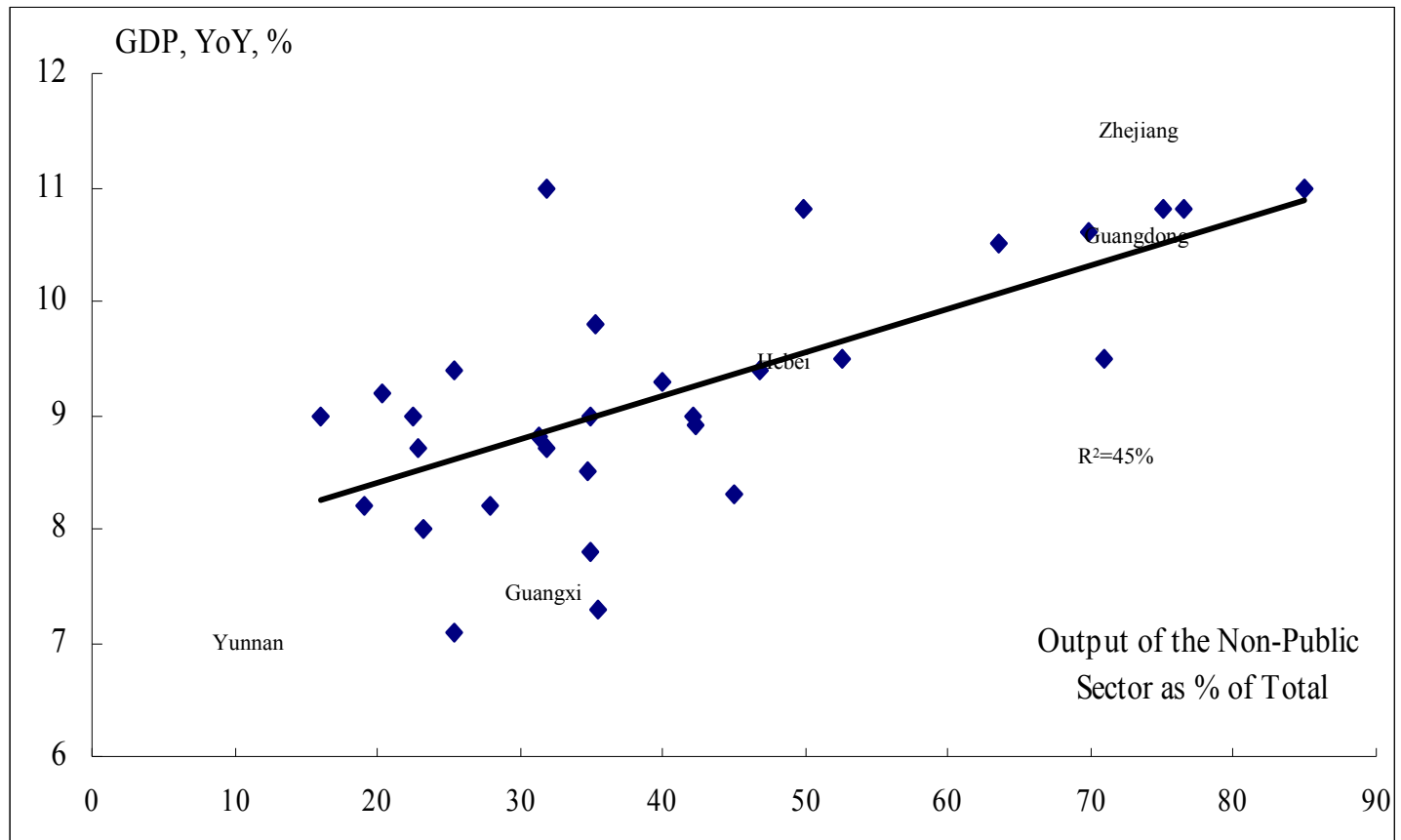


Washington Consensus in Beijing

October 2010

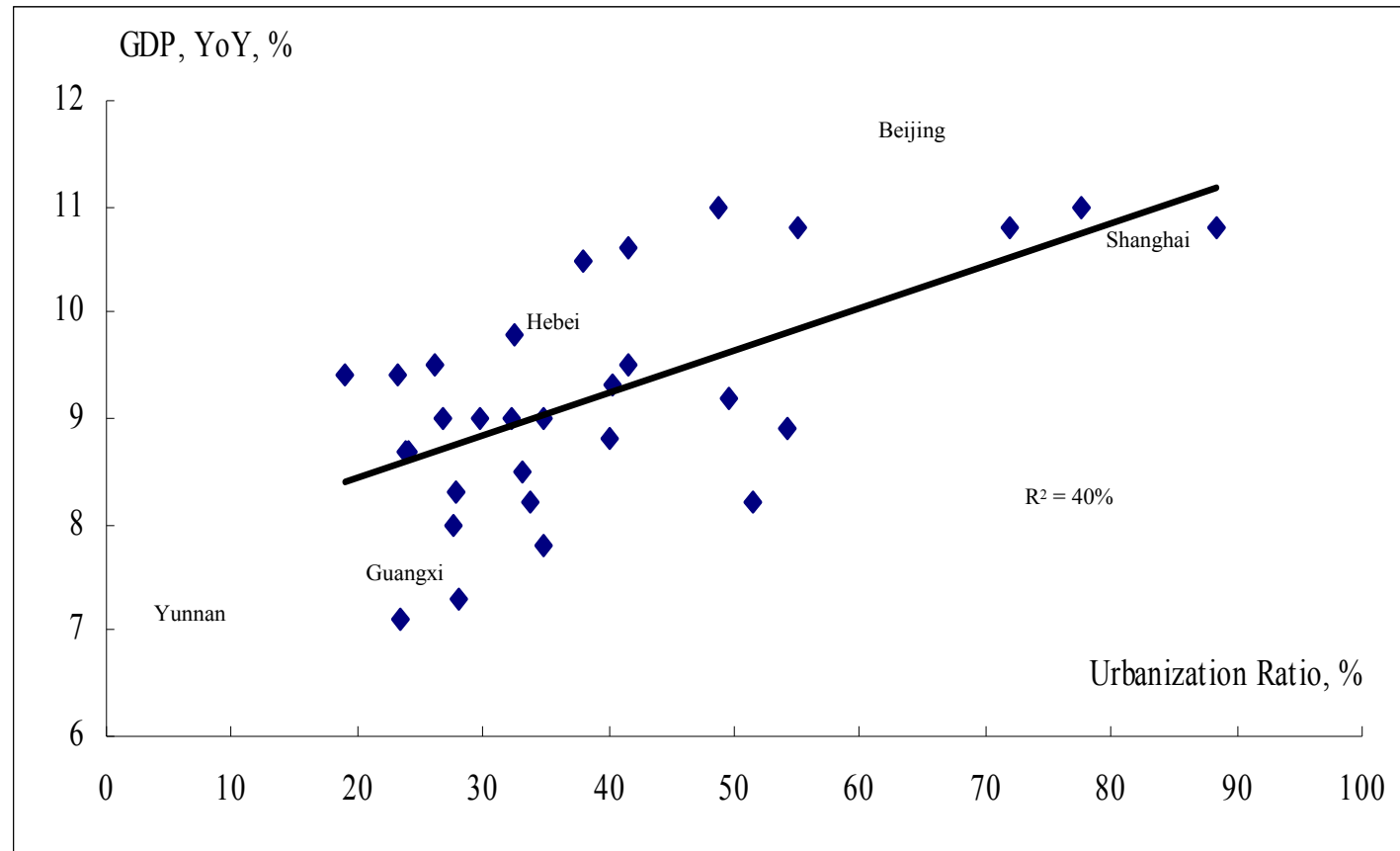
- **What Drove China's Economic Growth?**
 - Privatization
 - Urbanization
 - Globalization
- **All Attributable to Opening & Reform**
- **No Effect of Fiscal Spending on Growth**
- **A Case for Washington Consensus**

Growth Engine 1: Privatization



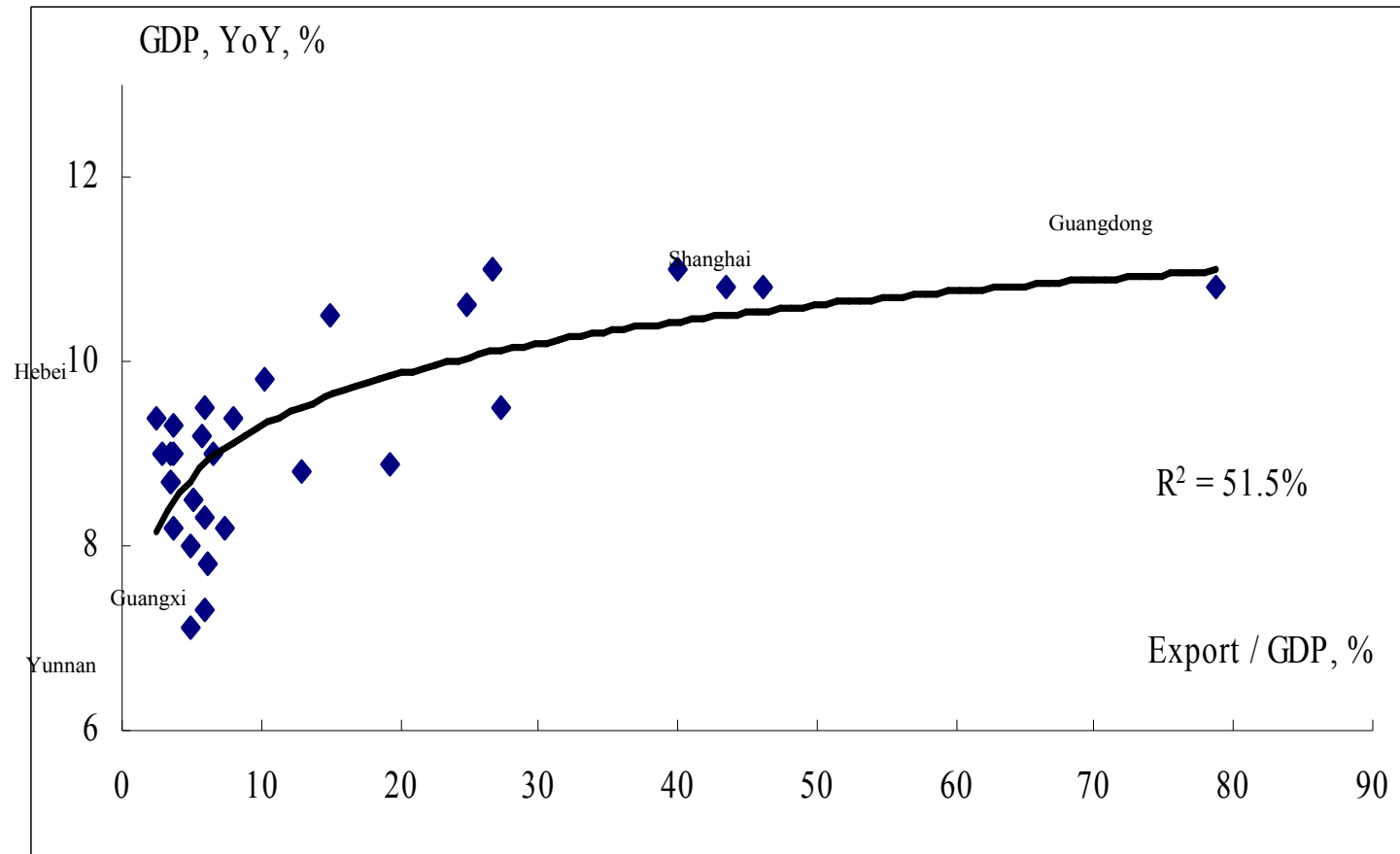
Sources: China Statistical Year Book, CICC

Growth Engine 2: Urbanization



Sources: China Statistical Year Book, CICC

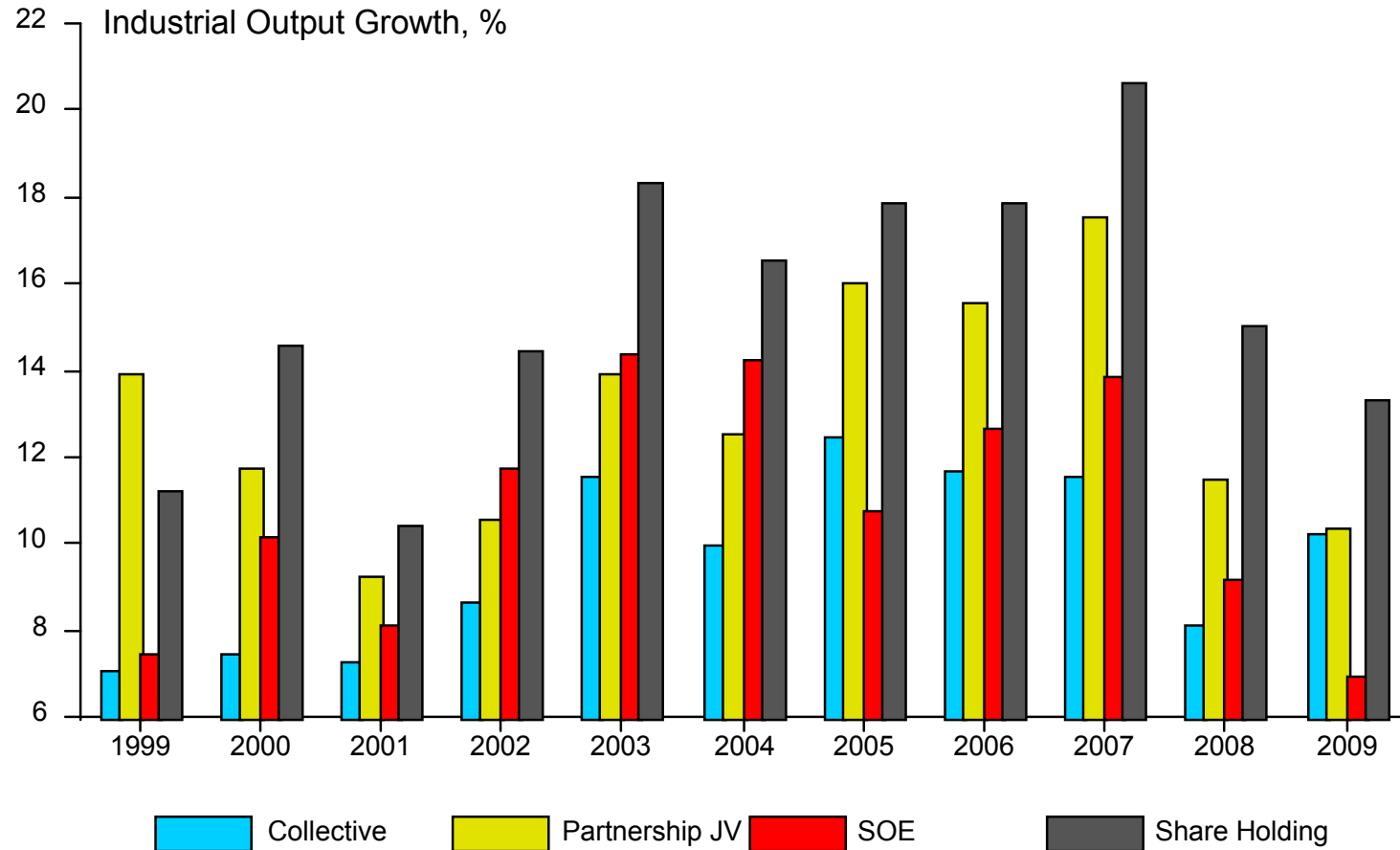
Growth Engine 3: Globalization



Sources: China Statistical Year Book, CICC

- **SOEs Underperformed despite**
 - State monopoly & price regulation
 - Favorable policies including bank credit
- **Efficiency Comparison**
 - ROE of listed companies: Private 8.2%, SOE 3.1%
 - TFP: Private sector 100% higher

Drags & Drivers of Growth



Sources: CEIC

- **Ad Hoc Changes Made by Ordinary People**

- Agricultural reform in 1978

- Quasi-privatization of land at an Anhui village
- Local officials proposed to arrest the peasants
- Deng's follower stopped it
- Privatization legalized a year later
- Rural prosperity, alleviation of food shortage

- Urban Economic Reforms

- Entrepreneurs started businesses but jailed
- Deng intervened
- “White or black, good cat is mouse-catching”

- **Reforms Not Planned or Designed**
- **What Did Deng Do Right?**
 - Put economic efficiency before ideology
 - Identify & value grass-root creativity
 - Recognize & legalize people's initiatives
- **How Different from Soviet Union?**
 - Existing institutions preserved
 - Stable expectation & less uncertainty
 - Run assets rather than sell

- **Dilemma of Gradualism**
 - Order keeper became powerful interest group
 - No incentive for more market-based reforms
 - Planning & regulation to create rent
 - Corruption to realize it
 - Going toward crony capitalism
 - Economic inefficiency & social injustice may mean even bigger bang later
- **The Global Crisis Turned Clock Back**

Thank You!