Rethinking the Beijing Consensus

Yasheng Huang

YASHENG HUANG is a Professor in the MIT Sloan School of Management at the Massachusetts Institute of Technology, and a Research Associate of the National Asia Research Program. He can be reached at <yshuang@mit.edu>.

NOTE ~ This essay builds on the author’s previous research and argumentation presented in Capitalism with Chinese Characteristics: Entrepreneurship and the State (New York: Cambridge University Press, 2008). An earlier version of this essay was presented at the Asia Policy Assembly in Washington, D.C., on June 17–18, 2010.

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This essay examines whether or not there is a policy shift underway in China from free markets toward state capitalism.

**MAIN ARGUMENT**

In the wake of the deepest recession in the West since 1929, many Western as well as Chinese analysts have been quick to pronounce the death of free markets and the triumph of the so-called Beijing Consensus. Not only has economic power gravitated toward the East, they argue, but the shift to state capitalism, Chinese-style, is burying market economics. Based on a careful analysis of data going beyond GDP performance, this essay shows that when measured by factors that directly track the living standards of the average Chinese person, China has performed the best when it pursued liberalizing, market-oriented economic reforms, as well as conducted modest political reform, and moved away from statist policies. In addition, using measures other than GDP, this essay shows that China’s performance metrics are in fact highly heterogeneous, which contrasts with the view implied by the Beijing Consensus that China is a homogenous country.

**POLICY IMPLICATIONS**

- For China, the essay shows the danger of embracing and accentuating economic statism. China needs to rethink its economic development strategy, which has so far suppressed the country’s vast potential of internal final consumption while rapidly ramping up production capacity. That combination is increasingly untenable. To rebalance, China must revert back to a more liberal package of economic and political reforms characteristic of the 1980s and move away from the statist model admired by many Western observers.

- For the United States, the essay underscores the importance of understanding the root cause of underconsumption in China—the falling growth rates of personal income since the early 1990s associated with a development strategy based on economic statism.
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The term “Beijing Consensus” was coined by Joshua Cooper Ramo 
in 2004. Ramo, a young analyst at the Foreign Policy Centre in the United 
Kingdom, in his book The Beijing Consensus sets the ambitious objective to 
debunk the famous doctrine of the “Washington Consensus” and provide 
an alternative intellectual framework.¹ The Washington Consensus, so 
named to underscore its American origin, espoused private property rights, 
economic opening, financial reforms, macroeconomic stability, and political 
liberalization to promote economic growth.

For much of the 1990s and at the turn of the 21st century the centrally 
planned economies of Russia and Eastern Europe collapsed, while India and 
much of Latin America and Africa moved away from the commanding heights 
of economic statism. The free market principles so succinctly enshrined in 
the Washington Consensus had reigned confident, triumphant, and even 
hegemonic. One political scientist famously proclaimed the end of history—
“the end point of mankind’s ideological evolution and the universalization 
of Western liberal democracy as the final form of human government.”² By 
2004, the year in which China’s GDP broke a new record by incrementally 
contributing more to world GDP growth than the United States and by 
accelerating into a double-digit range, the Washington Consensus started to 
be rivaled by a set of policies and values that Ramo labeled as the Beijing 
Consensus. Ramo argues that the success of China contradicts every single 
principle formulated in the Washington Consensus. According to him, the key 
ingredient of the China model is its ideological and operating dexterity. China 
has not bothered to follow any set economic and political prescriptions but 
has experimented boldly and innovatively. The eclectic approach purportedly 
used by China encompasses a variety of institutional forms. If state ownership 
promotes growth, why privatize? If a one-party system works wonders in 
generating GDP growth, why democratize? If state financial controls are 
effective in resource mobilization, why liberalize?

¹ See Joshua Cooper Ramo, The Beijing Consensus (London: Foreign Policy Centre, 2004), available 
Ramo stated in 2004, “What is happening in China at the moment is not only a model for China, but has begun to remake the whole landscape of international development, economics, society and, by extension, politics.”

Today, after the financial implosion on Wall Street and during the double-digit unemployment in the United States, many influential analysts have reached the same conclusion as Ramo did six years ago—that the battle has been won, decidedly, by the Beijing Consensus. Washington Post columnist David Ignatius, paraphrasing Richard Nixon’s backhand tribute to John Maynard Keynes, declared, “We are all Chinese now.”

Before the 2008 financial crisis, the Beijing Consensus was an interesting idea that animated discussions at academic seminars and conferences, mostly in Western countries. This is no longer the case. Chinese government officials and academics themselves have embraced some of the main claims in the Beijing Consensus. In particular, they have embraced the idea that Chinese growth is driven by economic statism—that is, the state exerting extensive control over the economy—rather than by the vibrancy of the market and influential private entrepreneurship. China is now in the midst of one of the most statist periods in its reform era with the massive stimulus package that has poured a huge portion of the country’s GDP in financial resources into the state sector. One estimate, as I learned during my trip to China in May 2010, is that 90% of the stimulus funds have gone to state-owned enterprises (SOE). The term guojin mintui (or “the state advances as the private sector retreats”) suggests that China’s current policy differs significantly from that in the 1980s and 1990s, when Beijing achieved economic take-off by relaxing state controls over economic life, decentralizing and extending profit incentives to private enterprise and the local government level, and opening up domestic and international markets.

Many policy and institutional innovations that proponents of the Beijing Consensus associate with China hold normative implications for other countries—for example, for India, which some have urged to learn from the proactive and pro-business approaches pursued by the Chinese government in the 1980s and 1990s. Influential economists invoke China in their advocacy for a “heterodox” growth strategy—a strategy that emphasizes the role of the government rather than the primacy of the market. China’s size and rapid rate of growth make it extremely important to get the China story right in order to conduct research on the country’s growth and draw the right policy lessons.

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3 Ramo, The Beijing Consensus, 3.
Given the theoretical and policy stakes involved, it is surprising that the debates and discussions on how well China has actually performed have occurred at a very high level of aggregation and have focused on a very narrow set of economic data (mainly GDP). This essay will attempt to provide empirical grounding to assess the relevance and the wisdom of the Beijing Consensus. These empirical details are listed and previewed here. First, how has China performed economically in the 30 years between 1978 and 2008? One would have thought that this issue had been settled a long time ago. Apart from some quibbles about Chinese GDP data, most economists converge on the view that China’s growth has been superb. I offer no contrarian evidence on Chinese GDP growth in this essay. The wrinkle to this consensus view—and it is a fairly large one, as I will show—is that once we move away from the GDP-based metrics, Chinese performance begins to look less stellar, especially since the first decade of reforms in the 1980s. The biggest divergence between the GDP measure and those measures based on personal income—the income that accrues to Chinese households—occurred in the 1990s. During that period from 1989 to 2002, the per capita GDP grew at a real rate of 8.1% a year. This is the performance that has so impressed economists everywhere and that is the miracle growth believed to rival that of other East Asian success stories. During the same period, however, Chinese personal income per capita averaged only 5.4% a year in growth. The gap is thus huge between GDP growth and the performance of a metric that directly tracks the actual living standards of the average Chinese person. More important and relevant for this essay, however, is the variance of personal-income growth rates across different time periods. Chinese personal income grew fastest during the 1980s and then slowed down dramatically during the 1990s, whereas GDP growth remained unaffected.

As it turns out, these trends in Chinese personal-income growth correlate closely with different types of economic and political policies. When China was moving in a more liberal political and policy direction, personal income grew very fast. When market reforms slowed and China was pursuing more statist policies, the growth of personal income slowed down. The pattern of this correction, at least on the surface, directly contradicts some of the major claims made by the Beijing Consensus. The other takeaway is that once we move beyond the readily available data on GDP, the picture of China’s economic performance becomes murkier and more nuanced.