

Book review

Jin, Keyu (2023): *The New China Playbook*, New York (368 pages, Viking, hardcover, ISBN-13: 978-1984878281)

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Keyu Jin is an academic who has worked with the China Banking and Insurance Regulatory Commission, the IMF, and the World Bank. She provides an analysis as someone who is intimately familiar with both a state-regulated China and Western neoliberal institutions that prize free markets. I have found her book to be an important read in understanding the Chinese miracle that traverses the binary between socialism and capitalism. Her book shows that economic development does not necessarily depend on the prescriptions of neo-classical economics of free markets, unfettered trade, minimal government, and private enterprise.

She highlights that Chinese entrepreneurship exists despite deference to authority and that growth can persist despite weak institutions (p. 4). Rejecting the public–private binary, she states that China exhibits a blend of state-owned enterprises (SOEs) and the private sector, government planning and market incentives, communalism and individualism, and political centralization with economic decentralization (p. 6). This blend contrasts with the Western economic model based on utility and profit maximization, equilibrium, and minimum government (p. 10).

She highlights the significance of Chinese institutions founded on merit-based centralized bureaucracy and Confucian values of frugality compared to countries whose institutions were uprooted by colonization (pp. 28–32). Thus, she imputes a significant role to cultural institutions and norms in explaining Chinese development. This is in contrast to Ha-Joon Chang (2007, 2010, 2022) who has consistently argued that culture has elements both conducive and detrimental to development, that cultural stereotypes cannot explain economic development, and that culture is not the cause but the result of economic development.

The key to Chinese growth despite heavy state involvement lies in recognizing that political centralization with economic decentralization has allowed China to gradually experiment with major policy initiatives in contrast to the rapid privatization and liberalization pursued by former socialist countries (pp. 31, 35). Economic decentralization facilitates competition, whereas political centralization allows rapidly mobilizing or dialing back policy initiatives. She adds that the Chinese mix of the state with the private sector is effective when markets are imperfect, and institutions are weak (p. 83). This is because while state-owned enterprises (SOEs) have the incentive to become reckless with access to cheap credit and bailouts by the state, in China they were exposed to market discipline with competition from the private sector (pp. 85, 95). Moreover, this SOE and private sector mix prevented the issue of transfer of assets to elite oligarchs and mass layoffs, as had happened with rapid privatization in the former socialist economies (p. 96).

On Western criticisms that associate the state in China with inefficiency and rigidity that stifles private enterprise, she argues that the China model is based on incentives, competition, and accountability (pp. 116–117). Metaphorically, she writes that ‘Adam Smith’s

concept of invisible hands working behind the scenes is, in the case of China, replaced by the thousand-arm Buddha's extended and very visible hands' (p. 117). She counters that capitalism is not noted for equitable growth and that the invisible hand of the market fails to achieve equilibrium in a global economy (p. 295). Additionally, she argues that China is far from being an extractive state, as it facilitates competition between local governments for growth, fosters private enterprise, and rotates provincial leaders to curb consolidation of local power (pp. 117, 123, 125, 132). Furthermore, compared to Western democracies with weak collective action and political lobbying, the Chinese state has been quick to respond to disasters and pandemics and encouraged whistleblowers on corruption (pp. 137, 138, 142–143). Finally, she argues that China retains an advantage over the West where corporations lobby the government and shape the agenda, as it clamps down large corporations like Alibaba and Didi and refuses to bail out real estate giants (pp. 296–297).

Jin pinpoints the mistake of attributing China's growth to infusion of government capital towards 'ghost towns' and 'building craze', and instead underscores total factor productivity, i.e., the efficient use of labour and capital (pp. 40–41). Alluding to massive non-performing loans and the failure of large property developers like the Evergrande Group in 2021, she states that China steers clear from a financial meltdown (pp. 146–147). Partly, this could be because of the lack of financial complexity due to missing derivatives markets (pp. 149, 182). The concerns that a housing crisis could lead to a financial crisis, as real estate accounts for 30 per cent of the GDP, are mitigated by the fact that the state can adjust policy to control real estate prices (pp. 161, 174). On ghost towns, she states that the issue is overrated, as they are specific to a region and as many ghost towns have become urban centres (pp. 171, 172).

To mitigate the issues of asset bubbles and capital flight, she argues that China has focused on long-term capital with foreign direct investment and imposed capital controls on short-term capital through stocks and bonds (pp. 262–263). Thus, it has been able to avoid major exchange rate, external debt, or banking crises (p. 263). Finally, she states that while the debt-to-GDP ratio has increased to 275 per cent in 2022, the growth rate remains much higher than the interest rate in China because of high saving so that the debt remains sustainable (pp. 186–187).

Overall, Jin counters Western understanding of Chinese development by breaking the public–private binary to showcase that efficiency can be achieved in a public–private mix. The focus of her analysis begins largely from Deng Xiaoping's rise in 1978 and ends in 2022, two years into the COVID-19 pandemic. While her arguments are descriptive, any data she alludes to comes from academic papers and databases published in the West, especially given her connections to the World Bank and the IMF. If anything, she is clear about Chinese data that 'local officials could be tempted to fudge their GDP numbers' and that 'massaging GDP figures is a minor problem compared with the creation of empty GDP' (p. 132).

While the thrust of her book is on critiquing Western understanding, she tries to balance her optimism on China with the impending challenges. In this regard, she states that 'catch-up growth' is different from 'innovation-based growth' and that China has yet to address the challenges of inequality and automation (pp. 15–20). She critiques that while China has been attracting researchers and scientists, linking universities and industries, achieving revolutionary technology requires quality over quantity of patents and published papers (pp. 219–220, 222). Moreover, she argues that the challenge for China is to shift from a model that emphasizes growth to one that focuses on public services including education and healthcare (p. 134). She adds that as the only-child generation enters middle age, China could turn from saving to spending and therefore from trade surplus to trade deficit

(p. 78). Finally, she highlights the challenge of highly educated Chinese youth facing a high unemployment rate (p. 77).

To recapitulate, Jin offers a view of China that challenges Western views that associate inefficiency with Chinese state socialism. She shows that the China model traverses the binary of socialism and capitalism to facilitate efficiency, competition, private enterprise, and innovation. Additionally, such a state steers clear from a financial crisis with regulation, capital controls, and absence of financial complexity. However, Jin also makes clear that the China model has yet to prove its worth by achieving innovation-based growth and addressing the challenges of economic inequality and automation. Overall, her book shows that the Western obsession with free market capitalism needs to be dampened so that we could learn from the strengths and challenges of Chinese state socialism. However, she also cautions that there is no universal model of growth and that in terms of emulation, developing countries will have to institute policies based on their specific stage of development and unique history and culture (p. 46).

REFERENCES

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