Does China have its own economic growth model?

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In 2010, China finally overtook Japan to become the world's second largest economy. This was the result of China maintaining an average annual growth rate of 10% for more than 30 years since its economic reform. With advanced countries such as the USA, Japan, and EU countries recently suffering from economic downturn, China's high growth is at the center of global attention.

China's astonishing economic growth naturally leads to a discussion of how China was able to achieve such an outcome. In particular, whether China's economic growth model is different from that of mainstream economics and those other countries, and whether this model could be an alternative for other countries.

This discussion started in 2004 when Joshua Cooper Ramo, a former editor of Time magazine, suggested the concept of the "Beijing Consensus" in contrast to the "Washington Consensus." However, the discussion at that time was not clear or concrete. Since then, more advanced discussions on the "Chinese model" have been raised in China. Jeon Sung-heung, Professor of Political Science at Sogang University in Korea, who has studied this subject, defined the Chinese model as "strategic ideas that are the basis of various measures implemented by China in order to meet its target economic growth, and certain patterns generated from the results of such strategic ideas." The discussion on the Chinese model has been gaining momentum globally because the American free market economy lost trust after the 2008 global financial crisis.

It is difficult to explain the process of China's economic growth over the past three decades by one typical pattern. In particular, there are issues of regional diversity and variables of time. Economic growth models differ region by region, and economic growth models of the 1980s-1990s are different from those of the 2000s. Despite such challenges, it is meaningful to define the economic growth patterns of China under economic reform.

There are four key questions related to this theme. First, is there a unique Chinese growth model that has led China to economic success? Second, if such a model exists, what are its key components? Third, can the model be sustainable in the future? Fourth, is the model adoptable by other countries? Research has been conducted to answer these questions, but no consensus has been reached and there is heated debate. This article focuses on what lies at the core of this debate, rather than offering answers to the questions.

Differing patterns of decentralization and FDI in China and East Asia

The simplest explanation for the Chinese economic growth model is that the combination of strong communist government leadership and practical economic policies has been a driving force of high growth. In other words, a country with a strong ability to mobilize resources has put the highest priority on economic growth and ensured political and social stability—the prerequisites of economic growth. From there, it has effectively implemented measures for growth. This explanation emphasizes the government's role, which is powerful, consistent, and effective. Under such a system, the durability of the government is guaranteed, free from the pressures imposed by various interest groups. Reaching political consensus in the policy-making process is simple, therefore measures for maximizing economic efficiency can be implemented in a timely manner. For example, China adopted a massive economic stimulus package worth RMB 4 trillion in the wake of the 2008 global financial crisis, and implemented the stimulus package swiftly by mobilizing resources from the National Treasury and banks. By doing so, China was able to reverse the economic downturn in a short period of time. Only China was capable of this.

Clearly, China has not followed a particular growth model. It has responded to different situations flexibly based on their unique conditions to achieve high growth.

This explanation leads to the conclusion that the economic growth model led by Korea, Taiwan, and Singapore (the so called East Asian model of development) is similar to China's. They are similar in that governments encourage the expansion of investment through low interest rates and bank control, and promote exports with currency undervaluation.

However, China's model is different from that of East Asia: Chinese local governments vying against each other have led economic growth under the government's decentralization policies; and China has increased exports by attracting foreign direct investment (FDI), rather than nurturing domestic industries. Moreover, adopting the East Asian model would not have been advantageous for China because of its status as a large country and the changing economic conditions of globalization. Therefore, this explanation successfully describes one aspect of China's high economic growth, but it is overly simple and fails to truly explain China's economic breakthroughs.

China's market economy differs from the Washington Consensus

There is another explanation that is contradictory to the explanation above: China has achieved high economic growth rates based essentially on the Washington Consensus, the neoliberal economic policy. Over the last three decades, China's economic policies have focused on macroeconomic stabilization, fiscal soundness, marketization of pricing mechanisms, trade liberalization, and attraction of FDI. China has also made breakthroughs, though gradual and partial, in privatization of state-owned companies and institutional protection of property rights. The bottom line is that free market policies based on liberalization, marketization, openness, and privatization, have been a major growth engine for the Chinese economy. This explanation pays close attention to the fact that China was a transitional country, trying to achieve economic growth through reform. This explanation is rather satisfactory in explaining the economic growth of China up to the early 2000s.

However, there are some factors that are incompatible with the Washington Consensus: selective government intervention widely witnessed across the Chinese market; limited privatization of state-owned companies, and a large number of state-owned companies controlling core industries; limitations on doing business for private companies; and limited access to financial markets for private companies. These factors clearly show the limitations of the explanation. A policy encouraging the expansion of investment through low interest rates, and promoting exports with yuan undervaluation, is a good example of selective government intervention. In response to increased demand for lending due to low interest rates, the central and local governments have adopted a credit rationing system, in which they intervene in the decision-making process for lending.

In addition, the Chinese market economy has other limitations: local governments work as market players directly or through public companies under their control; some major public companies are market players and are closely related to the central government. For these reasons, some experts define the Chinese economy as "State capitalism." Moreover, some people interpret the recent trend of "the state advances, and the private sector retreats (國進民退)" as a fading sign of market reform.

The Chinese Way

China has achieved good results by operating a system with elements of socialism and capitalism working together, and openness and closedness existing together, and by continuously seeking change in response to the changing environment inside and outside of China. For example, China's industrial and trade structures had maintained a dual system with an open export sector led by foreign affiliates, and a relatively closed domestic demand sector led by state-owned companies. However, since China opened its doors more widely following its accession to the WTO, the barrier between the two sectors has gradually lowered.

Putting the highest priority on economic growth, China has achieved high growth. However, this in turn led to various social and economic ills. Many people wonder whether the existing Chinese model is sustainable. From the perspective of demand, China has maintained high growth rates for a long time, led by investment and export. As a result, contraction of domestic consumption has reached severe levels. Such an imbalance in the demand structure is threatening China's continued economic growth. Overinvestment can lead to a burst bubble and other financial crises. With advanced countries expected to enter a long recession, China is in a bad situation to increase its exports. In addition, excessive use of energy and other resources, and severe environmental pollution are stumbling blocks for economic growth. Income disparity between urban and rural populations, and among regions and classes, as well as growing social discontent have become so severe as to threaten stability. Without addressing these issues, economic growth will be unlikely to continue. For these reasons, China is shifting its growth model to address or alleviate its social and economic issues.

Flexible responses for each country

In conclusion, China's high growth has proven to be complex and changeable. In other words, China's economic growth model is not static, but amorphous, changing under various circumstances. Clearly, China has not followed a particular growth model. It has responded to different situations flexibly based on their unique conditions to achieve high growth. In the process, a variety of Chinese characteristics have been witnessed. Some of these Chinese characteristics are expected to remain in the future.

In this sense, it is impossible and undesirable for other developing countries to blindly imitate and follow the Chinese model. They can, however, learn lessons from China's experience in economic development. One of these lessons is that there is no standard package of policies for economic development that is applicable to every country. The most desirable development strategy is to create capital and increase productivity, the basic path to economic development, in a manner suitable for each country and in response to the changing domestic and overseas environment. C

Stagnant growth of Guangdong: growing pain or limitation?

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China's reform and opening-up have been gradual and progressive, as points form lines, and lines form shapes. The four initial Special Economic Zones (SEZ) in China are Shenzhen, Zhuhai, Xiamen, and Shantou. Three of these are located in Guangdong Province. It is fair to say that China's reform and opening-up started in Guangdong. The Chinese government selected Guangdong as a test bed for its reform and opening-up policies, intending to finance economic development by absorbing Chinese capital and management knowhow from nearby Hong Kong and Macau.

In the last three decades, Guangdong has lived up to government expectation to become the largest export base in China. In 2011, Guangdong accounted for 28% of China's total exports. While Guangdong represented 7.8% of China's total population, and only 1.9% of its total land area, Guangdong held the lion's share in exports. Guangdong's actually-used foreign direct investment stood at USD 21.8 billion, accounting for 18.8% of total FDI in China.

Stagnant growth from the 2000s

In terms of productivity, Guangdong's manufacturing sector had remained above the Chinese average until the early 2000s. However, growth has lost momentum since 2003, because the manufacturing sector was dominated by simple processing in pursuit of exports, and its industrial location in the region was undesirable. The manufacturing sector in Guangdong soon began to gradually lose its footing due to wasted resources, environmental pollution, and reduced value. Moreover, increased wages have dragged down the profitability of manufacturing companies. The gap in economic development within the region has also been widening. Among the four economic regions in Guangdong—the Pearl River Delta (PRD), East, West, and North—the Pearl River Delta's GDP in 2007 amounted to almost 80% of the total GDP of the province, and its per capita GDP was nearly four times higher than those of the other three regions.

Another reason for slowing growth in Guangdong is that the priorities of the central government's development policies have shifted north. In the late 1990s and 2000s, the Chang Jiang Delta and the Bohai Bay regions were developed extensively, causing relatively slow development in Guangdong. Many talents left Guangdong to seek opportunities in other areas. Even rural laborers left for other regions, leading to shortages of rural labor. Guangdong Province began to lose its charm as an icon of China's reform and opening-up. As these issues became sticking points, the central government appointed Wang Yang (汪洋), then-Secretary of Chongqing City as Secretary of Guangdong Province in December of 2007 to resolve these issues.

Wang Yang's projects for industrial transformation and upgrade

Secretary Wang Yang is a self-made man who rose to be a high-ranking official through his ability, with no political connections.

In 1988, Wang Yang, age 34, was sworn in as Mayor of Tongling, Anhui Province. After three years of thorough investigation, Wang contributed an essay, titled *Wake up, Tongling*, to the Tongling Daily. In his essay, he pointed out five reasons, with evidence, that Tongling has a backward economy, including a lack of will to reform and an insufficient sense of openness. He boldly pleaded the necessity of reform and opening-up policies for the economic development of Tongling. His essay sent China into a storm and drew attention from the central government. In 1992, Deng Xiaoping (鄧小平), an advocate of reform, visited young mayor Wang on his way back to Beijing from a Southern Tour. Since then, Wang has emerged as a new icon of China's reform, and made his way into the central political arena.

The Guangdong development model is highly likely to be a leading model for the future of China. This will provide Korean companies with new business opportunities.

After being appointed Secretary of Guangdong Province, Wang Yang formulated a development strategy for the transformation and upgrading of industrial structures after a series of investigations into the status of the province. In September of 2010, he established a comprehensive long-term plan for Guangdong Province Modern Industry, and presented a detailed blueprint for six major industries, including knowledge services, heavy industry, high-tech industry, modern agricultural industry, infrastructure, and traditional industry. The medium- to long-term plan is to build modern industrial structures on par with those of advanced countries by 2020. Wang

Major economic indicators of Guangdong and China

		Guangdong	China	Guangdong/ China (%)
Land size (10,000km²)		17.8	960	1.9
Population (10,000)		10,505	134,735	7.8
GDP (USD 100M)		8,360	74,841	11.2
	Per capita GDP ($)	7,958	5,555	-
Commodity prices	CPI (%)	5.3	5.4	-
	PPI (%)	3.7	6.0	-
Unemployment (%)		2.5	4.1	-
Fixed asset investment (RMB 100M)		16,933	311,022	5.4
Consumer goods sales (RMB 100M)		20,247	183,919	11.0
Foreign trade (USD 100M)		9,135	36,421	25.1
	Export (USD 100M)	5,319	18,986	28.0
	Import (USD 100M)	3,815	17,435	21.9
FDI (USD 100M)		218	1,160	18.8

Note: USD 1 to RMB 6.3009 (As of December, 2011)
Source: National Bureau of Statistics of China (www.stats.gov.cn),
Guangdong Statistical Bureau (www.gdstats.gov.cn)

also proposed a plan to integrate the PRD, the first developed region in Guangdong Province, with Hong Kong, Macau, and the nine provinces of Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou, and Yunnan to develop a Pan Pearl River Delta.

Guangdong Province plans to promote balanced growth by relocating labor-intensive industries to regions adjacent to the PRD, selecting 500 projects in modern industries, and focusing its support on the banking, finance, taxation, and education sectors. It has devised a plan for tax cuts for companies and RMB 15 billion in investments. Guangdong Province plans to implement financial reform, which will include increasing loans by financial institutions, allowing them to participate in the capital market, and supporting the hiring and education of highly-educated professionals and professional managers. In addition, the Guangdong government is seeking a shift from "Made in Guangdong" to "Created in Guangdong." To this end, it plans to hire about 300,000 R&D professionals by 2012, and nurture 50 high-tech companies, each with a sales target of RMB 10 billion. Ultimately, it plans to boost the share of its service sector from 46% to 55% by 2020.

Attracting global companies

With shared medium- to long-term visions, the Guangdong government and the community are rushing toward their goals with pride and enthusiasm as pioneers of China's reform. They are actively seeking investment from global companies, focusing on the fact that the introduction of advanced technology and experience is necessary to improve Guangdong's backward industrial structures. As part of this effort, Guangdong Province held the Guangdong and Global 500 Companies Co-op Conference with grand fanfare on September 29-30, 2011. About 400 foreign industrialists, including executives from Siemens, POSCO, and ABB; 500 representatives from Chinese companies and institutions; and 100 central and local government officials participated in the conference.

The government of Guangdong is attracting multinational companies to build their China headquarters in Guangdong, and hastening existing projects. It has also streamlined administrative processes and offered various benefits to companies. It is even utilizing visits by central government officials to foreign countries to attract investment from foreign companies. Global companies naturally prefer projects guaranteed by the central government.

Guangdong's development plan for six industries

Knowledge services	Heavy industry	High-tech industry	Traditional industry	Modern farming	Infrastructure
-Global companies' local headquarters -Finance, logistics, tourism, education -Information service -Entertainment	-Car manufacturing -Equipment production -Petrochemical -Steel -Shipbuilding	-Electronic information -Bio -New and renewable energy -New materials -Environ-mentally-friendly industry -Marine & Aerospace -Home appliance	-Food processing -Spinning -Paper-making -Construction materials -Color metal	-Crop cultivation -Horticulture -Modern stock farming, fisheries, and forestry -Agricultural product processing service	-Energy production and transmission -Transportation network construction -Waterway expansion -Irrigation facilities construction

Source: *The Comprehensive Long-Term Plan for 2010 Guangdong Province Modern Industry*

The Guangdong model: the future of China?

Guangdong's per capita income in 2011 was nearly USD 8,000. Guangdong is now facing the same growing pains that Japan and Korea experienced in the process of their development, including a gap between the rich and poor, and intensifying labor disputes. Currently, there are many cases of rural labor unrest. About a thousand rural laborers attacked police offices and patrol cars in Zengcheng, Guangzhou, in June of 2011. The riot was sparked by the government's excessive use of force against a pregnant street vendor.

For three months from September of 2011, locals took to the streets in the southern Chinese village of Wukan. The siege of Wukan by angry villagers, which drew global attention, was triggered by officials selling land jointly owned by the villagers to real estate developers without the villagers' consent, and embezzling more than RMB 700 million. Rather than suppressing the riot, the Guangdong government established an investigative committee to examine the riot thoroughly and punish involved officials. The villagers have democratically formed an autonomous committee, demonstrating Wukan's political and institutional possibilities.

There are still many challenges, such as land compensation. However, the way Guangdong has addressed the siege of Wukan has significant implications for similar events that may happen in other areas in the future. The riot shows that China has now entered an era in which the Chinese government can no longer overlook public complaints.

The Guangdong model is changing due to sustainable qualitative growth, business-friendly trends, and flexible politics based on popular will. If Guangdong overcomes its challenges, it will be able to escape the middle income trap, and it will become a model for other areas in China's second wave of reform.

Taking into consideration Secretary Wang Yang's strong foothold in central politics and other developments, the Guangdong development model is highly likely to be a leading model for the future of China. This will provide Korean companies with new business opportunities. Because Korea successfully overcame similar hardships in the late 1980s and early 1990s to those that Guangdong now faces, investments by Korean companies will be welcomed. Now is the right time for Korean companies to make the most of business opportunities with high potential in Guangdong.