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Policy Brief No.1

The Sleeping Giant's Economic Transformation

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Executive Summary:

- China's modernization journey was shaped by a deep historical foundation, but derailed by Western industrial dominance—prompting a long struggle through monarchy, republicanism, and communism to reclaim national strength through industrialization.
- Deng Xiaoping's 1978 reforms introduced a pragmatic, market-oriented approach within a socialist framework—emphasizing gradual transitions, special economic zones, education, and foreign investment as engines for economic growth.
- China's success lies in adaptability that blends central planning with market incentives, prioritizing science and technology, and steadily moving from agriculture to light and then heavy industry, all while maintaining political stability and sovereignty.
- Lessons for developing nations like Cambodia include adopting flexible, realistic strategies; building local markets and human capital; and embracing innovation without fully surrendering to external economic models.

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I. An Inevitable Path to an Economic Powerhouse

In the past, China stood out as a truly remarkable nation, both in comparison to its neighbours and the rest of the world. China has its own unique civilization and exerts a significant influence not only within its own borders, but also throughout the region and even further afield (Kwong, 2015). China had the mindset that it was the centre of the world, and that everyone else should defer to its authority (Phillips, 2018). Prior to the arrival of western nations, it had already established maritime routes through exploration of the seas and oceans, thus strengthen its awareness of opening up the economy (Wen & Fortier, 2019).

Everything was different, though, once the agricultural and industrial revolutions took hold in the western hemisphere. It modifies and even subdues Chinese influence and power due to the advancement of technology and science (Wong, 2000). Technology and science have evidently brought China to its knees, particularly weapon technology. This is demonstrated by the gunboat diplomacy and the opium war, both of which resulted in significant losses for China and as a direct consequence of this, China was humiliated in 19th century as a result of being forced to sign an unequal treaty (Wahed, 2016).

This demonstrates China's determination to reclaim and maintain its illustrious past reputation in the international community. It is imperative that the fact that China has been one of the leading nations in Asia be emphasised, despite the fact that it is less developed than the nations of the west. Because the population and the nation already have the building blocks for a civilised society, the process of modernization does not have to start from square one.

Already in the late Ming and Qing dynasties, it became clear that in order for the nation to remain competitive with the west, it would have to be modernised and industrialised. However, the lofty economic goal of becoming an industrialised nation has been unsuccessful (Wen & Fortier, 2019). During a brief period of time, China attempted to model its government after that of the western world by establishing a "Republic of China," which featured a separation of powers that was analogous to that of the liberal political system (Wen & Wolla, 2017). Mao Zedong was the leader of a later revolution that overthrew the existing government and replaced it with an ideology that was socialist, communist, and central planning economy (Romi Jain, 2017). Throughout the course of its political history, China has been under the influence of three major political systems.

Nevertheless, each method emphasised how important it was for China to become more industrialised. All of the systems, the Monarchy Era, the governments of the Republic of China and the Chinese Communist Party began to place a greater emphasis on the heavy industrial sector. But none of these efforts have yielded the result that they had hoped for

(Wen & Fortier, 2019). The primary reason that was found was that there was no market to support the production of the good, particularly the industrialised goods (Wen & Wolla, 2017). This reason was investigated thoroughly and approached with caution during the time of Deng Xiaoping (Moiseev et al., 2019). As a direct consequence of this, China's economic situation improved in 1978, and the country started making progress toward industrialization with Chinese characteristic, opening up the economy while preserving socialism (Yanhua, 2013). In one generation, China has come into the public eye and is steadily climbing the rankings of economic power (Wen & Wolla, 2017). Experiments carried out in China have made a positive impact on the country's continuing economic development.

II. A Black Cat or A White Cat, Does Not Matter

China is unique among nations in that it possesses a strong foundation for the development of its industrial sector, particularly the huge amount of its labor force in the world (Hu & Khan, 1997). The population has a foundation a long history of a market economy and trading activities thousands of years, for instance the silk route trading with Rome (Chow, 2004). On the other hand, it is true that China's economy has improved since 1978; however, the literacy rate of the population has been at 66 percent since the 1960s (Wen & Fortier, 2019). In addition, the significance of education has always been one of the government's top priorities, both before and after the cultural revolution, when the country is politically stable (Chow, 2004). Furthermore, during all three of China's major historical periods—dynastic, republican, and communist—foreign specialists were brought in and employed (Zhang, 2021). The fundamental human resource in China has benefited from the contributions of foreign consultants and specialists (Zhang, 2021). The production of a skilled labour force or, at the very least, a labour force that is conducive to economic growth, however, the establishment of elementary school, secondary school, universities, technical schools and research institutions under Deng Xiaoping initiatives greatly impacted the industrialization process (Keo, 2020). At the same time, the leader of China moved quickly to send Chinese students and workers abroad so that they could make valuable contributions to the nation (Keo, 2020).

With this, the transfer of technology has also developed into an ongoing phenomenon. In particular, some technological know-how has been transferred to China as a consequence of the country's limited participation in industrialization process, particularly during the Republic of China period infrastructures that of road and transportation routes have been constructed (Manzoor Butt & Sajid, 2018). However, the technology for heavy industry is not yet completely understood. Before the Sino-Soviet split, the majority of technology originated in the Soviet Union; however, after the split, western nations are responsible for the majority of technological advancements (Zhang, 2021). As a result of Deng Xiaoping's open policy, it will be modified very soon. Almost immediately after taking office, Deng Xiaoping swiftly resumed Zhou Enlai's policy from the 1960s, which centred on

agriculture, industry, defence, science and technology (Chow, 2004). Not to mention that China carried out a successful test of its nuclear arsenal in 1964 (Liu, 2018). As a result, it is not impossible to believe that China already possessed a technological foundation before Deng Xiaoping's economic miracle. The gradual transition of China's economy from one based on agriculture to one based on light industry, and then later to one based on heavy industry, that Deng Xiaoping oversaw, resulted in a significant expansion of the economy in China (Keo, 2020). China's technological development can be attributed to the government's importation of requisitioned technology as well as the country's openness to foreign direct investment (Romi Jain, 2017).

As was mentioned earlier, the fundamental legacy that was left behind by China's previous administration may cause the development process of China's model to be fundamentally different from that of other countries in the region (Wen & Fortier, 2019). Even though it was not the largest economy in the world, China's economy continues to grow at a rate of growth about 6% before Deng Xiaoping era (Hu & Khan, 1997). The importance of agriculture as an economic sector was widely acknowledged. Since the 16th century, tea has been exported as a source of revenue, which was subsequently boosted by the importation of tea by the United Kingdom (Ru, 2021). It is believed that China's relationship with the rest of the world had provide the foundational support necessary for China's later industrialization (Ru, 2021). In addition, the role that taxation plays in the revenue of the Chinese government is significant. However, during the time of the dynasty and republic of China, an ambitious plan to leap into heavy industry failed. This was primarily due to a lack of labor-intensive workers, ineffective labor mobilisation strategy, as well as market sustainability (Milaré, 2020). Due to the lack of incentives offered to farmers during the communist era, it was unable to begin the process of industrialization (Manzoor Butt & Sajid, 2018). Deng Xiaoping has given some thought to the problems described above. The process of industrialization was approached by Deng Xiaoping with extreme circumspection and care. He discovered that the leapfrog strategy would not be successful because there was neither a market nor a supply chain in place(Wen & Fortier, 2019). China has started to make modifications to its socialist system using reducing taxes collections in order to create incentive for the labor force to actively contribute to the high productivity (Hu & Khan, 1997). The top-down approach has been gradually reduced, and now farmers are able to produce crops in excess of their quota for payment to the government and keep the remainder for themselves (Milaré, 2020). This allows the farmers more autonomy in their agricultural practises. The farmers improve their financial situation over time. After that, the Chinese government established a small-scale government-owned enterprise in order to absorb the surplus of available labour and gradually satisfy the demand for light industry among the population (Hu & Khan, 1997). In addition, the government creates special economic zones in which businesses can invest and expand, thereby broadening the market and luring in foreign capital and market as well as the export-led policy (Manzoor Butt & Sajid, 2018). These zones are intended to serve as

incubators for new businesses. There has been less of an emphasis placed on a top-down strategy, but in order to ensure proper management of the project, the government has established both an agency and a business, and they will keep any profits they make (Wen & Fortier, 2019; Wen & Wolla, 2017). Workers and state-owned businesses have been inspired as a result to achieve higher levels of productivity and output due to the incentive and support provided by the government. China has also been negotiating with countries such as the United States to normalized relation and also for a market for its goods (Romi Jain, 2017). The purpose of China's gradual opening of its market to the rest of the world is not to adopt a liberal economic system; rather, it is to cultivate Chinese niches (Naughton, 1993).

III. Lesson Learnt

The Chinese way has reflected an independent mindset. On the other hand, it has a response well to the disturbance resulted from the political systems, revolutions, and disadvantages that were mentioned earlier, in spite of the criticism or disadvantages that were caused by the event, the leaders of China have consistently identified industrialization as the most important step for the country to take in order to move forward. It is distinct from other nations, particularly Japan and South Korea in terms of the degree regarding the socialist and western characteristic of the political system (Ohno, 2013). Even though it was unavoidable for the country to become more open to the rest of the world, this process is being carried out with extreme caution in order to protect the Chinese form of government and society. It is essential to keep in mind that "Math has developed as an academic discipline over thousands of years, but every generation must begin with basic arithmetic—it cannot jump into calculus in kindergarten (Wen & Wolla, 2017)." It implies that the development of China is neither sudden nor accidental, but rather a result of the importance of peace, stability, and trust, all of which are conducive to such growth, and of moving forward step by step without taking any shortcuts. It takes a powerful government to respond to the vitality of external programmes while simultaneously nurturing citizens and mobilising them for a common cause.

IV. Policy Recommendation

The Chinese model illustrates a distinctively different path to modernization. China already possessed a substantial foundation for the moderation process it was going through, including an abundant labour force and years of industry experience. The most important pieces of the missing puzzle that Deng Xiaoping was aware of were the ones involving the creation of markets and the mobilisation of labour forces. The developing nations, particularly Cambodia, may benefit from the suggestions that can be gleaned from the China model, which are as follows:

- It is necessary to approach a problem with pragmatism and a healthy dose of realism. Before Deng Xiaoping's era, China's adoption of an ideological economic

approach resulted in instability rather than expansion of the economy. This changed during Deng's reign. China has come to the conclusion that globalisation is an unstoppable force that must be confronted in a manner that is typical of China.

- Industrialization is impossible without the contributions of science and technology. However, transitioning from an agricultural economy to one based on heavy industry is virtually impossible. Because neither the financial nor the labour nor the market sectors are prepared to acknowledge its existence. It is a gradual process.
- It is essential to emphasise that taking either a completely communist or completely liberal approach to the market may not necessarily result in industrialization in the way that was intended. Nevertheless, the use of a mixed method demonstrated the significance of adopting a flexible approach and developing an innovation economic strategy according to the circumstances of the nation that is in charge.
- Before moving on to the next phase of modernization, China followed a strategy that involved waiting for its market and population to develop to their full potential. Even though it might not be applicable to other countries with smaller populations than China, the self-reliance mentality is not something that ought to be disregarded or treated flippantly in any way.

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