

# The Xi Jinping era

China in the World Economy, autumn 2021

# Repetition from last time

- 1) How does a country finance its imports?
- 2) What is the role of banks in an economy?
- 3) What happened with rural land during the 1980s?
- 4) What was the system of „dual prices“?
- 5) Where did FDI come from in the 1980s? Which areas were opened to it?
- 6) What happened to most SOEs during the 1990s?
- 7) Did China's private sector originate in a program of privatization?
- 8) What was the purpose of the obligation of foreign investors to form joint ventures?
- 9) What is the meaning of the phrase „**national champions**“?

# Today

- China's growing strength in the 2000s
- The fallout from the 2008 Financial crisis
- The rise of Xi Jinping and China's technological ambitions

# The 2000s – export-led growth

- Slow, gradual liberalization continued into the new millennium

# The 2000s – export-led growth

- Slow, gradual liberalization continued into the new millennium
- **China's most capitalist moment** – after entering the WTO in 2001

# The 2000s – export-led growth

- Exports and imports – **5 % of GDP each in 1978**
- World average is about **20 % for each**

# The 2000s – export-led growth

- Exports and imports – **5 % of GDP each in 1978**
- World average is about **20 % for each**
- **China reached this level by 2001**, its exports continued to soar after entering the WTO

# The 2000s – export-led growth

- Exports and imports – **5 % of GDP each in 1978**
- World average is about **20 % for each**
- **China reached this level by 2001**, its exports continued to soar after entering the WTO
- 2006 – **exports stood at 35 % of GDP, imports at 30 % > 65 % together**



# The 2000s – export-led growth

- Exports and imports – **5 % of GDP each in 1978**
- World average is about **20 % for each**
- **China reached this level by 2001**, its exports continued to soar after entering the WTO
- 2006 – **exports stood at 35 % of GDP, imports at 30 % > 65 % together**
- In the United States, the **sum is around 20 %!**
- = **China was far more opened than the world average or comparably large countries!**

# The 2000s – export-led growth

- **2009 – largest exporter in the world**
- **2011 – largest manufacturer**
- **2012 – largest GDP by purchasing power parity**

# The 2000s – export-led growth

- **Huge growth of export, current account surplus (5 % of GDP in 2006)**

# The 2000s – export-led growth

- **Huge growth of export, current account surplus (5 % of GDP in 2006)**  
= China finally overcame its problem of financing imports

# The 2000s – export-led growth

- **Huge growth of export, current account surplus (5 % of GDP in 2006)**  
= China finally overcame its problem of financing imports
- **> accumulation of foreign exchange (mostly dollars)**

# The 2000s – export-led growth

- What is China going to do with all this foreign exchange?

# The 2000s – export-led growth

- What is China going to do with all this foreign exchange?
- **Keep it as a reserve – a precaution against a monetary crisis**

# The 2000s – export-led growth

- What is China going to do with all this foreign exchange?
- **Keep it as a reserve – a precaution against a monetary crisis**
- Anxiety after the **Asian monetary crisis of 1997**



# How a monetary crisis works

- A country has a **fixed exchange rate**
- - China does have a fixed exchange rate – the yuan was first tied to the US dollar, since 2005, it is pegged to a basket of currencies

# How a monetary crisis works

- A country has a **fixed exchange rate**
- Markets (banks etc.) think that the rate **is overvalued and unsustainable > they start to sell the currency**

# How a monetary crisis works

- A country has a **fixed exchange rate**
- Markets (banks etc.) think that the rate **is overvalued and unsustainable > they start to sell the currency**
- **> pressure for devaluation**

# How a monetary crisis works

- A country has a **fixed exchange rate**
- Markets (banks etc.) think that the rate **is overvalued and unsustainable > they start to sell the currency**
- **> pressure for devaluation**
- The central bank needs **to start buying the currency** to keep the same rate – **they need foreign currencies to do this!**

# How a monetary crisis works

- A country has a **fixed exchange rate**
- Markets (banks etc.) think that the rate **is overvalued and unsustainable > they start to sell the currency**
- **> pressure for devaluation**
- The central bank needs **to start buying the currency** to keep the same rate – **they need foreign currencies to do this!**
- If they fail **> increased interest rates to stop the capital flight > drop of domestic credit > domestic recession**

# How a monetary crisis works

- = in the end, the Central bank usually **freezes the creation of money**, which stops capital flight, but creates recession

# How a monetary crisis works

- = in the end, the Central bank usually **freezes the creation of money**, which stops capital flight, but creates recession
- Did anything like this ever happen here?
- Yes, in **1997!** (like the Asian crisis!)

# How a monetary crisis works

- = in the end, the Central bank usually freezes the creation of money, which stops capital flight, but creates recession



# How a monetary crisis works

- China fears this scenario, so it keeps large reserves of foreign currency
- > if you sit upon a huge pile of dollars, you can defeat a speculative attack
- Actually, you can **deter it**

# The 2000s – export-led growth

- What else can you do with foreign exchange?
- = you don't use it to buy imports, you don't want to keep it as reserves

# The 2000s – export-led growth

- What else can you do with foreign exchange?
- = you don't use it to buy imports, you don't want to keep it as reserves
- **Foreign investment** – purchases of Western companies; **Belt and Road Initiative**

# The 2000s – export-led growth

- **Major exporter of advanced technology products already by 2005!**
- = laptops, mobile phones, scanners, cameras, medical equipment

# The 2000s – export-led growth

- **Major exporter of advanced technology products already by 2005!**
- = laptops, mobile phones, scanners, cameras, medical equipment
- **Growth continued at breakneck speed – over 10 % a year – even though the base was already quite large**

# The 2000s – export-led growth

- **Major exporter of advanced technology products already by 2005!**
- = laptops, mobile phones, scanners, cameras, medical equipment
- **Growth continued at breakneck speed – over 10 % a year – even though the base was already quite large**
- = biggest story of the decade; the West overlooked it

# The 2000s – export-led growth

- **2002** – change in Party leadership – **Hu Jintao and Wen Jiabao**
- Only transfer of power without a purge in PRC's history!

# The 2000s – export-led growth

- **2002** – change in Party leadership – **Hu Jintao and Wen Jiabao**
- Only transfer of power without a purge in PRC's history!
- **Theoretically – generations of party leadership – change every 10 years (1992-2002-2012-2022)**



# The 2000s – export-led growth

- **2002** – change in Party leadership – **Hu Jintao and Wen Jiabao**
- Only transfer of power without a purge in PRC's history!
- **Theoretically – generations of party leadership – change every 10 years (1992-2002-2012-2022)**
- Hu leadership – continuation of previous policies
- **More resources devoted to social spending** – healthcare, education, alleviation of rural poverty

# The 2000s – export-led growth

- Fears that China will fall into a „**middle income trap**“

# Averting a middle-income trap

- Fears that China will fall into a „**middle income trap**“
- China continues to **specialize on low-value added activities within global value chains**

# Averting a middle-income trap

- Fears that China will fall into a „**middle income trap**“
- China continues to **specialize on low-value added activities within global value chains**
- = it takes part in the production of sophisticated products organized by multinational companies, **who keep the most lucrative work elsewhere**

# Averting a middle-income trap

- Fears that China will fall into a „**middle income trap**“
- China continues to **specialize on low-value added activities within global value chains**
- = it takes part in the production of sophisticated products organized by multinational companies, **who keep the most lucrative work elsewhere**
- For example, China makes electronics, but cannot produce top notch semiconductors

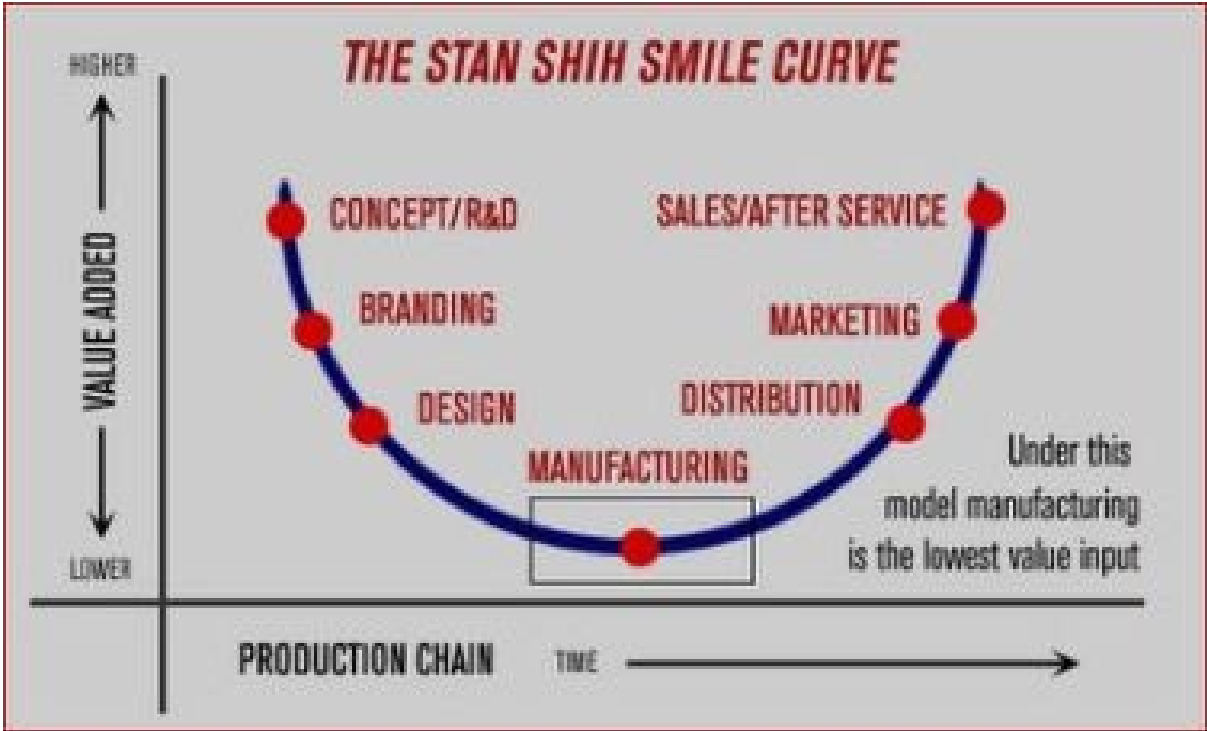
# Averting a middle-income trap

- **Warning story – Japanese stagnation after 1990** – after wages grew, export moved to cheaper locations like China

# Averting a middle-income trap

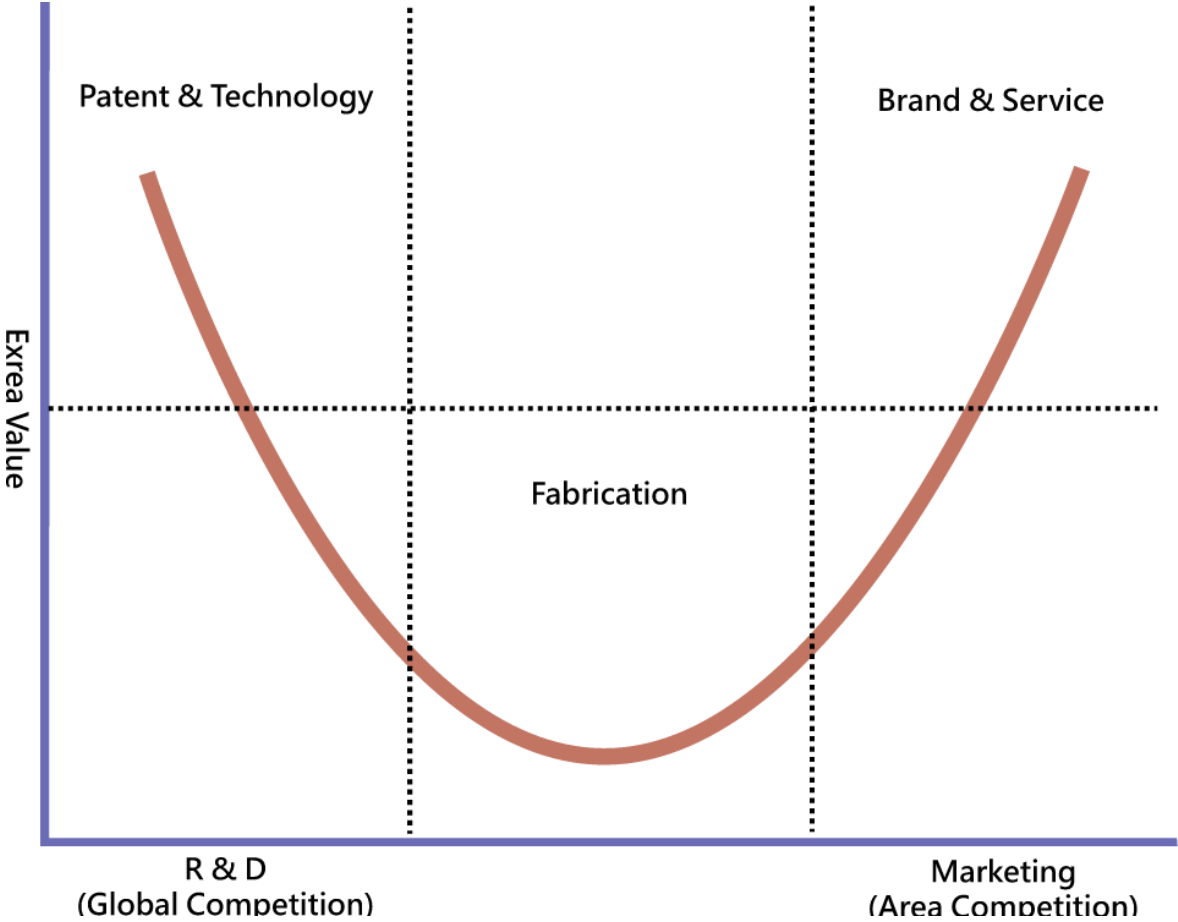
- Theory – the most value added processes are **at the start of production (research and development, design) and at the end (marketing, retailing)**
- The physical work in between can be done by anyone (= China)
- **Smiley curve**

# Averting a middle-income trap





# Averting a middle-income trap



# Averting a middle-income trap

- China needs to **move up the value chains**

# Averting a middle-income trap

- China needs to **move up the value chains**
- **Ideally to create its own brands which keep the best jobs in China**

# Averting a middle-income trap

- China needs to **move up the value chains**
- **Ideally to create its own brands which keep the best jobs in China**
- Outsource cheap labor to poorer countries – Southeast Asia

# Averting a middle-income trap

- Kennedy and Lim – the **innovation imperative**
- If a country wants to escape the middle-income trap, it must start to innovate (RaD)

# Averting a middle-income trap

- Kennedy and Lim – the **innovation imperative**
- If a country wants to escape the middle-income trap, it must start to innovate (RaD)
- Three types of possible actions:
  - **1) Domestic innovation and research**
  - **2) Purchase of foreign technologies**
  - **3) Theft of foreign technologies**

# Averting a middle-income trap

- Kennedy and Lim – the **innovation imperative**
- If a country wants to escape the middle-income trap, it must start to innovate (RaD)
- Three types of possible actions:
  - **1) Domestic innovation and research**
  - **2) Purchase of foreign technologies**
  - **3) Theft of foreign technologies**
- > China practices all three at a large scale

# Averting a middle-income trap

- **Technology will compensate for growing wages** – China will remain a competitive exporter



# Averting a middle-income trap

- **Technology will compensate for growing wages** – China will remain a competitive exporter
- How to do this? > **industrial policy**

- **„Industrial policy is defined as the strategic effort by the state to encourage economic transformation, i.e. the shift from lower to higher productivity activities, between or within sectors.“**
- **x trade policy – attempts to influence import and export**

- **Industrial policy** - takes place **within a country** (subsidies, tax break, grants, privileged access to loans...)
- **Trade policy** – takes place **at the border** – tariffs and non-tariff barriers to trade
- > China is far more active in industrial policy

# Return of industrial policy

- Around 2000, China's central government **did not directly attempt to develop specific sectors of the economy**

# Return of industrial policy

- Around 2000, China's central government **did not directly attempt to develop specific sectors of the economy**
- There were provincial programs + support for some SOEs and large corporations, **but no central coordinated plan**

# MLP

- 2006 – Medium-Long Range Plan For Science and Technology (**MLP**) – **16 megaprojects**

# MLP

- 2006 – Medium-Long Range Plan For Science and Technology (**MLP**) – **16 megaprojects**
- - aircraft, semiconductors, intelligent computers, GMOs, novel drugs

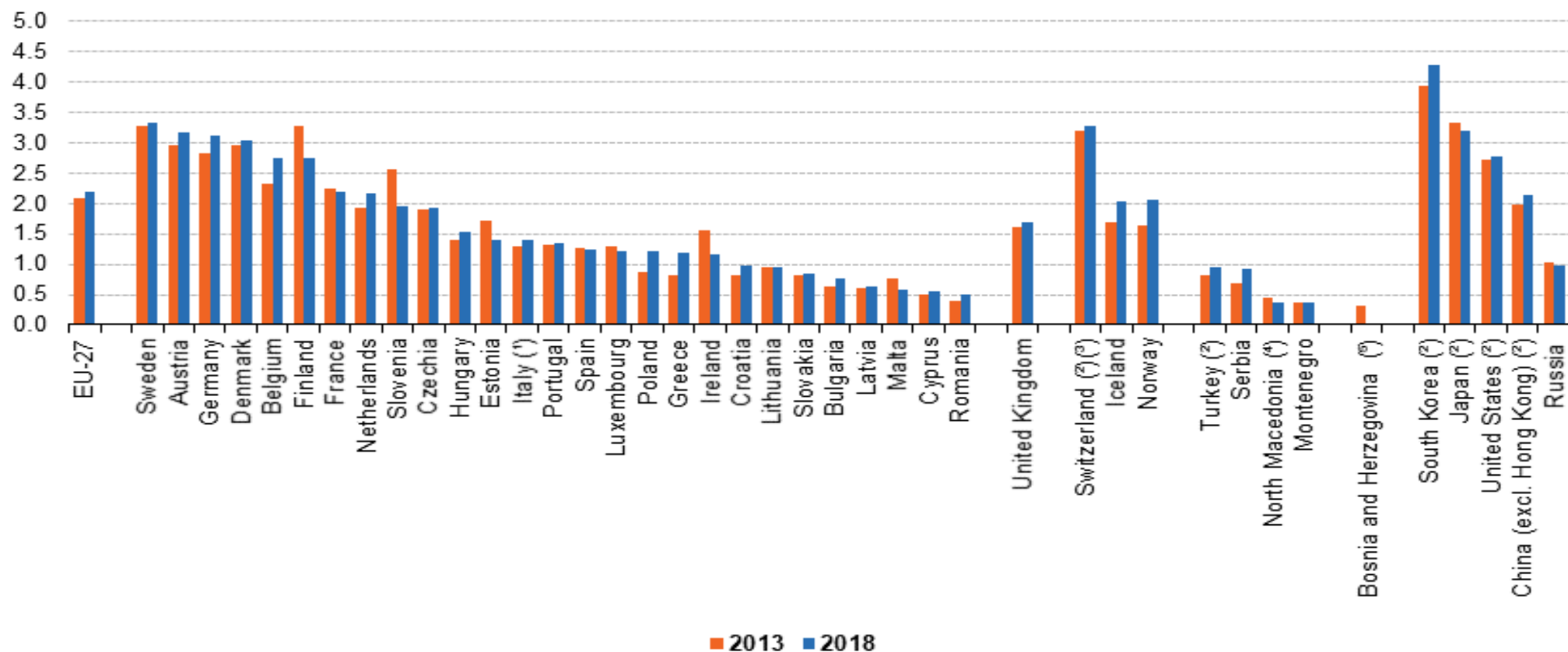
# MLP

- **Ambition to invest 2,5% of GDP into research and development by 2020**
- **Almost achieved, RaD expenditures continue to grow quickly**



## Gross domestic expenditure on R&D, by country, 2013 and 2018

(% of GDP)



Source: Eurostat (online data codes: sdg\_09\_10 and rd\_e\_gerdtot)

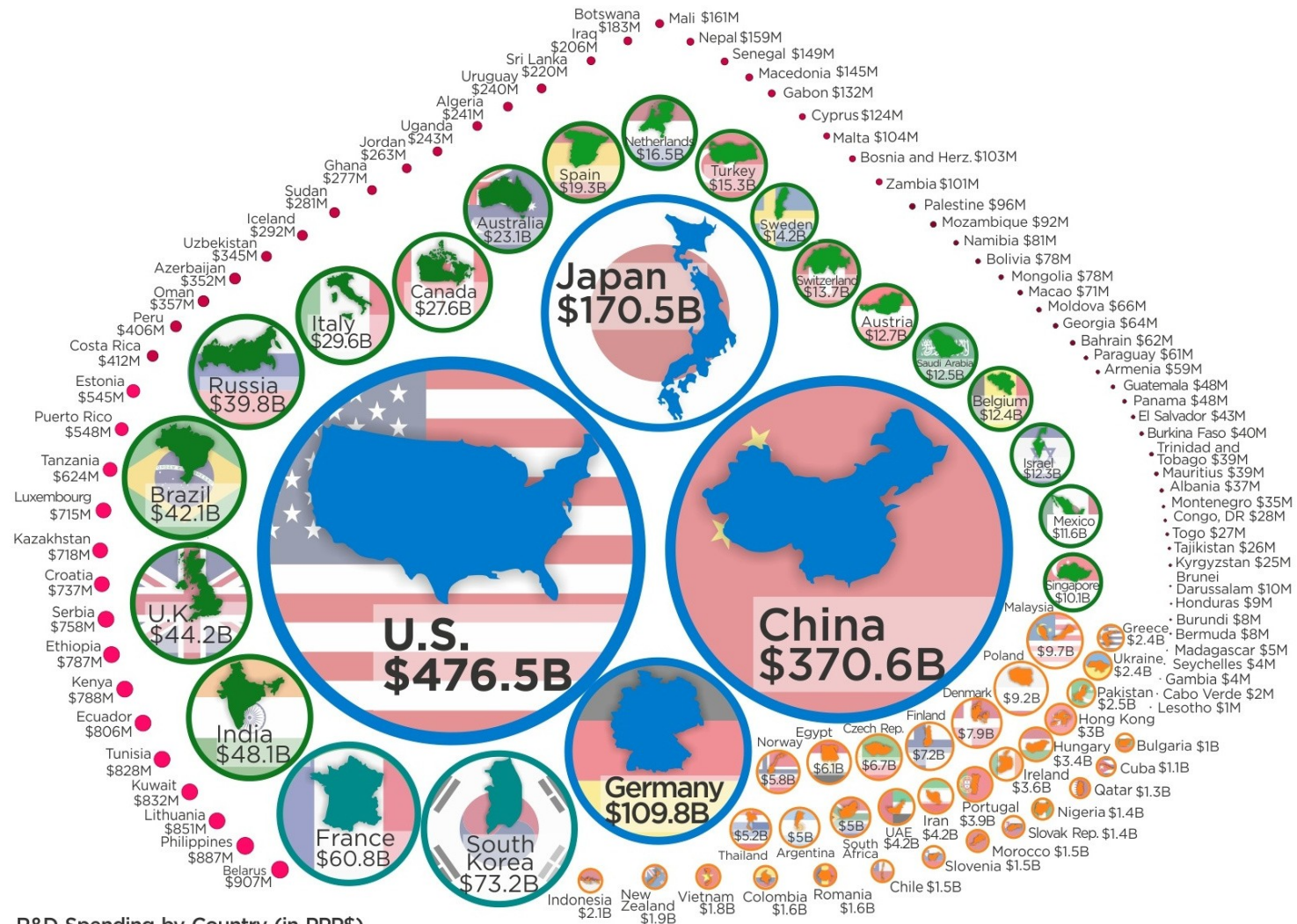
(\*) Break(s) in time series between the two years shown.

(‡) 2017 data (instead of 2018).

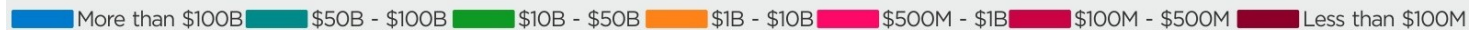
(§) 2012 data (instead of 2013).

(¶) 2015 data (instead of 2013).

(\*) No data for 2018.



### R&D Spending by Country (in PPP\$)



Article & Sources:  
<https://howmuch.net/articles/research-development-spending-by-country>  
<http://uis.unesco.org>

# MLP

- **MLP – investments into science and research, not support for specifically chosen companies**

# MLP

- **Goal – to catch up with industry leaders**

# MLP

- **Goal – to catch up with industry leaders**
- = typical goal of industrial policy – use governmental incentives to **learn and adopt foreign technologies**
- = similar to policies of other countries

# 2008 Financial crisis

- **> huge injections of state capital into the economy**
- **Use of state banks and SOEs!**

# 2008 Financial crisis

- > huge injections of state capital into the economy
- Use of state banks and SOEs!
- Successful – **return to growth as early as 2010**
- = **positive experience** with a large state intervention

# 2008 Financial crisis

- > perception that the **Western model of capitalism has failed**



# 2008 Financial crisis

- > perception that the **Western model of capitalism has failed**
- > China should **use the advantages of its state capitalist model more often** and more forcefully

# Strategic emerging industry (SEI)

- Prime minister Wen – **it is during periods of crisis when great technological revolutions take place**

# Strategic emerging industry (SEI)

- Prime minister Wen – it is during periods of crisis when great technological revolutions take place
- **> this time, China is not going to miss it!**

# Strategic emerging industry (SEI)

- Prime minister Wen – it is during periods of crisis when great technological revolutions take place
- > **this time, China is not going to miss it!**
- **“Seize the commanding heights of the new technological revolution”**

# Strategic emerging industry (SEI)

- 2010 – **new and more ambitious policy**
- Ambition to not just catch up with **but to overtake leading countries and firms (=5G etc.)**

# Strategic emerging industry (SEI)

- 2010 – **new and more ambitious policy**
- Ambition to not just catch up with **but to overtake leading countries and firms (=5G etc.)**
- More direct – **cooperation with specific firms**

# The Xi Jinping era

- 2012 – **new leadership of the Party**
- Conservative, authoritarian turn

# The Xi Jinping era

- 2012 – **new leadership of the Party**
- Conservative, authoritarian turn
- Limiting the autonomy of regional governments and collective bodies, cult of personality – president for life



# The Xi Jinping era

- 2012 – **new leadership of the Party**
- Conservative, authoritarian turn
- Limiting the autonomy of regional governments and collective bodies, cult of personality – president for life
- Ethnic nationalism, clampdown on minorities, upholding of traditional gender norms (ban on sissy boys etc.)

# The Xi Jinping era

- Economically – **strengthening the role of the state/Party**

# The Xi Jinping era

- Economically – **strengthening the role of the state/Party**
- In the preceding era – **the private sector grew faster than the public sector** (in spite of policy!) and gradually overshadowed it

# The Xi Jinping era

- Private corporations:
- 1) May pose a threat to the Party

# The Xi Jinping era

- Private corporations:
  - 1) May pose a threat to the Party
  - 2) Behave according to their selfish motives = **invest money according to what is most immediately profitable**, not what is most beneficial for China in the long run

# The Xi Jinping era

- Private corporations:
- 1) May pose a threat to the Party
- 2) Behave according to their selfish motives = **invest money according to what is most immediately profitable**, not what is most beneficial for China in the long run
- = they don't see the „big picture“ = **divert resources from more important causes**

# The Xi Jinping era

- Private corporations:
- 1) May pose a threat to the Party
- 2) Behave according to their selfish motives = **invest money according to what is most immediately profitable**, not what is most beneficial for China in the long run
- = they don't see the „big picture“ = **divert resources from more important causes**
- > the Party must lead to **overcome this coordination problem**

# The Xi Jinping era

- **Creeping nationalization** > private companies are being forced to accept a role for the Party in decision making



# The Xi Jinping era

- **Creeping nationalization** > private companies are being forced to accept a role for the Party in decision making
- Veto right, founding of new party cells inside of businesses

# The Xi Jinping era

- **Creeping nationalization** > private companies are being forced to accept a role for the Party in decision making
- Veto right, founding of new party cells inside of businesses
- Similar rules were often created in the 1990 for privatized SOEs, **here this régime is extended to formally purely private companies**

# The Xi Jinping era

- **Creeping nationalization** > private companies are being forced to accept a role for the Party in decision making
- Veto right, founding of new party cells inside of businesses
- Similar rules were often created in the 1990 for privatized SOEs, **here this régime is extended to formally purely private companies**
- > **even greater obfuscation of the already blurry line** between the public and private sector!

# Artificial intelligence

- **2016 – AlphaGo (Google) defeated professional Go players**

# Artificial intelligence

- 2016 – **AlphaGo (Google) defeated professional Go players**
- - a traditional Asian game which is far more complex than chess
- > „**Sputnik moment**“

# Artificial intelligence

- 2016 – **AlphaGo (Google) defeated professional Go players**
- - a traditional Asian game which is far more complex than chess
- > „**Sputnik moment**“
- „**AI gap**“ – like the missile gap during the Cold War

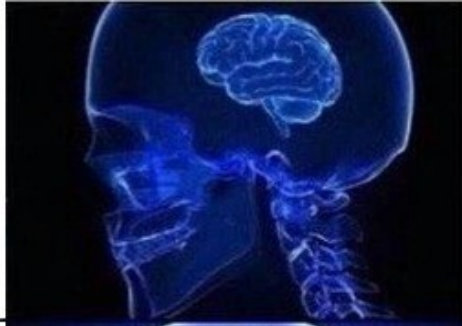
- Prime minister Wen – it is during periods of crisis when **great technological revolutions take place**
- > this time, China is not going to miss it!
- “Seize the commanding heights of the new technological revolution”

# Artificial intelligence

- 2016 – **AlphaGo (Google) defeated professional Go players**
- - a traditional Asian game which is far more complex than chess
- > „**Sputnik moment**“
- „**AI gap**“ – like the missile gap during the Cold War
  
- > „**AI is the new groundbreaking technology we are looking for!**“
- A new economic era is beginning, China must take the lead



**MELT DOWN  
TOOLS TO  
MAKE STEEL**



**LET LOCAL  
FARMERS  
DO THEIR THING**



**SUPPORT  
FDI**



**DEVELOP  
ARTIFICIAL  
INTELLIGENCE**



# The AI triad

- 1) **Collection of data** – sensors, cameras with facial recognition etc.
- 2) **Quick transfer of data** – next generation Internet
- 3) **Processing od data** – algorithms, advanced hardware

# The AI triad

- 1) **Collection of data** – sensors, cameras with facial recognition etc.
  - 2) **Quick transfer of data** – next generation Internet
  - 3) **Processing od data** – algorithms, advanced hardware
- 
- > a car driven by computer stops at a red light, which reacts to sensors observing transport, which automatically reacts to traffic jam

# The AI triad

- 1) **Collection of data** – sensors, cameras with facial recognition etc.
  - 2) **Quick transfer of data** – next generation Internet
  - 3) **Processing od data** – algorithms, advanced hardware
- 
- > a car driven by computer stops at a red light, which reacts to sensors observing transport, which automatically reacts to traffic jam
  - > automatically operated factories or systems of transport

# The AI triad

- 1) **Collection of data** – sensors, cameras with facial recognition etc.
  - 2) **Quick transfer of data** – next generation Internet
  - 3) **Processing od data** – algorithms, advanced hardware
- 
- > a car driven by computer stops at a red light, which reacts to sensors observing transport, which automatically reacts to traffic jam
  - > automatically operated factories or systems of transport
  - „**Digital central planning**“?

# „New Era“

- **1949-1976** – Maoism – **correct principles, but insufficient capacity** to implement them

# „New Era“

- **1949-1976** – Maoism – **correct principles, but insufficient capacity** to implement them
- **1978-2012** – Reform and Opening – **attempt to build up wealth** and strength at the cost of diverting from preferred values

# „New Era“

- **1949-1976** – Maoism – **correct principles, but insufficient capacity** to implement them
- **1978-2012** – Reform and Opening – **attempt to build up wealth** and strength at the cost of diverting from preferred values
- **2012 -?** – **New Era** – **dialectical synthesis** – now China has the means to go back to a much more statist economy and to do so efficiently = **correct principles with capacity to implement them**



# Industrial revolutions

# Industrial revolutions

- **1st – steam engine** > textile industry, ships, trains

# Industrial revolutions

- **1st – steam engine** > textile industry, ships, trains
- **2nd – electricity and combustion engines** > cars, planes; lightbulbs and domestic appliances

# Industrial revolutions

- **1st – steam engine** > textile industry, ships, trains
- **2nd – electricity and combustion engines** > cars, planes; lightbulbs and domestic appliances
- **3rd – information technologies and electronics** – computers, phones, GPS – **human oversight!**

# Industrial revolutions

- **1st – steam engine** > textile industry, ships, trains
- **2nd – electricity and combustion engines** > cars, planes; lightbulbs and domestic appliances
- **3rd – information technologies and electronics** – computers, phones, GPS – **human oversight!**
- **4th – AI – autonomous** robots and machines, smart manufacturing etc.

- China should seize the opportunity and become the leader in the 4th industrial revolution
- > **take a shortcut**, bypass some stages of development and go to the top
- > **leapfrog advanced countries**

- At the same time – Brexit, Trump, terrorist attacks in France > **even greater perception of Western decline**

- At the same time – Brexit, Trump, terrorist attacks in France > **even greater perception of Western decline**
- > **the West is weak and decadent, and cannot possibly withstand China's ability to mobilize resources** and make sacrifices for its common future



- China **rediscovered** its confidence after 40 years of basically uninterrupted growth and success

- **traditional anti-liberal worldview:**
- „Americans let their best minds focus on creating addictive social media; advertisement; financial services...“

- **traditional anti-liberal worldview:**
- „Americans let their best minds focus on creating addictive social media; advertisement; financial services...“
- > „We will focus on things that are actually valuable and useful“ = high tech

- „techno-nationalism“

- **Noah Smith – Why Is China Smashing Its Tech Industry?**

- **Noah Smith – Why Is China Smashing Its Tech Industry?**
- **What is called „tech“ in the West are mostly consumer-oriented services such as social media and financial apps**

- **Noah Smith – Why Is China Smashing Its Tech Industry?**
- **What is called „tech“ in the West are mostly consumer-oriented services such as social media and financial apps**
- **China thinks this type of stuff is soft – true tech is advanced manufacturing, material science, AI...**

- **Noah Smith – Why Is China Smashing Its Tech Industry?**
- **What is called „tech“ in the West are mostly consumer-oriented services such as social media and financial apps**
- **China thinks this type of stuff is soft – true tech is advanced manufacturing, material science, AI...**
- = things that have a high and measurable performance



- **Noah Smith – Why Is China Smashing Its Tech Industry?**
- What is called „tech“ in the West are mostly consumer-oriented services such as social media and financial apps
- China thinks this type of stuff is soft – **true tech is advanced manufacturing, material science, AI...**
- = things that have a high and measurable performance
- Smith - would be useful in a war???

- Liberal critique - Naughton, Huang – **value does not necessarily come from technological prowess**
- Many things we value are quite rudimentary

- Liberal critique - Naughton, Huang – **value does not necessarily come from technological prowess**
- Many things we value are quite rudimentary
- Krpec – a kilogram of integrated circuits vs. a kilogram of Parma ham

# Made in China 2025

- Announced in 2015
- A truly large program of industrial policy – **bigger, more concrete and more ambitious than SEI**

# Made in China 2025

- Announced in 2015
- A truly large program of industrial policy – **bigger, more concrete and more ambitious than SEI**
- Supported sectors – advanced technology fields – **AI, machine learning, internet of things, new materials, aerospace, biotechnology...**

# Innovation Driven Development Strategy

- 2016, meant as a more **general framework for existing programs** (MiC25, SEI, Internet Plus)

# Innovation Driven Development Strategy

- 2016, meant as a more **general framework for existing programs** (MiC25, SEI, Internet Plus)
- Main idea – **AI is a general-purpose technology**

# Innovation Driven Development Strategy

- 2016, meant as a more **general framework for existing programs** (MiC25, SEI, Internet Plus)
- Main idea – **AI is a general-purpose technology**
- **The goal is to 1) develop it and then 2) implement it in all sectors of the Chinese economy**



# Innovation Driven Development Strategy

- 2016, meant as a more **general framework for existing programs** (MiC25, SEI, Internet Plus)
- Main idea – **AI is a general-purpose technology**
- **The goal is to 1) develop it and then 2) implement it in all sectors of the Chinese economy**
- **> digitalization, smart cities, intelligent manufacturing**

# Innovation Driven Development Strategy

- China now has a **whole system of programs** to develop new technologies and support their adoption

# Industrial Guidance Funds

- Key **tool** of industrial policy
- The previous (MiC25 etc.) were programs laying out **goals**; this is about the **means**

# Industrial Guidance Funds

- Inspired by US venture capital firms
- **But funded by SOEs and banks – indirect state capital**

# Industrial Guidance Funds

- Inspired by US venture capital firms
- **But funded by SOEs and banks – indirect state capital**
- „You have savings and profits? Give them to a designated fund!“

# Industrial Guidance Funds

- Inspired by US venture capital firms
- **But funded by SOEs and banks – indirect state capital**
- „You have savings and profits? Give them to a designated fund!“
- 2019 – total commitment **1,6 trillion USD – 11 % of Chinese GDP**

# Industrial Guidance Funds

- **Investment** – both new startups and established firms

- Biggest target of support – **semiconductors**
- = **chips**
- = brain of electronics, „DNA of technology“



- Biggest target of support – **semiconductors**
- = **chips**
- = brain of electronics, „DNA of technology“
- Necessary for China's technological goals

- Biggest target of support – **semiconductors**
- = **chips**
- = brain of electronics, „DNA of technology“
- Necessary for China's technological goals
- **China continues to be surprisingly weak and aims to improve its position**

- Biggest target of support – **semiconductors**
- = **chips**
- = brain of electronics, „DNA of technology“
- Necessary for China's technological goals
- **China continues to be surprisingly weak and aims to improve its position**
- **Next time!**

# Return of industrial policy

- **Bigger** (even relatively) than policies of Japan, Taiwan, South Korea etc. in the post-war period
- **A qualitatively different goal** – leadership

# Return of industrial policy

- **Bigger** (even relatively) than policies of Japan, Taiwan, South Korea etc. in the post-war period
- **A qualitatively different goal** – leadership
- Highly provocative – Naughton – **breaking of unwritten international rules**

# Return of industrial policy

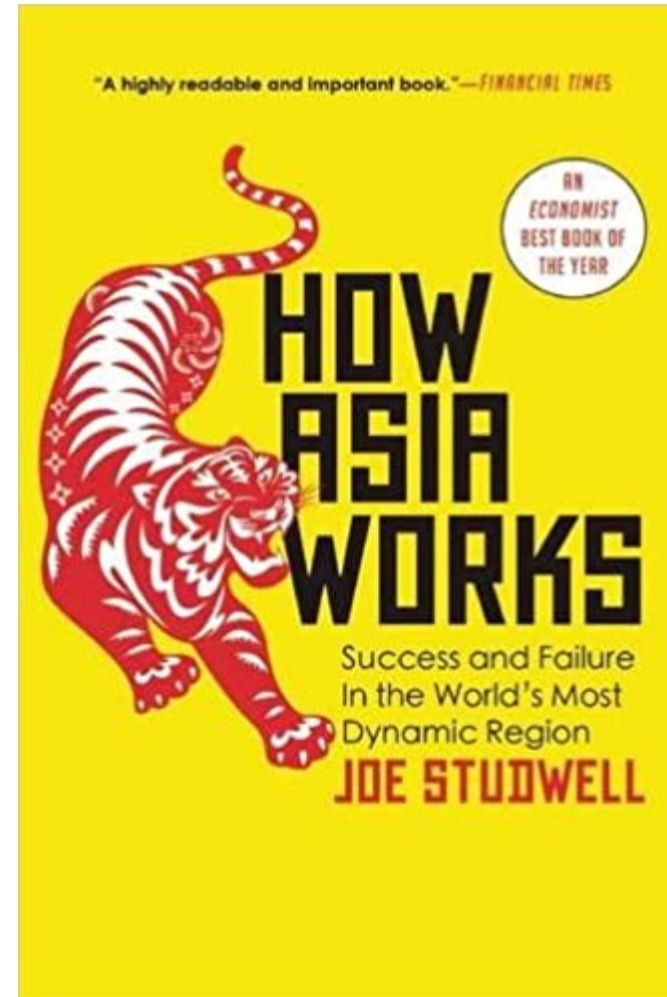
- **Bigger** (even relatively) than policies of Japan, Taiwan, South Korea etc. in the post-war period
- **A qualitatively different goal** – leadership
- Highly provocative – Naughton – **breaking of unwritten international rules**
- > **backlash** - end of Western complacency about China – **US-China trade war**

# Return of industrial policy

- **Bigger** (even relatively) than policies of Japan, Taiwan, South Korea etc. in the post-war period
- **A qualitatively different goal** – leadership
- Highly provocative – Naughton – **breaking of unwritten international rules**
- > **backlash** - end of Western complacency about China – **US-China trade war**
- **Also next time**

# Asian developmental state

- „How Asia works“ – Joe Studwell





# Asian developmental state

- „How Asia works“ – Joe Studwell
- 1) Land reform
- 2) Industrial policy > promotion of exports
- 3) State owned banks – also promotion of industry

# Asian developmental state

- New firms are not going to succeed on their own, **they need protection and help from the state (x free trade)**

# Asian developmental state

- New firms are not going to succeed on their own, **they need protection and help from the state (x free trade)**
- But they must be tested so that they don't become complacent > „**export discipline**“ – they must be able to sell products abroad

# Asian developmental state

- New firms are not going to succeed on their own, **they need protection and help from the state (x free trade)**
- But they must be tested so that they don't become complacent > „**export discipline**“ – they must be able to sell products abroad
- Why abroad? Success in the closed domestic market doesn't prove anything

# Asian developmental state

- **Undervalued currency** – helps with export

# Asian developmental state

- China – **somewhat similar, but even more statist**
- Most large enterprises continued to be state-owned (to this day)

# Asian developmental state

- China – **somewhat similar, but even more statist**
- Most large enterprises continued to be state-owned (to this day)
- **No liberalization after successful growth**

# Asian developmental state

- China – **somewhat similar, but even more statist**
- Most large enterprises continued to be state-owned (to this day)
- **No liberalization after successful growth**
- **J, K, T attempted to catch up, not to become the undisputed leader**  
(x China's ambitions for next generation Internet, AI....)



# Asian developmental state

- J, K, T – **developmental state as a necessary evil**, a precursor to **capitalism** which isn't possible yet
- = more or less in line with Western theorists of protectionism – Alexander Hamilton, Friedrich List

# Asian developmental state

- J, K, T – **developmental state as a necessary evil**, a precursor to **capitalism** which isn't possible yet
- = more or less in line with Western theorists of protectionism – Alexander Hamilton, Friedrich List
- CH – **developmental state as a necessary evil**, a precursor to **socialism** which isn't possible yet

# Asian developmental state

- J, K, T – **developmental state as a necessary evil**, a precursor to **capitalism** which isn't possible yet
- = more or less in line with Western theorists of protectionism – Alexander Hamilton, Friedrich List
- CH – **developmental state as a necessary evil**, a precursor to **socialism** which isn't possible yet
- = **China does not yet possess the capacity for planning and redistribution necessary to achieve socialism, so it has to accept markets**

# Asian developmental state

- CCP – China's advantage continues to be the ability to mobilize resources

# ISI

- **Import-substituting industrialization (ISI)**
- **Not so important for us**, but often discussed in IPE
- Latin America, circa 1945-1980

# ISI

- **Protectionism, state-owned banks and large enterprises – similar to Asia**

# ISI

- **But – no promotion of export! – closed economies**

# ISI

- **But – no promotion of export! – closed economies**
- **> trade deficits > financed by debt**



# ISI

- **But – no promotion of export! – closed economies**
- **> trade deficits > financed by debt**
- **Overvalued currencies – to pay back the debt – but exacerbated the trade deficits**

# ISI

- **But – no promotion of export! – closed economies**
- **> trade deficits > financed by debt**
- **Overvalued currencies – to pay back the debt – but exacerbated the trade deficits**
- **Also – no sweeping land-reform = surviving inequality, „old elite“**

# ISI

- **But – no promotion of export! – closed economies**
- **> trade deficits > financed by debt**
- **Overvalued currencies – to pay back the debt – but exacerbated the trade deficits**
- **Also – no sweeping land-reform = surviving inequality, „old elite“**
- **1980s – bankruptcies, transition to free trade (IMF, WB)**

# ISI

- **Economists – identification of ISI with protectionism and Asia with free markets**
- **= misinterpretation**

# Shock therapy/Neoliberalism

- Eastern Europe after 1989
- = **full transition towards free market capitalism**
- = **privatization of enterprises, market prices, free trade**

# Shock therapy/Neoliberalism

- Main idea – the Communist regimes have collapsed > **there is no power capable of overseeing central planning**

# Shock therapy/Neoliberalism

- Main idea – the Communist regimes have collapsed > **there is no power capable of overseeing central planning**
- > we must move quickly towards markets, **otherwise the managers of the SOE's will plunder the assets**
- = the need to dissolve public ownership relatively quickly, before it's completely hollowed out

# Shock therapy/Neoliberalism

- **Derided and discredited today** – collapse of Russia, Ukraine etc, poverty, rise of oligarchs



# Shock therapy/Neoliberalism

- **Derided and discredited today** – collapse of Russia, Ukraine etc, poverty, rise of oligarchs
- But – **Baltic countries, Poland, Czechia, Slovakia, Slovenia, Hungary...**
- > often reasonably successful!

# Shock therapy/Neoliberalism

- China – We don't want shock therapy, because:
  - 1) **we still basically believe that socialism will win in the end**
  - 2) **doing so would drastically curtail the Party's power**

# Shock therapy/Neoliberalism

- China – We don't want shock therapy, because:
  - 1) **we still basically believe that socialism will win in the end**
  - 2) **doing so would drastically curtail the Party's power**
- Eastern Europe – We don't want Chinese-style mixed economy because:
  - 1) **we no longer believe in socialism**
  - 2) **doing so would mean keeping the security apparatus to oversee the SOEs**

