

AN EMERGING CHINESE MODEL: EMANCIPATING THE POLITICAL ECONOMY
OF CHINA FROM THE GROWTH PARADIGMS

By:

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(Under the Direction of Han S. Park)

THE ABSTRACT

Two dominant schools of thoughts in development have emerged to interpret China's impressive economic growth and tremendous socio-economic changes. The first school of the Western model attributes China's rapid economic expansion to its significant increase of so-called capitalist market elements. The second school of the East Asian model points out that China has imitated the East Asian model with state-led development strategies. In this context, the dissertation uses the path dependency theory and the critical juncture framework to argue that China's reforms represent China's efforts of groping its own way for economic growth. With the analysis of the main system legacies of the Chinese political and economic institutions, the dissertation suggests that China's reforms reveal a path dependency nature of institutional evolution. All the way through three stages of economic reforms, China has entered different trajectories for economic growth. The dissertation identifies the main characteristics of the Chinese development model. First, China has been trying to build a market economy with a diversified ownership structure by maintaining the public sector as the dominant while significantly encouraging private ownership. Second, it insists on making economic modernization as the central theme and maintaining political stability as the necessary condition.

Third, it upholds the leadership of the Chinese Communist Party while transferring the Party into economic performance based structures with the incremental and the pragmatic approach.

Fourth, it is characterized by local experimentations with the improvement of central-local government coordination. China's reforms contain three critical junctures. The late 1970s is the first critical juncture - a chain of events in the 1970s influenced China to take a gradual approach with incremental reforms. Deng Xiaoping's South China Tour in 1992 is the second critical juncture. The Chinese future leadership would find it extremely difficult to reverse the trend of opening-up and China has decided to establish a market economy. China now is in a third critical juncture. China has been making efforts to pursue a balanced economic development with more emphasis on social, environmental and health issues. The concepts of scientific development and a harmonious society were put forward in this stage.

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DEDICATION

I would like to dedicate this dissertation to my parents, Chen Guochui and Zhang Duorong.

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CHAPTER 1

INTRODUCTION

1. The Puzzles

On the question of the roles of the markets and the states for economic growth, neoclassical economists put an emphasis on free trade, open market, capital accumulation, and investment; however, they consider the minimal state intervention as the essential for economic growth.¹ In contrast, the statist theorists in political economy stress the active roles of the states in promoting economic growth, suggesting that the states must almost inevitably play a major part in promoting industrialization for developing countries.²

During the Cold War, the Anglo-American style laissez-faire liberal capitalism and the former Soviet style central-planning communism were two extreme systems with the opposite understandings on the roles of the markets and the states for economic growth. The liberal capitalist states in the Western bloc maintained that private ownership was essential to economic growth. They believed in individual freedoms and the inherent selfish human nature.

Accordingly they promoted privatization and the autonomy of the enterprises with the minimal state intervention in order to increase market efficiency. By contrast the communist states in the Soviet bloc maintained state and collective ownership. They believed in egalitarian society over individual freedom. Accordingly they relied on the state apparatus such as central planning and

resource redistribution with the extensive administrative centralization in order to promote economic growth.

After the collapse of the Soviet Union in 1991, many post-communist states such as Russia, Poland, and Hungary in Eastern and Central Europe implemented mass privatization and rapid trade liberalization with big-bang or shock treatment. These states were pre-occupied by the Washington Consensus. The Consensus assumed that capitalism and communism are two mutually exclusive systems, and that the radical replacement of the state's role in economic affairs by the free markets and the dramatic democratization toward the Western standard would be the only way to achieve successful economic reforms.

In contrast to those post-communist states with transitional economies such as Russia, Poland, and Hungary, China has taken a very different path for its economic reforms. Of course, China has introduced significant market-oriented reforms with decentralization and privatization. However, China's economic liberalization process has largely been carried out with an active state intervention in the economy by setting up regulatory agencies in mitigating the adverse effects of marketization and globalization. China's political and economic systems still maintain many critical communist features. These features include a communist party-state system, the prior institutional frameworks with the extensive bureaucracy, and many heritages of the socialist ideologies and policies. China's economic reforms have been an institutional evolution spurred by path dependency: they have made use of market forces but instituted control mechanisms in order to achieve economic growth. Thus China's approach is not a radical transition into another kind of political and economic system such as the Western model or the East Asian model. While virtually almost all post-communist states with the transitional

economies in Eastern and Central Europe had experienced economic stagnation and political instability, China's impressive economic performance inclusive of rapid growth during reforms presents various paradoxes. Furthermore, China's more than three decades of economic expansion occurring within a communist institutional context raises some fundamental questions in the studies of political science and economic development. Specifically, why and how has China been able to radically develop the so-called capitalist market economy within a communist institutional context? Why has the radical development of market economy during China's economic reforms not led to the self-destruction of China's communist party-system as many Western scholars predicted, instead why have the reforms reinforced China's communist state capacity for prosperity? As in the Western conventional wisdom, capitalism and communism are two mutually exclusive systems, and we perceive that there are obvious conflicting principles between market economy and the communist party-state ideology. It is puzzling that China's economic reforms with liberalizations in many ways have stood in sharp contradiction to the basic ideological tenets on which China's whole communist party-state system has been created on since 1949.

2. The Purpose of the Dissertation

China's rapid economic growth during the last three decades of reforms has interested the academic world because of various paradoxes. In the West, many scholars have tried to explain China's impressive economic growth and tremendous socio-economic changes with a wide range of social theories. Generally speaking, two schools of thoughts have emerged to interpret China's impressive economic expansion. The first school of the Western model for economic growth attributes China's rapid economic expansion to its significant increase of so-called

capitalist market elements such as the free price system and profit-seeking activities. According to them, the rapid growth of the Chinese economy during reforms has been driven in a large part by China's emerging capitalist economic elements such as entrepreneurship, foreign direct investment, privatization, de-regulation, and trade and price liberation (Hsing, 1998; Guthrie, 1999; Zheng, 2004; McNally, 2006; Redding & Witt, 2010).³

The first school based on the Western model for economic growth explicitly applies the logic of the Western model of liberal capitalism to the case of China. It depicts China's reforms as a post-communist transformation moving toward a form of capitalist economy similar to the experiences of the post-communist states with transitional economies in Eastern and Central Europe. In addition to the emphasis on China's increasingly competitive economic structure with market forces during reforms, the political preposition of this interpretation is that China is going to pursue the Western political model such as the Western style democracy, rule of law, and individual freedom in its future in order to sustain development. Although they recognize the economic success of China's economic reforms, most of them remain highly critical about China's political system. In general, they strongly believe that China's economic growth has not benefited from its political system, and the economic reforms in China have gradually led to the so-called waning influence of China's political system. As China's economic reforms advance, despite that the Chinese political system remains its communist structure, the state capacity of the Chinese government, both political and economically, has declined drastically, (Wang, 1994 & 1995; Jia & Lin, 1994; Goodman & Segal, 1994).⁴

The second school of the East Asian model for economic growth points out that China, followed by the "Four Little Dragons" and other East Asian economies, has imitated the East Asian

developmental state model with state-led development strategies, and it has become a part of the “flying geese” pattern of development led by Japan (Perkins, 1986; White & Wade, 1988; White, 1991; Overholt, 1993; Simone & Feraru, 1995; Cheng, 1998; Gilley, 1998).⁵ According to these scholars, China’s important aspects of imitating the East Asian developmental state model (state-capitalism or state-led capitalism) for economic growth include strong government control in financial and banking sectors, the labor intensive industries accompanied by export-led development strategies, large bureaucracy and well-educated labor force, high saving rate, and heavy investment in infrastructure.

In this context, the dissertation is written with the intention of clarifying the reality of the Chinese reforms through a detailed analysis on the Chinese model of economic growth. The first major purpose is to disapprove the above-mentioned two schools of interpretations on China’s rapid economic growth. Further it aims to show that China’s economic reforms since the late 1970s represent China’s efforts of groping its own way regarding economic growth along side dealing with issue of path dependency. This approach is different from the approach of the European post-communist states with transitional economies as well as the approach of the East Asian developmental states with state capitalism. Accordingly this dissertation focuses on analyzing the unique features of the Chinese model of economic growth, and in this context, the dissertation will argue that China has constructed an alternative development model. In using the path dependency theory and critical juncture framework, the dissertation will demonstrate that the main features of the Chinese political and economic system have remained relatively stable during reforms. With the analysis of the main system legacies of the Chinese political and economic institutions throughout the pre-reform era and three reform periods covered in the study, the dissertation will show that the Chinese reforms have followed a path of evolutionism

with the Chinese characteristics rather than a radical conversion into a capitalist society. As China has opened up a unique path toward economic development and modernity with its own way based on its own political, historical and cultural heritages, I believe that the Chinese model for economic growth has brought some new meanings to the Western understanding of development and modernity. The dissertation recognizes that the Chinese model draws rich inspirations from the development experiences of East Asian economies such as Japan, South Korea, Taiwan and Singapore, but China's development model is distinctive from other development paradigms because of its unique Chinese characteristics with path dependency. The dissertation elaborates the main components and features of the Chinese development model, and makes some reference to the two growth models (e.g., the European post-communist states model and East Asian model), arguing that the emerging Chinese development model has emancipated from the dominant growth paradigms with its own identity and with profound implications.

The second purpose of the dissertation is to contest the conventional wisdom that China's transition from a planned economy to a market economy will necessarily lead to the demise of the Chinese one party-state. Instead it aims to demonstrate that the Chinese government, with the Chinese Communist Party as the leadership, has operated gradual and incremental reforms. At the same time, it has maintained political continuity and strengthened its ruling capacity. The leadership did this by remaking the Chinese modern administrative state, optimizing central-local government relations, and gradually building the Chinese socialist democracy in grass-roots political participation of village elections and in increasing inner-party democracy. Unlike the post-communist states with transitional economies in the Eastern and Central Europe, the Chinese government has not been a passive actor, but it has taken active steps in initiating,

directing and building a market economy with specific control mechanism during China's reforms. The dissertation shows that although the Chinese government's control of its economy through the state ownership and central planning has appeared to decline, the government has retained its strategic control of economic governance. It has retained its control over the economy through the re-orientation of social priority among the public and the institutional reconstructions with the Chinese characteristics to guide the market forces during economic reforms.

In other words, China's economic reforms have been a self-improvement of Chinese-style socialism within the communist one party-state by making use of market forces as instruments for economic prosperity, but not a transition to a capitalist society with the democratic system. The puzzling hybrid of the so-called capitalist market economy and the communist party-state political system in China's reform practice demonstrates the stereotyped understanding of the exclusive dichotomy between capitalism and communism in the Western academy of social sciences. The Chinese government has made use of the market economy of market forces within the communist party-state system with the institutional control mechanism for its national ends with prosperity, which greatly differs from the Anglo-American style liberal capitalism that is characterized by securing minimal state intervention, private ownership, individualism, and free-wheeling economy. The dissertation emphasizes the development role of the Chinese government and its internal organizational aspects of institutional reconstruction based on China's distinctive political, social and cultural structures during its economic reforms such as the party system and its changes, the evolving central-local relations, and administrative and bureaucratic efficiency.

3. The Plan of the Dissertation

In Chapter Two, I will examine the literature on the Chinese development model with special focus on the debates on the roles of markets and states in economic development. I will discuss two growth paradigms that are relevant to the practices of development in China and explain why they have limitations in the context of China's reforms.

In Chapter Three, I will establish the main analytical framework and theoretical foundation for this dissertation. It will address the theoretical approaches of path dependency theory, institutionalism, and local state theories and fiscal federalism for economic performance during reforms, and explain how those theoretical frameworks will be applied in the following chapters.

In Chapter Four, I will outline the main institutional structures of the Chinese political economy. I will compare it with the Western model and the East Asian model for economic development and demonstrate that the main characteristics of the Chinese political and economic institutions have remained relatively stable. Second, I will discuss some system legacies of the Chinese political and economic structures throughout the pre-reform era and three reform periods covered in the study to show that the Chinese reforms have followed a path of evolutionism with the Chinese characteristics rather than a radical conversion into a capitalist society as described by the Western scholars. I argue that the Chinese reforms are characterized by path dependency and three critical junctures. Third, I will examine how the Chinese government has been able to build a modern administrative state with the internal institutional reconstruction to strengthen state capacity for achieving economic modernization. Finally, I will analyze several important concepts and issues such as socialist market economy with the Chinese characteristics. I will

elaborate why the Chinese development model has gone beyond the meanings and contents of the classical socialism and the Soviet style communist model with the Chinese own identity.

In Chapter Five, I will mainly examine a number of policy measures taken by the Chinese government with some reference to the experiences of post-communist states with transitional economies in Eastern and Central Europe. In this context, I will analyze China's gradual economic reforms with incremental approach and its pursuit in socio-economic transition with the emphasis on political stability. I will elucidate some important historical and political contexts that were associated with China's gradualism with incremental approach to reforms, analyzing China's unique approach as it pursued socio-economic transition and political stability. I argue that during the social-economic transition of China's reforms, China's model of gradualist reforms is paralleled with important indigenous institutional innovations associated with the continuity of its political legacies. I will also discuss the Chinese Communist Party's efforts in building socialist democracy with the Chinese characteristics during reforms as an instrument to help ensure continued socialist modernization.

In Chapter Six, I will introduce briefly the major differences between the Chinese development model and the East Asian developmental state model in brief. Then I will explain in details about China's effort of optimizing evolving central-local government relations that mainly distinguish the Chinese development model from the East Asian development states.

In the final part, I will provide a brief conclusion that summarizes my findings and explains their implications for the future studies on China's economic development.

CHAPTER 2

LITERATURE REVIEW ON THE CHINESE MODEL FOR ECONOMIC GROWTH

With the spectacular success of China's economic reforms, there has been increasing attention paid to the Chinese model for economic growth both in China and abroad. In the West, many scholars have responded China's dramatic socio-economic changes since its economic reforms in the late 1970s with a wide range of social theories for explanations. In the studies of political economy and development, the Western growth model and the East Asian growth model are particularly relevant to the literature of the Chinese model for economic growth. This chapter examines the theoretical applications of these two growth paradigms in the case of China's reforms, and then explains why they, although with some contributions, still have conceptual and theoretical inadequacy in capturing the exact nature of China's economic reforms.⁶

1. The Western Model for Economic Growth in the Context of China

The first body of the literature explicitly applies the logic of the Western model of liberal capitalism to the case of China, which basically depicts China's reforms as a post-communist economic transformation moving toward a form of capitalist economy. According to these scholars, for a large part, the rapid growth of the Chinese economy during reforms has been driven by China's emerging capitalist economic elements such as entrepreneurship, foreign direct investment, privatization, trade liberations with profit-motivated economic activities (Hsing, 1998; Guthrie, 1999; Zheng, 2004; McNally, 2006; Redding & Witt, 2010).⁷ In *Making*

Capitalism in China (1998), You-tien Hsing's illustrates a picture of China's so-called capitalist transition with the concentration on China's trans-national networks of entrepreneurship and on how the capital flows played a major role in the economic development of China's southern coastal regions. Doug Guthrie's *Dragon in a Three-Piece Suit: the Emergence of Capitalism in China* (1999) demonstrates how the Chinese large industrial firms are increasingly imitating international firms because of their increasing direct contact with international investors and being cut out of state support. He conducted surveys with many Chinese managers find that many Chinese firms have imitated Western style techniques, labor markets, product markets, and inter-firm relations for economic growth. Yongnian Zheng's *Globalization and State Transformation in China* (2004) argues that globalization necessitates the Chinese leaders to embrace global capitalism and market oriented modernization. They do that by encouraging individual enterprises and the capitalist development. In order to adapt to the globalized era, Chinese leaders have encouraged individual enterprises and the development of entrepreneurial class. *China's Emergence Political Economy: Capitalism in the Dragon's Lair* (2008) edited by Christopher McNally explicitly uses the capitalist modernization processes of Great Britain, the United States, Germany, and Japan as references to analyze China, specially the capitalist aspects of China's reforms in firms, finance, innovations, and international competitiveness. In his view, China is irrefutably transiting to capitalism and China is clearly generating a form of capitalism because of China's drive to accumulate capital, emergence of market society, and embryonic bifurcation of secular authority. In *the Future of China's Capitalism* (2010), Gordon Redding and Michael Witt suggest that China's capitalism, as practiced today, in many respects represents a development from traditional business practices, whose success was greatly aided by the foreign direct investment and the overseas Chinese firms. Broadly speaking, the book *Chinese*

Capitalism: Historical Emergence and Political Implications (Chu. ed., 2010) examines China's economic reemergence through the capitalist lens: the book's contributors such as Ku, as well as Chu and So, generally agree that a few features of China might set it apart from capitalisms elsewhere, but they see no reasons for not using the Chinese model of capitalism - Chu mainly identifies the material and spiritual conditions of capitalism in China; Chu and So demonstrate the unevenness of China's development during reforms and show how marketization, privatization, and commodification have permeated practically all processes and relations of production in China.

In addition, another central theme underlying the narrative of China's capitalist transition in this type is that China must pursue the Western political model such as democracy, rule of law, and individual freedom for its future sustainable development. Although they recognize the economic success of China's economic reforms, most of them remain highly critical about China's political system. In their view, China's reforms since 1978 are believed to be an economic success but a political failure (Lichtenstein, 1991; Shirk, 1993; Shell, 1994; H. Wang, 1994; Pei, 1994; Naughton, 1995; Chang, 2001).⁸ In other word, although they recognize the great success of China's economic reforms, they are critical about China's communist political system and the Chinese political system is widely regarded as the major barrier to China's economic growth. Barry Naughton's *Growing out of Plan* (1995) believes that China's political system is dysfunctional and the inadequacy of China's political system is chronic and long-standing because China lacks not only democracy but also minimum level of accountability and legitimacy. In *Coming Collapse of China* (2001), Gordon Chang presents the Chinese reforms with the symptoms of decay everywhere and he predicts the rapid fall the Chinese communist government within five years. In *Globalization and State Transformation in China* (2004),

Yongnian Zheng shows how the Chinese leaders embraced globalization and market-oriented modernization, and that they are open to Western ideas of building the economic system but reluctant to import Western concepts of democracy. According to him, this selectivity will impede China's progress in becoming a modern nation state. In general, they strongly believe that China's economic growth has not benefited from its political system, and if without the dramatic political decentralization and democratization in the future, China's political system will eventually jeopardize the achievements of China's economic reforms. They believe that if without dramatic political reforms, the eventual crisis associated with China's political failures will endanger the very survival of China as a national state (Schell, 1994; Lichtenstein, 1991; Shirk, 1993; Ruan, 1994; Jenner, 1992; Goodman and Segal, 1994; Naughton, 1995; Chang, 2001).⁹

2. The Philosophical Logic of the Western Model and Its Difficulties in the Case of China

The extant literature largely contends that China is in the midst of capitalist transition – if it is not in political sense - eventually it will follow after China's capitalist transition in economic sense. The assumption underlying the literature is that only if China converges with the Western model for economic growth in a faster speed, China can achieve a better outcome in reforms. This popularly professed version of China's economic reforms in the midst of capitalist transition is reflected in the academic and ideological dominance of the Western liberal capitalism after the end of the Cold War. In the view of the west, the end of the Cold War not only marks the disappearance of communism as an ideological challenge to capitalism, but also signifies the death of communism as a viable economic and political model. After the collapse of the Soviet Union in 1991, many post-communist states in Europe such as Russia, Hungary, and

Poland vigorously advocated mass privatization and rapid trade liberalization with the big-bang or shock therapy policies. As Adam Przeworski (1991) has noted “the road the new elites and the people in Eastern Europe want to take is the one that leads to Europe. ‘Democracy, market, Europe’ is the banner....They will thus reenter Europe. They will become a part of the West.”¹⁰ Their reform strategies for reforms included the radical replacement of the state’s role in economic affairs by the free markets, the dramatic democratization toward the Western standard, which were consistent with the Washington Consensus.

The Washington Consensus is a set of specific policy recommendations confirmed by the proponents of neo-classical economic theory and liberal capitalist ideology. Originally the Washington Consensus was stated by John Williamson and it contained with ten specific policy recommendations including: (1) fiscal discipline; (2) restructuring public/social expenditure priorities; (3) tax reform; (4) liberalizing interest rates; (5) competitive exchange rates; (6) trade liberalization; (7) liberalization of inward foreign direct investment; (8) privatization; (9) deregulation; and, (10) property rights (Williamson, 1989).¹¹ With the liberal capitalist enthrallment, most of the post-communist states in Europe underwent dual transition with dramatic and rapid changes in both economic and political terms in the 1990s. In the economic sphere, the post-Soviet states and other East European countries had tried the neo-liberal strategies with the big-bang or shock therapy policies. In the political sphere, parliamentary democracy with elections was established and parliaments began to play an increasing large part in the political life. As a consequence, they scrutinized the rapid transition into the market mechanism based on private ownership as well democratization based on elections and decentralization in the 1990s.

Before the early 1990s, in the minds of some above-mentioned Western scholars, China's more than one decade of reforms since the late 1970s provided another example for the permanent triumph of liberal democracy and market economy all over the world. In their view, China also was on a dual track of economic liberalization and political democratization. They considered that China and other former communist regimes shared the similarities in terms of power structure - there were enough reasons to believe that "China might also follow that path" (McCormick and Unger 1996, 29-53).¹² When explaining China's economic success before the 1990s, they had unanimously emphasized the virtuous role of China's increasing market competition with decentralization, privatization and standardization in the economic reform process. After the Tiananmen Square incident in 1989, some Western journalists and scholars found the uneasiness about the future direction of China's reforms. But the mainstream in the West still maintained that the increasing integration between China's economy and the rest of the world economy, the improvement of people's living standard, and the increasing number of China's middle class would eventually ensure the advancement of democracy in China in the near future. In this perspective, as China has experienced a great transformation from the a planned economy to a market economy, China's economic reforms since 1978 have been at the expense of the state capacity including the gradual decay of the state central planning, the dramatic privatization of state-owned enterprises, and the increasing standardization of domestic market and its relations with the rest of the global economy. In other words, the economic reforms in China have gradually led to the waning influence of China's political system and Chinese Communist Party.¹³ As China's economic reforms advance, the state capacity of the Chinese government, both political and economically, has declined drastically (Zheng, 1995; Jia & Lin, 1994; Goodman & Segal, 1994).¹⁴

However, this dissertation asserts that the conceptual and theoretical migrations of the Western model do not fit comfortably in the case of the Chinese reforms. First, the application of the Western growth paradigm in the context of China's economic reforms is ethnocentric because it conflates economic development with Westernization or Americanization and it equals markets with capitalism. There are two underlying beliefs of the above-mentioned interpretation and expectation on China's reforms - the Western countries have superior political and economic systems than China; and a market economy can only exist in a capitalist society. According to this logic, if China wants to achieve economic development, then China's political and economic systems must also transform to liberal capitalism with free market economy and Western democracy. In contrast to this ethnocentric obsession on liberal capitalism in the West, I argue that there is an emerging Chinese development model, which is a socialist path with market economy toward economic modernization that emancipates from the Western dominant growth paradigms. The puzzling hybrid of so-called capitalist market economy and the communist party-state political system in China's successful reform practice demonstrates the stereotyped understanding about the exclusive dichotomy between capitalism and communism in the Western scholarship. In Chapter Four, I will examine the central concept socialist market economy with the Chinese characteristics by differentiating the concepts between classical socialism and the Chinese styled socialism to demonstrate the variations of socialism, and explain in great details about why Chinese characteristics are able to make Chinese style socialism not incompatible with a market economy during reforms. The Chinese styled socialism is socialism combined with its own identity. Specifically it is a progress of Marxism-Leninism-Maoism based on China's unique condition in the time of globalization. The Chinese development model for economic growth has taken economic development as the central task,

and it has rejuvenated the country through science and education with the leadership of the Chinese Communist Party. If we stick to the definition of socialism solely based on the experiences of the Soviet Union, socialism cannot be combined with a market economy. But if we regard socialism as a cause of prosperity with a socialist political system to ensure the accomplishment of this cause as defined in the experiences of China's reforms, then socialism can be combined with a market economy.

The practice of the Washington Consensus led to multiple currency crises, stagnation, and recession during the financial turmoil of the 1990s, arguably may causing the collapse of several nations' economic systems, and the recent severe World Financial Crisis caused by free-wheeling liberal capitalism, forced more scholars and policy-makers to examine "China miracle" and re-examine China's development strategies.¹⁵ The study of the Chinese development model has some vital theoretical significance. In particular, China's spectacular economic success is not a simply an economic phenomenon, but also it has multiple political, social, and cultural implications. With the detailed analysis on the unique features of the China model for economic growth, I aim to enrich the literature of the development study with new meanings. The dissertation recognizes that the Chinese model draws on development experiences of other countries such as Japan, South Korea, Taiwan and Singapore. However China's development model is distinctive from other growth paradigms with unique Chinese characteristics. I provide some relevant comparison between the Chinese model and the two popular growth models, specifically the East Asian model and the European Post-communist states model in the following chapters. In particular, I elaborate on the primary unique features of the Chinese model.

Second, the literature of application on the Western model explaining China's economic reforms ignores the strategic role played by the states during the courses of China's economic reforms. Unlike the post-communist states with transitional economies in Eastern and Central Europe, the Chinese government has played a strategic role. In particular, the Chinese government has defined the development objectives with institutional innovations during the course of China's reforms. The Chinese government with the leadership of the communist party has taken active steps in initiating, directing and controlling market economy during China's reforms, and the government has re-organized its state control mechanism of the economic governance by forging the distinct Chinese model for economic growth. In Chapter Five, I reference the post-communist states with transitional economies in Eastern and Central Europe and I demonstrate that although the Chinese government's control of its economy through the state ownership and central planning has appeared declined, the government has retained its strategic control of economic governance through the re-orientation of social priority among the public and the reconstruction of institutional buildings with the Chinese characteristics to guide the market forces during economic reforms.

In particular, I contest the conventional wisdom that China's transformation from a planned economy into a market economy will necessarily lead to the demise of the Chinese one party-state. I specifically demonstrate that the Chinese Communist Party, as the dominant ruling party, has operated incremental reforms. By taking this gradual approach, it has ensured political continuity and it has strengthened its ruling capacity. It has done this by remaking the Chinese administrative state, optimizing central-local government relations, cautiously building the Chinese socialist democracy in grass-roots political participation of village elections and in increasing inner-party democracy. In other words, China's reforms have been an institutional

evolution that eventually took on a path dependency. It has used market forces with regulatory mechanisms for economic prosperity, but avoided a radical transition to a capitalist society with democratic political system. The Chinese government has insisted the leadership of the communist party with the modified state control mechanism for its national ends with prosperity, which greatly differs from the Anglo-American style liberal capitalism characterized by securing minimal state, private ownership and free-wheeling individuals. Given the shortcomings of employing the Western growth model in explaining China's reforms, the dissertation will emphasize the development role of the Chinese government and its internal organizational aspects of institutional reconstruction based on China's distinctive political, social and cultural structures during its economic reforms such as the party system and its changes, the evolving central-local relations, and administrative and bureaucratic efficiency.

3. The East Asian Model for Economic Growth in the Context of China

The second body of the literature suggests that China, followed by the "Four Little Dragons" and other East Asian economies, has imitated the East Asian developmental state model to become a part of the "flying geese" pattern of development led by Japan (Perkins, 1986; White & Wade, 1988; White, 1991; Overholt, 1993; Simone & Feraru, 1995; Cheng, 1998; Gilley, 1998).¹⁶

Dwight Perkins' *China: Asia's Next Economic Giant* (1986) illustrates that China's rapid economic growth, similar to the economic miracles of 'the East Asian Four' (Hong Kong, Singapore, Taiwan and South Korea), depends most of all on a supportive political environment. According to him, favorable conditions in China, as elsewhere in East Asia, include rich human capital, internal unity, relatively equal income distribution, a stable centralized government and capital formation (p.41). In "*Developmental States in East Asia*" (1988), Gordon White and

Robert Wade contest the conventional view that the successful experiences of the East Asian development reflect the power of market forces; instead they assess the role and the impact of the state in the economic development of three rapidly industrializing economies – South Korea, Taiwan, and China. According to them, because the states have tight controls in financial and banking sectors, the market system is only served as a useful policy instrument that is pre-determined as a deliberate development strategy in those economies. Ming Xia's *The Dual Development States: Development Strategy and Institutional Arrangements for China's Transition* (2000) includes the Chinese developmental strategy in the family of East Asian model, which consists of deviations in legislative and local political institutional terms. He explains in details why China has adapted the East Asian developmental state model and discusses the evolution of China's People's Congress at the central and local levels. In *China – the Developmental State? : An Empirical Analysis of the Automotive Industry* (2009), Nicola Meier uses the empirical analysis of the Chinese automotive industry to confirm that China has evolved into a developmental state similar in its core characteristics of the three East Asian developmental states – Japan, South Korea, and Taiwan.

The extant literature shows that the Chinese development strategies and the experiences of the East Asian development states (state-capitalism) share many similarities, which include the features of a strong government control in financial and banking sectors, the labor intensive industries accompanied by export-led development strategies, large bureaucracy and well-educated labor force, high saving rate, and heavy investment in infrastructure.¹⁷ Moreover, one of the striking aspects of the East Asian economic success is that virtually all emerging economies in the region were ruled by authoritarian or at least semi-authoritarian regimes during most of their fast economic growth.¹⁸ The governments of South Korea and Japan were in the

authoritarian nature in the early stage of economic development. The authoritarian regimes had played an essential role in the direction of the course of economic reforms, and they often constrained market rationality by the priority of industrialization and economic growth. This approach is apparently very different from the development experiences of the many Western economies with liberal democracy. In fact, the Chinese Communist Party resembles Singapore's People's Action Party, Taiwan's Kuomintang Party, or even Japan's Liberal Democratic Party in terms of their role of economic development. In addition, China and other East Asian economies also share many similarities in terms of the Confucian culture, the human capital with the emphasis on education, a very high saving rate, and the export-oriented economic policy. Trust and close cooperation between the state and the private sector, and the prevailing consensus on corporate goals, both of which result from a homogeneous social fabric and the Confucian culture, have minimized the risk of opportunism by individual utility-maximizing actors (Johnson, 1982, 1987; White, 1988; Amsden, 1989; Wade, 1990; Evans, 1995).¹⁹

4. The Logic of the East Asian Model and Its Inadequacy in the Case of China

As stated above, the second development paradigm relevant to China's economic development is the statist theories in political economy, especially developmental state theory (state capitalism) associated with the experiences of economic development in East Asia. The developmental state theory has its origin from Johnson's 1982 seminar work *MITI and the Japanese Miracle: the Growth of Industrial Policy, 1925-1975*. Chalmers Johnson's central statement is that Japan's remarkable economic miracle was a consequence of the efforts of a "plan rational" state. A planned rational or developmental state was one that was determined to influence the direction and pace of economic development by directly intervening in the development process, rather

than relying on the influence of market forces to allocate economic resources. While the Western model emphasizes competitive market structure, free inflows of foreign investment, and vigorous profit seeking economic activities, whereas the East Asian model stresses the important steering role of the states during the process of economic modernization. The central theme is that the states must almost inevitably play a major part in promoting industrialization in late development nations (Evan et al., 1985; Gerschenkron, 1962; Rosecrance, 1986).²⁰ The experiences of East Asian countries have been used to validate this point. With the emphasis on the role of the states, the developmental state theory has been widely used to explain the development experiences of the East Asian newly industrialized economies such as Japan, South Korea, Taiwan, Hong Kong and Singapore (Johnson, 1982; White, 1988; Amsden, 1989; Haggard, 1990; Wade, 1990).²¹

Hood (1998) suggests that the core of the developmental state is that the state authority should make development as its top priority. By strategically intervening in the market, states can facilitate economic growth and an industrial transformation.²² Castells (1992) offers the definition for the developmental state. Specifically Castells contends that a state is developmental when it establishes its principle of legitimacy and its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in relationship to the international economy. The term of the developmental states has been defined as those states whose successful economic and social development performance illustrates how their political purposes and institutional structures (such as bureaucracies) have been developmentally driven.²³

According to Castell (1992), the theorists on the developmental state model suggest that the developmental state has two components consisting of an ideological component and a structural component. In terms of ideology, it refers to that such a state is able to establish the economic development (e.g., the steady high rate of economic growth and industrialization) as the first priority as well as the principle of the legitimacy for the whole society. In terms of structure, it usually refers to the state capacity such as a competent bureaucracy and administration, appropriate institutional arrangements, and an effective business-government relationship.²⁴ For instance, in the cases of East Asian miracles, a highly competent bureaucracy dedicated to devising and implementing a planned process of economic development was at the center of the Japanese developmental state and of its most successful imitators in Taiwan and South Korea (Beeson, 2003).²⁵ A developmental state is politically autonomous from the influence of interest groups and it is administratively strong in order to implement consistent, interventionist, pro-business policies (Amsden, 1989; Appelbaum & Henderson, 1992; Haggard et al, 1991; Haggard & Moon, 1983; Johnson, 1982; McCord, 1991; Robison, 1988; Wade, 1990; White, 1988).²⁶

The dissertation recognizes that the Chinese model shares many similarities with the East Asian developmental states such as Japan, South Korea, Taiwan and Singapore. Further it recognizes that some of the Chinese leaders officially admitted that they learned their economic policies from the experiences of East Asian development states. Deng Xiaoping expressed his great interest in Japan's industrialization experience and technology during his visit in Japan in 1979. Deng Xiaoping established Special Economic Zones in China's coast areas in the late 1970s with the motivations to attract investment, technology, and management experiences from Hong Kong, Taiwan, Singapore and other Asian neighbors.²⁷ During his trip in South China in 1992, Deng Xiaoping stated that China should learn from the Asian "four Little Dragons", and some

Chinese provinces, like Guangdong, should surpass them within twenty years.²⁸ In the above-mentioned literature, China's most important aspects of the East Asian development state (state-capitalism) include: strong government control in financial and banking sectors, the labor intensive industries accompanied by export-led development strategies, large bureaucracy and well-educated labor force, high saving rate, heavy investment in infrastructure, and internal unity with homogeneity and the Confucian culture with the emphasis on social harmony.

On the other hand, placing the Chinese development model into the family of the East Asian model is a stretch because the nature of the state and the governing mechanism in China are fundamentally different from other developmental states in East Asia. As the process of China's economic liberalization has been carried out under the leadership of the Chinese Communist Party, which means that its socialist ideologies and previous political structures inevitably have tremendous impact on its development strategies. It is apparent that the East Asian developmental states lacked the communist political legacies and commitments. Moreover, there are also considerable doubts and debates regarding the validity about the positive relationship between the state and economic performance in the development study of political economy (Calder, 1988; Cheng, 1990; Doner, 1992; Haggard & Moon 1983; Kernell 1991; Moon, 1988, 1990, 1994; Muramatsu & Krauss, 1987; Samuels, 1987).²⁹ Some scholars address the cultural and social aspects of the East Asian model that minimized the risk of opportunism by individual utility-maximizing actors in order to respond criticisms (Johnson, 1982, 1987; White, 1988; Amsden, 1989; Wade, 1990; Onis, 1991; Evan, 1995), and some scholars also examine the external factors in terms of international environment that influenced the economic success of East Asian economies (Cummings, 1984; Woo, 1991, Wade, 1990).³⁰ After the East Asian Financial Crisis in 1997, Steven Chan, Cal Clark, and Danny Lam ask for the synthesis of

scholarship between the market proponents and the statist theorists. In *Beyond the Developmental State: East Asian Politics Reconsidered* (1998). They suggest that the debate about the dynamics underlying East Asia's excellent economic record has gone through two generations of literature. In particular, the first generation literature refers to neoclassical economists and international financial institutions like the World Bank have touted East Asia's export-oriented industrialization as an example of laissez-faire. The second generation literature refers to the statist scholars who have contributed East Asia's rapid growth to the role of the states – thus the third generation literature requires a synthesis of two approaches between the markets and the states.

In Chapter Six, I provide a detailed comparison between the Chinese development model and the East Asian model to demonstrate some vital Chinese characteristics in development strategies. The classic literature of the developmental state theory mainly focuses on the government agencies such as bureaucracy, administration, ministry and government-business relationship, but it pays less attention to the central-local government relationship and its impact because those newly industrialized economies are much smaller in size than China. In Chapter Six, I emphasize that in very large countries such as China, the evolving central-local government relationship has important consequences for their economic performance. I argue that China's vast territorial size not only is an asset regarding access to nature resources, but also provides important political advantages for economic reforms. Because China's reforms were gradual and incremental, China can implement new policies for experimentations in some regions exclusively to observe the result. If successfully, China can spread the successful models to other regions while if failed, then China can abolish them with less cost. This approach from local experiments to national policies can significantly increase the possibility of success and reduce the risks of

failure in reforms. In Chapter Five, I argue that many important institutional innovations such as household responsibility system, township village enterprise, and special economic zones generally followed this development pattern with important bottom-up features.

I also argue that the evolving central-regional government relationship in China has positively led to regional economic development with incentive scheme because of the communist political structure. Unlike East Asian developmental states, China's economic reforms have been carried out under the leadership of the Chinese Communist Party, thus the Party's socialist ideologies and previous political structures inevitably had tremendous impact on China's development strategies. The process of China's economic liberalization has largely been carried out with the leadership of the Chinese Communist Party, and though with evolutionary institutional reconstructions as described in this dissertation, China's political system still maintains many critical communist features such as its communist party-state system, the prior institutional frameworks, and many heritages of the socialist ideologies and policies. In some sense, China's economic reforms have been a transformation of socialism within itself by making use of market forces with the control mechanism for prosperity, but not a transition to capitalism in terms of political system. Before the reform and opening-up, China had established a centrally planned economy learned from the former Soviet Union. Mao Zedong failed to promote a sustainable economic growth and there was a relative little improvement of people's living standard, but he had constructed a strong party-state system with an intensive nationalist ideology and a comprehensive bureaucratic administration, therefore laying a foundation for China's adoption of the state-led development strategies in the post-1978 reforms. Thus as China's have experienced significant economic transformations with institutional re-organization, China has drawn inspirations from the East Asian developmental states'

experiences. But it is distinct from the developmental state model of East Asia newly industrialized economies because it brings to that model the unique Chinese characteristics. In Chapter Six, I will provide relevant comparisons, and I will provide more details about China's evolving central-local government relations that distinguish the Chinese development model from the East Asian development states.

5. An Emerging Chinese Development Model with the Distinctive Features

In the study of development, the dynamism of China's reforms has been a central focus of scholarly efforts to explain. The literature on China's reforms has been extremely extensive over a long period of time. The dissertation is primarily set up against two simple alternative explanations because they are the most influential interpretations broadly applied to explain China's economic reforms unfolding over the last three decades. In the previous sections, I introduce the theoretical applications of these two growth paradigms in the case of China's reforms, and explain why these paradigms, although with some contributions, have conceptual and theoretical inadequacies failing to capture the exact nature of China's economic reforms. In the Chapter Four, I will outline the main characteristics of the Chinese model with the comparison with the Western model and the Asian model for economic development.

Many scholars, even those who believe that Western and the Asian models explain China's reforms, accept that there are unique features of China's political economy and economic reforms. Barry Naughton (1995) argues that China's economy in the past before reforms had many peculiar features different from the Soviet model. Because China was big and relatively isolated, it developed its own terms of reference for many economic issues. It had adopted socialist institutions with its own features to address the problems of a poor and predominant

rural economy.³¹ Naughton (1994) believes that China's reforms in the early period were quite distinctive, especially in the rural reforms. He considers that the role played by rural township and village enterprises is one of the most distinctive features of China's transition to a market economy.³² In contrast, with the shift in transition strategy around 1992-93, China's approach is now somewhat less distinctive than it was previously. Economic policy-making is now more closely resemble than in other transitional economies.³³ In terms of China's state enterprises reforms and overall system transformation, Naughton (1994) thinks that there are five distinctive features in China's economic transition: macroeconomic stability and industrial destruction were initiated under the old administrative system; rural reforms succeeded quickly; entry was allowed into economic sectors previously reserved for state monopoly control; a dual price system was created; and the size of central plan was fixed in absolute terms, permitting the economy to grow out the plan.³⁴

Although economists admit China's particular economic and political conditions before reforms, they believe that China's reforms followed many of prescriptions recommended by the mainstream economists. According to them, it is hard to argue that China's experiences force economists to reinvent economics and replace "Washington Consensus".³⁵ Therefore, they concede that China probably has followed a distinct path with different strategies, but they perceive that China is the midst of capitalist transition and China may become a "normal" country after the transition.³⁶ This conventional wisdom holds that a Chinese communist political system is unable to change its dogmatic ideology, thus China's democratization with state decentralization is a necessary condition for the transition of a market economy. In the 1990s, though scholars and journalists recognized China's economic success during reforms, they were more comfortable at talking about China's dysfunctional political system, the

inevitable coming of China collapse caused by the Chinese political difficulties, and the coming of China threat because of its so-called undemocratic political system (Lichtenstein, 1991; Shirk, 1993; Shell, 1994; H. Wang, 1994; Pei, 1994; Naughton, 1995; Chang, 2001; Huang, 2008)³⁷.

According to Barry Naughton, government regulations, state ownership, corruption, incomplete markets, and imperfect institutions seriously distort economic incentives; communist Party political power means that economic institutions and policy-making processes are largely closed to outsiders and that there is no free press to prove inconsistencies; China is unusually nontransparent. Economic data are sometimes worthless and must always be used with caution.³⁸

Y.S. Huang (2008) claims that the 1980s were the golden age of China's innovation and development because leaders not only gradually removed state control, but also introduced economic space for innovative development. According to Huang, innovative enterprises in the rural area through township and village enterprises were really the engine of growth and main distinctive features of China's reforms. While China's policy shift in the 1990s with the increased state intervention caused massive rural-urban migration, leading to falling standards of health and education, and increasing adult illiteracy.³⁹

In the 21st century, China's economic growth has gained momentum. More than three decades of rapid growth since the institution of economic reforms in the late 1970s has caused China to be a major player in the global economy. Today China is the world's second largest economy in both nominal and PPP terms after the United States. China's rapid economic growth has generated the increasing interests in many countries, and they study China's development experiences. Some economists suggest that China's economy is on the track to surpass the American economy by 2020.⁴⁰ In the meantime, China has received more recognition for its political stability and government efficiency in crisis management. The rescue efforts by the Chinese government in

response to the massive earthquake destruction in Sichuan province in May 2008 impressed the international media for its government's competence, which is in a sharp contrast to the catastrophic handling of the American government in response to Hurricane Katrina in New Orleans in 2005.⁴¹ Recent events such as Beijing's successful hosting of the 2008 Olympics Game and China's accelerated growth after the 2008 international financial crisis have forced many scholars to re-examine China's development strategies with fresh standpoints.

In recent years, more scholars have begun to take the validity of the emerging Chinese development model more seriously, believing that there is a valid approach to development. But a conceptual formulation of the Chinese development model with the theoretical foundation is still in early stages. Specifically, there is little consensus on the definition of and the components of the Chinese model for development. In the West, the Chinese development model often reflects the Western understanding of a rising China. The term of the Chinese development model is first associated with the term of the Beijing Consensus. Joshua Cooper Ramo (2004) first summarized China's three broad development guidelines in his paper "*Beijing Consensus*". According to Ramo, the Beijing Consensus includes a commitment to innovations and constant experimentation, per capita income (GDP/capita) that should not be lone measure of progress, and a policy of self-determination.⁴² Although the summary of the Beijing Consensus by Joshua Cooper Ramo only partly describes the true meaning of the Chinese model, it has brought about a hot debate in the West in terms of the existence and meanings of the Chinese development model in the last few years.⁴³

Joseph Stiglitz, the chief economist of the World Bank, believes that the Chinese development sets forth toward a new economic model. In *China: toward a New Model of Development* (2008),

he attributes to China's success to its adaptable strategies and policies with the process of social innovation. According to Stiglitz, China is moving away from export-led strategies and instead is stimulating domestic consumption.⁴⁴ Indian economist Agawala believes that the Chinese development strategies differ greatly from the Washington Consensus in that the basic features of China's reforms are largely endogenous, and China readily had drawn experience of other parts of the world to design its own development policy and it had been able to integrate them into its own practice. David Shambaugh (2010) examines the Chinese model with more emphasis on the Chinese diplomacy in international relations. According to him, The Chinese diplomacy offers a unique model for international affairs because China's concepts of the "Five Principles of Peaceful Coexistence," "New Security Concept," "New International Order," "Strategic Partnerships," and "Harmonious World" are all unique and collectively do constitute something of a diplomatic model.⁴⁵

Although some fore-mentioned scholars who have examine the dimensions of economic policies and foreign affairs, not enough sufficient attention is given to the political dimensions of the Chinese model for economic growth. Many scholars insist that some political changes in China are not yet the authentic political reforms: furthermore they believe that China's so-called progress in political reforms seems to be not the one desired by the Western supporters on democracy (Lichtenstein, 1991; Shirk, 1993; Shell, 1994; H. Wang, 1994; Pei, 1994; Naughton, 1995; Chang, 2001).⁴⁶ One focus of this dissertation is to pay more attention to analyzing the political and institutional dimensions of the Chinese development model for economic growth. I will examine how China's some political continuity and legacies have laid a solid foundation for the Chinese political structure. Further I will examine how the Chinese leaders have evolved the model in order to keep up with the changing times and in order to better facilitate China's

economic transformation. Accordingly they have positively contributed to China's effort of pursuing economic modernization by building socialist market economy with the Chinese characteristics.

The notion of the Chinese model for economic growth is still at the early stage without consensus in the West and in China. Scholars and journalists can be divided in their positions in their own terms when describing the Chinese model for economic development. More passionate and optimistic scholars explicitly use "the China model" or "the Chinese model", while more conservative supporters use the terms such as "the Chinese Path", "China's experience", or "the Chinese characteristics" to recognize China's achievement but with reserve by pointing out China's current problems. The dissertation maintains that there is an emerging Chinese model for economic growth with its distinct characteristics that emancipates from the growth paradigms. The major purpose of the dissertation is to demonstrate that China's economic reforms since the late 1970s represent China's efforts of groping its own way with the Chinese national identity for economic growth, which distinguishes from the European post-communist states with transitional economies and the East Asian development states with state capitalism. The Chinese model for economic growth might help reducing the theoretical bias of the social sciences in the West when understanding the concepts of capitalism and socialism. A combination of socialist principles and capitalist market forces based on China's own culture heritage would prove more durable and beneficial for economic growth than the Western Model and the East Asian developmental state model.

Finally, many scholars identify the main characteristics of China's development strategies associated with China's own historical background. These include the large sector of public state

owned enterprises; regional disparity associated with the initial opening in the coastal areas; foreign investment from Hong Kong, Taiwan, and oversea Chinese communities; high domestic saving; and township village enterprises in rural areas (So and Chiu, 1995; Solinger, 1993; Walder, 1996; Chai, Kueh, and Tisdell, 1997).⁴⁷ In *Narratives of Chinese Economic Reforms: How Does China Cross the River?* X. B. Zhang, A. de Haan and S. G. Fan identify some main a number of key ingredients in China's policy successes: the first is the use of crises as opportunities for political development; the second key is the move away from ideology-based policymaking towards an evidence-based approach; the third is the importance of the correct sequence of policy reform beginning with agricultural reforms; the fourth key is the information channels between the central government and local populations; and the fifth key is to find ways of reducing resistance to reforms.⁴⁸ W.W. Zhang (2005) examines some main political changes in China's reforms in terms of the growing middle class, civil society, and main changes of political governance. Some political changes listed by him include: the doctrine of class struggle was repudiated; village level elections in the countryside; important progress in rule of law; the rapid increase of think tanks; mandatory retirement for veteran cadres and the cadre rotating system.⁴⁹

The existing literature makes great contributions with a wide array with historical details, but some of works lacks a coherent theoretical foundation when applied to broadly explain China's reforms over the last three decades. My dissertation mainly applies the path dependency theory and the critical juncture framework when explaining the evolutionary changes of China's institutions during reforms. In Chapter Three, I will introduce the main theoretical foundations of the Chinese model for economic growth used in this dissertation. In Chapter Four, I will analyze China's uniqueness in the development path during reforms. These unique features include the

initial conditions, historical beginnings, motivations, and goals of its economic reforms. The dissertation mainly focuses on analyzing the unique features of the Chinese model for economic growth and it attempts to show that China has been constructing an alternative development model emanating from the growth paradigms. The dissertation recognizes that the China model draws rich inspirations from the development experiences of East Asian economies, namely Japan, South Korea, Taiwan and Singapore. However, China's development model is distinctive from other growth paradigms due to its unique Chinese characteristics. The dissertation elaborates the main components and features of the Chinese development model, and makes some reference to the two growth models (e.g., the European post-communist states model and East Asian model), and it suggests that the emerging Chinese development model has emancipated from the dominant growth paradigms but with its own identity and with profound implications.

CHAPTER 3

THE THEORETICAL FOUNDATIONS OF THE CHINESE MODEL: PATH DEPENDENCY, INSTITUTIONALISM AND LOCAL STATE THEORIES

This chapter introduces the main theoretical foundations of the Chinese model for economic growth in this dissertation. It addresses the theoretical approaches of path dependency theory, institutionalism, the role of local governments, and fiscal federalism for economic performance during reforms. The main theme of my dissertation fits into the debate on whether China's economic reforms have been an issue of institutional transformation into another kind (e.g., either the Western model or the East Asian model) or of an institutional evolution adapting to new environments with the continuity of the Chinese identity. I will mainly utilize the path dependency theory and institutionalism in the field of political science to explain the evolutions and changes of the Chinese institutions, arguing that the Chinese political and economic systems have been constrained and shaped by the past system legacies when adapting to the new environments with home-grown institutional innovations. In addition, the theories of the intra-governmental coordination and the role of local states in the study of Public Administration, and fiscal federalism in the study of Public Finance will be used to explain China's evolving central-local government relations during reforms.

1. The Path Dependency Theory and Institutionalism

Path dependency theory is a theory that has been widely employed by social scientists to account for the persistence and changes of institutions such as bureaucracies and organizations. During

the 1980s, economists Paul David and Brian Arthur published several articles, in which path dependency was first utilized to explain technology adoption processes and industry evolution (David, 1985; Arthur, 1989, 1990).⁵⁰ Their ideas served as the foundations of path dependency theory and they have had profound impact on evolutionary economics. Their classical work on path dependency is about the sustainability of a well-known technical standard: the QWERTY keyboard. The keyboard layout of QWERTY was designed for typewriters to increase the speed of typing by solving the congestion problems. Although typewriters are no longer used, the QWERTY keyboard arrangement carried over into computer keyboards. The case of the QWERTY keyboard demonstrates that certain pre-existing technologies can have their advantages over alternative technologies and they prevail even if in a long run the alternatives would have been more efficient. The path dependency theory has been used to explain the cases of pest control (Cowan and Gunby, 1996), nuclear power reactor (Cowan, 1990), and information technology (Shapiro and Varian, 1998). In the macro levels, path dependency theory has been used to explain geography and trade (Krugman, 1991 & 1994; Arthur 1994), and institutional development (Eichengreen, 1996; Puffert, 2003).⁵¹

In the field of political science, path dependency theory probably is the leading theoretical framework of explaining the persistence of institutions, and it has been widely used to explain the persistence and changes of institutions. Within the subfield of comparative politics, the most significant account of path dependency theory comes from historical institutionalism (Hall & Taylor, 1996, Koelble, 1995, Peters, 2001).⁵² As one version of institutionalism in the study of comparative politics, historical institutionalism focuses on analyzing the historical development of institutions with the key theoretical framework of path dependency theory. The path dependency theorists argue that that once an institution with certain rules has been established, it

can become locked in and all the relevant actors might adjust their strategies to accommodate the prevailing pattern constrained by existing rules. The soft version of path dependency theory simply refers to the notion that “history matters”. The hard version of path dependency theory implies that “historical sequences in which contingent events set into motion institutional patterns or event chain that have deterministic properties (Mahoney, 2000: 507).⁵³ Thus the focus of path dependency theory is on “mechanism that anchor or stabilize” policy trajectories and related institutional arrangements (Djelic & Quack, 2005).⁵⁴ The central theme of path dependency theory is that once an institution is established and is on a particular trajectory, the costs of shifting strategies can outweigh the benefits of alternatives for idiosyncratic and unpredictable reasons. Path dependency theory is applied to explain political institutions with the emphasis on “lock-in” syndrome and “increasing return” (North, 1990; Pierson, 2000), “self-reinforcing sequences” (Mahoney, 2000), and “mechanisms of reproduction” of particular historical legacies (Collier and Collier, 1991).⁵⁵

The term “lock-in” is used to describe the difficulty in switching paths once certain standards or rules are established. North (1990) argues that established institutions generate powerful inducement that reinforce their stability and further development because new institutions are costly to create as they involve learning effect, coordination effect and adaptive effect. The notion of “increasing return” refers to that the benefits of maintaining the institutional status quo increase over time.⁵⁶ Pierson (2000) link the concept of “increasing returns” with the persistence of path-dependent institutions with an argument that an increasing returns process may lead to a single equilibrium which will in turn be resistant to change. Pierson (2000, 262) even argues that public policies and especially political institutions are generally designed to be difficult to revise

because some constitutional engineers intentionally build some barriers to ensure the stability of political institutions.⁵⁷

In addition to explaining the persistence of institutions, path dependency theory has one type of frameworks to explain the changes and reproductions of institutions, which is often called the "critical juncture" framework. This framework of critical junctures is most notably utilized by Ruth and David Collier in political science. According to them, in the critical juncture, antecedent historical conditions allow contingent choices that set a specific trajectory of institutional development and consolidation that is difficult to reverse.⁵⁸ As in economics, the generic drivers are: lock-in, positive feedback, increasing returns (the more a choice is made the bigger its benefits), and self-reinforcement (which creates forces sustaining the decision). The critical junctures are defined by two components. First, they are the choice points when a particular option is adopted from among two or more alternatives. Second, once a particular option is selected, it becomes progressively more difficult to reverse it (Lipset and Rokkan, 1967; Collier and Collier, 1991).⁵⁹ A defining feature of path dependence is the idea that it is difficult for actors to reverse the effects of choices made during critical junctures; critical junctures increase the probability that countries will follow particular paths of development. Critical junctures have this effect because they lead to the formation of institutions that tend toward persistence and that cannot be easily transformed. The other path dependency process deals with reactive sequence where a primary event sets off a temporary linked and causally-tight deterministic chain of events. They are called as inherent logic of events by Abbott (1992), whereby one event triggers another through predictable reaction-counter reaction dynamics.⁶⁰

In her article “*Historical Institutionalism in Comparative Politics*”, Thelen (1999) provide a series of examples of historical institutional theorists who employ the path dependency framework to explain the effect of system legacies and the reproduction process of political institutions.⁶¹ According to her, the classic works by Moore (1966), Gerschenkron (1962), Lipset & Rokkan (1967), and Shefter (1977) in political science all emphasize sequencing, timing, and the different patterns of interaction between ongoing political and economic process processes in the formation and evolution of institutional arrangements.⁶² Some comparative studies on institutional evolutions used the path dependency and critical juncture framework also include Collier & Collier’s analysis on the relationship between the differences in the patterns of labor incorporation and the variations of party and regimes in Latin American countries (1991), Ertman’s analysis on the institutional traditions of the European countries from the 12th century to the 18th century (1997), Manow’s manuscripts about union formation in Germany and Japan, and Thelen & Kume’s complementary analysis on the organizational forms associated with the systems of vocational education and training as these emerged in the early industrial period (1999).⁶³

2. The System Legacies and Institutions in China’s Reforms

In Chapter Four, after some comparison among three development models (e.g., the Western model, East Asian model, and the Chinese model), I will examine the trajectories of China’s economic reforms with the argument that preexisting system legacies have greatly shaped the process of China’s reforms, which revealing a path dependency nature of institutional evolution. In the meantime, during the three stages of China’s economic reforms, some important home-grown institutional innovations with the Chinese characteristics emerged at three critical

junctures. During reforms, some major institutional arrangements such as four cardinal principles, socialist market economy with the Chinese characteristics, and scientific development and a harmonious society were established and strengthened in three critical junctures. In Chapter Five, I will also examine a number of policy measures taken by the Chinese government with brief reference to the post-communist states with transitional economies in Eastern Europe, trying to illustrate that China's incremental reforms were paralleled with important indigenous institutional innovations associated with the continuity of the Chinese political legacies. I elucidate some important historical and political contexts that were associated with China's gradual and incremental reforms.

Primarily speaking, I will use path dependency theory and institutionalism to explain the gradual evolutions in China's political and economic system. First, I will emphasize that the Chinese political continuity has left some important legacies for China to build a unique development model with its own institutional identity, which can not be easily transformed. In Chapter Four, I will highlight the Chinese institutional evolutions during three stages of economic reforms, suggesting that the Chinese institutions have been grounded on the Chinese political continuity deeply rooted in the Chinese history and the Confucian values, and the socialist political institutions and legacies created by the Chinese communist party since 1949. With the detailed discussion concerning the traits of the Chinese characteristics in terms of internal institutions during reforms, I try to demonstrate that the Chinese reforms have followed a path of evolutionism rather than a radical conversion to the capitalist society as described by the Western scholars. Unlike those in post-communist states in the former Eastern Block after 1989, China's institutional reforms have proceeded under repeated affirmation of the Party's leadership as a mean of reasserting its authority. Such an affirmation on the dominance of the Party during

reforms follows the main characteristics of communist political structures during the Maoist system, and reforms are underpinned the Confucian traditions with an emphasis on political stability and political unity. In the meantime, China's development strategies during reforms are conditioned by some particular backgrounds such as its initial conditions, historical beginning, motivations, goals, and the general process of its economic reforms.

Second, I hypothesize that during the three decades of the Chinese reforms the Chinese experience contains three critical junctures that were significant in influencing some major institutional arrangements. These events left political institutional legacies that ultimately influenced the Chinese development model enabling the Chinese elite to build a unique development model with its own identity and suitable for the Chinese conditions. I hypothesize that the late 1970s, the late 1980s, and the early 21st century are three critical junctures in China's reforms - the first stage of China's reforms from the late 1970s to the late 1980s, the second stage of China's reforms from 1992 to the late 1990s, and the third stage of China's reforms from 2004 to present.

In the past three decades, three critical junctures with path dependency characterize China's reform era. My first hypothesize is that, the Chinese political elites in the late 1970s, with several options, were more concerned about the Soviet radical approach and they decided to take an incremental and gradualist approach. The first stage of China's reform unfolded from the late 1970s to the late 1980s, the Chinese leadership took a cautious approach to development aiming to reconstruct institutions destroyed by the events of the previous era and aiming to maintain stability during times of internal and external uncertainties. This period is best characterized by cautious institutional building, focusing on establishing a system based not on the rule of one

man (although Deng spearheaded the effort he wanted to prevent the unstable political events of Mao's era from happening again) but on the rule of the Chinese Communist Party. I argue that a chain of critical events in the 1970s influenced the Chinese leaders' approach in take a gradual and incremental approach to reforms and institutional building.

The second stage of China's reforms transpired from 1992 to the late 1990s. During this stage, the Soviet experience – especially the collapse of the Soviet Union, the sequent fall of communism, and the “third wave” of democracy gripping the former Soviet states and Eastern Europe, influenced the Chinese leaders to take a more conservative approach in political reforms while making great efforts of building socialist market economy with the Chinese characteristics. The third stage China's reform happened from 2004 the present day. These reforms are best characterized by consolidation and formal institutionalism of process including political leadership succession and intra-party democracy.

Indeed this study does not dismiss the possibility that China has not learned from the development experienced of the western countries. The Chinese government was also greatly influenced by the modern Western values and beliefs when it faced several pathways during the three critical junctions. China's economic reforms are involved in the process of state-owned enterprise reforms with privatization process, and foreign direct investment also has played a significant role in China's economic development, and there are great decentralization activities in China's reforms. But it is apparent that the Chinese political, economic and social structures containing political continuity and legacies have not lost their self-confidence, thus the Chinese model for economic development has been able to adapt to modern development while maintaining its Chinese identity in essence. In addition to the issues (such as internal institutions)

and related hypotheses mentioned in the previous section of path dependency, I would also hypothesize that China has intended to build a diversified ownership with the public sector as the dominant feature; and in terms of party system, I would hypothesize that China has intended to maintain its one party system rather than developing multi-party system.

With the theoretical application of path dependency theory and critical juncture framework, I demonstrate that the emerging Chinese model for economic growth reflects a model keeping pace with times with political path dependency, which illustrates the continuity of upholding the general principles of its political and historical legacies concerning reforms. In terms of China's privatization process, I would hypothesize that the Chinese government throughout the reform era has intended to build a diversified ownership with the public sector as the dominant rather than a fully scaled private ownership (the Western model and East Asian model) during reforms. At the three critical junctions, the Chinese government has determined to introduce incrementally the market forces step by step and with important boundaries, and Deng Xiaoping had played a critical role for those choices in the first and second stage of reforms. In particular, in the first stage of China's reforms, China was only motivated to increase productivity and enough resources with the complement of market to its central planning. During the second stage of China's reforms, the Chinese leadership pursued building the socialist market economy with the Chinese characteristics by significantly introducing market forces: however, the socialist market economy with the Chinese characteristics had significant differences from the Western styled market economy in terms of private ownership. During the third stage, the Chinese government decided to build socialist equal society or a harmonious society through improving the state control mechanism in achieving balanced development. Thus on the one hand, the leaders established an economic system of a market economy. But on the other hand, the

emphasis on the dominance of the public sector in the Chinese economy is the important political continuity during the Chinese reforms. So the Chinese leadership's market economy with the Chinese characteristics is significantly different from the Western style free-wheeling market economy.

My dissertation also examines the important relationship in the institutional structure between the party and the state. My hypothesis is that the Chinese political elites moved toward institutionalizing politics and economics (the institutionalization of party and state organizations) during reforms in order to separate the party from the state with their own functions. The major point is that although China's one single party system has not changed, some prominent trends emerged from the reforms. These trends include (1) separation of the functions between the party and the government enabled the state's organs to play a greater role in economic affairs so as to improve government's efficiency; (2) the changes of the party's membership and ideology have shifted the party's legitimacy from Marxism to economic performance; (3) institutionalization of party and state organizations such as term limit and age limit; and, (4) administrative and bureaucratic reforms.

3. The Local State Theories and Fiscal Federalism

In the study of Public Administration, one way of describing central-local relations is based on the ideas of local autonomy and central integration. On the one hand, the local governments seek to enjoy local autonomy. On the other hand, central government is concerned with exercising control over local government. According to Kjellberg, changes in central-local government relationships can be analyzed from the perspective of an "autonomous model" or an "integrational model".⁶⁴ The autonomous model reflects the traditional liberal view of central-

local government relationships. In this perspective, central and local governments constitute two clearly separated spheres of government where the centre limits itself to monitoring the activities of local government. By contrast, according to the integrational model, the relationship between central and local governments is viewed as a question of functions, not as two separate political spheres. Local government participates in the entire social process, and any questions concerning who should be responsible for what should be decided from a pragmatic and flexible point of view (Montin & Erik 2000).⁶⁵

According to Pranab Kumar Panday (2006), the autonomous model and the integrational model reflect two sets of normative ideas about central and local governments in terms of which should be the most important political institution within central-local government relations. The first model suggests that local government, because of its closeness to citizens and their problems and needs, should be highly autonomous. The second model suggests that the state is the sovereign political institution, but that it can invest different kinds of subordinated political institutions with delegated power.⁶⁶ The theory on fiscal federalism in the study of Public Finance is also closely related to the autonomous model and the integrational model. The guiding principles of fiscal federalism are that the central state has imperfect information on individual preferences and that this leads to inefficiency and the sub-optimal allocation of public goods, and that political pressures or constitutional issues may *a priori* constrain governments from providing higher levels of services in some areas than others.⁶⁷ In some respects this provides a framework for evaluating, in economic terms, different forms of multi level governance.

For years, fiscal decentralization has been a pressing issue in the academic discipline of public finance as well as empirical economics for years. The conventional wisdom of fiscal

decentralization advocates is that fiscal decentralization can facilitate the economic development of a country. The central government has increased its capacity in governing and controlling local governments with increasing financial resources; but the local governments have gained the significant fiscal autonomy over their local economies, suggesting that local governments now have stronger incentives and responsibilities to foster local economic prosperity, for this is through which their revenues grows.⁶⁸

4. The Evolving Central-Local Government Relations in China's Reforms

In terms of China's changing central-local government relations, this project argues that China's development characteristics with high economic autonomy in local governments largely support the autonomous model in the study of Public Administration. I demonstrate that China's reforms have been characterized by the experimental gradualism with the local initiatives and the coordination from the central government. In Chapter Six, I will mainly focus on analyzing China's changing central-local government relations with some references to the experiences of East Asian developmental states, I will discuss the role of local states in China's reforms and coordination from the central government in three stages of China's economic reforms. In the first stage of reforms, the project will focus on some vital and uniquely Chinese economic institutions such as household responsibility system and the special economic zones, and explain how these systems were experimented in limited regions and implemented nation-wide. In the second stage of China's reforms, I will focus on China's fiscal reforms in 1994 and some local experimentations by the local governments (such as Zhejiang model and Jiangsu model); whereas in the third stage of China's reforms, the study will examine China's central

government's effort for coordination and local government's experimentations such as the Chongqing model and the Gaozhou model.

In Chapter Six, the project primarily examines another important aspect of the Chinese model for economic growth with some brief reference to the East Asian developmental state experiences in economic modernization. In doing so, it will try to demonstrate that China and East Asian developmental states have many common features in their development experiences, but the Chinese development strategy also diverges from the East Asian developmental states specifically because of the unique Chinese characteristics mentioned above. Because China is much larger than East Asian developmental states in size and population, the Chinese central-local government relations are one of the core institutional issues in the reform process. The project will mainly focus on China's effort of optimizing evolving central-local government relations that mainly distinguish the Chinese development model from the East Asian developmental states. In addition, the theories of the intra-governmental coordination and role of local states in the study of Public Administration, and fiscal federalism in the study of Public Finance will be used as the theoretical supports for the dissertation's analysis on China's evolving central-local government relations during reforms.

CHAPTER 4

THE CHINESE DEVELOPMENT MODEL IN THE MAKING: KEEPING PACE WITH TIMES WITH CONTINUITIES

This chapter discusses details concerning the system legacies and the main characteristics of the Chinese model for economic growth, trying to demonstrate that the Chinese reforms have followed a path of evolutionism with the Chinese characteristics rather than a radical conversion into a capitalist society as described by the Western scholars. The political and cultural continuities serve as the foundations for the emerging Chinese model when China has made great effort of “keeping up with times” by adapting to the changing environments following its open-up and economic reforms. Neo-classical economists often use China’s post-1978 reforms to show the virtues of market liberalization. Conversely, statist theorists tend to use the Chinese experiences in reforms to show that the virtues of the state’s role in managing market forces for prosperity, and they advocate that the Chinese development experiences can be imitated in other developing countries and other communist states such as Cuba, North Korea, and Vietnam.

However, I call attention to that celebration of the successful experiences of China’s reforms both by the neo-classical economists and by the statist theorists are problematic. China’s thirty years of reforms and opening up to foreign investors have accumulated rich experiences, which might shed light on the economic strategies for other developing countries and the post-communist states with comparable transitional economies. But the Chinese experiences of building a socialist market economy are underpinned by an important political continuity that

follows the traditions of political unity with the communist political structure, and China's development strategies during reforms are conditioned by some particular backgrounds such as its initial conditions, historical beginning, motivations, goals, and the general process of its economic reforms. I believe that developing countries should pursue their own development paths with innovations that are suitable with their own political, economic and cultural heritages, and they should not merely photocopy the successful experiences of other countries without reserve. In the meantime, because China's initial reforms had very little theoretical support from the orthodox Marxism-Leninism-Maoism, Deng Xiaoping had deliberately directed the process of China's reforms under the philosophy of emancipating the mind, seeking truth from facts, and keeping up with the times. As a consequence, China's reforms are characterized by gradualism with an incremental approach, and the Chinese model for economic growth has been in a continuing creative process through its constant dialogues with new global phenomena. China's reforms and the nation's opening up to foreign investments are in an ongoing process of pragmatically integrating the advanced foreign management experiences with China's distinctive national conditions.

In this chapter, I will first outline the main institutional structures of the Chinese political economy with some comparison with the Western model and the East Asian model for economic development, trying to demonstrate that the main characteristics of the Chinese political and economic institutions have remained relatively stable. Second, I will discuss some system legacies of the Chinese political and economic structures throughout the pre-reform era and three main stages of reforms to show that the Chinese reforms have followed a path of evolutionism with the Chinese characteristics rather than a radical conversion into a capitalist society as described by the Western scholars. Third, I will discuss in details about the internal institutional

evolution of the Chinese political and economic system during reforms, and I will analyze several important concepts and issues such as socialist market economy with the Chinese characteristics.

1. The Variations of Political and Economic Institutions

Before I proceed in comparing the Chinese model with the Western model and the East Asian model as economic and political institutions, I need to make clear that the dissertation does not argue that the Chinese model for economic development is superior to the Western model or the East Asian model. It is superficial to equate the label “model” with the term of being successful in political science. For instance, in the subfield of comparative politics, the so-called Latin American model in the 1960s and the 1970s associated with the dependency theory is often used to explain the economic difficulties in the Latin American countries (Prebisch 1950; Singer 1950; Baran 1957; Frank 1967; Cardoso & Faletto 1979; Wallerstein 1979).⁶⁹ The Latin American model in the 1960s and the 1970s is characterized by inward-looking economies under the military or authoritarian regimes, and its development strategies mainly include exports of primary commodities, import-substitution industrialization, and heavy public investment with huge government debt. When analyzing the main characteristics of the Chinese model, the dissertation does not deny that there are also many political, economic and social problems associated with the three decades of China’s economic reforms such as increasing inequality, serious environmental pollution, and widespread government officials’ corruption.

But generally speaking, the Chinese model can be seen as a successful model for economic development because of its impressive economic record in the GDP growth, the reduction of poverty, the improvement of living standard, and foreign trade expansions for the last three

decades of reforms. As China's economic reforms have entered a third stage since 2004, I believe that now it is critical for the Chinese government to promote more balanced development strategies with the emphasis on equality and sustainable development, and we can observe that the current Chinese Hu-Wen administration has been trying to deal with those issues with modified policies. Han S. Park (1984) skillfully defines political development as the capacity of the political system to satisfy the changing needs of the members of the society. As the needs of the society evolve from the lowest level of survival to upper levels of belongings, leisure, and control, the political institutions are therefore faced with the respective task from the early regime formation to political integration, resource expansion, and conflict management in the future.⁷⁰ Han S. Park (2011:26-27) points out that the communist government of China must realize the reality that food alone will never make the people fully content or help the government sustain its legitimacy after the people's need has shifted to demand resources and means for leisure and a common value of equity.⁷¹ Thus in the third stage of China's reforms, the Chinese government has the enormous challenges in handling a wide range of new issues such as income inequality, rural-urban discrepancy, regional disparity and social injustice.

Concerning the variations of political and economic institutions, although the neo-classical economists recognize some diversity of economic institutions, they largely perceive the diversity of economic institutions as sub-optimal deviations from an ideally universal form of free market economy in the Western countries. Among large and developed countries, the US has been the closest to this free market economy model promoted by neo-classical theorists. In the dissertation, the Western model for economic development is broadly defined as a free market economy (market-led) model with democratic political system, which is especially well represented by the US economic and political system. Since the late nineteenth century, free market fundamentalism

has become the main philosophical preoccupation of the American economic system. Although the Great Depression had a major impact on the American economic theories in terms of the role of states during economic crisis, the mainstream of the US economic thought for long into the post-war period was primarily dominated by the ideas of emphasizing individual choice in the marketplace with minimal state interference. After the collapse of the Soviet Union in 1991, the confidence in promoting free market and individual freedom has been greatly enhanced in the Western development model.

In the meantime, the Western model as a political model is broadly defined as a democratic system with free elections and competitive party competition, which is best represented by the US and the Western European countries. It is recognized that there are also variations in the forms of democracy. For instance, the American democracy is characterized by its separate institutions among Congress, President, and Courts while the British democracy is a parliamentary democracy with constitutional monarch. The emphasis of the American democracy on check and balance, pluralism, individualism, free speech and media, and rule of laws was closely associated with the basic political philosophies and cultural traditions in the US history. As a whole, the colonial experience and the American revolutionary experience had profound impact on the American political culture. In contrast, the British democracy is a parliamentary democracy with constitutional monarchy. This political system is based on the Westminster system with the legacies of the British Empire, in which the monarch (Queen Elizabeth II) is a head of state and the prime minister is the head of the British government. Although most of the power of the British Royal family has now been devolved, the Queen Elizabeth II still performs some important duties such as summoning and dissolving parliament, appointing important government officials, pardoning people, declaring war or peace,

recognizing states, and concluding treaties. The presence of hereditary rule by a Royal family in Britain, as well as in Spain, Japan and Sweden, though theoretically in conflict with the general principles of liberal democracy with the emphasis on free elections, is not necessarily incompatible with the democratic practices of Britain and other countries. The brief illustration about some differences between the American democracy and the British democracy fits well in the main theme of this dissertation when employing path dependency theory in interpreting the Chinese model for economic growth during reforms. It also helps understand the puzzle regarding the theoretical incompatibility between market economy and socialist political institutions in China's reforms. Anyway, the Western model in the dissertation is only broadly defined as a free market economy (market-led) model with democratic political system that is best represented by the US and Western Europe. In terms of economic policies, the Washington Consensus is a set of specific policy recommendations mainly based on the experiences of the US and Western European countries that also supports the main liberal political philosophies such as decentralization, de-regulation, and limited government intervention. Therefore, in my dissertation, the Western model broadly refers to a market-led development model with private ownership and very limited government intervention in economic affairs (invisible hand), free trade, high consumption, entrepreneurship; and in political aspect, it refers to democratic system with free elections and competitive party competition, individualism, pluralism, separation of power, free media, and rule of laws. The Western model is best represented by the US and the Western European countries, and it is characterized by its emphasis on decentralization, de-regulation, and limited state intervention in economic affairs.

The Asian model was based on the successful development experiences of Japan, South Korea, Taiwan, Singapore, and Hong Kong. These nations or areas had achieved rapid industrialization

with exceptionally high growth rates between the 1960s to the 1990s. The literature on the Asian model for economic development, also called the Asian developmental state model, became an increasingly significant approach in the study of comparative politics in the 1980s and the 1990s (Johnson, 1982; White, 1988; Alam, 1989; Adsden, 1989; Haggard, 1990; Wade, 1990).⁷² Of course, there are also some internal institutional variations of the East Asian model in the economic practices of Japan and four Asian tigers – for instance, the economies of Japan and South Korea are more characterized by industrial giants directly sponsored by the states while the economy of Taiwan is more characterized by numerous family-based and medium-sized industries.⁷³ But in general, as an economic model, the Asian model can be broadly summarized as the state-led development model with the strong government intervention in banking and finance, industries, foreign trade and exchange rate. The development strategies of the East Asian model include export-oriented policies (imports and domestic consumptions are discouraged with trade surplus), high saving, and heavy investment in education and infrastructure.

The political system of South Korea and Taiwan has gradually changed from a form of authoritarianism into a democracy with free elections since the late 1980s and the early 1990s. In addition to the impact of economic development, the hegemonic power of the U.S. In the Japan-South Korea-Taiwan area also has been critical for the transformation of those countries and regions into democratic systems. But Lucian Pye and Mary Pye (1985), Gilbert Rozman (1992), Daniel Bell (1995) and other scholars argue that East Asian democracy is merely a reflection of the state's need for more efficient management of society and economy, thus the East Asian democracy, if not possibly at all, will be non-liberal as much as East Asian politics has been so.⁷⁴ More importantly, almost all East Asian nations were one-man regimes or one-party regime

during the period of rapid industrialization. The study of developmental states has categorized the East Asian developmental states as “hard authoritarian”, “soft authoritarian” or “quasi authoritarian” political structure (Johnson, 1986; Woo-cuming 1994 & 1999; Chan, Clark & Lam, 1998).⁷⁵ The other political and cultural aspect of the East Asian model includes the close relationship between government and business, Confucian and cultural traditions with the emphasis on collectivism and cooperation in society, and a very strong and independent bureaucracy. Thus the political evolution of the East Asian model also is the result of path dependency and institutional inertia associated with their historical traditions, along with the impact of economic development, third wave of democratization, and the role the US in the region.

In contrast to the Western model and East Asian model, the Chinese model for economic development has three distinct characteristics. First of all, the Chinese economic system is officially called socialist market economy with the Chinese characteristics. In the fourth section of this chapter, I will provide detailed analysis on the meanings and contents of this term. In short, socialist market economy with the Chinese characteristics is characterized by a diversified ownership with trilogy of state ownership, collective ownership and private ownership, and public sector that includes state ownership and collective ownership still remain and will remain as the dominant sectors for its society. In the article three, the Property Law of People’s Republic of China (2007) clearly confirms that the state upholds the basic economic system under which the public (state) ownership shall play a dominant role and diversified forms of ownership may develop side by side; from the article 46 to the article 52, it emphasizes that mineral deposits, urban land, natural resources, the wild life resources, radio frequency spectrum, cultural relics, assets of national defense shall be owned by the state; and the articles 58, 59 and 60 also

clarifies the regulations on collective ownership such as collectively owned properties and facilities.⁷⁶ It is apparent that China has not met and will not meet the economic preconditions of the Western mode and East Asian model that endorse the dominance of private ownership. The purpose of the Chinese reforms is not to eliminate public sectors of state-ownership and collective ownership with the complete replacement of private ownership, but to establish a diversified ownership structure to improve firms' economic performance.

In the third section of Chapter Five, I will examine China's gradual process in state-owned enterprise reforms with some reference to the experiences of some post-communist states with transitional economies in Central and Eastern Europe. I hypothesize that China has intended to build a diversified ownership structure with the path dependency by upholding the principle of holding the public sector as the dominant during reforms rather than a fully scaled private ownership structure of the Western model and East Asian model. In three critical junctions, the Chinese government has determined to introduce the market forces step by step and with important boundaries. Deng Xiaoping played a critical role for those choices in the first and second stage of reforms: in the first stage of China's reforms, China was only motivated to increase productivity and enough resources with market forces to complement its central planning; and in the second stage of China's reforms, Deng Xiaoping asked for building the socialist market economy with the Chinese characteristics by significantly introducing market forces. But the socialist market economy with the Chinese characteristics has significant differences from the Western styled market economies and East Asian economies with the predominance in private ownership. In the third stage, China has decided to build socialist equal society with harmony through improving the state control mechanism in achieving balanced development, which indicates a growing state role in resource and income redistributions.

Therefore, on one hand, market economy has been established in the Chinese economic system since reforms. But on the other hand, the emphasis on the dominance of the public sector in the Chinese economy is the important political continuity during the Chinese reforms, thus the socialist market economy with the Chinese characteristics is significantly different from the Western styled and East Asian styled economies with private ownership as the predominance.

Second, in contrast to the market-led Western model and the state-led East Asian model, the Chinese model can be seen as a Party-led development model. In the second section of this chapter, I will illustrate that one major institutional legacy of the Chinese development model, which is the fusion of party, state, and enterprises in the Chinese political and economic system. I trace this system legacy of the Chinese model to the Chinese political cultures with the traditional emphasis on political unity and unitary power concentration, and I argue that this persistent political continuity is closely related to the emergence the Chinese modern political parties during the revolutionary periods. In the Chinese pre-reform system, the permanence of the Chinese traditions and political cultures is manifested in the non-distinction of the Chinese communist party and that of the government, the dominance of the Chinese communist party over the whole of the government organization, and the principle of unity in ideology and political structure. In the fourth section of this chapter, I will focus on analyzing the main meanings and contents of socialism with the Chinese characteristics, trying to illustrate that four cardinal principles, especially the principle of upholding the leadership of the Chinese Communist Party, have produced “lock-in” and “increasing return” effects on the Chinese political and economic system, and they have become extremely difficult to be challenged in reforms.

It is recognized that the Chinese economic reforms have shifted the focus of the work of the whole Party to economic development. But unlike those in post-communist states in the former Eastern bloc after 1989, China's institutional reforms have proceeded under repeated affirmation of the Party's leadership as a mean of reasserting its authority. During three stages of reforms, the Chinese communist party has played a uniquely instrumental role for achieving rapid economic growth. Thus after the re-orientation of party's ideology with the focus on economic development since the late 1970s, the purpose of the reforms was not to ultimately deprive the administration power of the Chinese Communist Party from economic affairs through de-regulations and decentralization, but streamlined the state and Party institutions by clarifying the functions of the Party with institutional innovations. My hypothesis is that the Chinese political elites moved toward institutionalizing politics and economics - the institutionalization of state and Party organizations - during reforms to handle economic affairs more efficiently. Therefore, I would argue that the Chinese communist party has played a significant role for China's economic take-off by building socialist market economy with modified control mechanism during the Chinese reforms. In the following section, I will address the Chinese administrative and bureaucratic reforms, and in Chapter Six, I will analyze the evolving central-local government relations. The major point is that although China's one single party system has not changed, some prominent trends emerged from the reforms to efficiently manage economic affairs. These trends include the division of the functions between the party and the government has enabled the state's organs to play a greater role in economic affairs so as to improve government's efficiency; the party's membership and ideology have shifted the party's legitimacy from Marxism-Leninism-Maoism to economic performance; the party and state organizations have gone through the institutionalization process in issues such as term limit, age

limit, cadre responsibility system, and intra-party democracy; administration and bureaucracy have institutionalized toward professionalism with public servant system, and there has been more efficient coordination between central and local governments. With important institutionalizations, the Chinese political system has shifted from one-man rule to one-party rule with important home-grown institutions, and they contribute to the rapid growth of the Chinese economy.

Finally, the Chinese development model also differs from the Western mode and the East Asian in its very different development strategies during the process of achieving economic growth. China's three stages of reforms demonstrate China's gradualism with an incremental approach in reaching its goal for economic prosperity with the emphasis on political stability during the process. Because China began its reforms in the late 1970s with little theoretical guidance, China's initial reforms were highly pragmatic, flexible and experimental with gradual approach. During the three stages of economic reforms, there are considerable variations in economic policies. In the early periods of reforms, China had focused more on export-oriented development strategies with labor intensive industries. But China has begun to make efforts of developing high-tech industries since the 1990s and China has begun to focus on stimulating domestic market in the third stage of reforms. In Chapter Six, I will address the evolving central-local government relations during reforms. I will illustrate that the main trend of central-local government relations in the early periods was largely a decentralization process before the 1990s but there has been a dual process of both centralization and decentralization in central-local government relations since the mid-1990s. In the third section of this chapter, I will also analyze the impact of system legacies on the evolutions of the Chinese political and economic system during three stages of reforms to illustrate some variations of policies during three stages of

reforms. The Chinese model for economic growth is a continuing model and the Chinese political and economy system's process of evolution with adjustments will continue indefinitely into the future. But because of some prominent system legacies established during three critical junctures, it is quite unlikely that the Chinese political and economic system will restore its previous Maoist style absolute state control or it will have a radical conversion into the Western model unless China experiences another critical juncture when encountering some major challenges or another crisis in the future.

In the meantime, political stability is considered as preconditions for economic development.

Unlike the post-communist states with transitional economies in Eastern and Central Europe, the Chinese style reforms are particularly characterized by gradualism with the emphasis on political stability. Because the keystone of China's economic successes has been pragmatism in policies, there are some variations in each stage of China's reforms in terms economic policies. But during the process of economic reforms, to ensure the political stability is seen as the prerequisite for economic growth and deepening reforms. The bitter lessons drawn from the Cultural Revolution (1966-1976) made the Chinese leaders have the consensus that if political stability is lost, it will be impossible to achieve economic development. Deng Xiaoping stressed that China had a very population and a relatively weak economy, so economic development can only be achieved with the preconditions of political and social stability. He repeatedly emphasized "Stability prevails over all other matters". As a consequence, China's reforms favored a gradual path with step by step approach to achieve economic growth, and the Chinese Party-state has maintained its strategic control with the persistence of the four cardinal principles – in particular, the leadership of the Chinese Communist Party. The Chinese model does not promote multi-party democracy of the Western model. Of course, the internal institutionalization

of the Party is critical for the stable rule of Chinese Communist, so China seeks to improve Party's efficiency and people's participation in political system based on intra-party democracy, self-governments in rural areas, and meritocracy.

2. The Pre-Reform's System Legacies of the Chinese Model

The emerging Chinese model for economic growth reflects a dynamic model keeping pace with times while maintaining political continuity. It not only demonstrates the pragmatic policies adapted to the changing socio-political environments, but also shows the continuity of upholding the general principles of its political and historical legacies as a hallmark of the nation's reform policies. During reforms, the Chinese political and economic system has been shaped by three major historical forces: Chinese traditional values and political cultures deeply rooted in the Chinese ancient history, socialist institutions and political legacies created by the Chinese Communist Party since 1949, and the influences of the modern Western values and beliefs following China's opening-up to foreign investors since the late 1970s. I believe that all three forces will continue to shape China's way of thinking about how to organize its political and economic institutions. The most salient feature, however, is that some important political continuities and legacies are primary foundations for China's political and economic system, although they have been slightly modified from time to time in order to serve some particular economic goals during three stages of China's economic reforms.

The Chinese experiences of building a socialist market economy are underpinned by some important political continuity and legacies that follow the emphasis on political unity, strong-state tradition with power centralization, and communist structure. Historically, China had experienced more than two thousand years of feudal system with autocratic rules without

much tradition of democracy or rule of law.⁷⁷ Hence, autocracy had a significant influence on the Chinese society. After 1949, China's political system had greatly been influenced by the experiences of the Soviet Union. Although there are some considerable differences between Marxism-Leninism and the Chinese traditional values, the implementation of the political ideas of Marxism-Leninism in China has strengthened a centralized political structure with unity under the leadership of the Chinese Communist Party since 1949. Because China is a customarily unitary country with the Confucian tradition that stresses social order with power centralization and harmony, it is recognized that this traditional trait of political culture constitutes the logical underpinning of the dominant role of the Chinese Communist Party. It is also apparent that the Chinese political, economic, and social structures with that political continuity and legacies have not lost their self-confidence. As I discuss in one section of Chapter Five, survey researchers have found that public support for the Chinese regime is relatively high. For instance, surveys conducted in Beijing in 1995, 1997 and 1999 repeatedly found similarly high levels of public support for the Chinese Communist Party regime (Chen, 2004; Cheng, Zhong & Hillard, 1997; Chen 2005).⁷⁸ Thus, the Chinese model for economic growth has been able to adapt to modern developments while maintaining its distinctive Chinese identity with political continuity.

2.1. The Persistence of the Chinese Political Culture

A detailed analysis on the development of the Chinese political culture mainly exceeds the task of this section, but it is necessary to highlight some important features of the Chinese political cultures that permeate the Chinese political structure in its history and current reforms. For most of China's recorded history under imperial rule, one of the most permanent features of the Chinese political structure is the emphasis on political unity with the desirability of a centralized

government in the hands of a benevolent emperor with assistance from an educated and professional bureaucracy. After the end of Chinese imperial rule in the 1911 Revolution, the persistence of the Chinese political culture's emphasis on political unity was still evident in the dominant role of the Nationalist Party and the *de facto* institution of a Party-State in the government of Republic of China.⁷⁹

The following analysis will illustrate that the emergence and development of political parties in modern China have endowed the particular roles of political parties in maintaining political unity and stability in the Chinese society. In contrast to the Western society's political parties that mainly function as a mechanism for articulation of different interests for effective elections and participation in their democratic systems, the Chinese modern political parties during revolution were motivated to bring down the imperial system, compete with other organizations, mobilize party's supporters, and resist foreign influence. After many failed attempts in revolutions, Sun Yat-sen, the founder of Republic of China, had finally transformed the Nationalist Party (KMT) from a premature Western style party into a Leninist style party with a highly centralized organization in order to win victories in revolution. Although while introducing innovations by incorporating western ideas, Sun Yat-sen's revolutionary theory still presented political continuity in terms of the role allocated to the Nationalist Party, which corresponds to the idea of political unity and harmony similar to the Imperial ideology as it specified that the government must be directed by the Party.⁸⁰ After the failed attempt in the 1913 Second Revolution, Sun Yat-sen reorganized the Nationalist Party (KMT) into the Chinese Revolutionary Party in 1914, which required members to take an oath to personal loyalty to him with fingerprints.⁸¹ In 1924, Sun Yat-sen also established Whampoa Military Academy (also named as the Nationalist Party of China Army Office Academy). Sun Yat-sen's "Three Principles of the People", consisting of

nationalism, democracy and people's welfare/livelihood, later became the main ideologies of the Nationalist Party (KMT) under Chiang Kai-shek and the Nanjing government of Republic of China. Although the original ideas of "Three Principles of the People" were strongly influenced by Sun Yat-sen's experiences in the US and the elements of the American democratic thoughts, they were restated to emphasize the leading role played by the Party to unit the nation for people's welfare and anti-imperialism or anti-colonialism. During China's first Civil War (1927-1937), anti-Japanese War (1937-1945), and second Civil Wars (1946-1949), the Nationalist Party led by Chiang Kai-shek was able to monopolize the state power in the Nanjing government (Republic of China) with the Chinese traditions of concentration of power and government by men. In practice, the Central Political Committee of the Nationalist Party constituted the link between the Nationalist Party and the government, and all the important decisions were made by this authority, which enjoyed broad legislative and administrative attributions.⁸² The control of the government by the Nationalist Party can be summarized as follows: (a) all the fundamental laws are elaborated by the Party, (b) the principles, programs, policies of the government are initially adopted by the latter before being implemented by the government, (c) the most important persons in charge of government affairs are appointed amongst the members of the Central Executive Committee of the Nationalist Party.⁸³

While in the experiences of the Chinese Communist Party from 1931 to 1949, the permanence of the political culture of centralized political unity was also evident in its practice in terms of the Party organization, and the relations between the role of the Party and its armed forces. In its armed struggle with the Nationalist Party in the first Chinese Civil War (1927-1936) and the second Chinese Civil War (1946-1949) and the period of anti-Japanese War (1937-1945), the principle of unity and harmony was implemented in the experiments of the Chinese Communist

Party in its controlled areas.⁸⁴ Led by Mao Zedong, the Chinese Communist Party insisted on Party's absolute control in its own military force even in the anti-Japanese war period (1937-1945) when cooperating with the Nanjing government. This principle of political unity was further reinforced during the second Chinese Civil War (1946-1949). The Communist Party functioned on the basis of democratic centralization principle, which requires that the Party members subject themselves to the Party organization, the minority to majority, the lower rank organizations subject to the higher ones, and the organizations and the members of the Party subject to the Congress and subject to the Central Committee.⁸⁵ This tradition of supreme leading authority of the Chinese Communist Party, together with the Marxist ideology, was largely transposed to the core principle in political structure of the People's Republic of China since 1949.⁸⁶ Although Marxism-Leninism became the state ideology, Mao Zedong had adapted this ideology to the Chinese situation during the periods of the Chinese revolution and Mao Zedong's political regime in People's Republic of China, and the permanence of the Chinese traditions and political cultures was manifested in three aspects: the principle of unity in ideology and political structure, non-distinction between the role of the Chinese Communist Party and that of the government, and the dominance of the Chinese Communist Party over the whole of the government organization.⁸⁷

In the meantime, Confucianism, as the dominant ethical and philosophical tradition in China's ancient imperial history, provided a whole set of moral rules and social obligations to support the principles of political unity and social harmony for thousands of years.⁸⁸ Although there was a decline in the popularity of Confucianism after the end of the Chinese Imperial Rule in 1911 and during the Cultural Revolution in 1966-1976; however, Confucianism still has acted as a forceful ethical system shaping the national character of China's political culture in modern history. In

modern times, there have been some significant changes in terms of the meanings and influence of Confucianism on the Chinese society. Because the Chinese traditions were partly damaged during the Cultural Revolution in 1966-1976 and the communist ideology experienced some ideological challenges during reforms, the Chinese government, alarmed by the many crises of lacking belief, has sought to restore the Chinese traditions in recent years. It is believed that Confucianism will facilitate the building of social order, social harmony, and morality in China's current society. In the 2008 Beijing Olympics, China highlighted the Confucian themes and quoted the Analects of Confucius at the opening ceremonies. By July 2010, 316 Confucius Institutes have been established in 94 countries and regions under the direct sponsorship from Hanban - the Chinese National Office for Teaching Chinese as a Foreign Language, which is affiliated with China's Ministry of Education.⁸⁹ Hanban aims to establish 1000 Confucius Institutes by 2020. During his state visit in the United States, the Chinese President Hu Jintao paid a visit to the Confucius Institute in Chicago on January 21, 2011. The emphasis of Confucianism on rule by virtues and meritocracy – ruled by the most talented and public oriented people – supports a series of norms and disciplines rooted in the Chinese people's mind in terms of their expectations about the roles of government and government officials. With this fundamental Confucian belief adopted by the majority of the citizenry, as well as more than three decades of success in China economic reforms, the political legitimacy of the communist leadership in contemporary China seems to have been enhanced.⁹⁰

2.2. Mao Zedong's Legacies in Reforms

Of course, since after People's Republic of China was established in 1949, the Chinese Communist Party led by Mao Zedong had not led the country out of the previous internal chaos

and turbulences. “The Great Leap Forward” in 1958-1961 cost millions of human lives in famine, and ten years of “the Cultural Revolution” in 1966-1976 led the whole nation to life disruption, belief confusion, and ideology frustration. Thus Deng Xiaoping’s economic reform was motivated to move away from Chinese Soviet style of absolute state control in economic and political activities. In the fourth section of this chapter, I will elaborate that the Chinese style socialism has important differences from the classical Marxism and the Soviet style socialism and how the Chinese socialist market economy has incorporated the main ideas of Marxist-Lenin-Maoism with the Chinese particular conditions.

But from another point of view, China’s reforms have been contained within some important boundaries, and there are some important political, historical and cultural heritages for the Chinese development model. As the founder of the People’s Republic of China, Mao Zedong definitely had left some vital heritages for the Chinese economic development model. Despite the Party’s reassessment of Mao Zedong’s role in China’s modern history following reforms, Mao Zedong Thought is still officially recognized by the Party as one of the four cardinal principles in China today. In terms of its legacies, Mao Zedong Thought consists of China’s distinctive path of revolution and mass-centered Party construction. Thus, it first has shaped the Chinese way of thinking insofar as promulgating that China must pursue its own way in national building and economic development. During the Chinese Revolution, Mao Zedong’s contribution was his integration between the Marxist philosophy and China’s specific conditions. The Chinese communist revolution led by Mao Zedong has had striking differences from the Marxist theory and the Russian revolutions in that the Chinese revolution was centered in rural areas with dominant participation by the peasant farmers. Mao Zedong repeatedly stressed the importance of the credo that China should pursue its own independence and self-determination.

Since China was predominantly comprised of farmers, this necessitated an emphasis on their development. In this sense, Mao Zedong Thought has laid a solid foundation for the logic of pursuing the Chinese identity in economic development, state institutional buildings, foreign relations, and Party construction. Therefore to great extent, China's pursuit of its own way with the Chinese characteristics for economic modernization during economic reforms is also consistent with the self-determination, independence, and pragmatism emphasized by Mao Zedong. Thus, there is still a great degree of continuity in China's development strategy between before and after China's reforms in terms of the Chinese identity.

Secondly, although Mao Zedong failed in promoting sustainable economic growth and there was relatively little improvement of people's living standard before reforms, he had constructed a strong party-state system with a wide-ranging national ideology of Marxism-Leninism. Moreover, it is important not to trivialize Mao Zedong's contributions to China's contemporary success in that he had laid the foundation for China's economic development with a comprehensive bureaucratic administration through a centralized political unity under the leadership of the Party. Along with the Chinese strong state cultural tradition, Mao Zedong's legacies of the centralized Party-state system necessitated a strong role played by the Party and the active participation by the state bureaucracy for economic growth during reforms. The Party has recently begun to stress the need to promote intra-party democracy in recent years, and the notion of "driving people's democracy by promoting intra-party democracy" was raised in the 17th Party Congress. In general, the Party functions based on democratic centralism can be traced back to Mao Zedong's thought in the Chinese revolution. Mao Zedong (1945) summarized democratic centralized as "centralized on the basis of democracy and democracy under centralized guidance". Democratic centralization has been written into the Chinese Constitution

and it has become one of the principles of the Chinese political system.⁹¹ However, in “Great Leap Forward” in 1958-1961 and “Cultural Revolution in 1966-1976”, China’s reputation of intra-party democratic mechanism was seriously damaged. Since the economic reforms, the government has made efforts restore the notion that democratic centralization must be given full play in any successful intra-party democracy. In the meantime, concerning the Party construction, Mao Zedong put great emphasis that the purpose of the Party was to serve the people whole-heartedly, and he strongly suggested that the Chinese Communist Party should have full access to the masses and vice versa.⁹² Mao Zedong’s ideas in the Party construction had a profound impact on the Party’s ideology and organization. They especially influenced the gradual formalization of cadre responsibility systems for government officials with institutional arrangements during economic reforms. In the following section, I will address some important institutional changes on the Party’s ideology, organization, and administrative bureaucracy, which have promoted economic growth during the gradual economic reforms.

3. The Path Dependency and System Legacies of the Chinese Model during Reforms

First, it is important to bear in mind that the Chinese model for economic growth concerns the process of progress with flexible policies in several distinct stages of economic reforms rather than some static policy prescriptions with an original blueprint in the beginning of reforms. Because China’s initial reforms had little theoretical support from the orthodox Marxism-Leninism-Maoism, Deng Xiaoping had deliberately directed the process of China’s reforms under the philosophy of emancipating the mind, seeking truth from facts, and keeping up with the times. As a consequence, China’s initial reforms were highly characterized by pragmatism, flexibility, experimentation and gradualism, and during the process, the reforms were in the

course of action of seeking success and keeping what worked while discarding what did not. In this sense, although the Chinese model for economic growth is a summary of China's development experiences for the last three decades, there are some distinct features of China's economic reforms with down-to-earth policies keeping pace with the times in each serial stage. More importantly, the Chinese development model is still in the process of driving into maturity and refining itself with new meanings.

Second, in the process of the structural changes of the Chinese economic and political systems, three distinct stages of China's economic reforms are also accompanied by some observable problems and challenges with intensified negative consequences near the end of each stage of reforms. But those challenges and problems should not be exaggerated as an imminent breakdown of the Chinese political and economic system as some Western scholars argued.⁹³ Problems and challenges can also be a strategic moment and opportunity for the Chinese leadership to make major policy changes for more sustainable economic growth. For instance, China's economic reforms in the late 1990s witnessed some tremendous challenges of inequality, environmental degradation, and corruption, thus the Chinese Hu-Wen administration since 2004 has begun to emphasize building a more equal society with more emphasis on sustainable development.⁹⁴ In general, there are three distinct stages in China's economic reforms, and each of them is marked by some specific policy changes with important institutional innovations in response to problems and challenges occurred in the previous stage of reforms.

Third, during the three stages of reforms, there are three critical junctures that led to some dramatic policy changes with significant impacts on China's pre-existing institutions. The late 1970s after the death of Mao Zedong is marked the first critical juncture in China's reforms. A

chain of critical events in the 1970s influenced the Chinese leaders' approach in taking a gradual and incremental approach to reforms and institutional building. The international factors in the late 1970s that facilitated China's adopting economic reforms include an improved US-China diplomatic relations in the late 1970s and the East Asian economic miracles in the 1960s and the 1970s. In addition, China's domestic political conditions in the late 1970s especially shaped the selection process of China's reforms and institutional changes. Because no leader in the post-Mao era was able to dominate the political scene of the Party as Mao could, the Chinese leadership had faced several major options for the future of China in the late 1970s. The idea of "two whatever", which was supported by the Hua Guofeng, the Chairman of the Central Committee of CCP, insisted on that China would "resolutely uphold what policy decisions Chairman Mao made, and unswervingly follow whatever instructions Chairman Mao gave".⁹⁵ Chen Yun, the vice Chairman of the CCP, showed some worries that China might abandon socialism to avert to capitalism supported, but he supported Deng Xiaoping with some reserve by suggesting more conservative economic reforms. Hua Guofeng's supporters, bearing the name of "two whatever faction" gradually lost its influence after Deng Xiaoping's political maneuver of launching the great debate on the criteria of testing truth in national wide.⁹⁶ In December 1978, Deng Xiaoping firmly consolidated his power as the de-facto number one figure, and the political elites led by him were more concerned about the Soviet radical approach and they decided to take an incremental and gradualist approach. The first stage of China's reform unfolded from the late 1970s to the late 1980s, the Chinese leadership took a cautious approach to development aiming to reconstruct institutions destroyed by the events of the previous era and aiming to maintain stability during times of internal and external uncertainties. This period is

best characterized by cautious institutional building, focusing on establishing a system based not on the rule of one man but on the rule of the Party.

The second critical juncture is marked by Deng Xiaoping's Southern China tour in the spring of 1992. Following the downfall of Premier Zhao Ziyang and the tragedy of the Tiananmen incident, the mainstream of China's economic and political policies had turned unfavorably conservative for economic growth. Government officials and ordinary people, after the Tiananmen Square Incident, had considerable confusion about the future development of China's reforms. During this historical tour, Deng Xiaoping attacked the conservative economic policy and the leftist ideology that had dominated the Chinese leadership since the late 1980s. Deng Xiaoping's Southern China tour were significant in the sense that socialist market economy with the Chinese characteristics has fully been established its prominence, and the Chinese future leadership would find extremely difficult to reverse the trend of opening-up. Moreover, in political aspect, it is marked a natural separation of economic reforms from political reforms, and the Chinese government has been able to focus on economic development without too much distraction from ideology and political reforms. The Soviet experience – especially the collapse of the Soviet Union, the sequent fall of communism, and the “third wave” of democracy gripping the former Soviet states and Eastern Europe, influenced the Chinese leaders to take a more conservative approach in political reforms and they repeatedly affirmed the necessity of maintaining the leadership of the Chinese Communist Party for stability. As a result, during the second stage of China's reforms from 1992 to the late 1990s, although China has deepened its economic reforms, the leadership of the Chinese Communist Party has become more difficult to be challenged and this persistence has led to important increasing return effects in the future development of China's political system. In its official document of White Paper (2007), the Chinese government

emphasizes that the political party system of multiparty cooperation and political consultation under the leadership of the Chinese Communist party, which is different from both the two-party or multiparty competition system of Western countries... the leadership of the Party is the first and foremost prerequisite and fundamental guarantee for the multi-party cooperation.⁹⁷

The third stage of China's reform happened from 2004 to the present day, and these reforms are best characterized by consolidation and formal institutionalism of process including political leadership succession and intra-party democracy. The third critical juncture is marked by China's joining the WTO in 2001, China's SARS crisis in 2003 and the change of the Chinese leadership into the Hu-Wen administration since 2004. The concepts of scientific development and a harmonious society were put forward in this stage and they have been officially accepted as the guiding principles for the future development of China's reforms. The Chinese government has been able to shift its attention to the balanced economic development and social issues with emphasis on reducing inequality and pursuing sustainable development, and it has begun to integrate China's cultural heritage with the government's socialist developmental objectives in a new stage. The following parts highlight the path dependency of the evolutions of the Chinese political and economic system in the trajectory of China's economic reforms during the three stages. It will analyze how China has gradually established a series of supporting system for a socialist market economy by integrating the advanced foreign management experiences with the Chinese specific conditions.

3.1. Deng Xiaoping's Pragmatism & Four Cardinal Principles

The Chinese pre-reform economic system led by Mao Zedong was largely inspired by the experiences of the Soviet Union. Beginning in the 1950s, China had begun to introduce an

economic central-planning model with a five-year plan by imitating the central planning system implemented in the Soviet Union. The Chinese economic system before reforms had the main features of a socialist planned economy such as collective farms in the agricultural sector, state-owned enterprises in the non-agricultural sector, central planning with the emphasis on egalitarianism, widespread bureaucratic control of the economy by the government, and an inward-looking economy with little trade and foreign investment.

After the death of Mao Zedong in September 1976, there was a division inside the Party between the conservative leaders led by Hua Guofeng who had followed the Soviet style central planning under Mao Zedong's ideology and the reform-minded leaders led by Deng Xiaoping who preferred a more market based economic system. After Deng Xiaoping gradually gained control in the Party in late 1978, he began to initiate reform policies by introducing novel market element to China. However, the Chinese leadership was not certain about the extent that the Chinese planned economy should be complemented by such market elements. As many Chinese leaders had witnessed the difficulty and inefficiency of managing the central planning concepts in China's economic system prior to Xiaoping's reforms. They were, however, convinced that market elements should be introduced to revive China's stagnant economy. In the meantime, South Korea, Taiwan, Hong Kong and Singapore achieved great economic success with more market-based economies in the 1970s, so the successful experiences of neighbors had reinforced Chinese leaders' desire to engage in economic reforms, which emphasized markets and openings to foreign investment.

However, without a blueprint, Deng Xiaoping had a three-step process for successful implementation of China's reforms. In the first stage of economic reforms (from 1978 to the late

1980s), Deng Xiaoping set the economic target of doubling China's GDP from 1980 to 1990 and ensuring enough food and shelter for all people. He desired that China could achieve the target of another doubled GDP in the 1990s. This facilitated a goal of ensuring that the citizenry live a moderately prosperous life as a goal in the second step. Finally, Xiaoping desired to accomplish China's modernization by 2050 by raising incomes to the level of medium-sized developed countries.⁹⁸ The major focus in the early period (1978-1984) of China's reforms was on the rural areas, and some important institutions such as household responsibility system and township village enterprise were highly pragmatic and incorporated important bottom-up features. In the coast and urban areas, the major institutions were special economic zones and the two-track price system. For instance, the government creatively initiated the special economic zones in the coastal area to attract the foreign direct investment, notably investments from other Chinese communities such as Hong Kong, Taiwan, and Singapore. The economic reforms shifted the focus to the urban areas from 1984 to the late 1980s. In this stage, the ideology of the planned economy was still considered as the dominant policy mechanism while markets were only considered as a complementary tool to China's socialist planned economy. After Deng Xiaoping's South China tour in 1992, China began to embrace a version of the socialist market economy with a full range of economic reforms in the second stage of China's reforms.

Deng Xiaoping's influence on China is indisputable. His legacies have had a profound influence on the Chinese political system and society. China's much celebrated economic reforms for the last three decades can certainly be attributed to the foresight of Xiaoping with the stress on economic development. The significance of China's reforms in the first stage is that Deng Xiaoping successfully had directed the country's emphasis on class struggle to economic growth, so the Party and the state administration could focus on economic developments by improving

people's living standards. In the first stage of China's reforms, the Chinese development model was in the experimental stage, the reforms were highly tentative, pragmatic and flexible without a blueprint, and Deng Xiaoping demonstrated great pragmatism and adaptability with his famous philosophies of "seeking truth from facts" and "practice is the sole criteria for examining truth". The phrases of "seeking truth from facts" and "practice is the sole criteria for examining truth" were considered as a key element of Mao Zedong Thought in the Chinese Revolution. These phrases thereby emphasize the leadership continuity of China, but they had also become the key elements of Deng Xiaoping thinking of reforms in terms of his pragmatic approach in economic policies. Even before the Cultural Revolution, Deng Xiaoping was famous for his maxim "it does not matter whether a cat is white or black, as long as it catches mice", which indicates that he cared much about the economic result. Unlike the economic reforms in the post-communist states with transitional economies, many specific economic policies such as household responsibility system were not formulated by Deng Xiaoping himself but they were experimented in local governments. Deng Xiaoping tolerated the differences by encouraging the pragmatic economic policies to improve people's living standard.⁹⁹ Thus, if this goal were reached, the experimentation could be considered successful. An example of the success of Xiaoping's pragmatism and flexibility will be given in Chapter Four under the discussion of China's household responsibility system in the first stage.

Deng Xiaoping's economic pragmatism helped remove the ideological barriers in the early stage of China's reforms, paving the way of China's embracing market economy since the second stage of China's reforms. When most Chinese were still fearful even to mention market economy in the early 1990s, Deng Xiaoping's 1992 remarks that the "practice of a planned economy is not equivalent to socialism because there are plans under capitalism too while a market economy is

not equivalent to capitalism either because there are markets under socialism too” greatly pushed China into building socialist market economy.¹⁰⁰ Held in November 1993, the 3rd plenary session of the 14th CPC Central Committee passed the decisions on issues of the framework of building a Chinese socialist market economy. Deng Xiaoping’s pragmatism especially reduced the role of the communist ideology in economic policy and foreign affairs, so that China has been able to keep pace with the times with down-to-earth policies without a heavy burden from ideology and has been able to maximize economic benefits through reforms. Deng Xiaoping’s pragmatic way of thinking has had significant influence on the working styles of the Chinese political leaders and government officials. Since the 1990s, the Chinese political elite have been dominated by technocrats in that leaders with such backgrounds not only fit in the Chinese political culture but also be more able to focus on problem-solving issues related to economic development.¹⁰¹

In the meantime, Deng Xiaoping believed that China’s successful development also largely depends on stability and order in order to implement consistent and efficient economic policies. He put forward four cardinal principles in 1979, which include general doctrines that the Chinese Communist Party must uphold during reforms. These cardinal principles include adherence to the socialist road, upholding the dictatorship of the proletariat, upholding the Communist Party leadership and upholding Marxism-Leninism and Mao Zedong Thought. The four cardinal principles first aimed to fend off the attacks from the conservative left inside the Party who had criticized China’s economic reforms and opening-up to foreign trade. More importantly, the four cardinal principles set limits on political changes associated with economic reforms, which especially laid the foundation of insisting the necessary rule of the Chinese Communist Party while maintaining political stability during the inception of gradual reforms. Deng Xiaoping’s four cardinal principles reaffirmed the political unity of China’s Party leadership in order to

preserve the political stability of the country and prolong the legitimacy of the Party. Since the crackdown of demonstrations on June 4 1989, the four cardinal principles have become more entrenched in the Chinese political system. On many occasions, the Chinese leader Jiang Zemin explicitly stated – the four cardinal principles are the foundations of the nation, whereas reforms and opening to the outside world are means of strengthening the nation.

3.2. Socialist Market Economy and Jiang Zemin's Three Represents Theory

The major motivation of Deng Xiaoping's reforms was to increase productivity and to procure enough resources to maintain the population. The Chinese path to the final commitment of building a market economy was a very gradual process. Only after Deng Xiaoping's south China tour in 1992, did the Chinese 14th Communist Party Congress begin to confirm China's determination of building a socialist market economy with specific Chinese characteristics. In the first stage of China's reforms, the market was only considered as a complementary tool to increase productivity with more incentives in agricultural and industrial sectors. Eventually, a market economy demographic developed among the citizenry, which perpetuated the need for a continued reliance on such a dependence on foreign investment.

In 1992, Deng Xiaoping asked for the development of a socialist market economy with Chinese characteristics, which then began the second stage of China's reforms. In the second stage (from 1992 to 2004), the Chinese government was able to overcome the political barriers such as the democratic movements in the late 1980s as well as ideological barriers such as the Marxist doctrines inside the Party - for instance, the Marxist and Stalinist views on the market forces - but still pushed economic reforms forward and established the economic development as the central focus for the whole society. Deng Xiaoping's second stage economic target was to double

China's GDP again in the 1990s to make China a well-off society as I mentioned in the previous section. Since 1992 after Deng Xiaoping's South China Tour, the socialist market economy has been accepted as the dominant policy mechanism. China has begun to embrace the market economy with a full range of economic reforms. The important focus was on industry reforms, fiscal reforms, banking reforms, and foreign trade reforms. In contrast to the first stage mainly with a focus on a decentralization process, the second stage of reforms was a dual process. On the one hand, it was a decentralization process through market development and institutionalization with industrial and trade reforms, while regional governments were granted more economic autonomy and on the other hand, it was a centralization process with some important institutional innovations such as fiscal federalism to strengthen the state's capacity in governing the market forces. The state initiated industrial reforms and privatization in small and middle size firms, but it also retained strategic control in large and key industries. The strategy is often called "release the small and grasp the big".

In the second stage, we saw the emergence of the socialist market economy with the Chinese characteristics, namely the fusion of China's socialist political system and a market economy with the Chinese characteristic. The socialist market economy with the Chinese characteristic refers to the development of diversified economic elements while keeping the public sector of the economy in the dominant position. In February 2000, Jiang Zemin introduced the Three Represents for the development of general objectives for the Party building, which include, 1) the Chinese Communist Party must represent the requirements of the development of China's advanced productive forces, which focuses on economic development 2) the Chinese Communist Party must represent the orientation of the development of China's advanced culture, which refers to cultural development 3) and the Chinese Communist Party must

represent the fundamental interests of the overwhelming majority of the people in China, which is related to political consensus.¹⁰² On the surface, the Three Represents reiterated the leadership of the Party for economic construction with the emphasis on political stability, but the real purpose was to urge the Party to reinvent itself through serving the interests of the people and connecting with ongoing social and economic changes.¹⁰³

As a path dependency, Jiang's Three Represents theory is imbued with the same spirit of Mao Zedong Thought regarding the Party's construction that the Party must serve and represent the interests of people. The formal statement of Three Represents theory was first propounded by Jiang Zemin during his inspection tour in Guangdong province in February 2000: "reviewing the course of struggle and the basic experience over the past 80 years and looking ahead to the arduous tasks and bright future in the new century, our Party should continue to stand in the forefront of the times and lead the people in marching toward victory. In a word, the Party must always represent the requirements of the development of China's advanced productive forces, the orientation of the development of China's advanced culture, and the fundamental interests of the overwhelming majority of the people in China."¹⁰⁴ The theory was further affirmed by Jiang Zemin at the 2002 Party Congress. The theory was motivated to strengthen and improve the foundation which Party build on, and it was targeted to promote the self-improvement and development of socialist ideologies in China.

3.3. Hu Jintao's Scientific Development & Harmonious Society

As China has achieved the goal set by Deng Xiaoping for the two steps of development ahead of time, China has attempted to quadruple the GDP of the year 2000 by 2020 with a remarkable increase of overall national strength. To reiterate, in the first stage of China's reforms, the goal

was to introduce market forces to self-improve and adjust socialism in economic modernization, not to fully develop market economy. In the second stage, China had begun to break away from Stalinist and Maoist ideologies to fully develop a market economy and create a socialist market economy with Chinese characteristics. This led to a two-fold consequence – on the one hand, China had achieved amazing economic growth, but on the other hand, there were also tremendous social and ecological problems associated with the inner logic of increasing consumerism during the process of China's market economy development. As a result, in the third stage, the Chinese government has determined to reduce unbalanced development such as regional disparity, inequality and poverty issues, inefficient energy usage and environmental pollution, and address social issues and health quality. Since then, China's economic reforms have entered a new stage for economic development with distinctive features. The Chinese government has been able to pay attention to the balanced economic development and social issues, and it has begun to integrate China's cultural heritage with the government's socialist developmental objectives in a new stage.

In the third stage, the Chinese development model is in the process of driving for maturity, and we can see some major policy shifts – China has begun to focus on building an equivalent society with harmony with the reemphasis on egalitarianism and social justice. In 2003, the concept of scientific development was put forward at the 3rd Plenary Session of the 16th National Congress. It has become a new addition to the concept of socialism with the Chinese characteristic and it was inscribed into the Chinese Communist Party's constitution at the 17th Party Congress in 2007. The adoption on the concept of scientific development is marked a major shift in China's economic policy against the backdrop of rapid growth and a series of problems, which include excessive consumption of resources and energy, environmental

pollution, and increasing inequality.¹⁰⁵ According to People's Daily (2007), the idea of scientific development has refined the multiple dimensions of development by taking improvement as its essence, putting people first at the core, balancing development as a basic requirement, and an overall consideration as a fundamental approach to prosperity.¹⁰⁶

The concept of a socially harmonious society proposed by the Hu-Wen Administration during China's Tenth National Congress in 2005 has profound implications on China's future development. First, the concept of socialist harmony is seen as the integration of China's socialist practice and reforms, globalization, and the Chinese cultural tradition. The concept claims to embrace the ideals of democracy and rule by law (*fazhi*), sincerity and fraternity, energy, stability and order, and the harmony between human and nature (Liu 2005).¹⁰⁷ Second, the concept primarily refers to a belief that China should focus on pursuing a balanced and sustainable development by reducing inequality, solving pollution problems, and improving social welfare structures in a new stage of reforms. Thus it provides a guidance and direction for China's future reforms. Third, the extension of a socially harmonious society to the concept of a "harmonious world" has an international application. According to Ruan (2005) and Liu (2005), the concept of the harmonious world constitutes a unique model in international affairs, which represents China's own development experience and its determination to pursue peaceful diplomatic policies. China's concepts of "Five Principles of Coexistence", "Strategic Partnership" and "New Security", along with "Harmonious World" constitute the Chinese model for foreign relations.¹⁰⁸

It is apparent that the concepts of scientific development and a harmonious society represent the Chinese government's current intention of shifting the emphasis from previous growth-led

development strategies to promoting equity and social justice. The editorial opinion in the China Daily dated 12 March 2005 elaborates that “the government needs to make greater efforts to promote social equality by improving social security, employment, medical care, poverty, and education. It must especially devise policies to help rural areas develop faster to catch up with better-off urban regions.”¹⁰⁹ In general, my analyses demonstrate that the Chinese government has played a critical role in defining economic objectives in the three stages of economic reforms. In contrast to the conventional wisdom that China’s socio-economic transformation from a planned economy to a market economy would necessarily lead to the imminent political decay of the Chinese Party state, I believe that the Chinese government has been a prime manager that employs strategic actions to initiate, establish, and control the course of China’s reforms by building a successful Chinese market economy. The Chinese government has properly handled the relations between reform, economic development, and political stability. Reforms, which focus on establishing a market economy with control mechanism, are the driving force for China’s economic success. Economic development by improving people’s living standard is the goal and motivations of China’s reforms, and political stability is the prerequisite for the smooth and healthy operation of reforms. In Chapter Five, I will focus on how the Chinese government has pursued a gradual approach based on upholding the political continuity in order to maintain political stability when achieving economic modernization.

4. The Institutional Evolutions of the Chinese Political and Economic System

As a whole, the primary motivation of the Chinese economic reforms for more than three decades was to generate strong economic growth and improve people’s living standard. In the late 1970s, Deng Xiaoping initiated a series of reforms in response to China’s deteriorating

economic system, and he was strongly motivated to generate enough food suppliers and production in agriculture during the early stage of reforms. Deng Xiaoping summarized his goal of reforms as the four modernizations in the fields of agriculture, industry, national defense, science, and technology. As he once indicated, “development is the fundamental principle” as “poverty is not socialism”.¹¹⁰ Thus the main purpose of China’s economic reforms was established to improve people’s living standard. The historical significance of Deng Xiaoping’s reform is that China has put Mao Zedong’s radical doctrine of class struggles to an end but put China’s economic modernization and open-door policy at the center of these Chinese reforms. With the reforms, the State and the Party have begun to focus on economic construction and economic development. It is also noteworthy that China has determined to shift from the traditional economic pattern with emphasis on rapid growth to a balanced and sustainable development in the third stage of economic reforms.

With the strong commitment to the central task of economic development, China has greatly introduced market forces with foreign trade and foreign direct investment during reforms. Before the late 1970s, China’s foreign trade was insignificant and foreign direct investment did not exist. From 1978 to 2007, China’s foreign trade had increased from \$20.6 billion dollars to \$2.17 trillion dollars in 2007. Today, China is the leading recipient of foreign direct investment and the most potential market for multinational corporations.¹¹¹ In addition to economic institutional constructions to promote economic growth, the feature and component of development in the Chinese model are reflected in China’s economic performance-oriented institutional innovations in political aspects. The most important of these aspects are related to the internal changes of the Party’s organization and ideology, the evolving central-local government relations, and bureaucratic and administrative reforms.

The institutional reconstruction or institutional re-organization is one of the most important factors, which changed the model of China's economic growth, and it is the major control mechanism for the Chinese government to strengthen its state capacity in governing market forces in the transformation process from a centrally planned economy to a market economy. Some vital political institutional innovations in the post-1978 reforms helped ensure the economic autonomy, efficiency and accountability of the Chinese government to achieve its economic development objectives. The Chinese government has been innovative at creating vital economic institutions to achieve economic development objectives with efficiency and those institutional reconstructions imperative to the state capacity in an effective policy implementation are related to the Party system and its changes. Those institutional reconstructions during China's economic reforms also are one of main features of how the Chinese developmental state strategies can be distinguished from the post-communist states with transitional economies and the East Asian developmental states. In Chapter Five, I will analyze how the Chinese government has initiated some important institutions to achieve rapid economic modernization with some reference to the post-communist states in Europe. Moreover, in Chapter Six, I will analyze the Chinese government's efforts of optimizing central-local government relations. Herein I mainly focus on China's institutional reconstructions in terms of the Party's organization, ideology, bureaucracy, and administration, and then discuss the meanings and contents of socialist market economy with the Chinese characteristics.

4.1. Remaking the Modern Administrative State in the Chinese Market Economy

Although there are eight other registered political parties, China is effectively a single-party state with the dominance of the Chinese Communist Party. China's contemporary one party-state,

officially called multiparty cooperation and political consultation under the leadership of the Chinese Communist Party, definitely has created some degree of political stability and consistency in economic policy during reforms. However, because the Chinese Communist Party is supreme in China's economic and bureaucratic structure with its ruling party's authority in personnel, how to hold the power of Party officials accountable has been essential for the Chinese government to maintain its state capacity for effective policy implementation during reforms. Firstly, since the 1980s, the Chinese Communist Party has made systematic efforts of dividing the Party's role between political leadership and economic leadership by promoting professionalism with business technocrats in running economic affairs. The study by Pareto (1968) and Putnam (1976) shows that the occupational character of the ruling class in a given country has strong implications for – and sometimes a determining effect on – the nature of the political system.¹¹² Technocrats tend to focus on technological development and economic development. Thus, the institutional division between party officials and state functionaries facilitated a better division of responsibilities between the communist party and the government administration. This ensured the efficiency of economic activities and maintenance of the party's authority in political affairs. As a distinct and elite group, technocrats emerged in the mid-1980s. They have dominated the Chinese national and provincial leadership since the early 1990s. In 1997, for example, technocrats constituted 70 per cent of ministers, 74 per cent of provincial Party secretaries, 77 per cent of governors, and 51 per cent of full-members of the CCP Central Committee (CCPCC) (Li and White 1998: 251; He 2001).¹¹³

Secondly, the Chinese government has made a great effort of implementing a cadre responsibility system to fight against governmental officials' corruption, improve the Party transparency, and encourage rules of laws within the party to build a better government

administration.¹¹⁴ Some democratic experiments within the party were practiced through various means and in different levels – for instance, free elections with competition were practiced in local township and villages, some implemented a two-vote system, and there was an expansion of non-governmental organizations with the Party's sponsorship. The Chinese Communist Party, as the ruling party in China, controls the personnel power, thus in reality there is no clear dichotomy between the Chinese Communist Party and the government. In order to improve government efficiency, the administrative and bureaucratic reforms are one of major components of China's reforms.¹¹⁵ Since the 1980s, the Chinese government has sought to strengthen the state governing capacity and legitimacy in part through the administrative and bureaucratic reforms.

In general, there are several major periods in China's administrative and bureaucratic reforms. The main targets of the Chinese administrative and bureaucratic reforms focus on redefining their functions, ensuring law enforcement, and improving management professionalism. The government has been making efforts of promoting economic development, enhancing urban management, protecting social stability and providing public service with professionalism.¹¹⁶ The State Council started the first institutional reconstruction in 1982 with the set-up of the National Economic Reconstructing Commission, and the reform downsized the economic management departments mainly by combining them with other departments of similar responsibilities and enhancing those of coordination and supervision. This reform reduced the total number of agencies from 100 to 61 in the State Council, from 50-60 to 30-40 in the provinces and autonomous regions, and from over 40 to about 25 in counties and cities (Yang, 2003).¹¹⁷ In 1984, some significant personnel changes took place through the abolishment of the life tenure system, and the adoption of the age limit and the term limit. Thereafter some

aggressive retirement and education requirement policies were formally institutionalized. Based on the new regulations and norms, all government officials are subjects to fixed terms, term limits, and age ceiling. Political leaders over a certain level cannot exceed a certain age limit and they cannot hold the same position for more than two terms.

In the second period of administrative reform in 1988, the reform downsized the number of organs in the State Council from 72 to 65 by the end of 1988 (Ngok and Zhu, 2007).¹¹⁸ The second round of cabinet reorganization focused on separating government functions from enterprise management, and it began to establish the public servant system. However, according to the analyses by Ngok and Zhu (2007), because the 1989 Tiananmen incident terminated this ambitious reform, the major aims of the reform were not achieved.¹¹⁹

In 1993, as China was determined to establish a market economy in the second stage, the Chinese government ministries and commissioners were further reorganized. Many changes were made to accommodate the changing environments and meet new economic needs of China's growing market economy. In this third period of administrative reforms, the number of organs under China's State Council was reduced from 86 to 59, and the personnel of the central government were reduced from 36,700 to 29,200, or by 20 percent. In the provinces and autonomous regions, that number was reduced from 76 to 56, in municipalities (*zhixiashi*), the number was reduced from 100 to 75. Counties and cities also downsized the government accordingly. The employees of all levels of governments were reduced by about 2 million, equal to 23 percent of the total establishment of that time (He, 2007).¹²⁰ In addition, the Chinese government made substantial progress by enhancing the professionalism of the civil service, and

it began to introduce the civil service system based on recruitment examination in 1993 when the first law of the civil service was enacted (Ngok and Zhu, 2007).¹²¹

In 1998, the ninth National People's Congress passed a new administrative reform plan. The Chinese administrative and bureaucratic reform entered the fourth period. Within the State Council, 40 ministry level departments were further downsized to 29. In line with that, the total number of personnel was cut from 33,000 to 16,000, roughly 47.5 percent of the workforce. At the provincial, municipal, and county levels, the number of government agencies was reduced from 55 to 40, from 45 to 35, and from 28 to 18 respectively. Altogether, 1.15 million administrative positions were cut, and the 430,000 employees that exceeded approved levels were laid off. Over 200 functions were transferred from the central government to local governments, state-owned-enterprises and societal intermediary organizations (Yang, 2007).¹²²

In contrast to the three previous periods of administrative reforms that mainly focused on reducing spending with downsizing, the government increased spending by 20 percent that year. It was significant because China began to seriously work at changing the function of the government for the first time rather than merely downsizing. The government has begun to pay more attention to macro-control of economic regulation activities while expanding responsibilities that also include social security, law enforcement, and supervision (Lang 2001; Tang, 2004).¹²³

Against the background of China's joining WTO, China launched the fifth round of administrative reforms in March 2003 in order to harmonize the government's administration in relation to a more globalized Chinese economy. The main tasks of the 2003 reforms were to deepen the management system of state assets, to improve the macro-economic control regime,

to strengthen the financial regulatory system, to integrate the domestic trade and foreign trade, and to enforce the food safety and production safety regulatory regimes (Ngok and Zhu, 2007).¹²⁴ The State-owned Assets Supervision and Administration Commission was established to guide the state-owned enterprise reforms and the Ministry of Commerce was established to replace the Ministry of Foreign Trade and Economic Cooperation and the State Economic and Trade Commission to remove the disparity between domestic and foreign trade. A new Banking Supervisory Commission was also set up to strengthen the inspection of all regional banks and other pecuniary institutions. A Ministry of Commerce was formed between the State Economic and Trade Commission and the Ministry of Foreign Economy and Trade with the purpose of establishing an integrated market with coordination between the domestic market and international trade.¹²⁵ China's administrative reforms in 2003, similar to the fourth period, were again about the rationalization of economic institutions. Thus the reforms were more about fine-tuning than simple downsizing. China simplified the approval procedure and strengthened its government's service function. As a whole, the WTO membership provided new opportunities and new dynamics for the further restructuring of the administrative system in China with the increasing integration of China's economy with the rest of the global economy,

Finally, the Chinese government has sought to increase the capacity of the state through building the modern civil servant system to cope with the increasing challenges of gradual economic reforms. Since 1993, some significant steps have been taken to strengthen China's capacity as a civil service system. By 2003, nearly 70 percent of civil servants had university or community college degrees. By 1998, from 80 to 90 percent of the top civil servants at ministry, bureau and division level were university or community college graduates – in contrast to less than 30% before 1980 (Burns, 2007).¹²⁶ This represents a substantial improvement in the capacities of the

Chinese civil service. The government also has developed a culture of performance for the evaluation of civil service and institutionalized its public personnel system for effective policy implementation. To maintain its ruling efficiency and increase political participation, the Party has made efforts to recruit the best people from across the world for membership. According to a study by Mori Kazuko (2003), the proportion of laborers and peasants in the communist party's membership has been consistently dwindling (from 80.4 percent in 1956 to 56.6 percent in 1987 and 49.1 percent in 2001) while that of intellectuals, and management, administrative and technical personnel, has been growing steadily (from 14.8 percent in 1956 to 27.7 percent in 1987 and 30.8 percent in 2001).¹²⁷

4. 2. *Maintaining the Chinese Characteristics in the Socialist Market Economy*

The socialist market economy with the Chinese characteristics is the official term used by the Chinese government to describe the economic system of China after the reforms led by Deng Xiaoping since the late 1970s. Despite the official recognition and the frequent uses of this term by the Chinese government to refer to China's current economic system, the Chinese government does not have a clear and official definition of a socialist market economy with the Chinese characteristics. Because the Chinese government asserts that China is still at the primitive stage of socialism, the Chinese socialist market economy has its unique features with the Chinese characteristics in terms of meanings and contents of socialism as well as market economy. In the West, there are substantial doubts that China's current economic system after such dramatic socio-economic transitions, which were implemented during the nation's reforms, can still be qualified as a socialist economy. The debates are questions like "Does China have a capitalist market economy or socialist market economy?" "Is China still a socialist system?" "Is the

Chinese Communist Party still a communist party or a development party” “Will China have democratic system?”

The socialist market economy with the Chinese characteristics has three defining parts: socialism, market economy, and the Chinese characteristics. I will explain shortly about the meanings of and contents of socialism in the term socialist market economy with the Chinese characteristics. First, there is a general conceptual confusion between socialism and communism in the West, and the two terms are often misused interchangeably. The term socialism is grounded in the theories of Karl Marx who is considered the father of modern socialism. According to Marxist classical theorists, socialism is a transitional period or an early stage on the road to communism, while communism is the higher stage of socialism with abundant resources. Socialism and communism are used in different contexts with various meanings by the communist states as the important concepts of the Marxist theory, but they are often used interchangeably in the West. In the meantime, there is an observable discrepancy of socialism between the original ideas of Karl Marx and the practices by Lenin and Stalin in Soviet Union. Karl Marx himself wrote little about life under communism. He only provided some general indications of socialism and communism. As a political and economic system in operations, the classical economic model of socialism has three main characteristics that were largely influenced by the experiences of the Soviet Union: the political monopoly of the one-party state that legitimates itself with the ideology of Marxism-Leninism, exclusive public ownership with the goal of eliminating private ownership, and redistribution through powerful state mechanism rather than through integration of the economy. According to this perspective of classical socialist economic model, socialism distinguishes itself from capitalism in its public ownership of the communist party-state, central planning, and the state distribution function to reduce the

social ills of inequality and exploitation. The characteristics of classical socialism run counter to the characteristics of capitalism, which are private ownership, resource allocations based on market mechanism, and political system with democracy.

The second part of the term socialist market economy with the Chinese characteristics is that of the market economy. A market economy is an economic system in which the prices of goods and services are determined in a free market system. A planned economy is an economic system in which prices of goods and services are decided by the state or government, and the state or government controls the factors of production and makes all decisions about their use and about the distribution of income. As we can see, there is obvious incompatibility between socialism and market economy in terms of the conventional perceptions in the West. During the Cold War, the Anglo-American style laissez-faire liberal capitalism and the former Soviet style communism were two extreme systems with opposite understandings about the markets. The American liberal capitalism maintained private ownership, believed in individual freedom and inherent human nature, and promoted privatization and the autonomy of the enterprises with a minimal state for market efficiency. While the Soviet communism maintained state ownership, believed in egalitarian society over individual freedom, and relied on state apparatus such as central planning and resource redistribution with the administrative centralization to promote economic growth.

In contrast to the extreme belief that all ownership must be nationalized, the modern version of socialism as an economic system also allows the existence of non-state sectors. The most notable development of China's reforms is that the Chinese government has allowed the significant growth of non-state ownership (including private ownership and collective ownership) in addition to state-ownership. The Chinese economic system is believed to be a mixed system with

a largely free market but also with extensive state control, and the Chinese government has attached great importance of attracting foreign direct investment with export-led strategies and an opening up to foreign investment. China's economic system after reforms has shifted from a closed economy with self-sufficiency to an open economy with vigorous interactions with the global economy. Because of China's considerable introduction of market elements into its economic system, there are great debates about the nature of China's economic reforms. Some Western scholars and observers explicitly and consciously apply the logic of the Western model of liberal capitalism to the case of China, depicting China's reforms as a post-communist transformation moving toward a form of capitalist economy (Hsing, 1998; Guthrie, 1999; Zheng, 2004; McNally, 2006; Redding & Witt, 2010).¹²⁸ I believe that such schools of thought fail to adjust their pre-set framework or to break their stereotypes of what socialism and capitalism are. In the real world, market economies without any state control do not exist in pure form, as societies and governments regulate them to varying degrees rather than allow self-regulation by market forces (Altvater, 1993).¹²⁹

The third part of the term socialist market economy with the Chinese characteristics is the Chinese characteristics. The redefinitions on market economy and socialism based on the Chinese special conditions make it possible to reconcile the conventional wisdom about the incomparability between socialism and the market economy, and they are used to legitimate China's effort to build a socialist market economy by combining planning and market elements in China's economic system. In the 12th Congress of the Chinese Communist Party in 1982, Deng Xiaoping defined the concept of socialism with the Chinese characteristics by combining the basic principles of socialism with the facts of building a socialist society unique to China. According to him, socialism cannot be applied everywhere in the same way and economic

construction would serve as the core or the basis for the solution of China's external and domestic problems. At the 13th National Party Congress of the Communist Party of China in 1987, then party general secretary, Zhao Ziyang put forth the view that China was in the primary stage of socialism stating that

"Socialism in China was born out of a semi-colonial and semi-feudalistic society, and its level of productivity greatly lags behind that of industrialized capitalist nations. Therefore, China must go through an extremely long primary stage so that it can achieve the industrialization and the commercialization, socialization and modernization of production that other countries have secured through capitalistic means."¹³⁰

This definition of the Chinese socialism at the primary stage aimed to modernize the country by introducing market elements into a socialist economy. According to the classical Marxist theorists, the beginning of socialism rests on a well-developed capitalism. The self-contradiction of capitalism and the revolution of proletarian class then lead to the development of socialism. China went on the socialist road on the basis of semi-colonial and semi-feudal society, so the capitalist society and industrialization were not fully developed. According to the Chinese government, this particular difference has made China to pursue a distinctive road, which has to fulfill the tasks of industrialization, commercialization, and modernization first in order to achieve the goal of economic modernization for the basis of China's socialism. This logic of emphasizing China's uniqueness in pursuing a distinctive road for economic modernization is in alignment with China's distinctive path of revolution and mass-centered Party construction promoted by Mao Zedong.

Therefore, the term of socialist market economy with the Chinese characteristics needs to be defined according to the unique conditions of China's reforms. In general, China's socialism first refers to China's four cardinal principles initiated by Deng Xiaoping, which particularly include

the upholding of the communist party's rule for political stability as necessary precondition for economic development, and relates the concepts of scientific development and the harmonious society later implemented by the Hu-Wen administration. These show that the Chinese government has determined to reemphasize the socialist principles of reducing social ills such as inequality and unbalanced development and has begun to put people first in the development process in the third stage of reforms. Among the four principles, the upholding of the Communist Party's leadership stands out as the most critical feature of China's socialism. China's market economy primarily refers to the Chinese government's determination of building a unified and open market system with competition to link the rural and urban markets, and the Chinese domestic market and the international market, and to promote the optimization and allocation of resources largely based on supply and demand. In the meantime, with the strong-state political culture and the emphasis on political unity, the Chinese government upholds that the state will maintain macro-economic plans with powerful measures to govern the operation of markets, and the state will retain its strategic control in key industries and resources such as land, energy resources, defense and energy industries, banking and financial resources.

China's development model has advanced from the classic Soviet style socialism in three aspects. First, the former communist states with the planned economy, burdened with the orthodox Marxist doctrines, held hostility toward market forces and private ownership. They strived to replace the operations of market forces in nearly all economic sectors by administrative means. In their practice, the state held the absolute monopoly in the distribution of resources through public ownership. In this classic Soviet Style model, the market forces are subordinate to political directions in an absolute manner and they are in frequent conflicts with the command principles. But the Chinese model for economic growth does not deny the operations of market

forces, and it often nurtures commerce and competition through market mechanism with the diversified ownership by significantly introducing market forces. Market forces are considered as instruments and means harnessed by the states for national interests. The state not only regulates market operations or intervenes at the time of the market failure, but also direct economic activities toward great investment in some certain strategic areas and industries, and advance socialist values with effective economic apparatus in appropriate manners.

Second, China's political system still maintains many critical communist features such as its one communist party-state system, the prior institutional and bureaucratic frameworks, and many heritages of the socialist ideologies and policies. The socialist nature of China's economic reforms especially reflect on its insistence on the leadership of the Chinese Communist Party, the state's macro-plans and other measures of governing the operation of the market, and its ultimate goal of achieving socialist principles for equality and social fairness. China's reforms are characterized by gradualism with self-adjustment embedded in some vital socialist features.

China is a one-party state where the communist party is still legitimated by the communist ideology, and the Chinese government still insists on the socialist path with the leadership of the communist party and it upholds the general principle of Marxism. Put in specific ways, the socialist feature of the Chinese development model has political, economic, social and cultural components.

Finally, the Chinese development model has begun to reinvigorate the ideology in the state and the Party by exploring the Chinese traditional values such as meritocracy, social harmony, and rule of laws, which represent a synthesis between the orthodox philosophy of Marxism-Leninism-Maoism and the Chinese current situations. The concepts of socialist harmony and

scientific development proposed by the Hu-Wen Administration are seen as the integration of China's socialist practice and reforms, globalization, and the Chinese cultural tradition. They represent a departure of the classical Marxism-Leninism-Maoism that emphasizes class struggle and conflict. The central theme of China's socialist market economy in reforms has begun to shift to economic modernization. The Chinese Communist Party has ascended from the classic Soviet style party system into a more hybrid party organization, and there have been some changes in the Chinese Communist Party system in terms of party's ideology and membership composition. Moreover, the Chinese government has begun to put more efforts in the building of intra-party democracy, rules of laws, public participation in the local levels, and modern public servant system. Therefore, although China insists on building its own style political and economic model, it does not reject the Western concepts such as democracy, human rights, and freedom. The Chinese leaders publically admit the need for actions of improving public participation, democracy and human rights issues. During his state visit in Washington DC, the Chinese President Hu Jintao recognized that a lot still needed to be done in China, including human rights, and China would continue efforts to promote democracy and rule of law in the country. But China largely seeks to promote people's participation in political affairs through the intra-party democracy and self-governments in rural areas. In the fifth section of Chapter Five, I will address how China has made efforts of constructing the socialist democracy with the Chinese characteristics.

CHAPTER 5:
A MODEL OF GRADUALISM WITH INCREMENTAL APPROACH:
PURSUING SOCIO-ECONOMIC TRANSITION WITH POLITICAL STABILITY

In this chapter, I will examine a number of policy measures taken by the Chinese government, and attempt to analyze the incremental approach of China's gradual reforms in pursuing economic development with the emphasis on political stability. I argue that the Chinese gradual reforms with incremental approach and with the emphasis on political stability are associated with the conditions and the features of the Chinese institutional structure with path dependency. When explaining China's gradualism with incremental approach in economic reforms, I will make use of the experiences of the post-communist states with transitional economies in Eastern and Central Europe for some reference due to their contrasting big bang, or shock therapy policies, which led to divergent outcomes. In contrast to the conventional wisdom that China's economic reforms will necessarily lead to political decay, I demonstrate that the Chinese government, with the leadership of the Chinese Communist Party, has not been a passive actor in the process of socio-economic transition from a planned economy to a market economy, but it has taken active steps in retaining the strategic control of economic governance during the course of reforms. Unlike post-communist states with transitional economies in Eastern and Central Europe, Chinese-style reforms are especially characterized by gradualism with an emphasis on political stability. In the meantime, the gradual process of reform is situated at some important historical epochs and political legacies within the rule of the Chinese Communist Party. In the political version, the premise of fulfilling stability is the stable rule of the Chinese Communist

Party with incremental reforms to allow market forces to work together with state instruments to strengthen China's national power and improve people's living standard. During the three stages of China's reforms, China's model of gradualism with incremental approach is paralleled with important indigenous institutional innovations associated with the continuity of its political legacies. I elucidate the important historical and political contexts that were associated with China's gradualism with incremental approach in these reforms, trying to demonstrate China's institutional resilience with path dependency by pursuing economic growth with political stability.

Because of China's gradualism with an incremental approach in reforms, the Chinese government has been in a better position for success and it has had stronger capacity for avoiding the potential political and economic contentions when compared with post-communist states with transitional economies in Europe. These nations relied on the shock therapy or big bang reforms, which were implemented with enormous social and political instability. The Chinese government has sufficiently handled relations between economic development and political stability. During reforms, economic prosperity and political stability have become the dual principles of China's approach for reform. Economic development and political stability have been considered by the Chinese government as being mutually supportive in the nation's particular political and cultural environments during the process of reforms. Without stability, reform and development could not be carried out. For the Chinese government, political stability is considered as a necessary condition for China to achieve rapid economic growth because political instability will jeopardize China's long-term plan of economic growth. In the meantime, economic prosperity will improve the living standard of the population and increase national wealth, and it will serve to strengthen the legitimacy of the ruling government. Furthermore,

political stability can help create an environment in which the government can concentrate on economic development with more consistent policies. First, this chapter examines China's gradualism with the emphasis on maintaining political stability, analyzing some particular historical, political and cultural conditions during the process of reforms. Second, it discusses the gradual process for sophistication in China's political discourse for the legitimacy of economic reforms, indicating that the Chinese government has begun to justify the leadership of the Chinese Communist Party with the changing course of economic reforms with modifications. Third, it talks about the gradual process of China's industrial and financial reforms. Finally, it analyzes the remaining influence of the Chinese Communist Party in China's socialist market economy and China's effort of constructing the socialist democracy with the Chinese characteristics. .

1. Securing Economic Development with Gradualism

In the study of the transitional economies for the post-communist states in the late 1980s and the early 1990s, two types of economic policy stood out in a sharp contrast regarding how they had reorganized their economic affairs during the transformation from a planned economy to a market economy. The radical reform policies implemented by the post-communist states in Eastern and Central Europe are typically called the "big-bang" or the "shock therapy treatment" while the experiences of the Chinese reforms represent an example of "gradualism" for changes. In the literature of economics, whether the big-bang treatment or the gradual approach is the superior method for reforms is inconclusive since both approaches can cite many empirical supports.¹³¹ Nevertheless, such a debate between the two approaches in economics ignores identifying the human motivations and tremendous political costs within their historical and

cultural backgrounds for those transitional economies. Because the transition from a centrally planned economy to a market economy involves massive reorganizations with changes in terms of resource distribution channels, policy mechanism, and institutional arrangements, it is observable that there were the tremendous economic, political and social costs with an understood instability for those transitional economies during the process. Since the shock therapy or big bang approach explicitly endorses the strategy of maximizing radical transformation in the shortest period, this radical approach is often associated with much higher economic, political and social costs such as high inflation, foreign debt, unemployment, political instability and social unrest. Positive aspects of the big bang approach can include rapid mobilization of economic reforms and programs while minimizing costs over the long-term. Despite the attraction of such progress, it is clear that reliance on big bang approaches to reform, policies are more likely to lead to economic loss and political instability within some certain time period. In this sense, I will argue that gradual reforms were more conducive to successful implementation in China's particular political environment during the inception of transitional policies.

With a few exceptions, the shock therapy package, formulated by the neo-liberal economists and promoted by the IMF and the World Bank, had led to corollary damages during the reforming practice in the post-communist states in Eastern and Central Europe in the beginning stage of reforms. First, the economic effect of the big bang treatment was disastrous for many countries during the transitions. Their industrial output and agricultural production fell considerably. By 1998, Russia's GDP had fallen to 55% of its 1989 level and Moldova's had fallen to 30%. Retail prices increased dramatically with high or even hyperinflation. Poland, Slovenia, Albania, Bulgaria, and Romania all experienced at least one year of hyperinflation from 1990 to 1993

when consumer price inflation exceeded 200%. Estonia, Latvia, and Lithuania all had one year with inflation around 1000%, and Russia, the Ukraine, and Kazakhstan experienced at least one year where inflation approached 2000% (Svejnar, 2008).¹³² Second, their reforms began to experience tremendous social problems and political instability such as the increasing inequality, high unemployment and increasing debts and deficits. In Central Europe, some post-communist states such as Czech Republic, Hungary and Poland began to experience transitional recessions following a season of rapid growth in 1995. In addition to the economic slow-down, their governments faced serious challenges because of increasing debts and deficits in the 21st century. Russia experienced a prolonged depression in the 1990s, and its depression persisted until the 21st century.¹³³

The evolution of the Chinese economy at this same time is in sharp contrast to the widespread economic stagnation and recession in the post-communist states in Eastern and Central Europe during the transitional process. In short, China has become a superstar via a substantial economic growth rate during its three decades of reforms. China maintained about 9.3 percent of an average annual GDP growth rate from 1980-2005. According to the World Bank poverty line of \$1 a day per capital, the proportion of people below the poverty line in China fell from 63.8% in 1981 to 9.9% in 2004 (Ravallion & Chen, 2007).¹³⁴ In contrast to the shock therapy, China has pursued a gradual process in building its market economy during reforms, and its industrial reforms went through a slow and gradual pace. In the following section, I will analyze some main reasons why China contrasted with the European post-communist states in its gradualism for reforms. Moreover, the Chinese government has pursued divergent policy approaches regarding the roles of the state, the sequence of reforms, the process of industrial reforms and privatization, and the institutional changes in terms of the Party, bureaucracy and administration.

In my view, the evolutionary changes of China's political and economic institutions followed the pattern of path dependency. The Chinese model for economic growth favored a gradual path with the systematic process by introducing market forces through opening up, and the Chinese Party-state has maintained its strategic control with emphasis on political stability and state guidance for economic activities during the course of economic reforms. The gradual reform policy under the Chinese government was predicated on the strong central authority developed in previous decades that can trace back the Chinese political culture in history. This central influence allowed the government to implement reforms where necessary, increased awareness of possible global market opportunities, and invested other avenues by which the nation could improve. Without this centralization of such vast resources and ideology, it is questionable whether such significant progress could have been attained so quickly without a more violent paroxysm of reform.

Therefore, scholars might argue that China's gradualism and the sequence of economic reforms, with the focus on agriculture in rural areas in its early stages, and the state's role with emphasis on political stability are key factors for China's economic success in reforms. However, as a narrative of China's successful implementation of reforms, those policies are closely related to its initial historical, political and cultural conditions prior to the reforms. In general, there are three broad reasons that contribute to China's gradualism. These reasons emphasize the political stability in reforms in direct contrast to the experiences of the post-communist states with transitional economies in Eastern and Central Europe. First, the Chinese government's emphasis on political stability during reforms can be contextualized in terms of China's broad historical and cultural milieu. China experienced about one hundred years of national humiliation, beginning in the Opium War in 1840, and then extending through to the internal chaos with civil

wars and foreign dominations by imperialist western powers. In 1949, the People's Republic of China was established by the Chinese Communist Party led by Mao Zedong. Although with some achievement, Mao Zedong mistakenly launched "Great Leap Forward" in 1957 and "Cultural Revolution" in 1966, causing great damages to China's economy and the Chinese people. A large number of Chinese citizens suffered and died. Consequently, there was a widespread yearning among the public in the 1970s that normal economic activities with political stability should be restored. The increasing desire to normalize major economic activities while ensuring continued political stability fuelled the Chinese government's insistence on maintaining gradualist reform policies. It could be argued that big bang methods of reform had been tried under Mao Zedong's regime in "Great Leap Forward", but they had ultimately failed to encourage both economic prosperity and political stability. In a sense, the gradualist policies can be viewed historically as an outgrowth of the lessons learned during the instantiations of "Great Leap Forward" and "Culture Revolution".

Second, the main changes of China's political leadership after the end of "Cultural Revolution" also led to the Chinese government's emphasis on political stability during reforms. Although many of China's so-called first generation leaders such as Mao Zedong, Liu Shaoqi, Zhou Enlai, Zhu De and Lin Biao before China's reforms, still most of old leaders such as Deng Xiaoping, Chen Yun, Tan Zhenlin, Peng Zhen and others survived after the end of the Cultural Revolution in 1976. After the death of Mao Zedong and the arrest of "Gang of Four", a substantial number of them returned to fill important posts in the government during the late 1970s. They remained the most influential political figures in Chinese politics during China's economic reforms until the early 1990s.¹³⁵ Because most of them had suffered through political purges and personal humiliations during the Cultural Revolution, they generally agreed on the necessity of China's

economic reforms. But on the other hand, because all of them had participated in the Chinese Communist Revolution, they appeared conservative in political reforms because of their strong ideological beliefs in Marxism-Leninism. While they had witnessed the political anarchy during the Cultural Revolution, as the old guards of the Chinese revolution, many of them considered political stability as the precondition for the success of economic development.

Deng Xiaoping initiated China's historical economic reforms in December 1978, asking for the development of four economic modernizations in the fields of agriculture, industry, national defense, and science and technology. In spite of great popularity in general, the reforms also received two types of negative reactions – the Party conservatives criticized China's reforms for incorporating too many capitalist elements while the radicals asked for dramatic changes in the political system. On December 5, 1979, Wei Jingsheng put up a poster on Beijing Democracy Wall, arguing that democracy should be the fifth modernization and it should be added to the list of the four economic modernizations. In order to fend off the attacks from the conservative lefts inside the Party who had criticized China's economic reforms, Deng Xiaoping articulated four cardinal principles. The four cardinal principles were motivated to set limits on political changes associated with economic reforms when opening China to the foreign markets. The four cardinal principles include general principles that the Chinese government and the Chinese Communist Party must uphold during reforms: 1) adherence to the socialist road, 2) upholding the dictatorship of the proletariat, 3) upholding the Communist Party leadership and finally 4) upholding Marxism-Leninism and Mao Zedong Thought. The four cardinal principles particularly laid the foundation of insisting on the necessary rule of the Chinese Communist Party and encouraged political stability during the implementation of reforms. After the Tiananmen Square incident in 1989, when more liberal leaders such as Zhao Zhiyang were either

under house arrest or forced to step down, the leadership had reached the general consensus that political stability with the leadership of the Chinese Communist Party must be maintained. By ensuring political stability, criticisms of reform policies could be weathered without considerable attention being given to political violence. The Party could focus on adopting a constructive approach to the criticism offered by the radicals and conservatives, and could effectively incorporate both traditional and novel conceptions during gradual reform.

The third reason is associated with China's backward economic conditions in the 1970s compared to Eastern and Central European communist states. As Deng Xiaoping began to initiate economic reforms in 1978, China was more isolated from the global economy and the country had very little knowledge about the Western liberal economics ideas. In the meantime, China was still in the early stage of urbanization when beginning its reforms in the late 1970s. As the majority of the Chinese population still lived in rural areas, it was very natural that the immediate task for Deng Xiaoping's reforms in 1978 was to generate enough food and agricultural production to support China's basic survival needs. In comparison, more than 85 percent of the workforce was in non-agricultural state enterprises in the former Soviet Union in 1985, and very high proportions of workers in the Eastern European economies had similar situations in the 1980s.¹³⁶ Because of this reason, China's reform started from the rural areas and the major focus from 1978 to 1984 was on agriculture and in rural areas. Early priorities focused on agriculture with an emphasis on "household responsibility system" and township enterprises greatly improved people's living standard and the country's productivity in the rural areas. This necessary approach of developing foundational economic prosperity while creating rural nodes from which progress could radiate into urban areas provided a good foundation for China's further deepening gradual economic reforms.

In 1979, all farm land was owned by the state or collectively used by people's communes. Because of the lack of incentives, China's agricultural productivity remained stagnant before reforms. Although with the stagnation of agriculture, output had risen; this largely reflected the improvement of agricultural technologies and government investment. Thus, population was locked into agriculture – more than 80 percent of the Chinese population lived in the countryside and worked in the primary sector while less than 20 percent of people lived in the urban area. As one of the most indigenous institutional innovations, the household responsibility system followed a gradual process from local experimentation to policy implementation nationwide. The household responsibility system made local farmers of a region responsible for the profits and losses of a venture, and through which households were able to make independent decisions on operations on land and they could sell the surplus production. This method of responsibility gradually replaced the previous People's communes with distribution method, which placed the onus for profits and losses on the state. Before reforms, the household responsibility was officially banned by the Chinese government, and it was rated as a crime during the Mao Zedong's era in China. During the winter of 1978, household responsibility was secretly practiced by the local peasants in Xiaogang Village, Fengyang County of Anhui province. In the hands of the bold peasant to improve productivity, the system turned out to be successful in their secret practice. It was then singled out for experimentation in the Anhui and Sichuan provinces. In early 1980, many rural provinces, such as Inner Mongolia, Guizhou, Shaanxi, Henan, and Shanxi followed the local experiments of Anhui and Sichuan.¹³⁷ In Oct 1980, the central committee issued an official direction to endorse the implementation of household responsibility to the national level. Since then the nationwide land reform with household responsibility experiment has propagated quickly. In 1981 about 45 percent of rural households participated in

the reform. Subsequently it was increased to 80 percent in the next year, and finally, reached ninety-nine percent in 1984 (Lin, 1992).¹³⁸ The implementation of household responsibility system in China's rural areas has major impacts on China's agricultural output during reforms. According to the statistics by Lin (1992), during 1978-1984 when the household responsibility system was widely introduced, the average annual growth rate of agricultural output calculated by fixed price increased at 7.7 percent compared to 2.9 percent in the previous 26 years over the period of 1952-1978. About half of the output growth in 1978-1984 can be attributed to the introduction of household responsibility.¹³⁹

The early reforming concentration of China's on agriculture and rural areas laid a very good foundation for China's economic boom in the 1990s. First, there was a great increase of peasants' income and a great reduction of poverty in rural areas. The data show that the rural poverty declined dramatically in the 1980s. A rural survey by Riskin (1987) shows that rural per capita income more than doubled between 1978 and 1984 and real rural per capita consumption increased by 51 percent between 1978 and 1983.¹⁴⁰

Second, because of the increased productivity in agriculture, more peasants were able to engage in rural business and non-primary sectors. In the 1980s and the early 1990s, there was a significant expansion of township and village enterprises in rural areas, and they became the most vibrant portions of the flowering Chinese economy. In the 1980s, the government provided policy supports with more relaxed control on rural enterprises on non-agricultural sectors, and rural enterprises subsequently grew more rapidly. The addition of this 'new blood' to the Chinese rural economy fostered unparalleled growth in both rustic and urban areas of the nation. According to the data by Brandt, Li, and Roberts (2005), it was the entire township and village

enterprises sector of 23.4 million firms that employed 135.1 million individuals, while the collective township and village enterprises employed only 59.5 million individuals.¹⁴¹

Third, the process of China's gradual and incremental reforms in rural areas was also associated with China's urbanization and the development of labor-intensive industries in coastal areas. Because of the great increase of productivity and the reduction of poverty in rural areas, since the 1980s, millions of peasants have begun to move to urban areas and coastal areas in search for better working conditions and higher income. It is estimated that between 150 million to 200 million Chinese peasants have left their soil to work in cities and only return to countryside periodically in order to have higher income (Harney, 2009).¹⁴² After their relocations, the immigrant peasant-workers in the urban areas usually engaged in building industries, dining, hotel and other service sectors in urban areas. The influx of more educated peasant workers in the coastal areas also contributed to the growth of China's labor-intensive industries by providing cheap labor during the implementation of gradual reforms. Consequently, the erstwhile extension of the rural citizen to the urban and metropolitan areas of China was accomplished due to the increased productivity and growth accomplished through vast agriculture improvements¹⁴³.

The Chinese special economic zone, as another important indigenous institutional innovation, also followed this gradual pattern starting from the early experimentation in limited regions. After turning out to be successful, this institutional modernization was appropriated by the burgeoning and expansive coastal regions. Inspired by the experience of Taiwan and South Korea in Export Processing Zones (EPZ) during the 1960s and the 1970s, Deng Xiaoping decided to build four special economic zones in the South Coast In 1980 in order to attract

foreign direct investment. Shenzhen, Zhuhai, and Shantou within Guangdong Province were designated by Deng Xiaoping as special economic zones (SEZs) by August 1980, and then Xiamen in Fujian Province was established in October 1980. All special economic zones, Shenzhen, Xiamen, Zhuhai and Shantou have geographic proximity to Hong Kong, Taiwan with the primary purpose of attracting investment, technology and management skills from these regions. In the meantime, they were deliberately chosen because their locations were far away from the Chinese political center in Beijing, thus they were able to promote pragmatic and open economic policies with minimal political effects or political consequences. Moreover, Deng Xiaoping expected that mainland China would be unified with Hong Kong, Taiwan, and Macau in the future. Thus he had felt that it was important to reduce the income gap between the special economic zones in the Chinese coastal areas and these three Chinese communities, and it was necessary to increase exchanges among them in order to ensure their future integration more smoothly.¹⁴⁴

With the successful experience in these four special economic zones in the early 1980s, fourteen more coastal cities – Dalian, Qinghuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai – were opened for investment in 1984. In the late 1980s and the 1990s, China attempted to spread the benefits of the open door policy to the other parts of country. Three open economic regions were designated in 1988 and more inland cities were open to investment in the early 1990s. By 2005, about 342 special economic zones had been built to attract foreign direct investment.¹⁴⁵

In the several stages of China's reforms, the reforms on China's state-owned enterprises have followed the process of gradualism. Unlike the rapid privatization process in Russia and the post-

communist states in Eastern and Central Europe, the Chinese-style industrial reforms and privatization are characterized by a gradual process. This has allowed for the maintenance of political stability as mentioned above. The gradual processes in China have advanced in two major periods. In the first period, from the late 1970s to the mid-1990s, China's industrial reforms in urban areas only focused on expanding the impact of incentives and market forces, increasing the autonomy of the firms, and introducing the dual-track price system. China's gradual and slow process of industrial reforms in the first period has been in accordance with the selective reforms with experimentation in first stage of China's reforms.

The substantial industrial reforms began to launch and we witnessed extensive structural reorganizations with privatization and the large-scale layoff of many workers after the mid-1990s. The Party perceived these tactics as necessary in the context of increasing industrial competition. The Party proceeded industrial reforms mainly by privatizing small and middle-sized enterprises while large state-owned enterprises remained intact in the 1990s. The gradual and selective reforms in state-owned enterprises have helped avoid the possible social instability caused by significant lay-offs of workers following privatization as demonstrated in Russia and the post-communist states during reforms. It is clear that the most salient difference between the didactic example of Russia and the post-communist states is that of gradual progress compared with rapid advances. While those communist states attempted to capitalize on ambitious big bang programs, China still remembered the previous failing example of "Great Leap Forward" with the significant losses, which occurred under Mao Zedong's hubris. The leadership of the Chinese government had extensive firsthand knowledge of the level of difficulty of implementing rapid changes in economic and social policies. The Party was able to note with clarity the failings of such a program. After the supplemental background thoroughly examined

in political legitimacy issue of China's reforms, I will turn to more specific reform policies developed and implemented by the Chinese government. In the third section, I will give a further analysis of the gradual Chinese-style reforms on state-owned enterprises, banking and financial sectors.

2. Legitimizing the Reforms and the Political Regime

Although some scholars emphasize the political motivation of China's economic reform (Shirk, 1993) while other scholars stress the economic logic of China's economic reform (Naughton, 1995), it is generally agreed that China's gradual reform policies were motivated by a desire to strengthen the Chinese Communist Party's legitimacy through economic performance.¹⁴⁶ As the most obvious example of economic performance is arguably, the standard of living of the population or the improvement of citizenry's living standard. Nevertheless, before China's economic reforms and opening-up to foreign investors became fully entrenched into the entire society with impressive economic outcomes, the Chinese government undoubtedly had to seek normative support for entailing a dramatic shift from a planned economy to a market economy. During the three decades of economic reforms, China's political discourse for the legitimacy of economic reforms has evolved through gradual processes into sophistication. In the early years of reforms when the communist political ideology was still highly influential, the Chinese leaders such as Deng Xiaoping often sought the legitimacy by rephrasing or reinterpreting the Marxist theory and tenets of Mao Zedong's thought. As economic reforms have reached a new momentum, the Chinese leaders have begun to alter subtly the orthodoxy of Marxism with new theories to seek legitimacy in their economic reforms. Because the Chinese reforms have led citizens to have access to more information with knowledge, the political leaders have begun to

use China's economic achievements to justify the leadership of the Chinese Communist Party and some policy changes of the economic reforms.

Since the People's Republic of China was established in 1949, although with some major achievements such as national self-determination, the Chinese Communist Party led by Mao Zedong had not helped the country out of poverty and internal chaos. "Great Leap Forward" forced millions of Chinese citizens into famine, and ten years of "Cultural Revolution" put the whole nation's economic modernization to a halt with social upheaval and economic turmoil. Consequently, the Chinese Communist Party had the tremendous challenge of maintaining its political legitimacy in the 1970s. The 1976 Tiananmen Square incident triggered by the mourning of Premier Zhou Enlai's death reflected the Chinese people's pervasive dissatisfaction. After Deng Xiaoping consolidated power and initiated economic reforms in December 1978, the nature of the legitimacy issue surged again due to disagreements over Deng Xiaoping's economic reforms. Xiaoping introduced several market forces, which in many ways ran against the doctrines of Marxism-Leninism-Maoism and effectively gave opposing dissenters ammunition for rampant criticism. In order to fend off criticisms, Deng Xiaoping strategically used the Marxist theory to justify his reforms. According to him,

"Marxism attaches the utmost importance to developing productive forces. We have said that socialism is the primary stage of communism and that at an advanced stage the principle of 'from each according to his ability and to each according to his needs,' will be applied. This calls for highly developed productive forces and an overwhelming abundance of material wealth. Therefore, the fundamental task for the socialist stage is to develop the productive forces."¹⁴⁷

Deng Xiaoping also tactically used Mao Zedong's catchphrases such as "seeking truth from facts" and "practice is the sole criteria for examining truth" to put China's economic reforms on a more palatable footing in the minds of the average citizen. While Mao Zedong Thought is

regarded as the new outlook of Marxist philosophy in the Chinese communist revolution, Deng Xiaoping theory, which includes socialist market economy with the Chinese characteristics, is regarded as a new outlook of Marxist philosophy in contemporary China with new environments and applications for reform. In 1984, Deng Xiaoping suggested that China should build socialism with the Chinese characteristics by introducing market elements. According to him,

"Production stagnated for a long time. There was little improvement in people's quality of life, and China's gap with developed economies widened further. All of this made Chinese Communists ask themselves time and again the following questions: Where on earth was the superiority of socialism? Was socialism rich or poor? What is revolution and what was its purpose? The theory of building socialism with Chinese characteristics, which took the development of the productive forces as its fundamental task, came into being amid and as a result of these reflections and reviews."¹⁴⁸

After the crackdown of the 1989 Tiananmen Square demonstrations and the end of the Cold War, the Chinese government experienced enormous setbacks as well as domestic and international pressures. With the fears of the downfall of socialism, the Chinese government moved quickly to restore political and social stability and called for a strengthening of Party organs and disciplines.¹⁴⁹ The Chinese Communist Party organized a nationwide media campaign against a peaceful evolution toward capitalism. The government justified the necessity of maintaining social order and political stability with the rhetoric of the consequences of chaos in Chinese history. The events of and consequences of "Cultural Revolution" were pointed to as possible developments which stem from drastic changes in the fabric of Chinese political life. This period saw a brief attempt by the conservative leaders to roll back reforms by reasserting central planning and re-stressing the socialist ideology.¹⁵⁰

With the growing conservative stances within the Party, Deng Xiaoping, although already at the age of eighty-eight years and in his retirement, did not want the discontinuation of his economic

reform agenda. In 1992, Deng Xiaoping made a historical visit to South China, special economic zones in particular, with the design of revitalizing economic reforms. He suggested that a socialist country and a market economy are not mutually exclusive, and he stressed the importance of economic reforms. In his famous South China speech, he mentioned,

"Planning and market forces are not the essential difference between socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity."¹⁵¹

In the 14th Party Congress in Oct 1992, Jiang Zemin reaffirmed that the very essence of socialism is to obtain modernization because poverty is not socialism and the objective of socialism is to liberate and develop the production forces and ultimately achieve common prosperity. There is no room, under socialism, for a perpetual poverty among the citizenry and any model of socialism, which perpetuates such poverty, must be altered to remain in line with the ideological mentality of the system's founders. Deng Xiaoping's assertion on a socialist market economy sufficiently removed the normative obstacles in China's reforms and allowed China to develop a valuable market economy. Deng Xiaoping's insistence on economic reforms eventually led to phenomenal growth levels in China, which marked the second phase of China's economic reforms. In 1997, the concept of a socialist market economy became entrenched in the Party Constitution in as a part of the Deng Xiaoping Theory.

As a critical juncture, Deng Xiaoping's South China Tour is significant in influencing the development of China's reforms. Deng Xiaoping's socialist market economy represents a subtle departure of ideology from the orthodox Marxism-Leninism-Maoism. History has justified Deng Xiaoping's pragmatic approach to the socialist theory. China's successful economic performance in the 1990s reaffirmed his agenda of building a socialist market economy. As China progresses

further into economic success, the concept of socialist market economy will become more solidified in the Party practices. In the 21st century, as China's economy has literally transformed into a socialist market economy, the Chinese development model has evolved into a new growth pattern. In the third stage of reforms, the socialist market difference has placed an emphasis on balanced development such as reducing inequality and poverty, improving the efficient use of energy with environmental protection, and addressing social issues and health quality. Unlike the early approaches, which sought to solve economic concerns by mainly referring to the orthodox Marxism-Leninism-Maoism for justification and legitimacy, the Chinese government has begun to integrate China's cultural heritage with three decades of China's reform experiences for a new stage in economic development. The most impressive example of the integration of cultural Chinese heritage with sound economic theory is the concept of social harmony, which has its origin in the Chinese Confucian culture. Confucian social harmony represents a departure from the Marxist doctrines such as perpetual class struggle and continuing revolution emphasized by Mao Zedong. Instead of economic and social progress being derived explicitly from the Hegelian-Marxist concepts of class struggles, which culminate in a synthesis of class-consciousness into something greater than their collective sum, social harmony in Confucianism seeks progress, which is effected through reliance on each individual understanding their duty and place in society, and performing these duties to the best of their abilities. Such a blatant contrast with the presiding norms of communist doctrine indicates that the ideological grounding of the Chinese government has been subtly altered in the new century, and many of radical beliefs and policies have been discarded.¹⁵² After three decades of opening up to foreign nations and impressive gradual social and economic reforms, China's successful economic record has

established the Party's basis for legitimacy. The granted legitimacy thus allows the Party the opportunity to take another turn in the reforms process.

Wang (2009) argue that China's political discourse for legitimacy to meet the citizenry's basic needs has gone through a period of seeking national independence (1949-1970s), to a period of building national strength and consolidation (1949-1978), and to a period economic growth and rising living standards, or the *xiaokang* project from the 1980s to 2000s. At the contemporary stage, the people seem to be shifting towards demands for more transparency, accountability, and fair governance from the Chinese government.¹⁵³ While the advances of the socialist market theory have traditionally rested on policies which have opened up trade and investment with foreign nations, many aspects of Western democracy seem to have entered the Chinese population's understanding and led to such requests from the government. Despite such questioning of accountability, today the Chinese government effectively uses China's economic achievement to justify the leadership of the Chinese Communist Party. While the collapse of the Soviet Union, the unsuccessful experiences of economic reforms in the post-communist states in Europe, and even relatively less successful experiences of India's reforms are often used as examples by the Party to demonstrate the necessity of upholding the Chinese current political system with stability and pursuing China's independent development path with innovations. In comparison, there is little question that China's economic reforms have been more successful than those post-communist states with transitional economies. While this may quell further dissent with the Chinese Communist Party, it is expected that continued pressure will be placed on the governing party to include what are known as basic civil rights in the West. The success of the Communist Party, however, remains mainly unscathed during such requests, and remains as authoritative with strong capacity as it ever has been.

In past years, survey researchers have found that public support for the Chinese regime is relatively high. Surveys conducted in Beijing in 1995, 1997 and 1999 repeatedly found similarly high levels of public support for the CCP regime (Chen, 2004; Cheng, Zhong & Hillard, 1997; Chen 2004).¹⁵⁴ According to the findings by the East Asia Barometer (EAB) surveys conducted by means of national random-samples with rigorous methodology and field study in eight Asian societies in 2001-2003, the Chinese government enjoys one of the highest levels of popular support in Asia, even higher than that enjoyed by many democratic regimes in the region¹⁵⁵. The data shows that around 2001–2002 the Chinese public had rather high levels of confidence in the Government institutions. In the meantime, there was also a large majority agreeing or strongly agreeing that democracy is indecisive and involves too much quibbling (Zhang, 2006).¹⁵⁶

3. Retaining the Strategic Control in Gradual Privatization and Industrial Reforms

After the collapse of the Soviet Union in 1991, almost all post-communist states with transitional economies in Eastern and Central Europe implemented mass privatization and trade liberalization with big-bang shock treatment. Many of these nations were obsessed with the Washington Consensus. The Washington Consensus is a set of ten specific policy recommendations confirmed by the proponents of neo-classical economic theory and liberal capitalist ideology. The Washington Consensus was originally stated by Williamson with the ten specific policy recommendations such as fiscal discipline, restructuring public/social expenditure priorities, tax reform, liberalizing interest rates, competitive exchange rates, trade liberalization, the liberalization of inward foreign direct investment, privatization, deregulation, and finally property rights. Among those ten specific policy recommendations, the policy of privatization stands out as one of the most brutalizing obsessions in the minds of policy-makers in those

transitional economies. The radical privatization policy in those post-communist states was accused of leading to social instability, failing to improve states' productivity and facilitating corruption. While perpetuating the neo-liberal conceptualization of Western democratic nations, the Washington Consensus seems to have set up these nations for eventual failure. Fiscal discipline and the restricting of public expenditures opened the door for fiscal malfeasance, tax reforms complicated foreign investment and trade, and deregulation limited the systematization of areas of the economy, which required protection from private exploitation. An institution of property rights further solidified ties of private companies and public citizens to land and equipment without developing comparable markets. Thus, the obsession with the Washington Consensus led to the stagnations of many nations that were already enveloped in tragically capricious economies.

In contrast, the Chinese style industrial reforms and privatization are characterized by a gradual process, and as I mentioned above, they advanced in two major periods. In the first period from the late 1970s to the mid-1990s, China's industrial reforms in urban areas only focused on expanding the impact of incentives and market forces, increasing the autonomy of the firms and introducing the dual-track price system. The Chinese government also instituted the practice of delaying the sales of all state assets during the 1980s. In rural areas, in addition to the implementation of household responsibility system in agriculture, township village enterprise, officially owned by local governments, was encouraged and it became the important source for China's economic growth in the 1980s. In the first stage of economic reforms, the reforms were highly experimental and market forces were only considered as the complementary factor to central planning. While maintaining a gradual procession there was never a significantly large portion of the economy undergoing such experimentation at the same time. This further allowed

for the governing Communist Party to direct efforts where they were needed without requiring a displaced focus on the larger picture of the economy. China's industrial reforms were concomitant with China's experimental features of gradualism, which was characterized by "crossing the river by touching stone." In 1979 to 1984, the principle strategy was to "let go of authority and give up profit (fangquan rangli)", which meant giving enterprises more authority in management, a tactic learned from the peasants use of the responsibility method of profit and loss culpability. In 1984 to 1986, the state-owned enterprise reform was the transition period of creating a sharing system for profits between the supervising state authority and enterprises. Under this system, called *ligaishui*, large and medium enterprises were obliged to pay an enterprise income tax of 55 percent. In 1987 to 1991, the Chinese government modified *ligaishui* into a responsibility system with separation between ownership and operation, and between government and enterprises.¹⁵⁷ The enterprises were guaranteed a fixed amount of profit remittance to the state and allowed to retain whatever remained. Again, this method can be viewed within the frame of extending responsibility to the manufacturer while allowing the state to hold a majority share over and above a predetermined quota. In a sense, this social market atmosphere maintained the basic tenets of Mao Zedong's strategies for economic prosperity, while implementing means by which the enterprises could profit beyond simply what was required.

After Deng Xiaoping gave the South China speech in 1992, China's economic reforms entered a new stage. Since then, China's industrial reforms and privatization have begun to accelerate. The substantial industrial reforms occurred after the mid-1990. On July 23, 1992, the State Council promulgated "Regulations on the Conversion of Operational System of Industrial Enterprises Owned by the Whole People." On the basis of Deng Xiaoping's South China speech, China was

determined to establish modern enterprise system and transform the system of operation of state-owned enterprises.

The large-scale privatization in China first occurred in small state-owned enterprises. By the end of 1996, nearly half of China's small state-owned enterprises were privatized. It is recognized that the state's economic influence in terms of ownership has declined as the process of privatization and industrial reforms sped up in the mid-1990s. Moreover, as the industrial output for the state sector has decreased from 81% in 1980 to 15% in 2005, the state has retained its strategic control in industries by resisting the urge to deprive itself of the control of medium-sized and large firms. This process is referred to as the strategy of "releasing the small, grasping the large". According to a follow-up investigations made by the State Statistics Bureau of 2,473 state-owned enterprises that started gradual reform on a trial basis in 1994, by the end of 1999, 2,016 of the firms had been changed into companies in accordance with the Company Law.¹⁵⁸

The state created a ministry-level organ, the State-owned Assets Supervision and Administration, in 2003 to protect the state's best firms from privatization, which included in five categories: 1) national security sectors, 2) natural monopoly sectors, 3) sectors that provide public good and services, 4) important natural resource sectors, and 5) key sectors in national pillar industries and high tech sectors.¹⁵⁹ By delimiting sectors, which are prevented from privatization, the Chinese government has managed to sidestep the sweeping reform and subsequent economic problems, which affected the post-communist nations, which adhered to the Washington Consensus. There was little need, for instance, to privatize sectors involved in the procurement of natural resources since competition was inconsequential to the development of the industry and too much is at stake for the industry to fail. According to Li Rongrong, the minister in charge of the State-owned Assets Supervision and Administration Commission (SASAC) of China's State Council,

one of the major goals of China's industrial reforms is to give full play to the role of China's large state-owned enterprises in the process of merger and acquisition. Moreover, a corollary to this major goal is the striving to cultivate and develop some enterprise groups with international competitiveness, which will in turn foster better productivity and a permanent presence in the global market. At present, a group of very large state-owned enterprises have emerged in China. In 2002, 11 Chinese enterprises entered the list of 500 top global companies on the Fortune Magazine; in 2006, 23 Chinese firms were ranked in Fortune's list of 500 top global companies; by 2009, 34 Chinese firms have made Fortune's list of top global companies; and by 2011, 3 Chinese firms have made Fortune's list of 10 top companies.¹⁶⁰ But unlike other countries, with only one exception of Shagang Group as private company, all those Chinese firms that made Fortune's top 500 list are state-owned enterprises. It is simply a matter of time before the true consequences of the Chinese development of private firms is felt by the emerging global market, though there is little doubt that with such a tremendous potential, the nation will almost certainly be successful in dominating several economic markets with state-owned enterprises.

In addition, the state has retained strategic control of guiding market forces mainly through four essential instruments during reforms. First, despite its accession to the WTO, the state still has substantial influence with financial and banking instruments in the capital market. Second, the country owns the land, and the state-owned and collective enterprises remain as the dominant sector in key national industries. The state especially has strong control in energy and high cost industries. Because land in China belongs to the state, corporative entities and individuals are not permitted to own the land, and they can only be entitled to use the land. The state has the monopoly on the granting of state-owned land use rights with various regulations. Third, the state devolved economic decision-making power to the provinces by the use of the Party

organizations and personnel as a mediating agent. Fourth, the state still is able to significantly influence economic activities through powerful instruments such as the tax and licensing instruments, national technology standard, government procurement and R & D.

The Chinese development model practices the socialist market economy with the Chinese characteristics, which first reflected in its hybrid ownership or property rights, in which the development of diversified economic elements have been encouraged while keeping the public sector of the economy in the dominant position. During the reforms, the state has retreated from the direct control in small and medium sized enterprises with diversified ownership, but it also has strengthened the control of large sized and strategic industries by building modern enterprises with strong competitiveness. In other words, on the one hand, the Chinese development model suggests that China should establish a unified and open market system with competition to link the rural and urban markets, and the Chinese domestic market and the international market, and to promote the optimization of allocation of resources. However, the Chinese model holds that the state will maintain macro-economic plans with powerful measures to govern the operation of the market, and the state will retain its strategic control in key industries and resources— for example, land and energy industries.

In China's socialist market economy with the Chinese characteristics, the state control mechanism over the banking and financial sector is pervasive. Given that the banking and financial sector has been required to sustain the old state-owned enterprises with sufficient funding, China's reforms on banking and financial sectors proceeded in a very gradual fashion. The Chinese banking system is still characterized by massive state interventions, and the large banking sector is still dominated by state-owned or state-controlled banks. After stock market

listing, many state-owned banks become business entities that have a multiple structures of ownership. However, state holds the majority share and they become, in practice, state-controlled banks. After the Asian Financial Crisis in 1997-1998 and the World Financial Crisis, there was a widespread belief in the Chinese leadership that China's economy had suffered less financial losses due to relatively strict capital control. This however is difficult to defend noting the severity of the crisis though there is some reason to believe that the situation could have been much worse. China will maintain, because of this hypothetical reasoning, a main financial system under strict state regulations, control and supervision of the central bank, with its state-owned banks as the backbone.

4. Maintaining the Party's Leadership in the Chinese Socialist Market Economy

The main Western interpretation on China's economic reforms is that the state capacity of the Chinese government, both political and economically, has declined drastically because of reforms. In this perspective, China's transformation from a planned economy into a market economy will necessarily lead to the demise of the Chinese Party-state. The Carnegie Endowment for International Peace, a Washington based think tank, organized a debate regarding the sustainability of the Chinese Communist Party's rule in reforms in 2006. Roderick MacFarquhar from Harvard University argued that the power of the Chinese Communist Party is weakening because of the erosion of systemic strength. He pointed out that several of the historical factors that contributed to the CCP's stability no longer exist - for example, China no longer has charismatic leaders like Mao Zedong who can exercise leadership in times of crisis, the Cultural Revolution seriously and irreversibly damaged the CCP's image, and the disappearance of China's ideological glue.¹⁶¹

But Andrew Nathan from Columbia University takes the opposite view. He describes China's authoritarian regime as being "resilient" because it remains robustly authoritarian and securely in power. According to him, the authoritarian regime's grip on power remains secure for the following reasons: 1) economic growth has improved the welfare of most of the population, giving them a stake in the survival of the current regime as long as they continue to benefit from its policies and its stability, and 2) the regime has scored real as well as perceived achievements in foreign policy, such as securing the 2008 Olympics for Beijing. Such accomplishments generate a sense of pride among a nationalist public. In addition, the regime maintains a variety of safety-valve institutions, which, however ineffective they are, nonetheless offer dissatisfied citizens an alternative to opposing the ruling party. The regime also has the necessary policy-making systems in place to respond to economic and social change, and as we have seen in the previous analysis of the Chinese government's emphasis on maintaining political stability, the leadership of the nation tends to hang together.¹⁶²

I generally agree with Andrew Nathan that the Chinese Communist Party's rule, although with many challenges, is largely resilient and stable in today's China. But I believe that it is necessary to go even further by recognizing the critical role played by the Chinese Communist Party for China's rapid economic expansion during reforms. First, unlike the post-communist states with transitional economies in Eastern and Central Europe, the Chinese government, with the leadership of the Chinese Communist Party, has taken active steps in initiating, directing, and building socialist market economy with modified control mechanism during China's reforms. As such, the socialist market economy has poised China as the nation with the most rapid economic growth in the world and this realization cannot be made if without the gradual reform policies under the leadership of the Party. The Party has been the major initiator and organizer during the

course of China's reforms. With the reforms, the Chinese Communist Party has begun to focus on economic construction and economic development with the emphasis on improving people's living standard. In the third stage of economic reforms, it is also noteworthy that the Chinese Communist Party has determined to shift from the traditional economic pattern with emphasis on rapid growth to the balanced and sustainable development by improving people's living standard first. Second, China's one party state system (so called multiparty cooperation and political consultation under the leadership of the communist party) definitely has created a certain degree of political stability and consistency in economic policy during reforms. In contrast to some developing countries such as India, China can formulate its long-term economic plans with economic consistence and political stability without the possible interruption caused by political elections and party competition. Moreover, by comparison with India, China no longer must alleviate concerns among diverse citizens with significant cultural and demographic differences. With some important institutional innovations, the Chinese Communist Party has strengthened its ruling capacity in guiding economic forces. In the fourth section of Chapter Four, I have already addressed how the Chinese government has made the effort of making an effective administrative state in reforms. In Chapter Six, I will address some efforts by the Chinese government in dealing with central-local government relations with important institutional innovations.

The communist party in Eastern Europe and the former Soviet Union had been plagued by the loss of ideological enthusiasm and the rampant corruption among its previous party members in the 1980s and the 1990s. In contrast to the post-communist states, the Chinese Communist Party has begun to focus on economic construction and economic development with the emphasis on improving people's living standard. Through some important institutional installments such as

cadre responsibility system and modern public servant system, the Party has made effort of fighting against corruption and inefficiency among Party members and enterprise owners. Thus, though such a possibility of officials' corruption always remains, there are fewer reasons to believe that the Chinese communist party system will devolve into being dysfunctional as what happened in the post-communist states.

During the gradual reforms, the Chinese government has insisted on a system of the multi-party cooperation and political consultation based the leadership of the Chinese Communist Party, a system of regional ethnic autonomy, and a system of the people's congress. Most extraordinarily, the Chinese government stalwartly maintains the leadership of the Chinese Communist Party in the country and it does not promote the Western political ideology such as multi-party system, separation of powers, and bicameral legislative bodies. Based on the experiences of "Cultural Revolution", the Chinese government believes that for developing countries, the multi-party competition increases polarization and confrontations of societies, thus leading to unnecessary social discord, instability and even violence. Moreover, the Chinese government believes that the multi-party system practiced in the West has the tendency to increase the social discrepancy, which is not conducive to social harmony promoted in the Chinese traditional culture.

Democracy is a product of a compromise reached among various groups so that they cannot destroy one another to gain complete power, and thus they have to agree to democratic rules for peaceful competition through elections. In order to protect social justice and avoid violence, democracy is extremely important in Western societies because their cultures emphasize individualism, competition, and laissez-faire economic policy. However, the Chinese traditional cultures emphasize collectivity, Confucian social harmony, and good governance based on

meritocracy and responsiveness, so the societies have the tendency to seek social cohesion, reduce gaps, and encourage social integration. The Chinese government argues, if rigidly employing the Western style multi-party system in a rush, it will lead to a dramatic increase of discrepancy, inequality, and polarization in the whole society and the country will be unable to focus on economic development with increasing political conflicts. This, it has been shown, is precisely what occurred following the breakup of the Soviet Union and the adoption of the Washington Consensus policies. The Chinese development model strives to develop a socialist harmonious society by giving more play to modern ideas such as rule of law, egalitarianism, fairness and justice that are in accordance with the Chinese national conditions and cultural heritages. While recognizing that China is still in the primary stage of socialism and that there is still a long way of building its own socialist democracy, the Chinese government seeks to improve people's participation in political system and strengthen state capacity based on intra-party democracy, self-governments in rural areas, rules of laws and meritocracy.

China's socialism is related to China's four cardinal principles initiated by Deng Xiaoping, and it includes the concepts of Three Represents put forward by Jiang Zemin, and Scientific Development and the Harmonious Society later implemented by the Hu-Wen Administration. The government has begun to reemphasize the socialist principles of reducing social ills such as inequality and unbalanced development. Most importantly, the government has placed improving people's living standard first in the development process thereby ensuring a quality of life. To reiterate, four cardinal principles 1) are adherence to the socialist road, 2) upholding the dictatorship of the proletariat, 3) upholding the Communist Party's leadership, and finally, 4) upholding Marxism-Leninism and Mao Zedong Thought. Among the four principles, the upholding of the Communist Party's leadership stands out as the most critical feature of China's

socialism and is was perceived as a fundamental requirement for political stability. China's market economy primarily refers to the Chinese government's determination of building a unified and open market system with competition to link the rural and urban markets, and the Chinese domestic market and the international market, and to promote the optimization of the allocation of resources largely based on supply and demand. In the meantime, with the strong-state political culture, the Chinese government upholds that the state will maintain macro-economic plans with powerful measures to govern the operation of markets, and the state will retain its strategic control in key industries and resources such as land, energy resources, defense and energy industries, banking and financial resources. Adherence to the four cardinal principles is thereby predicated on these simple assumptions of stability, gradual reform, the development of a market economy, and continued progress while maintaining state control over necessary industries.

In economic sphere, the Chinese development model practices the socialist market economy with the Chinese characteristics. It is first reflected in its hybrid ownership or property rights, in which the development of diversified economic elements have been encouraged while keeping the public sector of the economy in the dominant position. During the reforms, the state has gradually retreated from the direct control in small and medium sized enterprises with privatization, but it also has strengthened the control of large sized and strategic industries by building modern enterprises with strong competitiveness. In other words, on the one hand, the Chinese development model suggests that China should establish a unified and open market system with competition in which prices are primarily based on supply and demand and there is an integration of the Chinese domestic market and the international market. But on the other hand, the Chinese development model insists that the state will maintain macro-economic plans

with necessary measures to govern the operation of the market forces, the state will retain its strategic control in key industries and resources (for example, land, energy industries, banking and financial resources), and the state will have powerful measures in reducing social inequality.

The Chinese development model encourages the development of market economy, but it refuses to allow consumerism to dominate society. With the effective state apparatus, China seeks to serve the socialist value system, and it upholds the general principle of Marxism with the ultimate goal to eliminate exploitation and inequality. During reforms, the immediate issues of the Chinese government's control outside the market relate to reduce unemployment, salary inequality and social polarization. The future development of the Chinese development model derives from its intention of overcoming the internal limitations of capitalism or consumerism such as inequality, exploitation, ecological problems and social confrontations.

In the social sphere, the Chinese development model focuses on improving people's livelihood and it will seek to balance the changing demands of society during reforms. To be sure, as China has transformed from a centrally planned economy to a market economy, its traditional social welfare based on the socialist ideology such as social protection and social equality has shifted to more emphasis on economic efficiency in the first and second stages of the nation's reforms. Nevertheless, China has learned the lesson that focusing on a market economy and urbanization has a very dark quality with social ills if emphasizing economic efficiency too strongly. China now is in the third stage of reforms, and the main social goal is to provide sufficient social benefits to protect social justice and avoid social unrest. In the interim, the focus of reforms has shifted to reduce regional disparity and income inequality, handle environmental and health problems associated with urbanization, and pay attention to balanced development. The scientific

development concept is the current and latest official guiding principle added to the Chinese development model for socio-economic development. It has absorbed the new ideas of sustainable development, improving social welfare and a person-centered society.

In the cultural sphere, the Chinese development model encourages the basic socialist core values, and it has begun to incorporate it with the Chinese traditional cultural beliefs for social unity. In order to address the impact of the information revolution, the Party has improved a series of technological controls with legal measures. It is controversies that China operates extensive and sophisticated internet filtering through technological means with information security, in addition to its legal regulations on internet access, services, and content control. The Party insists on its role of supervising the information flow in the media and internet for advancing the Chinese socialist and cultural core values. The Party considers it necessary to supervise the inflow of the public media and internet in accordance with the socialist principles. But the Party needs to seek a fine balance between maintaining control over the proliferation of various sources for information and meeting the increasing demand from the public to improve the government transparency.

Unlike the Washington Consensus, the Chinese model for economic growth does not claim this development model to be transferable to other developing countries, given China's unique endowment factors. The Chinese development model recognizes that each developing country faces a unique set of challenges and thus requires unique solutions. For developing countries, they should not simply copy the development model from neighboring economic powers, but they should choose their independent development paths with innovations that are suitable with their own political, economic and cultural heritages. Of course, self-determination or

independence does not mean self-sufficiency or self-closeness. It often requires that developing countries absorb the useful development experiences from other nations, and pursue their own independent development path with modifications. In the context of globalization, it refers to states' ability and willingness to pursue independence and sovereignty for economic development in the context of global development with creative innovations.

One of the major features and components of the Chinese development model is about China's national identity and self-determination with innovations for economic development, which includes China's unique cultural, political and historical foundations for reforms. The Chinese development model represents the distinctive characteristics of the Chinese national identity associated with China's unique national conditions and cultural heritages. In my view, the Chinese development model is not just a summary of the successful economic growth for the last three decades, but it is underpinned by China's thousands of years of unique cultural heritages and millions of the Chinese people's effort through the modern history. It is apparent that the concepts of a socialist harmonious society and scientific development, as China's current official guidelines for socio-economic development, are the inheritance of the Chinese traditional values and the development of China's current modernization experiences. When transforming from a planned economy to a market economy, the Chinese development strategies demonstrated great flexibility, pragmatism and adaptability. The emergence of public service system demonstrates its emphasis on another central value of Confucianism: meritocracy. After thirty years of economic reforms, China still maintains its national identity with the Chinese characteristics for economic development. The Chinese development model has successfully offered a way forward by breaking away the plain dichotomy between socialism and capitalism in the Western academy. It is my observation that China has changed the course of traditional trajectories of

growth paradigms with an alternative development model with its own identity. It is the view of posterity, that this trajectory has been successful, and that such a paradigm shift can be an essential tool as a model for continued gradual reform and the development of a socialist market economy with the Chinese characteristics.

5. Constructing the Socialist Democracy with the Chinese Characteristics

In the West, one central theme of understanding China's reforms is that China has only implemented economic reform, but left its political system untouched. In their view, China's political reforms have significantly lagged behind its economic reforms. China's reforms since 1978 are believed to be an economic success but a political failure (Lichtenstein, 1991; Shirk, 1993; Shell, 1994; H. Wang, 1994; Pei, 1994; Naughton, 1995; Chang, 2001).¹⁶³ In the previous section of this chapter, I have discussed some aspects of China's institutional and bureaucratic reconstructions for promoting economic efficiency, and in Chapter Five, I will mainly focus on how the Chinese government has tried to optimize the central-local government relations to improve economic performance. I herein mainly analyze China's effort of building the socialist democracy in political system to demonstrate that China's political progress. Although it is often under-estimated without enough attention and appreciation from the West, it does occur in a gradual process with some unique features.

It is true that China does have many problems and the Chinese development model is still in the continuing creative process for maturity. Despite the increasing calls for political reforms, the Chinese government insists on the leadership of the Chinese Communist Party. China's refusal to follow the Western model in political system has exasperated many Westerners. However, it is apparent that the Chinese political, economic and social structures with those political continuity

and legacies have not lost their self-confidence, thus the Chinese model for economic growth has been able to adapt its traditions to modern development while maintaining its Chinese identity in essence. Because of this persistence of China's political legacies and cultural tradition, I believe that China will not copy the Western political system of separation of powers and the bicameral system in the near future. The Chinese culture and tradition believe that government officials are supposed to act as parents of the people and the government should represent the dominant interest of people rather than individuals. The Chinese government has been trying to seek innovations to rejuvenate the Chinese Communist Party's ideology by building its distinct socialist democracy, increasing government transparency, improving people's participation in political system, making close connections with the masses and strengthening state capacity with rules of laws. In my view, China must look into its own history and the Chinese cultural traditions such as harmony, meritocracy and rule of laws for democratic building with its own nationality identity. In essence, these concessions remain the limitation to any Western influence on the contemporary Chinese government.

Many Chinese leaders officially admitted the need to build democracy in China or the socialist democracy has widely been considered as the necessities in China's modernization in the Chinese public media. Deng Xiaoping pointed out that "socialism is not able to survive without democracy", and it is our mission to "build a socialist democratic political system". Jiang Zemin stated that "we are going to build up a nation based on a socialist democratic political system and the rule of law."¹⁶⁴ Hu Jintao, in his well-studied speech at the Party School of the Chinese Communist Party Central Committee on June 25, 2006, said: "To develop socialist democracy is the unswerving goal of the Party."¹⁶⁵ But on the other hand, it is important to mention that the term of democracy talked by the Chinese leaders has different meanings, and it has had quite

different functions during China's reforms. As matter of fact, the Chinese leaders are not interested in the Western style democratic political system that includes separation of power, bi-party or multiple-party system, and competitive elections. The Chinese government officially upholds a system of the multi-party cooperation and political consultation based on the leadership of the Chinese Communist Party. It is believed that for developing countries, the multi-party competition increases polarization and confrontation of societies, thus leading to social discord and instability. In practice, because of China's personnel structure, the power of other major parties except the Chinese Communist Party is very limited and none of them can have capacity to work as opposition parties. Therefore, in the West, democracy is aimed to protect individual's political right and civil liberty, but democracy is often viewed as a government's instrument conducive to promoting economic development with improved efficiency and accountability with the functions of preventing corruptions, mismanagement, and inefficiency during reforms.

In general, there are three aspects of the development of the Chinese socialist democracy - the emergence of grassroots self-government since the late 1970s, the gradual process of building rule of law in China, and the current development of China's inner party democracy. The efforts of building Chinese socialist democracy have important function of strengthening the efficient ruling of the Chinese Communist Party. Suisheng Zhao points out that "democracy in the Chinese political and intellectual discourse was never regarded as an end, but merely a means for gaining national power and wealth under wise and enlightened rulers".¹⁶⁶ All these developments and innovations with the purpose of building Chinese socialist democracy result from the internal needs from the Chinese political reforms and the external pressure due to of China's opening up to the outside world. The development of the Chinese socialist democracy has helped

ensure the efficiency, accountability, and transparency of the Chinese government to achieve its economic development objectives. All these political developments and government innovations have emerged in the Chinese territories, and some of them were first created by the local governments then expanded to other areas.

The first major development of the Chinese socialist democracy is the emergence of grassroots self-governments with competitive and direct elections in rural areas. Deng Xiaoping launched economic reforms in the late 1970s by introducing household responsibility system in rural areas, leading to the eventual demise of people's communes. In the early 1980s, some peasants in Yishan County, Guangxi began to organize self-helped villager's committees to maintain social order and manage public utilities. The Chinese Constitution approved in 1992 officially recognized the legal status of the villager's committee as the civic organization of self-management at the grassroots level. By the beginning of 1985, about 1 million villager's committees were set up throughout the country to hold competitive and direct elections, and then they were enacted in 31 provinces, autonomous regions, and municipalities.¹⁶⁷ The villager's committees practiced democratic elections, democratic decision-making, and democratic supervisions. According to the Chinese government white Papers (2005), now, more than 80 percent of the villages in China have enacted villagers' self-government rules or villagers' code of conduct and established systems of democratic financial management and auditing, and for village affairs management.¹⁶⁸ According to Ministry of Civil Affairs Statistics, there were more than 730,000 villager committees nationwide with over 3.1 million committee members by the end of 2000 (Ministry of Civil Affairs, 2002).¹⁶⁹

The second major development of the Chinese Socialist democracy is the development of ideas of the intra-party democracy in the Chinese political system. In recent years, the state and Party authorities have begun to stress the need to promote intra-party democracy, and in the 17th Party Congress, the notion of “driving people’s democracy by promoting intra-party democracy” to fight against corruption was raised.¹⁷⁰ But in general, the actual practice of the intra-party democracy in China’s current political system is still quite limited and it has tremendous challenges in implementations. The principle on the Party functions on the basis of democratic centralism can be traced back to Mao Zedong in the Chinese revolution. Mao Zedong (1945) summarized democratic centralized as “centralized on the basis on democracy, and democracy under centralized guidance”.¹⁷¹ Democratic centralized has been written into the Chinese Constitution and it has become one of the principles of the Chinese political system. However, the reputation of democratic centralized was seriously damaged during China’s Cultural Revolution. After economic reforms, the government has made efforts of restoring the notion that democratic centralization must give a full play to the intra-party democracy. Especially in recent years, there are some significant changes with specific experiments in regional and national level to promote intra-party democracy.

According to the research by Li Cheng (2009), one major component of intra-party democracy is to have multi-candidates in intra-party elections and increased competition. In the 2007 Party Congress, the direct delegated voting to select 204 full members from 221 candidates and 167 alternative members from 183 candidates. The Chinese leaders implied that there would be increased candidates in future elections. In recent years, several important elections in provincial and city levels have begun to experiment with multiple candidate elections to promote intra-party democracy. For example, according to the Party authority, Shenzhen city, with the population of

10 million people, might implement multi-candidates in the future elections for mayor and vice-mayor.¹⁷² Another component of intraparty democracy is to emphasize the collective leadership inside the party. Some major decisions are required to be made through voting process. The third component is to institutionalize term limit, age limit, regional representation, and law of avoidance. The other components include comprehensive supervision system and transparency of Party affairs (Li, 2009).¹⁷³ The development of intra-party democracy in China has some important functions of strengthening the rule of the communist party in the new era. The development of intra-party democracy has been designed to bring more checks and balance on government officials. It is motivated to fight against the serious corruption problems in the Chinese government. In the meantime, the development of intra-party system will help release the pressure both from inside and outside of the Party and from abroad, as there is increasing demand that asks for more noteworthy steps in political reforms.

The development of the Chinese socialist democracy has been very gradual. There are still many controversies in terms of the meanings and contents of the Chinese socialist democracy. The Chinese government has been trying to make efforts of building a system based on the rule of law system, which is often considered as an important social foundation for China's political reform. China has made important progress in establishing a modern legal system that can effectively protect property rights, foreign trade, investment, and corporation. But it is necessary to borrow the useful achievements of the political civilizations from other cultures and practices by the Western democracies. China needs to integrate the democratic elements of the Western ideas with China's own traditions and cultures for its own distinctive democracy. There are many local innovations because of the development of modern public media and technology. Some progress in improving government transparency has been made in areas such as openness in

police affairs, openness to judicial affairs, openness in procuratorial affairs, opening in making appointments, government on the internet, administrative service (mayor's hotline, leader visit, government affairs supermarket, assistance to the poor, public security, and university education. Some changes in local politics include cadre selection and power restriction (such as appointing cadre through competition, the direct election of town heads, public recommendation and selection or the two votes system, administrative lawsuit, financial audit at the time of leaving post, supervision of public opinion, and administrative efficiency and honesty (such as simplification of administrative approval processes, focus on administrative responsibilities, and handling emergency).

CHAPTER 6

BEYOND THE EAST ASIAN DEVELOPMENTAL STATE MODEL: OPTIMIZING THE CENTRAL-LOCAL RELATIONS FOR ECONOMIC GROWTH

In this chapter, I mainly examine another important aspect of the Chinese model for economic growth with some reference to the East Asian development states in economic modernization, trying to demonstrate that although China and East Asian developmental states have many common features in their development experiences, the Chinese development strategies also diverge from the East Asian developmental states with some unique Chinese characteristics that account for China economic miracle. I will first introduce some major difference between the Chinese development model and the East Asian developmental state model in brief, and then I will especially explain in great details about China's effort of optimizing evolving central-local government relations that mainly distinguish the Chinese development model from the East Asian development states.

The purpose of this chapter is to illustrate the over-stretching attempt of putting the Chinese model for economic growth within the family tree of the East Asian developmental state with state capitalism. The findings indicate that it is mistaken to consider the Chinese government as a monolithic unit with a highly centralized political system. Analysts should examine more carefully about the internal structure of China's state institutions and bureaucracies, and the Chinese government can be disaggregated into national and local levels with divergent economic and political interests during reforms. While the East Asian developmental state theory mainly

addresses the state control mechanism in the national level, emphasizing strong states with capable bureaucracies to resist pressure from powerful outside actors. My analyses here demonstrate that the role of local states should not be eliminated in explaining China rising phenomenon - the internal structure of the Chinese communist political institutions, the evolving central-local government relations in particular, has profound implications on China's capability of achieving economic growth during reforms.

China's changing central-local government relations during reforms largely support the autonomous model in the study of Public Administration and fiscal federalism in the study of Public Finance. Both of them argue that increasing economic autonomy of local governments will positively lead to local economic prosperity. In the second section of this chapter, with the analysis of the trajectories of China's reforms, I will demonstrate that China's reforms have been characterized by the experimental gradualism with the local initiatives and the coordination from the central government, and some most important Chinese institutions such as household responsibility system and special economic zones were initially practiced in limited regions by local governments and then implemented nationwide. In the third section of this chapter, I will focus on the economic relations between central and local governments in terms of the increasing economic autonomy of local governments during reforms and the Chinese fiscal reforms in 1994.

But on the other hand, the experiences of the Chinese reforms also support the integrational model that illustrates the important role of the central government for coordination in economic activities. The Chinese economic reforms have led to the great transfer of the central government's power in fiscal, tax, budget, and expenditure to local and regional governments as a large trend, but the central government also has made some efforts of improving its

coordination capability in mitigating the potential adverse of local economic protections and achieving the necessary national economic agenda. In the Chinese fiscal reforms in 1994, the central government has increased its capacity in governing and controlling local governments with increasing financial resources; but the local governments also have gained the significant fiscal autonomy over their local economies. In recent years, in response to the increasing social and environment issues, the Chinese central government has centralized its political control mechanism over local states in terms of regulations in issues of anti-corruption, anti-pollution, food health standard, drug safety, accidents, and regulatory negligence. More importantly, the Chinese central government is able to implement sub-national policy compliance in accordance with national objectives through the use of ruling-party-granted personnel system, the party discipline and cadre responsibility system. In the fourth section of this chapter, I will mainly examine the main political control from the central government to improve its coordination capability in economic and political affairs and its implications.

1. Some Specific Differences between the Chinese Model and East Asian Model

It is recognized that China has learned its development model from the experiences of East Asian developmental states such as Japan, South Korea, Taiwan and Singapore. The Chinese model shares many similarities with the East Asian developmental states such as Japan, South Korea, Taiwan and Singapore, and some of the Chinese leaders officially admitted that they had learned their economic policies from the experiences of East Asian development states. Deng Xiaoping expressed his great interest in Japan's industrialization experience and technology during his visit in Japan in 1979. Deng Xiaoping established Special Economic Zones in China's coast areas in the late 1970s with the motivations to attract investment, technology, and management

experiences from Hong Kong, Taiwan, Singapore and other Asian neighbors. During his trip in South China in 1992, Deng Xiaoping expressed that China should learn from the Asian “four Little Dragons” such as South Korea and Taiwan. He hoped that some Chinese provinces, like Guangdong province, should surpass them within twenty years.

In the above-mentioned literature in the first chapter, China’s most important aspects of the East Asian development state (state-capitalism) include: strong government control in financial and banking sectors, the labor intensive industries accompanied by export-led development strategies, large strong bureaucracy, well-educated labor force, high saving rate, heavy investment in infrastructure, and internal unity with homogeneity and the Confucian culture. China particularly shares similar characteristics of international trade policies of the East Asian developmental states. In the last three decades, China has followed export-led development strategies with labor intensive industries and with the US as the largest export market similar to East Asian developmental states in the 1960s and 1970s. In the meantime, import content of consumption in China is very low and nearly half of import is the processed trade for re-export, thus the import platform for the Chinese domestic market holds great potentials in the near future.¹⁷⁴

But the Chinese development strategies also diverge from the East Asian developmental states with some unique Chinese characteristics that account for China economic miracle. As Fan Gang (1994, 2002) has argued, China has had to handle the dual challenge of development and transition simultaneously.¹⁷⁵ Yet the Chinese transition was not a simply a transition of shattering the old institutions with the replacement of markets, but rather a pragmatic search for wealth creation and growing efficiency with institutional modifications. Thus China reforms

involved in the process of reconstructing institutions based on initial conditions and local experiments. In the meantime, as the process of China's economic liberalization has been carried out under the leadership of the Chinese Communist Party, which means that its socialist ideologies and previous economic structures inevitably have tremendous impact on its development strategies. In contrast, the East Asian developmental states had gone through a very different process in terms of their institutions because they did not have communist political legacies and socialist commitments. Before the reform and opening-up, China had established a centrally planned economy learned from the former Soviet Union. Mao Zedong failed to promote a sustainable economic growth and there was a relative little improvement of people's living standard, but he had constructed a strong party-state system with an intensive nationality ideology and a comprehensive bureaucratic administration, therefore laying a solid foundation for China's state-led development strategies with sophisticated bureaucratic system. In contrast to East Asian developmental states such as Japan, South Korea and Taiwan that did not have communist political structures and socialist commitment, China, as a communist party-state, must seek a delicate balance between economic growth and political stability during reforms, thus creating a puzzling hybrid of a market economy and a communist political system. With its own cultural and political heritages, the Chinese unique development model seems to have overcome this theoretical paradox by creating some critical institutional innovations.

Moreover, the economic accomplishments of the East Asian model with the state capitalism and the Chinese development model are conditioned by some extraordinary historical circumstances of their own. The East Asian economic miracles were facilitated by a set of external factors during the Korean War, the Vietnam War and the Cold War. With their strategic locations in fighting against the expansion of Communism, Japan, South Korea and Taiwan had enjoyed

favorable economic environment with good access to the West market and foreign aid with investment from the U.S. during their process of economic modernization. In comparison, China's economic success in the early stage after its opening-up was partly associated with the foreign direct investment from Hong Kong, Taiwan, Singapore as well as its peaceful external environment that includes China's improved relations with the United States and European countries in reforms. All four Asian Tigers –South Korea, Taiwan, Hong Kong and Singapore – achieved great economic success in 1960s and 1970s through an export-led economy by promoting labor-intensive manufacturing industries, which is exactly the development strategy that China pursued in the 1980s. When four Asian Tigers began to evolve into more mature economies with the emphasis on capital intensive industries in the 1980s and the 1990s, their traditional manufacturing industries, so called sunset industries, had to seek new investment areas because of increasing unfavorable investment environments at home such as the rising cost of labor and land, the concern for environment protections, and shrinking external market. With the geographic proximity, mainland China became an ideal investment place for the four Asian Tigers in the 1980s and the 1990s when mainland China began to escalate its economic reforms in the coast areas. The growth pattern and economic integration in East Asia based on comparative advantage are often called the fly-geese model. The economic relations between mainland China and the four Asian Tigers based on division of labor with comparative advantage brought mutual benefits to mainland China and four Asian Tigers. Therefore, China's development strategies were conditioned by some particular historical contexts such as the improvement of China-US relations, the changes of China's leadership, and the economic integration in East Asia caused by globalization. In the 1990s, as China's reforms deepened, China had drawn more diversified foreign direct investment from the Western countries, and its

vast population and large size alone make it a powerful global presence. With its huge population of 1.3 billion people as potential consumers, China has become the most attractive destination of attracting of foreign direct investment since 2002.

The high-performing Asian economies were even praised by a well-known World Bank's report as a miracle (World Bank, 1993).¹⁷⁶ But after the East Asian financial crisis in 1997-98, there were growing doubts about the confidence of the East Asian model with the state capitalism. Even many government officials, academic scholars and international organizations who at once had made their past positive evaluation of East Asia's economic development began to denounce the East Asian development model as intrinsically inefficient. According to Krugman (1997), the Asian crises were mainly related to a burst of a financial bubble in a context of low, declining returns to investment, and the market failures in international capital flow in East Asia.¹⁷⁷ The second explanation by Krugman (1998) stressed banking problems as the main element explaining the crisis. According to his view, inefficient regulation of banking activities, some lack of transparency, and various implicit governmental guarantees.¹⁷⁸ The IMF's analysis (1998) of the Asian crises emphasizes economic overheating, fixed exchange rates, financial weakness (due to excessive regulation and too little competition), some lack of information and transparency, and loss of confidence in the region.¹⁷⁹

However, China was least affected by the Asian financial crisis in 1997-98. China seemingly shared many of the economic vulnerabilities that led to the financial crisis in other East Asian countries: a bank dominated by a financial system with a high level of government intervention, weak norms of regulation and supervision over commercial banks, and a large accumulation of non-performing loans (Haggard, 2000).¹⁸⁰ There are several reasons why China was able to avert

the crisis: strict capital control by the government, the absence of capital convertibility, manageable short-term external debt, a large trade surplus, large amount of foreign exchange reserves, and high inflows of FDI (Lardy, 2000; Fernald and Babson, 2000).¹⁸¹ In the 21st century, China's economic growth has gained momentum and more than three decades of rapid growth since economic reforms in the late 1970s has brought China to be a major player in global economy. In recent years, China apparently has made great efforts of changing its earlier development strategies with latest patterns.

In the third stage of China's economic reforms, China has begun to pursue balanced economic development with the emphasis on energy efficiency, reduction of income inequality and regional disparity, social health and safety network. For the last three decades of reforms, China has followed the export-led development strategies adopted by East Asian newly industrialized countries and regions such as South Korea, Taiwan, Singapore, and Hong Kong. But in recent years, China has begun to step away from export-led development strategies by increasing domestic consumption, improving social infrastructure and safety nets, and promoting service and high-tech industries. On March 14th, 2011, the Chinese government passed the Twelfth Five-Year Plan which seeks to: address rising inequality and create an environment for more sustainable growth by prioritizing more equitable wealth distribution, increased domestic consumption, and improved social infrastructure and social safety nets. The plan is representative of China's efforts to rebalance its economy, shifting emphasis from investment toward consumption and from urban and coastal growth toward rural and inland development (Xinhua, 2011).¹⁸²

The above mentioned analyses indicate that the Chinese economy has its own internal dynamics with unique characteristics that distinguish from the East Asian developmental state model. As it is argued by Howell (2006), due to China's large size, state socialist legacies, timing of entry into the world capitalism system, and other factors, conceptions of the Chinese state must differ from those of the Asian developmental state. The Chinese state exhibits strong developmental impulses, but ultimately constitutes a multifaceted entity in which "a complex mix of local state formations, policies and economies" coexist.¹⁸³

2. The Role of Local States in China's Reforms

Frequently in a popular but not sophisticated manner, some Western observers and journalists attribute China's economic success in reforms to authoritarianism. They argue that authoritarian regimes can easily mobilize resources, make rapid policy shifts, and resolve political conflicts with suppression. Even in the Western lens, authoritarianism can only be seen as one aspect of China's political system and it cannot fully capture the complexity of the Chinese system. China is a very large country with great regional disparity, so a highly centralized decision-making process can become a significant weakness for the efficiency and effectiveness of the government in dealing with overwhelming complicated local issues. On the contrary, there are substantial cases that a highly centralized decision making in a society leads to economic disasters. The most important reason for the failure of China's "Great Leap Forward" in 1958 is the combination of extreme enthusiasm and centralized campaign with unrealistic targets for rapid economic growth of the Party members led by Mao Zedong. In 1953, China began to enter the first Five-Year Plan period, and the central government had the right to implement centralized management of key construction through total direct and indirect programs. At this

traditional planned economy period, the central government had dominant influence on directing all the activities of the local communities and determined the attribution of the provincial administrative bodies. Under central planning, the role of local governments was defined and assigned clearly by the national plans, thus they had very limited independence in terms of budgetary and administrative rights before reforms.

However, the Chinese reforms have entailed in transforming a centrally planned economy to a market economy, which to large extent involving in a process of decentralization rather than centralization in terms of central-local government relations. Reforms since the late 1970s have aimed to promote local development by improving local fiscal incentives through various fiscal contracts. China's emerging local politics in economic development is one of the most important features how the Chinese development model differs from the model of the East Asian developmental states. Reforms have given the sub-national governments more control rights over a substantial amount of resources, such as land, firms, financial resources, energy, raw materials (Granick, 1990; Naughton, 1991, 1995; Qian and Xu, 1993; Shirk, 1993; Oi, 1999).¹⁸⁴ In this regard, it is absolutely a mistake to consider the Chinese government as a monolithic unit with a highly centralized political system in terms of central-local relations. Below the central government, the Chinese government consists of four levels of sub-national governments: provincial level, municipal (prefecture level), county level and township level. The central government directly controls only a small proportion of the Chinese economy in various sectors. The largest economic sector that the central government controls directly is industry. Even within this industry the central government directly employed only less than 4 percent of all the industrial employees nationwide.¹⁸⁵ In the early 2000s, the total expenditure of the Chinese sub-national governments accounted for about 70 percent of the national level, which is far larger

than that of the world's largest federal countries such as the U.S. (46 percent), Germany (40 percent) and Russia (38 percent) (Wong 2006).¹⁸⁶

Many scholars have recognized the active role played by the Chinese local governments in reforms (Vogel 1989; Goodman and Segal 1994; Zheng 1995; Blecher and Shue 1996; Huang 1996; Cheun, et al, 1998; White 1998).¹⁸⁷ China's vast territorial size presents not just as geographic assets for nature resources, but as important political advantages during economic reforms. Because China's reforms were gradual and incremental, China can implement new policies for experimentations in some regions exclusively to observe the result. If successfully, China can spread the successful models to other regions while if ineffective, then China can abolish them with less cost. This method can significantly increase the possibility of success and reduce the risks of failure in reforms. Heilmann (2008) traces the origins of China's distinctive policy process from local experiments to national policy during reforms to the revolutionary experience of the Chinese Communist Party. According to him, this so-called "point to surface" approach was already practiced in the pre-liberation (Pre-1949) land reforms where local policies were experimented with under central guidance, and model units were then promoted in emulation campaigns.¹⁸⁸ Thus the Chinese Communist Party always maintained the power of continuation, promotion, and cancellation of local experiments. During "Great Leap Forward" period in Mao Zedong's regime, the failure was partly resulted from a more standardized implementation in the national level.

China's reforms have been gradual with an experimental approach, which is well portrayed by Deng Xiaoping's philosophy for China's reforms: "crossing the river by touching the stones." In interpretation, crossing rivers refers to reforming process through the transformation from a

command economy with central planning to a market economy, and stones refer to different types of policy choices that include regional experimentations. After Deng Xiaoping initiated economic reforms in December 1978, almost every major step of reforms was first experimented by a few regions in the beginning, after turning out to successful, then was launched nationwide. Therefore, local developmentalism has been one of the important reasons for explaining Chinese economic performance (Huang, 1996; Zheng 1995).¹⁸⁹ The major feature of the regional experiments such as the household responsibility system and special economic zones is a so-called dual track system, which refers to that in certain period of the time experimenting regions adopt some aspects of a market economy for experimentations while simultaneously non-experimenting regions operate under the old planned economy. After the experiments turn out to be successful, large scaled regions will begin to implement similar policies with some modifications. The most important benefit of the dual track system is to reduce resistance of a reform by substantially reducing the number of losers through keeping the non-reforming system at earlier stages of the reform (Lau, Qian and Roland, 2000).

In the first stage of China's economic reforms, many important institutions such as household responsibility and township village enterprises have important bottom-up features, and their development started from experimentations by the local development. After the death of Mao Zedong in 1976, a number of experimentations based on individual and family households practiced and then encouraged by the local government officials in Anhui and Sichuan provinces. After the successful experimentations in the locals, household responsibility system was adopted at the national level. The household responsibility system was a crucial policy for China's economic reforms in the first stage of China's reforms - it was first adopted in agriculture, and

then it was extended to the other sectors of the Chinese economy such as industry, in which local managers of factors are held responsible for the profits and losses of the enterprises.

The development of China's special economic zones followed this experimentation pattern beginning from local levels in the coastal area. In 1979, four special economic zones – Shenzhen, Zhuhai, Xiamen, and Shantou – were established to attract foreign investment. The earliest four special economic zones acted as China's economic laboratories with special funding from the central government and they were offered a wide range of preferential policies that were significantly different from the rest of China. With the successful experience in these four special economic zones, fourteen more coastal cities were opened for investment in 1984. In the late 1980s and the 1990s, China attempted to spread the benefits of the open door policy to the other parts of country. Three open economic regions were designated in 1988 and more inland cities were open to investment in the early 1990s.

To some extent, China's special economic zones have some shared similarities with the export process zones in South Korea and Taiwan. But China's special economic zones have far more comprehensive functions. According to Tatsuyuki Ota (2003), the main expected roles of these special economic zones could be spelled out as follows (iii) creation of employment; (iv) earning of foreign exchange through promotion of exports; (v) promotion of economic development and regional development; (vi) creation of economic links to the domestic economy with Hong Kong (close to Shenzhen), Macao (close to Zhuhai), Taiwan (close to Xiamen) and overseas Chinese communities (Shantou); (vii) experiment of new economic reform with market forces; (viii) setting-up of a link between the economic hinterland and overseas.¹⁹⁰

Table 1: The Role of the Special Economic Zones in China's Economy (1980-2007)

Year	Number of SEZs	National Exports (mil US\$)	SEZ Exports (mil US\$)	SEZ Share of Exports	National FDI (mil US\$)	SEZ FDI (mil US\$)	SEZ Share of FDI
1980	4	18119	278	1.5%	145	51	34.9%
1985	77	27350	24327	89.0%	1956	728	37.2%
1990	290	62091	44602	71.8%	3487	2551	73.2%
1995	341	148780	124692	83.8%	37521	33694	89.8%
2000	341	249203	228779	91.8%	40715	38796	95.3%
2005	342	761953	709373	93.1%	60325	56397	93.5%

(Source: China's Statistical Yearbook)

The above table (table 1) with data shows the impacts of the Chinese special economic zones on China's national exports and foreign direct investment, which indicate the Chinese distinctive policy making process from local experiments to national policies. With the inflows of foreign investment, China's special economic zone was one of the major driving forces in pushing China's economic development during reforms. In 1980, the four special economic zones accounted for 34.9 percent of total foreign direct investment in China. Five years later, because of successful experiences of four special economic zones, more special economic zones were established in the coastal areas, and the special economic zones accounted for 37.2 percent of China's total foreign direct investment. By the end of 1985, realized foreign direct investment in the four zones totaled US\$1.17 billion (Wong, 1987).¹⁹¹ Because of the successful experience of early special economic zones, about 342 special economic zones were established by 2005 and they accounted for 93.5% of China's total foreign direct investment.

The Chinese special economic zones have contributed to China's export expansion and regional economic development. By 2005, the Chinese special economic zones accounted for China's

93.1 percent of exports. During the first 10 year period (1979 - 87) after the reform, about 60 % of the total FDI flowed into Guangdong, and 10% into Fujian Province (Pomfret, 1989).¹⁹² As the earliest four special economic zones were established in Guangdong province and Fujian province, they had played a critical role in developing local economies in China's south coastal areas. Industrial output of four special economic zones at Shenzhen, Zhuhai, Shantou and Xiamen had increased at a fast rate, amounting to 22.57 billion yuan (6 billion US dollars), or 10.7 times in eight years after the establishment of the special economic zones (Yeung & Hu, 1992).¹⁹³ Before the reform was implemented, Guangdong Province ranked 6th nationally in 1978 in terms of GDP. In the 1990s, Guangdong Province became the most prosperous province in China in foreign trade and GDP. In terms of exports, Guangdong province accounted for 38 - 40 % of China's total exports in the mid-1990s. The economic boom of Guangdong Province in the 1990s has gradually spread to other neighboring provinces and Guangdong Province has begun to attract a large influx of migrant workers from many neighboring provinces.

As China's economic reforms reached the second stage in the 1990s, there were emerging divergent growth patterns in regional economies. The Zhejiang model and Jiangsu model represented as two famous but contrasting local development models¹⁹⁴. Zhejiang province, with the population of 51 million people and the area of 101,800 square kilometers, maintained the average annual growth rate of 13.1% from 1979-2004 while Jiangsu province, with the population of 77 million people and the area of 102,600 square kilometers, maintained the average annual growth rate of 12.4% from 1979-2004. The Zhejiang model is based on encouraging entrepreneurship with an emphasis on small and mid-sized private enterprises abounded together for specialization. The local government policy in Zhejiang is characterized by a non-government interventionist style, a heavy reliance on private initiatives, and a strong

supportive credit stance toward private business. In contrast, the Jiangsu model is based on encouraging foreign direct investment with large high-tech industrial parks, massive investment and bank loans, and more active government role in economic affairs. Both the Zhejiang model and the Jiangsu model are employing export oriented strategies, but the Zhejiang model is driven by endogenous growth while the Jiangsu model is largely driven by the exogenous growth.¹⁹⁵

In the third stage of reforms, China has determined to pursue the balanced development with the emphasis on reducing inequality, promoting energy efficiency and environmental protections, and addresses social and health issues. China's main social goal is to provide sufficient social benefits to protect social justice and avoid social unrest. China's sustainable economic growth for three decades since the launch of reforms in 1978 has brought the positive impact on the Chinese society as a whole. But there are also some negative social consequences that have become more apparent to the public. In recent years, some important experiments have been implemented in the regional level with the purpose to enhance the social welfare system. The Chongqing model, Guangdong model and the Gaozhou model are especially recognized for their creative efforts of solving housing problems and medical problems respectively, and they are promoted by the central government for other local governments to imitate.

The Chongqing model refers to the efforts by Chongqing municipality of fighting against organized crimes, emphasizing equality with subsidizes on low-income citizens and with extensive public affordable housing programs, pursuing a large government with interventionist style, and maintaining high degree of media control with campaigns of reviving so called "the red Communist culture". The government had the ambitious plan of building 40 million square meters public rental housing in three years to provide public affordable living places for one to

two millions residents. Individuals with monthly income under 2,000 yuans (\$300) and household with monthly income under 3,000 yuans (\$440) are qualified for the program, which does not discriminate based on residents' hukou or housing registration. Chongqing pilot project on public affordable housing especially offers hopes from migrant workers.

In contrast, the Guangdong model is characterized by Guangdong province's efforts of encouraging an economically liberal style with a small government and with local initiatives, and improving government transparency through some degree of relaxation of media, a greater political openness, and rule of laws. As the most prosperous province, Guangdong province has been facing the increasing competition from neighboring provinces and it must have the economic reconstruction from previous labor-intensive industries into more value-added industries. The Gaozhou model refers to the effort by the local public hospital in Gaozhou city to solve the medical problems for many low-income patients and overcome the current public hospital's problems in areas such as pharmaceutical procurement, expensive medical cost, and doctor-patient relations. Through the substantial measures such as sunshine procurement for medicine, regulations in medicine, medical treatment, and patient-doctor relations, surveys from patients, the public hospital has greatly improved the hospital's health quality and reduced patients' medical costs.

The Chinese reforms are gradual and incremental, and the process was also driven by the interests of local states for their indigenous development. Zhejiang model, Jiangsu model, the Chongqing model, the Guangdong model, and the Gaozhou model represent some home-grown institutional innovations by the Chinese local states. The emergence of the Chinese local development models is led by the pragmatism of the Chinese central-local government relations.

The Chinese central government has been appeared in a down-to-earth style with more tolerance on the variations of the development strategies by the local governments – such a pragmatic style can trace back to Deng Xiaoping’s pragmatism in reforms. The local institutional innovations have greatly reduced the costs and risks of such undertakings in national levels. But on the hand, the optimization of central-local government relations also needs efficient control mechanism that prevents local governments from becoming so-called feudal lord economy. Blanchard and Shleifer (2000) argue that federalism without enough political centralization will easily lead to a rent-seeking local government - this is what happened in post-communist Russia.¹⁹⁶ While in China’s reforms, the central government has employed some powerful economic and political instruments to keep the local governments’ economic activities in check. The following sections examine some institutional innovations by the Chinese government in optimizing the central-local government relations during reforms.

3. The Economic Dimension of Central-Local Government Relations

The dominant view on China’s evolving central-local government relationship is that the central government has lost control over local governments (Lyons, 1986; Bettelheim, 1988; Naughton, 1986; Bowles and White, 1992).¹⁹⁷ The major focus in this section is to analyze China’s fiscal federalism or fiscal sharing system between the central government and local governments initiated in 1994, and the changing local government structure and its impact on China’s economic growth. In general, China’s fiscal and tax reforms have gone through two major periods. China first started its economic reform in the countryside, and the first stage of China’s economic reforms without a blueprint was highly experimental, informal, pragmatic and flexible. Some important economic institutions at the early stage have important bottom-up features. It is

generally agreed that the first stage of fiscal and tax reforms was largely the decentralization process in that local governments were gradually granted rights of collecting extra budgetary revenues and taxes. But China's fiscal decentralization in the first period led to a large decline of the central government's revenue, and in the early 1990s, the central government especially began to experience extreme constrain by the increasing budget deficit.

In 1994, the Chinese government began to establish a fiscal and tax sharing system, thus beginning a more efficient institutional settlement between the central government and local governments in revenue, tax and spending. The impact of the fiscal federalism or the fiscal and tax sharing system in the second period on China's economic growth is a dual process with profound implications. On the one hand, it is a decentralizing process because local governments have been granted more control over local tax and revenue with more responsibility – there was a significant transfer of responsibility of planning, management and resource allocation from the central government to the lower levels of government. But on the other hand, it is also a centralizing process because the central government's total revenue has been increasing much more rapidly than the local government's total revenue, and the local governments have been more constrained by the spending burden while the central government's burden on subsidizing state enterprises has been decreasing much more rapidly than local governments. Thus, the second stage of China's fiscal reform has led to the evolving central-local relations – the central government has increased its capacity in governing and controlling local governments with increasing financial resources; but the local governments have gained the significant fiscal autonomy over their local economies, suggesting that local governments now have stronger incentives and responsibilities to foster local economic prosperity, for this is through which their revenues grows. .

As China's economic reforms deepened, the traditional economic system with central planning has been replaced by a system of a contract relationship between the central government and the local governments. In the previous centrally planned economy, the central government controlled the local economies through its central planning while now the central government controls the local economies more through financial resources and macro-economic guidance. In general, at the national level, the central government coordinates the economic performances of lower level's governments with macro-leveled development strategies. At the local level, local governments engage in lower-leveled development strategies on the basis of national plans and with consideration to local conditions. The local governments have gained more autonomy over local economies with increasing incentives, responsibilities and preferential policies. But they have been checked by the political incentives (promotion) and accountability (cadre responsibility system). This contract relationship between the central and locals has been imitated at different levels.

The evolving central-local relations in China during the economic reforms indicate that some degree of the state's control mechanism has shifted from the central government to the regional and local governments. The regional and local governments, with economic and political incentives, have been more actively involved in the economic development projects in more micro-level on basis of their own conditions. The following table compares the ratio of local-central governments' expenditure in major countries, showing the high autonomy of China's local states in expenditure. The Chinese economic reforms have led to the great decentralization of the state power in fiscal, tax, budget, and expenditure. A significant transfer of responsibility of planning, management and resource allocation from the central government to the lower levels of government has taken place in China's reforms. While before the reforms, the total

expenditure of the Chinese sub-national governments generally accounted for around 50 percent of the national level. In 2002, the total expenditure of the Chinese sub-national governments accounted for about 70 percent of the national level, which is far larger than that of the world's largest federal countries such as the U.S. (46 percent), Germany (40 percent) and Russia (38 percent) (Wong 2006).¹⁹⁸ The high autonomy of China's local governments in expenditure led by reforms is one of the major features how China distinguishes from the classical developmental state model in other East Asian economies and other economies.

Table 2: Sub-National Expenditure in Comparative Perspective (2002)

Sub-National expenditure (as a percentage of national expenditure)	
China 2002	70
Developing countries 1990s	14
Transition countries 1990s	26
OECD countries	32
Other large countries 1990s	
Germany	40
India	46
Japan	61
Pakistan	29
Russia	38
United States	46

(Source: China Statistical Bureau 2010)

But on the other hand, the central government also has significantly strengthened its capacity by increasing revenues and financial resources in the fiscal and tax sharing system while local states have increasingly been constrained by expenditure demand. In 1978, local governments collected 84.5 percent of China's total budgetary revenue. From 1978 to 1985, local governments as a whole ran huge surplus and from 1985 to 1993, the local governments' budget was basically

balanced. After the fiscal and tax reforms in 1994, every provincial government has run budget deficit every year. In contrast, the 1994 fiscal reforms sharply increased the central government's revenue. Right now, the central government gets more shares of the revenue but spends only a small proportion, just opposite of the situation in 1978. In 2005, the revenue share for the central government was 52.3 percent but expenditure share for the central government was only 26 percent while the revenue share for the local governments as a whole was 47.6 percent but expenditure share for the local governments was more than 74 percent. Thus the central government can be seen as a clear winner for the 1994 fiscal and tax reforms. In terms of revenue and financial resources, it was a centralization process.

The following table demonstrates that (1) both central and local governments have been increasing their revenue after the fiscal and tax reform since 1994; (2) the central government has particularly strengthened its state capacity as the central government has been increasing its revenue much more rapidly than the local governments. The data demonstrate that the fiscal and tax reforms in 1994 has positively contributed to the improvement of economic performance for both central government and local governments. In regional political and economic affairs, the reforms have greatly enhanced local involvements in industrial outputs, GDP, revenues, and local spending. According to statistics, 50 percent of the industrial outputs, 70 percent of the GDP, 80 percent of governmental revenues, 85 percent of the value added for the service industries, and 90 percent of higher educational and research resources have been in the urban areas, which are under the control of local governments (People's Net, 2001). Local initiatives and creativity have helped China maintain a sustained period of high economic growth (double digit growth in most of the 1980s and 1990s except for 1997, 1998, and 1999, during which the growth rates were 9.69, 5.21, and 4.55 respectively).¹⁹⁹

Table 3: Central and Local Budgetary Revenue and Their Proportions (1979-2007)

CENTRAL AND LOCAL BUDGETARY REVENUE AND THEIR PROPORTIONS					
Year	Absolute amount (100 million yuan)			Proportion (%)	
	National	Central	Local	Central	Local
1979	1146.38	231.34	915.04	20.2	79.8
1980	1159.93	284.45	875.48	24.5	75.5
1981	1175.79	311.07	864.72	26.5	73.5
1982	1212.33	346.84	865.49	28.6	71.4
1983	1366.95	490.01	876.94	35.8	64.2
1984	1642.86	665.47	977.39	40.5	59.5
1985	2004.82	769.63	1235.19	38.4	61.6
1986	2122.01	778.42	1343.59	36.7	63.3
1987	2199.35	736.29	1463.06	33.5	66.5
1988	2357.24	774.76	1582.48	32.9	67.1
1989	2664.90	822.52	1842.38	30.9	69.1
1990	2937.10	992.42	1944.68	33.8	66.2
1991	3149.48	938.25	2211.23	29.8	70.2
1992	3483.37	979.51	2503.86	28.1	71.9
1993	4348.95	957.51	3391.44	22.0	78.0
1994	5218.10	2906.50	2311.60	55.7	44.3
1995	6242.20	3256.62	2985.58	52.2	47.8
1996	7407.99	3661.07	3746.92	49.4	50.6
1997	8651.14	4226.92	4424.22	48.9	51.1
1998	9875.95	4892.00	4983.95	49.5	50.5
1999	11444.08	5849.21	5594.87	51.1	48.9
2000	13395.23	6989.17	6406.06	52.2	47.8
2001	16386.04	8582.74	7803.30	52.4	47.6
2002	18903.64	10388.64	8515.00	55.0	45.0
2003	21715.25	11865.27	9849.98	54.6	45.4
2004	26396.47			54.9	45.1
2005	31649.29			52.3	47.7
2006	38760.20			52.8	47.2
2007	51304.03			54.7	45.3

(Source: China Statistical Yearbook 2010)

4. The Political Dimension of the Central-Local Government Relations

China's economic reforms have granted the local governments with more economic autonomy and incentives to pursue their own development agenda with diversified development strategies based on their local conditions. But the optimization of central-local government relations also needs efficient control mechanism that prevents local governments from becoming so-called feudal lord economy. During reforms, the central government has made efforts of making local governments accountable while avoiding jeopardizing economic growth. In addition to the economic control mechanism of the central government that mainly reflects in the implementation of fiscal sharing system since 1994, there is also important political aspect of the control mechanism from the central government to rein the local governments in. Some important control measures include centralized Party organization, personnel control, Party supervision mechanism, and central government's regulatory authority over local governments.

First, as a single party state, China has been able to implement sub-national policy compliance in accordance with national objectives through the use of ruling-party-granted personnel system, the party discipline and cadre responsibility system. China officially has 34 provincial-level governments; over 300 prefecture-level governments; nearly 3,000 county-level governments; and over 40,000 township-level governments. As was the case with the central government, virtually all of the lower-tier governments contain a parallel Party administration (headed by the secretary of the Party Committee) and a governmental body (headed by the governor, mayor, or county head).²⁰⁰ In the provincial level, the Party secretary in the provincial level rather than governor is the most influential leader while in the city level, the Party secretary in the city level rather than mayor is the most influential leader. Although since the reforms, the Party secretary

in the provincial level mainly handles the Party affairs while the governor mainly handles economic affairs, it is possible that the Party secretary intervenes in the economic affairs.

Moreover, governors and mayors usually are the Party members before being nominated. Huang (1996)'s study finds that Chinese provincial governments led by the more centrally oriented officials by virtue of their career trajectories were more likely to comply with the central policy injunction against excessive growth in local public investment feeding inflationary pressure.²⁰¹

Because the political center via the single ruling party in China appoints all top provincial cadres, the central government is able to execute substantial political control over all Chinese provincial governments through the use of ruling-party's personnel appointment authority. Generally speaking, the central government makes direct decisions on appointment and removal provincial leaders. The reshuffling and cross regional rotation of regional leaders is a common practice. From 1978 to 2005, 80 percent of provincial regions have experienced rotation of governors imposed by the central government.²⁰²

Recent literature with empirical findings indicates that the evolving central-regional relationship in China has positively led to regional economic development with incentive scheme. Chinese regions, provinces, municipalities, counties and township are constantly ranked and regions compete for improving their rankings. Using a data covering 344 top provincial leaders for the period 1979-2005, Chen, Li and Zhou (2005) find that relative performance evaluation has significant impacts on provincial officials' career paths. The finding shows that the likelihood of promotion (termination) for provincial leaders is positively (negatively) associated with their own economic performance, but negatively (positively) associated with the performance of the immediate predecessor.²⁰³ They further provide evidence that regional officials were given strong incentives to promote regional economic growth. Using a dataset with 254 provincial

leaders who served in 28 Chinese provincial units from 1979 to 1995, they find that regional officials' promotions are determined by the performance of their jurisdiction, and everything else being equal to a higher GDP growth rate in a province improves the likelihood of the provincial leaders' promotion significantly.²⁰⁴

In addition to providing incentives through promotion, the Chinese central government has built a system of tournament competition among regional economic development through the channel of upgrading autonomies to sub-national governments. Since 1984, 14 cities have obtained deputy provincial rank (Shi and Zhou, 2007).²⁰⁵ From 1983 to 2001, 430 county-level cities were established, mostly by upgrading. Using a large panel data set covering all counties in China from 1993 to 2004, after controlling for the official upgrading requirements, such as industrialization, population and fiscal strength, Li (2009) finds that, everything else being equal, counties with a higher growth rate were more likely to get city status. He interprets this as evidence that upgrading is used by the central government as an incentive mechanism to align regional interests with the national ones.²⁰⁶ Shi and Zhou (2007) show that everything else being equal, cities obtaining deputy provincial rank, i.e. a greater degree of autonomy, increased per capita GDP by 9.3 percent per capita FDI by more than 50 percent and per capita investment by about 80 percent. This indicates that enabling and empowering sub-national governments by granting them more autonomy power together with high-powered incentives enhances regional economic growth effectively.²⁰⁷

Second, in recent years, the central government has expanded its regulatory authority over local economies with newly established state institutions in order to build central standardization in policy implementation. The central government has centralized its political control mechanism

over local states in terms of regulations in controlling anti-corruption, anti-pollution, food health, drug safety, accidents, and regulatory negligence. The Beijing leadership has empowered some new state institutions such as the State General Administration of Quality Supervision, Inspection and Quarantine, The State Administration for Industry and Commerce, the State Environmental Protection Administration, the China Centre for Disease Control and the State Food and Drug Administration to exercise macro and regulatory control over local development. In the past, the personnel matters of the Provincial Party Commission of Discipline Inspection (PCDI) were largely controlled by provincial Party secretaries (PPS). With the direct appointment of provincial Party discipline committees heads by Beijing, this takes away the PPS personnel power over PCDIs, the central government can hold top provincial officials more accountable.²⁰⁸

Finally, China's fiscal and tax reform in 1994 has provided the central government with enormous financial and revenue resources to implement interregional redistribution. Because China focused its economic reforms on coast areas and the eastern regions in the early period of reforms, the Western provinces have generally performed below average in terms of GDP growth rate, industrial development and people's average income. In the 1990s, the regional disparity became more significant, which brought many economic, social, and environmental problems. In November 1999, the State Council established a leading group for Western Regional Development to boost less developed Western regions. The changing strategies with more emphasis on the development of Western region are called China Western development or "Go West" development strategies. The main development project is massive investment in infrastructure (transport, telecommunications, and hydro-power plants) enticement of foreign investment, and improvement of education. In 1997, Chongqing became one of municipalities

(along with Beijing, Shanghai, and Tianjin) in order to lead the less-developed Western regions to catch up eastern coastal areas. The central government has begun to invest massively in the infrastructure in the Western region. As of 2006, a total of 1 trillion yuans were spent on building infrastructure the Western region.

CHAPTER 7

CONCLUSION

Prior to the 21st century, a widespread Western premise existed among those who denied the existence of the Chinese model for economic growth is the belief that China's economic reforms were virtually in the middle of a capitalist transition. They were indulged in an idealistic expectation that China would inevitably follow the path toward Western modernity. However, the Chinese people would consider this obsession near-sighted because Chinese often looks at the future of China from the background of its own history. The rise of China, one of the most extraordinary scenes of economic, political, and social changes of our time in the 21st century, stands out on the Chinese own development mode that emancipates from the predominant development paradigms in the past.

The dissertation uses the path dependency theory and the critical juncture framework to argue that China's economic reforms since the late 1970s represent China's efforts of groping its own way with the Chinese national identity for economic growth. It suggests that China's approach in reforms distinguishes from the European post-communist states with transitional economies and the East Asian development states with state capitalism. All the way through three epochs of economic reforms, China has entered different trajectories of economic modernization. In doing so, it has added its own unique features thereby demonstrating that the Western development paradigms are not necessarily only or dominant ones. Through the detailed elaborations on the Chinese development model in the previous chapters, I argue that the Chinese development

model has emancipated from the dominant growth models with main Chinese characteristics. The dissertation identifies the main characteristics of China's development model in contrast to the Western model and the East Asian model. First, China has been trying to build a market economy with a diversified ownership structure by maintaining the public sector (state ownership and collective ownership) as the dominant sector while significantly encouraging private ownership. Second, it insists on making economic modernization as the central theme and maintaining political stability as the necessary condition by pursuing gradual reforms with the incremental and pragmatic approach in socio-economic transition. Third, it keeps pace with times with continuity by upholding the leadership of the Chinese Communist Party while transferring the Party's organization and legitimacy into economic performance oriented structures. Fourth, it is characterized by the development strategies from local experimentations and the improvement of central-local government coordination during reforms. In the meantime, the Chinese development model also includes some of general principles and policy orientations for economic development. They include: making economic modernization as the central theme by building socialist market economy with the Chinese characteristics, maintaining political continuity with stability by keeping paces with times and by seeking truth from facts with pragmatism, pursuing gradual reforms with the incremental approach in socio-economic transition, and remaking the modern administrative state with important institutional reconstructions related to the Party organization, administration and bureaucracy, and central-local government relations. I believe that the Chinese model for economic growth, after three distinctive phrases of China's reforms, is still in the continuing creative process of driving into maturity. It has been undergoing refinement through its constant dialogues with new global

phenomena. It has ambitions to overcome the difficulties of classical Soviet style socialism and the Anglo-American style capitalism by building the Chinese-style modernity.

Furthermore, the Chinese reforms have been a self-adjusted and self-improved socialism. It has been the Chinese development strategies that uphold the leadership of the Chinese Communist Party with the emphasis on political stability. Socialism with the Chinese characteristics aims to improve production forces and people's living standard with the necessary role of communist party's rule in pushing the society along the path of economic modernization. Unlike those post-communist states with transitional economies in Eastern and Central Europe, the Chinese government, with the leadership of the Chinese Communist Party, has played a strategic role in the direction of the courses of economic reforms by defining economic objectives with institutional reconstructions to harness national interests. Although the Chinese government's control of its economy through the state ownership and central planning has appeared declined, the government has retained its strategic control of economic governance by forging the Chinese development model with institutional reconstructions. While recognizing that China is still in the primary stage of socialism and there is still has a long way of building its own socialist democracy, the Chinese government seeks to improve people's participation in political system and strengthen state capacity based on rules of laws, meritocracy, and inner-party democracy. In the third stage of China's reforms, the Chinese development model strives to develop a socialist harmonious society by giving more play to modern ideas such as rule of law, democracy, fairness and justice that are in accordance with the Chinese national conditions and cultural heritages.

China's developmentalism is centered at genuinely improving production forces and people's living standard during economic reforms. With the impact of globalization, no countries can step outside the mainstream of global economy with self-closed strategies for economic development. By significantly introducing market oriented reforms, China has transformed its economy from a planned economy with a market based economy. But China also has learned its lessons that marketization and urbanization have a downside including social problems, especially if the leaders over-emphasize economic efficiency. China's current social reform in the third stage is to provide sufficient social benefits to protect social justice and avoid social unrest. In the meantime, the reforms have shifted to focus on reducing regional disparity and income inequality, handling environmental and health problems associated with urbanization, and paying more attention to balanced development. Most significantly, China's new developmentalism has embraced the concepts of scientific development and social harmony, emphasizing sustainable development, quality of life, and individual equity, among other things. As Han S. Park (2011:29) stresses, the challenges for the (Chinese) domestic political arena are enormous, and measures intended to promote equitable and balanced distribution of income, wealth, resources, and opportunities will be the cornerstone for (China's) domestic politics and policy option.

Indeed the impact of the emerging Chinese development model is profound. The emerging Chinese development challenges on the Western modernity that equates modernization with Westernization. The Chinese model strongly values self-determination and independence to pursue economic prosperity and socialist democracy, and especially refuses to let Western powers to impose their will. To large extent, it only represents a broad notion or prescription rather than some specific policy recommendations for developing countries. It suggests that governments should actively innovate in order to address the challenges introduced in the

changing economic and social environments. Furthermore, it asks for the commitment in dealing with constant changes with different strategies in different situations.

The Chinese development model heavily draws on inspirations from the reservoir of China's long history and valuable cultures. In my view, the Chinese development model not only is a summary of the successful economic reforms for the last three decades, but also is underpinned by China's thousands of years of unique cultural heritages and millions of the Chinese people's effort through the modern history. It is apparent that the concepts of a socialist harmonious society and scientific development, as China's current official guidelines for socio-economic development, are the inheritance of the Chinese traditional Confucian values combined with the lessons of China's current modernization experiences. When transforming from a planned economy to a market economy, the Chinese development strategies demonstrated great flexibility, pragmatism and adaptability. It also specifically emphasized some central values of Confucianism such as political unity and meritocracy.

Finally, the emerging Chinese model for economic growth challenges the superficial dichotomy between capitalism and communism. It actually suggests the possibility of socialist market economy with the Chinese characteristics to overcome the internal limitations of capitalism. Although having significantly introduced market forces, the Chinese development model advocates the appropriate control mechanism in the market economy. With its own cultural tradition, China argues against the unfettered market forces and refuses to allow markets to dominate politics and society. China has learned its lessons that consumerism or an over-emphasis on economic efficiency will result in incurable ecological and resource problems. It believes it is not necessarily true that the developing countries must go through the harsh logic of

primitive capitalist accumulation in order to pursue economic development. The government's economic and social functions, even within the market system, should not be ignored. With the effective state apparatus, China aims to serve the socialist value system, and it upholds the general principle of Marxism with the ultimate goal to eliminate exploitation and inequality.

ENDNOTES

¹ Adam Smith is often cited as the father of modern economics and he is primarily viewed as the source of laissez faire ideas. Smith's successors include classical economists such as Thomas Malthus, David Ricardo, John Stuart Mill, and neo-classical economics such as Alfred Marshall, Joan Robinson, Edward Chamblin, and Hayek from Austrian school. Although there are some variations of their ideas, their ideas are characterized by some common assumptions and they become the mainstream of modern economics with the insistence on the minimal state interventions.

² Statist theories are very extensive and they support an active role played by the state for economic development. They can include late development theory (Gerschenkron, 1962); innovative state intervention theory (Tyson & Zysman, 1989; Dosi, Tyson, and Zysman 1989); dependency theory and world system theory that follow the tradition of Marxist ideas (Frank, 1969; Cardoso and Faletto, 1979; Wallerstein, 1979); developmental state theory (Johnson 1987).

³ Some books and articles include You You Hsing, *Making capitalism in China: the Taiwan Connection* (New York: Oxford University Press, 1998); Doug Guthrie, *Dragon in a Three-piece Suit: the Emergence of Capitalism in China* (Princeton, N.J.: Princeton University Press, 1999); Zheng Yongnian, *Globalization and state transformation in China*, (New York: Cambridge University Press 2004); C. A. McNally, *China's Emergent Political Economy: Capitalism in the Dragon's Lair*, (London: Routledge 2008); G. Redding G. and M A Witt, *The Future of Chinese Capitalism* (Oxford: Oxford University Press, 2010).

⁴ Wang Shaoguang, "The Rise of the Regions: Fiscal Reform and the Decline of Central State Capacity in China," in Andrew G. Walder (ed.), *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary* (Berkeley: University of California Press, 1995); Jia Hao & Lin Zhimin (ed.), *Changing Central-Local Relations in China: Reforms and State Capacity* (Boulder: Westview, 1994); David Goodman and Gerald Segal, ed., *China Deconstruct: Politics, Trade and Regionalism* (New York: Routledge, 1994).

⁵ Dwight H. Perkins, *China: Asia's Next Economic Giant* (Seattle: University of Washington Press, 1986); Gordon White and Robert White, "Developmental States and Markets in East Asia: An Introduction", in Gordon White (ed.), *Developmental States in Asia* (Basingstoke: Macmillan, 1988); Gordon White, ed., *The Chinese State in the Era of Economic Reforms: The Road to Crisis* (Armonk, NY: M.E. Frank Cass, 1991); William Overholt, *The Rise of China* (New York: W.W. Norton, 1993); Ver Simone and Anne Thompson Feraru, *The Asian Pacific: Political and Economic Development in a Global Context* (New York: Longman, 1995); Cheng Chaoze, *Shiji Zhizheng: Yige Jingji Daguo de Jueqi* [Competition of the Century: The Rise of An Economic Big Power] (Beijing: Xinhua Chubanshe, 1998); Bruce Gilley, *Tiger on the Brink: Jiang Zemin and China's New Elite* (Berkeley: University of California Press, 1998).

⁶ The dissertation is set up against two main alternative explanations (the Western development model and the Asian model) because they are most popular and influential alternative explanations. In the meantime, they are considered as two of most successful models that other countries can imitate. By discrediting two alternative explanations and offering my explanation, I can better demonstrate the contribution of my dissertation. I draw some inspirations from the book by Ming Xia, *The Dual Developmental State: Development Strategy and Institutional Arrangements for China's Transition* (Ashgate Publishing Company, 2000).

⁷ You Hsing, *Making capitalism in China: the Taiwan Connection* (New York: Oxford University Press, 1998); Doug Guthrie, *Dragon in a Three-piece Suit: the Emergence of Capitalism in China* (Princeton, N.J.: Princeton University Press, 1999); Zheng Yongnian, *Globalization and state*

transformation in China, (New York: Cambridge University Press 2004) ; C. A. McNally, C. A., *China's Emergent Political Economy: Capitalism in the Dragon's Lair*, (London: Routledge 2008); G. Redding G. and M A Witt, *The Future of Chinese Capitalism*, (Oxford, Oxford University Press, 2010)

⁸ In addition to the articles and books introduced in the following sections, some other articles and books include Peter Lichtenstein, *China at the Brink: The Political Economy of Reforms and Retrenchment in the Post-Mao Era* (New York: Praeger, 1991); Susan Shirk, *The Political Logic of Economic Reforms in China* (Berkeley: The University of California Press, 1993); Wang Hui, *The Gradual Revolution: China's Economic Reform Movement* (New Brunswick: Transaction Publishers, 1994); Pei Minxin, From Reform to Revolution: The Demise of Communism in China and the Soviet Union in *China Quarterly* (no.134: June 243-263); Barry Baughton, *Growing Out of the Plan* (Princeton University Press, 1995); Gordon Chang, *The Coming Collapse of China* (Random House, 2001).

⁹ See Orville Schell, *Mandate of Heaven: A New Generation of Entrepreneurs, Dissidents, Bohemians, and Technocrats lays Claim to China's Future* (New York: Simon & Schuster. 1994); Peter Lichtenstein, *China at the Brink: The Political Economy of Reforms and Retrenchment in the Post-Mao Era* (New York: Praeger, 1991); Susan Shirk, *The Political Logic of Economic Reforms in China* (Berkeley: The University of California Press, 1993); Ming Ruan, *Deng Xiaoping: Chronicle of An Empire* (Boulder, Colorado: Westview, 1994); J.F. Jenner, *The Tyranny of History: The Roots of China's Crisis* (Allen Lane: The Penguin Press, 1992); David S.G. Goodman and Gerald Segal, ed., *China Deconstruct: Politics, Trade and Regionalism* (New York: Routledge, 1994); Barry Baughton, *Growing Out of the Plan* (Princeton University Press, 1995); Gordon Chang, *The Coming Collapse of China* (Random House, 2001).

¹⁰ See Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (New York: Cambridge University Press, 1991).

¹¹ The term of Washington consensus most commonly refer to neoliberal policies that were influential in the 1980s-2008 among the mainstream economists, politicians, journalists, and international institutions such as the IMF and World Bank. The term is related to Williamson (1989). However, Williamson rejects subsequent use of the term to cover a more general "neoliberal" agenda. He claims that the first three prescriptions are uncontroversial in the economic community, but the others evoke some controversy. He claims that one of the least controversial prescriptions, the redirection of spending to infrastructure, health care, and education, was neglected. He also claims that while his prescriptions were focused on reducing the role of government, he does not endorse market fundamentalism. More details see Williamson's "*Did Washington Consensus Fail (2002)*", and "*What Bank Should Think About Washington Consensus (2000)?*"

¹² Barrett L. McCormick and Jonathan Unger, edit, "China after Socialism: An Asian Perspective", *The American Economic Review* 82, no. 2 (May).

¹³ Some famous comments were made by two well-known Chinese experts: Susan Shirk declares that China's contemporary one-party state is a "*brittle, authoritarian regime that fears its own citizens.*" and David Shambaugh proclaims that Chinese Communist Party (CCP) leaders are "*haunted by fears that their days are numbered.*" See Susan Shirk, *China, Fragile Superpower*, (Oxford: Oxford University Press, 2008, p. 5) and David Shambaugh, *China's Communist Party: Atrophy and Adaptation* (California: University of California Press, 2008, p. 25).

¹⁴ Zheng Yongnian, "Institutional Change, Local Developmentalism and Economic Growth: The Making of A Semi-Federal System in Reform China" (PhD dissertation, Princeton University); Jia Hao & Lin Zhimin (ed.), *Changing Central-Local Relations in China: Reforms and State Capacity* (Boulder: Westview, 1994); David S.G. Goodman and Gerald Segal, ed., *China Deconstruct: Politics, Trade and Regionalism* (New York: Routledge, 1994).

¹⁵ The PRC has "*bucked the trend*" of the devastating global recession by implementing a rapid \$586 billion stimulus package, resulting in an average 8.7% growth in 2008. This reached as high as 10.7% in the final quarter of 2009, leaving the West trailing behind. See Coonan, C., 'China bucks global recession

with Over 8% Growth Last Year', *Irish Times*, January 2010, (Last accessed: 10/03/2010), available at: <http://www.irishtimes.com/newspaper/finance/2010/0122/1224262842166.html>

¹⁶ In addition to articles and books mentioned in the following section, some other articles about the East Asian economic development include World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993); Jong-il Kim and Lawrence J. Lau, "The Sources of Economic Growth of the East Asian Newly Industrialized Countries," *Journal of the Japanese and International Economies* 8, no. 3 (1994): 235-271; Stephen Haggard and Euysung Kim, "The Sources of East Asia's Economic Growth," *Access Asia Review* 1, no.1 (August 1997).

¹⁷ More details see S. Baek, Does China Follow "the East Asian Development Model"? *Journal of Contemporary Asia*, 35 (4): 485 – 498.

¹⁸ See Mark Thompson, "Late industrialisers, late democratisers: developmental states in the Asia-Pacific", *Third World Quarterly*, 17(4): 625-647.

¹⁹ See Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy: 1925-1975* (Stanford: Stanford University, 1982); Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan", In *Deyo* (1987); Gordon White, "State and Market in China's Labor Reforms", in *Markets within Planning Socialist Market Economic Management in the Third World* edited by E. V. K. Fitzgerald and M. Wuyts (London: Frank Cass, 1988); Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990); Peter Evans, *Embedded Autonomy: States and Industrial Transformation*, Princeton: Princeton University Press, 1995).

²⁰ See Peter Evans, Dietrich Rueschemeyer, and Theda Skocpo, eds, *Bring the States Back in* (New York: Cambridge University Press, 1985); Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Belknap Press of Harvard University, 1962); Richard Rosecrance, *The Rise of Trading States: Commerce and Conquest in the Modern World* (New York: Basic Books, Inc, 1986).

²¹ See Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy: 1925-1975* (Stanford: Stanford University, 1982); Gordon White, "State and Market in China's Labor Reforms", in *Markets within Planning Socialist Market Economic Management in the Third World* edited by E. V. K. Fitzgerald and M. Wuyts (London: Frank Cass, 1988); Stephen Haggard, *Pathways from the Periphery: the Politics of Growth in the Newly Industrializing Countries* (Ithaca: Cornell University Press, 1990); Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990).

²² See Steven Hood, "The Myth of Asian Style Democracy", *Asian Survey*, 1998, no. 38(9), 853-866.

²³ M Castells, "Four Asian Tigers With a Dragon Head: A Comparative Analysis of the State, Economy, and Society in the Asian Pacific Rim", in Richard Applebaum and Jeffery Henderson, eds, *States and Development in the Asian Pacific Rim* (Newbury Park: Sage Publications, 1992).

²⁴ See M Castells, "Four Asian Tigers With a Dragon Head: A Comparative Analysis of the State, Economy, and Society in the Asian Pacific Rim", in R. Appelbaum and J. Henderson (eds) *States and Development in the Asia Pacific Rim* (London: Sage, 1992).

²⁵ Mark Beeson, Sovereignty under the Siege: Globalisation and the State in Southeast Asia", *Third World Quarterly*, 2003, no. 24(2), 357-240.

²⁶ Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Richard Applebaum and Jeffery Henderson, eds, *States and Development in the Asian Pacific Rim* (Newbury Park: Sage Publications, 1992); Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy: 1925-1975* (Stanford: Stanford University, 1982); William McCord, *The Dawn of the Pacific Century: Implications for Three Worlds of Development* (New Brunswick, NJ: Transaction Publishers, 1991); Gordon White, "State and Market in China's Labor

Reforms” in E. V. K. Fitzgerald and M. Wuyts, edi, *Cass Markets within planning Socialist Economic Management in the Third World* (London: Frank Cass, 1988).

²⁷ Even though there are some differences between the Export Process Zones in Taiwan and South Korea and Special Economic Zones in PR. China, the establishment of China’s four earliest special economic zones was intended to learn lessons from the development experiences of East Asian newly industrialized economies such as Taiwan and South Korea.

²⁸ See Deng Xiaoping, *the Selected Works of Deng Xiaoping* (Beijing: Renmin Chubanshe, 1993), vol.3, 370-383.

²⁹ The book of *Beyond the Developmental State: East Asia’s Political Economy Reconsidered* (St. Martin’s Press, Inc, 1998) has collections on the main critiques on the East Asian developmental theory.

³⁰ Some external environments include the US foreign aid in East Asian economies, the export market access of the East Asian economies to the Western market, the military competition between the two blocks, and the external military threat of South Korea from North Korea and the military threat of Republic of China (Taiwan) from People’s Republic of China. See

³¹ See Barry Naughton (1998), *The Chinese Economy: Transition and Growth*, the MIT Press: Cambridge, Massachusetts, London, England, p.8.

³² Barry Naughton, “Chinese Institutional Innovation and Privatization from below,” *American Economic Review*, Volume 84, Issue 2, May 1994.

³³ See Barry Naughton (1998), *The Chinese Economy: Transition and Growth*, the MIT Press: Cambridge, Massachusetts, London, England, p.107.

³⁴ Barry Naughton, “What is Distinctive about China’s Economic Transition? State Enterprise Reform and Overall System Transformation,” *Journal of Comparative Economics* 18, 470-490 (1994).

³⁵ Bert Hafman and Jinglian Wu (2007), “Explaining China’s Development and Reforms”, *Commission on Growth and Development*, working paper no.50, p. 18.

³⁶ See Barry Naughton in *The Chinese Economy: Transition and Growth* (2007) in the section of “Becoming a Normal Country” (Page. 8).

³⁷ There has been some debate on the impact of China’s economic rising, reflected by the literature of debate between China threat and China’s opportunity or peaceful rising. The most authoritative presentation of this “peaceful rise” theory was made by Zheng Bijiang, whose work can be found in *Selected Works of Zheng Bijiang*, Vol. 3, Shanghai: People’s Press, 2005 while the famous work on China threat can be found in John Mearsheimer’s *the Tragedy of Great Power Politics* (W.W. Norton & Co, 2003).

³⁸ See Barry Naughton in *The Chinese Economy: Transition and Growth* (2007) in the section of “Becoming a Normal Country” (Page. 10).

³⁹ Y.S. Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State*, New York; Cambridge University Press, 2008.

⁴⁰ China’s international trade has grown 41 fold from \$20.6 billion in 1978 to \$840 billion in 2003. China has become the largest exporter and the second largest importer by 2009. According to the World Bank in its report, “*China 2020*”, within two decades of the commencement of reform, China had lifted 400 million people out of poverty.

⁴¹ See Sascha Matuszak, “Lessons from Sichuan for Haitian Survivors”. It is available at <http://www.thechinabeat.org/?tag=2008-earthquake>

⁴² Joshua Cooper Ramo (2004), “The Beijing Consensus: *London: Foreign Policy Centre*.

⁴³ Some articles include Huang Yasheng’s Rethinking Beijing Consensus (*Asia Policy*, January 2011) and John William’s Is Beijing Consensus’ Now Dominant? (*Asia Policy*, January 2012).

⁴⁴ See Joseph Stiglitz, “China: towards a New Model of Development”, *China Economic Journal*, vol. 1, no. 1, February 2008, 33-52.

⁴⁵ See David Shambaugh, “Is There a Chinese Model? *China Daily*, 2010 (updated in 2012). It is available at http://www.chinadaily.com.cn/china/2010-03/01/content_9515478.htm

⁴⁶ Peter Lichtenstein, *China at the Brink: The Political Economy of Reforms and Retrenchment in the Post-Mao Era* (New York: Praeger, 1991); Susan Shirk, *The Political Logic of Economic Reforms in China* (Berkeley: The University of California Press, 1993); Wang Hui, *The Gradual Revolution: China's Economic Reform Movement* (New Brunswick: Transaction Publishers, 1994); Pei Minxin, From Reform to Revolution: The Demise of Communism in China and the Soviet Union in *China Quarterly* (no.134: June 243-263); Barry Baughton, *Growing Out of the Plan* (Princeton University Press, 1995); Gordon Chang, *The Coming Collapse of China* (Random House, 2001).

⁴⁷ Some writings include Alvin So and Stephen W.K. Chiu (1995), *East Asia and the World Economy*, Sage Publications; Soinger, Dorothy J. (1993), *China's Transition From Socialism*, M.E. Sharpe; Walder Andrew ed (1996), *China's Transitional Economy*, Oxford University Press; Chai, Joseph C.H., Y.Y. Kueh and Clement A. Tisdell eds. (1997) *China and the Asia Pacific Economy*, Nova.

⁴⁸ See X. B. Zhang, A. de Haan and S. G. Fan, *Narratives of Chinese Economic Reforms: How Does China Cross the River?* (Singapore: World Scientific Publishing, 2010).

⁴⁹ See W.W. Zhang (2006), "Long-term Outlook for China's Political Reform," *Asia Europe Journal*, Vol. 4, No. 2, pp. 151-175, Heidelberg: Springer Berlin).

⁵⁰ According to Martin Stack & Myles Gartland (2003) in "Path Creation, Path Dependency, and Alternative Theories of the Firm" published in *Journal of Economic Issues* 37 (2): 487. Paul David and Brian Arthur published several papers that are now regarded as the foundation of path dependency (David 1985; Arthur 1989, 1990)."

⁵¹ Please see Robin Cowan and Philip Gunby (1996), "Sprayed to Death: Path Dependence, Lock-in and Pest Control Strategies." *Economic Journal* 106: 521-42; Robin Cowan (1990), "Nuclear Power Reactors: A Study in Technological Lock-in," *Journal of Economic History* 50: 541-67; Carl Shapiro, and Hal R. Varian, *Information Rules* (Cambridge, MA: Harvard Business School Press, 1998); Paul Krugman (1991), "Increasing Returns and Economic Geography," *Journal of Political Economy* 99: 483-99; Paul Krugman, *Peddling Prosperity* (New York: W.W. Norton, 1994); W. Brain Arthur, *Increasing Returns and Path Dependence in the Economy* (Ann Arbor: University of Michigan Press, 1994); Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 1996); Douglas J. Puffert (2000), "The Standardization of Track Gauge on North American Railways, 1830-1890", *Journal of Economic History* 60: 933-60.

⁵² See P.A. Hall and R.C. Taylor (1996), "Political Science and the Three New Institutionalisms", *Political Studies*, 44:936-57; T A Koelble (1995), "The new institutionalism in political science and Sociology", *Comparative Politics*, 27,231-243; BG Peters, *Institutional Theory in Political Science* (London: Continuum, 2001).

⁵³ See J. Mahoney J (2000), "Path dependency in historical sociology", *Theory and Society* 29.

⁵⁴ Marie-Laure Djelic and Sigrid Quack, "Rethinking Path Dependency: the Crooked Path of Institutional Change in Post-War Germany", in Morgan, G. Whitley, R. and Moen, E. 23 (eds.), *Changing Capitalisms? :Internationalization, Institutional Change, and Systems of Economic Organization* (New York, Oxford: Oxford University Press, 2005).

⁵⁵ D.C. North, *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1990); P. Pierson P (2000a), "Increasing Returns, Path Dependence, and the Study of Politics", *American Political Science Review* 94: 251-67; P. Pierson P (2000b), "Increasing Returns, Path Dependence, and the Study of Politics", *American Political Science Review*, pp. 251-67; J. Mahoney J (2000), "Path dependency in historical sociology", *Theory and Society* 29; R. Collier & D. Collier (1991), *Shaping the Political Arena: Critical Junctures, the Labor Movement and Regime Dynamics in Latin America* (Princeton: Princeton University Press, 1991).

⁵⁶ D.C. North, *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1990).

⁵⁷ Paul Pierson, "Increasing Returns, Path Dependence and the Study of Politics", *American Political Science Review*, 94, (2), 2000, 251-267 [e-journal]

⁵⁸ See RB. Collier & D. Collier, *Shaping the Political Arena* (Princeton, NJ: Princeton University Press, 1991)

⁵⁹ SM Lipset and S Rokkan, "Cleavage structures, party systems, and voter alignments: an introduction" *Party Systems and Voter Alignments*, ed. SM Lipset, S Rokkan, pp. 1.64 (New York: Free, 1967); RB. Collier & D. Collier, *Shaping the Political Arena* (Princeton, NJ: Princeton University Press, 1991).

⁶⁰ Andrew Abbott (1992), "From Causes to Events: Notes on Narrative Positivism." *Sociological Methods and Research* 20 (4): 428–55.

⁶¹ K. Thelen K, "Historical Institutionalism in Political Science", *Annual Review of Political Science* 1999: 1.

⁶² Please see the detailed literature in K. Thelen K, "Historical Institutionalism in Political Science", *Annual Review of Political Science* 1999: 1.

⁶³ See B. Moore, *Social Origins of Dictatorship and Democracy* (Boston: Beacon Books, 1966); A Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, MA: Harvard University Press, 1962); SM Lipset and S Rokkan, "Cleavage structures, party systems, and voter alignments: an introduction" *Party Systems and Voter Alignments*, ed. SM Lipset, S Rokkan, pp. 1.64 (New York: Free, 1967); M Shefter (1977), "Party and patronage: Germany, England, and Italy", *Political Science*, 7(4): 403.51; RB. Collier & D. Collier, *Shaping the Political Arena* (Princeton, NJ: Princeton University Press, 1991); Ertman T. 1997. *Birth of the Leviatha*. (New York: Cambridge Univ. Press, 1997); K. Kume Thelen (1999), "The rise of nonmarket training regimes: Germany and Japan compared", *Japan Studies*, 25(1):33.64.

⁶⁴ Francesco Kjellberg, "The Changing Values of Local Government", in H Teune (ed), *Local Governance Around the World*, The Annals of the American Academy of Political and Social Science (Thousand Oaks: Sage, 1995).

⁶⁵ S. Montin & A. Erik (eds), *Towards a New Concept of Local Self-Government? Recent Local Government Legislation in Comparative Perspective* (Bergen: Fagbokforlaget, 2000).

⁶⁶ See the article by Pranab Kumar Panday, "Central-Local Relations, Inter-Organisational Coordination and Policy Implementation in Urban Bangladesh", *The Asia Pacific Journal of Public Administration*, Vol 28, no 1 (June 2006): 41-58.

⁶⁷ Keith Dowding, Peter John and Stephen Biggs (1994), "Tiebout: A Survey of the Empirical Literature," *Urban Studies*, 31:767-797.

⁶⁸ A. Shah & S. Shah, "The New Vision of Local Governance and the Evolving Roles of Local Governments", World Bank (www.worldbank.org)

⁶⁹ Some literature about dependency theory include Raúl Prebisch (1950), "The Economic Development of Latin America and its Principal Problems, reprinted in *Economic Bulletin for Latin America*, Vol. 7, No. 1, 1962, 1-22; Hans Singer (1950), "U.S. Foreign Investment in Underdeveloped Distribution of Gains Between Investing and Borrowing Countries," *Economic Review, Papers and Proceedings*, 40, 473-485; P. Baran (1957), "*The Political Economy of Growth*" (New York, Monthly Review, 1968); A.G. Frank, (1967), *Capitalism and Underdevelopment in Latin America: Historical Studies of Brazil and Chile*, (New York, Monthly Review, 1969); Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979); I. Wallerstein, *The Capitalist World Economy* (Cambridge: Cambridge University Press, 1979).

⁷⁰ Details see Han S. Park's *Human Needs and Political Development* (1984). In Chapter 3, Han S. Park describes the main stages of political development (regime formation, political integration, resource expansion, and conflict management) associated with the different levels of human needs (survival, belongings, leisure, and control).

⁷¹ More details please see Han S. Park's "Why China need not be feared" in *Longitude: the Italian Monthly on World Affairs* (September 2011, p.24-36).

⁷² See Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy: 1925-1975* (Stanford: Stanford University, 1982); Gordon White, "State and Market in China's Labor Reforms", in *Markets within Planning Socialist Market Economic Management in the Third World* edited by E. V. K.

Fitzgerald and M. Wuyts (London: Frank Cass, 1988); Stephen Haggard, *Pathways from the Periphery: the Politics of Growth in the Newly Industrializing Countries* (Ithaca: Cornell University Press, 1990); Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990).

⁷³ For instance, some differences can be found at the article by Dwight H. Perkins, "There are at least Three Models of East Asian Development," *World Development* 22, no.4 (April 1994): 655-661.

⁷⁴ See Lucian W. Pye and Mary W. Pye, *Asian Power and Politics: The Cultural Dimensions of Authority* (Cambridge, Harvard University Press, 1985); Gilbert Rozman, ed., *The East Asian Region: Confucian Heritage and Its Modern Adaptation* (Princeton: Princeton University Press, 1992); Daniel A. Bell et al., *Towards Illiberal Democracy in Pacific Asia* (New York: St. Martin's Press, 1995).

⁷⁵ See Chalmers Johnson (1986), "The Nonsocialist NICs: East Asia." *International Organization* 4, no. 2 (Spring): 557-65; Meredith Woo-Cumings (1994), "The 'New Authoritarianism' in East Asia." *Current History* 93, no. 587 (December): 413-16; Steve Chan, Cal Clark, and Danny Lam, "Looking beyond the Developmental State," In *Beyond the Developmental State: East Asia's Political Economies Reconsidered* (edited by Steve Chan, Cal Clark, and Danny Lam, 1-8. London: Macmillan, 1998).

⁷⁶ Property Law of People's Republic of China (2007) is accessible online at <http://en.pkulaw.cn/display.aspx?id=6642&lib=law>

⁷⁷ The proper feudal period in China should be from Zhou Dynasty (1046-256BC) to Qing Dynasty (1644-1911).

⁷⁸ Jie Chen, *Popular Political Support in Urban China* (Washington DC and Stanford Cal.: Woodrow Wilson Center Press and Stanford University Press, 2004); Jie Chen, "Popular Support for Self-Government in China," *Asian Survey*, vol 45, no.6 (November-December): 865-885; Jie Chen, Yang Zhong and Jan William Hillard (1997), "The Level and Sources of Political Support for China's Current Regime," *Communist and Post-Communist Studies*, vol. 30, no.1 (March): 45-64.

⁷⁹ The Nationalist Party was founded by Sun Yat-sen and it was the ruling party in China until it was defeated by the Chinese Communist Party and retreated to Taiwan in 1949. The Nationalist Party is also called Kuomintang (KMT or GMD).

⁸⁰ Wang Zhaogang, *Guomindang xu zheng tiezhi yanjiu* (Study of the Driving Role of the Nationalist Party), Beijing, Social Sciences Editions of China, 2004, p. 21-22.

⁸¹ The Chinese Revolutionary Party was a temporary replacement of the Chinese Nationalist Party (KMT). In 1919, Sun Yat-Sen resurrected the name of Kuomintang or KMT.

⁸² *Ibid*, p. 21-22.

⁸³ *Ibid*, p. 21-22.

⁸⁴ China's current ruling party is sometimes referred to as the Chinese Communist Party (CCP) and sometimes as the Communist Party of China (CPC). The Chinese Communist Party was founded in 1921.

⁸⁵ *Ibid*, p17.

⁸⁶ The People's Republic of China was established on Oct 1, 1949. Chairman Mao Zedong was considered the head of the "first generation" of PRC leaders; Deng Xiao-ping the second; Party Secretary Jiang Ze-min the third; and Party Secretary Hu Jin-tao the fourth.

⁸⁷ Paolo Urio, *Reconciling State, Market and Society in China*, 2010, p.18

⁸⁸ The core values of Confucianism consist of elements such as humanity (ren), righteousness (yi), knowledge (zhi), integrity (xin), loyalty (zhong), filial piety (xiao).

⁸⁹ See Xinhua News, 316 Confucius Institutes Established Worldwide, July 1, 2010. It is accessible online at http://news.xinhuanet.com/english2010/culture/2010-07/13/c_13398209.htm

⁹⁰ In contrast, a much less successful story can be told of India's reforms. Although ruled by a representative democracy, India is often considered as a less ideal model for economic growth if employing the Chinese traditional perspective. For instance, a 2009 survey that had been conducted by a Beijing based consultancy group presented in the Second India-China Forum in Beijing on May 15, 2009.

The survey shows that Chinese people feel India is developing slowly; Chinese view India as the weakest of all BRIC nations; Chinese people feel that India's education, and business opportunities ranked below regions such as the U.S., Europe, South Korea and Russia. More details see <http://www.2point6billion.com/news/2010/05/18/chinese-think-india-%E2%80%99not-advanced%E2%80%99-according-to-survey-5700.html>

⁹¹ See “*Guanyu dangnei zhengzhi shenghuo de ruogan zhunze*” [Several Principles on Democratic Life in the Party], in *Zhongguo gongchandang dangnei fagui xuanbian (1978–1996)* [Selected inner-party rules and regulations of the CCP, 1978–1996], (Beijing: Falü chubanshe, first edition, 1996, third edition, 2001), pp.40–55.

⁹² See Maoism, Glossary of Term, Encyclopedia of Marxism at http://en.wikipedia.org/wiki/Maoism#cite_note-emg-13

⁹³ Gordon Chang (2001) gives the Chinese current regimes five years to break down in his “The Coming Collapse of China” prediction.

⁹⁴ China's overall Gini coefficient of income distribution was a low 0.288 in 1981, and then soared to 0.403 in 1998 and 0.459 in 2001, on par with US' 0.466 in 2001. In 2005, China's Gini coefficient was 0.46. The data are from Wang Gungwu and John Wong (eds), *Interpreting China's Development*, 2007, p. 168.

⁹⁵ The statement of “Two Whatever’s” is contained in a joint editorial “Study the Document Well and Grasp the Key Link” in *People's Daily* on February 7, 1977.

⁹⁶ Deng Xiaoping clearly rejected the ‘Two Whatever’s’ in his letter of May 24, 1977, to the CPC Central Committee. See Deng Xiaoping, “The Two Whatever’s do not Accord with Marxism” in *Selected Works of Deng Xiaoping 1975 -1982*, Vol. 2. Hu Yaobang, as vice-president of the Central Party School had published the article ‘Practice is the sole criterion for testing truth’ in *Lilun Dongtai* (Theoretical Trends), an internal journal of the Party School.

⁹⁷ See White Paper on China's Political Party System published by The State Council Information Office of People's Republic of China dated on November 15, 2007. It is accessible online at <http://www.china.org.cn/english/news/231852.htm>

⁹⁸ See Richard Evans, *Deng Xiaoping and the Making of Modern China* (Hamish Hamilton, 1993); David S.G. Goodman, *Deng Xiaoping and the Chinese Revolution: A Political Biography* (Routledge, 1994); Ruan Ming, *Deng Xiaoping: Chronicle of an Empire* (Westview Press, 1994); Richard Baum, *Burying Mao: Chinese Politics in the Age of Deng Xiaoping* (Princeton University Press, 1996).

⁹⁹ See Richard Evans, *Deng Xiaoping and the Making of Modern China* (Hamish Hamilton, 1993); David S.G. Goodman, *Deng Xiaoping and the Chinese Revolution: A Political Biography* (Routledge, 1994); Ruan Ming, *Deng Xiaoping: Chronicle of an Empire* (Westview Press, 1994); Richard Baum, *Burying Mao: Chinese Politics in the Age of Deng Xiaoping* (Princeton University Press, 1996).

¹⁰⁰ Deng Xiaoping, *Excerpts from talks given in Wuchang, Shenzhen, Zhuhai and Shanghai*, in People's Daily Online ed., *Selected Works of Deng Xiaoping*, vol. 3 (1982-1992), It is available online at <http://english.peopledaily.com.cn/dengxp/vol3/text/d1200.html>.

¹⁰¹ See Li Cheng and Lynn White (1990), “Elite Transformation and Modern Change in Mainland China and Taiwan: Empirical Data and the Theory of Technocracy,” *The China Quarterly* 121: 1-35; Li Cheng and Lynn White, “The Sixteenth Central Committee of the Chinese Communist Party, *Asian Survey* (July 2003), pp. 553-97.

¹⁰² See Czeslaw Tubilewicz, ed., *Critical Issues in Contemporary China* (Routledge: New York and London, 2006), pp 23.

¹⁰³ See B.J. Dickson (2003), “Whom Does the Party Represent? From ‘Three Revolutionary Classes’ to ‘Three Represents’,” *American Asian Review* 21 (Spring): 1–24; Z Dai (2000), “Lun sange daibiao” (“A Discourse on Three Represents”), *Qiushi* 13 (July 1).

¹⁰⁴ Three Represents, *People's Daily Online*, Features: the 17th National Congress of the Communist Party of China: Interpretation of Congress Terms. It is available online at <http://english.people.com.cn/90002/92169/92211/6274616.html>

¹⁰⁵ See Czeslaw Tubilewicz, ed., *Critical Issues in Contemporary China* (Routledge: New York and London, 2006), pp 24.

¹⁰⁶ People's Daily online, "Scientific Development and Social Harmony" (<http://english.peopledaily.com.cn/90002/91580/index.html>).

¹⁰⁷ See H. Liu (2005), "Promoting The Building of Socialist Harmonious Society", *Shijie quangguo renda sancu huiyi 'zhigfu gongzuo baogao* (Supplementary Readings to the "Government Work Report" at the Third Plenum of the Tenth National People's Congress), Beijing: Renmin chubanshe and Zhongguo yanshi chubanshe, pp. 427-47.

¹⁰⁸ Z. Z. Ruan, "Study Hu Jintao's UN Speech: Cooperation between Major Powers Guarantees the Building of a Harmonious World", *Jiefangjun bao* (Liberation Army Daily), 24 September 2005; See H. Liu (2005), "Promoting The Building of Socialist Harmonious Society", *Shijie quangguo renda sancu huiyi 'zhigfu gongzuo baogao* (Supplementary Readings to the "Government Work Report" at the Third Plenum of the Tenth National People's Congress), Beijing: Renmin chubanshe and Zhongguo yanshi chubanshe, pp. 427-47.

¹⁰⁹ See People's Daily online, "Scientific Development and Social Harmony" (<http://english.peopledaily.com.cn/90002/91580/index.html>).

¹¹⁰ Deng Xiaoping, *Building a socialism with a specifically Chinese character*, in People's Daily Online ed., *Selected Works of Deng Xiaoping*, vol. 3 (1982-1992). It is available online at <http://english.peopledaily.com.cn/dengxp/vol3/text/c1220.html>.

¹¹¹ In 1978, China was one of the most closed economies in the world, with only \$20 billion in total foreign trade. In 2003, the trade to GDP ratio increased to 60%, as shown in Table 1. In 2004, the total foreign trade expanded further and reached a new high of \$1.1 trillion. By that measure, China's economy has become quite open.

¹¹² See Vilfredo Pareto (1968), *The Rise and Fall of the Elites: An Application of Theoretical Sociology* (Totowa, NJ: Bedminster, 1968); Robert D. Putnam, *The Comparative Study of Political Elites* (Englewood Cliffs, NJ: Prentice-Hall, 1976).

¹¹³ See Li Chen and Lynn White (1998), "The Fifteenth Central Committee of the Chinese Communist Party: Full-Fledged Technocratic Leadership with Partial Control by Jiang Zemin." *Asian Survey* 38(3): 231-64; He Li, Technocrats and Democratic Transition: The Cases of China and Mexico, *Journal of International and Area Studies*, volume 8, number 2, 2001, pp.67-86.

¹¹⁴ The Chinese Communist Party (CCP) today is the world's single largest political party with members of 70.8 million in the year 2005. It was reported that in the year 2006, some 97,260 CCP members were disciplined by the party on corruption charges alone. Amongst them were 7 government officials at the ministerial level and above.

¹¹⁵ The main political structure of the PRC is comprised of two vertically integrated, but interlocking institutions: the Chinese Communist Party (CCP, or Party), headed by the Party Politburo and its Standing Committee; and the state government (state, or government) apparatus, headed by the premier, who presides over the State Council, a de-facto cabinet. Throughout China, Party and government structures closely parallel one another, with Party committees and representatives present not only in government agencies, but also in most organizations and institutions, including universities and foreign owned enterprises. Details see Michael Martin, *Understanding China's Political System*, 2010, available at <http://www.fas.org/sgp/crs/row/R41007.pdf>

¹¹⁶ See Organization for Economic Co-operation and Development (2005), *China in the Global Economy: Governance in China*. It is available at <http://www.chinability.com/Governance%20in%20China.pdf>

¹¹⁷ Guoming Yang (2003), "A Study of Administrative Reform in China", Unpublished thesis at Central China Normal University.

¹¹⁸ See Kinglun Ngok and Guobin Zhu (2007), "Marketization, globalization and administrative reform in China: a zigzag road to a promising future," *International Review of Administrative Sciences*. Vol 73, 2: 217-33.

¹¹⁹ See Kinglun Ngok and Guobin Zhu (2007), "Marketization, globalization and administrative reform in China: a zigzag road to a promising future," *International Review of Administrative Sciences*. Vol 73, 2: 217-33.

¹²⁰ Dai He (2007), *Xin Shiqi Woguo Xingzheng Gaige Lunxi (Research on Chinese Administrative Reform in New Stage)*, Unpublished thesis at Northeast Normal University.

¹²¹ See Kinglun Ngok and Guobin Zhu (2007), "Marketization, globalization and administrative reform in China: a zigzag road to a promising future," *International Review of Administrative Sciences*. Vol 73, 2: 217-33.

¹²² See Kaifeng Yang (2007), "China's 1998 Administrative Reform and New Public Management: Applying a Comprehensive Framework," *International Journal of Public Administration*. 30: 1371-1392; Organization for Economic Co-operation and Development (2005), *China in the Global Economy: Governance in China*. It is available at <http://www.chinability.com/Governance%20in%20China.pdf>

¹²³ See Zhiyong Lan (2001), "Understanding China's Administrative Reform." *Public Administration Quarterly*. Winter; 24, 4: 437-68; Tiehan Tang, "China's Administrative System Reforms and Trends in their Development," in Margaret T. Gordon, Marie-Christine Meininger, and Weilan Chen (eds), *Windows on China*. (Amsterdam, Netherlands: IOS Press, 2004).

¹²⁴ See Kinglun Ngok and Guobin Zhu (2007), "Marketization, globalization and administrative reform in China: a zigzag road to a promising future," *International Review of Administrative Sciences*. Vol 73, 2: 217-33.

¹²⁵ See Organization for Economic Co-operation and Development (2005), *China in the Global Economy: Governance in China*. It is available at <http://www.chinability.com/Governance%20in%20China.pdf>

¹²⁶ See John Burns, "Civil Service Reforms in China", in Organization for Economic Co-operation and Development (2005), *China in the Global Economy: Governance in China*. It is available at <http://www.oecd.org/dataoecd/62/35/44526166.pdf>

¹²⁷ Also see data from Wang Gungwu and John Wong (eds), *Interpreting China's Development, 2007*, p. 49.

¹²⁸ You Hsing, You (1998), *Making capitalism in China: the Taiwan Connection* (New York: Oxford University Press, 1998); Doug Guthrie, *Dragon in a Three-piece Suit: the Emergence of Capitalism in China* (Princeton, N.J.: Princeton University Press, 1999); Zheng Yongnian, *Globalization and state transformation in China*, (New York: Cambridge University Press 2004); C. A. McNally, *China's Emergent Political Economy: Capitalism in the Dragon's Lair*, (London: Routledge 2008); G. Redding G. and M A Witt, *The Future of Chinese Capitalism*, (Oxford, Oxford University Press, 2010).

¹²⁹ E. Altvater, *the Future of the Market* (London: Verso, 1993).

¹³⁰ Online Resources, Available at <http://www.rieti.go.jp/en/china/02102501.html>

¹³¹ A number of studies were undertaken to prove that fast liberalization and macro-stabilization finally leads to better performance (Sachs, 1996; De Melo, Denizer, and Gelb, 1996; Fisher, Sahay, Vegh, 1996; Aslund, Boone, Johnson, 1996; Breton, Gros, and Vandille, 1997). While a number of studies focused on China (Boone *et al.*, 1998, pp. 153-81; Cheung, 1998a; Nafziger, 1997, pp. 597-607) and Vietnam (Dang, 1999; Kolodko, 2000, pp. 73-8) in their reforms to prove that the gradual reforms lead to economic success and political stability.

¹³² Silvana Malle, "Economic Transformation in Russia and China: How Do we Compare Their Success?" *Eurasian Geography and Economics*, vol. 49, number 4 / July-August 2008.

¹³³ See Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978-1993*, (New York: Cambridge University Press, 1995); Barry Naughton, *The Chinese Economy: Transitions and Growth*. Cambridge, Massachusetts: MIT Press, 2007); Silvana Malle, "Economic Transformation in Russia and China: How Do we Compare Their Success?" *Eurasian Geography and Economics*, vol. 49, number 4 / July-August 2008.

¹³⁴ Martin Ravallion and Shaohua Chen (2007), "China's (Uneven) Progress Against Poverty." *Journal of Development Economics*, 82/1: 1-42.

¹³⁵ See Peter Nolan, *China's Rise, Russia's Fall: Politics, Economics and Planning in the Transition from Stalinism* (Palgrave Macmillan, 1995).

¹³⁶ See Peter Nolan, *China's Rise, Russia's Fall: Politics, Economics and Planning in the Transition from Stalinism* (Palgrave Macmillan, 1995); Barry Naughton, *The Chinese Economy: Transition and Growth* (The MIT Press: Cambridge, Massachusetts, London, England, 2007).

¹³⁷ See J. Y. Lin (1987), "The household responsibility system reform in China: a peasant's institutional Choice", *American Journal of Agricultural Economics*, 69, pp. 410-415; J. Y. (1992), "Rural reforms and agricultural growth in China", *American Economic Review*, 82, pp. 34-51.

¹³⁸ J. Y. (1992), "Rural reforms and agricultural growth in China", *American Economic Review*, 82, pp. 34-51.

¹³⁹ J. Y. (1992), "Rural reforms and agricultural growth in China", *American Economic Review*, 82, pp. 34-51.

¹⁴⁰ Carl Riskin, *China's Political Economy: The Quest for Development since 1949*, New York: Oxford University Press, 1987, p. 268.

¹⁴¹ L. Brandt, H. Li & J. Roberts (2005), "Banks and enterprise privatization in China", *Journal of Law, Economics, and Organization*, 21(2), 524-546.

¹⁴² Alexandra Harney, *The China Price: The True Cost of Chinese Competitive Advantage* (London: Penguin Books, 2009).

¹⁴³ In 1978, total non-agriculture employment was 118 million, and it increased to 359 million by 2003. On average, China created non-agriculture jobs at the rate about 10 million annually.

¹⁴⁴ Tatsuyuki Ota, *Industrial Policy in Transitional Economy: The Role of China's Special Economic Zone in Economic Development (Part I)*, 2003, p. 132-133.

¹⁴⁵ See the article of "Special Economic Zones of People's Republic of China" in Wikipedia. It is available online at

http://en.wikipedia.org/wiki/Special_Economic_Zones_of_the_People's_Republic_of_China

¹⁴⁶ Susan Shirk, *The Political Logic of Economic Reforms in China* (Berkeley: The University of California Press, 1993); Barry Baughton, *Growing Out of the Plan* (Princeton University Press, 1995).

¹⁴⁷ Deng Xiaoping's speech "Building Socialism with the Chinese Characteristics" in 1984

¹⁴⁸ Ibid.

¹⁴⁹ See A. R. Kluver, *Legitimizing the Chinese Economic Reforms: A Rhetoric of Myth and Orthodoxy* (Albany, NY: State University of New York Press, 1996).

¹⁵⁰ Ibid.

¹⁵¹ Deng Xiaoping visited Shenzhen on January 20, 1992. He calls for speeding up reforms and liberation. On March 1, Communist Party Central Document No. 2 (1992), Deng Xiaoping's Southern Excursion Talks, is disseminated. The Theory of the Socialist Market Economy was established in the Chinese Communist Party's Fourteen Party Congress in Oct 1992.

¹⁵² See A. R. Kluver, *Legitimizing the Chinese Economic Reforms: A Rhetoric of Myth and Orthodoxy* (Albany, NY: State University of New York Press, 1996).

¹⁵³ Z. Wang, *Nation Building, State Building, and the Road to Democracy: Political Development in 60 Years of the People's Republic* (Nottingham: China Policy Institute, University of Nottingham, 2009).

¹⁵⁴ Jie Chen, *Popular Political Support in Urban China* (Washington DC and Stanford Cal.: Woodrow Wilson Center Press and Stanford University Press, 2004); Jie Chen, "Popular Support for Self-Government in China," *Asian Survey*, vol 45, no.6 (November-December): 865-885; Jie Chen, Yang Zhong and Jan William Hillard (1997), "The Level and Sources of Political Support for China's Current Regime," *Communist and Post-Communist Studies*, vol. 30, no.1 (March): 45-64.

¹⁵⁵ See Andrew Nathan, Political Culture and Diffuse Regime Support in Asia, issued by Asian Barometer Project Office in 2007, Available at

<http://www.asianbarometer.org/newenglish/publications/workingpapers/no.43.pdf>

¹⁵⁶ See Andrew Nathan, Political Culture and Diffuse Regime Support in Asia, issued by Asian Barometer Project Office in 2007.

¹⁵⁷ Stephen M. Harner, *China's New Political Economy* (Sososha Ltd, 1998), pp. 67.

¹⁵⁸ See S Green & G.S. Liu, *Exit the dragon? Privatization and State Control in China* (London: Chatham House, 2005)..

¹⁵⁹ See Green, S., & Liu, G. S (2005), *Exit the dragon? Privatization and State Control in China*, London: Chatham House [u.a.].

¹⁶⁰ See Global 500 2011, *CNN Money*. It is available at <http://money.cnn.com/magazines/fortune/global500/2011/>

¹⁶¹ Roderick MacFarquhar, 'Debate #1: Is Communist Party Rule Sustainable in China? Remarks by Roderick MacFarquhar, Harvard University', October 2006, Available at: http://www.carnegieendowment.org/files/cds_macfarquhar.pdf

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¹⁶⁶ Suisheng Zhao, "Introduction: China's Democratization Reconsidered," in Suisheng Zhao, ed., *Democracy and China* (New York: Routledge, 2000).

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¹⁶⁹ See "Grassroots Level Political Authorities and Community Development," *Ministry of Civil Affairs* (2002). It is available at mca.gov.cn/manual/index.html.

¹⁷⁰ See Kai He and Huiyun Feng, "A Path to Democracy: In Search of China's Democratization Model", *Asian Perspective*, Vol. 32, No. 3, 2008, pp.139-169.

¹⁷¹ Mao Zedong, *On the Coalition Government*, published in April 1945.

¹⁷² See Li Cheng, Intra-Party Democracy: Should We Take it Seriously? *China Leadership Monitor*, Nov 2009.

¹⁷³ See Li Cheng, Intra-Party Democracy: Should We Take it Seriously? *China Leadership Monitor*, Nov 2009.

¹⁷⁴ For example, Jonathan Anderson (2006: 12) argues that from a macroeconomic perspective the PR. China "look almost exactly like its Asian predecessors." Growth relies on fixed asset investment and export-oriented industrialization, while domestic demand lags behind.

¹⁷⁵ See Gang Fan (1994), "Incremental Change and Dual-Tack Transition: Understanding the Case of China," *Economic Policy*, vol. 19 (Supp.), pp. 99-122; Gang Fan (2002), "The Dynamics of

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¹⁸⁴ See D. Granick, *Chinese State Enterprises: A Regional Property Rights Analysis* (Chicago: Chicago University Press, 1990); J. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: Univ. Calif. Press, 1999).

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¹⁸⁶ See the table 1. The data is from National Statistical Bureau, Yearbook.

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