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Justin Yifu Lin^{a,b,c}

ABSTRACT

China's economic development has been miraculous since its transition from a planned to a market economy in 1979. This article provides answers to six related questions: Why was it possible for China to achieve such extraordinary performance during its transition? Why was China unable to attain similar success before its transition started? Why did most other transition economies fail to achieve a similar performance? What costs does China pay for its extraordinary success? Can China maintain dynamic growth in the coming decades? And what are the implications of China's experience for other developing countries and for economics?

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摘要

中国的崛起及其对经济学和其他发展中国家的启示。 *Area Development and Policy*. 自1979年从计划经济向市场经济转型以来，中国经历了举世瞩目的经济发展。本文对六个相关的问题进行了解答：中国为何能够在转型期间有着如此非凡的经济表现？为何在转型之前不可能取得类似的成功？为什么其他大多数转型经济体没能经历类似的发展？中国取得巨大的成功背后又付出了怎样的代价？中国能否在未来的几十年仍保持蓬勃发展的势头？以及中国的发展经验对其他发展中国家和经济学研究有何启示？

关键词

发展，转型，中国经济

RESUMEN

El auge de China y sus repercusiones para la economía y otros países en desarrollo. *Area Development and Policy*. El desarrollo económico de China ha sido milagroso desde la transición de una economía planificada a una de mercado en 1979. En este artículo se ofrecen respuestas a seis preguntas relacionadas: ¿Por qué

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China pudo conseguir este rendimiento extraordinario durante su transición? ¿Por qué China fue incapaz de conseguir el mismo éxito antes de empezar su transición? ¿Por qué la mayoría de otras economías en transición no han conseguido un rendimiento similar? ¿Qué coste tiene que pagar China por su éxito extraordinario? ¿Podrá China mantener el crecimiento dinámico en las próximas décadas? ¿Cuáles son las repercusiones de la experiencia de China para otros países en desarrollo y para la economía?

PALABRAS CLAVE

Desarrollo, transición, economía china

АННОТАЦИЯ

Подъем Китая и его уроки для экономической науки и для других развивающихся стран. *Area Development and Policy*. Темпы экономического развития Китая были невероятными с момента перехода от плановой к рыночной экономике в 1979 году. Эта статья содержит ответы на шесть вопросов: почему Китай смог добиться таких успехов при переходе к рыночной экономике? Почему Китай не смог добиться подобного успеха до начала перехода? Почему большинство других стран с переходной экономикой не смогло достичь подобных результатов? Во что обошлись Китаю его выдающиеся успехи? Сможет ли Китай поддерживать динамичный рост в ближайшие десятилетия? И каковы уроки из опыта Китая для других развивающихся стран и для экономической науки?

КЛЮЧЕВЫЕ СЛОВА

Развитие, переходная экономика, экономика Китая

INTRODUCTION

As is well known, China was one of the poorest countries in the world before its transition from a planned economy to a market economy in 1978. Its per capita gross domestic product (GDP) in that year was just US\$155, which was less than one-third of the average for sub-Saharan African countries. Since 1979, things in China have changed dramatically. The annual GDP growth rate in the last 37 years was 9.7% per year.¹ A continuously high rate of this magnitude and for such a long period of time was something that had never been observed before in human history.

Certainly, like other low-income countries before 1979, China was inward looking. At that time, exports accounted for 4% of China's GDP and imports for 5%. In other words, some 90% of Chinese GDP was not related to the global economy. Since 1979, however, the average annual growth rate of trade has been more than 15%. As a result of this kind of dramatic change, in 2009 China overtook Japan to become the second largest economy in the world. In 2010, China overtook Germany to become the largest exporting country in the world. In 2013, it overtook the United States to become the largest trading country in the world: the total volume of exports and imports as a percentage of GDP was larger in China than in the United States. In 2014, Chinese GDP measured by purchasing power parity (PPP) overtook that of the United States, making China the largest economy in the world. And in 2015, China's per capita GDP was US\$7960. From less than one-third of the average for sub-Saharan African countries, China's per capita GDP was now some five times higher. Moreover, during this period, 700 million people were lifted out of poverty, making a very important contribution to the global fight against poverty. As is well known, after the Second World War many multi- and bilateral development institutions were set up to help developing countries grow and reduce poverty. And yet, by the year 2000, if the number of people lifted out of poverty in China were subtracted from the world total, the number of poor people in the world would have increased rather than decreased.

In this article I shall draw on my book *Demystifying the Chinese Economy* (Lin, 2012) to provide answers to six related questions: The first is how was a country trapped in poverty for centuries able to grow so rapidly for such a long time? The second is why was it impossible for China to have a similar growth performance before 1979? Certainly people may say it was because of reform and opening-up from 1979. But it is well known that China is not the only country that since 1979 has adopted reform and opening-up. Other socialist countries and almost all developing countries in the 1980s and 1990s also embarked on reform and transition. However, instead of achieving rapid economic growth, most saw their economies collapse, stagnate and suffer frequent crises of all kinds. The third question, therefore, is why were there such dramatic differences in economic performance between China and other countries during the transition period? The fourth question is what was the price that China paid for its success? Certainly, every coin has two sides. China enjoyed dynamic economic growth, but in the process it also suffered many problems. China's economic performance was outstanding, but why are there so many problems in the country? The fifth question is can China continue this kind of dynamic growth in the years ahead? The sixth and concluding question is what are the implications of China's experience for other developing countries and for economics?

HOW WAS IT POSSIBLE FOR CHINA TO GROW SO RAPIDLY FOR SO LONG?

When trying to answer this question, I often say that the best thing way is to do is to go back to the work of Adam Smith. But I do not mean that we should come to the conclusions that Smith arrived at his *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) – one should instead revisit the methodologies he used to reach his conclusions, as indicated in the title of his book.

Therefore, to understand how during the past 37 years China was able to grow so rapidly, one needs to understand the nature of rapid economic growth. Certainly, the nature of rapid economic growth means that national per capita GDP increases rapidly. As mentioned, China's per capita GDP increased continuously from US\$155 in 1978 to US\$7960 in 2015. Making this kind of continuous growth in per capita GDP possible certainly involves continuously raising the level of productivity, while the foundation of continuous increases in productivity is without doubt technological innovation in existing industries, on the one hand, and the development of new industries with higher per capita value added to which resources can be reallocated from low value-added sectors, on the other hand. This process of continual technological innovation and industrial upgrading is the foundation for continuous productivity and income growth in any nation. It applies to high-income countries and to developing countries.

There are, however, some important differences between high income and developing countries. In high-income countries, technologies and industries are already on global technological frontiers. To upgrade, therefore, they have to invent new technologies and industries to move these frontiers forward. Invention requires huge capital expenditures and is also very risky. From the end of the 19th century until today, the average annual growth rate of per capita GDP and per capita labour productivity in high-income countries was about 2% per year. But what about developing countries? Certainly they also need technological innovation and industrial upgrading. But at present their technologies and industries are within global technological and industrial frontiers. Developing countries can, therefore, acquire or imitate technologies and industries from high-income countries. Acquisition, imitating and borrowing are the sources of their technological innovations and industrial upgrading.

In this way, technological innovations and industrial upgrading in developing countries involve lower costs and fewer risks than in high-income countries. This condition is the so-called latecomer advantage or advantage of backwardness. If developing countries are able to tap into that advantage of backwardness, they can achieve higher rates of technological innovation and industrial upgrading without inventing new technologies or new industries. And since they can have a fast rate of growth of technological innovation and industrial upgrading, they can have fast rates of improvement in labour productivity and fast increases in income.

In the years since the Second World War, 13 economies around the world have found a way to realize their potential to achieve continuous annual GDP growth rates of 7% or more for 25 or more years (World Bank, 2008). In high-income countries, per capita output and population increased, yielding average annual GDP growth rates in the region of 3%. A growth rate of 7% or more was, therefore, more than twice that of high-income countries. If this rate is sustained for 25 or more years, the gap between the country concerned and high-income countries will decline. In 1979 China joined this group of 13 economies. The answer to the first question is, therefore, relatively simple. If one understands the nature of economic growth, it is clear that effectively exploiting the advantage of backwardness made sustained rapid economic growth for a long period of time possible.

WHY DID CHINA NOT BENEFIT FROM THE ADVANTAGE OF BACKWARDNESS BEFORE 1979?

But if this answer to the first question is correct, why did China not benefit from that advantage before 1979? The answer is that China voluntarily forewent the attempt to exploit the advantage of backwardness. When the People's Republic of China was established in 1949, the goal of the leaders of the newly liberated country was announced by Chairman Mao Ze Dong on 1 October as 'the Chinese people stand up'. What did 'the Chinese people stand up' mean?

Certainly one aim was to have a high income as in high-income countries. Another aim was strong national defence, as existed in high-income countries. Achieving as high an income as in high-income countries requires comparable levels of labour productivity. Comparable labour productivity requires the same types of technology and the same types of industries. Creating a system of national defence as strong as that of high-income countries requires national defence industries capable of producing equally sophisticated military equipment. As a result in 1952 at the time of the Korean War China embarked on a national development programme. China wanted to build up the most modern industries to increase per capita GDP and strengthen national defence. The problem was that at that time these advanced industries were all in the hands of advanced countries and were in particular protected by patents. China could not acquire these technologies without incurring costs. More importantly, these industries were defence related. The secrets of these industries were ones high-income countries were not prepared to release.

Faced with these challenges, China had to 'reinvent the wheel' and to do the research in order to acquire these technologies. China, therefore, chose voluntarily to forego the potential of the advantage of backwardness. Not only so. The industries concerned were very capital intensive. But China at that time was a poor agrarian economy. Capital was very limited in China. The industries concerned were not, therefore, the ones in which China had a comparative advantage. These industries were moreover costly and not profitable. China could only develop them if the government protected and subsidized them. These subsidies distorted the prices of capital and resources, while protection gave the firms concerned a

market monopoly and enabled them to set monopoly prices covering their high costs of production.

These distortions allowed China to build up modern advanced industries quickly. By the 1960s, it was able to test nuclear bombs. And by the 1970s, China was able to launch satellites. These outcomes were significant achievements. However, the distortions were also associated with costs in the shape of a misallocation of resources. By the 1970s, although China had established most of the modern industries of the day, their efficiency was very low. It was this misallocation of resources that explains why by 1978, after 30 years of post-revolution economic construction, China was still a poor country. But this story is not confined to China. After the Second World War, all socialist countries followed similar strategies. They tried to build up large-scale modern industries. Adopting the so-called Stalinist model, other developing countries in Africa, Latin America and South Asia also followed similar strategies because they all wanted quickly to become high-income countries. All, therefore, immediately developed similar modern large-scale industries, encountering similar difficulties to China. As a result, after the Second World War, while high-income countries grew at some 3% per year, the average annual per capita GDP growth rate of most developing countries was less than 3%, and so the gaps between high-income and developing countries increased rather than decreased (Maddison, 2001).

WHY WERE THERE SUCH DRAMATIC DIFFERENCES IN ECONOMIC PERFORMANCE DURING THE TRANSITION PERIOD?

In the years in which China embarked on the transition from a planned to a market economy, many other countries embarked on transitions under the guidance of the World Bank and International Monetary Fund (IMF). China, however, enjoyed stability and continuous economic growth, while other countries suffered from economic collapse, stagnation and frequent crises. The reasons why are twofold and relate to differences in their transition strategies.

First, other socialist countries and many developing countries followed the so-called Washington Consensus strategy. This strategy derived from the argument that socialist countries and other developing countries had not done well because excessive government intervention caused misallocations of resources. This argument led to the recommendation that to improve their economic performance these socialist and developing countries should immediately remove all distortions, end government intervention and allow markets to function. However, the purpose of all these distortions was to protect large-scale industry. If these distortions were removed rapidly, these large-scale industries would be made bankrupt, and a large number of workers concentrated in cities would lose their jobs, undermining social and political stability. Without social and political stability, economic development is impossible. As a result, after Washington Consensus shock-therapy reform (privatization, marketization and liberalization) many countries reintroduced subsidies and protection through the back door to preserve these large-scale industries for the purpose of providing jobs.

A second reason was that as many of these large-scale industries were defence related, in many socialist countries, even after privatization, governments continued to subsidize them to allow them to stay in operation.

As a result, whether it was for reasons of social stability or national defence, after privatization, liberalization and marketization, new types of subsidies and distortions were introduced. These distortions were yet more inappropriate and even more inefficient than the explicit subsidies and protections that had been swept away.

There is convincing evidence supporting this argument. For example, in Russia today there are eight oligopolies in military-related heavy industry sectors. After privatization, due to all kinds of crises, these oligopolistic groups received more subsidies and protection than they had received in the former Soviet Union. Similar situations prevail in other East European, Latin American and African countries. The reason why is not so hard to understand.

Before privatization, the government employed managers and employees. If there were difficulties, these people would certainly say to the government that, without protection and subsidies, they would not survive. If the government were to provide assistance, the managers could at most increase their on-the-job consumption. Putting money into their own pockets, however, would amount to corruption and be punishable. After privatization, owners also asked for subsidies. In this case subsidies could simply be turned into their own wealth, and there is an incentive for asking for yet higher subsidies and assistance. As a result reform led first to a certain degree of chaos followed by stagnation and frequent crises.

China also wanted to embark on a transition from this type of distorted economy but managed to maintain stability and dynamic economic growth. The main reason why it managed to do so is that China adopted a pragmatic approach: understanding that existing sectors could not survive without protection and subsidies, and the government continued to provide them for as long as absolutely required. However, the Chinese government also liberalized entry into new sectors. Most of these sectors were labour-intensive and small-scale traditional sectors. In the past these sectors had been repressed. After 1979, Chinese and foreign firms were allowed to enter these industries. Indeed, the Chinese government not only liberalized but also actively facilitated and supported entry into those industries that were consistent with China's comparative advantage at that time as a labour-abundant country.

To be competitive, China also needed to provide adequate infrastructure and a good business environment. In 1979 and the 1980s, infrastructure in China was extremely poor. Although it was desirable to improve national infrastructure as a whole, the Chinese government lacked financial resources, and so it decided to set up special economic zones (SEZs), industrial parks and export zones, improving infrastructure in a limited number of areas. China's business environment was also very poor because China chose to retain market distortions in order to protect existing industries. In SEZs and other economic zones, however, all these distortions were removed. In addition, a wide range of services, for example, one-stop business services, were provided in SEZs or industrial parks. As a result, new industries consistent with China's comparative advantage at that time could utilize the infrastructure, business environment and services in these zones and make themselves very competitive not only on domestic but also on international markets.

It was for these reasons that Chinese exports rose rapidly in the last 30 or more years. As these industries had a comparative advantage, they were profitable and accumulated capital. Gradually, China changed from a capital-scarce to a relatively capital-abundant economy. As it did, Chinese industry gradually upgraded from labour- to capital- and technology-intensive industries. And as it upgraded, China could benefit from the advantage of backwardness, maintaining stability and dynamic economic growth.

WHAT PRICE DID CHINA PAY FOR ITS SUCCESS?

Although its economic progress was extremely good, China, however, also paid a very high price for its success. In addition to environmental degradation and food safety issues, which are the results of rapid industrialization and lack of appropriate regulations, the main prices China paid in the last 37 years were corruption and increased income disparities, which themselves were related to China's pragmatic transition strategy.

As already mentioned, the Chinese government wanted to give transitory protection and subsidies to already-existing advanced sectors so as to maintain stability. These industries were capital intensive. One of the most important costs was the cost of capital. Before the start of transition in 1979, these industries did not pay any of the costs of fixed or working capital (including the wage fund) as these costs were covered by a government-provided fiscal appropriation. After 1979, however, the source of capital gradually changed from fiscal appropriations to bank loans. The Chinese government set up four large state banks and a stock market to meet the capital needs of large enterprises. To survive, however, these industries required low interest rates. As a result, interest rates and capital costs were artificially repressed.

In 1979 and the 1980s, all firms in China were state owned. Gradually, however, success in new sectors saw some domestic firms grow and become large firms. These firms could all borrow from the large state banks or could be listed on a stock market. As interest rates and capital costs were artificially repressed, whoever could borrow from the banking sector or from the emerging stock markets was therefore subsidized. These subsidies were paid for by households, farms and small, medium-sized industrial and service firms who put their money into the banking sectors or into the stock market and who were poorer than the owners of the enterprises they financed. The subsidization of the operation of rich people's firms by poorer people was one reason for increasing income disparities. Moreover, the acquisition of capital at depressed interest rates generates economic rents (excess profits) for the recipients leading to bribery and corruption of the gatekeepers who control access to these sources of finance. This state of affairs, therefore, contributed to corruption.

At the same time in banking and in some large-scale service industries state-owned monopolies secured monopoly rents. Private enterprises in new sectors also seek monopoly rents. In the natural resource sectors, before 1979, in accordance with the provisions of the constitution, all natural resources were 'owned by the state, that is, by the whole people'. Before 1979 natural resources were managed free of charge by large-scale state-owned enterprises (SOEs) and were provided to those enterprises at very low prices. After 1979 the government allowed private firms to enter the mining sectors, and liberalized controls over prices, while maintaining low concession fees. Acquisition of a concession promised overnight enrichment. The monopoly rents in service sectors, such as telecommunication and finance, were also sources of inequality and corruption, and resulted from the pragmatic approach to transition. Unless these distortions are removed, corruption will be difficult to eradicate, no matter how hard the government tries.

The main reason of maintaining temporary transitional distortions was the need to protect large-scale SOEs because they were capital-intensive and were inconsistent with China's comparative advantage. In the 1980s and 1990s China was a poor country. Only in 2002 did it become a middle-income country. At that time certainly protection and subsidies were a precondition for the survival of these industries. After 37 years of rapid economic growth, however, the availability of capital in China has increased significantly, and many of the industries and SOEs that were protected in the past are now consistent rather than inconsistent with China's comparative advantages. As a result, their products are competitive with those of global companies on international markets. Today subsidies and protection have changed in nature from subsidies and protection to their recipients into transformative wealth. As a result, I think it is time for China to complete the transition and remove all these distortions. Indeed, their removal was precisely a part of the reform agenda announced by the Chinese government in the third plenary session of the 18th party congress. Hopefully, the implementation of a reform agenda of this kind and the removal of these distortions will eliminate some of the causes of income inequality and corruption.

CAN CHINA CONTINUE THIS KIND OF DYNAMIC GROWTH IN THE YEARS AHEAD?

The question that arises is: if China completes this transition and removes all remaining distortions, for how long can it maintain dynamic economic growth? This question is hotly debated in China and closely followed globally. The reason why is that from 2010 China's annual growth rate dropped an average annual growth rate of 9.7% in the period of 1979 to 2015 to 6.7% in the first half of 2016 and that there is still strong downward pressure.

To answer the question as to whether, after more than 30 years of growth, China can maintain dynamic economic growth in the coming years, one needs to answer two other questions. How large is China's growth potential? and What were the reasons for the deceleration of China's growth since 2010?

China's potential for rapid economic growth depends on the size of the advantage of backwardness that China still enjoys. To measure the size of the remaining advantage of backwardness, one should compare China's per capita GDP with the per capita GDP of high-income countries such as the United States because per capita GDP is a proxy for a country's average labour productivity, and average labour productivity is a measure of the degree of advancement of technology and valued-added of industries.

In 2008, according to the last data published by Maddison,² per capita GDP in China measured at PPP was 21% of the comparable figure for the United States in the same year. This proportion was similar to that for Japan in 1951, Singapore in 1967, Taiwan in 1975 and South Korea in 1977. All stood at 21% of the US figure in the corresponding years.

In the 20 years from 1951 to 1971, Japan grew at an average annual rate of 9.2%. From 1967 to 1987, Singapore grew at 6.6%. From 1975 to 1995, Taiwan grew at 8.3%. From 1977 to 1997, South Korea grew at 7.6%. These four East Asian economies were among the 13 economies referred to above as having tapped into the growth potential deriving from the advantage of backwardness and as having enjoyed high growth rates of 7% or more continuously for 25 or more years.

Just as these economies were able to utilize the technology gap and exploit the advantage of backwardness to grow for 20 years at between 7.6% and 9.2% per year, so too potentially can China grow for another 20 years at 8% per year. From 2008 to present, eight years have passed. Another 12 years of potential growth at 8% per year remain. In that case, why has the growth rate continued to decline since 2010, and why does one still not see the bottom? The potential growth rate reflects the possibilities for technological innovation and industrial upgrading. It is a supply-side issue. The realization of this potential growth rate also depends, however, on demand-side conditions.

From a demand-side point of view, growth has three components: exports, investment and consumption. High-income countries have not yet recovered from the global financial crisis of 2008: in these countries per capita GDP is stagnant, there is a large debt overhang that they need to reduce, and consumption has increased very slowly. The stagnation of the United States, Western European countries and Japan has depressed international trade with a major impact on Chinese exports as China is a major global supplier of consumption goods. From 1979 to 2015, China's annual average export growth was about 16%. In 2015, it was -2.8%. This downturn was one of the reasons for a deceleration in Chinese growth. This factor affects not only China but also many export-oriented countries.

The second reason was that in 2008 most countries adopted countercyclical fiscal expansion to support investment and growth. After eight years, these projects were completed. The global economy has not fully recovered, and incentives for private sector investment remain low. Without a new round of stimulus programmes, investment growth rates will drop,

affecting all countries: growth has decelerated not only just in China but also, and often more sharply, in other BRICs countries (Brazil, Russia, India), other high-performance export-oriented economies and in high-income countries themselves.

Fortunately, China maintains a high employment rate. Household income has continued to grow rapidly at about 8% per year, with consumption growing at a similar rate. The growth of consumption is the reason why the country has managed to maintain a growth rate of around 7% per year. China, along with other developing countries, needs to complete a transition to address domestic structural problems. Deceleration was, however, mainly due to external and cyclical factors.

Looking forward, high-income countries are very likely to be trapped in a situation similar to that of Japan after 1991 due to the lack of structural reforms. These economies are likely to grow at less than 3% per year. External demand is likely to remain sluggish.

Growth in China will depend on domestic demand where, fortunately, China still has a lot of room for improvement: although there is excess capacity in many sectors, as a middle-income country China has very considerable possibilities for investment in industrial upgrading, urban and inter-urban infrastructure, and environmental protection. Not only has it plenty of good opportunities for investment, but also its fiscal position is still very sound. In 2015, national, provincial and local government debt was less than 60% of GDP, amongst the lowest in the world. China still has US\$3.3 trillion of foreign exchange reserves. With good investment opportunities and abundant funding, China will maintain a reasonable rate of investment growth, create jobs, and increase household income and consumption. In these conditions, there is no reason why China cannot reach its annual growth target of 6.5% or more in the coming five years. If China does reach this target, it is very likely that, by as early as 2020 or as late as 2022, Chinese per capita GDP will reach US\$12,700, making China a high-income country by the standards of that time (Lin, Wan, & Morgan, 2016).

CONCLUSIONS: WHAT ARE THE IMPLICATIONS OF CHINA'S EXPERIENCE FOR OTHER DEVELOPING COUNTRIES AND FOR ECONOMICS?

What finally are the implications for other developing countries? The analysis in this article suggests, first, that every developing country has the potential to grow dynamically and continuously for 30 or more years and to move from a low-income to a middle-income and even to high-income economy if they develop their economies according to their comparative advantage. Countries can turn their comparative advantages into national competitive advantages. Competitive industries can accumulate capital and engage in processes of industrial upgrading that tap into the potential advantage of backwardness, enabling them to grow much faster than high-income countries, maintaining growth rates of 7% or more for several decades as in the case of China in the last 37 years. Although the potential is there for every country to grow, they need to have a right development strategy in order to tap into the potential.

Second, every country has a lot of distortions. These distortions involve costs, and removing these distortions is desirable. Distortions exist, however, for certain reasons, and are, in economic terms, largely endogenous. Unless the causes of a distortion are dealt with, the attempt to remove it can do a lot of harm. If there is a distortion and the economy is accordingly in a 'second-best' situation, the removal of the distortion without the removal of the cause will very often make the situation even worse. A country embarking on reform should therefore be pragmatic, employing transitory and transitional protection as China did in the last 30 years.

A careful liberalization of entry into new sectors consistent with a country's comparative advantages and government facilitation of growth in those sectors can permit it to grow dynamically and preserve stability while preparing the ground for the removal of the distortions. A pragmatic approach to step-by-step development according to a country's evolving comparative advantage is of great value for developing countries.

At the same time pragmatism is required in the transition itself. The final goal is the establishment of a well-functioning market economy, but it should be a process managed by the government paying attention to the needs of all sectors and providing business opportunities for them. In this way, the World Bank's dream of a world free of poverty may be possible.

As for economics, the implication is that in the past most theories were developed in high-income country environments. These theories were used to help other countries become high-income countries. The intention was good, but the results were often not very good, as the underlying theories were all generalizations from phenomena in high-income countries. The applicability of economic theory depends on the similarity of preconditions. The preconditions in developing countries are, however, different from the preconditions in high-income countries. Policies based on theories generated from the experiences in high-income countries do not, therefore, achieve the intended results in developing countries.

The analysis in this paper shows that these types of approach will not prove rewarding and that it is very important to examine the reality of the situation in developing countries and to develop new ideas and theoretical understandings from their experiences. These ideas and theories will be more applicable to developing countries.

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NOTE

1. Unless indicated otherwise, the statistics on the Chinese economy reported in the paper are from the *China Statistical Abstract 2016*, *China Compendium of Statistics 1949–2008* and various editions of the *China Statistical Yearbook*, published by China Statistics Press.
2. For the Maddison Project, see <http://www.ggdc.net/maddison/maddison-project/home.htm> (2013 version).

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