

Book Review

Somsak Tambunlertchai

Faculty of Economics, Thammasat University, Thailand

The New China Playbook: Beyond Socialism and Capitalism.

Paperback published by Penguin Books 2024 ISBN 9780593512678.

(First published by Viking, an imprint by Penguin Random House in the United States 2023).

The New China Playbook offers insightful analyses on the impressive growth performance of the Chinese economy from the late 1970s until the present, the period after the change in development policy towards economic reform and opening up. The book tells interesting stories that help explain how a large developing country changed from a poverty-ridden agrarian economy to a leading economic power in a few decades of time. The book is useful for those who want to understand China's rapid economic growth over the last four decades. It is well-researched with interesting references and is able to answer many questions that seem to puzzle outsiders who have limited understanding of the Chinese political and social systems.

The author of “The New China Playbook,” Jin Keyu, grew up in China during the first decade of drastic change in policy. She was a child when China was still a poor country lacking essential goods for decent living and witnessed significant changes within a decade's time. She won a scholarship to attend high school in New York and later went to study at Harvard University, obtaining B.A. and Ph.D. degrees in economics. Currently, Jin is a faculty member at the London School of Economics in the United Kingdom. She advises and consults for the World Bank, the International Monetary Fund, and several financial companies in the United States and Europe and has many chances to go back to China several times. As a result, Jin has the benefit of understanding both Chinese and Western economic and social systems and can offer insights that might be lacking for those who lack knowledge and experience such as hers.

There are several interesting aspects in China's economic reform towards the market system. Some reform policies were first initiated by the action of common citizens but later implemented as national policy when the Chinese government saw the successful results of these initiatives. Examples are the household responsibility systems, which led to the abolition of the people's commune; the establishment of private enterprises that hired many workers (which was initially seen as a violation against the law); the experiments of economic reform measures in a specific region that later expanded to other regions throughout the country; and the gradual change in the price system by adopting the “two-tier price system” that allowed people and enterprises in the private sector to sell their

products in free markets with market prices but maintained controlled price levels for products sold by state enterprises.

When China launched its reform policy, many Western scholars criticized that the gradual reform approach in China could never work, as there would be many distortions in the economy in the process. However, China's gradual reform strategy turned out to be more successful than the market reform in Eastern Europe and avoided suffering from high inflation in the process of change in economic policy by the “shock therapy” approach prescribed by Western scholars to the socialist countries in Eastern Europe when changing their economic policy from a central planning system toward a market economy. Coase & Wang (2012) noted that China's transformation came not from well-planned or deliberate actions but from “marginal changes.” China's success in economic growth has been a major phenomenon in the 20th century, which has not been expected by many Western scholars.

While an important aspect of China's successful economic reform is the adoption of policies that are consistent with the country's comparative advantage, it should be noted that the New China Playbook does not describe economic policies that led to the deterioration of the Chinese economy before the change towards a market system resulting from the adoption of economic development strategies that worked against the country's comparative advantage, such as the emphasis on developing heavy industries despite the lack of financial resources and necessary technology needed for heavy-industry development. Also not described in the book are the great famine during 1959-1961 resulting from the “Great Leap Forward” strategy in accelerating grain production and encouraged false reports on production amounts, and the highly turbulent events during the 10 years of the Cultural Revolution (1966- 1976) that significantly destroyed the Chinese economy and society.

Despite the omission in describing the events in China before the change towards the market system, the New China Playbook is still very interesting. It enables the readers to understand China's rapid rise, takes into consideration the Chinese culture, institutions, history, and the interplay between households, business enterprises, and the state, and points out the importance of productivity and the dangerous aspects of rapid industrialization (Chapter 2). The description of China's consumers and the characteristics of the new generation and the in-depth analysis of the socio-economic consequences of the one-child policy (Chapter 3) are particularly interesting.

Chapter 4 discusses the story of Chinese firms and describes the new generation of Chinese entrepreneurs and the collaboration between local governments and private enterprises. The chapter then points out the pros and cons of such cooperation and the intertwining between the government and the Communist Party. The analysis of the effects of encouraging local governments to boost GDP in individual provinces and cities reveals some aspects specific to China that are not found in other countries.

Chapter 6 describes the characteristics of China's financial system, and risks and trajectory are analyzed. In this chapter, Jin explains the financial institutions in China compared with those in Western countries. Even though the Chinese economy has grown significantly over the years, its stock market is still quite rudimentary. Commercial banks in

China cannot satisfy the needs of businesses and households, with shadow banking developed to fill the gap.

In recent years, the Chinese economy has been suffering from the collapse of real estate companies following a boom in this sector. Tackling the crisis in the real estate sector is difficult, as the sector now occupies a substantial share of China's GDP. Jin's book explains the reason for the high demand for housing (or a permanent residence) for the Chinese people and the difficulties of solving problems in the real estate sector.

China is one of a few developing countries in the world that has significant technological development over time. During the first two decades after the change in economic policy toward reform and opening up, China was able to utilize the country's comparative advantage by exporting low-quality but cheap manufactured products using labor and natural resources. Later on, when China's labor costs rose substantially and other developing countries with abundant labor and natural resources were able to produce a variety of labor-intensive and resource-based products, China was no longer competitive in exporting such products. Thus, China turned to producing capital- and technology-intensive manufactured products. Today, China is able to export various manufactured goods using high technology. China's high-speed trains, electric vehicles, electrical appliances, and machinery are dominating the world market. The success of China in upgrading its products has largely been due to the policy of the government in technology and manpower development over a long period of time after the 1970s.

Although China was more technologically advanced than most other countries in the world in ancient times, after the 14th century, China's technological superiority significantly deteriorated. At the same time, other countries, particularly those in Europe, witnessed substantial technological progress, especially after industrial development in the 18th century. After 1840, China was invaded by Western countries and Japan with their superior military might. Even in the beginning of the 21st century, China still lagged far behind Western countries in technological development. After the economic reform in the late 1970s, China quickly caught up in the technology race. However, China is not a country with breakthroughs in technology. Many new technologies in the 21st century have been invented by developed nations, but Chinese entrepreneurs are capable of harnessing imported technology to their advantage. The technological race (Chapter 7) vividly describes how Chinese companies like Alibaba, Huawei, and TikTok utilized technology already invented to their benefit and have innovations that enable them to improve their businesses. The success story of Chinese high-tech companies in their ability to employ existing technology to their advantage and the effort of the Chinese government in the development of technology and manpower provide a valuable lesson to other developing countries that aspire to upgrade their technology and utilize the know-how already developed by other countries to capture the rapid technological development in the world at the present time.

China has an escalating influence on international trade. Chapter 8: China's Role in Global Trade, describes how the country has evolved to become a major participant in the international arena. Over the years, China has become a leading exporter and major trading partner for many countries, becoming the world's leading exporter above the United States and a key trading partner of many countries around the world. However, the success of

China also provoked trade protection from some trading partners, particularly the United States, which has suffered large trade deficits against China in the last decade.

China's ascension to the World Trade Organization (WTO) is also a critical event that led to significant international trade and investment, which provide substantial benefit to the Chinese economy. It is apparent that China's ascension to the WTO has benefitted the country substantially. What is less known to people in other countries is that China spent over a decade negotiating entry to the WTO and had to reduce import tariffs and other trade and investment barriers to gain WTO member status. In the negotiation process, there were criticisms and oppositions from various parties in China. However, the Chinese government was unyielding, with an aim to utilize foreign trade and investment to further push economic reform. Local companies, forced by foreign competition, will have to try to improve their competitiveness and improve quality.

In Chapter 9, *On the World's Finance Stage*, the author acknowledges the increasing role that China plays in global finance but also points out the limitations of the country in becoming the number one leader of the world's financial stage. The last chapter (Chapter 10) highlights how the very rapid growth of China in the last four decades affects the lives of the Chinese people and points out that Western-style democracy with capitalism is not the only system that can generate widespread prosperity. The future path for China and the various problems encountered by the Chinese government are discussed.

China's transformation from a poverty-ridden country to one of the world's leading economies is a good example of a country changing its development policy by utilizing its comparative advantage to develop the economy. Over the last four decades, several factors have helped China to achieve rapid growth and development. These include relative political, social, and economic stability; the building up of infrastructure; the development of technology and manpower; and the change of policy to cope with the changing world economic conditions. In the last decade, the world's economic situation has changed drastically. The Chinese government has initiated some strategies and policies to cope with the changing world economy. These include the Belt and Road Initiative (BRI), which connects China more closely with other countries; the adoption of supply-side structural adjustment policy; targeted poverty alleviation; and promotion of domestic consumption.

In recent years, a number of economic and social problems have become more serious in China. Externally, trade protection from the major trading partners, particularly the United States, has accelerated. Internally, there are problems such as increasing unemployment and financial difficulties in the real estate sector. The Chinese government has tried to alleviate them. However, these problems still remain up till now.

Can other developing countries learn from the Chinese experience? The answer should be "yes" in general, albeit with a caveat. As Rodrik (2007) pointed out, the growth strategy is context-specific. Policies that work well in one country may not produce good results in another. Nonetheless, in a broad sense, the major directions of economic development, such as keeping economic, social, and political stability, investing in infrastructure and developing of technology and manpower, are pathways that apply to all countries. However, specific policy measures to tackle problems encountered by a country should be consistent with the economic and social situations in each country.

The task required for a developing country, which has many constraints in its economy, to become an advanced economy is formidable, and it could take a long time to overcome. However, there is no need to rush; as long as the economy and the standards of living of the people are improving, economic reform policy measures can be continuously carried out. Getting institutions right is necessary in the long term. However, an initial spurt of growth and development can be achieved with minimal changes in institutional arrangements. Although the critical binding constraints should be identified and tried to get right, just as China implemented market-oriented policy to replace central planning in 1978 (Rodrik, 2007).

References

Coase, R., & Wang, N. (2012). *How China became capitalist*. New York, U.S.A. Palgrave Macmillan.

Rodrik, D. (2007). *One economics, Many recipes*. Princeton University Press, Princeton, U.S.A. <https://doi.org/doi:10.1515/9781400829354>

Tambunlertchai, S. (2013). *Prasopkan kan patirup thang setthakit khong chin lae botrian*. [China's experiences in economic reform and lessons]. *Thammasat Economic Journal*, 31(4), 1-44.

Tambunlertchai, S. (2022). *Khwam charoen lae khwam sueam khong setthakit chin: Chak adit thueng patchuban*. [Successes and failures in the Chinese economy: From past to present]. Retrieved from Wordpress's Layman's Economics Blog. <https://laymaneconomicsblog.wordpress.com>.

Tambunlertchai, S., & Tambunlertchai, K. (2015). China economic reform and its implications. *Rangsit Journal of Social Sciences and Humanities*, 2(2), 27-38.