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ESSAY

For Poor Countries, China Is No Model

State-centered growth may seem like an answer to popular unrest, but the long-term costs are too high

Too many governments are moving backward, not forward—responding to popular discontent by following some version of what they see as the 'China model.' *AGENCE FRANCE-PRESSE/GETTY IMAGES*

By **DAMBISA MOYO**
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The world's emerging economies face an emerging crisis. Such states are home to 90% of the world's population, and on average, 70% of their people are less than 25 years old. Those young citizens dream of a better, freer life with greater opportunity and are increasingly taking to the streets, from South Africa to Thailand, Brazil to Ukraine.

But too many governments in the developing world are moving backward, not forward—responding to popular discontent by following some version of what they see as the "China model." The results could be dire for the global economy. The sheer size of the emerging economies—a list that starts but hardly ends with the so-called BRICs (Brazil, Russia, India, China)—means that their actions can jolt equity and bond markets, shift foreign exchange rates, bump commodity prices, alter global trade and shape corporate investment decisions.

These countries have hugely varied politics and cultures, but the primary driver of unrest in all of them is a strikingly similar set of entrenched economic woes: low growth, stubborn poverty, stagnant wages and intractable unemployment rates that cut off millions from work and any real prospects of progress for themselves and their families.

A growth rate of 7% is the minimum required to double per capita incomes in a generation and thus make a meaningful dent in poverty. But for most of the emerging world, growth rates won't reach half that anytime soon. In Brazil, Thailand and Russia, growth will stay below 3% through 2014, say recent International Monetary Fund forecasts.

And matters could get worse. Under pressure from citizens rightly impatient for progress, too many leaders in these countries are pivoting toward policies that, in the longer term, are likely to inhibit economic growth and spark more turmoil. Already, tariffs, quotas, export bans and even outright expropriation have started to stall global trade growth. In 2013, the World Trade Organization revised its forecast for global trade growth down from 4.5% to 3.3%—strikingly lower than the average 5.3% growth of the previous 25 years.

Protectionist tendencies—in India, Brazil and elsewhere—are producing choke points in cross-border capital flows. The movement of money through the financial system has

been stagnant over the past decade: In dollar terms, cross-border capital inflows among the G-20 economies have fallen nearly 70% since mid-2007.

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Meanwhile, the state's role in emerging economies is expanding. The world's top 13 energy producers are government-owned, mainly in the developing world. And nine of the 10 largest sovereign-wealth funds by assets are in emerging markets.

Other rising powers are eager to emulate China's success and pursue statist policies that can quickly deliver a short-term jolt. Under state capitalism, China has delivered phenomenal growth, brought hundreds of millions out of poverty, bulked up infrastructure and delivered social services.

Moreover, as autocratic China has surged, democracy and capitalism have suffered a series of setbacks that make them less tempting options. These range from high levels of income inequality in the U.S. to the rise of governments in Russia, Venezuela and elsewhere that are nominally democratic but sharply limit free speech and the rule of law.

Many leaders in emerging economies increasingly see economic growth as a prerequisite for democracy rather than the other way around. They point to booming economies not just in China but also, historically, in such autocratic states as Singapore under Lee Kuan Yew and Chile under Gen. Augusto Pinochet.

China's track record is unquestionably impressive. But the Chinese model isn't as viable as its admirers in the emerging world often think. First, unlike many emerging markets, China's growth has been driven largely by exports. Its success has been dependent on the free markets of the West. Most other emerging-market economies are based on agricultural commodities—just the sort of produce that the U.S. and Europe undercut with their own domestic subsidies.

Second, an economic system with the state at its heart is inefficient because it dislocates markets. When the government is the ultimate economic arbiter, assets are inevitably mispriced, which hinders sustained, longer-term growth. It also creates imbalances between supply and demand, which can spark inflation and distort interest rates.

Finally, policies that mimic China may yield a short-term burst in employment, but they also produce serious negative externalities and economic dead weight. China itself is now grappling with massive debt woes in its financial sector, a property bubble that could burst at any time and pollution that slows growth.

It should worry us all that, in the face of growing popular unrest, many leaders in emerging markets are turning to authoritarian, state-centric models. Whatever the short-term political appeal of such policies, they are likely, in the long run, to exacerbate social turmoil and create a vicious cycle for both emerging markets and the world as a

whole.

—Dr. Moyo is the author, most recently, of "Winner Take All: China's Race for Resources and What It Means for the World," published by Basic Books.

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