

an China's success still beat the middle-income trap?

The Asian giant has excelled through what economist Keyu Jin calls the “mayor economy”. But can this localised model deal with the next round of growth challenges?

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When Bill Clinton was elected president of the United States, China's GDP was \$US426 billion, roughly the same as Wisconsin's is today, and GDP per capita was just \$US366. Today, China's GDP is \$US18 trillion, and per capita it is more than \$US12,500.

As the cool kids say: OMG.



Shanghai skyline: China has largely been led by former provincial officials, who are incentivised to succeed.

By any measure, China's economic growth over the [past 30 years has been extraordinary](#). But as an economist, it's perhaps not entirely surprising. Take a largely agrarian society held down by the yoke of collectivism, set it free in 1978, and the magic of the market does the rest.

Yet the Harvard-trained Chinese economist Keyu Jin tells a richer and more nuanced version of China's economic rise, and its future, in *The New China Playbook*. And it has big implications for the future of globalisation, our geopolitics, and Australia's economic prospects.

Markets and the price mechanism certainly play a starring role in Jin's description of China's economic rise since 1978. But in her telling it is also a story of gradualism that contrasts starkly with the abrupt changes in the former Soviet Union. In China, reforms were drip-fed rather than dumped all at once. And this may be a key part of China's success.

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Indeed, Jin casts the Chinese economic miracle as a political-economy story. The preservation of social stability was, in many ways, at least as important as economic growth and dynamism. This obviously makes sense for the Chinese Communist Party which wants to maintain control, and that [control depends on social cohesion](#).

I must confess that, to paraphrase US Senator Sam Ervin, since "I'm just an economist" this is all rather puzzling. How does China grow so fast for so long with a large degree of central control? How can a "winner picking" central government consistently pick winners? And how can a collectivist ethos be sustained in a dynamic modern economy?

State as laboratory

It turns out that all of my suppositions were wrong. There isn't as much central control as one might think, the CCP doesn't "pick winners", and there's a difference between collectivism and common purpose.

The most interesting part of Jin's book concerns what she calls the "mayor economy" and the role of experimentation at the local level. US Supreme Court Justice Louis Brandeis famously gave rise to the notion of "democratic experimentalism" when in his 1932 opinion in *New State Ice Co. v Liebmann* he observed that "a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country".

This is exactly what has gone on in China, but on steroids. An enormous amount of authority is delegated to the local level – crucially involving 293 "prefecture-level cities". As Jin puts it, "Chinese local officials directly control vast resources, from land, energy and raw materials to local banks.

They can make and enforce regulations, build infrastructure, and undertake major commercial projects. In China, the central government takes care of domestic and international politics and sets overall economic policy, while local governments tend to the economy itself.”

The kicker is that success as a local official leads to advancement. From city to province, and even to the top of the CCP. It's not just experimentalism, it's experimentalism with an incentive scheme. It's no accident that all three general secretaries of the CCP since Deng Xiaoping were provincial leaders: Jiang Zemin was head of Shanghai; Hu Jintao was head of Guizhou and Tibet; and Xi Jinping was the boss of Zhejiang and Fujian.

Moreover, local officials are moved around a lot – they don't generally stay in one place for more than five years. That encourages new experiences, and prevents political entrenchment.

Our exports of everything from wagyu beef and lobsters to wine and iron ore depend on the nature of future Chinese economic growth.

If this sounds to you a lot more like [General Electric under Jack Welch](#) than the US or Australian political system, then you're not wrong.

The big question is this: can a \$US18 trillion economy really be run the same way as a big corporation? Can command and control, with a good lashing of the price mechanism and incentives for what amount to middle managers, get China beyond the middle-income trap?

Because we've seen a version of this movie before: across South-East Asia. Poor rural economy gets with the program and becomes a middle-income country. And then gets stuck. So, the key question is not when and whether China will have an aggregate GDP larger than the United States, but when it will have a per capita GDP that's even half as large.

With US GDP per capita at about \$US70,000 a year, China needs to triple its output per capita to be half as rich as America. And the low-hanging fruit are all gone. This is the challenge.

And it will matter mightily for Australia. Our exports of everything from wagyu beef and lobsters to wine and iron ore depend on the nature of future Chinese economic growth.

Given what China has accomplished and the plan it has, it's hard to be a sceptic.

But as Jin notes, a “new playbook” is involved. And just because the old playbook was a great success doesn't mean the new one will be.

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