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OPINION

Liberation, Not Liberalization, Responsible for China's Economic Miracle

By Vladimir Popov and Jomo Kwame Sundaram

BERLIN and KUALA LUMPUR, Nov 19 2019 (IPS) - Any balanced assessment of the so-called Chinese economic miracle will recognize that it was extremely successful, not only during the reform period from 1979, but also since Liberation in 1949 despite the setbacks of the Great Leap Forward and the Cultural Revolution.

The Chinese economy grew at about 5% on average during 1949-1979 and at almost 10% in 1979-2019. Five percent growth was impressive, higher than in most countries of the world at that time, but ten percent growth over the last four decades is quite unprecedented.

Vladimir Popov

Miracle of economic liberalization?

The conventional explanation of this miracle is liberalization, or more accurately, the marketization reforms started in 1979 by Deng Xiaoping. But in other regions of the world, economic liberalization has had rather different outcomes.

In Latin America, the so-called Washington Consensus, implemented after the debt crises of the early 1980s, led to economic stagnation, the 'lost decade' of the 1980s. Sub-Saharan Africa lost a quarter century to such policies, while the former Soviet Union and much of Eastern Europe lost real and potential output in the 1990s on a scale greater than in the Great Depression of the 1930s.

Why did economic liberalization seem to work in China, but not in other regions? Reforms needed to accelerate growth depend on historical and other conditions, which are necessarily varied at different times for countries with various backgrounds.

Growth acceleration conditional

Rapid economic growth can only materialize if enough minimal conditions are met. Growth acceleration is complicated, requiring several crucial inputs—which may include infrastructure, human resources, enabling state institutions, and economic stimuli, among other things.

Without some crucial necessary ingredients, a growth acceleration may not start, or cannot be sustained. Some economists invoke 'growth diagnostics' to identify 'binding constraints' holding back economic growth.

In some cases, these constraints may be due to lack of market liberalization, e.g., when inappropriate regulation or state interventions deter productive investments and technological progress. In others, inappropriate liberalization may frustrate and block such progress.

Likewise, other factors, such as particular state capacities or capabilities, human resource deficits or infrastructure may be the key constraint. One size does not fit all. There is no universal formula which is not sensitive to conditions, historical and others.

Liberation and developmental governance

So, why did liberalization work in China, but not in Africa and Latin America? In China, the pre-conditions for the last four decades were mostly created in the preceding 1949-1979 period.

Without the progress and achievements of the Mao era, the market-oriented reforms since 1979 would not have had the same impressive results. Needed ingredients, most importantly, people or human resources, had already been prepared in the previous period.

Market reforms from 1979 accelerated economic growth because China already had capable governance created by the state, including the ruling communist party, after Liberation in 1949; the country had lacked such developmental governance for centuries.

Through party structures at all levels, including every village, China's communist party-led government has been able to enforce rules and regulations all over the country more efficiently than any emperor, not to mention the infamously corrupt Kuomintang (KMT) regime of 1912-1949.

In the late nineteenth century, central government revenues were equivalent to only 3 percent of GDP compared to 12 percent in Japan right after the Meiji Restoration. Under the KMT government, this increased to only 5 percent of GDP.

Jomo Kwame Sundaram

Mao's economic legacy

The Mao government left the Deng reform regime with revenues equivalent to a fifth of GDP. China's crime rate in the 1970s was among the lowest in the world; a Chinese black market or shadow economy was virtually non-existent, and corruption was estimated by Transparency International to be the lowest in the developing world in 1985.

Literacy rates in China increased from 28 percent in 1949 to 65 percent at the end of the 1970s (compared to 41 percent in India). Chinese life expectancy almost doubled to 65 years in the mid-1970s from 35 years in 1950 while India's rose from 35 to 52 years over the same period.

In short, without the foundations established during the Mao period following Liberation seven decades ago, the selective economic liberalization of the last four decades could well have been ruinous. Liberation also allowed the Chinese authorities to chart their own course without being subject to policy conditionalities imposed by foreign powers.

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