

# Books That Are Noteworthy

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## **How China Escaped the Poverty Trap, by Yuen Yuen Ang, Ithaca and London: Cornell University Press, 2016**

We may ask: “how do organizations effectively transform an unfavorable, changing environment, disrupt and change for better growth and economic development?” Does China effectively respond to change, or does China lead a change? Yuen Yuen Ang suggests a short and simple answer: China does it through a system of “directed improvisation”. One could almost remotely intuit a modern take on J. A. Schumpeter famous “creative destruction” proposition followed by cluster of improvising innovations in Ang’s reasoning.

The author suggests that China has successfully “built markets with weak institutions”. It was thanks to and possible because of “directed improvisation” that allowed markets and institutions to “co-evolve”. This is the main theme and thrust of this small book with a big message.

Chinese central government ensured the adherence to directives and guidelines that evolved with agility over time with pragmatic economic reform process. Pragmatism was originally formulated by William James at Harvard who helped explain how America “ran”, that is, grew so fast. Whereas many other countries were adopting slowly, or imperfectly imitating some aspects of creative, open American market economy. China since the late 80s has been copying, adopting and adapting to changing world environment while shaping, reforming its own system using successfully America as their model of development.

Ever since Deng Xiaoping unleashed the entrepreneurial spirit in 1978 all local authorities were given substantial autonomy to achieve administratively set overall goals – the

nation’s economy has been growing at remarkable, enviable rates. Prof. Ang quotes one of an ancient proverbs (many of which come with just four Chinese characters): “right place – right fit”. The author uses a classic poverty trap diagram, to illustrate how normatively weak institutions are often both the cause and an effect of the so called trap for economically poor members of the society.

She provides ample lessons from China’s most recent four decades of development. It is hard to believe that China just in early 1980s was much poorer than Bangladesh, Chad and even Malawi. Emerging from the Mao era, China since Deng’s opening in 1987 has witnessed an unprecedented annual GDP per capita growth of low two digits (10 to 12 percent during much of the 1990s decade, followed by much smaller: 6 – 7 % in more recent years). Still, highly respectable growth rates.

China is now the world’s second largest economy, with a thirty fold increase in GDP per capita. The question whether it is already a market economy system (MES), or still a non-market economy (NME) is another important question. Success on this scale inevitably finds many intellectual fathers claiming paternity – China is variously portrayed as a victory for a strong state; free markets; experimentation and for central planning.

Ang’s book is a revealing study of explaining the cultural, social and political economy of China’s amazing performance. To use Walt Rostow imperfect metaphor of take-off, the changes implemented by China were broad, big and bold. While they were unprecedented they also were highly uneven. Uneven because the changes played out differently according to different policies and leadership styles over the past decades.

The phrase ‘one party state’ conjures up an impression of a regime intent on command and control. An autocracy like China has plen-

ty of red and black lines (don'ts and dos), of course, but what Ang reveals is a 'paradoxical mixture of top-down direction and bottom-up improvisation'. The state sets broad, and often very vague, parameters and then it is up to officials to improvise within them, often coming up with solutions and innovations.

She paints a picture of millions of study groups of civil servants poring over the latest Delphic utterances from the Central Committee (e.g. 'socialism with Chinese characteristics'), trying to work out what they can get away with, then entrepreneurially beaver away in responses. She has a partial explanation of why the vague rhetoric of leaders has such a galvanizing effect on officials – she doesn't touch on the stick – the potentially lethal consequences of getting things wrong/overstepping the new line.

Corruption in the form of 'profit-sharing' by officials was an integral part of the model (Ang even worries that the current crackdown could hamper further progress). More broadly the state operates a decentralized 'franchising mode', with local government at various levels keeping much of the proceeds of growth.

So what are the key lessons from the Chinese recent developments?

Surveying the experience of three Chinese counties, Ang does not engage in usual debate whether good governance or economic growth should come first. First and foremost, authorities allowed markets to emerge even though they were hampered by corruption, weak property rights, and low regulation. Market activity required officials to build stronger institutions, which in turn fostered the further development of markets. Due to China's vastness, this process could unfold only because local officials were incentivized to innovate constantly, no matter the risk a process Ang labels franchised decentralization. Dr. Ang compares China's reform experience to pre-Civil War America and contemporary Nigeria.

One takeaway of the book is that a poor country can harness the institutions they have and get development going fast while fine-

tuning it later. Her deliberate message challenges our conventional thinking of assessing a country's institutions by their distance from the global best practices. Yuen Yuen's work, in fact underlines the possibility of using existing institutions to generate inclusive growth. In order for a society to adapt to ever evolving challenges, she argues that its institutions need to empower local agents to experiment with strategies, have a process of selection for the superior strategies to win, and create niche and complementarity.

She describes in detail the specific mechanisms in the Chinese case, such as unambiguous goals the central government sets and communicates, a highly decentralized system where local government officials have a fair degree of autonomy to choose their strategies and the incentive provided by the management system. Her analysis of the functions of the party slogans and guidelines of varying degrees of ambiguity is equally fascinating. China single-minded drive towards growth has come with a cost. Air and water pollution has become most serious problems in many regions of the country. Some even argue that China started addressing the environmental and corruption problems much too late and will require more efforts to tackle them.

Dr. Ang has received two Early Career Fellowships from the American Council of Learned Societies (ACLS), the Eldersveld Prize for outstanding research from the University of Michigan's Department of Political Science, and won a global essay contest on "The Future of Development Assistance," sponsored by the Bill and Melinda Gates Foundation. Most recently, she was named a Fellow of the Public Intellectuals Program of the National Committee of U.S.-China Relations. She earned a B.A. in political science from Colorado College, and her Ph.D. from Stanford University. She was previously on the faculty of Columbia University's School of International and Public Affairs.