

The Chinese Catching Up: A classical developmentalist approach

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Abstract: The People's Republic of China's continuous and robust economic growth is one of the most important economic facts of our time. China's experience is a true case of catching up in course and consequently, of structural change from a backwardness situation to a rapid economic dynamism that led this country to become the world's second-largest economy. This paper aims to understand the process of Chinese catching up from a developmentalist theoretical approach that enables us to understand the dynamics of China's economic transformations after the reforms that began in 1978. For this purpose, the paper takes as its starting point some authors who inaugurated the debate on the nature of economic development (and underdevelopment) during the 1940s and 1950s, that is, the "pioneering period": Arthur Lewis, Alexander Gershenkron, Albert Hirshman and Raul Prebisch. These authors make it possible to understand essential elements of theoretical validation that when properly considering the specificities of China, allow a deeper and complex analysis of the recent process of Chinese development.

Keywords: China; economic development; catching up; classics of development

Resumo: O crescimento econômico contínuo e robusto da República Popular da China é provavelmente o fato econômico mais importante do nosso tempo atual. A experiência da China é um verdadeiro caso de "catching up" em curso e, conseqüentemente, de mudança estrutural de uma situação de atraso para um rápido dinamismo econômico que levou este país a ser a segunda maior economia do mundo. Este artigo objetiva entender o processo de "catching-up" chinês a partir da abordagem teórica desenvolvimentista de modo a compreender a dinâmica das transformações econômicas da China após as reformas que começou em 1978. Para este propósito, o artigo toma como ponto de partida alguns autores que inauguraram o debate sobre a natureza do desenvolvimento econômico (e subdesenvolvimento) durante a década de 1940 e 1950, isto é, do "pioneering period": Arthur Lewis, Alexander Gershenkron, Albert Hirshman and Raul Prebisch. A partir destes autores é possível compreender elementos essenciais de validação teórica que, quando devidamente consideradas as especificidades do caso chinês, permitem uma análise mais profunda do recente processo de desenvolvimento chinês.

Palavras-chave: China; desenvolvimento econômico; catching-up; clássicos do desenvolvimento

Classificação JEL: B25; O17; O53; P41

Área 2 - Economia Política

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1. Introduction

According to Marx (1964, p. 7), "the country that is more developed industrially only shows, to the less developed, the image of its own future". In this sense, the process described as *catching up* is the representation of a shift from a stage of underdevelopment to a stage of economic development, understood as a historical process of capital accumulation and productivity increase that allows per capita income growth and improved well-being among a country's population¹. The essence of the process of economic development lies not only in the political decision capable of mobilizing an entire society around a strategy of modernization and overcoming a situation of backwardness but also in achieving a balance between state and market. In other words, it is the establishment of a national development strategy.

The scope and length of Chinese economic growth since 1980 clearly demonstrates an ongoing process of vigorous catching up. This process has been perceptible at least since the 1990s, when three elements intertwined: (1) investments exceeded consumption in the formation of aggregate demand and achieve very high levels; (2) the country became an oil importer (1993), greatly altering the conditions of the international market of this commodity; and (3) the urbanization process was accelerated, followed by the launching of broad, visionary programs to physically connect China's immense territory with an important strategic objective in the formation of a unified national market and a continental economy.

The conventional view of Chinese development generally underscores openness to foreign capital and market deregulation as key factors in the process, criticizing other policies and institutions in China, including the presence of a broad public financial system, state-owned enterprises in key sectors, comprehensive controls on capital flows, etc., which distract the country from a free market economy. In reality, the Chinese experience is quite dissimilar from the set of liberal policies and reforms widely known as the Washington Consensus² (Lo and Zhang, 2011). For example, capital flows and market deregulation have been gradually controlled by the Chinese government.

This paper aims to understand the process of Chinese catching up based on a developmentalist theoretical approach that allows us to understand the dynamics of China's economic transformations after the reforms that began in 1978. For this purpose, the paper takes as its starting point the authors who inaugurated the debate on the nature of economic development (and underdevelopment) during the 1940s and 1950s, that is, the "pioneering period" (Meier and Seers, 1984).

Four authors were chosen because of their importance to the analysis of the problem of late and peripheral development and whose approaches we consider complementary. Arthur Lewis has a notion of economic development with an unlimited supply of labor. Given China's huge rural population, this approach has an obvious application in the Chinese case. Alexander Gershenkron analyzes the distinct historical specificities of the process of late industrialization in which both the financial system and the state play a fundamental role in the process of capital accumulation. Albert Hirschman analyzes the process of unbalanced development and its possibilities of linkage in the process of industrialization, in opposition to the conception of a development carried out by defined stages. Finally, Raul Prebisch develops a classical approach to the uneven center-periphery relationship. As we will see, China is an example of the implementation of a development strategy with a view to overcoming its own peripheral condition. All four of these authors reject the idea that economic development is a natural process to be achieved by underdeveloped economies and seek to understand the specificities of the process of peripheral development, whose dynamics of development must be induced by the State.

This work's contribution is to make use of these authors as a starting point for a comprehensive and multifaceted analysis of the Chinese catching-up process. To the best of our knowledge, no work has

¹ According to Furtado (1964, p.29, authors' translation), development is a "process of social change whereby a growing number of human needs - pre-existing or created by change itself - are satisfied through a differentiation in the productive system resulting from the introduction of technological innovations".

² Neoliberal ideology that originated in the United States and the United Kingdom and spread around the world prompted an agenda of liberal reforms oriented towards emerging economies (deregulating markets, reducing the role of the State, privatizing, providing financial openness, etc.) disseminated by institutions such as the IMF, the IDB and the World Bank. For an assessment of the Washington Consensus, see, among others, Stiglitz (1999) and Williamson (2000).

adopted this type of analytical approach, which integrates this set of authors to understand the phenomenon of China's recent development.

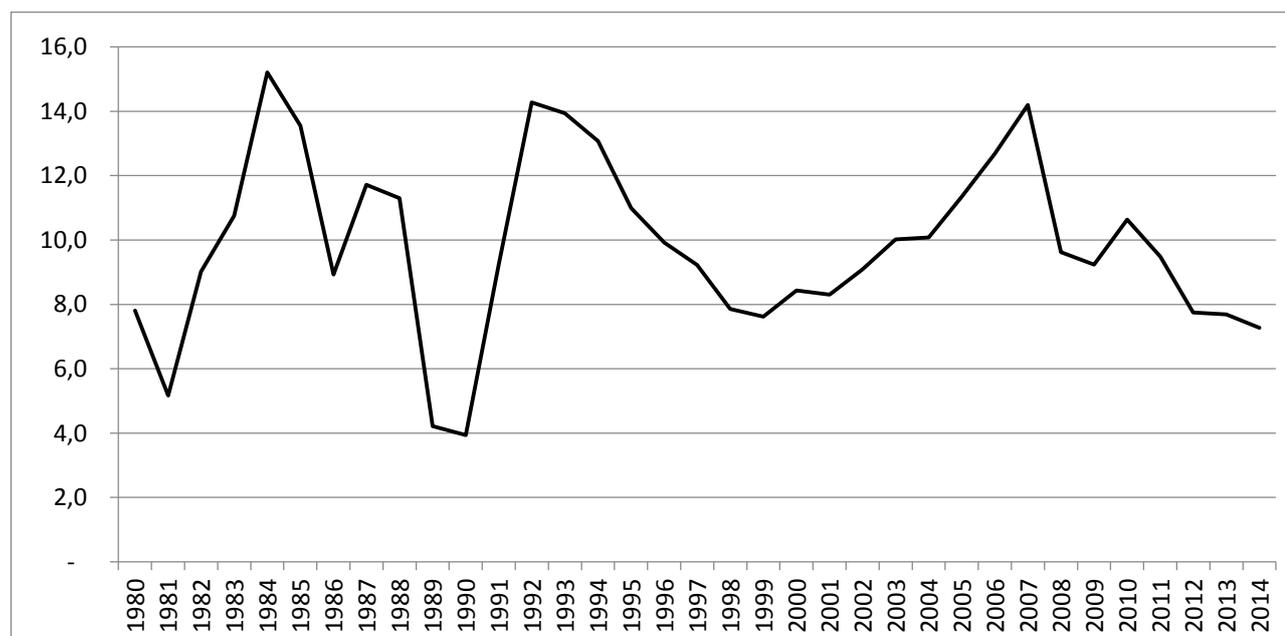
In addition to this introduction, the paper is divided into three sections. Section 2 analyzes some of the characteristics and devices of China's dynamics of accumulation and growth, notably the evolution of the rate of investments, exports, exchange rate and financing. Section 3, the core of the paper, focuses on an analysis of China's development from the economic reforms and openness that begun in the late 1980s, using as its starting point contributions by the authors of the development classics. Section 3 summarizes this paper's primary arguments.

2. Growth and catching up devices

China's economic growth in the 1980-2015 period was outstanding: its average real GDP growth in the period was 9.5% p.a. Therefore, China has experienced almost uninterrupted growth above the international average for more than four decades (Figure 1). Since the economic reforms that began in 1978, a new dynamics of accumulation took the place of earlier development, before the reforms, that was centered both on uneven relations between the countryside and the city and on the form of "balanced growth" based on investment blocks, especially in heavy industry.

For 35 years, the average growth rate of China's per capita GDP per capita was approximately 9.0% p.a., with per capita income (per purchasing power parity) increasing from just US\$ 250 in 1980 to \$ 9,040 in 2014: a 36-fold increase! This process was accompanied by a high rate of investment averaging 36.9% of GDP in 1982-2011 and approximately 45% as of 2003. Since 2013, China has had the highest volume of foreign trade in the world, strongly affecting virtually all other national economies. It has also become a major exporter of capital through direct foreign investment: from US\$ 0.8 billion in 1990 to US\$ 140 billion in 2014. Foreign direct investment (FDI) in China increased from US \$ 1.4 billion in 1984 to US\$ 119.6 billion in 2014 (NBSC, 2016). Until 1991, these investments were exclusively focused on the export sectors, with a high concentration in Guangdong. However, beginning this year, an increasing share of FDI in the form of joint ventures has been directed to the construction and expansion of production capacity focused on the domestic market (Medeiros, 1998, p.97).

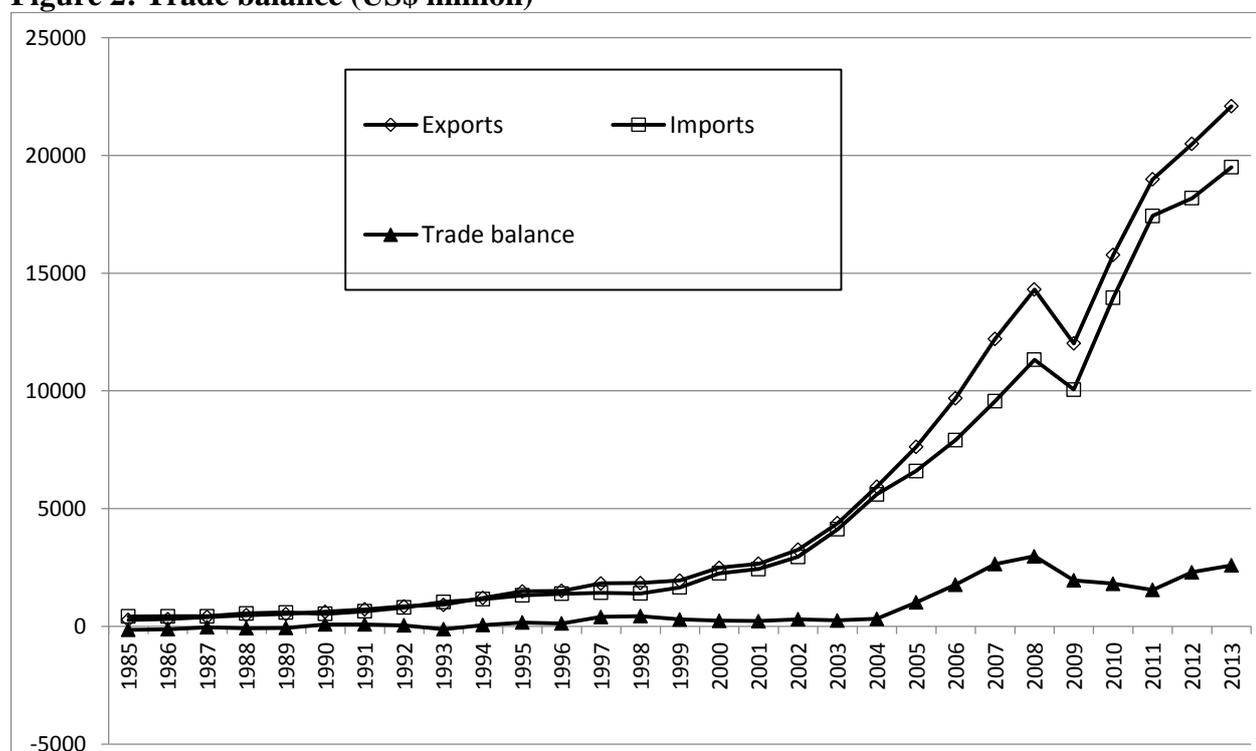
Figure 1: China – GDP growth (%)



Source: NBSC (2016)

The weights of China's international influence and the perception of a modern mercantilism can be seen in the evolution of China's trade composition, which reflects the increasing complexity of its industry. In 1978, total exports and imports were valued at US\$ 9.75 billion and US\$ 10.89 billion, respectively, whereas in 2014 those values increased to US \$ 2.34 trillion and US\$ 1.96 trillion (Figure 2). Until 1989, China had trade deficits as a result of the stronger growth of imports (food, capital goods, etc.) than exports. Favored by a competitive exchange rate, which was kept relatively low by a set of target policy measures carried out by China's central bank, including capital controls on inflows and outflows, exports began to grow strongly after 1995; such trend was followed by the (slightly lower) growth of imports, which were subject to customs and non-tariff measures, resulting in a vigorous import-substitution process. As of 2005, however, exports have grown rapidly in a manner that is more diversified. China's foreign exchange reserves jumped from US\$ 1.6 billion in 1978 to US\$ 3.84 trillion in December 2014; China's foreign exchange reserves were by far the highest in the world, the result of both trade performance and FDI inflows.

Figure 2: Trade balance (US\$ million)



Source: NBSC (2016)

The first steps of China's economic reforms³ created conditions for active choices related to China's development strategy and autonomy in its economic policy in the face of increasing global productive and financial integration. It should be noted that the US offensive on the macroeconomic determinants of the Japanese economy (Plaza Agreements of 1985) accelerated the process of reconfiguring the international division of labor, promoting geographic rearrangements in the world and Asian economic space that ultimately benefited the mediation between China's strategic objectives and its own policy of internalizing technologies and advanced methods of production management with the acceleration of FDI in the Chinese economy (Medeiros, 2006).

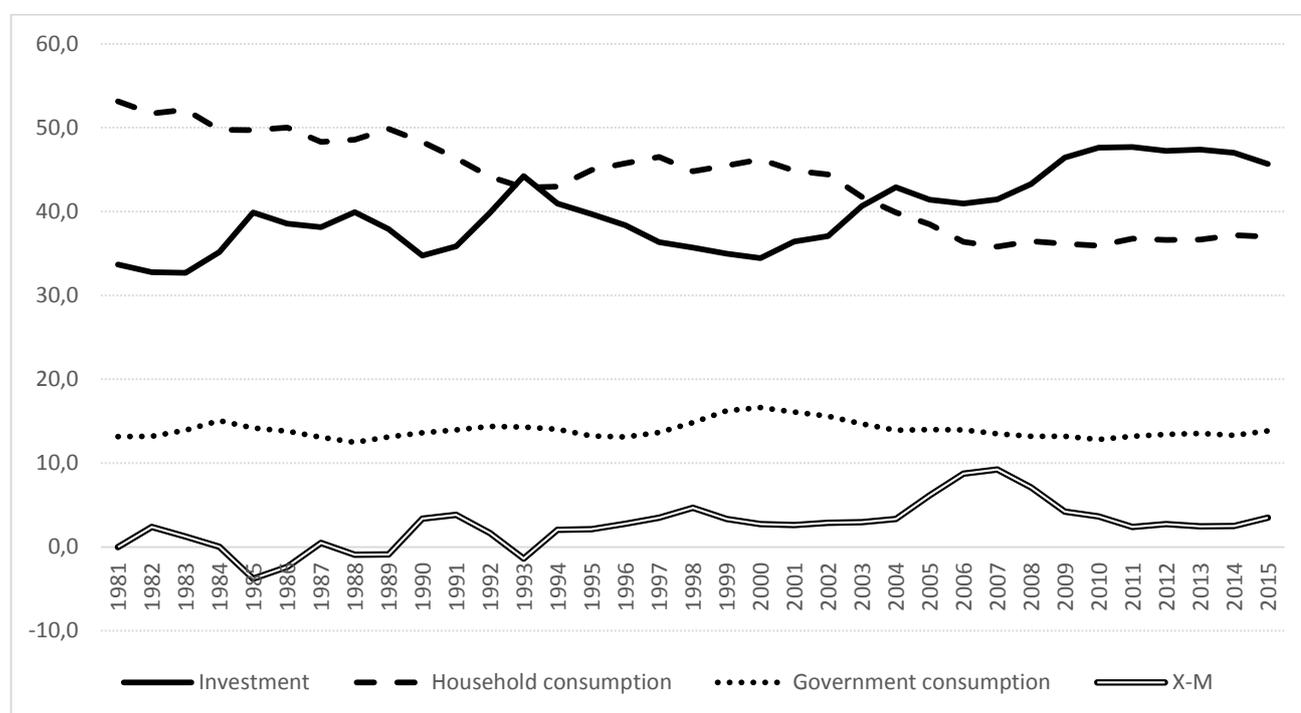
A true "growing out of the plan" (Naughton, 1996) was inaugurated with the adoption of the so-called "contract of responsibility" between the peasant family and the state, which allowed peasants to sell their agricultural surplus, thus increasing both their agricultural labor productivity and their

³ The experience of opening the Chinese economy to foreign capital has been gradual and incremental, with reforms first implemented as experiments in only a few localities and provinces and later implemented at the national level.

consumption. The high rate of economic growth between 1978 and 1984 was accompanied by structural changes in China's consumption patterns, with an expansion of consumption such as the acquisition of televisions, refrigerators, watches and washing machines, and the resulting explosion in the domestic production of these products, notably in Townships and Village Enterprises (TVEs) (Singh, 1993).

Overall, this movement largely explains the preponderance of consumption to the detriment of investment throughout the 1980s, which began to change only in 1993, and notably in the 2000s, when a huge amount of infrastructure investment began to meet the needs of connecting regional markets (reducing large inequalities between the coast and the interior) and to implement countercyclical policies, especially since 2008 (Figure 3). Government expenditures have been maintained at high and more or less stable levels (between 13 and 17% of GDP), whereas net exports has increased since beginning of the 1990s by approximately 2.5-4.0% of GDP, reaching peak levels in 2006-2008. Indeed, beginning in 1990 exports over GDP increased sharply from 14% to more than 20% since 2000, but this trend was followed by a strong increase in imports (Lo, 2016).

Figure 3. Investment, household consumption, net exports and government expenditures - % of GDP (1981-2014)



Source: World Bank (2016)

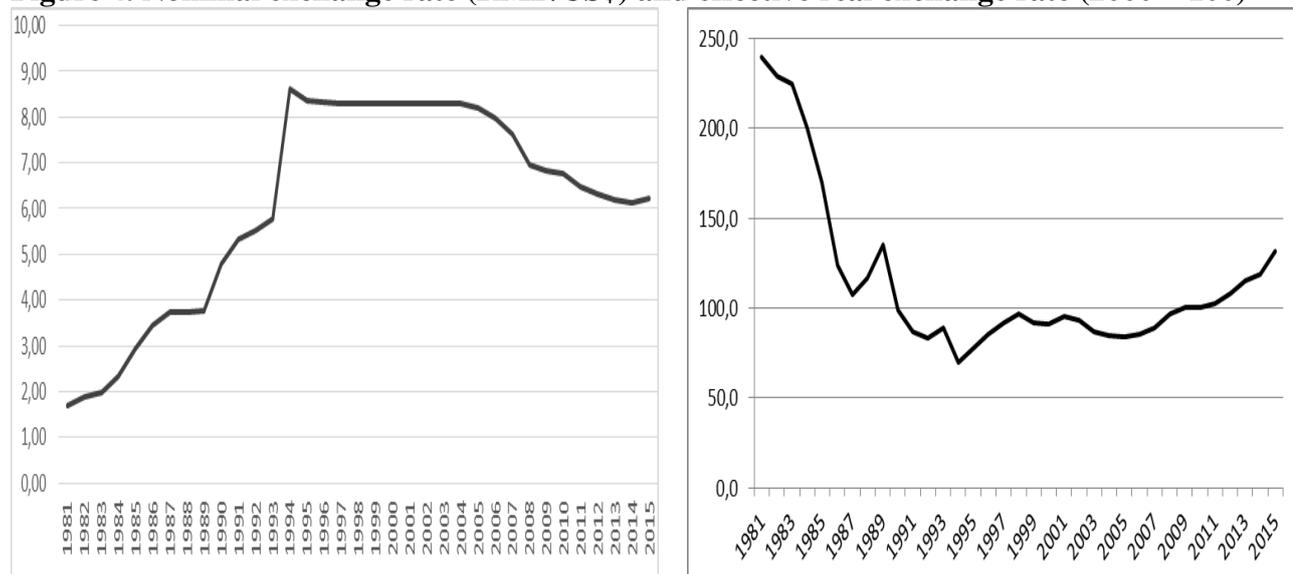
The macroeconomic variable that attracts the most attention is exports and their evolution since the 1990s, which resulted from the implementation of Special Economic Zones⁴ (SEZ). It can be said that this is the "new element" that differentiates the composition of demand perceived between 1952 and 1980, strongly concentrated in the investment-consumption combination, that was transformed into another combination, initiated after the economic reforms, with increasing weight of exports and investment. The ratio of exports over GDP rose from 7.5% in 1980 to 10.5% in 1986, 17.5% in 1991, 20.4% in 1995, 26.5% in 2003 and 35.7% in 2006, then falling to 22.6% in 2015 (World Bank, 2016). In absolute terms, China's export growth has been almost geometric, especially since China's 2001

⁴ Special Economic Zones (SEZs) were experiments in attracting foreign investments based on more flexible laws and regulations than in other parts of China, intended to embed productive units that were in large part associated with Chinese joint ventures. It is wrong to restrict China's experience to notions of "export platforms" when in reality, the very gradual spread of this experience throughout China attests to a sophisticated strategy that currently involves the constitution of a unified continental economy in the same way as occurred in America during the second half of the nineteenth century. On the territorial dynamics of Chinese development, see Oliveira (2003, p.6-13).

admission to the World Trade Organization (WTO). Indeed, Chinese exports increased from US\$ 18.1 billion in 1980 to US\$ 62.1 in 1990, US\$ 121.0 billion in 1994, US\$ 249.2 in 2000, US\$ 1.43 trillion in 2008 and US \$ 2.34 trillion in 2014 (Figure 1). According to M6dulo and Hiratuka (2012, p.3, authors' translation), "until 2000, although the accumulated growth of Chinese exports was higher than that accumulated by the world, the difference between them was not so great as after 2000. During the period 2000 to 2008, world exports have more than doubled, while Chinese exports more than six-fold."

The exchange rate is a key macroeconomic variable in China's foreign trade and productive integration strategy and has a growing influence on the direction of the international economy, contrary to a standard list of recommendations in this regard that recommends allowing the exchange rate to adjust to "market forces and making the currency convertible for current account transactions" (Rodrik, 2006, p.3). Figure 4 shows the trend of the gradual devaluation of the exchange rate beginning in 1982, which reached maximum devaluation in 1994. A pegged exchange rate policy (1 US\$ = 8.3 RMB) was implemented in the 1995-2006 period; in 1996, China's currency became fully convertible. With regard to the effective real exchange rate⁵, which is a relevant indicator of external competitiveness, there is a marked real devaluation until 1994, which after a partial revaluation in 1995-1998 (because of the increase in domestic inflation) remained more or less stable (but strongly devalued compared to the 1980s) until 2011, when a gradual trend of currency appreciation emerged. The shift from a pegged to a semi-fixed exchange rate regime (with a narrow band) began in 2005, a pegged exchange rate was re-established in July 2008 and a floating currency with a small band (i.e., a semi-fixed exchange rate) was introduced in June 2010. Finally, in April 2014, the People's Bank of China (PBC) began to engage in a controlled depreciation. The PBC's intervention in the foreign exchange market is made possible by the very high level of foreign reserves and the maintenance of a wide system of capital controls on both inflows and outflows, primarily through prohibitions and quantitative controls⁶.

Figure 4. Nominal exchange rate (RMB/US\$) and effective real exchange rate (2000 = 100)



Source: World Bank (2016)

⁵ According to the World Bank (2016), the effective real exchange rate "is the nominal effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs."

⁶ The objectives of capital controls evolved over time, but generally have included the following: (i) helping channel external savings to desired uses; (ii) keeping monetary policy independent of the influence of international developments in the context of a managed exchange rate regime; (iii) preventing firms and financial institutions from taking excessive external risks; (iv) maintaining a balance of payments equilibrium and exchange rate stability; and (v) insulating the economy from foreign financial crises (Zhao, 2006, p.8). See also, Zhang (2012, p.86), according to whom "The Chinese government has been very cautious to loosen the control of portfolio investment, let alone financial derivatives, because portfolio capital flow tends to be more volatile and speculative".

It is noteworthy that the process of structural change was accelerated because of both the growing trend of globalization of the world economy and the changes in Asia's domestic productive structures, directly benefiting China. This process also resulted from a national response to the challenge of development, based on the Chinese government strategy of shifting the exports of labor-intensive products to more capital-intensive products and using FDI as a way of building this productive capacity (Medeiros, 2006, p.387). In this context, a competitive exchange rate acted as an inductive element of exports that was well-coordinated with active industrial policies. Indeed, China has adopted a broad set of industrial policies since the implementation of the Special Economic Zones through strategies involving the mergers and acquisitions of state-owner firms, import substitution processes favored by a devalued exchange rate, purchases of technological packages and broad incentives for the creation of global players⁷.

As a result of this strategy, China's export content started to become increasingly weighted toward higher value-added manufactured products such as electronics and machinery: in 1997, the value of China's exports of electronic products increased from US\$ 19.4 billion in 1991 to US\$ 83.8 billion in 1997 and US\$ 174 billion in 2002. It made a significant jump in 2008 (US\$ 614 billion) and reached US\$ 718 billion in 2014. Exports in the machinery sector totaled US\$ 18.7 billion in 1997, increasing more than tenfold in ten years, reaching US\$ 215 billion in 2008 and US\$ 318 billion in 2014 (OECD, 2016).

Figure 3 shows evidence that an investment-led dynamic has consolidated since the end of the 1990s⁸. Industrial policies aiming at internalizing new technologies should also be highlighted as the core of this dynamic. The new rounds of FDI started in the early 2000s. In the medium term, this shift led to a structural change in the economy caused by China's rapid urbanization that resulted from its economic and territorial development process, caused by heavy infrastructure investments with a view to the greater unification of China's economic space and China's integration as exporter of products of high and medium technological density⁹.

Urban dynamics are an important part of this change. Urban employment has doubled in the past two decades: in 2014 it surpassed rural employment, exerting pressure on the urbanization rate, which reached 54.8% in 2014 and is expected to reach 60% by 2020 (Lam et al., 2015, p. 11). The demand for new housing highlights the important role of construction in the growth of the investment rate: the construction of urban housing increased by approximately 1,250% between 2001 and 2013 (NBSC, 2016).

The analysis of the increasing weight of investments in the composition of aggregate demand and their role as an element of the execution of both industrial and countercyclical policies cannot be separated from the interaction between the State's objectives, its coordination capacity and the socialization of investment with the public financial system (along with its high degree of capillarity from the national to the municipal level). This combination has guaranteed both China's conditions and the construction, in Kissinger's words (2011, p. 623), of "dams against unfavorable historical tides".

The investment rate in China jumped from 41% in 2007 to 48% in 2009, remaining at that level until 2013 and decreasing to 46% in 2014. The increase in the investment rate from 2009 represented the Chinese government's vigorous response to the decrease in economic activity in the last quarter of 2008 (followed by difficulties in external demand in the context of the global economic crisis), with the launch of an investment package of approximately US\$ 586 billion, or 12.5% of GDP (Naughton, 2009, p.2). The execution of infrastructure megaprojects is evident in the percentage of the package destined for this purpose (38%), with an emphasis on the construction of 8,000 kilometers of high-speed railways (World

⁷ On the industrial policies adopted by the country since the beginning of the economic reforms, see Heilmann and Shih (2013).

⁸ Ahuja and Nabar (2012) analyzed this shift in the driver of the accumulation of more heavily weighted investments and their effects on the international economy.

⁹ According to Oliveira (2003, p.10, authors' translation), "Shanghai has been linked with global networks in six main sectors: steel, automotive, petrochemical, energy, telecommunications and computing. An area of 350 square kilometers on the right bank of the Pu River (Pudong) has been rebuilt, at a cost of several billion dollars, to house the fine-flowered offices and laboratories of high-tech industries, which find Chinese partners in the city for the most diverse initiatives, and an army of young scientists and engineers, which universities and local institutes do not cease to produce."

Bank, 2010). Another 26% went to reconstruction in Sichuan Province, which experienced a major earthquake in 2008.

China's response to the challenge of the 2008 global crisis can be viewed from many angles. It is important to highlight the consolidation of a higher level of coordination and socialization of investment¹⁰ in the context of a countercyclical policy. An equally vigorous analysis is necessary that goes beyond the great contradictions that have arisen during the creation of this investment package, especially the need for another turning point in the direction of consumption to create a new driver for economic growth. The opportunities opened by this imbalance do not always imply—according to more or less vehement visions of orthodoxy—a probable crisis with an epicenter in excess of the state presence to the detriment of small markets, as will be explored in the following section.

3. Chinese catching-up in the light of contributions of Lewis, Gershenkron, Hirschman and Prebisch

Following our analysis of variables that are central to the understanding of China's development process in China, in this section we will assess China's catching up in light of the contributions of classical authors in the developmentalist tradition: Lewis, Gershenkron, Hirschman and Prebisch. Each of their contributions, which are far from exhaustive, creates possibilities for understanding and insights related to China's economic-development issues. As we will see, the complexity of China's economic and social experience and its recent evolution constitute an immense foundation for theoretical validation of our analysis of the economic development process.

3.1. The "Lewisian turning point" with Chinese characteristics

In 1954, Arthur Lewis (1915-1991), an acknowledged "development economist" and winner of the 1979 Nobel Prize in Economics, published his most influential paper, "Economic development with unlimited labour supply". This work makes an original contribution in which the theoretical assumptions of classical economics give rise to a theory of development in which the "capitalist sector" (particularly the manufacturing sector) expands under the induction of an unlimited supply of labor released by the "subsistence sector" (subsistence agriculture and other low-productivity sectors). At first, the expansion of the modern capitalist sector occurs without upwards variations in the wages in the face of an unlimited supply of labor in the subsistence sector. This allows greater returns on capital, which are reinvested in capital accumulation, in turn driving "capitalists" to expand employment, requiring additional work from the subsistence sector. According to Lewis (1954, p.141),

The price of labour, in these economies, is a wage at the subsistence level (...). The supply of labour is therefore 'unlimited' so long as the supply of labour at this price exceeds the demand. In this situation, new industries can be created, or old industries expanded without, limit at the existing wage; or, to put it more exactly, shortage of labour is no limit to the creation of new sources of employment.

The point at which the subsistence sector's abundant labor force is wholly absorbed by the capitalist sector and capital accumulation begins to increase wages in the capitalist sector has been called the "Lewisian turning point", which has been widely discussed more recently in the context of China's economic development. Indeed, recent events in China (for example, in 2002, 2004 and 2009) directly related to the incidence of labor shortages in the industry, especially in the more export-oriented segments inspired a hypothesis about the possible end of a historic period marked by accelerated economic growth favored both by an abundant and cheap labor force and by a demographic bonus. According to Feng and

¹⁰ According to Keynes (1964, p.378, italics added), "[T]he state will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways (...). I conceive, therefore, that a somewhat comprehensive *socialization of investment* will prove the only means of securing an approximation to full employment; though this need not exclude all manners of compromises and of devices by which public authority will co-operate with private initiative".

Dewen¹¹ (2005, p.207), this bonus accounted for 26.8% of economic growth between 1982-2000. Some key questions emerge here. Would China have reached a point of exhaustion of the role of abundance of labor as a functional variable for economic growth? Or would the "duality" between the "modern" (industrial) and "backward" (agriculture) sectors have been exhausted, with both sectors reaching similar levels of development and a rate of urbanization and expansion of the services sector similar to those seen in the more advanced capitalist countries?

The applicability of Lewis' thesis to China's recent development calls for mediations related to the specificities of the Chinese case. According to Islam and Yokota (2008, p.2),

When it comes to China, the application of the Lewis model faces some additional difficulties arising from several of her specific institutional features, such as the (i) legacy of central planning, (ii) restrictions on rural-urban migration, (iii) frequent changes in the administrative jurisdiction of urban and rural counties, and (iv) establishment of modern industrial enterprises in rural areas in the form of Township and Village Enterprises (TVES).

In the case addressed here, some variables should be analyzed. China's urbanization rate—which was 54.8% in 2014—has increased and is expected to reach 60% in 2020. However, China's rate remains lower than that of the USA (82%), Germany (75%), France (80%), South Korea (82%) and Japan (93%), according to World Bank data. China's low unemployment rate (4.04%)¹² is both an expression of conjunctural factors—increased employment in infrastructure, civil construction and labor-intensive services sector, arising from the own process of growth and diversification of production¹³—and directly related to households as land owners and the possibility for migrant workers to establish businesses in their villages as an alternative to urban unemployment. In China, the "industrial reserve army" primarily focuses on villages, not on the periphery of major cities¹⁴. The *hukou system*¹⁵ of internal migration, despite a continuous process of relaxation, has not yet been completely extinguished.

These are some evidence that China is in a multi-level transition that intertwines in the direction of a "Lewisian turning point" with Chinese characteristics. It should also be considered, as Zhu and Cai (2012) point out, that the turning point should be considered a *time period* rather than a *time point*, that is, a development trend or process during which supply decreases and the cost of labor increases. As we have seen, there are signs that this process has already begun in China. Indeed, the growth of China's economically active population declined from 11.5% in 1990 to 6.0% in 2000 and 1.5% in 2012, with a negative growth forecast (-0.2) in 2018 (Das and N'Diaye, 2013, p.5). Labor productivity grew 51.4%

¹¹ This phenomenon occurs when a large proportion of the population is included in the "economically active population" group. In the case of China, between 1990 and 2013, the group of people aged between 15 and 65 increased between 100 and 120 million. UN projections (World Population Prospects, 2015) estimate the beginning of the decline in this age group around 2020. However, the decrease in 2014 was 4.8 million—the largest drop recorded in China's history.

¹² In the past decade, the number of jobs generated has exceeded the annual goals set by the Chinese government. According to Lam et al (2015, p.5), "Newly created urban jobs reached 13.6 million in 2014, exceeding the official target of 10 million. New jobs reached 3.2 million in the first quarter of 2015, slightly lower than 2014, but still estimated to exceed the target this year. In fact, during the past decade, new jobs have always surpassed annual policy targets and with significant margins. Demand in urban labor markets has also outpaced supply since the global financial crisis across regions in China, suggesting some tightness in the labor market. Over the past few years, the official registered unemployment rate has been stable at about 4 percent".

¹³ According to data from the United Nations (World Population Prospects, 2015), the dynamics between the so-called "three sectors of the economy" between 2004 and 2014 shows the increase in the weight of the service sector as a source of employment: in that period, this sector increased from 30.6% of jobs to 40.6% of jobs, with agriculture falling from 46.9% of jobs in 2004 to 29.5% in 2014. Industry increased from 22.5% to 29.9% during the same period.

¹⁴ This trend partly explains the labor shortage in 2002, 2004 and (above all) 2009: the investment package (concentrated in China's interior) after the international financial crisis and the decrease in the supply of labor in the areas where export-oriented companies are located have strengthened a certain tendency of workers to remain in the countryside. For a deeper analysis on this, see Zhang et al (2010).

¹⁵ The *Hukou system* is an institutional framework created to control the internal migration instituted during the Mao regime, with the aim of discouraging rural residents' movement to the cities. Officially, it is forbidden to change housing in China, but since 1978, this system has been helping meet the demands of development and the labor market. This relaxation has been planned in a way that does not create a mass of tens of millions of landless workers.

between 2008 and 2013, below wage growth. The average monthly wages of the non-private sector increased from US\$ 125 in 2002 to US \$ 351 in 2008, reaching US\$ 692 in 2013. Average wages of the private sector, in turn, increased from US\$ 205 in 2008 to US\$ 440 in 2013 (ILO, 2014). Therefore, the growth rate in wages from 2008-2013 was 198.2% and 214.6% in the non-private sector and the private sector, respectively.

The current and intense process of the geographic reallocation of US, Japanese, Korean and European companies within the Asian economic space—from China to countries such as Vietnam, Bangladesh and the Philippines—give force to the argument that China is reaching its "Lewisian turning point". Because of the necessary mediations, particularly the continuing existence of a large number of migrant workers (150 million) with average wages below those of workers registered as residents of the urban region (between 20% and 60%, depending on the city), it is probable that this "turning point" could occur in the 2020s, potentially resulting in the consolidation of an even more consumer-oriented dynamic.

3.2. Gershenkron in China: the State as financier and investor

Alexander Gershenkron (1904-1978) stands out among the "classics of development" for his originality expressed in the negation of "general models" and/ or "sequence of stages"¹⁶ in favor of elements of specificity and differences that can characterize each historical experience of the latecomer's industrial development.

Gershenkron reviews and questions the notion of "prerequisites to industrialization": for him, it is impossible to have a general set of prerequisites that is always valid and can be extended to all countries. Indeed, some factors are not prerequisites, but something that occurs as industrial development takes place¹⁷. The emphasis on the specificities and the "totality of the process" inherent in each case can be summarized in Gershenkron (1962, p. 7) as follows:

(...) in a number of important historical instances industrialization processes, when launched at length in a backward country, showed considerable differences, as compare with more advanced countries, not only regard to the speed of development (the rate of industrial growth) but also with regard to the productive and organizational structures of industry which emerged from this those process. Furthermore, these differences in the speed and character of industrial development were to a considerable extent the result of application of institutional instruments for which there was little or no counterpart in an established industrial country. In addition, the intellectual climate within which industrialization proceeded its 'spirit' or 'ideology', differed considerably among advanced and backward countries.

Different processes of industrialization can lead to a variety of forms and (above all) rhythms of industrial development. The political challenge of development involves overcoming obstacles related to the financing of productive activities. For example, the process of English industrial development featured a certain gradualism in which primitive accumulation in the form of both colonization and the violent takeover of peasants' means of production replaced a process of the accumulation of capital financed by the financial system. However, achieving a degree of development in nineteenth-century England required the creation of financial conditions that would enable the rapid deployment of entire industrial plants and the unification of the national market via the transport system. It is this process of the formation of financial institutions focused on long-term financing that distinguishes later industrialization experiences—France, Germany, the United States, Japan, etc.—from the English

¹⁶ According to Rostow (1956), there are three so-called "stages of development": (1) a long period of a century or more during which the preconditions for take-off are established; (2) a period of 2 or 3 decades of takeoff; and (3) a prolonged period in which growth becomes normal and relatively automatic.

¹⁷ Examples of "prerequisites" to industrialization can be stylized in the form of a broad unified territory, a legal system that ensures both individual and property rights, the baggage of scientific knowledge, an increase in agricultural productivity, the availability of an integrated labor supply with various specialties, innovative business groups, etc.

experience. In Gershenkron (1962), we see the conception of public financial systems capable of replacing the lack of a core business and a more developed private financial system - something very close to that which is observed in China's development process.

The Chinese financial system, which is predominantly under state-owner control, has had different degrees of functionality for economic development that intertwine, including the following: (i) a decisive impact on the increasingly complex conditions of finance and funding and consequently on the level of agent spending, affecting real economic variables such as output and employment¹⁸; and (ii) the key role of the financial system in the context of a continental economy subject to constant bottlenecks, making cross-sectorial transfers of resources crucial to address the continuing imbalances in China, whether those imbalances are social, regional or between different sectors of the economy.

The institutional evolution of China's financial system has accompanied and even anticipated the demands of the economic reform process, including overcoming China's high degree of financial underdevelopment. The performance of China's financial system has often been criticized by more conventional view in contrast with heterodoxy approaches: "Seen in the light of the mainstream doctrines, certain important elements of the system might appear to be market imperfections, and might entail allocative inefficiency. But, from the perspective of the alternative theories, these elements could in fact be conducive to productive efficiency." (Lo et al, 2011, p.268).

Based on this connection, China has created a system of financing productive activity that is oriented toward structural transformation of the economy, which has proven to be very functional for China's development process. Figure 5 shows that the ratio of domestic credit to the private sector over GDP (including mixed enterprises, state-owned enterprises, and private enterprises) was approximately 50-70% in 1977-1985, growing rapidly since then following the accelerated process of China's economic growth. By 1998 that ratio exceeded 100%, reaching 130% of GDP in 2012. Indeed, the Chinese financial system and the strong growth in its credit supply allowed the financing of investment in selected sectors and companies, regions and infrastructure, becoming "the backbone of the quantitative and qualitative dynamism of investment" (Cintra and Silva Filho, 2015, p. 448, authors' translation).

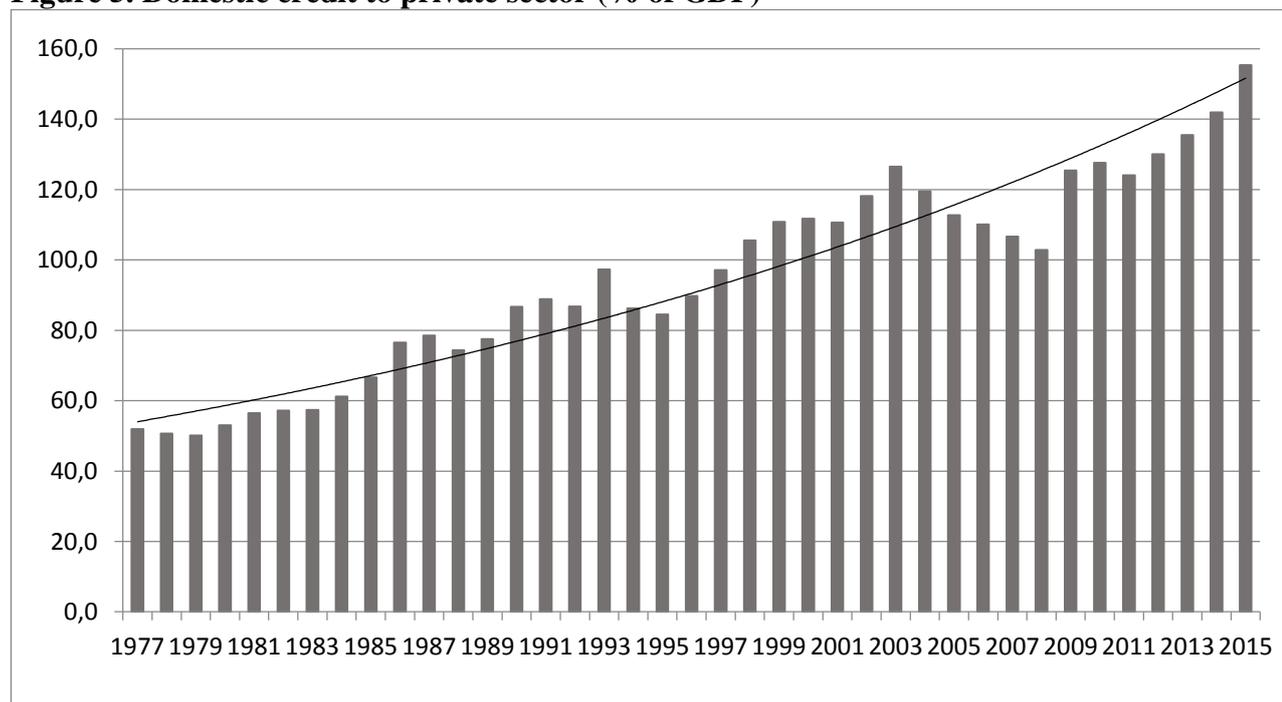
Between 1978 and 1984, the People's Bank of China, which is China's central bank, became responsible for regulating the financial system, ruling committees such as the China Banking Regulatory Commission (CBRC), the China Securities Regulation Commission (CSRC) and the China Insurance Regulatory Commission (CIRC). Simultaneously, four large state-owned banks were formed over time—the so-called "Big Four"¹⁹—in addition to a large number of national and regional banks emerging from various types of ownership, meeting demands concerning agriculture, urban construction, infrastructure and the financing of exports and imports. There has also been a gradual development of China's capital market. The advance of urbanization—including the financing of major events such as the 2008 Olympic Games, development policies in Western China and the central government and provinces' coordinated reaction to the 2008 crisis—required the ex ante presence of large provincial and municipal banks.

¹⁸ Keynes (1937) suggested a circuit involving finance-investment-savings-funding in which obtaining financing (liquidity) is the beginning of the capital formation process, saving is generated from investment decisions as a result of the income multiplier process, and ex post saving can be channeled into the financial market to consolidate investing firms' short-term debt. In this sense, a functional financial system is one that is capable of providing *finance* that enables entrepreneurs to invest and that channels savings to fund their debts later (*funding*), whether directly or indirectly. Studart (1995-96, p.284) defines the functionality of the financial system from a post-Keynesian perspective as follows: "a financial system is functional to the process of economic development when it expands the use of existing resources in the process of economic development with the minimum possible increase in financial fragility and other imbalances, that may halt the process of growth for purely financial reasons."

¹⁹ The "big four" Chinese banks are the Bank of China (BOC), the China Construction Bank (CCB), the Agricultural Bank of China (ABC), and the Industrial and Commercial Bank of China (ICBC). The Industrial and Commercial Bank of China (ICBC) is the largest bank in China by total assets, total employees and total customers. The Bank of China (BOC) specializes in foreign-exchange transactions and trade finance. The China Construction Bank (CCB) specializes in medium- to long-term credit for long-term specialized projects such as infrastructure projects and urban housing development. The Agriculture Bank of China (ABC) specializes in providing financing to China's agricultural sector and offers wholesale and retail banking services to farmers, township and village enterprises (TVEs) and other rural institutions. All four of these institutions are state-controlled banks with commercial banking operations.

Simultaneously, there was an intensive process of mergers and acquisitions of small and medium-sized public enterprises in the 1990s and the emergence, in this context, of 149 state-owned conglomerates.

Figure 5. Domestic credit to private sector (% of GDP)



Source: World Bank (2016)

Over time, the Chinese financial system, seen as part of a complex set of development-oriented state institutions, has become one of the pillars of a national strategy in which the state has shown flexibility in cyclically changing its role. In this sense, the state has transformed from a direct agent of "forced savings" to the manager of upper-level mechanisms in terms of investment coordination / socialization, as we will see below.

3.3. Hirschman and unbalanced growth: the strategic role of the state in China

China's transformation into the "World's Factory" was a long-term historical process marked by a sequence of events that more closely resembles responses to different challenges posed by the dynamics of real economic life than the *en bloc* implementation of solutions to the problem of development. Examples of this transformation are numerous, from the gradual implementation of the EEZ (1982) to the understanding of the institutional evolution of the financial system and the planning related to easing control over the internal migration system known as the *Hukou System*²⁰. The same gradualism can be noticed in the elaboration and execution of industrial policies and the internalization and construction of new productive capacities in China.

Like Gershenkron, Albert Hirschman (1915-2012) is one of the "founders" of a development approach that seeks to overcome notions based on "stages" and/or "equilibrium", as he points out in describing his experience in Colombia (1984, p.96):

A major battle I fought in Strategy was against the then widely alleged need for a 'balanced' or 'big push' industrialization effort; that is, against the idea that industrialization could be successful only if it were undertaken as a large-scale effort, carefully planned on many fronts simultaneously. To contradict this idea I pointed to the processes of industrialization that could in fact be observed in Colombia and other

²⁰ See footnote 15.

developing countries. Their entrepreneurs, domestic and foreign, had apparently hit upon a good number of sequential rather than simultaneous solutions to the problem of industrialization (...).

Hirschman's broad vision of economic planning incorporates the dialectical perception that the process of maintaining a "keep moving ahead" approach demands a development policy that involves "tensions, disproportions and disequilibria" (Hirschman, 1958, p. 66). Thus, development is seen as a process of jumps from one imbalance to another, with this contradiction providing its primary engine and these disequilibria providing the presupposition for its planning. From the point of view of the industrialization process, maximization of the input-output effects between different industrial sectors is an expression of the maximum utilization of the possibilities of the potential for linkages: the development of one sector ahead of the other would lead both to the solution to an ex ante problem and to the emergence of another ex post problem. Hirschman argues that by focusing investment on key industries, governments can stimulate the generation of supply at bottlenecks as inputs to these industries. Bottlenecks in supply can create profit opportunities for industries and thus induce private investment ("backward linkages"). Similarly, domestic production of a new product is likely to create opportunities for profit in derived industries and thus to induce private investment in such industries ("forward linkages"). The presence of the state should be highly relevant to the form of the use of induction mechanisms and government investments in key industries, with a view toward (i) overcoming bottlenecks in the economy; and (ii) creating investment opportunities and backward and forward linkages to the private sector (Hirschman, 1958, p.24).

The application of the "unbalanced growth hypothesis" in China may allow the exploration of a variety of fields, including the dynamics of state intervention and relations with the new private sector emerging after 1978²¹. The reason for this approach is the peculiarity of the Chinese case, as described by Holz (2010, p.2) as follows:

(...) the case of China also differs from that of the typical developing economy which Hirschman may have had in mind in that China, at the outset of economic reforms in 1978, had in place a balanced industrial base and the government was already strongly involved in the economy. This creates the opportunity for a unique application of the unbalanced growth hypothesis.

Possibilities for taking advantage of the effects of industrial linkage in China have appeared: the economic reforms must be analyzed taking into account the challenge of the state's frequent strategic relocation while the private sector's role in the economy was upgraded. A dynamic process of reorganizing activities has guaranteed the state sector command of the linkage process. The private sector has taken advantage of the profitable opportunities generated by unbalanced growth through the possibilities created by the state-owned corporations' "front-end investments" in key sectors such as oil refining, chemistry, coal and machinery and equipment²².

The advance of the private sector in China has been evident. As private property has been recognized, legitimized, and sustained by laws and regulations (Naughton, 2006, p. 2), the expansion of the private sector's scope of activity also increased because of massive transfers of state assets to the private sector between 1994 and 2000, especially in small and medium-sized state-owned enterprises. At the same time, 1,232 state-owned firms declared bankruptcy in 1995, 4,198 in 1998 and 5,429 in 2001 (Imai, 2006, p.5). Between 1998 and 2007, state-owned enterprises in China fell from 39.2% of total

²¹ According to Naughton (2007, p.57-85), the Chinese development dynamics of economic pre-reforms can be understood as a "Big Push", a process suggested by Rosenstein-Rodan, according to which state planning of the industrialization process on a large scale would make it possible to guarantee the balance of the process of change among several sectors, leading to a block transformation.

²² According to Holz (2010, p.3), "If linkage effects matter for economic growth, then Hirschman's theory of unbalanced growth applied to a transition economy such as China implies that the government can maximize economy-wide growth if it continues to play an important role in sectors with high linkage effects in other sectors, and withdrawals from sectors with low linkage effects."

firms to 6.1% while the private sector increased from 6.5% to 52.6% in the same period²³. This advance had a counterpart in greater concentration, centralization and prominence of the state's capital itself, through mergers and acquisitions, joint ventures with private companies, and so on. According to Gabriele (2009, p.17),

State-owned and state-holding enterprises are now less numerous, but much larger, more capital- and knowledge-intensive, more productive and more profitable than in the late 1990s. Contrary to popular belief, especially since the mid-2000s, their performance in terms of efficiency and profitability compares favorably with that of private enterprises. The state-controlled sub-sector constituted by state-holding enterprises, in particular, with at its core the 149 large conglomerates managed by SASAC, is clearly the most advanced component of China's industry and the one where the bulk of in-house R&D activities take place.

Evidence of the strategic and investor role "at the forefront" of state capital can be seen, for example, in the comparison of labor productivity between state and private enterprises. In 2007, the labor productivity²⁴ was 58.3 in state-owned firms; 68.7 in state conglomerates; 88.0 in mixed capital companies with a majority of state participation; 48.1 in private companies; and 41.6 in joint venture firms (NBS, 2009)²⁵. This productivity differential between state-owned companies, TVEs, mixed capital companies, etc. suggests the emergence of a "new model" in China that is more focused on the development of the technological frontier. According to Lo and Mu (2014, p.320),

(...) a new model has emerged in recent years, in which the main vehicles of the development of frontier technology are the SOEs. The development of high-speed railway technology is a prominent case. (The state plan to develop large-scale civilian aircraft manufacturing is also in line with this new model).

At another level of analysis, the degree of investment coordination granted to the State that becomes the managerial nucleus of the "socialization of investment" policies should be highlighted. This function gained shape and form with the 2002 formation of SASAC (State-Owned Assets Supervision and Administration Commission), which was created to represent the interests of the State and its actions in the 149 largest Chinese state-owned companies. These companies were formed throughout a long process of centralization and concentration in the state sector, especially in areas related to basic industries, energy, transportation, communications, construction and national defense.

3.4. Prebisch and how China has overcome the uneven center-periphery relationship

The results presented by China's economic development indicate that its catching up has successfully implemented an intense structural transformation that has had strong effects, spreading through both the industrial structure and the national territory itself. The combination of the growing increase in China's domestic market and the country's transformation into a commercial and financial power is a factor that requires qualitative changes—and ample questioning—in the conventional analysis of uneven development among nations. In this sense, it is impossible to relate the Chinese catching up and its effects on the world, without referring to CEPAL²⁶ executive secretary (1949-1963) Raul Prebisch (1901-1986) and his 1949-1950 thesis on the diffusion of technical progress under the center-periphery relationship and the uneven spread of its gains among nations. According to Prebisch (1950, p. 1),

²³ In addition to the "pure" state and private sectors, a myriad of collective and mixed forms of property can be found in China.

²⁴ 10.000 yuan per unit.

²⁵ The relationship between labor productivity and R&D is paramount. China's evolution in this area is impressive: China already has the second-largest number of registered patents in the world, behind only the US. According to the World Intellectual Property Indicators (WIPI) annual report, worldwide patent registration grew by 4.5% between 2013 and 2014; in the same period, growth in China was 12.5%.

²⁶ The Economic Commission for Latin America (ECLA); the Spanish acronym is CEPAL, as it is most well-known.

In economics, ideologies usually tend either to lag behind events or to outlive them. It is true that the reasoning on the economic advantages of the international division of labour is theoretically sound, but it is usually forgotten that it is based upon an assumption which has been conclusively proved false by facts. According to this assumption, the benefits of technical progress tend to be distributed alike over the whole community, either by the lowering of prices or the corresponding raising of incomes. The countries producing raw materials obtain their share of these benefits through international exchange, and therefore have no need to industrialize.

The falsity mentioned by Prebisch is expressed in the tendency of central countries not only to fully retain the fruit of the technical progress of their industries but also to take advantage of the modest technological progress of the periphery through a system of prices in international trade in which primary products are subject to deterioration of the terms of trade. This structure of foreign trade generates a structural heterogeneity in the peripheral economies (which have sectors with different levels of productivity) vis-à-vis the greater homogeneity in the productive structure of the central economies. Thus the specificity of underdevelopment at the periphery lies in the fact that whereas the center economies, which produce manufacturing goods, are diversified and technologically homogeneous, the peripheral economies, which produce primary-export goods, have a specialized and dual productive structure in that export-specialized sectors (and those related to them) that have relatively high productivity coexist with backward sectors of low productivity. Two levels of change are essential to overcoming the vicious cycle of peripheral underdevelopment, according to Ocampo (2001, p.24): "(...) overcoming the basic asymmetries of the international system requires not only change in the international economic structure, but also an effort to transform the structures of the peripheral countries themselves."

In Prebisch, and in what became known as the Latin American structuralist approach, the industrialization process was seen as a way to overcome global asymmetries at the international level by inducing a structural change that increases the general level of the economy's productivity while reversing the trend of deterioration in the terms of trade. The role of the state and economic planning would lie at the core of structural change, with the import-substitution industrialization strategy being the very essence of the process²⁷. It should also be noted that Prebisch began to defend, at the end of the 1950s, a "mixed model" of growth that combined import substitution with the promotion of new exports, especially exports of industrial origin. Export reorientation played the double role of providing the industrialization process with greater allocative efficiency and reducing external constraints to growth²⁸ (Rodriguez, 2006).

The case of China requires an important mediation. China's peripheral condition is more diverse than that of Latin America. The "political node" to overcoming the dictates of "uneven development" among nations had been unleashed by the Revolution of 1949, not the economic reforms of 1978²⁹. From the structural change point of view, unlike Latin American experiences, the "Revolutionary State" founded in 1949 laid the foundations for the post-1978 catching up by establishing the following: (i) political unity, full control of its territory and, unlike its developmental neighbors (Japan, South Korea,

²⁷ Import substitution industrialization (ISI) is a dynamic process induced by some type of protectionism of the domestic market in which the coefficient of imports can increase instead of reduce in initial times (because of the increased imports of intermediate and capital goods). External deficits are seen both as the original stimulus for import substitution activities and as a barrier to the continuity of the industrialization process. For more information about this issue, see Rodriguez (2006).

²⁸ Prebisch-Thirlwall's thesis argues that the low-income elasticity of the lower value-added products exported by developing countries, compared to the higher income elasticity of imports produced by developed countries, generates structural deficits in the balance of payments of the former. These increasing deficits can result in a significant obstacle to economic growth in developing countries, since maintaining a non-explosive current account deficit requires the domestic growth rate to be kept below the world growth rate so that imports and exports can balance. For more information on this issue, see Thirlwall (2002).

²⁹ Observing this historical process, China's economic reforms synthesize a fusion between the Revolutionary State founded in 1949 and the developmental state. According to Castells (2001, p.317), "China's economic development and technological modernization, within the framework of the new global economy, were (are) pursued by the Chinese communist leadership both an indispensable tool for national power, and as a new main legitimacy of the Communist Party. In this sense, Chinese communism in the early twenty-first century represents the historical merger of the developmental state and the revolutionary state."

and Taiwan), a large margin of maneuver for its own strategic choices without interference from other powers; (ii) a pre-existing, solid base of industry; (iii) small and medium-sized production units scattered throughout the interior of the country, which would largely be converted into TVEs; and (iv) preexisting institutions related to economic planning. Indeed, after 1978, China gradually opened its economy and progressively changed its development path. However, it probably could have not done so in the way that it did without the basic industrial foundation previously created under a strongly inward-looking, largely anti-market development strategy from 1949-1978.

Prebisch's analysis relates to China and the "Developmental State" both in the late 1970s and after China's political and strategic decision to integrate into the international economy. Indeed, internal consensus was built, pursuant to which the strategic objectives of the "Revolutionary State" could be achieved only by reforming the economic structure and opening up to foreign investment. Structural change, industrial diversification, international insertion strategy, import substitution, and stimulating manufacturing exports are Prebisch's precepts that are perfectly applicable to the recent Chinese development process.

The Prebischian dynamics adapted to Chinese conditions have a suggestive mirror in the development of TVEs³⁰. The example of its development, including intense diversification, provides a paradigm of the relationship between China's industrial policies and its international insertion strategy. Officially recognized since 1984, by the end of the 1990s TVEs accounted for 40% of China's industrial production (Masiero, 2006, p.432) and 27% of its exports (Kang, 2006, p. 137). In 1989, exports of textiles and footwear by TVEs corresponded to 47.7% of exports of these products, decreasing to 29.1% in 2002 and 23% in 2007. The share of durable consumer goods exports increased from 14.4% in 1989 to 29.1% in 2002 and 30.3% in 2007³¹.

The development of TVEs can serve as an illustration of the different demand structures in China in recent decades. The quick increase of exports consolidated in the 1990s, after the reformists consolidated their power over the conservatives in the Communist Party of China (CCP). The TVEs started out being spread all over the country. The prominence achieved by exports in the 1990s was the real key for understanding the decreased tendency toward deterioration of the terms of trade in China, which has gradually moved from producing lower value-added manufactured goods to higher value-added goods (electrical and electronic equipment, machines, nuclear reactors, prefabricated buildings, optical and medical-surgical apparatus, automobiles and tractors, etc.). Manipulation of the exchange rate for purposes of export promotion, inducement of domestic production, and the existence of an unlimited supply of low-cost labor were particularly crucial in this process.

China was able to overcome both the internal political avalanches of the late 1980s and the vicissitudes of an era marked by the predominance of neoliberal conceptions in the economy by building institutions that consolidated strategic options and overcoming "uneven development" and the tendency for deterioration in the terms of trade. The "powerful socialist state"³² based on huge state-owned business conglomerates and a well-capillary public long-term financing system did not dispense with controls on the flow of capital that enabled the state to isolate monetary policy from the external capital flows, increasing policy space for the adoption of more autonomous economic policies in relation to international financial conditions. A mix of flexible monetary and fiscal policies with industrial and sectoral surgical policies and continuous cycles of import substitution shaped China's transformation into the "factory of the world". As shown in section 2, China combined an import-substitution industrialization strategy with a strategy to promote manufacturing exports.

³⁰ One of the fundamental characteristics of the recent Chinese development process is in the rural character of the large expanded manufacture in the 1980s. The increases in income and productivity of agricultural labor resulted in a leftover of surplus labor in the TVEs.

³¹ Examples of the global expansion of TVEs are numerous, including the following: Haier, with 50% of the US small refrigerator market; Galanz, with 33% of the world microwave market; Legend, with 20% of the world market for computer boards, and China International Marine Containers, with 40% of the international market for refrigerated containers (Masiero, 2006, p.441).

³² This expression "powerful socialist state" is very common in the speeches of Chinese leaders from Mao Tsétung to Xi Jinping.

Given its size and population and the transformation of its economic power into a political force, it was not long before initiatives emerged to form international institutions such as the New Development Bank, which arose out of the 2014 BRICS summit (Brazil, Russia, India, China and South Africa)³³. If in Prebisch's strategy was subverted in Latin America in favor of financial integration, China can be seen as the full realization of his conception of development and overcoming underdevelopment.

4. CONCLUSIONS

Analyzing an economy in the process of development is very different from studying a country in a state of stagnation. With respect to the latter, a range of possibilities and speculations open up in the sense of finding possible paths to recovering development. However, in a developing economy, the possibilities of speculation are reduced as responses to the reasons and possibilities for development, and the history of this process, are the first demand of the development economist. It is in this sense that the "return to the classics" becomes imperative to analyzing the catching-up process; from our perspective, this return is necessary for identifying essential elements of theoretical validation capable of revealing the objective of this research: to analyze the Chinese development process. That was the purpose of this paper: after presenting general mechanisms of Chinese economic growth and through the necessary mediations (required by the high degree of complexity of the case under analysis), elements of theoretical validation were developed to study the recent process of China's development, which we sought to analyze based on the contributions of some of the main "developmental classics".

In contrast to a "stages of development" view of the Chinese growth process, the return to the classics of development provided us with a broad and integrated view of a historical process in which the following elements are combined and intertwined: (1) liberation of the labor force from the backward sector to the modern sector, leading to a profound structural change in the Chinese economy; (2) economic planning and the active role of the state that assumes different roles throughout the development process; (3) full use of the possibilities of "unbalanced growth", benefiting the new private sector that emerged during the economic reforms; (4) the state's ability to perceive the needs of change in the "demand structure": demand-led growth combined with increasing export-led and investment-led growth; (5) creation of a national system for development financing, with public banks playing a central role in financing production; (6) gradual and intense import substitution process; (7) an active foreign exchange policy and export policy.

There are still many possibilities that can be opened regarding this type of analysis and the chosen authors, and we do not intend to exhaust those authors' analytical possibilities. Arthur Lewis, Alexander Gershenkron, Albert Hirschman and Raul Prebisch are essential authors for the study of the process of late industrial development, as we show to be the case for China's recent development, which is mediated by the historical and structural specificities of the case analyzed.

Finally, it is notable that China is currently experiencing an internal transition of its accumulation dynamics, the results of which are unclear. Combined with the confusing international economic scenario, this internal Chinese transition obtains more complicated contours through a series of explosive social, regional and environmental contradictions that are coming into force. The slow process of internationalizing China's currency has been combined with greater financial liberalization. It is clear that new forms of state action and planning must be prepared to confront the new challenges of China's economy. Liberalizations have always been followed by state action on another level. This is one of the great challenges to be faced by China's government.

³³ It should be noted that Prebisch was broadly in favor of regional integration and multilateral agreements; he was the first Secretary-General of United Nations Conference on Trade and Development - UNCTAD (1963-69).

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