



WHY HAS CHINA SUCCEEDED? DOES CHINA'S SUCCESS CONTRADICT ACEMOĞLU AND ROBINSON'S THESIS IN "WHY NATIONS FAIL?"

Bahri Yılmaz

Executive Summary

The main purpose of the research work is to discover whether or not the arguments presented by Daron Acemođlu (MIT) and James R. Robinson (Harvard) in their book *Why Nations Fail*¹ are also reliable and applicable to the case of China's economic development. To be more precise, it will be determined whether research results indicating the relations between institutions and economic growth covering many countries are also applicable or contradictory to China's economic development. The determining factors of the Chinese economic miracle and political and economic challenges that the country has been facing since 1978 will be identified in order to determine how these factors have led to China's economic success.

"Let China sleep, for when China wakes,
she will shake the world."

Napoleon Bonaparte²

Introduction

The World Bank concurs that from the early 1500s until the early 1800s, China's economy was the world's largest. However, by 1820, it was only one-fifth as big as the European economy and accounted for one-third of world gross domestic product (GDP).³ The next two centuries were filled with political and economic turbulence for China.⁴ The country experienced a catastrophic decline between 1820 and 1976, including the century of "national humiliation" that began in 1840, the anti-Japanese war, the Great Leap Forward, the Cultural Revolution, the Gang Four, and finally the Open Door Policy.

After Mao's death in 1976, Deng Xiaoping came to power for the third time in 1978 and ushered in a new era where China started to implement its "Grand Strategy" for becoming a recognized player regionally and internationally. The Grand Strategy, which is largely based on the goal of internal modernization, aimed to develop the country's economy without disturbing its internal political structure, namely the Communist party's monopoly on power.⁵

In order to implement this Grand Strategy, later in 1978 at the 11th meeting of the Central Committee of the Communist Party of China, Deng Xiaoping stated that the regime would focus on economic development rather than ideology. Deng said of the change, "It does not matter whether the cat is black or white. What matters is that it catches the rat."⁶

Today, China is without a doubt the chief rising power of the 21st century. By any standard, China's economic performance over the last four decades has been impressive. The country has transformed from a rural, agricultural society to an urban, industrial one and from a communist to a market-based economy with global orientation.

China is once again among the world's largest economies, having overtaken Japan in 2010. Its economy is now second only to that of the United States (third, if the European Union (EU) is counted as one economy), and it is the world's largest manufacturer and exporter. China's total foreign exchange reserve was approximately 3.2 trillion USD⁷ in March 2018. This is three times greater than the total of the 28 countries comprising the Eurozone. China is also the world's largest exporter, accounting for over 13% of the world's total exports.⁸ Estimates show that China will have the largest economy in the world by 2050.⁹

China is in a stage of rapid change and modernization and has achieved incredible results in a short period. China's annual growth rate over the last four decades has been 10% on average. This is among the largest recorded growth rates in economic history. At the same time, 500 million Chinese citizens were able to rise above the world poverty threshold. The ratio of exports in gross national product rose to 70%. This success was visibly displayed during the Beijing Olympics in summer 2008.¹⁰ It is also visible

in Chinese cities. If you visit Shanghai today, you will see a glimpse of the 22nd century.

In short, China is the fastest-growing country in the world, has the largest manufacturing industry, and is the second largest consumer. It is an economic miracle.

In order to better understand this economic miracle within contemporary economic thinking, the main purpose of the research work is to discover whether or not the arguments presented by Daron Acemoğlu and James R. Robinson in their book *Why Nations Fail*¹¹ are also reliable and applicable to the case of China's economic development. To be more precise, it will be determined whether research results indicating the relations between institutions and economic growth covering many countries are also applicable or contradictory to China's economic development. The determining factors of the Chinese economic miracle and political and economic challenges that the country has been facing since 1978 will be identified in order to determine how these factors have led to China's economic success.

Theoretical Discussion

There is an intensive and interesting ongoing academic discussion about the relations between institutions and development based on two major views, the *Grand Transition (GT)* and the *Primacy of Institutions (Pol)*, both of which research the correlation between institutions, democracy, and economic growth. One of the most basic and crucial questions put forth by researchers is whether higher quality growth can be achieved under authoritarian regimes such as East Asian countries or under democracies.¹²

Two Views: ¹³

Grand Transition (GT)

According to Simon Kuznets (1901-1985), the progress of economic and political institutions is parallel to economic development. For example, industrialization leads to the emergence of labor unions. Similarly, the growth of financial institutions

is stunted if there is no market economy. Paldam and Gundlach underline that central to GT is the idea that development causes all changes, including institutional change. When production rises, societies become more complex due to a higher division of labor.

More complexity increases the incentives for physical and human factor accumulation. The demand for capital and skills rises, so investment and education go up at all levels. This changes both the supply and the demand for institutions in many ways. With rising production and specialization, trade must go up, and this results in increased openness. With higher production, more transactions per unit of time occur, so the increasing opportunity cost of time provides incentives for transactions to become more effective.

Primacy of Institutions (Pol)

As stated by Acemoğlu/Robinson and Douglass C. North (1920-2015) the Pol view begins in the opposite direction of causality: political power is determined by political institutions and indirectly by economic institutions. Consequently, political institutions become the key observed causal variable. In other words, they argued that the foundation of economic development is the establishment of economic and political institutions. According to this view, for example, labor unions and financial institutions must be established first to pave the way for economic development.

Thus, Pol dominates if political institutions are a strong factor explaining the level of development and the level of production (income).

Acemoglu and Robinson's Argument: China Is Going the Wrong Way

China is portrayed in the book *Why Nations Fail* as being on the wrong side of history, pursuing "authoritarian growth." The book argues that growth through extractive political institutions such as China will not bring sustained growth and are likely to run out of steam. Acemoğlu and Robinson think China will hit a growth ceiling

before reform happens, with unforeseeable but chaotic consequences.

The authors argue that, "...current Chinese growth has nothing to do with Chinese values or changes in Chinese values or changes in Chinese culture; it results from a process of economic transformation unleashed by the reform implemented by Deng Xiaoping and his allies..."¹⁴

The authors give the impression that the implementation of American values and the so-called "strategy of primacy of institutions" in developing countries will create a more positive impact on economic development in the long term.

Today in China, the Communist Party governs and regulates the present economic system, where the market economy is shaped under the administration of the state. In other words, China has committed to a method of its own, one that is outside the "Washington Consensus": the conventional economic and political methods recommended by neo-classical economists to developing countries.¹⁵

While assessing Acemoğlu and Robinson's work, the question that begs an answer is this: what are the defining factors behind China's extraordinary performance? Will these factors sustain Chinese economic growth in the long term?

In order to answer these questions, first, an analysis of the factors behind China's economic achievement is conducted. Then, how these economic and social issues contributed to such rapid economic development in China will be discussed.

What Are the Determining Factors behind China's Economic Success?

China, similar to Japan and South Korea, has initiated economic development plans by enforcing two important reforms led by the state: agricultural reform and educational reform.¹⁶ Furthermore, it has implemented a two-pronged strategy for development. First, China builds its own industries and protects them from foreign competition for a limited period. Afterwards, it employs export-focused industrialization strategies to open industries to international competition. Similar

to patterns observed according to POI, the transition to democracy occurs after the majority of the development process is complete. When the development phase is complete, it is possible that China will start to transition to democracy.

Fundamental development strategies implemented in China were initially based on five main pillars: (1) state-led economic development (state capitalism) under authoritarian rulers; (2) distribution of land owned by the state among peasants (land reforms);¹⁷ (3) educational reforms aiming to contribute to economic construction, progress in science, and social development; (4) world market-oriented (export-led) development strategy; (5) producing for export markets and investing abroad rather than producing and investing for the domestic market. These policies brought large dividends for China, bringing huge investments matched by high savings rates and capital inflow from the Chinese Diaspora; importing advanced technologies and managerial expertise; opening the international market for China's goods and services; and boosting China's internal economic reform.

The reasons for this economic policy may be twofold: Firstly, instead of borrowing from other countries to invest in the domestic market, China preferred to raise the source of loanable funds and official reserves held by the Central Bank through its export revenues. Second, China accumulated emergency and security funds for "rainy days."

The World Bank report has underlined the following reform policies that have made a large contribution to the rapid economic development of China under the rule of the Chinese Communist Party since 1978¹⁸: (i) pragmatic and effective market-oriented reforms; (ii) balancing growth with social and macroeconomic stability; (iii) interregional competition; (iv) domestic market integration; (v) steady integration with the global economy.

Successful Economic Development under Authoritarian Regimes

"In the infancy of societies, the chiefs of the state shape its institutions; later the institutions shape the chiefs of state."

Baron de Montesquieu¹⁹

In their analysis of China, it seems to be obvious that Acemoğlu and Robinson underestimate the principles of "modernization theory,"²⁰ which argues that "economic development tends to be followed by political liberalization." Sometimes a strong leader can make the right choices to help a country grow. According to modernization theory, there is a good chance authoritarian policies will evolve to have more policies that are "inclusive." Although the leader is usually authoritarian in these situations, the state is respected among the public and has a directing attitude. The Meiji Revolution from 1867-68 in Japan as well as similar revolutions in South Korea, Singapore, and Taiwan are examples of where similar patterns have been observed. Francis Fukuyama notes, "Singapore under Prime Minister Lee Kuan Yew developed a model of what might be called a "soft" or paternalistic form of authoritarianism, which combined capitalism with an authoritarian political system that suppressed freedom of speech and political dissent while intervening, often intrusively, in its citizens' personal lives."²¹

The developments that began in Japan and expanded to South Korea, Singapore, and China were state-led reforms carried out by highly qualified officials. In the case of Japan, reforms began under the authoritarian regime during the Meiji Revolution of 1867/68 and continued until the end of World War II. In other cases, General and President of South Korea Park Chung-hee (1917-1979), educated in military school in Japan, was the president of South Korea from 1963 to 1979.²² Deng Xiaoping and his successors led the Communist Party in China.²³ Singapore's unforgettable authoritarian leader, Cambridge-graduate Lee Kuan Yew,²⁴ was no different.²⁵ Leaders in these countries have recognized that the most significant strategy for economic development was firstly the need for land reform given the initiatives in agriculture and property rights to farmers. Secondly, they decided that the integration of their countries in

the word market is a key and essential task. Thirdly, in order to compete in the international market the education systems must be reformed and adjusted to the level of advanced countries.

The Importance of Cultural Values

Various theses have been asserted to explain the successful models of Far Eastern countries. One of the two most significant thesis is Karl Marx's argument that the substructure defines the superstructure. In other words, what creates the ideology and the ethical substructure is the reflection of materialistic circumstances, primarily economic conditions.²⁶

The second thesis, from the famous German sociologist Max Weber, argues the contrary. According to Weber in his essays *Protestant Ethic* and *Spirit of Capitalism*, the superstructure defines the substructure. In short, a certain national social ethic is found in every nation, and if the economic structure and social ethics do not converge, a new economic structure cannot emerge in that society. As a result, it is inevitable that an economic system that is congruous with the existing ethics in the society will emerge. To illustrate his argument, Weber studied the prominent faiths of the world and investigated their contributions to economic development.²⁷

Michio Morishima has explained the causes behind Japan's success with the help of Weber's thesis in his book titled *Why Has Japan Succeeded*.²⁸ He attempted to propose the relation between Confucianism and Japan's economic success as one of the key causes of the Japanese miracle.

It is important to project the role that Confucianism is expected to play in China in the future. Scholars have asked what ideology would fill the vacuum now that the Marxist-Leninist ideology adopted by Mao Zedong in 1949 is fleeting from politics, economics, and security relations.²⁹ The pragmatic expectation is that the void may be filled with Confucianism, and that this is the most suitable ideology for China. The establishment of many "Confucian" educational institutions in China recently is a case in point both in China and around the world.³⁰

Confucianism and Economic Development

Western civilization was late in realizing that China does not have one cohesive faith system. China has remained outside the influence of three monotheistic religions (Christianity, Islam, and Judaism) and does not observe the teachings of a certain prophet. Instead, China largely practices the teachings of Confucius. Except for missionary activities to spread Buddhism, Islam, and Christianity, China has not had significant and widespread clashes of religious orders or nationwide reformation attempts.

Confucius was a major influence for thinkers like Voltaire, Kant, and Leibniz during the Enlightenment era in Europe. It is worth noting that there were 599 studies on China published in Europe between 1700 and 1709. Kant argues that Confucius is the "Socrates of China."³¹

Some people regard Confucianism as a religion. According to the renowned Chinese historian Josef Needham, Confucianism is not a religion in comparison to other monotheistic religions, but it is a philosophy of life. Confucius is a mentor. Confucian philosophy is based on harmony with the circumstances rather than clashing with them. In other words, it posits readiness to reach agreement.

Confucian philosophy has three main pillars: 1. Administration with integrity; 2. Education; 3. Family. Public servants (the mandarin) are crucial to administration. In order for them to rise in government hierarchy, they must pass through various tests. In Japan, South Korea, China, and Singapore, the mandarins make themselves visible in society with their appearance, professional knowledge, and conduct. If these people want to climb to the top of political parties, the government, or corporations, they must have good higher education degrees from reputable domestic or foreign institutions.³² Two other fundamental rules are based on the capability of people to be educated and respect for social hierarchy. The foundational elements of Confucian philosophy are love for all human beings, justice, knowledge, and loyalty to state and firms.³³

Confucius' views on family see that the human heart is good by nature, and the intrinsic closeness within a family is the keystone of social morals. Therefore, solidarity within the family and the hierarchical, respectful positioning of generations are the natural result of a love for humans. This results in a healthy society that lives in solidarity and in harmony with its environment.³⁴

The scholar of Confucianism Tu-Wei-ming makes a distinction between “political Confucianism,” which legitimates a hierarchical political system, and the “Confucian personal ethic” in day-to-day life. Tu argues that the more important legacy of traditional Confucianism is “the personal ethic” that regulates attitudes toward family, work ethics, education, and other elements of daily life that are valued in Chinese society, which make a great contribution to economic success of China.³⁵

During my several visits to East Asian countries, I was impressed by the levels of education attained by public servants, especially in South Korea. This is in part due to Confucian beliefs that the state must be governed well, and the subjects must be treated with respect and dignity. Meanwhile, the subjects are expected to be loyal to their government and to abide by the rules. Loyalty is not limited to the state; it is an important rule between the employer and the employee.³⁶

*Education*³⁷

Confucianism is probably the greatest influence on Chinese education. In fact, education is high on the agenda of all Far East Asian nations. In the Far East, education and economic development are intertwined.³⁸ As Confucianism prioritizes education, public education was established later in the Han Dynasty in China. Not only could elites from upper-class families study in Confucian schools, ordinary men could also use education as a path to become a gentleman.³⁹ To become competitive, China is focused on educating its youth and selecting the brightest students for science and technology.⁴⁰ The number of universities in China is rapidly rising and so is the number of Chinese students studying overseas in the leading universities of Europe and the United States. For this reason, China will be at the forefront of scientific research and education in the next thirty years.⁴¹

A Comparison of Russian and Chinese Development Strategies after the Breakdown of Command Economies: Two Different Development Strategies and Two Different Outcomes

After the collapse of the Communist economic system, the Chinese and Russian governments adopted different policies to transition from central and regulated economics to a unique kind of market economy called “state capitalism.” Russia and the majority of the former Eastern Bloc countries implemented “shock therapy,” which was recommended by multinational institutions like the International Monetary Fund (IMF) and World Bank (WB), to every country in crisis. The establishment of the new order after the collapse of the communist system began with political reforms marked by *perestroika* and *glasnost*—political reform and “openness” policies. Privatizing state entities became a priority. The political, economic, and social consequences of this strategy were severe: mass unemployment, high inflation, capital withdrawal and flight, collapse in currency rates, and difficulty in paying debts.

In contrast, China adapted a pragmatic strategy, which is reflected in Chinese wisdom: “crossing the river by feeling stones.” China left the political system intact and adopted a more realistic trial-and-error approach. Drawing on the experience of other nations, the country implemented a progressive approach and began with agricultural, industrial, and privatization reforms to transition from the Communist economic system to a market economy. Privatization targets separated businesses and economic reforms into three categories—profitable, salvageable, and unsalvageable—and the method was more functional than the sale of all state-owned enterprises.

Chinese Foreign Relations

Deng Xiaoping formulated his “24 character strategy” for foreign policy with the aim: “be good at maintaining a low profile, never claim leadership.”⁴² As far as foreign policy is concerned, Beijing has three basic objectives:⁴³

(1) Beijing expects partner countries to recognize its “One China” policy.

(2) China advocates for the recognition of its sovereignty and non-interference. It aims to reduce outside pressure for internal reforms in order to defend itself against accusations of human rights violations and the repression of almost 20 million Muslims living in the province of Xinjiang. It will try not to be involved in any discussion of the democratization process and human rights issues in the region.

(3) Beijing recognizes U.S. security and military interests and the U.S. role in the region. Even in the case of the American invasion of Iraq, Beijing hesitated to criticize Washington officially and harshly. This shows that the Chinese government is aware of the limits of its political capabilities; the decision-makers in Beijing recognize its dependency on the United States for the security of oil transports from the Middle East to China. China will avoid any military confrontation with the United States for this reason.

From my discussions with Chinese students abroad and young specialists, I understood that the success of the last four decades has created a rise in Chinese nationalism. The countries in the region are worried that China may adopt an expansionist policy like Japan had done prior to World War II—although China had never followed an expansionary policy against its neighbors in the past. Currently, China does not show many signs of such an inclination. However, only time will tell what China’s true ambitions are.⁴⁴

Key Challenges: Unsolved Economic and Social Problems

China’s rapid development has naturally led to several important social and economic issues. The population of China will reach 1.5 billion by the mid-21st century. Although the majority of the population resides in rural areas, rapid growth will fuel urbanization, and the concentration of the population in urban centers will make cities harder to govern. By 2030, 70% of Chinese people will live in cities, small towns, big cities, and mega cities.⁴⁵

Another major problem for China is the disparity in income and living standards between coastal and landlocked regions. Currently, 700 million people work in the agriculture sector in China. However, experiences of development in various countries throughout history show that the share of agriculture production in GDP decreases, and masses migrate to urban areas as development increases. As the Chinese government is aware of this hazard, it has recently accelerated the construction of utilities, roads, and railroads in underdeveloped regions. If the government can spread economic welfare to the masses from the east to the west, future social issues and uprisings may be prevented.

Another issue is pollution and dependence on imported energy. While the availability of cars increases with industrialization, it also brings increased levels of pollution and demand for petroleum and natural gas. In order to meet its energy needs, China has intensified trade relations with Kazakhstan, Turkmenistan, and Somalia.

The next important point is the need for widespread legal reform that will globalize the economy and embrace the new system it brings. On the path to becoming a superpower, it is inevitable that China will adopt universal legal norms, particularly in the international economic sphere. One more issue is social security. China does not have a social security mechanism as seen in Western countries. People try to secure their futures by purchasing gold with their savings or through familial solidarity.

Future Growth Potentials

“We know we have to play the game your way now but in ten years we will set the rules!”

Chinese ambassador to the WTO during China’s negotiations to enter the institution⁴⁶

The World Bank has designed medium-term strategies for solving China’s economic problems that will extend until 2030. More importantly, these strategies focus on the “how,” not just the “what.” Six important messages emerge from the analysis:⁴⁷

First, implement structural reforms to strengthen the foundations for a market-based economy

by redefining the role of government; reforming and restructuring state enterprises and banks; developing the private sector; promoting competition; and deepening reforms in land, labor, and financial markets.

Second, accelerate the pace of innovation and create an open innovation system in which competitive pressures encourage Chinese firms to engage in product and process innovation not only through their own research and development but also by participating in global research and development networks.

Third, seize the opportunity to “go green” through a mix of market incentives, regulations, public investments, industrial policy, and institutional development.

Fourth, expand opportunities and promote social security for all by facilitating equal access to jobs, finance, quality social services, and portable social security.

Fifth, strengthen the fiscal system by mobilizing additional revenues and ensuring local governments have adequate financing to meet heavy and rising expenditure responsibilities.

Sixth, seek mutually beneficial relations with the world by becoming a proactive stakeholder in the global economy, actively using multilateral institutions and frameworks, and shaping the global governance agenda.⁴⁸

Will China Become a Democracy?

“... Maybe democracy and social peace lead to growth, I certainly hope so. But growth may also lead to democracy and social peace...”

Robert Solow, 2007⁴⁹

In March 2018, China approved the removal of the two-term limit on the presidency, allowing Xi Jinping to remain president for life and elevating his status to the level of the party’s founder, Chairman Mao.⁵⁰ *The Economist* describes the event “as a step from autocracy to dictatorship and it is strong evidence that the West’s 25-year bet on China has failed.”⁵¹

When analyzing this decision, however, it is important to keep in mind that China has never

been a liberal democracy in its 4,000 years of recorded history and has been continuously ruled by emperors and authoritarian leaders under different titles. Singapore’s former president Lee Kuan Yew argues that China will never be a liberal democracy:

China is not going to be a liberal democracy; if it did, it would collapse... To achieve the modernization of China, her communist leaders are prepared to try all and every method, except for democracy with one person and one vote in a multi-party system. Their two main reasons are their belief that the Communist Party of China must have a monopoly on power to ensure stability; and their deep fear of instability in a multiparty free-for-all, which would lead to a loss of control by the center over the provinces, with horrendous consequences, like the warlord years of the 1920s and ‘30s.⁵²

Fukuyama argues that China’s long-term authoritarianism may be the case; however, this has no part in China’s interpretation of Confucianism, which he persists *is* compatible with democracy:

Confucianism is obviously compatible with democracy due to three main reasons: First, the examination systems implemented in many Confucian societies as gateways into higher-educational systems and bureaucracies are significant paths to upward mobility that reinforce the relatively egalitarian income distributions that prevail throughout much of Asia. Secondly, the Confucian emphasis on education itself... in practice a society’s general level of education has been an important underpinning of democratic institutions. Without a high level of literacy, people cannot know about and therefore participate in democratic debate; moreover, education tends to make people wealthier and more concerned with non-economic issues such as recognition and political participation... Thirdly, systems, Confucianism is relatively tolerant. In the past, Confucianism has coexisted with other religions, notably Buddhism and Christianity; while Confucianism’s record of tolerance is not perfect (witness the periodic persecutions of Buddhists in China), it is arguably better than that of either Islam or Christianity.⁵³

Thus, with such mixed variables at hand—China’s authoritarian history vs. its modern, democratic religious beliefs—the question of whether or not China can become a democracy remains an open question.

Conclusion

Economists from time to time tend to forget that economics is a social science dealing with human behavior, having strong ties with history and sociology in particular. Economists usually believe that the abstract and mathematical economic models they construct will yield the same results everywhere, in every society. Precisely because of this, it is difficult for economists to explain China’s extraordinary economic success solely on pure economic indicators without considering the significance and influence of the country’s historical and cultural heritage that spans four millennia.

Contrary to Acemoğlu and Robinson’s thesis, Chinese economic development starting from 1978 is largely based on Grand Transition Theory. Thus, the roots of China’s economic development are entirely different from what the authors have suggested in their book. While China has given priority to rapid economic growth without aiming to establish instructive institutions in the beginning of development process, these institutions came about in the transition period. Overall, the states of East Asia have been able to establish stable economic and democratic institutions, which they began to develop starting with Japan followed by South Korea, Taiwan, Singapore, and today China.

Fukuyama argued that the Modernization Theory for East Asian countries is confirmed.⁵⁴ He states, “The correlation between development and democracy is nowhere better illustrated than in Asia. The states of the region have established stable democratic institutions roughly in the same order in which they began to develop economically, beginning with Japan and extending now to South Korea (which held its first completely free elections in 1992) and Taiwan (which also held free legislative first presidential elections in 1996).”⁵⁵

As written in the *China Reform Times*,⁵⁶ learning from other countries’ positive and negative

development experiences is a priority for China. As Lee Kuan Yew underlined, “Chinese fear chaos and will always err on the side of caution... The Chinese people will be exposed to other systems, cultures, and know other societies through travel, through internet... One thing is for sure: the present system will not remain unchanged for the next 50 years.”⁵⁷ In other words, Chinese administrators will learn from others’ experiences and continue on the path they have set. This means that China will first complete its economic development through abiding by Confucian principles and then progressively transition to democracy.

As the former Chancellor of Germany Helmut Schmidt argued, Western politicians “...must understand that the economic, scientific and technological rise of China is unstoppable, and come to terms with this as a fact of life.”⁵⁸ The only way to race against China is to compete with it. Japan has succeeded in working a similar miracle in the aftermath of World War II, and this did not have any negative economic impact on other countries. Japan, South Korea, Singapore, Taiwan, and Hong Kong were successfully integrated with the global economy. Why should China not succeed on the same path? In this case, it is more appropriate for European and American politicians and scholars to respect the achievements of this ancient nation and cooperate with Beijing on the international level rather than consider this country a threat to Western civilization.

The following lessons for developing countries might be drawn from Chinese economic development experiences. First, a key lesson from China’s experience is the adoption of a pragmatic approach to economic reforms and the establishment of a well-performing market economy. Second, industrial policy has to be at the heart of development policies and strategies in developing countries. Third, trade and the liberalization of commercial policies have played a primary role in China’s growth success and will in other developing countries. Fourth, the implementation of radical land and educational reforms are essential.

Finally, it can be argued that each country has its own political, economic, and cultural structures and environment. It must be generally acknowledged that different countries have differences in regard

to factors such as cultures, institutions, and systems. Therefore, the economists dealing with development theories are criticized for this method of grouping countries together in their studies.

It would be the wrong attitude to rely on only one of these economic theories to explain the success or failure of nations. There is not only one development strategy for developing nations. Therefore, each country must decide on its development strategy by learning from other nations' experiences. As the prominent author Max Frisch said, "We [the Westerners] are not an ideal picture for China; our decisions may not be a measure for their efforts."⁵⁹

Endnotes

- 1 | Daron Acemoğlu and James A. Robinson, *Why Nations Fail* (London: Profile Books, 2012).
- 2 | Fareed Zakaria, *The Post-American World* (New York/London: W.W. Norton & Company, 2008), 87–88.
- 3 | World Bank, *China 2030: Building a Modern, Harmonious, and Creative Society* (Washington, DC: World Bank, 2013), 3, <http://documents.worldbank.org/curated/en/781101468239669951/China-2030-building-a-modern-harmonious-and-creative-society>.
- 4 | China's share in the world economy had fallen to 5.2 percent by 1952. See additional figures in Wacker Gudrun, "China's Grand Strategy," in *China's Rise: The Return of Geopolitics?*, ed. Wacker Gudrun (SWP: Berlin, 2006), 55–60.
- 5 | Gudrun, "China's Grand Strategy," 55. For more information on the Grand Strategy see Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security* (Stanford, CA: Stanford University Press, 2005), 17.
- 6 | Zakaria, *The Post-American World*, 89.
- 7 | "China Foreign Exchange Reserves," Trading Economics, accessed May 9, 2018, <https://tradingeconomics.com/china/foreign-exchange-reserves>.
- 8 | Many achievements have resulted from such rapid growth: for example, two of the world's top ten banks are now Chinese; 261 Chinese companies are on the Global Fortune 500 list; China is home to the world's second-largest highway network, three of the world's longest sea bridges, and six of the world's ten largest container ports. The country has also made large strides in health, education, science, and technology, and is quickly closing the gap on all these fronts with its global leadership. See World Bank, *China 2030*, 4.

- 9 | Martin Jacques, *When China Rules the World* (New York/London: The Penguin Group, 2012), 3–4.
- 10 | For more macroeconomic indicators for China, see the appendix.
- 11 | Acemoğlu and Robinson, *Why Nations Fail*.
- 12 | Other theories attempt to explain the question of “why nations fail” using different approaches: for example, the Geography Hypothesis, the Culture Hypothesis, and the Ignorance Hypothesis.
- 13 | See M. Paldam and E. Gundlach, “Two Views on Institutions and Development: The Grand Transition vs. the Primacy of Institutions,” Kiel Working Papers 1315 (Kiel, Germany: Kiel Institute for the World Economy, 2007), 4–5.
- 14 | Acemoğlu and Robinson, *Why Nations Fail*, 63.
- 15 | Dani Rodrik argues, “... markets require institutions because they are not self-creating, self-stabilizing, self-regulating, or self-legitimizing.” He discusses five types of market-supporting institutions, each responding to one of these failures: property rights; regulatory institutions; institutions for macroeconomic stabilization; institutions for social insurance; and institutions of conflict management. Rodrik believes, “... taken together, these results provide a clear message: participatory political regimes deliver higher-quality growth... they produce superior institutions better suited to local conditions.” See Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton: Princeton University Press, 2007), 155–161, 169.
- 16 | Bahri Yılmaz, “The Role of Trade Strategies for Economic Development: A Comparison of Foreign Trade between Turkey and South Korea,” *Russian & East European Finance and Trade* 38, no. 2 (March/April 2002): 59–78.
- 17 | Agricultural land, resource land (including forest and water resources), and wasteland fall into these categories. Construction land includes land used for village infrastructure and services as well as housing, which is allocated to each household. Agricultural land is also allocated to each household in villages for subsistence or on a contract basis, as governed by the Rural Land Contracting Law. Chinese Land Reform is based on eight principles: 1. Households’ management rights over contracted agricultural land; 2. Collectives’ management rights over forestland and ownership and usage rights over timber; 3. Usage rights to collectively owned wasteland (including beaches, ravines, etc.); 4. Ownership and usage rights to collectively managed real assets, excluding land; 5. Usage rights to agricultural infrastructure; 6. Usage rights to irrigation infrastructure; 7. Intellectual property related to agricultural operations, including brands, trademarks, and technologies; 8. “Other,” including village construction projects that can be outbid and industrial projects that can be sold or made available for investment. See Nick R. Smith, “The Next Step in Chinese Land Reform,” Urban Smith, January 23, 2015, accessed April 4, 2018, <http://www.urbanismith.com/blog/2015/1/23/rgd5t6wbw3v906dwlvahik7k4p4ilz>.
- 18 | World Bank, *China 2030*, 4–11.
- 19 | R. Baldwin and C. Wyplosz, *The Economics of European Integration* (London: McGraw-Hill, 2009).
- 20 | In his article published in 1959, Seymour Martin Lipset noted the empirical correlation between high levels of economic development and stable democracies. Lipset’s initial hypothesis for his “Modernization Theory” was that democracy and the level of development within societies are interconnected and show that if a country is more economically developed, the chances for the emergence of a democratic political system is much higher than for underdeveloped countries. See, Seymour Martin Lipset, “Some Social Requisites of Democracy: Economic Development and Political Legitimacy,”

American Political Science Review 53 (1959): 69-105.

- 21 | Francis Fukuyama, "Confucianism and Democracy," *Journal of Democracy* 6, no. 2 (1995): 24.
- 22 | Park Chung Hee, (born Sept. 30 or Nov. 14, 1917, Kumi, North Kyōngsang province, Korea [now in South Korea]—died Oct. 26, 1979, Seoul, S.Kor.), South Korean politician, president of the Republic of Korea (South Korea) from 1963 to his death. His 18-year rule brought about enormous economic expansion, though at the cost of civil liberties and political freedom. See <https://www.britannica.com/biography/Park-Chung-Hee>.
- 23 | Deng Xiaoping, (born August 22, 1904, Guang'an, Sichuan province, China—died February 19, 1997, Beijing), Chinese communist leader, who was the most powerful figure in the People's Republic of China from the late 1970s until his death in 1997. He abandoned many orthodox communist doctrines and attempted to incorporate elements of the free-enterprise system and other reforms into the Chinese economy. Deng was the son of a landowner and studied in France (1920-24), where he became active in the communist movement, and in the Soviet Union (1925-26). He then returned to China and later became a leading politician of the country. See <https://www.britannica.com/biography/Deng-Xiaoping>.
- 24 | Lee Kuan Yew, (born September 16, 1923, Singapore—died March 23, 2015, Singapore), politician and lawyer who was prime minister of Singapore from 1959 to 1990. During his long rule, Singapore became the most-prosperous country in Southeast Asia. Lee was born into a Chinese family that had been established in Singapore since the 19th century. His first language was English, and only upon entering politics did he acquire a command of Chinese as well as Malay and Tamil. After attending school in Singapore, Lee briefly enrolled at the London School of Economics and Political Science before earning a law degree (1949) at Fitzwilliam House, Cambridge. There he headed the honours list. He also became a socialist. Although he was admitted (1950) to the English bar, he returned to Singapore. Appointed legal adviser to the Postal Union, he participated in negotiations to obtain higher wages for postal workers and subsequently did similar work for other trade unions. See <https://www.britannica.com/biography/Lee-Kuan-Yew>.
- 25 | Henry Kissinger said about Lee Kuan Yew, "I have had the privilege of meeting many world leaders over the past half century; none, however, has taught me more than Lee Kuan Yew, Singapore's first Prime Minister and its guiding spirit ever since." See Lee Kuan Yew, *The Grand Master's Insights on China, the United States, and the World* (Cambridge, MA: MIT press, 2013), vii-ix.
- 26 | Robert B. Ekelund, Jr. and Robert F. Hebert, *A History of Economic Theory and Method* (New York: McGraw-Hill, 1975), 232.
- 27 | Max Weber, *Gesammelte Aussaetze zur Religionssoziologie I* (Tübingen: J.C.B.Mohr (Paul Siebeck), 1920), 535; Max Weber, *Gesammelte Ausaetze zur Religionssoziologie II* (Tübingen: J.C.B.Mohr (Paul Siebeck), 1921), 295-309.
- 28 | Michio Morishima, *Why Has Japan Succeeded?* (Cambridge: Cambridge University Press, 1982).
- 29 | Lee Kuan Yew has argued, "this model is more appropriate to East Asia's Confucian cultural traditions than is the Western democratic model. In fact, he has said that Western-style democracy would have deleterious effects in a society like that of Singapore, encouraging permissiveness, social instability, and economically irrational decision making." See Fukuyama, "Confucianism and Democracy," 24.
- 30 | Helmut Schmidt in an interview with Frank Sieren, "Elemente des Konfuzianismus: "Nachbar China,"(Principles of Confucianism: "Neighbor China")" (Berlin: Econ Publishing Company, 2006), 257-258.

- 31 | Zakaria, *The Post-American World*, 110.
- 32 | Confucius advocated what he called the principle of virtuous government, “meaning a method of government which would strengthen the people by means of morality and serve naturally to bring about order in society by raising the level of virtue among the people.” Confucianism in Japan stresses: (1) loyalty to the state (or lord), (2) filial piety to one’s parents, (3) faith towards friends, and (4) respect towards one’s elders. Therefore, it is argued that a nationalist-capitalist economy should develop based on the seniority system and lifetime employment. See Michio Morishima, “Why Do I Expect Japan to Collapse?” in Craig Freedman, *Why Did Japan Stumble?: Causes and Cures* (Cheltenham, UK: Edward Elgar, 1999), 25–73, 86.
- 33 | For detailed information about Confucianism, see Morishima, “Why Do I Expect Japan,” 1–19.
- 34 | Morishima states, “Chinese Confucianism is all events, humanistic, whereas Japanese Confucianism is remarkably nationalistic. This difference may well be a reflection with inferiority complex which Japan developed in response of the “Middle Kingdom” idea of China, the idea that China is center of the world, a country civilization blossomed like a flower in all its gloom.” See Morishima, *Why Has Japan Succeeded?*, 15–16.
- 35 | Tu Wei-ming, *Confucian Ethics Today: The Singapore Challenge* (Singapore: Curriculum Development Institute of Singapore, 1984), 90.
- 36 | Confucius regarded benevolence (*jen*), justice (*i*), ceremony (*li*), knowledge (*chih*), and faith (*hsin*) as among the most important virtues. In addition, harmony (*ho*) was essential for the achievement of benevolence. Similarly, bravery (*jung*) was also frequently regarded as a precondition for the achievement of benevolence. See “History of Education in China: Confucianism,” China Education Center, Ltd., accessed April 4, 2018, <https://www.chinaeducenter.com/en/chistory.php>.
- 37 | For detailed information on the Chinese Education System, see www.chinaeducenter.com (China Education Center Ltd.)
- 38 | China’s education system is the largest education system in the world. On June 2017, there were 9.4 million students taking the National Higher Education Entrance Examination (Gao Kao) in China. Investment in education accounts for about 4% of total GDP in China. In 1986, the Chinese government passed a compulsory education law, making nine years of education mandatory for all Chinese children. Today, the Ministry of Education estimates that above 99 percent of school-aged children have received universal nine-year education.
- 39 | In Confucianism, a gentleman (Chun Tzu) considers what is right, when the peasant considers what he will pay. A gentleman trusts in justice and the peasant trusts in favor. A gentleman is generous and fair when the peasant is biased and petty. A gentleman looks within for guidance and the peasant looks unto others. A gentleman is easy to serve and hard to please. The peasant is hard to serve and easy to please. A gentleman is to know what we know and know what we do not know.
- 40 | In 2015, there were all together 2,560 Higher Education Institutions (HEIs), among which 1,219 were universities, 275 were independent colleges, and 1,341 were higher vocational colleges. There were also 292 higher education institutions for adults.
- 41 | University education in China can be divided into general universities, technical universities, and specialized universities such as medical, foreign language, and teacher-training universities. CEC provides Chinese university rankings for international students who want to learn more about universities in China. Universities in China have accepted and trained international students for years. In March 2017, the Ministry of Education of

the People's Republic of China announced that a total of 442,773 international students were studying in China in 2016.

- 42 | Deng Xiaoping's "24-Character Strategy" is to "Observe calmly; secure our position; cope with affairs calmly; hide our capacities and bide our time; be good at maintaining a low profile; and never claim leadership." See Global Security, <https://www.globalsecurity.org/military/world/china/24-character.htm>.
- 43 | For further information on China's international relations, see Henry Kissinger, *On China* (New York/London: Penguin Books, 2011); Henry Kissinger, *World Order* (New York/London: Penguin Books, 2014), 213-233; Schmid, "Nachbar China"; Jacques, *When China Rules the World*, 346-362.
- 44 | For a detailed analysis of China's security and foreign policy see, Gudrun, *China's Rise: The Return of Geopolitics?*, 55-79.
- 45 | For a detailed economic analysis of the present economic situation of the Chinese economy, see OECD, "OECD Economic Surveys China 2017," Paris, March 2017, <https://www.oecd.org/eco/surveys/china-2017-OECD-economic-survey-overview.pdf>.
- 46 | C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy, and Derek J. Mitchell, *China's Rise: Challenges and Opportunities* (Washington, DC: Center for Strategic and International Studies, 2008), 9.
- 47 | World Bank, *China 2030*, xxi-xxiii.
- 48 | "According to the 13th Five-Year Plan for Economic and Social Development, China will promote innovative, coordinated, green, open, and shared development. The main targets for economic and social development over 2016-2020 are as follows: we will maintain a medium-high growth. Average annual growth rate will be at least 6.5% during this five-year period, on the basis of the improvement of growth balance, inclusion, and sustainability. We will achieve the goal of doubling the 2010 GDP and per capita personal income by 2020 and

significantly improving the quality and efficiency of development. Improve and upgrade the industries toward medium to high levels, achieve significant progress in agriculture modernization, further promote the coordinated development of industrialization and information-based economy, accelerate the development of modern manufacturing industry and strategic emerging industries, keep cultivating new industries, raise the ratio of the tertiary industry to a higher level, and increase the per capita labour productivity from 87,000 yuan to over 120,000 yuan." See the German Ministry of Finance's "2017 Grand Strategy China" published June 30, 2017, www.bundesfinanzministerium.de.

- 49 | Robert M. Solow, "The Last 50 Years in Growth Theory and the Next 10," *Oxford Review of Economic Policy* 23 (2007): 6.
- 50 | China had imposed a two-term limit on its president since the 1990s. The constitutional changes were passed by the annual meeting of the National People's Party. The vote was widely seen as a rubber-stamping exercise. Two delegates voted against the change and three abstained out of 2,964 votes.
- 51 | Please see the following articles in the March 3rd-March 9th, 2018 issue of *The Economist*: "What the West Got Wrong," 9-10; "Not the Partner You Are Looking For," 18-20; "Under the Cover," 48-50.
- 52 | Yew, *The Grand Master's Insights*, 14-15.
- 53 | Fukuyama, "Confucianism and Democracy," 25.
- 54 | Lipset, "Some Social Requisites of Democracy," 69-105.
- 55 | Fukuyama, "Confucianism and Democracy," 21.
- 56 | "Many countries in the world have paid a very high price and learned a very painful lesson in transforming their economic systems... We have to learn from these mistakes and keep them in mind at all

times. To carry on walking the path leading to socialism with Chinese characteristics, we have to find a Chinese way to carry on economic reform, political reform, cultural reform and social reform.” Zhongguo Gaige Bao, “Pro-Reform Paper Considers Emancipation of Mind,” *China Reform Times*, May 21, 2008, in Open Source Center (OSC): CPP20080530615001. See also Bergsten, *China’s Rise: Challenges and Opportunities*, 33.

57 | Yew, *The Grand Master’s Insights*, 14.

58 | Helmut Schmidt, *Vertiefungen* (Deepening) (Berlin: Siedler Verlag, 2010), 303–305.

59 | Schmidt, “Nachbar China,” 1.

APPENDIX

Key Indicators of China

	2016***	2017	2018	2019	2020	2021
I. Macroeconomic Indicators						
Real GDP (% yoy)	6.7	6.6	6.5	6.5	6.3	6.3
Nominal GDP (% yoy)	8.0	7.7	7.8	7.9	7.9	8.0
Output Gap (% of GDP)*	-0.3	-0.1	0	0	0	0
Inflation (% yoy)	2.0	2.0	2.2	2.3	2.5	2.5
Fiscal Balance (% of GDP)***	-2.9	-3.0	-3.5	-3.5	-3.5	-3.5
Unemployment (%)	4.0	4.2	4.2	4.2	4.5	4.5
Savings (% of GDP)	44.0	43.9	43.1	42.4	41.6	41.0
Investment (% of GDP)	42.2	42.2	41.6	41.4	40.6	40.0
Public Fixed Capital Investment (% GDP)	16.4	14.9	14.3	13.4	12.9	12.2
Private Fixed Capital Investment (% GDP)	25.8	27.3	27.3	28.0	27.7	27.8
Total Fixed Capital Investment (% GDP)	42.2	42.2	41.6	41.4	40.6	40.0
Current Account Balance (% of GDP)	1.7	1.7	1.5	1.0	1.0	1.0

* A positive (negative) gap indicates an economy above (below) its potential.

** A positive (negative) balance indicates a fiscal surplus (deficit).

*** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.

Source: German Ministry of Finance, www.bundesfinanz.de

Basic Statistics of China, 2013 (Numbers in parentheses refer to the OECD)¹

Land and People					
Population (millions)	1,360.7	(1,261.6)	Population density per km ²	144.6	(34.8)
Under 15 (%)	16.4	(18.3)	Life expectancy (years, 2012)	75.2	(80.2)
Over 65 (%)	9.7	(15.7)	Men	73.9	(77.5)
Latest 5-year average growth (%)	0.5	(0.6)	Women	76.5	(82.9)
Urbanisation rate	53.2	(79.8)	Agricultural land (% of total, 2012)	54.8	(35.6)
Economy					
GDP current prices (market exchange rate, trillion USD)	9.5	(47.6)	Value added shares (%)		
GDP current prices (trillion CNY)	58.8	(292.8)	Primary	10.0	(2.5)
Latest 5 year average real GDP growth (%)	8.9	(0.8)	Industry including construction	43.9	(26.8)
GDP per capita (000 USD PPP)	12.3	(38.1)	Services	46.1	(70.2)

General Government					
Expenditure (% of GDP)	37.4	(42.5)	Net lending (% of GDP)	-0.3	(-4.6)
Revenue (% of GDP)	37.1	(36.8)			
External Accounts					
Exchange rate (RMB per USD)	6.15	n.a	Main exports (% of total merchandise exports)		
PPP exchange rate (USA 1)	3.44	n.a	Machinery and transport equipment	47.0	n.a
In per cent of GDP			Miscellaneous manufacturing articles	26.3	n.a
Exports of goods and services	25.4	(28.7)	Manufactured goods	16.3	n.a
Imports of goods and services	22.9	(28.8)	Main imports (% of total merchandise imports)		
Current account balance	1.9	(-0.1)	Machinery and transport equipment	36.4	n.a
Net international transfers	-0.1	(-0.8)	Mineral fuels, lubricants and related materials	16.1	n.a
Balance of income	-0.5	(0.7)	Crude materials, inedible except fuel	14.7	n.a
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (total population, %)	56.6	(44.2)	Unemployment rate (urban) (%)	4.1	n.a
Participation rate (total population %)	58.3	(48.0)	Tertiary educational attainment 25-64 year olds (% 2012)	3.6	(31.5)
Gross domestic expenditure on R-D (% of GDP, 2012)	2.2	(2.4)			
ENVIRONMENT					
Total primary energy supply per capita (toe, 2012)	2.1	(4.2)	Freshwater use (m ³ per capita)	407.2	(831.2)
Electricity production from renewables (% 2012)	20.0	(20.1)	of which:		
Fine particulate matter concentration (urban, PM10, ug/m ³ , 2011)	82.4	(28.0)	by agriculture (% of total use)	64.6	(31.7)
CO ₂ emissions from fuel combustion per capita (tonnes, 2012)	6.1	(9.7)	by households (% of total use)	12.1	(24.9)
			by industry (% of total use)	23.2	(43.4)
SOCIETY					
Income inequality (Gini coefficient, 2011)	0.447	(0.308)	Education outcomes (PISA score in Shanghai, 2012)		
Poverty headcount ratio at USD2 a day (PPP) (% of population, 2010)	23.2	(1.0)	Reading	570	(496)
Share of women in parliament (%)	23.4	(26.7)	Mathematics	613	(494)
Net official development assistance (% of GNI, 2012)	0.0	(0.4)	Science	580	(501)

Better life index: www.oecdbetterlifeindex.org

1 Source: OECD Economic Survey China, Paris 2015

About the Author

Professor Bahri Yilmaz is a Jean Monnet Chair at Sabancı University in Istanbul. He was a visiting fellow at Pembroke College, Cambridge, and at the Center for European Studies at Harvard University. In addition to his academic experience, he has worked as the Chief Advisor to the Ministry of State for European Union Affairs in Ankara (1997-2002). His main field of research and teaching interest focuses on the European Union.

Why Has China Succeeded?

Does China's Success Contradict Acemođlu and Robinson's Thesis in "Why Nations Fail?"

18 p.; 30 cm. - (Istanbul Policy Center)

ISBN 978-605-2095-26-3

Cover Design and Page Layout: MYRA

1. Edition: 2018

Istanbul Policy Center

Bankalar Caddesi Minerva Han No: 2 Kat: 4

34420 Karaköy-Istanbul

T +90 212 292 49 39

ipc@sabanciuniv.edu - ipc.sabanciuniv.edu