Why there is no "Beijing consensus"

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China observers can't seem to agree on the underlying logic of the country's development model. But, with faith in the West's long-dominant Washington Consensus breaking down, both sides may be in a similar position – a reality that could facilitate cooperation to deliver global public goods.

Four decades would seem to be plenty of time to identify the underlying logic of China's development model. Yet, 40 years after Deng Xiaoping initiated the country's "reform and opening up," a "Beijing Consensus" – that is, a Chinese rival to the Western neoliberal Washington Consensus – has yet to be articulated.

Over the years, China has worked to transform its closed, planned economy into a more open, market-based system. Industry and, increasingly, services have replaced agriculture as the main drivers of growth, and the country has gone from technological copycat to global innovator. Meanwhile, China has tackled several difficult challenges, from excessive debt and overcapacity to severe pollution and official corruption.

This has been a highly complex process. According to China Academy of Social Sciences economist Cai Fang, it can be understood only in the context of the country's unique history, demography, and geography, not to mention broader technological and global trends. All of these factors have, after all, helped to shape China's governance and institutions.

Yet the veteran China watcher Bill Overholt – one of the first to predict China's rise – argues in his latest book, *China's Crisis of Success*, that the country's reforms were driven by "fear and simplicity." The same factors, he asserts, drove East Asia's post-1945 development.

Other observers – including the World Bank, the OECD, and think tanks like Harvard's Fairbank Center for China studies – can't seem to agree on who is right. They are not accustomed to assessing an economy whose primary influences – including historical legacies, values and ideologies, and institutional and governance traditions – differ so profoundly from those of the West.

Consider governance. Western economic dogma holds that the state should intervene in markets as little as possible. Yet, for China's leaders, it is not clear whether the state can even be separated, conceptually or operationally, from the market.

For thousands of years, state control was China's default governance strategy, with a strong central government overseeing stability and preventing regional and factional rivalries from causing chaos. So when China wanted to increase its leaders' accountability, for example, it focused not on creating a market-based, much less democratic, system, but rather on introducing regulations to curb abuses of power and facilitate the flow of products, capital, people, and information.

Within the constraints of this paternalistic approach, the experimentation and adaptation that have been so crucial to China's growth had to be carried out by local governments, which have enjoyed considerable, albeit uncertain, authority to do so. The idea was that, by using local-government (and market) expertise, China could generate growth without disturbing social cohesion or compromising national integrity.

Yet Chinese governance has not exactly been beyond reproach. When it comes to the quality of market competition, questions about the state sector's dominance, as well as the effectiveness of regulations and adherence to international laws, standards, and practices, have persisted. And while China's government has proved adept at providing "hard" infrastructure, such as highways, railroads, and airports, it has far to go in developing soft infrastructure, such as that related to education, health care, energy, the environment, and finance.

So China continues to grapple with the question of how to balance the state and the market, in order to ensure accountability, market competition, and adequate provision of public goods for one-fifth of the world's population. Compounding the challenge are rapid technological change, globalization (and the backlash against it), and geopolitical considerations.

But it is not as if the West has proved definitively that its free-market approach works. The state's role – measured according to the public sector's share of GDP, for example, and the depth and complexity of laws governing private activities – has been expanding in almost every economy since the beginning of the twentieth century.

The United States, in particular, provides a useful benchmark. Like China, it is a continental economy. But it also represents the global gold standard in many fields, including technology, defense, and research and development.

Contrary to China's statist legacy, America's historical experience has instilled in citizens and leaders a devotion to liberty, including free markets, and local autonomy. The US federal government's size and power grew only very slowly until the 1930s, when the New Deal – which included federal programs, public works projects, and financial reforms and regulations – was implemented in response to the Great Depression.

The US federal government expanded again during and after WWII, reflecting the country's new global hegemony and the prosperity of its middle class (created in no small part by the New Deal's support for unionization and home ownership). The government assumed a larger role in areas ranging from defense and foreign policy to health care and social security.

But even as the federal government increased regulation in some areas, the US remained highly reliant on the market, resulting in rising inequality, the deterioration of public infrastructure, and an unsustainable fiscal deficit and debt. The global recession triggered by the 2008 financial crisis intensified growing doubts about the Washington Consensus.

So some of America's most fundamental challenges – such as reducing inequality, supporting stable fiscal and financial conditions, and ensuring environmental sustainability – are the same as China's, and neither country has a clear and proven "consensus" to guide it. Against this background, cooperation to deliver global public goods – including peace – should be possible.

The key is for the two sides to work toward common goals, while agreeing to disagree on certain ideological tenets. Here, the US needs to recognize that global cooperation is not a zero-sum game, and that China's rise need not be viewed as a threat. On the contrary, China – along with other emerging economies, such as India – can contribute to a global rebalancing that actually strengthens economic and geopolitical stability.

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