

## From Beijing to the Globe: A Note on the Chinese Model of Development

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### Abstract

China's remarkable development record consists of its rapid growth since 1978, major poverty reduction, and its swift recovery from the global financial crisis. China's experience naturally finds a place as an outstanding success story for international organizations. China has succeeded by adopting market economy in its own way. China followed many but not all policies among the "Washington consensus," a list of ten policies that would supposedly produce reliable growth for all countries if they were uniformly followed. Summarized by Ramo (2004) as the "Beijing consensus," China focused on the innovation and was not targeting per capita GDP. China also emphasized self-determination in dealing with the US, as is obviously seen by the ongoing tit-for-tat trade policy arrangements between China and the US. China's success legitimized particularity of a "China model" instead of the universality of a Washington model. China's economic size, however, poses a risk regarding the sustainability of its development model. Concerns about the environment are genuine. A huge economic and social divide, especially between the urban and rural areas, is an urgent challenge needing mitigation. The current excess production capacity and the increased domestic debt are the other challenges for the government seeking structural reform. Boosted by the confidence over the success of its development model, China appears anxious to share its model and expertise with other countries. The ambitious Belt and Road Initiative (BRI) can be seen as an example of China's confidence in driving development through infrastructure investment. For the BRI to succeed, a careful coordination between China and other countries involved will be essential, given that China alone cannot finance the large need of infrastructure investment in the region. If China can coordinate the BRI successfully, the Chinese development model will be deemed effective not only for China but also for the global community.

**Key words:** Chinese model, Washington consensus, Beijing consensus, Belt and Road Initiative (BRI)

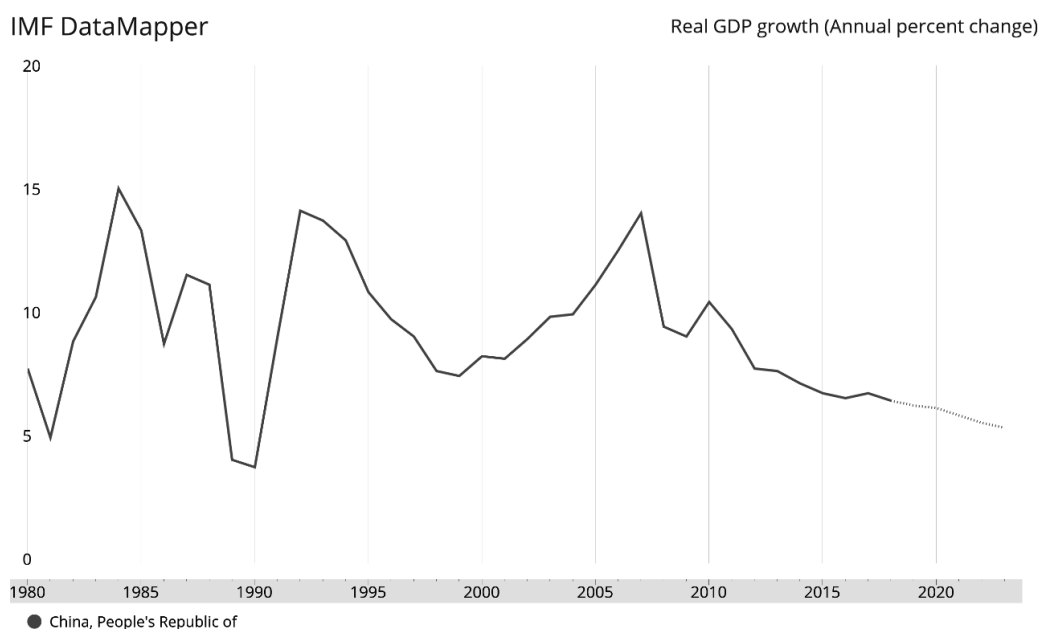
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## 1 Background

China’s economic development since 1978 is among the most impressive in the world. It has led to a massive poverty reduction and transformed fast China’s economy and society. The economists naturally want to pay attention to what kind of factors especially policies can really explain China’s economic success. Williamson (2012) considers China’s rapid growth since 1978 as shown in Figure 1, poverty reduction, and its swift recovery from the global financial crisis as the principal reasons to be impressed with China’s development record.<sup>2</sup> The World Bank’s World Development Indicators report a continued reduction in poverty. Poverty headcount ratio at national poverty lines declined from 17.2% of population in 2010 to 4.5 % in 2016.<sup>3</sup>

**Figure 1 China’s Real GDP Growth Rate (%)**



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Source: International Monetary Fund, IMF DataMapper, April 2018

[www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/CHN?year=2018](http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/CHN?year=2018)

<sup>2</sup> Williamson (2012) emphasizes that China reduced poverty from 84% in 1981 to 16% in 2005 by 627 million on the back of the rapid economic growth.

<sup>3</sup> <https://data.worldbank.org/country/china?view=chart>

## **2 Washington Consensus**

While China's economy was growing steadily, how to foster growth in developing countries was a key issue that concerned economists including those in the international financial institutions such as the World Bank and the International Monetary Fund in Washington, DC. John Williamson invented a term "Washington consensus" at a conference in 1989. This was a list of ten policies that would produce reliable growth for all countries if they were uniformly followed. The list summarized by Kennedy (2010) is as follows:

- (1) Fiscal discipline
- (2) Reordering public expenditure priorities away from non-merit subsidies and toward public goods (e.g. health and education)
- (3) Tax reform that combines broad tax base with moderate marginal rates
- (4) Liberalized interest rates
- (5) A competitive exchange rate
- (6) Trade liberalization
- (7) Liberalization of inward foreign direct investment
- (8) Privatization
- (9) Deregulation to ease barriers of firms for entry and exit of sectors
- (10) Strong protection of property rights

## **3 Beijing Consensus**

In trying to study and explain China's impressive economic development since 1978, a new term "Beijing Consensus" was created by Joshua Cooper Ramo in his essay published in 2004. Ramo (2004) came up with the following three "theorems" as the Beijing Consensus:<sup>4</sup>

- (1) Innovation-based development
- (2) Economic success measured not by per capita GDP growth but by its sustainability and level of equality
- (3) Self-determination for China and for other countries vis-à-vis the United States

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<sup>4</sup> See Kennedy (2010).

First, the Beijing Consensus emphasizes China's focus on innovation as a vehicle for economic growth. Especially, China endeavors to strengthen its human capital through education. Qasem et al (2011) points out the fact that China had an 80% illiteracy rate and a 20% enrollment rate of school-age children when the People's Republic of China was established in 1949. China has come a long way to boast of the world's largest education system with a student population of 260 million in 2009. China also has rapidly increased its number of patent applications.

Second, instead of GDP per capita, China prefers to measure development based on the quality of life of the population. According to the World Bank's World Development Indicators, China's GNI per capita increased from US\$70 in 1962 to US\$8250 in 2016.<sup>5</sup> China has achieved a massive poverty reduction and progressed in terms of the human development index including adult literacy rate, life expectancy, and infant mortality. According to Qasem et al (2011), China's adult literacy rate improved from 65.5% in 1980 to 93.9% in 2009. Life expectancy rose from 66.0 years in 1980 to 73.1 years in 2008, while infant mortality per 1000 live births declined from 46.1 in 1980 to 16.6 in 2009. According to the World Bank's World Development Indicators, China's life expectancy at birth rose from 43.7 years in 1960 to 76.3 years in 2016.<sup>6</sup>

As for the third Beijing Consensus component, self-determination, China emphasizes the importance of actively seeking independence from external pressure. The ongoing tit-for-tat policy arrangements on trade and negotiations between China and the US indicate that China clearly abides by this component of the Beijing Consensus. While it is certainly desirable for any country to deal with the US with self-determination, the lasting tension between the two large countries can be counter-productive if it sends a negative message regionally. Asian Development Bank (2018) considers the escalating US-China trade conflict as the largest downside risk. Self-determination in excess can be too much of a good thing. China's demonstrated self-determination may have led to protectionist trade policies adopted by the US. Avoiding strong economic and geopolitical clashes between China and the US is essential from a global point of view. China, becoming a member of the World Trade Organization (WTO) in December 2001, has attained higher economic growth in the context of globalization.

#### **4 Beijing Consensus or Washington Consensus**

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<sup>5</sup> <https://data.worldbank.org/country/china?view=chart>

<sup>6</sup> <https://data.worldbank.org/country/china?view=chart>

As Yao (2011) explains, China has applied the Washington Consensus in a unique way. China adopted a gradual one-step-at-a-time approach, in line with its long-term planning. China essentially followed eight of the ten policies in the Washington Consensus.<sup>7</sup> In its own and pragmatic way, the Chinese economy has certainly adopted elements of a market economy. While China, a WTO member, may consider itself a market economy, other countries tend to have reservations on that recognition. Progress in liberalizing interest rates and privatization has been slower.

China's application of the Washington Consensus may be rather country specific. Other countries can learn from China's pragmatic approach to the Washington Consensus. China's success legitimized particularity of a "China model" instead of the universality of a Washington model.

Since the global financial crisis in 2008, the effectiveness of the Washington Consensus has been under scrutiny. Stimulated by its substantial government spending, China's economy maneuvered the global financial crisis better than the Western countries in terms of debt accumulation and unemployment.

## 5 Challenges

The Beijing Consensus includes the emphasis on sustainable and equitable economic growth. China is making efforts toward sustainable growth. The large population in China causes strong pressure to reconcile the material and resources needs with long-term sustainability. China demands a huge amount of resources, metal, energy, and food, thus maintaining a balance is required.<sup>8</sup> Just as Japan suffered from deteriorated natural environment as its economy grew fast after the World War II, China is going through a period when its environment needs to be protected. China is making efforts to contain its increased CO<sub>2</sub> emissions.

Away from a component in the Beijing Consensus, China has come to have very skewed wealth distributions and a huge divide between urban and rural level of development. The Gini coefficient increased from 0.350 in 1990 to 0.491 in 2008 and 0.469 in 2014,

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<sup>7</sup> See Kennedy (2010) and Qasem et al (2011).

<sup>8</sup> "Raw material," *The Economist*, August 25<sup>th</sup>–31<sup>st</sup> 2018, 54-56.

according to Asian Development Bank (2016), which also reports the per capita income of urban households being 2.75 times that of rural households in 2014. The government needs to implement reforms to mitigate such a steep gap among the population. Among others, a challenge exists on how to regulate the issue of the farmers who migrate to the cities and work without registration as local residents there.

China dealt with the global financial crisis better than the Western countries viewed from debt accumulation and unemployment, thanks to a major stimulus on the back of substantial government spending. The side effect of such expansionary economic policy is the current excess production capacity, especially in areas such as steel dominated by state-owned enterprises (SOEs). The Chinese government emphasizes the need of a structural reform of the economy to attain a better balance. Another side effect is the increased domestic debt in China, reflecting a rapid credit expansion that accompanied the large stimulus.<sup>9</sup>

## **6 Belt and Road Initiative**

While the Chinese model has encountered some important challenges, its overall success has led to confidence. As a way to share the model globally, China proposed a grandiose scheme called the Belt and Road Initiative (BRI).<sup>10</sup> The idea is jointly financing various infrastructure projects between China and Europe through the Middle East and Africa.<sup>11</sup> As shown in Figure 2, the road means mainly a sea route, while the belt refers to a land route. The global project is supposed to add to important international public goods.

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<sup>9</sup> See Wright and Rosen (2018).

<sup>10</sup> "Gateway to the globe," *The Economist*, July 28<sup>th</sup> –August 3<sup>rd</sup> 2018, 13-16.

<sup>11</sup> It is worth noting that many countries in the Latin American and Caribbean region have signed Belt and Road Cooperation Agreements with China, anticipating additional transport infrastructure investment supported by Chinese banks and construction companies.

**Figure 2 Belt and Road Initiative**



Source: The World Bank

Belt and Road initiative

<https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative>

The scheme can be beneficial for the Chinese economy if it can mitigate China's excess production capacity, resulting from the expansionary economic policy to combat the global financial crisis of 2008. The infrastructure projects outside of China tend to need China's products and workers.

Du and Zhang (2018) gathered and analyzed data on China's overseas direct investment (ODI) from 2005 to 2015. Chinese enterprises tend to have high confidence in the success of the BRI. Some of China's ODI in the infrastructure sectors in the belt-road countries, particularly those by Chinese SOEs, can be part of the BRI infrastructure investment plan. China's SOEs play a main role in infrastructure sectors, which helps in mitigating China's excess capacity problem. Consistent with the BRI, Central and West Asia, Western Europe, and Russia are popular destinations of Chinese ODI.

Since the BRI covers a large geographical area, China alone may not be able to finance a variety of infrastructure projects.<sup>12</sup> Asian Development Bank (2017) estimates that the

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<sup>12</sup> "Gateway to the globe," *The Economist*, July 28<sup>th</sup> –August 3<sup>rd</sup> 2018, 13-16.

continent needs US\$26 trillion, or US\$1.7 trillion per year, in infrastructure investment from 2016 to 2030 to keep current growth rates and cope with climate change. Coordination with other countries and international financial institutions such as the World Bank, the Asian Development Bank, and the Asian Infrastructure Investment Bank will be necessary. The World Bank announced its support for the BRI at the Belt and Road Forum for International Cooperation held in Beijing, China in May 2017.<sup>13</sup>

If the scheme succeeds, then the Chinese model of development will prove effective not only for China but for the wider region. It is important to plan the infrastructure projects carefully from a financial point of view. The countries involved in the BRI will have to control their level of public debt.<sup>14</sup> The BRI will not succeed if the public debt sustainability of those countries is not maintained. Hurley et al (2018) conclude that eight countries participating in the current Belt and Road investment plan are at risk of debt distress based on the existing and planned project lending.<sup>15</sup>

## 7 Concluding Remarks

China's development record since 1978 is unprecedented and remarkable in achieving a major poverty reduction. China's experience inevitably finds a place as an outstanding success story for international organizations such as the World Bank, which keep searching for effective measures to reduce poverty. China's economic size, however, poses a risk regarding the sustainability of its development model. The concerns about the environment are genuine, as Japan's past development experiences suggest. China has succeeded by adopting market economy in its own way. An ensuing huge economic and social divide, notably between the urban and rural areas, is an urgent challenge needing mitigation. The current excess production capacity, caused by the expansionary economic policy to cope with the global financial crisis of 2008, is another challenge for the government seeking structural reform.

China appears eager to share its development model and expertise with other countries in the world. The ambitious BRI can be seen as an example of China's confidence in

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<sup>13</sup> <http://www.worldbank.org/en/news/speech/2017/05/14/remarks-of-world-bank-group-president-jim-yong-kim.print>

<sup>14</sup> "Chinese investment is a boon for Pakistan, though it carries risks," *The Economist*, September 9<sup>th</sup>–15<sup>th</sup> 2017, 24.

<sup>15</sup> The eight countries are Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan.



driving development through infrastructure investment, something that China has successfully achieved within the country. For the BRI to succeed in the future, a careful coordination between China and other countries involved will be essential, given the fact that China alone may not be able to finance an immense need of infrastructure investment in the region. If China can orchestrate the BRI successfully, then the Chinese model of development will be deemed effective not only for China but also for the global society.

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