China’s emerging economy is an enormous success story and it’s remarkable, say two INSEAD academics, because it’s really one big experiment.

China does not have a grand plan for developing itself. It’s very conscious that it’s running the society as a series of experiments,” Redding says.

"The process of evolution is experimentation. There is a lot of decentralisation in the process," Witt adds. "The way this is moving forward is really a bottom-up process in which different localities will be doing different things."

China’s economic emergence is unprecedented in size, speed and scope, but the professors say there are economic development models in the region. Redding and Witt looked at the economies of the US, Japan, Germany and South Korea and they believe the South Korean model comes closest among the four to the type of capitalism that may emerge in China.

"The dominant form of business in South Korea would be the chaebol. These are large conglomerates that are not effectively family-owned anymore, but definitely family-controlled," says Witt, Affiliate Professor of Asian Business and Comparative Management at INSEAD. The book provides evidence that this model is fairly close to the Chinese experience and may be easiest among the four models considered for the Chinese to replicate.

"The Korean parallel is about the closest one we can see but it’s not a perfect match," says Redding, Director of the Euro-Asia and Comparative Research Centre at INSEAD for the past seven years.

Importantly, the difference in size makes China much more difficult to manage.

"Korea is more manageable than China and Korea has progressed much more to a fully functioning democracy. That’s a massive difference," Redding told INSEAD Knowledge.

The authors say that if they look at China in isolation, there was a distinct possibility that China could hit a wall at about 15,000-18,000 US dollars per capita. But China isn’t sealed off from the rest of the world.
Business in China is part of a complex global trading system that provides more different opportunities to progress.

The big question for China right now, they say, is how Chinese companies can move up the value chain.

"It will change extremely slowly. The facts of the dependence on external innovation are very clear," Redding says.

He notes that in high-tech industries, 80 per cent of China's exports are from foreign companies. "For high technology, China depends upon inputs and knowledge," he says.

But the authors believe China can be successful without leading the world in high tech.

Witt points to countries such as Japan and Germany, which are very successful in exporting medium-tech products such as machine tools and transport equipment. That could be one model for China, although he says the barrier to entry in those industries is very high as well.

Nor does China need to move to Western-style democracy to succeed.

"China has achieved, against all stereotypes, an extreme degree of decentralisation of decision making," says Redding.

The academics say this can be seen in municipal and provincial decisions on power plants, infrastructure and other developments. It's also evident in increasing power for individuals in property disputes with developers.

"There's a great deal of grassroots democracy which is not acknowledged," Redding says.

China will need to need to improve the rule of law and develop institutional trust to provide a level playing field for foreign companies, Redding and Witt told INSEAD Knowledge, while Chinese regulations become more predictable and reliable.

'The Future of Chinese Capitalism: Choices and Chances' is published by Oxford University Press.