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THE CHINESE DEVELOPMENTAL MIRACLE: ORIGINS, CHARACTERISTICS, AND CHALLENGES

Alvin Y. So

Since the late 1970s, China has produced a developmental miracle of rapid economic development and political stability. The aim of this article is to examine three sets of questions: What is the origin of this Chinese developmental miracle? What are the characteristics of the Chinese pattern of development? What are the challenges facing the Chinese model? Drawing upon the findings in this special issue, the article argues that the legacy of the Leninist party-state, the fading of the cold war, East Asian industrial relocation, and other triggering events had helped to transform the revolutionary state under Mao to the developmental state in the reform era. However, different from other East Asian developmental states, Chinese state officials engaged in entrepreneurship, allowed more local initiatives, and paid more attention to egalitarianism. Whether the Chinese developmental miracle will continue depends on how the state handles the challenges of economic reforms, globalization, global recession, hegemonic rivalry, and democratization.

The Chinese Developmental Miracle

Suppose you could travel through time to Maoist China in the mid-1970s, and you told the Chinese that their country would soon become an economic powerhouse of the capitalist world-economy in twenty years. No Chinese would have taken your words seriously because they knew that China had experienced very serious developmental problems during the revolutionary period (1949-1976).

First, China faced the problem of forced withdrawal from the world-economy.¹ Before the Chinese communist state could consolidate its power in the early 1950s, the United States sent warships to patrol the Taiwan Strait and supported the defeated Nationalist Party (the Guomindang) in Taiwan, sent soldiers to fight against the Chinese armies in Korea, imposed an economic embargo on mainland Chinese products, prevented mainland China from gaining a seat in the United Nations, and waged ideological attacks on Chinese "communist totalitarianism" in the mass media. Intense hostility from the United States during this cold war era precluded certain developmental options for socialist China. Cut off from contacts with capitalist states, the Chinese communist state could not possibly pursue either export-oriented industrialization (due to the closure of Western markets) or import substitution (due to the economic embargo). Thus, the Chinese state was forced to miss the golden opportunity of achieving ascent during the post-war economic boom. Furthermore, as Yimin Lin argues in this special issue, the cold war created a resource strain on the Chinese economy. From 1952 to 1997, defense spending on average accounted for 5.5 percent of China's GDP.

Second, like other communist regimes, China experienced the structural problems of a planned economy. Chinese state enterprises were highly inefficient and paid little heed to productivity, since they had been operating under a "soft budgetary constraint" and could always rely on the state for more credits if they ran into losses. State enterprises also tended to stock up more resources and manpower than necessary, leading to waste, misuse of resources, and acute shortages of raw materials. Moreover, workers had little incentive to work harder, because revolutionary socialism guaranteed job security and fringe benefits

regardless of job performance, and because there were few consumer goods on which they could spend their salaries. As a result, China's per capita annual income was still very low in the early 1970s, due to the extraordinary growth of its population from around 500 million in 1953 to one billion in 1980. Yimin Lin, in this issue, reports that despite the fact that over 70 percent of the total workforce was deployed in agriculture and the adoption of a "grain first" policy, China could not even produce enough food to sustain a barest level of consumption for the population. Thus, China still ranked among the poorest nations in the world, and the standard of living of its people remained very low.

Third, there was the problem of political alienation. The long period of political struggles during the Cultural Revolution had alienated the general population, making them highly cynical about the slogans of class struggle and absolute egalitarianism. It seems ironic that in just a few years, the charismatic calling of Mao and the intense ideological struggles of the late 1960s were quickly replaced by the widespread disillusionment in the mid-1970s. In sum, by the mid-1970s, the Chinese state had suffered from the problems of forced withdrawal from the world-economy, the structural problem of a planned economy, and political alienation.

What a complete turn around in just twenty years! Although Eastern Europe and the Soviet Union (now Russia) were in economic decline between the 1980s and the 1990s, the Chinese developmental miracle had already begun to take shape as early as the mid-1990s. First, economic growth in China in the same period was nothing short of spectacular. The average annual growth rate of real gross domestic product (GDP) was over 9 percent between 1978 and 1994. The real GDP grew from 681 billion yuan in 1978 to 2,935 billion yuan in 1994 (in 1990 prices). Chinese per capita income rose from 316 yuan in 1978 to 3,893 yuan in 1995 (11.3 times). The average wage of workers increased from 615 yuan in 1978 to 5,500 yuan in 1995, experiencing an average growth rate of 4.4 percent between 1979 and 1995. China recorded a trade surplus of almost \$44 billion in 1998 and a current account surplus (about 1 percent of GDP in 1996 but close to 3 percent in 1997). It became the second largest holder of foreign exchange reserves in the world (more than \$140 billion) in the late 1990s.

Even in the aftermath of the Asian financial crisis,² China still recorded an 8 percent GDP growth rate in 2000 and a projected 7.3 percent GDP growth rate in 2001. If such impressive economic growth rates continue, China will be transformed into the world's second largest economy early in the twenty-first century.

Second, China has experienced a long period of political stability. The communist state withstood the challenges from below by mercilessly crushing the pro-democracy movement on June 4, 1989. Since then, the Chinese democracy movement has been forced to go underground. Despite an increase of activities among the dissidents in the late 1990s, the democracy movement has yet to regain the ability to challenge the power of the Chinese communist state from below. In addition, there has been a smooth leadership transition from the founding fathers to a younger generation of technocrats in the communist state. The collective leadership led by Jiang Zemin has emerged stronger from the 15th Communist Party Congress in fall 1997, after senior leader Deng Xiaoping passed away.

Third, the Chinese state has played a more active role in the inter-state system and has even had the capacity to deal with the complicated issue of national reunification. In the early 1980s, when the British government refused to turn over Hong Kong to China, the Chinese government stood firm on the sovereignty issue, engaged in stormy negotiations with the British over two years, and finally pressured the British to sign the 1984 Joint Declaration to return Hong Kong's sovereignty to China in 1997. In the 1990s, China hosted the Asian Games, bid to host the Olympics, and actively sought to enter the World Trade Organization (WTO).

What is the origin of this Chinese developmental miracle? How could China overcome the serious developmental problems in the 1970s to achieve rapid economic development, political stability, and an empowered state in the 1990s? The articles in this special issue will examine the origins and characteristics of the Chinese developmental miracle as well as discuss the challenges China is facing and the future prospect for China's development in the twenty-first century.

The contributors to this special issue include three sociologists, two institutional economists, two geographers, one political scientist, and one political sociologist. Coming from different

disciplines, these contributors have highlighted various prominent issues, such as institutional changes, property rights, regional integration, migration, nationalism, religious evolution, gender politics, and class relations. Although their articles have different emphases and present contrasting findings, they often do not amount to competing theses. The aim of this introduction is to bring these divergent views together to show that they, as a whole, present a sophisticated explanation of the origins of the Chinese developmental miracle as well as of the various challenges that China is facing in the twenty-first century.

To start the discussion, the sections below will examine the following questions: What explains the transformation of a revolutionary state under Maoism to a developmental state since 1978? What are China's developmental strategies and why did they work? And why was China's developmental state able to endure the initial challenges in the late twentieth century?

From a Revolutionary State to a Developmental State

The Legacy of a Strong Party-State

In the China field, it is often pointed out that the communist experiment under Mao was a disaster. The Great Leap Forward commune policy in the late 1950s led to famine and the death of about 30 million Chinese. The ten years of Cultural Revolution (1966-1976) turned Chinese society upside down and resulted in political anarchy. In this scenario, China's march to modernization began only in 1978, after the rise of Deng Xiaoping, a pragmatist, who paid little attention to the revolutionary ideology of Mao. Hence, Deng became the hero of Chinese modernization, while Mao was held responsible for the economic backwardness and political turmoil in the first phase of the Chinese communist rule.

What is missing in the above account, however, is that the present developmental miracle of China actually owed much to the historical heritage of the Maoist era. Despite many shortcomings, the Maoist legacy has provided China with a strong Leninist party-state and thus with an excess concentration of power in the communist party. Only political organizations (like

peasants' associations and labor unions) formally sponsored by the party were allowed to operate; other organizations were either made ineffective or simply banned from operation. This Leninist party-state was all-powerful in the sense that it extended both vertically and horizontally to every sphere in the Chinese society. Vertically, the Leninist party-state was the first Chinese state that was able to exert its political control all the way down to village, family, and individual levels. Horizontally, there was a great expansion of state functions. The Leninist state did not just collect taxes and keep social order, but also oversaw such functions as education, health care, marriage, culture and economic policy. After 1978, although the Chinese state was no longer interested in promoting revolutionary socialism, it still inherited a strong state machinery to carry out its developmental policy.

The critical issue, then, is what explains the dramatic transformation of the revolutionary state in Maoism to the developmental state in the reform era? I argue that the fading of the cold war provided the precondition for China to reenter the world-economy, the success of the Asian NIEs (Newly Industrializing Economies) and their industrial relocation provided the incentives for the Chinese leaders to pursue developmental objectives, and the passing of the old generation and natural disasters provided the triggering events to overcome the inertia of the status quo.

The Fading of the Cold War

If the cold war and the forced withdrawal from the world-economy prevented China from pursuing either export-oriented industrialization or import substitution, the fading of the cold war provided the precondition for China to reenter the world-economy to pursue developmental objectives.

The late 1970s was a period of declining American hegemony. Economically, the United States faced the problems of inflation, low productivity, and recession. Its products were under strong competition with Japanese and German manufactures in the world market. Politically, the United States was still plagued by its defeat in Vietnam and its failed attempt to fend off global Soviet expansionism. At this historical conjuncture, the United

States welcomed China back to the world-economy. China could be a new regional power to balance Soviet military expansion and Japanese economic expansion in East Asia. Moreover, the vast Chinese market, cheap Chinese labor, and abundant Chinese raw materials and minerals could considerably increase the competitive power of American industry in the world market.

East Asian Industrial Relocation

In addition, the Chinese state was impressed with the economic success of its East Asian neighbors. With U.S. support in the 1950s and the 1960s, Japan, South Korea, Taiwan, and Hong Kong had become highly industrialized and their people enjoyed a much higher living standard than that in China. Thus, the Chinese state was motivated to follow the path of its successful East Asian neighbors to engage in export-oriented industrialization.

Furthermore, as Hong Kong, Taiwan, and South Korea were upgraded to the status of NIEs in the late 1970s, they gradually lost their geopolitical privileges with the United States. They, too, had to face trade restrictions (tariffs, quotas, and rising foreign currency value). Due to their economic success, there were also labor shortages, increasing labor disputes, escalating land prices, and the emergence of environmental protests—all of which raised the cost of production in the East Asian NIEs. As a result, the Asian NIEs felt the need to promote an industrial relocation in order to secure a stable supply of cheap, docile labor, and other resources.

Industrial relocation of the NIEs provided a strong incentive for the Chinese state to promote developmental objectives. From the Chinese perspective, China could be a favorable site for the NIEs' relocation because of its abundant cheap labor, land, and other resources. China was also quite close to Hong Kong, Taiwan, and South Korea, with which it shares a common Confucian culture heritage.

Triggering Events

Though the fading of the cold war and the NIEs' industrial relocation provided the precondition and an incentive for the

Chinese state to transform itself into a developmental state, several triggering events were required to overcome the inertia of the communist *status quo*.

In this issue, Yimin Lin points out that the critical event that set in motion the efforts to reform the economic system was the passing of the old generation of revolutionary leaders. The death of Mao in 1976 was followed by the rise of a new coalition of political leaders who were leaning toward or were receptive to some form of economic institutional change. Most of them were victims of the Cultural Revolution. Their return was accompanied by a national rehabilitation of lower level party-state functionaries. Most of these functionaries had prior experience in formulating and implementing economic policies.

Yimin Lin further explains that the shift in policy focus from socialist egalitarianism to economic development and the reshuffling of local leaders opened the way for bottom-up institutional innovation. In provinces like Anhui, pro-reform leaders tolerated and even encouraged changes in practice made by grassroots officials. This significantly changed the way the local state apparatus was perceived by the rank-and-file. Subsequently, when severe national disasters hit during 1977-1979, some local officials resorted to various forms of family production and justified their rule-breaking on the ground of coping with natural disaster. The good results of family farming in turn provided a kind of justification for the arrangement to be introduced to other provinces, which later led to decollectivization and the institutionalization of the household responsibility system in the countryside. The great success of the economic reforms in the agricultural sector—as shown by the crop output growth from 2.5 percent during 1954-1978 to 5.9 percent during 1978-1984—further empowered the Chinese state to develop various developmental strategies.

Developmental Strategies and Why They Worked

The Legacy of the Maoist Era

Once the Chinese state decided to pursue developmental objectives, it found itself blessed with many legacies of the

Maoist era. To start with, economic backwardness ironically also worked to the advantages of economic reforms in the late 1970s. As Andrew Walder points out, at the outset of the reforms, employment of China was 75 percent in agriculture; in the Soviet Union, it was 75 percent in industry. Since the Soviet Union was already an urbanized industrial society, Soviet economic reforms thus necessitated technological and organization innovations to boost industrial productivity in the urban sector. On the other hand, since China was still mostly agricultural, the state could improve productivity and achieve rapid growth rates by simply taking labor out of agriculture and by putting it to work in industry.³

Second, the Maoist legacy of “self-reliance” resulted in a debt-free economy for pre-reform China. Instead of relying on external support (such as Soviet aid, technology, and expertise), Mao focused on a “self-reliance” model of development. He stressed national autonomy, China’s pride in being a poor country, mass mobilization, and labor-intensive industries. As a result, China incurred almost no foreign debt when the state started its economic reforms in 1978. In stark contrast with Eastern European states and Russia, China did not need to devote huge resources to servicing foreign debt; nor did China need to resort to crushing bailout packages by the International Monetary Fund to shore up its economy.

Third, the Maoist legacy provided the much-needed rural infrastructure and local institutions to carry out the economic reforms. It was during the Maoist era that reservoirs were constructed, irrigation systems strengthened, and drainage networks improved. During the Great Leap Forward, the state mobilized millions of peasants to construct dams, reservoirs, and large-scale irrigation systems for the communes. It was also during the Maoist era that rural industries and enterprises were set up in the communes, local officials were trained to run the brigade factories, and local governments were asked to promote development in the community. The Maoist commune model and its decentralization policy provided the medium to tap local resources, to train local leaders, and to arouse local initiatives. Without all these infrastructure and institutional foundations built in the Maoist era, it is doubtful whether agricultural productivity could have increased so rapidly in the early 1980s, and

whether local village and township enterprises could have played the leading role in China's industrialization since 1978.

Finally, China benefited from adopting the strategy of "reform from above." Even though China faced many serious developmental problems in the mid-1970s, the situation was not desperate. The Chinese state was not under the threat from foreign invasion, economic bankruptcy, or rebellion from below. As such, the party-state still had the autonomy and capacity to propose and implement various structural reforms under its control. The state could select certain types of reform, could vary the speed of reform, and, most importantly, had the freedom to correct its mistakes.

Therefore, different from the "shock therapy" approach in Eastern Europe, the reform in China has been a gradual, adaptive process without a clear blueprint. John McMillan and Barry Naughton remark that "the reforms have proceeded by trial and error, with frequent mid-course corrections and reversals of policy."⁴ In other words, the economic reforms were not a complete project settled in the first stage, but an ongoing process with many adjustments. There was no rapid leap to free prices, currency convertibility, or cutting of state subsidies; nor was there massive privatization or a quick selling off of state enterprises. The gradualist approach practiced by the Chinese state was quite different from the rapid dismantling of the centrally planned economy that occurred in Eastern Europe.⁵

With the Chinese state firmly in control, it carried out the following strategies of development: decentralization and local development, mobilization of diaspora capitalists, labor migration, and sequenced reform.

Decentralization and Local Development

Attracted by the policy of fiscal decentralization through which local governments could keep part of the revenue, local governments quickly engaged in market activities. The product was the formation of township and village enterprises (TVEs), which were not bound by the central plan and were free to seek out market opportunities. Kyung-Sup Chang's article remarks that for local cadres, running rural industries is no new experience since they had been in charge of rural industries since the

Great Leap Forward in the late 1950s. Seizing the golden opportunity created by the policy of fiscal decentralization, many rural cadres have created a favorable political and administrative environment for new industrial ventures, renovating or building factories, setting up corporate organizations, mobilizing villagers' economic resources, securing financial and technical cooperation from urban enterprises, and staffing the management of rural industrial enterprises.

Focusing on the South China case, George Lin's article further points out that a new "bottom up" development mechanism is taking shape in which initiatives are made primarily by local governments to solicit overseas Chinese and domestic capital, mobilize labor and land resources, and lead the local economy to enter the orbit of international division of labor and global competition. As a result, South China has experienced rural industrialization through which a great number of surplus rural laborers entered the TVEs without moving into the city. In the South Chinese countryside, it is common to find industrial and agricultural activities standing side by side. Lin stresses that the geographic outcome of intense rural-urban interaction in the countryside has been the formation of a dispersed pattern of spatial distribution that does not conform to the classic definition of urban or rural but displays the characteristics of both types.

Mobilizing Chinese Diaspora Capitalist

In Eastern Europe, ethnic division is reinforced by religious conflict and national conflict, leading to ethnic violence and making ethnic separatism a highly explosive issue. It was the constant rebellions in ethnic minority regions that weakened the communist state, eventually led to its downfall and the breaking up of the Soviet Union.

In China, however, ethnic trait is a valuable asset for economic development, instead of becoming a source of political instability. Before 1978, Chinese diaspora capitalism thrived in Hong Kong, Taiwan, Singapore, and overseas Chinese communities. After the Chinese state adopted an open door policy for foreign investment in 1978, Hong Kong accounted for the bulk of China's foreign investment and foreign trade. By the end of the 1980s, Taiwan became the second largest trading partner

and investor for mainland China. In the 1990s, overseas Chinese entrepreneurs in Southeast Asia have shown an active interest in conducting trade and investment in China.

Drawing upon Guangdong's Dongguan County as a case study, George Lin shows that the local government has sought every possible opportunity to cultivate kinship ties and interpersonal trusts with the diaspora capitalists in Hong Kong in order to attract them to invest there. Special policies, including taxation concessions and preferential treatment regarding the import of necessary equipment and the handling of foreign currency, were announced to attract foreign investment. A special office was set up by the county government to serve Hong Kong investors with efficient personnel and simplified bureaucratic procedures. Economic cooperation between Dongguan and Hong Kong was arranged creatively and flexibly in a variety of forms, including joint ventures, cooperative ventures, export processing, and compensation trade. The general pattern is that designing and marketing are handled in Hong Kong, while labor-intensive processes are performed in Dongguan. Access to cheap labor enables Hong Kong diaspora capitalists to compete effectively in the global market, and export processing has created jobs and income for mainland China.

Controlling Labor Migration

Before the reform era, the household registration (hukou) system had kept farmers in the countryside. In order to transfer resources from the rural to the urban sector, the Chinese state has loosened the household registration system since 1978, starting a trend of non-hukou migrant population from the countryside that numbered about 100 million people in the late 1990s.

In this issue, Kam Wing Chan contends that economic development in the reform era in China is intimately linked with migration. Migration is a redistribution of labor that helps balance China's regional supply and demand. The vast pools of rural migrant provide plentiful supply of cheap labor in sustaining China's urban economic boom. This labor force is also flexible, able, and willing to move quickly into new growth areas. In the cities, the full cost of hiring a migrant worker is only about one-quarter of that of a local worker. Migrant workers are also

willing to work not only for less and for long hours, but also often under unsafe conditions with minimal protection. The increasing supply of labor from outside has fostered the development of an urban labor market.

Kam Wing Chan also reveals the generally positive impact of migration for rural areas. Out-migration is an effective and cheap way to siphon off surplus rural labor and ease pressure on local land and resources. In addition, remittances have become a major contribution by migrant workers to their families back home. Chan estimates that remittances amounting to 180 billion yuan are sent back to rural areas every year, roughly equivalent to 15 percent of China's agricultural GDP. Furthermore, working in the cities is an important opportunity for many farmers to learn about the modern world and skills. It is not uncommon for returnees to use their savings, skills, and business contacts they bring back to start up or invest in small businesses. And the remittances allow those working on the farm to purchase fertilizers and other needed modern inputs (such as better seeds) for farming.

Reform Sequence

Finally, the Chinese state benefited from carrying out reforms in the countryside before proposing any reform of the urban economy. Rural reforms were much less complicated than urban reforms. In the late 1970s, the Chinese state increased procurement prices for agricultural products, encouraged peasants to engage in cash crop and rural industrial production, and allowed peasants to work in nearby market towns and faraway cities. After the rural reforms were successful, the Chinese state was more confident to work on the complicated urban reforms in the 1980s. Rising agricultural productivity, in turn, released surplus labor from the countryside, providing a large number of cheap laborers to urban factories.

The contrast with the Soviet experience is important. In the Soviet Union, political reforms were carried out before economic reforms, with the hope that democratization would provide the communist party with the needed support to overcome the resistance toward economic reforms. The Soviet Union also carried out reforms in urban areas first because of the deep-rooted

problems in the countryside. However, political reforms unintentionally released new political forces that opposed the communist party, and urban unrest eventually led to the overthrow of the communist state in the Soviet Union.

In China, the state promoted economic reforms before carrying out any political reforms. In the late 1970s, communes were dismantled and peasants were asked to be responsible for their own livelihoods. In the early 1980s, the Chinese state tried to promote enterprise reforms to increase the power of the managers. In the mid-1980s, the state opened fourteen coastal cities to attract foreign investment. Although in the reform period the Chinese state showed more tolerance toward dissent, granted citizens more freedom, and allowed local elections at the village level, it was reluctant to promote any serious democratic reform to allow multi-party elections at the provincial and national level. The state thus retained its Leninist structure. It did not share power with other political parties, nor did it worry about critical democratic voices in the civil society and the uncertainty of election outcomes. Without being distracted by democratic reforms, the Chinese state was able to concentrate on the economy to promote its modernization programs.

Managing New Ideas and Social Forces

Still, new ideas and social forces had been unleashed during the economic reforms to challenge the Chinese state. What explains the ability of the Chinese state able to maintain political stability and promote economic development in spite of these challenges?

Communitarianism

First of all, Suzanne Ogden's article explains that the Chinese state is now confronting the problem of how to fill the void created by the collapse of communitarian values fostered by Marxism-Leninism-Mao Zedong Thought. Furthermore, the Chinese state is facing the divisive and destabilizing forces of capitalism, individualism, commercialism, and modernization, forces that have undercut the sense of community in China. The

search for communitarian values to replace those of communism has led to official support for the values of nationalism, patriotism, and the reinvention of Chinese popular culture. In particular, the Chinese state tried to revive Chinese culture as part of an effort to confront a "fever" for Western ideas. Its overall goal was to use culture to bolster the power of (cultural) nationalism. Also, to be a "patriot" in today's China means to support the national community and its goals, notably, national reunification, economic growth, and political stability.

Ogden argues that the Chinese people have embraced cultural nationalism and patriotism with passion, as shown by the fact that even Chinese dissidents have overwhelmingly taken the government's side in defending China's claims to Taiwan and Tibet, taken extraordinary pleasure in Hong Kong's return to Beijing rule in 1997, and expressed anger at what they interpret as the West's support for Japan's military expansion and containment of China, including U.S. consideration of plans to build a "theatre missile defense" in Northeast Asia that would protect Japan, and possibly Taiwan, from attack.

Egalitarianism

Second, the legacy of egalitarianism during the Maoist era helped to slow down the reforms and make its impact less disruptive. The article by James Kung shows that in the countryside, even though decollectivization gave farmers the right to decide on how land and labor should be deployed, ownership rights in land continue to reside in the hands of the village authorities, or more appropriately the villagers, given that in practice land was divided more or less equally among members of the village community. Thus, decollectivization turned out to be highly egalitarian. Kung further refutes that the claim in the mainstream literature that communal ownership has been the primary cause of a stagnant crop output growth and an obstructive force in the development process. Since there is empirical evidence to show that land and the labor markets are quite active in the countryside, and since the process of rural surplus labor transfer could occur in the absence of secure land rights, Kung argues that China has the luxury to assess the possible consequences of privatization before rushing to embrace it.

In addition, Yimin Lin shows how ideology has slowed down the growth of the private sector. Up the mid-1990s, capitalists were not only faced with weak and unstable protection for their residual rights, they were actually discriminated against in licensing, credit, land use, material input allocation, and the supply of utilities. In view of this policy bias, many capitalists had to disguise their private businesses as public or collective enterprises in order to survive.

The pace of urban reform has been constrained by the ideological claim that working class people are the masters of society and that the state sector represents the foundation of the socialist economy. Kyung-Sup Chang's article points out that urban workers are provided by the state with various shock-absorbing mechanisms against layoff and unemployment. In March 1999, Zhu Rongji announced that redundant workers who have been asked to leave their jobs, called *xiagang* (off-the-post) employees in Chinese, would be given a grace period of three years to stay in the *xiagang* category. A *xiagang* employee receives a reduced salary and is encouraged to find a new job in the service sector or in self-employed businesses. However, if a *xiagang* worker cannot find a new job within three years, his employment relationship with the state-owned enterprises will be terminated. In the latter case, the laid-off worker could live on social security for a maximum of a further two years.

Corporatism

Finally, after experiencing two decades of capitalism since the late 1970s, many new social actors and civic organizations have emerged in China. These new actors include private business owners, employers, operators, as well as those employees and laborers working for foreign and private enterprises. Accompanying the appearance of new actors is the emergence of many new semi-autonomous social organizations in the coastal provinces, such as the Private Enterprises Association, the Enterprise Owners Civic Associations, and the Local Federation of Industry and Commerce. These new social organizations help to expand the horizontal linkages and alliances among different societal units and individuals.

However, despite the rise of these new actors and social

organizations, business politics in China has yet to take the form of the democracy and human rights movements. Why then did the business class not protest or fight back against state suppression of its civil organization? This is because business activity in China is mediated through state institutions. The business class cultivates *guanxi*, gift economy, and clientelism in order to form an alliance with the local state, an alliance that can be seen as a pragmatic political tactic of survival and self-protection, considering the fact that the local state has had almost complete control over the economy. The space that private business has enjoyed is handed down from the local state, and businesspeople have to know their political limit. On the other hand, instead of challenging the state, businesspeople use clientelism to work with state officials in order to attain a high degree of managerial autonomy in their enterprises. Thus, clientelism enables businesspeople to re-impose the nineteenth century despotic factory regime in South China (such as unpaid overtime, disrespect, cursing, deduction of wages and bonuses, arbitrary firings, body searches, lack of medical or industrial accident insurance, a ban on unions), even though the central state has set up rules to protect Chinese labor from capitalist abuses.⁶

Aside from unleashing the social forces in the private sector, the reforms have also activated gender politics. Ping-Chun Hsiung's article examines Chinese women's political participation as it is experienced and articulated by professional women. By conceptualizing the political arena as an engendered site of discontent, Hsiung investigates how women professionals come to challenge the gender system in post-Mao China, and what forces have sustained these women in times of uncertainty and defeat. It is shown that a woman professional's desire for self-realization is interlocked with her yearning for collective, group emancipation. Together, these aspirations form an oppositional, engendered identity that inspires the everyday activism of women professionals. Nevertheless, Chinese gender politics is mediated by the official Women's Federation. Hsiung argues that the Federation has had an ambivalent relationship with the Chinese Communist Party (CCP). Mandated to follow the directives of the CCP and to represent women's interests, the Federation is never free to advocate women's causes that would compromise its party function.

In sum, even though the dynamics of reforms have set off new actors and organizations in China, these nascent actors and organizations are more interested in working with the existing state structure than transforming it. Since the Chinese state has not been weakened by the dynamics of capitalism, it was able to impose a "corporatist" civil society in China, absorbing the new social forces into the existing state framework to maintain political order and to promote economic development.

Characteristics

Similarities with East Asian Developmental States

From the above discussion, it is obvious that the Chinese pattern of development has shared many similar characteristics with the developmental states in South Korea and Taiwan during their industrial take-off phase (between the 1960s and the mid-1980s). First, there was a strong autonomous state that had the capacity to formulate and implement developmental policies. In China, since the strong Leninist party-state remained largely intact in the reform era, the Chinese state had the capacity to introduce certain types of economic program, vary the speed and the sequence of reform, and make corrections or even reverse its policy if it perceived the necessity of doing so.

Second, the developmental states adopted authoritarian policies to deactivate civil society, discipline labor, and suppress dissent in order to maintain a favorable environment to attract foreign and domestic investment and to maintain political stability. In China, the legacy of the Leninist party-state and corporatism helped the state to deal with the emerging social forces unleashed by economic reforms.

Third, since the developmental states did not carry out any democratic reforms but relied upon suppression and corporatism for political control, they needed a different basis of legitimacy from that of the Western democratic states. In China, like other East Asian developmental states, the basis of legitimacy was mainly derived from "GNPism" and nationalism. The claims were that citizens should support the state because their incomes had greatly improved and their living standards were

much better than those of the older generation. Citizens were therefore told to unite behind the state in order to create a rich and powerful nation free of domination from foreigners.

The China Difference

Despite the above similarities, the pattern of Chinese development is also different from that of the East Asian developmental states in the following ways. First, China has exhibited a strong tendency toward state entrepreneurship. Although developmental state officials, like those in South Korea, targeted industry, provided incentives such as subsidies and lower tax rates, and monitored corporate performance, they seldom directly engaged in running the companies themselves. In China, however, not only were state officials asked to be good managers to turn state enterprises into profit-making businesses, many of them also informally turned public assets into quasi-public, quasi-private properties, or even into private companies. As has been well documented, there is a fuzzy boundary in China between state enterprises and collective/private enterprises, and it is difficult to draw a clear line between state officials and private capitalists. Rather, the Chinese economy is a hybrid “state-capitalist” that walks on two legs in both the state sector and the private sector.

In Russia and Eastern Europe, former state officials engaged in stripping off of the assets of state enterprises too. However, although such activity led to rent-seeking and the decline of economies, state officials in China often invested in productive, profitable enterprises in a competitive market. While it is true that stripping off the assets of state enterprises greatly enriched Chinese officials, their productive investments also played an important role in promoting economic development, leading to a very respectable economic growth rate over the past decade.

Second, China has exhibited a pattern of local, “bottom-up” development. East Asian developmental states had adopted a centralized policy, and it was their central governments that played the most active role in development. However, in China, due to the legacy of communes, the present policy of fiscal decentralization, and the vast territory of China, local governments have played a much more active role than their counterparts in

East Asian developmental states. Instead of promoting urban industrialization and mega cities (like that of Seoul), Chinese local governments promoted TVEs, rural industrialization, and small and medium size cities. This pattern of dispersed development will have a profound impact on China in the future.

Third, although the Chinese state relied mostly on "GNPism" and nationalism as its bases of legitimacy, it also has paid much more attention than the East Asian developmental states to the issue of egalitarianism during the industrial take-off phase. Having gone through the legacy of revolutionary socialism under Mao, and having a constitution that still states that workers and peasants are the masters of society, the Chinese "communist" state was much more vulnerable to charges of inequality, poverty, and exploitation than its East Asian development states counterparts. Thus, the Chinese state time after time backed off from carrying out those policies that could lead to massive layoffs and the elimination of the social safety nets of the urban residents.

Challenges

The Challenge of Implementing Economic Reforms

Despite achieving a developmental miracle over the past two decades, China is not without serious challenges in the twenty-first century. First of all, the Chinese state has yet to develop a plan to deal with the large number of state enterprises that are losing money. Every three to four years, the Chinese state issues a call to let those state enterprises that are losing money go bankrupt. However, the threat of bankruptcy and the laying off of millions of state workers has never been fully implemented, because the Chinese state wants to avoid the political risk of worker protests, strikes, and political instability.

Up to the mid-1990s, the state enterprises employed most urban Chinese and consumed an estimated two-thirds of the country's domestic investment. But they produced barely one-third of China's gross domestic product. State companies' losses climbed from 3 billion yuan in 1985 to 74.4 billion yuan in 1997, and the state sector's debt-to-equity ratio climbed from 156 percent in 1991 to 570 percent in 1995 (the last year for which data

that form part of a consistent time series are available). Although some state companies built aggressive marketing departments and invested in modern equipment, they were burdened by having to provide housing, education, health care, and pensions for workers and their families.

In addition, China had many weak, poorly regulated banks making policy loans to inefficient, over-leveraged state enterprises. In 1999, the Governor of the People's Bank of China stated that more than 20 percent of bank loans are nonperforming, although he argued that only 5 to 6 percent of these loans is unrecoverable. Western observers generally estimate that the proportion of nonperforming and unrecoverable loans may be far higher. Up to now, China has not completed both the enterprise reform and the banking reform. The problem of unprofitable state enterprises and unrecoverable loans could become explosive if China's high-speed growth slows down.

The Challenge of Development

The crucial question then is whether China's rapid economic development will continue and for how long. During the Asian financial crisis in the late 1990s, China's foreign investment and exports had experienced a slight decline. Only after the end of the Asian financial crisis did China return to the previous level of foreign investments and exports.

However, in the early years of the twenty-first century, both the United States and Japan are in economic recession. If a global recession continues for a fairly long period, it could have a dampening effect on the Chinese economy, leading to a decline of foreign investment and exports, a rapid rise of unemployment, and pressure to devalue the Chinese currency.

The Challenge of Globalization

Globalization through WTO accession is likely to produce significant competitive pressures on the agriculture sector. Kam Wing Chan estimates that China will lose about 3 million jobs in agriculture due to the competition of imported farm products. In addition, WTO accession may have a negative impact on China's telecommunications and automobile industries. The Asian

Development Bank points out that China's banking sector, one of the most protected in the world, is particularly vulnerable. In the short to medium term, local banks' net interest margins will narrow and profitability will be squeezed. To face the challenges of international banks from WTO accession, finance-sector reform must be accelerated. The key problem is to strengthen domestic banks by tackling the problem of non-performing loans and to establish an effective corporate governance system.

Furthermore, China was less affected by the Asian financial crisis in the late 1990s because its currency was not convertible and it had strong control over the banking sector and foreign trade. However, entry into WTO most likely will more closely integrate the Chinese economy with the global economy. Thus, any global recession in the early twenty-first century will have a more serious impact on the Chinese economy than before.

The Challenge of Social Conflict

Although the Chinese state has been successful in incorporating new social forces and suppressing democratic reforms, these political issues will become more explosive once they are combined with the economic issues of enterprise bankruptcy, unemployment, and global recession.

Kam Wing Chan estimates that about 10 million workers may be laid off in the state sector in the next five years, and layoffs carry the risk of triggering urban political turmoil. In addition, despite an already massive outflow of rural migrant workers, there are still some 90 million workers in the countryside who need jobs. But the sluggish performance of the urban economy, the job competition from laid-off workers in the state sector, and the increasingly protectionist policies of local government against migrant workers will make it harder and harder for them to find jobs in the cities. A large number of unemployed "floating population" could easily become the source of social conflict.

Kyung-Sup Chang in this issue further laments that even when migrant workers have found employment, they have to endure all kinds of social and economic hardships because of the constraints imposed upon them by the old household registration system. For example, it is extremely difficult, if not

impossible, for migrant workers to acquire social services (such as education and health care for their children), while such services are offered to regular urban residents as a sort of citizenship right.

Consequently, there is a serious possibility that grassroots people's frustration and resistance will be expressed not only against richer neighbors but also, and much more crucially, against the state and its local agents. In this context, state authority might easily be identified with economic injustice. Grassroots resentment might be expressed in strikes, street demonstrations, social movements, and riots across the country. Chang reports that over the past few years, peasants in many inland provinces rioted against corrupt and extorting local cadres, and in many big cities unemployed and impoverished groups staged rallies against their local governments because of their economic mishaps. Even anti-corruption campaigns can be seen as a form of class politics catering to the desire of grassroots peasants, workers, and migrants.

Aside from class conflict, there could be religious conflict as well. As Richard Madsen's article reports, in July 1999 the Chinese state officially declared the Falungong an evil cult and began a massive campaign to suppress it. The supposed evils of Falungong bolstered the state's resolve to tighten control over all manner of unofficial religious activity. Thus, over the past two years, the Chinese state demolished hundreds of non-registered church buildings, stepped up arrests of underground bishops and priests, and established new local branches of the Catholic Patriotic Association. According to Madsen, the above conflicts with the Catholic Church stem from general weaknesses in the Chinese state's capacity to create new forms of soft power sufficient to contain a rapidly developing informal, unofficial social realm. The state seems too insecure to make the political concessions necessary to coopt such developments. Madsen argues that attempts to suppress the Catholic Church are often counterproductive. They succeed only in increasing the level of hostility of some citizens toward the regime, which renders peaceful political reform all the more difficult. Besides revealing weaknesses in governing capacity, the conflicts with the Catholic Church reveal weaknesses in the state's capacity to represent morally a richly pluralistic, evolving national identity.

The Challenge of Hegemonic Rivalry

The rapid economic development of China over the past two decades has also made the United States worry that in the near future China may challenge its global hegemony. In this issue, Ogden points to the following instances of hegemonic struggles of the United States against China:

- Since 1989, using the issue of human rights as a pretext for threatening the end of China's most-favored-nation (normal trade) status, denying China the right to host the year 2000 Olympics, and blocking China's entry into the World Trade Organization for years;
- Accusing China of "stealing" U.S. nuclear secrets and making illegal contributions to the U.S. Democratic Party in the 1996 elections;
- Continuing U.S. military support to Taiwan and sending two U.S. aircraft carrier battle groups to the Taiwan Strait in 1996;
- Bombing (under NATO) the Chinese Embassy in Belgrade, Yugoslavia in May 1999 during the war over Kosovo;
- Carrying out air surveillance of China, which led to the crash of a Chinese jet and an emergency landing of the U.S. spy plane on the island of Hainan in 2001;
- Giving consideration to building a theatre missile defense that might include Taiwan, as well as a national U.S. defense that would deny China a second-strike strategic capability.

Although the "war against terrorism" in late 2001 has temporarily overshadowed the issue of hegemonic rivalry between the United States and China, it is still too early to tell whether hegemonic rivalry could be rekindled again when that war ends.

Prospects

What is the prospect for the Chinese developmental miracle? It seems that there are three possible scenarios in the near

future: failing to deal with the above challenges, overcoming the challenges, and muddling through.

The Developmental Mirage

If the Chinese state fails to implement economic reforms, if the accession to WTO brings more harms than benefits to China, if the global economic recession is long and serious, and if the United States sees China as a strategic competitor rather than as a strategic partner, then the developmental miracle could be transformed into a developmental mirage in the near future. John Fernald and Oliver Babson mention the following pessimistic scenario:

Suppose that growth slows sharply . . . , reflecting a plunge in exports and non-state investment, an overhang of inventories, and widespread consumer unwillingness to spend. Social and political pressures are mounting in response to rising unemployment and stagnating real wages. The perception that China might devalue (in order to spur exports) leads to a widening of black market premium and capital flight (evading capital controls). Foreign investors become less willing to invest in and lend to China, reducing investment further. In the face of slowing growth, steadily falling foreign exchange reserves, and lobbying by exporters, China devalues. Economic weakness could potentially lead to political infighting in China as well, thereby raising uncertainty and exacerbating all of the problems above.⁷

In this scenario, the Chinese communist state may not be able to hold on to power for long as a result of economic recession and political instability.

The Developmental Miracle Continues

However, the optimists cite Beijing's long-term commitment to its reform process and the pragmatic nature of its leadership. President Jiang Zemin and Premier Zhu Rongji have steadily reduced the role of the SOEs and are experimenting with novel solutions to financing, including stock ownership plans. The Chinese leaders also understand the important role of town and village enterprises, which, along with export industries, were

the engines of China's economic growth. The optimists are persuaded that China would be spared from going through the turmoil of marketization.

The two decades of generally uninterrupted economic growth have greatly strengthened the Chinese economy, providing a breathing space for the Chinese state to try all sorts of policies to deal with the problems of enterprise reforms and banking reforms. By the early twenty-first century, the Chinese state is so experienced and powerful that it could easily handle the challenges of WTO accession and global recession, while China's vast domestic economy should be able to provide an economic powerhouse for the developmental miracle to continue for a fairly long time.

Muddling Through

Apart from the above pessimistic and optimistic scenarios, there is a muddling through scenario. Given the successful record of the Chinese state in handling challenges from below and from outside, it should have the capacity to hold on to power and to promote economic development. On the other hand, as time goes by, the Chinese state will find it much harder than before to accomplish its goals. The Chinese state may be forced to slow down, change direction, or even reverse its reform policies. With economic growth rates declining, with social problems getting more acute, and with unending callings for political reforms and democratization, China may soon look more and more like other developing countries in East Asia.

In sum, will the miracle become a mirage? Will the miracle continue? Or will the miracle be tuned down and muddle through? It depends. History never follows a predetermined path but is always subject to the intervention of human agency. The prospect for the developmental miracle, therefore, depends very much on how the Chinese state handles the issues of state enterprise reform, WTO entry, global recession, growing social conflicts, and hegemonic rivalry in the years just ahead.

NOTES

1. Alvin Y. So and Stephen Chiu, *East Asia and the World Economy* (Newbury Park: Sage, 1995).
2. Alvin Y. So, "China Under the Shadow of the Asian Financial Crisis: Retreat from Economic and Political Liberalism?" *Asian Perspective*, vol. 23, No. 2 (1999), pp. 83-110.
3. Andrew Walder, *China's Transitional Economy: Interpreting its Significance* (London: Oxford University Press, 1996), p. 9.
4. John McMillan and Barry Naughton, "How to Reform a Planned Economy: Lessons from China," *Oxford Review of Economic Policy*, vol. 8 (1992), pp. 781-807.
5. Andrew Walder, *China's Transitional Economy*, p. 10. Andrew Walder remarks, "Where in Europe shock therapy and mass privatization are designed in part to dismantle Communism and strip former Communists of power and privilege, in China gradual reform is intended to allow the Party to survive as an instrument of economic development."
6. Hsin-Huang Michael Hsiao and Alvin Y. So, "Economic Integration and the Transformation of Civil Society in Taiwan, Hong Kong, and South China," in Shu-min Huang and Cheng-Kuang Hsu, eds., *Imagining China* (Taipei: Institute of Ethnology, Academia Sinica, 1999), pp. 221-52.
7. John Fernald and Oliver D. Babson, "Why Has China Survived the Asian Crisis So Well? What Risks Remain?" *Board of Governors of the Federal Reserve System: International Finance Discussion Papers*, No. 333 (February, 1999), online at www.bog.frb.fed.us.