

China's Political Stability as a Foundation for Stable Economic Growth: Key Lesson for Latin America

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Abstract. This study examines how political stability shapes long-term economic growth by comparing China with seven major Latin American economies. China —unlike Latin American countries, where political volatility disrupts planning and limits the effectiveness of state policies— demonstrates a consistent and structurally embedded form of stability characterized not by highest absolute scores but by institutional continuity and the capacity to implement long-term policies. Using panel data models —including pooled, fixed effects, random effects, and mixed effects— the study employs regional dummy variables and interaction terms to capture the context-dependent effects of political stability on growth. The results show that political stability plays a decisive role in China's sustained economic expansion, supporting investment, infrastructure development, and policy continuity, whereas in Latin America, frequent political shifts weaken state capacity and prevent stability alone from producing sustained growth. By highlighting these divergent dynamics, the article clarifies how China's model provides practicable lessons for Latin America: the contribution of stability to growth depends on consistency, predictability, and institutional embeddedness rather than absolute levels alone. The findings offer targeted policy insights, emphasizing that Latin American countries must strengthen governance structures and long-term policy frameworks to achieve sustainable economic development.

Keywords: stable economic growth, political stability, China, Latin America.

La estabilidad política de China como fundamento del crecimiento económico sostenido: una lección clave para América Latina

Resumen. Este estudio examina cómo la estabilidad política influye en el crecimiento económico de largo plazo mediante una comparación entre China y siete de las principales economías de América Latina. A diferencia de los países latinoamericanos, donde la volatilidad política interrumpe la planificación y limita la eficacia de las políticas estatales, China presenta una forma de estabilidad consistente y estructuralmente arraigada, caracterizada no por alcanzar los niveles absolutos más altos, sino por la continuidad institucional y la capacidad para implementar políticas de largo plazo. Mediante modelos de datos de panel —incluidos modelos agrupados (pooled), de efectos fijos, de efectos aleatorios y de efectos mixtos—, el estudio emplea variables ficticias (dummy) regionales y términos de interacción para captar los efectos dependientes del contexto de la estabilidad política sobre el crecimiento económico. Los resultados muestran que la estabilidad política desempeña un papel decisivo en la expansión económica sostenida de China, al favorecer la inversión, el desarrollo de infraestructura y la continuidad de las políticas públicas. En contraste, en América Latina, los frecuentes cambios políticos debilitan la capacidad del Estado e impiden que la estabilidad, por sí sola, genere un crecimiento sostenido. Al poner de relieve estas dinámicas divergentes, el artículo muestra cómo el modelo chino ofrece enseñanzas aplicables para América Latina: la contribución de la estabilidad al crecimiento depende de la consistencia, la previsibilidad y el arraigo institucional, más que de los niveles absolutos de estabilidad por sí solos. Los hallazgos proporcionan orientaciones específicas para las políticas públicas, al destacar que los países latinoamericanos deben fortalecer sus estructuras de gobernanza y sus marcos de políticas de largo plazo para alcanzar un desarrollo económico sostenible.

Palabras clave: crecimiento económico sostenido, estabilidad política, China, América Latina.

1. Introduction

China's political stability has enabled sustained investment and long-term planning, making large-scale construction a key driver of growth. This environment has supported rapid urbanization and pragmatic reforms, allowing infrastructure to expand faster than foreign investment, domestic innovation, or the privatization of state assets (CEPAL, 2014; Shi, 2019). As a result, China has consolidated transport networks, ports, airports, and poverty-reduction programs through experienced private and state-owned enterprises. Under Xi Jinping's "new normal," political stability has also supported the shift toward stronger domestic consumption and technological upgrading, stabilizing growth at 5–6% while reducing vulnerability to shocks.

By contrast, Latin America has long endured persistent infrastructure deficits combined with weak territorial planning (Creutzfeldt, 2019). These limitations are further exacerbated by recurrent spikes of political instability, which hinder long-term planning and weaken government capacity to sustain infrastructure investment. Such structural gaps create opportunities for cooperation with China's initiatives, which facilitate infrastructure development through Chinese corporations—as seen in projects such as the Chancay Port in Peru and lithium-related investments in Bolivia and Argentina (GREFI, 2020).

The literature still lacks explanations as to how differences in political stability shape long-term economic performance in China and Latin America. While Latin America's model is subject to recurrent volatility, China's pragmatic, state-guided development strategy has enabled far greater policy continuity (Valdiglesias, 2022; Zhang et al., 2024). This country's relatively stable political system has supported long-term planning and sustained growth (He, 2019; Fan, 2019), reinforced since Xi Jinping expanded state intervention after taking office—including a strict anti-corruption campaign aimed at shoring up political stability and the legitimacy of the Communist Party (CPC).

What lessons can China's economic development model—especially its emphasis on political stability—offer for Latin America? What are the key differences between the Chinese and Latin American development strategies that explain their distinct economic trajectories? How could China's pragmatic approach to growth, grounded in political stability, be adapted to Latin America's diverse sociopolitical contexts?

This study aims to evaluate how China's development model—especially its form of political stability—supports sustained economic growth and the lessons it may offer for Latin America. It also examines how strategic differences between China and Latin American countries shape their respective

levels of stability and economic performance. Finally, it explores whether elements of China's pragmatic, stability-based approach could be adapted to the institutional and political realities of the region.

In addressing these questions, the article contributes to analyzing how political stability shapes long-term economic performance through comparison of China and Latin America. In China, stability—expressed as institutional continuity and sustained policy implementation—has supported investment and major infrastructure programs. In Latin America, frequent political shifts disrupt planning and weaken state capacity. Therefore, the article's greatest contribution lies in showing how the prevailing forms of stability (and instability) bring about contrasting economic outcomes, and in considering whether elements of China's stability-based model can inform development strategies in the region.

The article is organized as follows. Section 2 reviews the main literature on political stability and development models, establishing the analytical basis of the study. Section 3 outlines the methodological approach and the indicators employed to compare the two economies. Section 4 presents the empirical results of the comparison between China and Latin America. Finally, Section 5 discusses the implications and drills down into the key lessons for policymakers.

2. Literature review

Much of the literature on stability tends to frame development as a linear progression from low-income to high-income status, yet this narrative frequently rests on teleological assumptions and insufficiently interrogated premises. Gill and Kharas (2006) have argued that stability enables countries to overcome structural barriers such as inequality, primary-export dependence, technological limitations, and institutional weaknesses. However, their framework largely presumes the state's ability to implement long-term reforms, without examining the political conditions required for such reforms to materialize.

Paus (2012, 2014) extended this perspective by arguing that countries fail to sustain growth because they do not transition from commodity-based to knowledge-intensive production. While her emphasis on capability building, government policy, and innovation-driven development is valuable, it tends to underestimate the political and historical constraints on the adoption of coherent industrial strategies in volatile contexts. Similarly, Felipe (2012) stressed economic diversification as a pathway to stable growth, yet his analysis offers limited practical insights into how countries trapped in low-value sectors can escape entrenched structural dependencies.

Rodrik (2013) brought structural change to the forefront of the analysis, arguing that successful development requires diversification into advanced, high-tech sectors supported by active state intervention. Nonetheless, in practice, his model presents one persistent limitation: many developing countries lack the bureaucratic and governance capacities required to design and sustain targeted industrial policies. Likewise, although Berg et al. (2018) showed that inequality undermines long-term growth and restrains social mobility, they did not fully address why some unequal countries nonetheless achieve substantial transformation. Both Woo et al. (2012) and Glawe et al. (2017) reaffirmed the importance of productivity growth and human capital, yet their contributions tended to reiterate well-known determinants without explaining why only a handful of countries manage to improve them consistently.

A broader limitation in this literature is the assumption that economic reforms are necessarily both technically desirable and politically feasible, which disregards realities such as weak institutions, low state capacity, and recurrent political cycles. Identifying the “right” factors—innovation, diversification, human capital—does not in itself explain the divergent trajectories between regions such as East Asia and Latin America.

This analytical gap is what motivates the present study's comparison of China and Latin America. While existing scholarship foregrounds the role of infrastructure and industrialization in China's growth (Shi, 2019; Démurger, 2001; Shenggen et al., 2004; Song et al., 2014; Deng et al., 2008), this research often adopts a functionalist perspective which assumes that infrastructure automatically drives development. Yet evidence from Latin America—such as Baer (1972) and Dietz et al. (1995)—demonstrates that infrastructure, when embedded in uncompetitive structures or unstable governance, fails to produce sustained growth.

The political dimension also remains underexplored in most economic analyses. Although Latin America's persistent instability is widely documented (Creutzfeldt, 2019), the literature has paid insufficient attention to the role of political stability in supporting China's long-term growth. Lardy (2019) and Economy (2018) described the expansion of state control under Xi Jinping, but left open the long-run implications of this centralization. Shambaugh (2016) filled this gap by arguing that China's authoritarian stability—initially conducive to reforms—has evolved into a structural constraint that impedes innovation, fuels social tensions, and prevents institutional adaptation. According to Shambaugh, without political liberalization China risks prolonged stagnation and eventual decline.

Even the celebrated pillars of the Chinese model are politically and economically contested. Ansar et al. (2016) challenged the conventional view

that China's infrastructure boom is growth-enhancing, demonstrating that many projects generate negative returns, misallocate capital, and increase financial fragility. These findings problematize the widespread assumption that China's infrastructure model is replicable in Latin America.

Other scholars have portrayed China as a pragmatic learner of global development experiences (Zheng, 2019) and highlighted efforts to strengthen the rule of law in the country (Wang, 2019). Yet Cohen (2021) critically dismantled this narrative, showing that legal reforms serve primarily to consolidate CPC authority rather than constrain it. This contradicts the notion that legal modernization is driving institutional improvement.

China's economic trajectory—from the open-door policy and resource exports to manufacturing upgrading, brand internationalization, and the “Made in China 2025” initiative (Huang, 2019)—is often presented as a coherent, linear ascent. Such accounts, however, obscure underlying tensions, including the structural dependence on foreign technology that Zeng et al. (2014) have identified as a threat to China's long-term innovation capacity.

Similarly, while Nedopil (2023) argued that the Belt and Road Initiative (BRI) can help Latin America to overcome low growth by enhancing connectivity, productivity, and integration into global value chains, this optimism tends to overlook the fiscal, political, and governance risks associated with large-scale infrastructure financing, especially in contexts without strong institutions.

Lin et al. (2012) contended that China offers lessons for Latin America in the form of public–private partnerships and strategic identification of emerging advantages. Yet the feasibility of translating these lessons is limited by the absence of comparable state–business coordination mechanisms in most Latin American countries.

Glawe et al. (2017) maintained that China's human capital, expanding middle class, and abundance of high-tech exports position the country to avoid low growth. However, this perspective does not fully address the mounting demographic, financial, and geopolitical pressures that complicate China's future trajectory. Woo (2012) underscored these vulnerabilities, citing fiscal stress, governance weaknesses, environmental mismanagement, and problematic international relations as potential catalysts of slowdown.

Latin America's comparison with East Asia further highlights structural divergences. Despite benefiting from the commodity super-cycle (Foxley et al., 2016), Latin America failed to convert these advantages into productivity gains or industrial upgrades. Doner et al. (2016) argued that persistent inequalities and institutional fragility constrain innovation and

human-capital development. Paus (2009, 2012, 2017) concluded that Latin America has not adopted the innovation-driven strategies characteristic of East Asian economies, even if her often downplayed the influence of historical and political obstacles.

Empirical contributions also reveal significant limitations. Hu et al. (2023) found that Latin America's limited probabilities of achieving stable growth are driven largely by inequality, although domestic investment, trade openness, and human capital exert positive effects. Meanwhile, Woo et al. (2012) showed that China, after 33 years of sustained growth, is approaching high-income status through a combination of state-led and market-driven reforms focused on innovation. Yet this study leaves open the question of whether China's political structure can continue to support such reforms.

Scholars such as Glawe et al. (2020) and Song et al. (2014), despite concerns over China's future slowdown, have documented the magnitude of China's development since Deng Xiaoping, recognizing its unprecedented rise while acknowledging persistent risks. The World Bank's income classification, which distinguishes between lower-middle and upper-middle income, shows that China spent 28.2 years in the upper-middle category and 15.9 years transitioning from lower to upper middle income (Kang, 2021), displaying both rapid progress and difficulty in the final transition.

Likewise, although China appears well-positioned to complete its transition to high-income status, the literature has stressed that the country's long-term prospects depend not only on innovation and productivity but also on its capacity to address growing political rigidities that, as noted by Shambaugh (2016) and Cohen (2021), are increasingly at odds with the institutional requirements of an advanced and complex economy.

This study hypothesizes that China's form of political stability—understood not in terms of higher numerical scores but of institutional continuity and long-term capacity for policy implementation—has enabled sustained investment, large-scale infrastructure development, and consistent economic planning. It further proposes that political stability operates differently in China vis-a-vis Latin America: In China, stability reinforces state capacity and facilitates investment and capital accumulation, whereas in Latin America, instability often disrupts these processes and weakens long-term economic strategies.

3. Method

The seven Latin American countries selected (Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela) is based on a clear and rational criterion: they are the region's largest economies. This approach ensures a

more representative and impactful comparison with China's development model, particularly when it comes to addressing the persistent challenges of achieving stable and sustained economic growth. By focusing on the most significant economic players, the study is able to capture a broader spectrum of structural issues commonly faced across Latin America—such as dependence on primary commodity exports, persistent inequality, and institutional fragility. Consequently, the findings and policy recommendations derived from this comparison are likely to be more widely applicable and relevant to the region as a whole.

The methodology employed in this study ensures its robustness by utilizing several types of econometric models, which allows for a comprehensive and effective examination of the central hypothesis. By applying pooled, fixed effects, random effects, and mixed effects models, the approach offers a thorough analysis that accounts for different aspects of the data. This modeling flexibility bolsters the reliability of the results, providing a solid foundation for testing the hypothesis and drawing meaningful conclusions.

The main data source is the set of World Development Indicators published by the World Bank. These data are used to analyze the risks of low economic growth for China and Latin America. The model is based on the methodology of Cárdenas (2010), who compared the state capabilities of Latin American and East Asian countries against inequality, with a dummy of regional analysis. In the model employed here, economic growth is the dependent variable, and political stability is the main hypothesis (as opposed to the inequality variable employed by Cardenas).

$$EC_{it} = \beta_0 + \beta_1 * K_{it} + \beta_2 * L_{it} + \beta_3 * SP_{it} + \varepsilon_{it}$$

In the first equation, EC_{it} represents the endogenous variable, while K_{it} and L_{it} represent the control variables derived from the Solow model—specifically, capital and labor. In addition, SP_{it} denotes political stability, which is the key hypothesis of this analysis, suggesting that long-term growth requires political stability to implement a series of reforms that can positively impact economic development. Furthermore, it should be noted that the data used for this study runs from 1980 to 2023.

Four models were used in this study: a pooled model and three panel data models (fixed effects, random effects, and mixed effects) to determine the model that best fits the reality of China and the seven Latin American countries analyzed. Although the main hypothesis, political stability, did not prove to be significant, the selection of the best econometric model allowed for further regional analysis using dummy variables and, in turn, a more focused approach on this hypothesis.

Based on the first equation, a strong correlation was determined between the political stability variable and the regional dummies for China and Latin America, indicating that these two dummies serve as a good instrument for the former. This can be explained, for example, by the China's high levels of political stability. In Cárdenas's (2010) study, the inequality variable was also replaced by the regional dummy for Latin America, serving as another example of how regional dummies can be effectively used as proxies for key variables in econometric models.

The Hausman test was employed to determine which of the panel data models (fixed effects or random effects) best fits the results. This test compares the estimations of both models to assess whether the unique errors are correlated with the regressors. A significant result from the Hausman test suggests that fixed effects would be the preferred model, as it provides more reliable estimates when there is a correlation between individual-specific effects and the explanatory variables. In the event, the random effects panel data proved the best option for the continuation of the analysis.

$$EC_{it} = \alpha_0 + \alpha_1 * K_{it} + \alpha_2 * L_{it} + \alpha_3 * DummyLatam_{it} + \alpha_4 * DummyChina_{it} \\ + \alpha_5 * DummyLatam * PoliticalStability_{it} \\ + \alpha_6 * DummyChina * PoliticalStability_{it} + \varepsilon_{it}$$

The second equation includes EG as the endogenous variable, while the control variables K and L, which were explained earlier and are derived from the Solow model, are retained. In addition, DummyLatam represents the Latin American region, and DummyChina captures the long-term growth characteristics of China. The interaction between the two variables, DummyLatam*PoliticalStability, is included to assess the combined effect of regional characteristics and political stability in Latin America. Similarly, DummyChina*PoliticalStability represents the interaction between China's growth model and political stability, providing insight into how these factors influence long-term economic development in China.

Four distinct econometric models were generated, each using only one of the four types of dummies mentioned in the previous paragraph. This approach was adopted due to the strong collinearity observed among these dummies. It is important to note that these dummies serve as proxies for the long-term political stability variable, allowing for an assessment of how regional characteristics and political stability impact economic growth in both Latin America and China. This methodological choice was necessary to avoid multicollinearity issues and ensure the accuracy of the analysis.

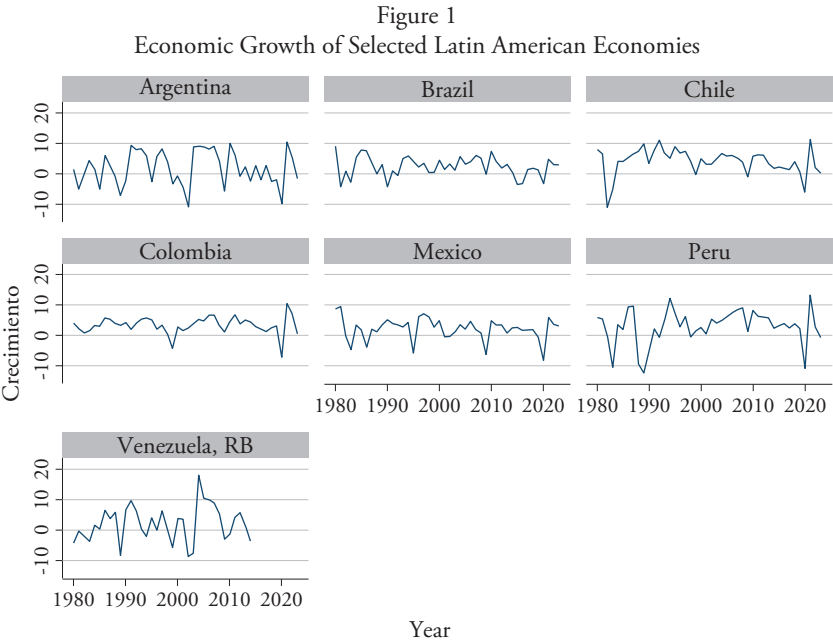
Political stability, as an exogenous factor, serves as a long-term foundation for economic growth, but its effects differ by region. In China,

stability—through institutional continuity and consistent policies—facilitates investment, infrastructure, and planning. In Latin America, political volatility disrupts policy implementation and weakens long-term development, showing that stability enables growth mechanisms in China but is less effective in Latin America.

4. Results

The results reveal a clear contrast between China and Latin America: Latin American countries experience volatile political stability that limits its impact on growth, while China's stability—though not always the highest by international standards—is consistent and structurally embedded, supporting long-term policy continuity, investment, and infrastructure. Regional dummies and interaction terms express this divergence: China's political stability interaction is strongly positive and significant, whereas Latin America's political stability interaction is not, showing that stability alone cannot overcome structural constraints in Latin America. These findings confirm that the effects of political stability are context-dependent and position China as a useful benchmark for the region, illustrating how consistent governance can sustain economic growth.

Figure 1 presents economic growth rates for multiple countries over a range of years, focusing specifically on Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. Several of these countries appear to be facing challenges associated with low economic growth, which is characterized by stagnation after reaching certain income levels.



Graphs by country1

Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>

Argentina’s economy shows a significant degree of volatility, with positive growth rates alternating with substantial contractions. This fluctuation is indicative of an economy struggling with structural issues such as inflation, political instability, and economic mismanagement. For instance, in some years, Argentina experiences negative growth rates reaching double digits (e.g., -10.89% and -7.15%), which significantly hampers its ability to transition from middle- to high-income status. While there are occasional positive spikes, such as 9.13% growth, the overall trend indicates instability, which is a key feature of countries associated with low economic growth.

Brazil presents a mixed picture of positive and negative growth, but like Argentina it struggles with sustained economic growth. Despite a few years of relatively strong performance (e.g., 7.85%, 7.49%), Brazil has experienced recurring periods of contraction (e.g., -4.25%, -4.35%), which could indicate difficulties related to industrial diversification, political instability, or slow institutional reforms. The nation’s growth is often inconsistent, making it harder to sustain an upward trajectory over the long term.

Chile exhibits relatively greater stability, with several years of positive growth. However, it also suffers from significant dips, such as -11.01% and

-5.02%. While the country does achieve growth rates exceeding 9% (e.g., 9.92%, 8.93%), the sharp decline in some years shows that it too faces challenges in sustaining growth and addressing the structural issues typical of developing countries. These fluctuations also indicate that the country is still at risk of stagnating despite occasional periods of rapid growth.

Colombia displays relatively stable growth, with many years of modest positive growth rates (e.g., 5.33%, 5.81%). However, the country also experiences some volatility, with a few negative years (e.g., -4.2%, -7.18%). Its steady performance might suggest that Colombia is making progress but may still struggle with the institutional and economic constraints that restrict movement up the income ladder.

Mexico has had fluctuating growth, with some years of strong performance (e.g., 9.59%, 8.76%) and others more negative (e.g., -4.62%, -5.91%). This varied picture suggests that the country is still facing challenges in achieving consistent growth. The negative years, particularly the sharp decline in growth rates, highlight the vulnerabilities that could expose Mexico to economic slowdown.

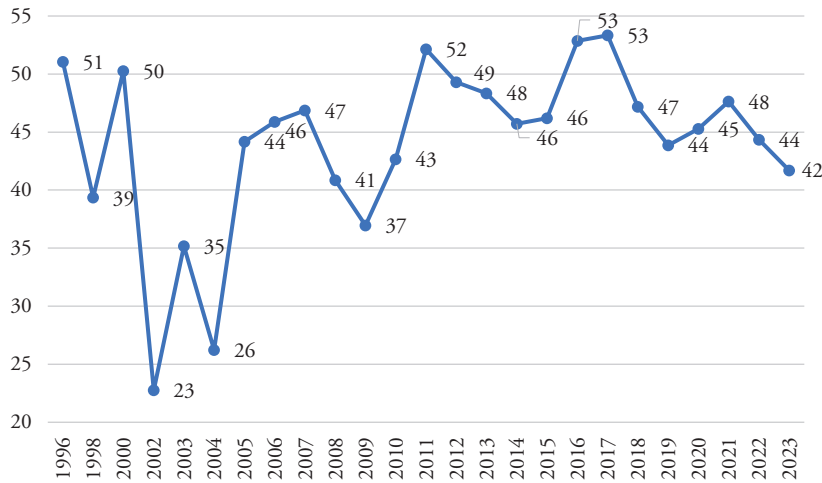
Peru presents a more positive growth trend compared to many other Latin American nations, with several years of significant growth, including 12.31% and 9.73%. However, the country still faces challenges, as reflected by its negative growth years (e.g., -10.41%, -9.44%). While Peru has achieved periods of robust growth, the persistent downturns suggest that it may struggle to achieve sustainable development.

Venezuela's growth rates reflect a country in crisis, with prolonged periods of negative growth (e.g., -8.57%, -7.75%) punctuated by occasional rebounds (e.g., 18.29%, 10.32%). This volatility is extreme, and is typical of nations caught in deep economic crisis. The vast fluctuations in growth rates indicate a lack of stability, which tend to prevent countries from progressing beyond developing status.

The political stability of each of the countries will now be explored in turn. As Figure 2 shows Argentina's political stability exhibited considerable fluctuations between 1996 and 2023, reflecting the country's broader socio-political volatility. In 1996, Argentina scored 51 out of 100, but by 2002—amid a major economic and institutional crisis—this figure had plummeted to just 23, its lowest point in the period observed. Although a measure of recovery occurred in subsequent years, with a gradual improvement peaking at 53 in 2016 and 2017, this trend was not sustained. From 2018 onward, the stability index again declined, settling at 42 by 2023. Overall, the data illustrate a pattern of short-term recoveries followed by periods of renewed uncertainty, highlighting persistent governance cha-

llenges. Argentina's inability to sustain a high level of political stability may undermine long-term development efforts and investor confidence.

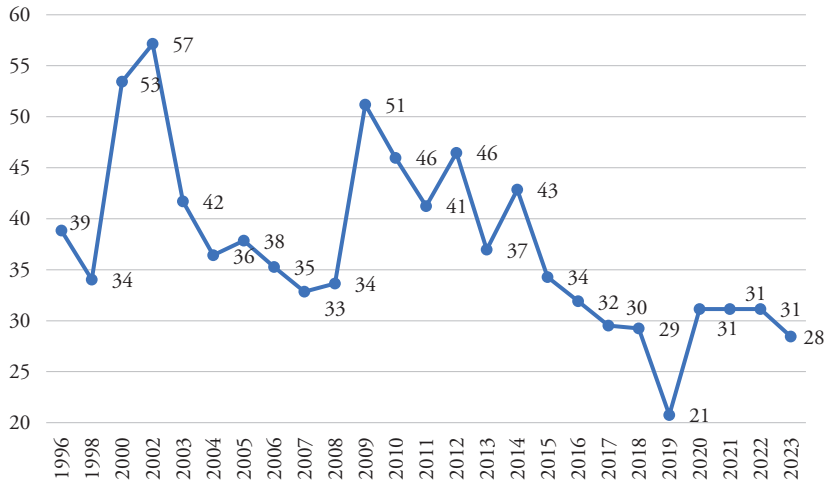
Figure 2
Argentina: Political Stability



Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

Brazil, as shown in Figure 3, experienced fluctuating but generally declining levels of political stability from 1996 to 2023. While there were brief improvements, such as in 2002 (57) and 2009 (51), the overall trend points downward—particularly after 2010, with a significant drop starting in 2015. By 2023, Brazil's score had fallen to 28, indicating a serious erosion in political stability over the past decade. This decline reflects growing political polarization, institutional tensions, and episodes of social unrest, suggesting that Brazil faces persistent challenges in achieving stable and effective governance.

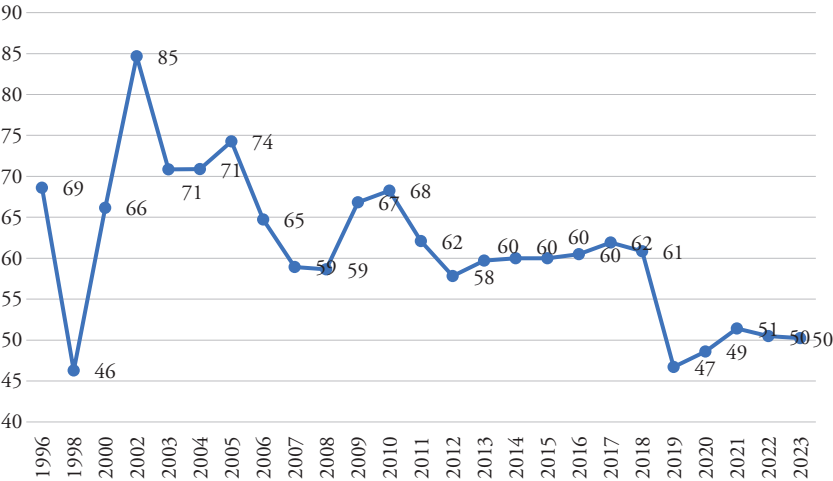
Figure 3
Brazil: Political Stability



Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

Chile has generally sustained a moderate-to-high level of political stability from 1996 to 2023, according to the World Bank's indicator and as shown in Figure 4. The country reached a peak of 85 in 2002, reflecting a period of strong institutional confidence and low political unrest. While there have been fluctuations, particularly a notable decline in 1998 (46) and again in 2019 (47) amid widespread social protests, Chile has largely remained above the global median in governance quality. The scores from 2020 onward—remaining around 50—speak to a more uncertain political climate, possibly linked to constitutional reform debates and evolving public demands. Nonetheless, compared to regional peers, Chile has shown relative resilience in maintaining political order.

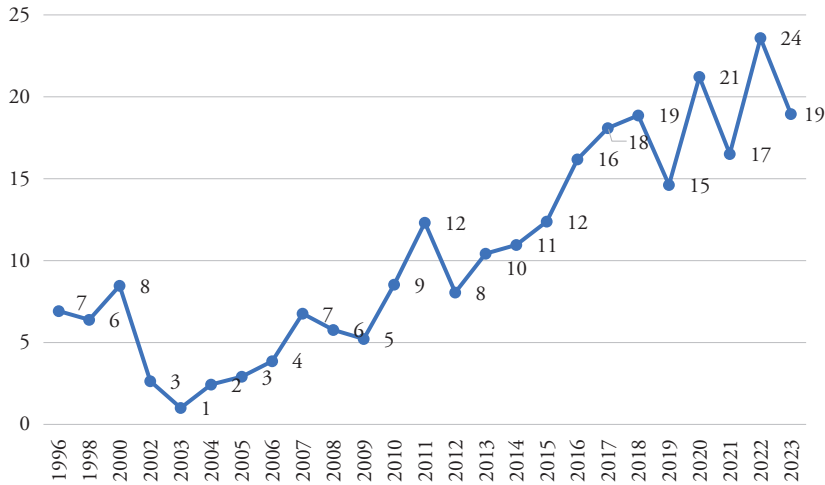
Figure 4
Chile: Political Stability



Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

Colombia's political stability, measured in Figure 5, reflects the lowest quality of governance of all seven countries, but has shown a gradual improvement since 1996 despite periods of significant instability. In the early 2000s, particularly between 2002 and 2005, the country scored extremely low (as low as 1), reflecting severe internal conflict and security challenges related to armed groups and drug trafficking. However, from 2010 onward, Colombia began to experience a steady increase in stability, with notable gains following the 2016 peace agreement with the FARC. The peak score of 24 in 2022 marks the country's highest point over the period, though a slight decline to 19 in 2023 suggests persistent political and social tensions. Overall, while Colombia remains in the lower tier of global governance quality, its long-term trend hints at meaningful progress toward greater political stability.

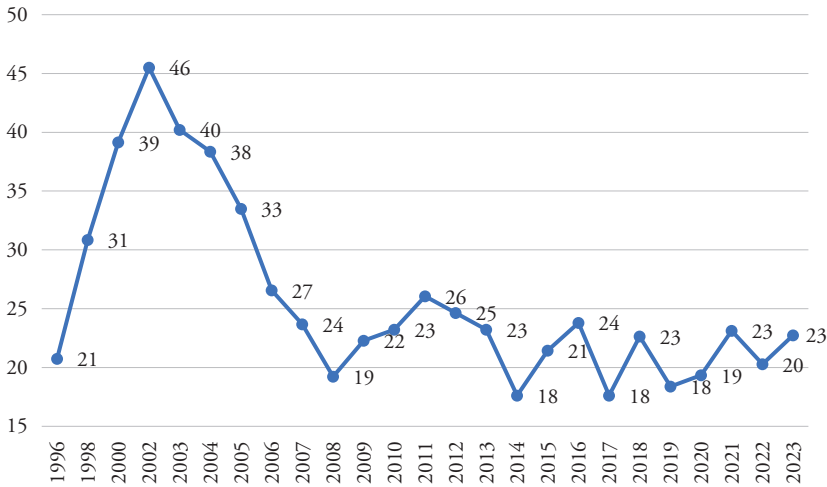
Figure 5
Colombia: Political Stability



Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

Mexico's political stability, seen in Figure 6, has presented a generally low and somewhat fluctuating trend since 1996. The highest level of stability was observed around 2002 with a score of 46, but overall the country has struggled to maintain consistent improvements, with scores often hovering between 18 and 31. Since 2008, Mexico's political stability has remained relatively weak—a product of ongoing challenges such as violence related to organized crime, corruption, and social unrest. Although there have been minor fluctuations, the scores from 2014 to 2023—that rarely surpassing the mid-20s—indicate persistent instability. This suggests that Mexico faces ongoing governance challenges that limit its political stability despite attempts at reform.

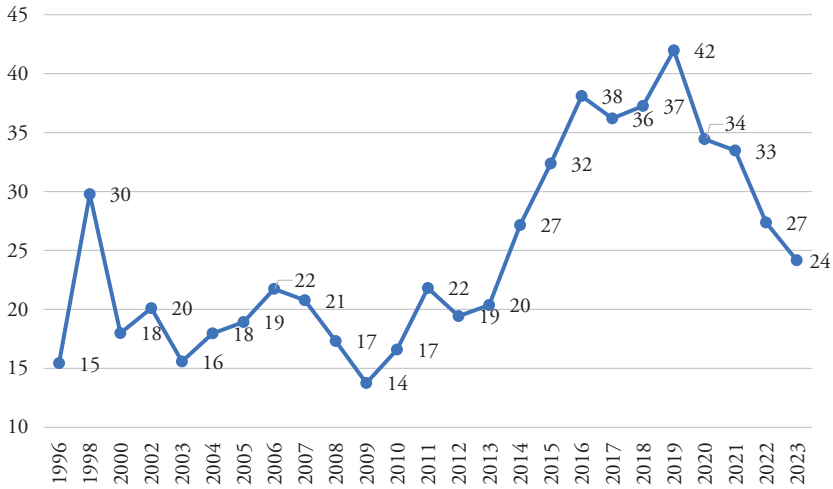
Figure 6
Mexico: Political Stability



Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

Peru's political stability, as shown in Figure 7, displays considerable fluctuations and decline in recent years. While the country experienced periods of relative stability earlier in the timeline, recent data reflect growing instability driven by frequent political crises, corruption scandals, and social protests. These challenges have undermined governance quality and led to lower political stability scores, indicating that Peru faces ongoing difficulties in maintaining effective and consistent political order. The trend suggests that political volatility remains a significant obstacle to Peru's governance and long-term development.

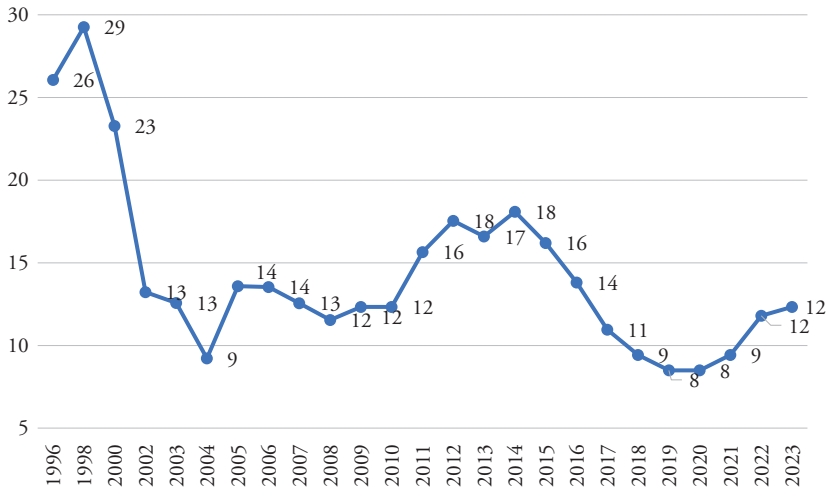
Figure 7
Peru: Political Stability



Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>

Venezuela's political stability, presented in Figure 8, has undergone significant decline since the late 1990s. While scores were somewhat moderate in the 1990s, hovering around the mid-20s, political stability deteriorated markedly after 2000, dropping to very low levels between 2002 and 2004. From then on, Venezuela struggled with ongoing political and economic crises, manifested in consistently low scores below 20. The situation worsened further from 2017 onwards, reaching lows around 8–9, signaling severe instability amid social unrest, economic collapse, and governance challenges. Though there has been a slight improvement in 2022 and 2023, with scores rising to 12, Venezuela remains one of the least politically stable countries in the region.

Figure 8
Venezuela: Political Stability

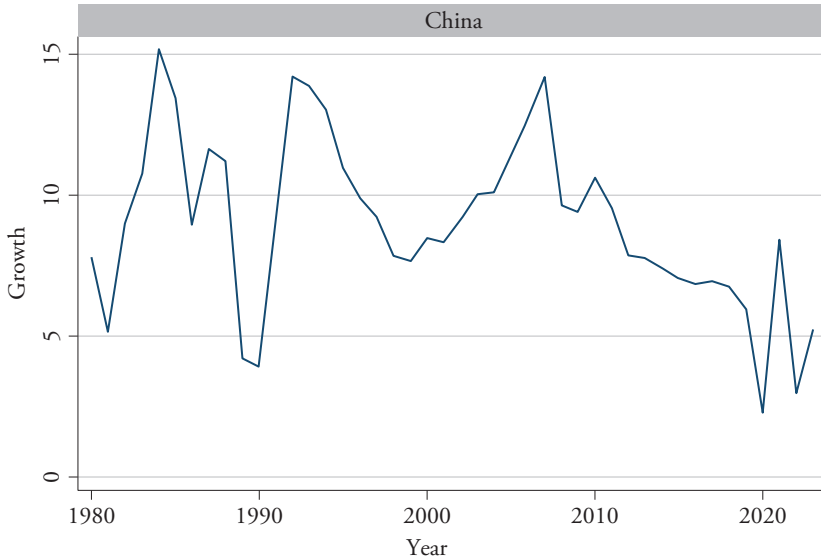


Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>

By contrast to these Latin American economies, China's economic growth data—shown in Figure 9—exhibits a remarkable and consistent upward trajectory over several decades, suggesting strong promise of escape from the current economic slowdown. Unlike many Latin American nations, China has sustained impressive growth rates, with numerous years of double-digit growth (e.g., 15.19%, 14.23%, 14.22%) and only a few years of moderate decline (e.g., 2.24%, 2.95%).

China's growth pattern reflects the success of its economic transformation, which has been driven by a combination of industrialization, large-scale infrastructure development, and export-oriented manufacturing. In particular, growth rates in the range of 10% to 15% in the early 2000s and throughout much of the 2010s (e.g., 13.43%, 13.89%, 11.65%) signal that the country has been able to maintain rapid economic expansion and continues to benefit from an increasingly advanced technological and industrial base. The relatively stable positive growth recorded overall further indicates that the country has built solid foundations to sustain its upward trajectory.

Figure 9
Economic Growth of China



Graphs by country1

Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

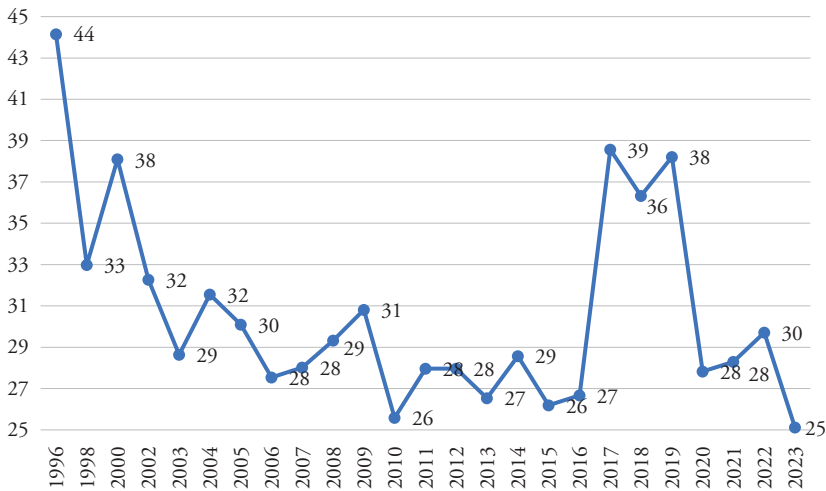
Besides its technological advancements and industrial reforms, China's long-term growth has been underpinned by its political stability. Over the past few decades, the Chinese government has maintained a strong, centralized political system that has been crucial to creating an environment conducive to sustained economic growth. This political stability has allowed for the implementation of long-term strategic policies without the disruptions commonly seen in democratically unstable nations. It has also been vital to attracting foreign investment, fostering domestic entrepreneurship, and pursuing large-scale infrastructure projects.

Furthermore, the government's ability to formulate and execute long-term economic plans, such as the "Made in China 2025" initiative, has enabled the country to transition from a manufacturing hub to an innovation-driven economy. In this context, political stability in China has not only provided the foundation for steady economic development but also created an atmosphere of predictability and security that supports both domestic and international economic activities, ensuring that China remains on track for stable economic growth.

Figure 10 illustrates that China's political stability has consistently proven more resilient than that of most Latin American countries. From 1996 to

2023, the country's scores generally ranged between the mid-20s and high 30s, reflecting steady governance and few episodes of severe political turmoil. While minor fluctuations occurred—such as a dip in the early 2010s and a peak between 2017 and 2019—China avoided the sharp, recurrent declines seen in much of Latin America. This demonstrates a political environment with strong institutional control and low volatility, which supports long-term policy continuity, sustained investment, and infrastructure development, allowing for consistent economic growth even during major reforms and social transitions.

Figure 10
China: Political Stability



Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

China's political stability scores indicate an average level of governance quality that is comparatively higher and more consistent than that of many Latin American countries. The country's ability to maintain relative political order and control contributes to a more predictable environment for policy and economic growth. Although China's scores have declined somewhat in recent years, having fallen to 25 in 2023, the overall trend is one of greater resilience and consistency political stability than the comparatively volatile Latin American region.

Table 1 presents estimates from four different models: pooled, fixed effects, random effects, and mixed effects, each of which is used to analyze the relationships between the dependent and independent variables. The coefficients denote the strength and direction of these relationships, while

their magnitude reflects the extent of influence. Along with the coefficients, the standard errors (shown in parentheses) quantify the uncertainty of the estimates, with smaller errors indicating more precise estimates. By examining both the coefficients and standard errors, the significance and reliability of the relationships can be assessed across the different models, thus providing a comprehensive understanding of the data.

In the pooled model, the capital coefficient is $5.19\text{e-}12$, with a standard error of $(3.89\text{e-}12)$, which indicates a positive relationship with the dependent variable, though the coefficient is small. In the fixed effects model the coefficient is $1.37\text{e-}11$; this is greater than in the pooled model, but the standard error of $(9.40\text{e-}12)$ shows more uncertainty in the estimate. In the random effects model the coefficient is $5.19\text{e-}12$, the same as in the pooled model, and exhibits a high level of statistical significance ($p < 0.01$). In the mixed effects model, the coefficient is $5.71\text{e-}12$, with a similar positive relationship that is slightly higher than in the other models.

Capital is shown to have a positive relationship with the dependent variable across all models, indicating that higher levels of capital are associated with higher values of the dependent variable. While the magnitude of this relationship varies somewhat between models, the random effects model produces the most statistically significant coefficient, suggesting that this model provides the most reliable estimate of the impact of capital. This indicates that the random effects model captures the relationship more accurately, likely due to its ability to account for individual unit variations while still considering overall trends.

In the pooled model the coefficient for political stability is $-4.00\text{e-}03$, with a standard error of 0.019, indicating that the relationship between political stability and the dependent variable is not statistically significant. Similarly, in the fixed effects model the coefficient is $8.00\text{e-}03$, with a standard error of $4.30\text{e-}02$, indicating that political stability does not have a significant impact on the dependent variable in this context. In the random effects model, the coefficient is again $-4.00\text{e-}03$, which mirrors the value in the pooled model, with a standard error of $2.00\text{e-}02$, reinforcing the lack of a significant relationship. Lastly, in the mixed effects model the coefficient is -0.002 , with a standard error of $2.00\text{e-}02$, further indicating that political stability does not have a significant effect on the dependent variable across all models.

The overall negative or non-significant coefficient for political stability in the initial models reflects the predominant influence of the seven Latin American countries, where instability or other political factors limit the effect of stability on economic growth. Conversely, China—a single country

with a distinct form of institutional continuity—benefits from stability that facilitates long-term investment, infrastructure development, and consistent economic planning. This difference highlights how the impact of political stability varies by region, which justifies the subsequent use of regional dummies and interaction terms to accurately capture these divergent effects. By modeling stability in this way, the study can more clearly illustrate how China's experience provides actionable insights for Latin America, linking political conditions to sustained economic performance.

Even if some Latin American countries may exhibit higher absolute scores of political stability according to the WGI, their stability tends to be more volatile over time, reflecting fluctuations that can disrupt long-term economic planning. By contrast, China's political environment does not always score the highest in absolute terms, but it does demonstrate lower variability and greater structural stability, allowing for the consistent implementation of long-term strategies such as the five-year plans. This relative predictability in policy and governance terms enables sustained investment and economic growth, highlighting that consistency and durability of political stability, rather than absolute level, are key factors in supporting long-term economic performance.

A graph comparing China with Latin American countries would highlight the crucial role of political stability in fostering long-term economic growth. In China, stability has enabled the implementation of consistent and long-term economic policies, such as economic reforms and industrialization, allowing the country to steadily increase its GDP per capita and maintain stable economic growth.

In turn, many Latin American countries, plagued by political instability, experience more erratic economic growth, with frequent economic setbacks, changes in government, and challenges in policy continuity. These factors often trap them in the middle-income range, unable to achieve sustained growth. The graph would show China's trajectory of steady growth, while the growth lines of Latin American countries would display volatility, illustrating how political instability stymies their ability to maintain consistent development over time.

Table 1
Pooled and Panel Data Models for Economic Growth of the Sample

	Pooled	Fixed Effects	Random Effects	Mixed Effects
Capital	5.19e-12 (3.89e-12)	1.37e-11 (9.40e-12)	5.19e-12*** (1.40e-12)	5.71e-12 (4.65e-12)
Labor	-2.81e-08 (2.21e-08)	-1.42e-07 (6.43e-08)	-2.81e-08*** (7.88e-09)	-3.06e-08 (2.70e-08)
Political Stability	-4.00e-03 (0.019)	8.00e-03 (4.30e-02)	-4.00e-03 (2.00e-02)	-0.002 (2.00e-02)
Constant	3.46 (8.30e-01)	6.23** (2.12)	3.46*** (9.90e-01)	3.4*** (1.)

Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

The result from the Hausman test indicates that there is insufficient evidence to reject the null hypothesis. The null hypothesis suggests that there are no systematic differences between the fixed effects and random effects estimators, implying that the random effects model is appropriate. Given the chi-squared value of 0.09 and the p-value of 0.7603, which is well above the typical significance threshold of 0.05, the null hypothesis cannot be rejected. Therefore, the random effects model is considered more appropriate for the data employed here as there is no evidence of significant differences between the two models.

The regression analysis in Table 1 reveals a strong correlation between the political stability variable and the regional dummies, indicating that political stability plays a significant role in shaping the economic outcomes of each region. For instance, the China dummy captures the long-term stability inherent in China's development model, where political consistency has been a key driver of sustained economic growth. This stability allows for the implementation of long-term policies and reforms that have contributed to China's economic success. Conversely, the Latin American dummy reflects the region's political volatility where instability tends to disrupt economic policies and growth, highlighting the contrasting impact of political stability on the development trajectories of the two economies.

The panel data analysis presented in Table 2 incorporates interaction terms with region-specific dummies for Latin America (Latam) and China, along with political stability as a long-term factor, to examine the impact of the latter on economic outcomes in these regions. The results indicate that political stability is a significant driver of long-term economic growth in China, where stable governance supports consistent development. On

the other hand, political instability in Latin America curtails sustained growth, leading to periods of stagnation or regression. The interaction terms indicate that while political stability can contribute positively to economic performance, the instability frequently witnessed in Latin American countries presents a significant barrier to achieving consistent and continual economic progress.

The Latam Dummy variable has a coefficient of -3.11×10^1 , which is statistically significant at the 1% level ($p\text{-value} < 0.01$). This result suggests that being located in Latin America is associated with a significant negative effect on the dependent variable, which may reflect the unique economic and institutional challenges faced by the region. The negative coefficient indicates that, all else being equal, the dependent variable is lower in Latin America compared to other economies, such as China, for which the results show a positive impact.

This result could be due to factors such as economic instability, weaker institutions, or less favorable business environments commonly observed in Latin American countries. The strong statistical significance of this result underlines the robustness of the negative relationship between being located in Latin America and the dependent variable, highlighting the importance of regional factors in determining economic outcomes.

The China Dummy variable has a coefficient of 31.02, which is statistically significant at the 1% level ($p\text{-value} < 0.01$). This result indicates that being located in China has a significantly positive effect on the dependent variable. This positive relationship implies that the economic environment, institutional framework, and other factors within China play a crucial role in promoting the dependent variable in comparison to other economies, such as Latin America.

The significant positive coefficient could be reflective of China's robust economic growth, the strength of its institutions, its growing technological advancements, and its strategic policies aimed at enhancing domestic and international economic performance. China's development model, which focuses on innovation, infrastructure, and industrial transformation, might provide an environment conducive to favorable economic outcomes, thus explaining the substantial positive effect. This finding underscores China's role as an economic powerhouse, as well as its position as a key driver of global growth.

The positive effect of being in China, as indicated by the significant coefficient of the China dummy variable, is closely linked to the long-term impact of political stability in the country. China's sustained political stability has played a key role in creating a favorable economic environment, which,

in turn, enhances the effectiveness of its development policies. The consistent political framework has allowed for the implementation of long-term strategies, such as technological innovation, infrastructure development, and industrial transformation, all of which have contributed significantly to China's economic growth.

This stability provides a solid foundation on which to build investor confidence, drive domestic and foreign investments, and ensure the successful implementation of policies aimed at boosting productivity and economic output. Consequently, the positive impact of China's political environment on the model's dependent variable can be seen as a reflection of the strong long-term effects of political stability on economic performance.

Table 2
Dummies for Analyzing the Effect of Political Stability on Economic Growth

	Dummy Latam	Dummy China	Dummy Latam* Political Stability	Dummy China* Political Stability
Capital	-4.59e-12* (2.78e-12)	-4.59e-12* (2.78*e-12)	6.68e-12*** (1.96e-12)	-4.59e-12* (2.78e-12)
Labor	-8.37e-09* (4.77e-09)	-8.37e-09* (4.77e-09)	-3.79e-08*** (1.15e-08)	-8.37e-09* (4.77e-09)
Dummy	-3.11e+01*** (10.3)	31.02*** (1.03e+01)	-1.00e-02 (8.00e-03)	1.18*** (4.0e-01)
Constant	35*** (1.06e+01)	3.9*** (4.00e-01)	3.95*** (6.00)	3.9*** (4.0e-01)

Source: Prepared with data taken from World Development Indicators (2024), <https://databank.worldbank.org/source/world-development-indicators#>.

The coefficient for the interaction term Latam*Political Stability (-1.00e-02) is not statistically significant, indicating that the combined effect of being in Latin America and having political stability does not have a meaningful impact on the dependent variable in the model. This suggests that the phenomenon witnessed in China, where political stability plays a critical role in driving economic growth and development, is not repeated in Latin America. While political stability is generally considered important for economic progress, the results—particularly the lack of statistical significance in this interaction term—imply that it is not sufficient in itself to bring about the same level of economic improvement observed in more stable economies like China. Indeed, there may be other factors—such as institutional weaknesses, economic volatility, or structural challenges—that prevent political stability from translating into significant economic outcomes in Latin American countries.

The coefficient for the interaction term China*Political Stability (1.18) is statistically significant at the 1% level ($p\text{-value} < 0.01$), indicating that the combination of being in China and having political stability has a considerable positive impact on the dependent variable. This finding emphasizes the critical role of political stability in China's sustained economic success and growth. It implies that the stability of China's political environment contributes significantly to an economic climate that encourages investment, innovation, and overall development.

Political stability in China helps create a predictable, efficient, and supportive environment for businesses and institutions, which in turn fuels economic progress. Furthermore, this result highlights how the Chinese government's ability to ensure stability and continuity in governance can positively affect various economic outcomes, including productivity, industrial growth, and technological advancement. Given China's emphasis on long-term planning and policy implementation, the interaction between political stability and economic outcomes is crucial for the nation's ability to remain competitive on the global stage and achieve its ambitious economic goals.

5. Discussions

The findings presented here align with Creutzfeldt (2019) in recognizing political stability as a key driver of long-term economic growth. However, while Creutzfeldt also included pragmatism as a factor, the present study focuses solely on political stability as the primary determinant. Despite this difference, both studies underscore the importance of stable political environments for sustained economic growth. The present results are also consistent with Wang (2019), as the two studies highlight the crucial role of political stability in economic growth. Specifically, the findings support Wang's argument that the stability of the CPC forms the basis of political stability in China, which in turn has been a key factor driving the country's long-term economic development.

This study also coincides with Nedopil (2023) in showing that China's economic growth has outpaced that of Latin America, and has allowed China to significantly internationalize its economy. This contrast stems from China's greater global integration and economic influence, while Latin American countries face difficulties in achieving similar outcomes. This study therefore supports the recommendations of Lin et al. (2012) for Latin America, advocating for reforms that focus on producing high-added value goods and identifying comparative advantages. These measures are crucial for improving competitiveness, overcoming economic stagnation, and ensuring long-term economic growth in the region.

The present research, in line with the findings of Glawe et al. (2017), asserts that China is likely to sustain stable economic growth due to its strong economic foundations, including its significant capital accumulation and advanced infrastructure. Besides sustainable growth, these structural advantages equip China with the necessary tools to enhance productivity and continue its path toward higher-income status. However, as Zeng et al. (2014) have cautioned, China needs to shift from capital accumulation to innovation if it is to maintain stable economic growth. The country is already taking steps in this direction through investments in technology and R&D, but further emphasis on innovation is required for sustained growth.

This study, like Palma et al. (2024), highlights the differing paths of Latin American countries and a central East Asian economy. While East Asian nations have successfully achieved stable economic growth through innovation and strong economic policies, Latin America still struggles to do so. The research suggests that Latin American countries should adopt similar strategies, focusing on innovation and better governance, to foster long-term economic growth. Woo (2012) has drawn attention to the importance of macroeconomic stability for China's growth, which aligns with the focus of this research on political and economic stability as essential for long-term development. Both studies stress that stability forms the backbone of reforms to maintain sustain growth.

Wu et al. (2024) also drew a comparison between Latin American and East Asian economies, noting that while both regions were initially in the low-income category, it was the East Asian nations that successfully transitioned to high-income levels. This contrasts with Latin America, where many countries have struggled to break free from low economic growth. Paus (2019) pointed out that Latin American countries have attempted to implement reforms similar to those of China, but have largely failed to achieve comparable success. Despite adopting strategies such as export-led growth, industrialization, and infrastructure development, Latin America has not been able to replicate China's rapid economic transformation.

Foxley et al. (2016) noted that Latin America has a strong dependence on natural resource exports, with periods of economic booms largely driven by high commodity prices. However, the region has struggled to develop sustainable growth and diversify its economy beyond raw material exports. This overreliance on commodity exports has left the countries of the region vulnerable to global price fluctuations and has stifled their ability to build more robust, innovation-driven economies. This observation aligns with the present analysis, which highlights that the region's reliance on natural

resources has limited its ability to develop higher-value-added industries, much like other East Asian economies have done successfully.

As conclusions, this research emphasizes the central role of political stability in shaping long-term economic growth, specifically in the context of China's success compared to the stagnation of Latin American countries. Political stability, as highlighted in our findings and supported by the literature, forms the foundation for sustained economic development. In the case of China, the stability of the CPC has been instrumental in creating an environment conducive to long-term growth and development. The contrast with Latin America, where political instability has often impeded the region's ability to implement long-term reforms and achieve similar growth outcomes, is stark.

Another finding is that China's growth trajectory, marked by significant capital accumulation and infrastructure development, has provided the country with the tools necessary to maintain stable economic growth. This is supported by the insights of scholars, who argue that China's economic foundations leave the country well positioned to continue advancing toward a higher-income status. However, as other scholars have cautioned and as alluded to above, for China to maintain this progress it must strengthen its focus on innovation rather than just capital accumulation.

In contrast, Latin American countries have struggled to replicate China's success, largely due to a heavy reliance on natural resource exports and insufficient diversification of their economies. Despite attempts at reform, Latin American countries have failed to achieve comparable outcomes to those of East Asian economies, which have leveraged long-term policies and innovation. This research further supports the arguments that Latin America's vulnerability is due to its dependence on commodities, and makes a case for considering political stability as a key element to implement in the Latin American development model.

One key limitation of this study is that political stability cannot be fully disentangled from the fundamental factors through which it influences economic growth. In China, these factors create long-term, exogenous foundations for sustained investment, large-scale infrastructure, and policy continuity, although they carry a potential legitimacy risk due to the absence of electoral accountability. On the other hand, moderate levels of political stability in some Latin American countries, such as Argentina or Chile—where, at present, risks such as terrorism are minimal—may reflect institutional processes, such as regular elections, but without generating a strong, consistent link to long-term economic growth.

Future research could investigate which aspects of political stability interact most strongly with institutional factors that support economic growth. In particular, exploring how stability facilitates the expansion of innovation, technological development, human capital, and infrastructure would facilitate a more comprehensive understanding of long-term development. In addition, China's experience could serve as a benchmark for Latin American countries, offering lessons on how stability can be leveraged to strengthen state capacity and sustain economic growth over time.

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