Book Review: How China Escaped the Poverty Trap by Yuen Yuen Ang

In **How China Escaped the Poverty Trap***,* **Yuen Yuen Ang** *drills down into the details of China's economic rise, challenging conventional explanations by showing how its development was a 'coevolutionary process' between markets and institutions.* **Duncan Green** *urges readers to immerse themselves in this diligently researched book packed with fascinating insights and findings.*

How China Escaped the Poverty Trap. Yuen Yuen Ang. Cornell University Press. 2017.

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The macro-story on China is well-known, but always bears repetition. Emerging from the carnage of the Mao era, China in 1980 had a GDP of $193 per capita, lower than Bangladesh, Chad or Malawi. It's now the world's second largest economy, with a 30-fold increase in GDP per capita, based on a textbook-defying combination of one-party Communist state and capitalism – in the words of one tongue-in-cheek official, 'no capitalist state can match our devotion to the capitalist sector.'

Success on this scale inevitably finds many intellectual forebears claiming parenthood – China is variously portrayed as a victory for a strong state; free markets; experimentation; and for central planning. *How China Escaped the Poverty Trap* blows the conventional explanations away, drilling down into what actually happened and reconstructing the history of different cities and provinces through years of diligent research.

This book is a triumph, opening a window onto the political economy of China's astonishing rise that takes as its starting point systems and complexity. Its lessons apply far beyond China's borders. The author, Yuen Yuen Ang, starts with a classic developmental chicken and egg problem – which comes first, good institutions or economic prosperity? Different camps within academia and the aid business urge developing countries either to 'first, get the institutions right' or 'first, get growth going', and then the rest will follow.

Using China as an elephant-sized case study, Ang takes a systems sledgehammer to this kind of linear thinking and argues that development is a 'coevolutionary process'. Institutions and markets interact with and change each other in context-specific ways that alter over time. The institutions that help to achieve take-off are not the same as the ones that preserve and consolidate markets later on.

Perhaps her most explosive finding is that for countries just at the start of their development trajectory, so-called 'weak' institutions are often better than 'strong' ones. The weak/strong description is imposed by experts from already developed countries who conclude that their institutions are obviously the 'strongest' since their countries are the richest. There are echoes of [Ha-Joon Chang's](#) work on the history of trade policy here (and he provides a fulsome plug for the dust jacket).
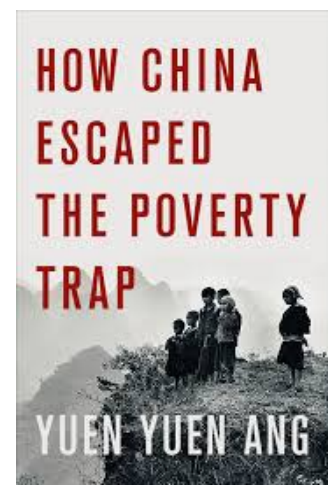
Image Credit: (Gauthier DELECROIX – 郭天 CC BY 2.0)

It's impossible to do justice to the book in a brief review, but here's a taster: firstly, there are three distinct patterns to China's take-off: the changes made by the state are broad, bold and uneven. Broad in that the state makes changes across the whole economy: Ang has little time for Dani Rodrik's attempts to identify specific bottlenecks and tackle them one at a time – that is, thinking about the economy as a complicated, rather than a complex, system. Bold in that when the state changes direction, it does so big time, and the whole country, or at least its 50 million civil servants, jump and do whatever it takes to achieve the new goals. Uneven because the changes play out differently according to time and place within China, and the leadership is happy with that.

Secondly, to explore China through the lens of complexity, Ang unpacks three signature processes of co-evolution, summarised in a graphic asking:

- Variation: how does the system throw up alternatives and options to deal with particular problems?
- Selection: how does it select among the variants to form new combinations?
- Niche Creation: how does it craft new, distinct and valuable roles within the system?

China's answer to the variation question is a fascinating one. The phrase 'one-party state' conjures up an impression of a regime intent on command and control. An autocracy like China has plenty of red and black lines (don'ts and dos), of course, but what Ang reveals is a third tier – deliberate 'directed improvisation', a 'paradoxical mixture of top-down direction and bottom-up improvisation'. The state sets broad, and often very vague, parameters, and it is then up to officials to improvise within them, often coming up with solutions and innovations that astonish the big cheeses in Beijing. I love this phrase, and it could easily become as prevalent and useful as Peter Evans's 'embedded autonomy' to describe the technocracy of developmental states.

Ang 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 beavering away in response. She has a partial explanation as to why the vague rhetoric of leaders has such a galvanising effect on officials. While she doesn't touch on the stick – namely, the potentially lethal consequences of getting things wrong/overstepping the new line – she graphically demonstrates the carrot – officials on misery wages (the state did not have the capacity to pay properly) were allowed/encouraged to take a cut of any economic activity they could generate. 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 decentralised 'franchising mode', with local government at various levels keeping much of the proceeds of growth.

Ang also shows that China did not follow the East Asian tiger route of highly technocratic 'developmental states' 'picking winners', not least because of a chronic shortage of technocrats: under Mao, anyone showing signs of technical expertise was branded a capitalist running dog (a term we really need to start using again). Instead primitive accumulation – the first steps on the road to take-off – built on what China had in abundance: social networks. Every department and senior official was required to hustle for investment from friends, relatives and contacts, and incentivised with juicy bonuses.

That initial open season led to a flood of chaotic, unplanned primitive capitalism and plenty of graft. Over time, both the chaos and the graft changed: once economic activity was under way, the state started to regulate and shape, becoming more interventionist about encouraging things like the complementarity of industries and specialist clusters as the economy progressed; corruption moved from petty (apparently involving lots of free meals for officials) to the big money variety, hogged by senior figures.

The detail in the book is often fascinating – the history of a single city in Fujian; the way Ang gets hold of and compares performance criteria for township leaders in Shanghai in 1989 versus 2009, showing how an initially overwhelming emphasis on economic growth has transformed into a laundry list of political, social, environmental as well as economic targets that no human can possibly meet. Is the model starting to creak?

And then, in her final chapter, Ang leaves China and briefly applies her co-evolutionary analysis to trade in late Medieval Europe, taxation in nineteenth-century United States and – wait for it – the rise of Nollywood as Africa's global cinema hub. Which brilliantly shows that aspects of her analysis of China can apply more broadly, with clear links to the Doing Development Differently movement, which she namechecks in the book (DDD guru Lant Pritchett gave her a glowing review).

I'm running out of space. I give up. Just read the book (or, if you like podcasts, you can listen to the author being interviewed by Alice Evans). And what does all this mean for development organisations? Ang won a Gates Foundation-sponsored 'New Horizons' prize for her essay on the future of aid, so I will just have to read that and get back to you.

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Note: This review gives the views of the author, and not the position of the LSE Review of Books blog, or of the London School of Economics.