

Brief Remarks on the China Model of Economic Development

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How China Grew?

- ▶ Full of second-best policies.
- ▶ Trade liberalization (e.g., WTO), but keep two different regimes – processing versus ordinary trade.
- ▶ Advantage of having surplus labor, despite restrictions on labor mobility through the *hukou*.
- ▶ FDI liberalization, but with a negative list.
- ▶ Privatization, but with imperfect contracting institutions.
- ▶ Top-down industrial policies, but with local experimentation, learning and competition.

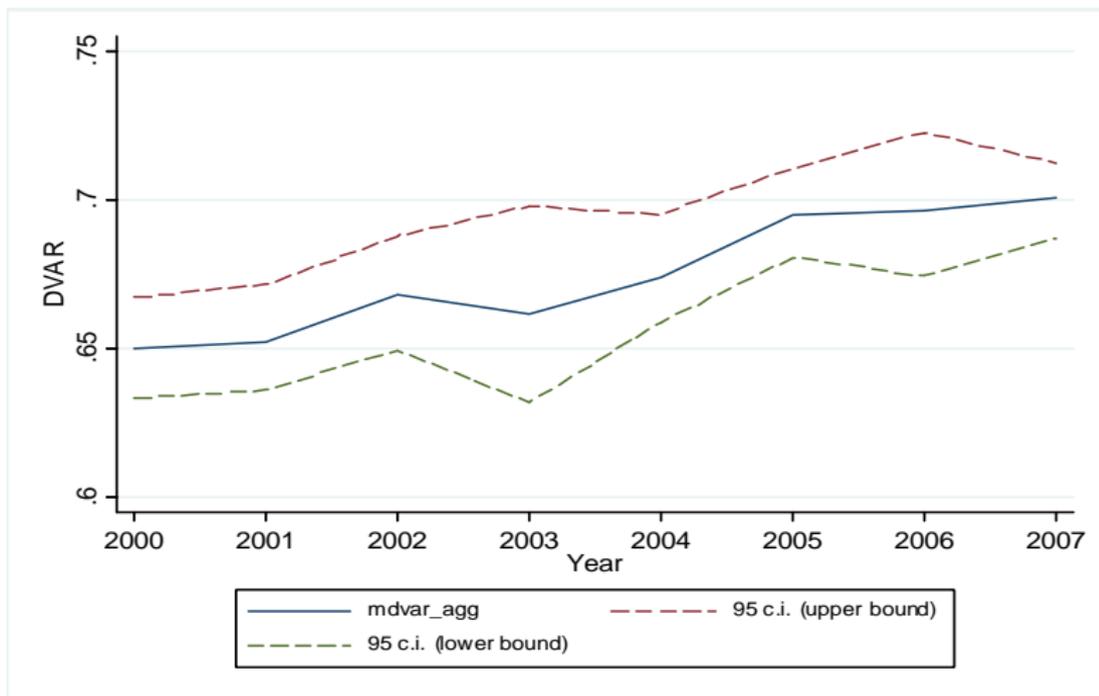
Washington or Beijing Consensus?



MILTON FRIEDMAN (left) meets with general secretary of the Chinese Communist Party ZHAO ZIYANG in China in 1988. Friedman and Zhao spoke for nearly two hours, as Friedman argued that China should decontrol prices in “one bold stroke.” Friedman had come to China for Cato’s conference in Shanghai and was then personally invited by Zhao to offer advice on China’s economy.

► Source: Gewirtz (2017)

China has recently defied the global trend



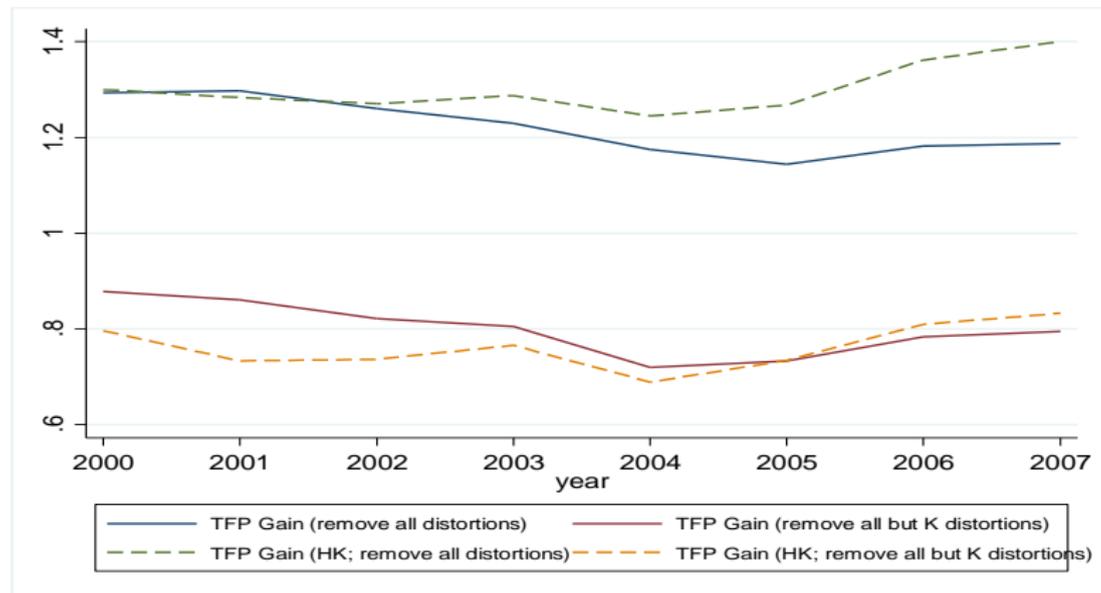
- ▶ Based on Kee and Tang (2016)
- ▶ Also documented by Koopman, Wang and Wei (2012).

What caused China to defy the global trend?

- ▶ Several possible answers to this question with conflicting implications.
 - ▶ Changing composition of Chinese exports (towards the industries with high domestic content).
 - ▶ Increasing domestic production costs, which would imply that the country has become less competitive.
 - ▶ Gradual substitution of domestic for imported materials by its exporters.

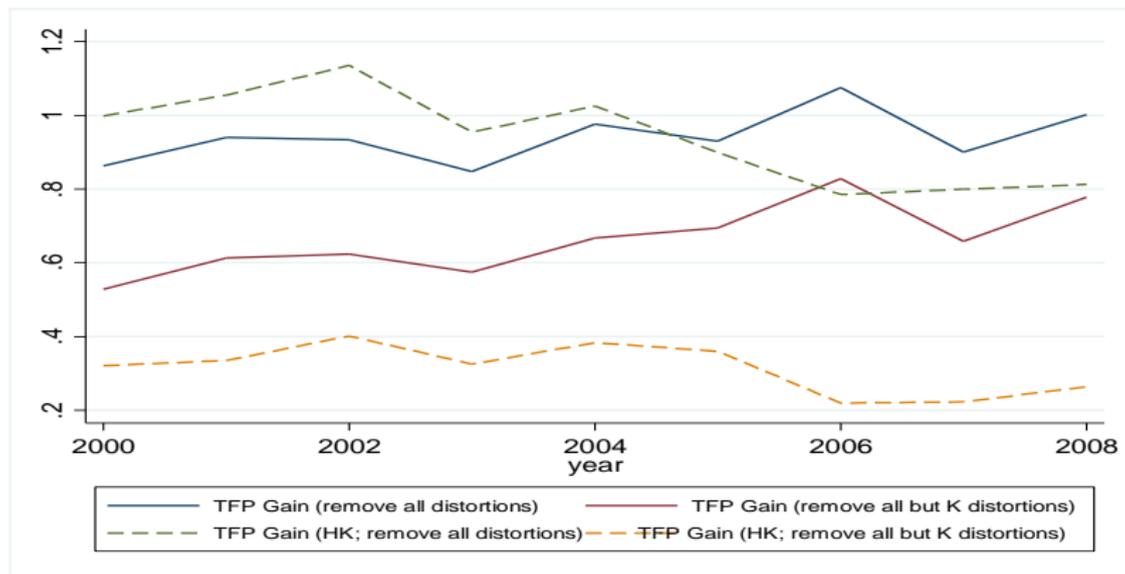
Aggregate TFP Losses due to Distortions (China)

Based on Krishna and Tang (2017)



Source: Authors' calculation and China's NBS Data (2000-2007).

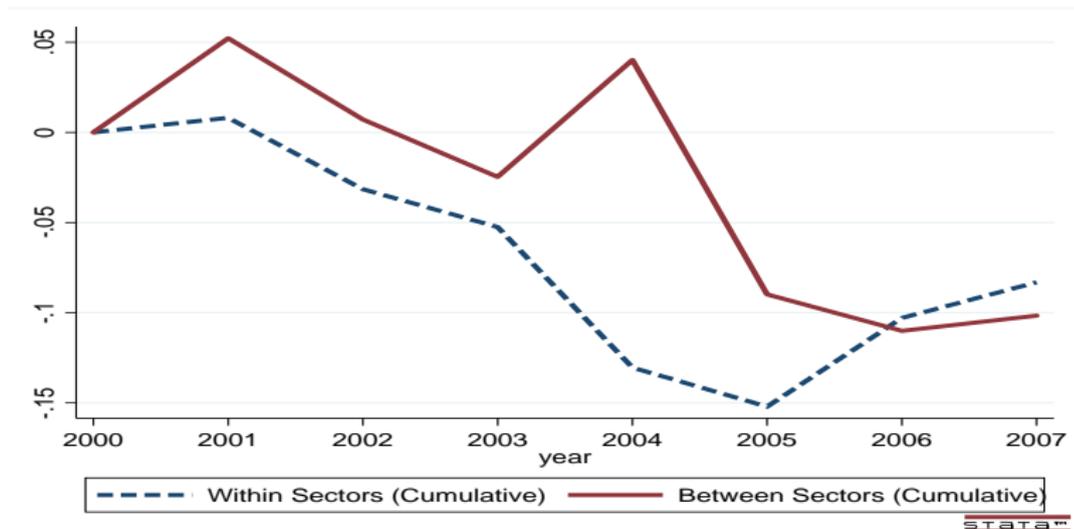
Aggregate TFP Losses due to Distortions (India)



Source: Authors' calculation and India's ASI Data (2000-2008).

Decomposition - China

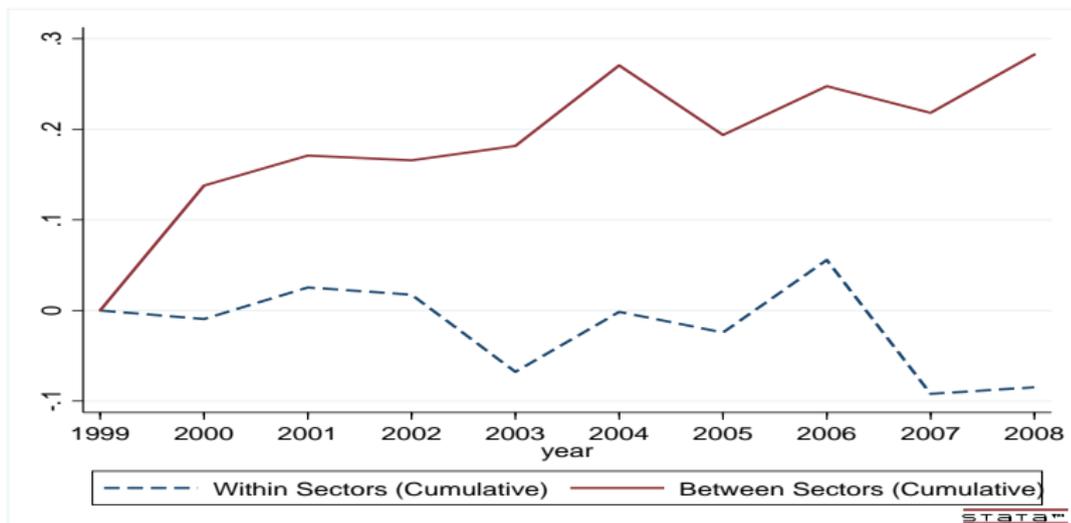
$$\blacktriangleright \Delta \ln TFP_t = \underbrace{\sum_{j=1}^J \bar{\delta}_{jt} \Delta \ln TFP_{jt}}_{\text{within}} + \underbrace{\sum_{j=1}^J \Delta \delta_{jt} \ln \overline{TFP}_{jt}}_{\text{between}}$$



Source: Authors' calculation and China's NBS (2000-2007)

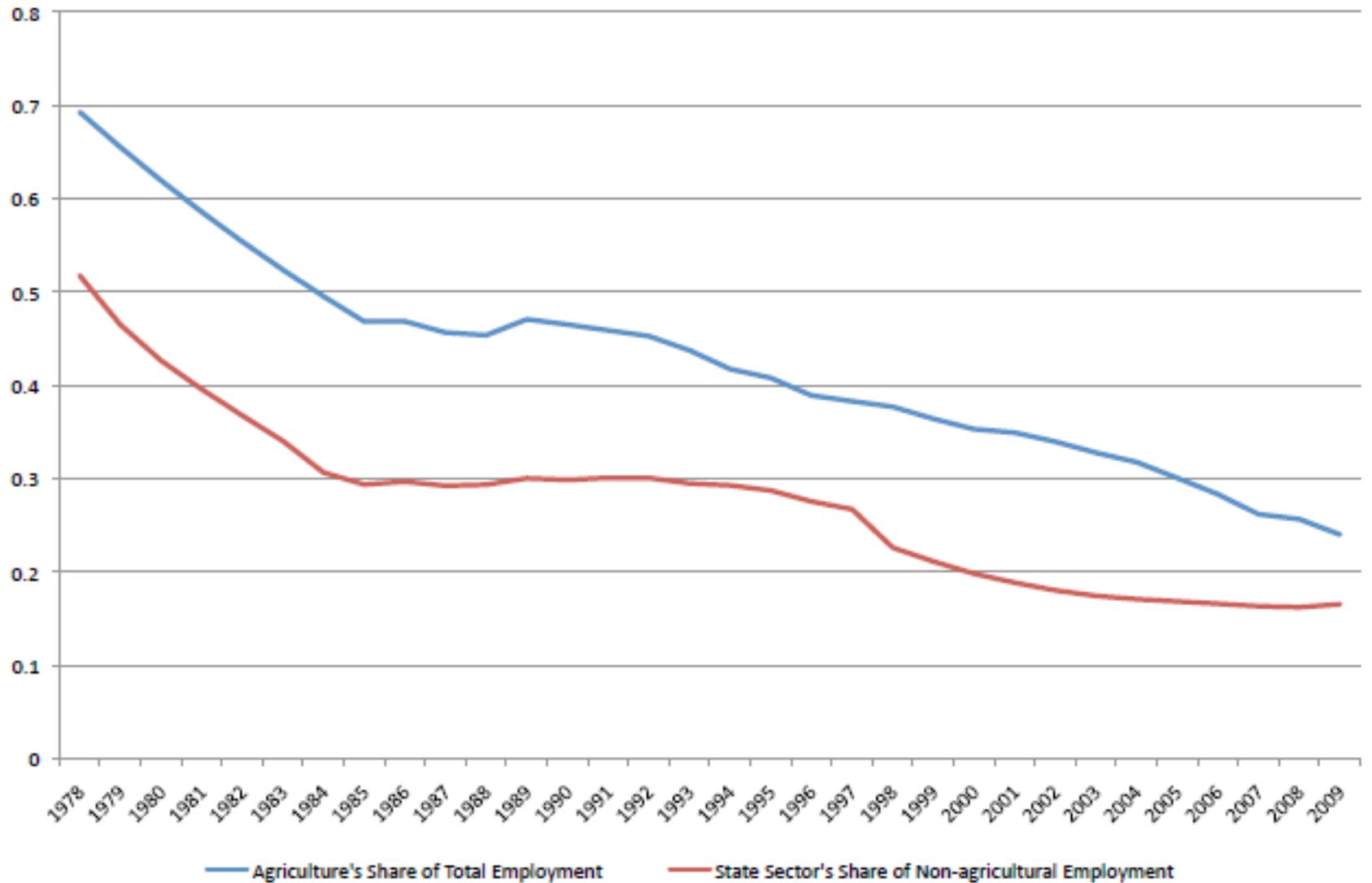
Decomposition - India

$$\blacktriangleright \Delta \ln TFP_t = \underbrace{\sum_{j=1}^J \bar{\delta}_{jt} \Delta \ln TFP_{jt}}_{\text{within}} + \underbrace{\sum_{j=1}^J \Delta \delta_{jt} \ln \overline{TFP}_{jt}}_{\text{between}}$$



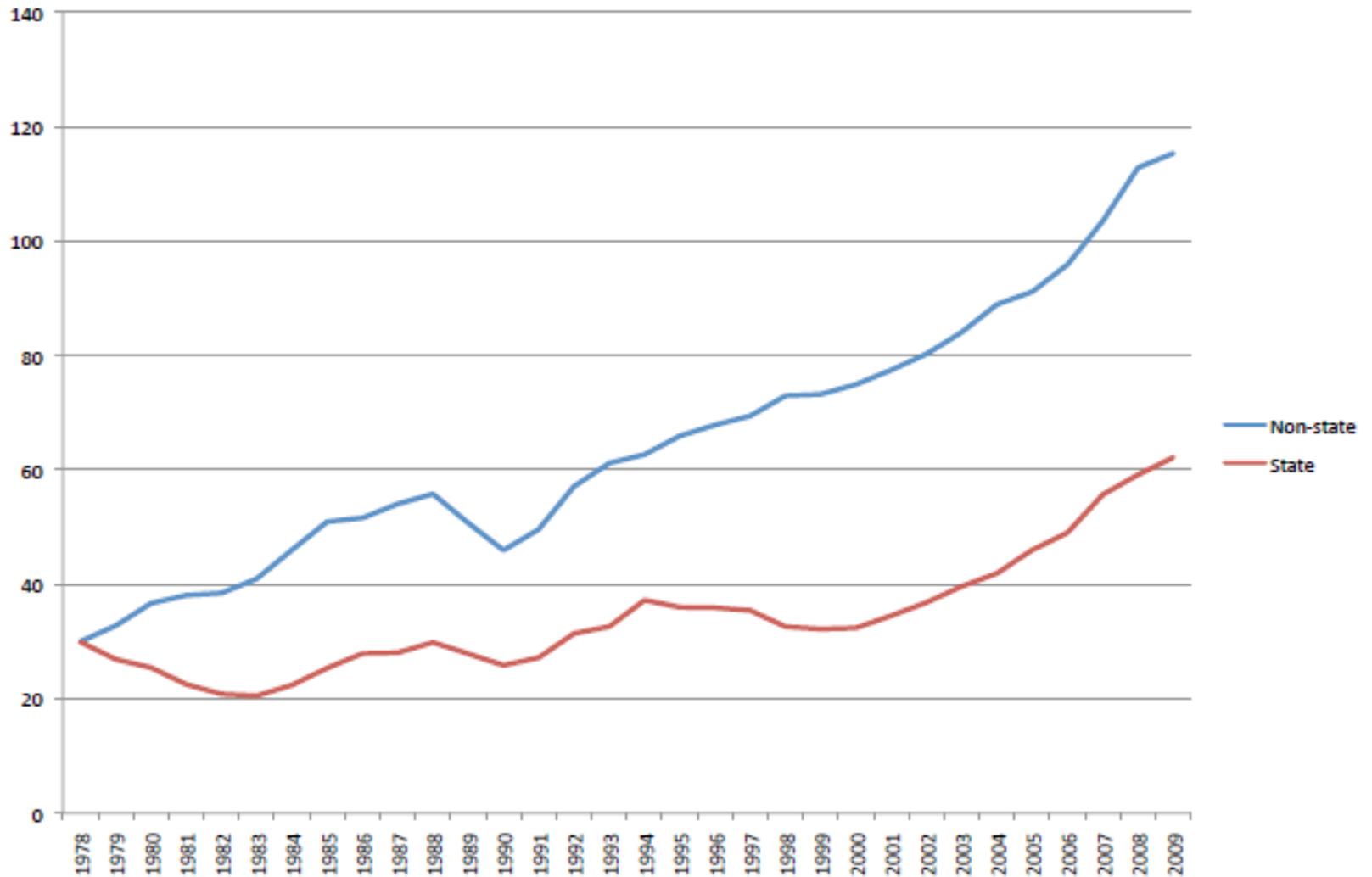
Source: Authors' calculation and India's ASI (1999-2008)

Two Structural Transformations



Source: Zhu (JEP 2013)

TFP of State and Non-State Sectors



Source: Zhu (JEP 2013)

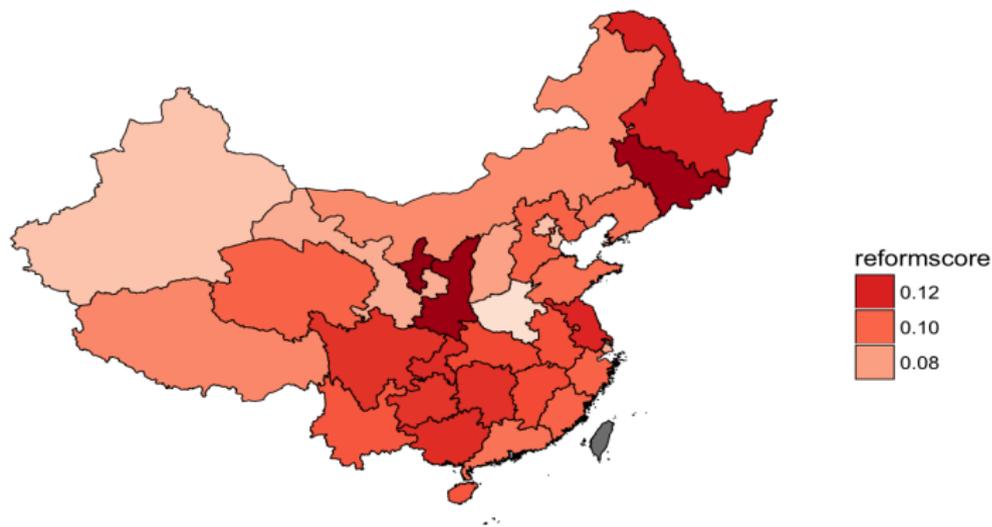
China's development approach

- Since economic reforms in 1978, China's reform approach has been pragmatic, gradual, and experimental.
 - *“No matter if it is a white cat or a black cat; as long as it can catch mice, it is a good cat”* Deng Xiaoping
- China then should not have considered any “one size fits all” multilateral agreement.



Reform Score from Textual Analysis of Policy Documents

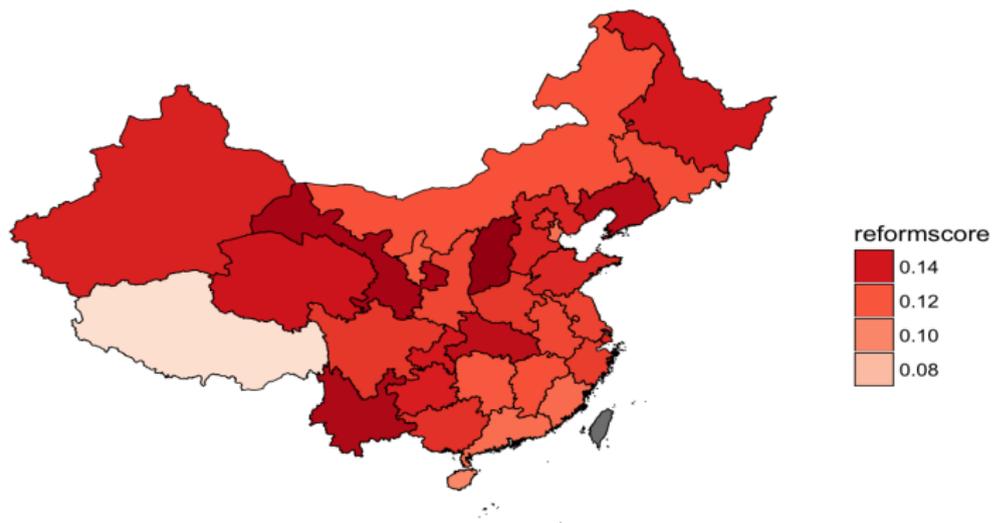
Average reform score, 2001



► Based on Khandelwal, Naidu, Tang, and Zhang (2018)

Reform Score from Textual Analysis of Policy Documents

Average reform score, 2016



► Based on Khandelwal, Naidu, Tang, and Zhang (2018)