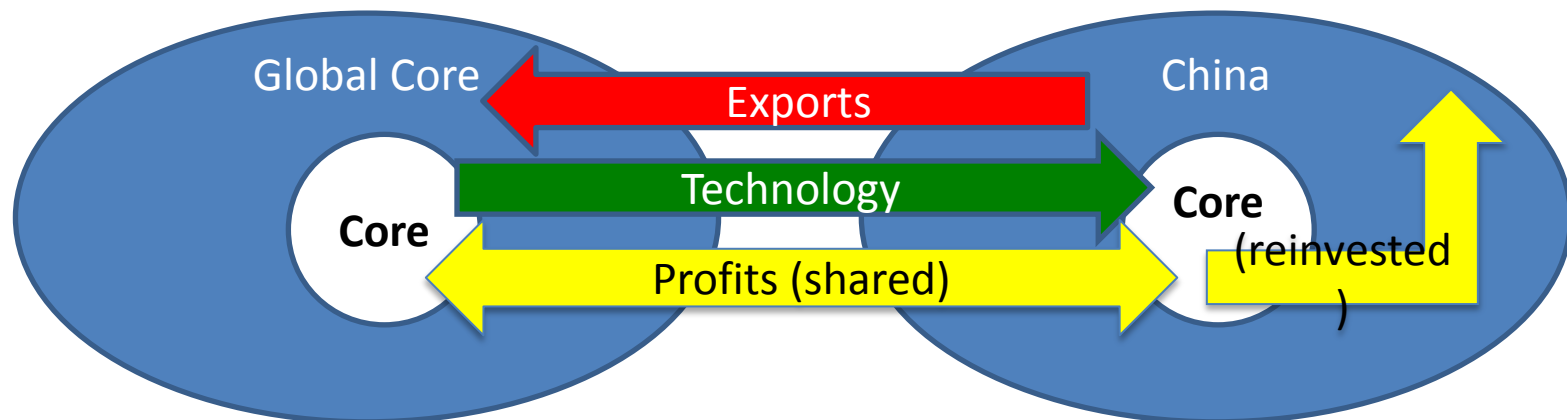


Average Wages (US\$)



Easy to reject dependency theory

- China was in the periphery, dependent on core for foreign investment and technology
- But didn't close borders and develop import-substituting industries; focused on exports
- Negotiated joint ownership and tech transfers from core, retained gains for reinvestment
- Maintained favorable terms of trade via weak currency (which frustrated the core)



But what about liberalism?

- Used global market: trade and FDI were key
- Focused on export-oriented sectors in which China had comparative advantage
- But state neither weak nor democratic; strong state direction of industrial development
- Didn't follow gradual path, specializing in staples first, but leapt rapidly to be globally competitive in advanced sectors



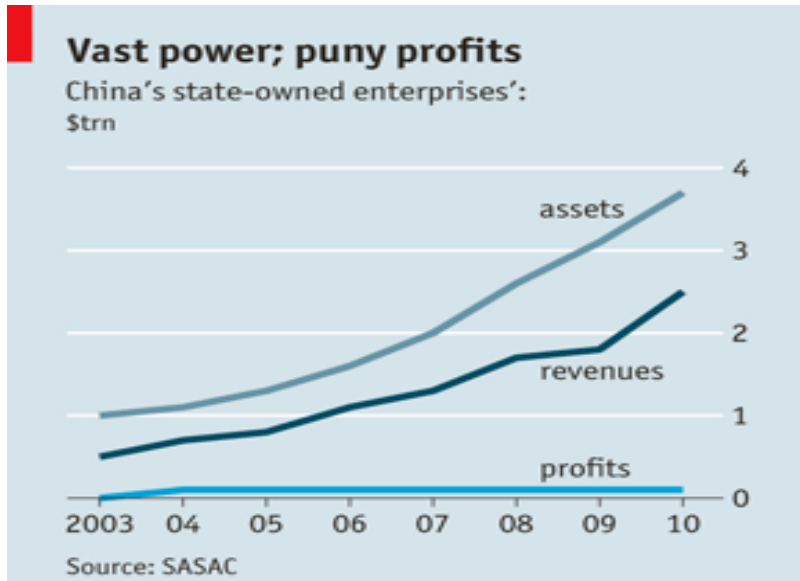
What made state-led model possible?

- Mao era economically and socially destructive, but built strong Communist Party and state
- Backlash against Great Leap Forward and Cultural Revolution enabled reformists to rise
- Yet debate about how much success was due to liberalization or to remaining state control

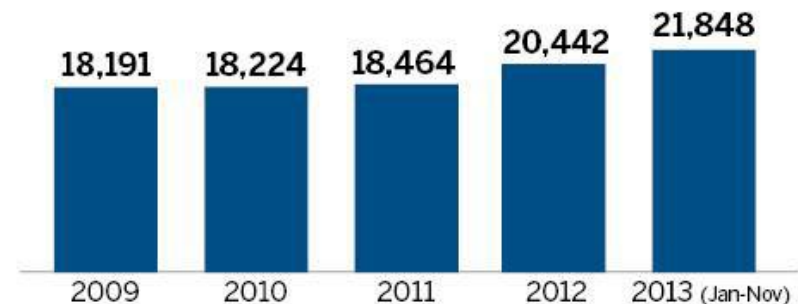


- Does authoritarian legitimacy depend on culture, ideology, or performance?

Challenges: slowing growth, public inefficiency, rampant corruption



NUMBER OF MAJOR CORRUPTION CASES HANDLED BY PROSECUTORS IN CHINA OVER THE PAST FIVE YEARS*



*Note: bribery and embezzlement cases involving more than 50,000 yuan (\$8,270) or misuse of public funds involving 100,000 yuan or more.

Source: the Supreme People's Procuratorate

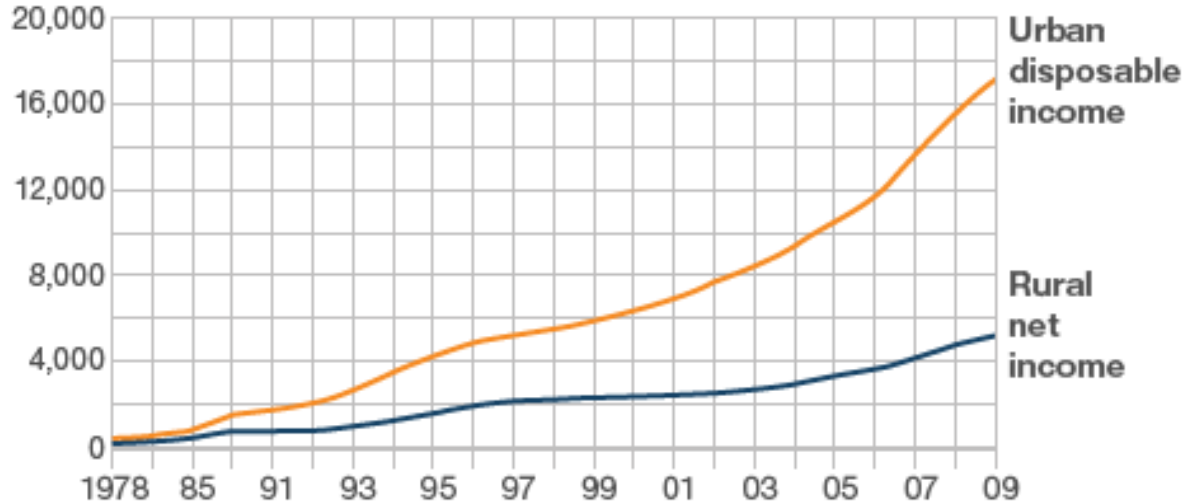
FENG XIUXIA / CHINA DAILY



Challenges: rising inequality

Income in China: urban vs rural

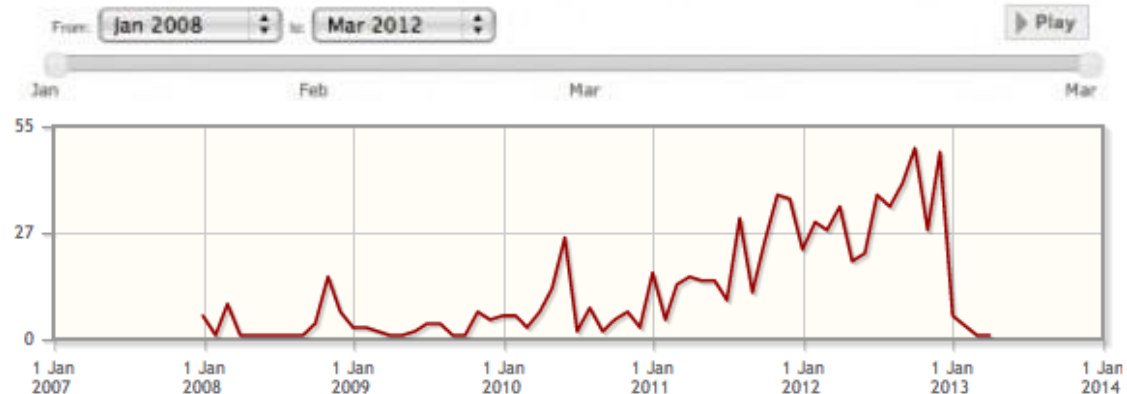
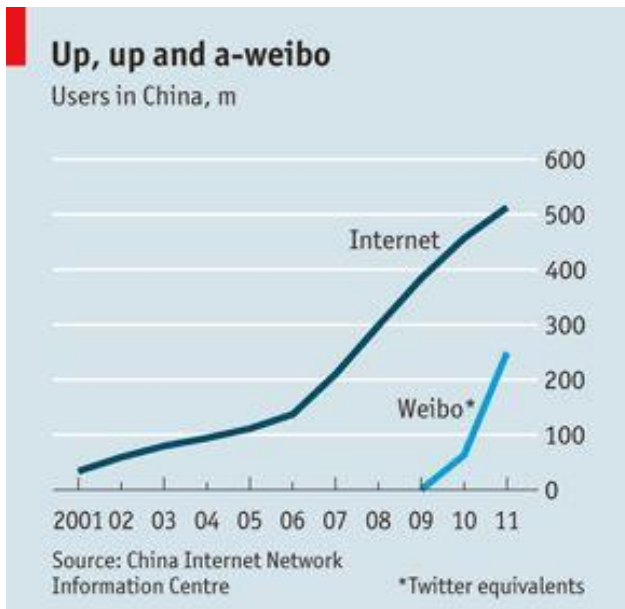
Yuan, per person



Source: National Bureau of Statistics of China



Unrest in the provinces



Where will China go from here?

Should other countries follow?