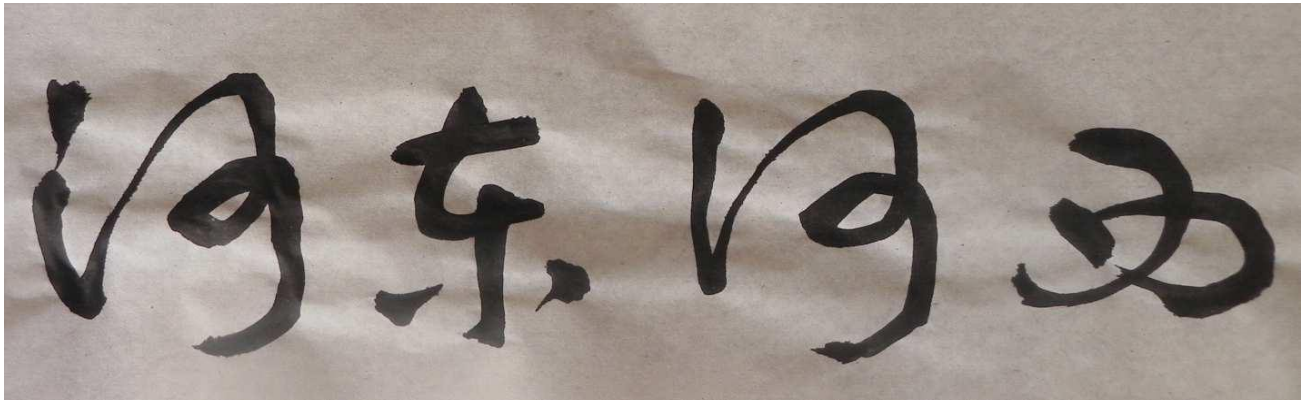


The Chinese Economic Experience



MA Research Report: International Relations

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I declare that this thesis is my own unaided work. It is submitted for the degree of Masters of Arts in the University of Witwatersrand, Johannesburg. It has not been submitted before in any other degree or examination in any other university.

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24 May 2011

Abstract

The main aim of this thesis is to assess the aspects that are in favour of China's successful development. The factors that have contributed to this include its unique socio-historical context; how it marries its domestic circumstances with the global market reality; as well as the implementation of the Chinese governments domestic, 'non-economic' policies. Also, if China is considered a successful developing state, it is necessary to examine critically how and which of its many aspects are conducive to economic development. Overall this thesis aims to provide an objective point of view of the topic in question, especially as viewpoints of China on other topics besides development, are often overly positive or negative.

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Introduction:

A role model is often ideal, inspirational and sometimes even imaginary. This is because we impose on it what we wish it to be, so that it has meaning for us, and only us alone. Yet the world all too often reminds us that it has many faces, and because of that, we cannot deny that even the very unique and seemingly inapplicable experiences can teach the most surprising lessons. This is particularly true of economic development, because every nation faces it – still if this is at varying degrees. Yet, even though there may be disagreement on the ideal path of development, sometimes enquiring another's point of view is the very best way to enhance one's own position.

With this in mind, the tough journey of reform that China has been undergoing since 1978, is a unique but necessary instance of the reality of economic development. By economic development, it refers to the rising productivity and per capita income that needs to be achieved through: supportive domestic markets; concentration of capital; skilled labour; state assistance to overcome individualistic solutions that hurt society; also, the access to export and domestic markets¹. These markets are those “that allow firms to capture economies of scale, and speed, and back-linking to other industries to pull the whole economy along”². Additionally, this development is not only concerned with economic growth, but also productivity and competitiveness³. Thereby a society is undergoing economic development, if it is making progress in achieving the good life for individuals, and as well as a good society for them all⁴.

It is clearly widely published that China is making progress in the name of economic development. In light of the 2008 economic crisis, it was commented that the performance of China with regard to its stimulus program and growth of 8.7% in 2009, means that we will have to start redefining our ideas of what constitutes the developing world⁵. Even more so, when

¹ Latimer, W.S. “Human Rights and East Asian Economic Development: Are There Lessons for South Africa” in East Asia Project, no volume available, No.15, May 1997, p.4-5

² Loc cit.

³ Onis, Z. “Review: The Logic of the Developmental State” in Comparative Politics, Vol.24, No.1, October 1991, p.111.

⁴ Weaver, J and Jameson, K. Economic Development: Competing Paradigms, University Press of America: Lanham, New York and London, 1981, p.9.

⁵ Elliot, M. “Look Who's Leading” in TIME, Vol.176, No.2, 12 July 2010, p.30.

addressing what poor countries' political and business leaders should be doing to maximise life chances; China has been brought up as an example due to its performance in education; its investments in poor nations; and its state-led development⁶. Besides the circumstances of 2009, China's annual growth in gross national product (GNP) since its reforms has been over 9%, which means it exceeds the growth rates of Taiwan, Singapore, Hong Kong and South Korea⁷. The World Bank expects this growth to continue, at a 9.5% gross domestic product (GDP) growth rate in 2010⁸. This is overall a large achievement for any economy in history - even more so for the world's most populous nation – the size of Europe and the Middle East combined⁹. Thereby, with continued growth, one-fifth of the world's population will continue to experience significant improvements in living standards; and, a large share of China's population, which exceeds the entire United States (U.S.) population, can soon enjoy living standards close to the level of developed countries¹⁰. Even more optimistic views forecast that as the largest developing state, China's economy is expected to reach \$123 trillion and \$85,000 per capita income by 2040 – that is three times the economic output of the world during the year 2000¹¹.

China's progress would be a necessary case to study, considering that 2010 was the last year of its 11th Five Year Plan, marking a pivotal point for initiating a new cycle for economic growth, in other words its 12th Five Year Plan¹². This transition brings to fore that although it is true that per capita economic growth is often used to measure levels of economic activity, since it is simpler and makes use of readily availability of such data, and the fact that income per person can serve as a logical gauge for overall social progress¹³. Development is multi-faceted and a complex

⁶ *Ibid.* p.31.

⁷ Shelton, G and Alden, C. "From Transformation to Economic Prosperity: Lessons from the Chinese Experience" in *East Asia Project*, no volume available, No.9, August/September 1998, p. 2.

⁸ World Bank, "China Quarterly Update", http://siteresources.worldbank.org/CHINAEXTN/Resources/318949-1268688634523/CQU_march2010.pdf, March 2010, p.1.

⁹ Todaro, M.P. and Smith, S.C. *Op.Cit* p.193.

¹⁰ Holz, C.A.. "China's Economic Growth 1978-2025: What We Know Today about China's Economic Growth Tomorrow", <http://129.3.20.41/eps/dev/papers/0512/0512002.pdf>, 2 November 2005, p.20.

¹¹ Fogel, R. "\$123,000,000,000,000*: China's Estimated Economy by the Year 2040. Be warned", <http://www.foreignpolicy.com/articles/2010/01/04/123000000000000>, January/February 2010, no page number available.

¹² ICTSD, *China and Global Sustainable Recovery*, http://www.sccc.ch/download/events/2009/20091026-20091027_ICTSD_SCCC.pdf, October 2009, p.4.

¹³ Cypher, J.M. and Dietz, J.L. "Measuring Economic Growth" in *The Process of Economic Development*, Routledge: New York, 2004, p.27.

notion¹⁴. This is because societies value (to different degrees) a wide range of goals, including: wealth, equal opportunity, the role of minorities, and political participation; thereby development needs to be measured by various standards¹⁵. Thus the Human Development Index (HDI) undertaken by the United Nations Development Programme (UNDP) is said to measure living levels more holistically by looking at life expectancy, health, education, as well as income; and will be considered throughout this study on China¹⁶.

Perhaps income cannot be the ends of economic development, however it is also recognised that “the dimensions of development that countries wish to realise are more easily attained at, and tend to accompany, higher income levels¹⁷. Amartya Sen supports this point; he says that growth and individual incomes are very important *means* to expanding the freedoms enjoyed by members of society¹⁸. The HDI may highlight some of the challenges of China, a country that is still developing; however the progress it has already made cannot be disregarded¹⁹. In 1998, China’s standard of living increased as the World Bank reclassified the country from a ‘low income’ to ‘lower middle income’ category²⁰. Income per capita in 2006 was still remarkably five times higher than 1978; and there is no doubt that it has experienced one of the world’s most dramatic poverty reductions, from 53% in 1981 to 8% in 2001²¹. What is interesting is that all these changes have occurred without an overhaul of the political system²². It is thus the characteristic of a mixed developing state and at the same time a significantly advanced economy, that makes China all the more dynamic²³. Therefore, China’s economic experience is not only a current topic, but is relevant to study because of the achievements it has made.

¹⁴ Loc cit.

¹⁵ Loc cit.

¹⁶ Todaro, M.P. and Smith, S.C. Op.Cit p.48.

¹⁷ Cypher, J.M. and Dietz, J.L. Op.Cit p.28.

¹⁸ Sen, A. Development as Freedom, Anchor Books: New York, 1999, p.3.

¹⁹ See Appendix A for “China’s Rise in Human Development Index (HDI), 1975-2008”.

²⁰ Lin, Y. Between Politics and Markets: Firms, Competition, and individual Change in Post-Mao China, Cambridge University Press: Cambridge, Cape Town and Madrid, 2001, p.1.

²¹ Todaro, M.P. and Smith, S.C. Op.Cit p.193.

²² Lin, Y. Op.Cit p.1.

²³ Large, D. “Beyond ‘Dragon in the Bush’: The Study of China-Africa Relations” in African Affairs, Vol.107, No.426, 2008, p.52.

However, one of the challenges in realizing this detailed definition of economic development for any country is the political facet attached to such debates, which claim varying means to achieving such national goals. For instance, the idea of China's model of state-led economic development as more fitting for developing countries than Western market fundamentalism is a frequently debated topic²⁴. Furthermore, in a seminar on the financial crisis of 2008, Ian Bremmer asked the question: "Now that the free market has failed, what do you think is the proper role of the state in the economy?"²⁵. Perhaps it is premature to declare a failure of the free market, but what is of interest is the latter of the question; as according to Todaro and Smith during the 1990's countries in Latin America, Africa, and elsewhere that followed the free-market model had generally not done particularly well²⁶. In fact, income growth rates in general has stagnated in sub-Saharan Africa, and has also been intermediate in various other regions; where as it has generally been rapid in East Asia - in particular, South Korea and Taiwan have come a long way, from being amongst one of the poorest in the world to nearly developed economies²⁷.

Additionally, China is an instance of a middle income country that is growing rapidly, while those in the same category remain relatively stagnant²⁸. What is interesting about these findings, are whether we can infer that such states have succeeded because the shared characteristic and indicator of economic success is that such states adopted a particular growth orientated strategy, never seen before²⁹. No doubt that since unconventional views have begun to reshape our ideas of what constitutes the correct way of achieving success - stringent criteria is no longer a necessary requirement for development. In fact, in the very mid-point of the 2010 Soccer World

²⁴ Stengel, R. "New Opportunities", http://www.time.com/time/specials/packages/article/0,28804,2000110_2000287_2001039,00.html, 1 July 2010, no page number available.

²⁵ The Economist, "Re-enter the Dragon: Two Books ask How Far the China's Model of 'State Capitalism' will Spread", <http://www.economist.com/node/16270962>, 3 June 2010, no page number available.

²⁶ Todaro, M.P. and Smith, S.C. *Economic Development* (10th Edition), Pearson Education: Harlow, London Hong Kong and New York, 2009, p.193.

²⁷ *Ibid.* p.57.

²⁸ *Loc cit.*

²⁹ Papanek, G. "The New Asian Capitalism: AN Economic Portrait" in Berger, P.L and Hsiao, H.M. (eds.): *In Search of an East Asian Development Model*, Transaction Publishers: New Brunswick and London, 1993, p.28.

Cup, the 'FORTUNE/TIME/CNN Global Forum' was held in Cape Town by world leaders³⁰. This conference was aptly called 'Global Opportunity', and was based on³¹:

the idea that global economic power is shifting to the developing world – to Africa and the Middle East, as well as to Asia – and that these markets are more than just frontiers of growth; they are the sources of new ideas and the models that can be applied everywhere.

It is clear that alternate ways of thinking are becoming acknowledged, as no matter their varying development accomplishments, the developing world is progressively redefining our ideas of economic development - to the extent that a new acronym was suggested at the conference, standing for Africa, Brazil, India, China and Indonesia (ABICI)³². This understanding is necessary, because not only is development possible, it is also sometimes impossible to achieve; thus understanding impediments and catalysts can assist in smoother advancement.

This requires an open mind, which may surprisingly lead us to understand that political lines do not agree with development that requires less debate, than the political will to do so. The question then, is not whether the free market path is no longer relevant, but *what* are the many paths that are possible and available for economic development? Thereby the aim of this paper is to understand *how* China achieves such results, as the way its reform process is informed and how it goes about it, can attempt to answer such a question. This is very much in line with the development economics agenda, which is concerned with understanding the political, social and economic requirements that rapidly create structural and institutional transformation of entire societies, in a way that can most efficiently bring the fruits of economic progress to the largest sections of societies – even other countries³³. Therefore, the Chapterisation is as follows:

Chapter one is the theory component of this paper. It explores the traditional points of view – neoliberal and statist - towards growth and economic development. However, the 'Asian Tigers' Model' demonstrates that economics and politics cannot be separated that easily, when it comes to successful growth. It is suggested that moulding reality, that is considering several aspects rather than following theory is sometimes the best means to achieve and understand economic

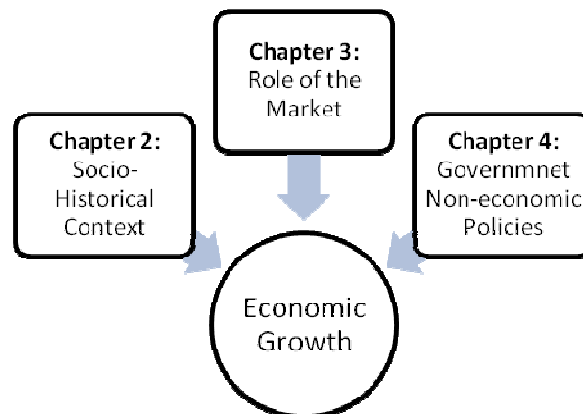
³⁰ Stengel, R. "The Global Forum" in TIME, Vol.175, No.5, 8 February 2010, p.4.

³¹ Loc cit.

³² Elliot, M. "Look Who's Leading" in TIME, Vol.176, No.2, 12 July 2010, p.30.

³³ Todaro, M.P. and Smith, S.C. Op.Cit p.8.

development. Thereby, this chapter provides the aspects that are studied in subsequent chapters. Each following chapter identifies one of the three broader independent variables that have been identified as relevant for China's economic development (the dependent variable). The following causal diagram demonstrates this:



Chapter two looks at the historical and cultural aspects that have informed China's economic development. This includes the mindset of the Chinese people, and how this affects development. It is also necessary to understand the local and global context to explain how the reforms came about, what their intent have been, and how conditions present today have been created. It is only with this knowledge, can we begin to understand the complex roots that China's economic development has spanned, and continues to multiply through ongoing themes and more current conditions.

The third chapter looks at the role of the market - that is to what extent market trends are governing the Chinese economy and its development. The important aspects to consider here are: state owned enterprises (SOEs); special economic zones (SEZs); and trade relations. This is because each of them demonstrates the complicated but practical relationship between global market principles and domestic economic development and needs, which the Chinese government clearly has an important role in determining. Again, it is clearly demonstrated that market and political lines cannot be so effortlessly separated.

The final chapter looks specifically at the government's 'non-economic' policies and reforms, which have complimented and enhanced economic development; this includes the areas of

human capital development; infrastructure; and population control. It is these initiatives that are driving China up the economic development chain. Yet, at the same time the reality of circumstances also need to be regarded when it comes to measuring the success of government efforts. The fact is beyond the shorter-term economic growth, human and social development is most necessary to accomplish sustainable and equal growth³⁴. However, whether these grander sorts of development can be achieved by the Chinese government, is a debatable question – especially when its role is being further removed in several areas, to accommodate the free market stance.

Overall, it is hoped that the combination of theoretical, cultural and historical, and current explanations; as well as detailed research, with examples and cases can assist in the greater understanding of this riddle we call economic development. To supplement these research methods, I would also like to insert my own experiences from my visit to five cities in China including: Beijing, Shanghai - and three cities in Guanxi province - Beihai, Nanning and Yulin in 2010. It is hoped that by including such experiences of China's development, that the topic of China's economic experience becomes more accessible.

By bringing together various areas of China's economic development, it is not actually broad or too ambitious – because the truth of the matter is, we do not need to feel conflicted over whether China is going about its goals in the correct or incorrect manner, such as whether its draconian measures that have aided its growth can be politically supported or not. The fact again is, every person uses their own experiences to try and explain and come to terms with what is going on around us. However, if we encourage ourselves to step away from our own reality, and see other experiences for how and why they are, the picture can become all too clear for the onlooker; because the truth is China is a contradiction of successful growth and controversy at the same time.

To conclude the rationale of this paper, and begin the greater understanding of a culture that is sometimes still considered alien to many, a comment by Tian Duanhui during a seminar aptly fits

³⁴ Mengkui, W. "China Human Development Report, 2005",
<http://planipolis.iiep.unesco.org/upload/China/China%20HDR%202005.pdf>, 2005, p.19.

this subject: “with sound economic development, problems will be solved one by one”³⁵. With this, we may begin to discover one of the perspectives of what economic development just might be.

³⁵ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

Chapter 1: **Theory on the State and Market Role in Economic Development**

It doesn't matter whether a cat is black or white, as long as it catches mice³⁶
-Deng Xiaoping

There are a variety of explanations for underdevelopment, which circulate around the idea that one or more of the elements necessary for growth are missing or inoperable³⁷. These elements include: obstacles like climate, culture, and natural resource endowment; missing factors like a functioning market system, or often times, entrepreneurship; as well as more mathematical explanations. To counter such trends, the optimal means and ways of achieving development are necessary – however, such views are just as divergent. In fact, one of the most controversial issues in the economic development debate is whether governments should be actively involved in promoting economic growth³⁸. To begin this discussion, two orthodox views on the government's role are discussed, showing that the neoliberal tradition largely dominates. At the same time, with the advent of East Asia's economic success, the opposite view seems just as true. However, a closer examination at reality shows that the commitment to one point of view can be unreliable, and that a more eclectic approach is the only manner though which one can truly understand China's economic achievements.

The Traditional Debate between Competing Paradigms

In explaining the transition to economic growth, there is a “heavyweight fight” between the neoliberal or neoclassical, and political or development economists³⁹. Their respective views are as follows:

³⁶ Deng Xiaoping's famous proclamation on efficiency in: McGeary, J. “The Next China” in TIME, Vol.149, No.9, 3 March 1997, p. 22.

³⁷ Weaver, J and Jameson, K. Economic Development: Competing Paradigms, University Press of America: Lanham, New York and London, 1981, p.17.

³⁸ Przeworski, A. States and Markets: a Primer in Political Economy, Cambridge University Press: Cambridge, New York, Melbourne, Madrid, Cape Town and Singapore, 2003, p.167.

³⁹ Edwards, M. “How do Countries grow? It's the Polity, Stupid!” in Future Positive: International Co-Operation in the 21st Century, Earthscan: London, 2001, p.47.

Neoliberal Point of View

Branching from the ideas of Adam Smith, neoliberals see individuals as innately self-interested seekers, who will only take economically productive activities if they have the maximum control over the value they create⁴⁰. This same reasoning goes for state bureaucrats, who are similar to individuals in markets, in that they are both self-interest maximizers. The only difference between the two is the institutional environments which influence their behaviour; that is individuals use self-utility maximising measures, while bureaucrats use political power and nonmarket means to protect their interests⁴¹. This was particularly emphasised in light of Joseph Mobutu Sese Seko's control over Zaire in 1965, where personal fortunes were extracted from the revenues generated by the exporting countries mineral wealth; creating an annual 2.1% decline in per capita GNP in his first two decades of rule⁴². Thereby, government involvement in economics is understandably an impediment to development, as bureaucrats will always find way to look after themselves first; which brings the opinion that "...imperfect markets are better than imperfect states"⁴³.

At the same time, neoliberals believe that governments do play an important function in securing 'public goods', which are difficult to achieve through private contracts, like infrastructure and education⁴⁴. Also, government's do have a role in removing barriers to markets and trade, as this helps easier international integration (especially for developing states); but all else should be left to comparative advantage for economic growth. This means that if 'prices are correct', enough investment will be attracted, resources will be allocated correctly, and wealth will be distributed among the population⁴⁵. In other words, if there is enough growth that can be shared; poverty will decline, even if there is increased inequality in the short run.

⁴⁰ Ma, S. "Understanding China's Reform: Looking beyond the Neoclassical Explanations" in World Politics, Vol. 52, No.4, July 2000, p.587.

⁴¹ Loc cit.

⁴² Evans, P.B. "Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State" in Sociological Forum, Vol.4, No.4, December 1989, p. 569.

⁴³ Edwards, M. Op.Cit p.47.

⁴⁴ So, A.Y. and Chiu, S.W.K. "Current Perspectives on East Asian Development" in East Asia and the World Economy, Sage Publications: Thousand Oaks, London, New Delhi, 1995, p. 5.

⁴⁵ Loc cit.

With this point of view, the neoclassical paradigm is often described as the common framework used to explain economic growth⁴⁶. Emerging from the context of the 1960's, where state socialist economies were collapsing; welfare states in advanced industrial nations were becoming problematic; and stronger performance of export-orientated economies among developed nations was also apparent⁴⁷. Amsdem finds that with these occurrences, the virtues of the free market were moralised among international organisations like the World Bank and International Monetary Fund (IMF)⁴⁸. Also, what has made such institutions so powerful is that they have no real rivals, to the point that the World Bank is a monopoly, if not through its lending then in its research work⁴⁹.

With regard to East Asia's economic success - such as South Korea's ability to grow 7% annually, double real incomes per head, and cut poverty by two-thirds between 1960 and 1990⁵⁰ - neoliberals argue that their economic success does not stem from any ancient secrets or special model, but simply old-fashioned free enterprise. Even today, the argument for China's success, according to this school, is that growth has been particularly potent with market-orientated reforms that have created profit incentives to rural and small private enterprises⁵¹. However, it is largely the Asian newly industrialised countries (NICs); Hong Kong, Singapore, South Korea and Taiwan; that have traditionally been used to validate the importance of outward-orientated, market-led development⁵². This strategy is what neoliberals have promoted as creating growth and a true development model for the South.

However, from the early 1990's, this dominant view began to be challenged as the approach's assumptions could not explain all that was happening in the 'real world'; that is besides Hong Kong, the NICs did not adhere to neoclassical orthodoxy as the states' played a major economic

⁴⁶ Hu, Z and Khan, M.S. "Why is China Growing So Fast", <http://www.imf.org/external/pubs/ft/issues8/index.htm>, June 1997, no page number available.

⁴⁷ Clark, C and Jung, C. "The Resurrection of East Asian Dynamism: A Call to Look beyond the Orthodoxies in Developmental Studies" in *Asian Affairs*, Vol.31, No. 3, fall 2004, p.135.

⁴⁸ Todaro, M.P. and Smith, S.C. *Op.Cit* p.546.

⁴⁹ Amsdem, A.H. "Why isn't the Whole World Experimenting with the East Asian Model to Develop?: Review of the *East Asian Miracle*" in *World Development*, Vol.22, No.4, 1994, p.633.

⁵⁰ Edwards, M. *Op.Cit* p.51.

⁵¹ Hu, Z and Khan, M.S. *Op.Cit* no page number available.

⁵² Broham, J. "Post-war development in the Asian NICs; Does the Neoliberal Model Fit Reality?" in *Economic Geography*, Vol.72, No.2, April 1996, p.107.

role as well⁵³. In fact, for those who hold a different view, the NICs are also ‘developmental states’, meaning that state actions actually promote rather than impede transformation⁵⁴. So the neoclassical view was making large assumptions that fraud, monopoly and corruption could be resolved “with the wave of a neoclassical wand”⁵⁵. Having said this, the dominant counter to neoclassical economics is examined.

The Statist Point View

It can simply be said that the statist perspective has emerged as a critique of the neoclassical economic explanation. Instead of focusing on private enterprise, trade liberalisation and free markets, this perspective does not see a restricted role of the state, and that it rather has a strategic role to play in disciplining domestic and international market forces to meet national ends⁵⁶. In fact, an effective government is probably necessary when there is market failure, and is possibly even sufficient to achieve greater economic development. What is implied by this view is that if a particular regime in question does not perform competently and honestly, it can eventually be forced through means like: increased political pressure, possibly losing elections, or any other ways of forfeiting power⁵⁷.

Thereby, there is no doubt from this view that the state has a role to play in the economy, whether it can do something for the better (or worse) that the market cannot do. Basically, the state can compel; force agents to use resources a certain way; and also take resources used by private agents who use them in one way, to others who can use them in another⁵⁸. Clark and Jung support this point of view by further adding that states can also obtain foreign loans for developmental needs; use trade policy to protect ‘infant industries’; develop human capital; and use state corporations to develop the industries where private capital is scarce⁵⁹.

With specific reference to NIC development, the statist view challenges neoliberals who believe that NIC growth rates are due to the absence of state economic intervention. NIC national

⁵³ Clark, C and Jung, C. Op.Cit p.135.

⁵⁴ Evans, P.B. Op.Cit p.563.

⁵⁵ Todaro, M.P. and Smith, S.C. Op.Cit p.546.

⁵⁶ So, A.Y. and Chiu, S.W.K. Op.Cit p.12.

⁵⁷ Loc cit.

⁵⁸ Przeworski, A. Op.Cit p.159.

⁵⁹ Clark, C and Jung, C. Op.Cit p.136.

governments have played an important role in the successful economic development experiences of their countries. In fact, Kearney believes that NIC development is characterised more by “...the Long Arm of state intervention than...the Invisible Hand of the Free Market”⁶⁰. Yes, it is true that Hong Kong followed a laissez-faire form of development strategy; yet even its own government made positive ‘non-intervention’ policies such as export promotion, public housing, technological change, economic diversification, and social welfare and public services⁶¹. For the others, state intervention was key in stimulating growth and assisting structural change; this was demonstrated in South Korea and Taiwan, as the state used its ownership of major commercial banks (including a comprehensive system of trade controls and industrial licensing), which helped to shape decisions linked to investment and production⁶².

With a constructive investment policy, the NICs expenditures on primary and secondary schooling did not lead to unemployment, and students exiting tertiary education did not just add to a ‘brain drain’⁶³. On the contrary, primary and secondary school leavers in sub-Saharan Africa face uncontrolled unemployment, despite their governments’ higher expenditure on education⁶⁴. Moreover, unlike the neoclassical logic, East Asian states have created price distortions so that the desired levels of investment would be directed towards strategic sectors⁶⁵. Thereby, although exports have undeniably accelerated growth for the NICs; the NIC experience also shows that an active state can spur growth and development, especially for ‘late Industrializers’. Amsdem even shows that the pro laissez-faire World Bank acknowledges the contributions of the developmental state view; in the report *The East Asian Miracle Report* it stated that in most of the East Asian states, in one form or the other the state has intervened – systematically as well as through various channels⁶⁶. Thereby, true to Przeworski’s word, growth is truly and intrinsically a political process, as the current and future consumption of an individual is often mediated by the choices made by everyone else⁶⁷.

⁶⁰ Broham, J. Op.Cit p.115.

⁶¹ Loc cit.

⁶² Loc cit.

⁶³ Amsdem, A.H. Op.Cit p.629.

⁶⁴ Loc cit.

⁶⁵ Onis, Z. “Review: The Logic of the Developmental State” in Comparative Politics, Vol.24, No.1, October 1991, p.112.

⁶⁶ Amsdem, A.H. Op.Cit p.627.

⁶⁷ Przeworski, A. Op.Cit p.170.

At the same time, one of the controversial issues that taint the status perspective is the notion of authoritative and repressive regimes. Schuman notes, that if the West itself does not straighten out its government systems to match what it advocates, politically unreformed states like China will very well be the states that are able to make the decisions that a nations needs to endure in today's high-tech, high-speed world⁶⁸. Amartya Sen also states that we cannot take the high growth rates of South Korea in Asia as definitive proof that authoritarianism is better in promoting economic growth⁶⁹. Even so, theorists like Amsdem explains that if we cannot establish statistical links between specific interventions and growth, we also cannot establish links between *non*-intervention and growth⁷⁰.

In more detail, Latimer explains that repression is tied to the level of modernization of an economy⁷¹. He says "it is in the transitional phase from traditional to an embryonic modern society that repression is necessary"⁷². In other words, when modern market institutions are being established, it is necessary to restrict self-interested activities (however repression also does not need to be society-wide but sector specific)⁷³. Edwards agrees with Latimer, that governments needs to push the process of sustainable growth and sometimes this requires a period of authoritarian rule before consolidating democracy⁷⁴. Singapore, Taiwan and South Korea are such instances of autocratic regimes that used the system's potential benefits before closer transitions to democracy⁷⁵. Also, it is logical to think that politicians who are reasonably confident of staying in power for a long time are the ones with the ability to pursue longer term development projects.

Perhaps the NICs do have a record concerning human rights and democratisation; but it should also be noted that during that phase, they also have a positive record and intentions through poverty reduction, employment, working conditions, and wage and income levels⁷⁶. However,

⁶⁸ Schuman, M. "The Real Deal" in TIME, Vol.175, No.8, 1 March 2010, p.48.

⁶⁹ Sen, A. Development as Freedom, Anchor Books: New York, 1999, p.149.

⁷⁰ Amsdem, A.H. Op.Cit p.628.

⁷¹ Latimer, W.S. "Human Rights and East Asian Economic Development: Are There Lessons for South Africa" in East Asia Project, no volume available, No.15, May 1997, p.18.

⁷² Ibid. p.19.

⁷³ Loc cit.

⁷⁴ Edwards, M. Op.Cit p.47.

⁷⁵ Todaro, M.P. and Smith, S.C. Op.Cit p.559.

⁷⁶ Broham, J. Op.Cit p.125.

being such a controversial issue, the only ‘correct’ governing method leading to growth seems ideologically informed.

Another challenge for the statist perspective came with the advent of the 1997 Asian financial crisis; conjuring up the philosophical debate between whether the discipline of world markets or the trusting leaderships of strong developmental states were essential to prosperity and growth. The Asian flu inevitably created criticism of the developmental state model, particularly from neoclassical supporters, that public officials only distort the economy when they intervene for political goals⁷⁷. However, Edwards states that the problems of the crisis do not necessarily invalidate the achievements that came alongside them; because this was the same philosophy that had eradicated absolute poverty; and created a leap in technology and output⁷⁸. Also, countries like Taiwan and China largely escaped the effects of the crisis; while corruption and financial instability accompanies any system and institution that cannot keep up with rapid growth⁷⁹. Similarly, the great depression of the 1930’s that damaged the industrialised countries was destructive in the short run, yet its lessons provided long-term recovery⁸⁰.

Which Theory is more suitable?

It is clear that neither the neoclassical nor statist models are free from criticism, especially as both their respective fundamental views have been countered by events and circumstances; rather it seems as if they each make “... part of an ever-changing development orthodoxy”⁸¹. However, above changing times, perhaps it should be demonstrated that in fact, there are very few examples where each theory exists single-handedly.

Making Sense of Two-Competing Paradigms

Considering that two perspectives have been able to explain successful economic growth, only to an extent, it is necessary to examine if they exists in tandem. Edwards seems to think so, as he demonstrates that Japan, the United States (U.S.) and Germany all successfully industrialised

⁷⁷ Clark, C and Jung, C. Op.Cit p.136.

⁷⁸ Edwards, M. Op.Cit p.52.

⁷⁹ Loc cit.

⁸⁰ Loc cit.

⁸¹ Todaro, M.P. and Smith, S.C. Op.Cit p.545.

behind protective barriers while their own institutions were developing; while Sweden and the Netherlands could afford to be more open economies⁸². Even more recently since the 2008 economic crisis, the unquestioned leader of the global economy - the U.S. - saw a disorientating shift in economic policy, away from capitalism that has guided it for over thirty years, to more overt government regulation of large parts of the economy⁸³. This seems no different to NIC state economic intervention which promotes a selective opening of markets in internationally competitive sectors. What these cases show is that there really are constant balances between states and markets; and perhaps these examples defeat the paradigm debate, as what only gave Sweden and the Netherlands less state intervention was simply their better initial conditions⁸⁴. On a larger scale, it was technological innovation and other types of competitive assets that made it easier for Britain and the U.S to industrialise with less governmental support than late Industrializers⁸⁵. Thereby, in 1906, Marx correctly observed that ideas are often based on our particular material circumstances, and in summation, “...every country which has moved...to strong sustained growth (except Britain)...has done so in outright violation of free-market principles”⁸⁶.

Even more clearly than before, the two main paradigms of economic development cannot be separated as easily as thought. This combination is better equipped to inform and explain the exploration of this study: China’s economic development.

China: a Hybrid Study

From a theoretical point of view China is an interesting state to study considering that since its post-Mao reforms: economic, social, and political dynamics have altered; and at the same time the country has “...provoked rethinking on a wide range of theoretical issues...”⁸⁷. It is also mystifying that it has achieved rapid economic growth without entirely privatising; Chinese officials have not been very resistant to reform; and that the state has become developmental

⁸² Edwards, M. Op.Cit p.48.

⁸³ Powell, B. “China Flies High” in TIME, Vol.174, No.5, 2009, p.29.

⁸⁴ Edwards, M. Op.Cit p.48.

⁸⁵ Amsdem, A.H. Op.Cit p.631.

⁸⁶ Loc cit.

⁸⁷ Ma, S. Op.Cit p.586.

rather than predatory in nature⁸⁸. Thus, orthodox models do not adequately explain the China puzzle either.

China's development does share many characteristics with the East Asian developmental state model. Like the little dragons, China produces labour-intensive goods for industrialised countries; it also has a development strategy that is similar to that of Taiwan⁸⁹. Overall, China and its neighbours demonstrate the interplay between the market and state; for instance industries that are not priority sectors, often only experience policy interventions occasionally, while the rest have been exposed to global market competition – so basically, the centre of their industrial policy has been intervention selectivity⁹⁰. Clark supports this by stating that the East Asian political economies, at their most successful, have transcended the opposition between market and government that is often assumed in Western theories, from laissez-faire to socialist⁹¹.

Yet, how this mixture is consolidated in China is of interest to this particular study. Besides sharing similar strategies to its neighbours, there must also be some unique qualities in its own mixture, for instance China was the least affected by the 1997 Asian Financial crisis even though it shared the same economic vulnerabilities as its neighbours⁹². Thus, by tracing the factors that have influenced China's economic development in subsequent chapters, its own unique process will also become apparent. Of particular interest is how, with the opening up of its market, the Chinese government has coordinated its development policy to play an important role in accelerating growth and also reducing poverty; as well as deliberately coordinating economic decision making in the long-term, to influence the level of growth and economic variables like consumption. China is definitely a mix of a combination of unique features, with continued state-centricity as well as more diversity and flexibility, thus permitting market dynamism to emerge from state hierarchies⁹³. In this manner, China conjures the latest pertinent question for

⁸⁸ *Ibid.* p.587.

⁸⁹ Clark, C and Jung, C. *Op.Cit* p.139.

⁹⁰ Onis, Z. *Op.Cit* p.112.

⁹¹ Clark, C and Jung, C. *Op.Cit* p.147.

⁹² Baek, S. "Does China Follow 'The East Asian Development Model'?" in *Journal of Contemporary Asia*, Vol.35, No.4, 2005, p.485.

⁹³ Ma, S. *Op.Cit* p.593.

development, that is “...how to find the appropriate mixture of market orientation and government intervention in a manner consistent with rapid and late industrialization”⁹⁴.

A New Way of Thinking

It has thus far been demonstrated that states are not simply market or state dominated, and can to varying degrees accommodate both; the reason for the emphasis on ‘degrees’ is because it is also true that things like states are also not “standardised commodities”⁹⁵. States come in various shapes, styles and sizes, and thus it is also important to understand what kind of states is aiding growth of a predatory nature⁹⁶. That is also not to say that all developmental states have been free of corruption or repression, as demonstrated by the Kuomintang (KMT) whilst in mainland China, and the case of South Korea⁹⁷. Thereby, with using the hybrid theory, it is necessary to also understand the state’s role within a certain period, in this case how China’s reforms since 1978 have affected economic development today, since it is still operating under reforms. This is because growth is not always linear (if one looks at China’s historical rise and falls); rather what is interesting is the study of social and economic interactions over time that has led to specific successes⁹⁸.

Therefore, even though theory is able to bring certainty to many situations - with economic development - there are clearly various paths that cannot always be explained simply. What can be said though is that there has been much focus on policies, and not enough on the politics that can sustain them; so in Edwards’s words, “...It’s time to reverse the balance”⁹⁹. Therefore, a hybrid model explains China’s economic development more thoroughly. At the same time, further considerations or approaches, which may not necessarily contradict this eclectic view, may need to be considered in order to have a full outline of this study.

⁹⁴ So, A.Y. and Chiu, S.W.K. Op.Cit p.12.

⁹⁵ Evans, P.B. Op.Cit p.562.

⁹⁶ Loc cit.

⁹⁷ Ibid. p.563.

⁹⁸ Edwards, M. Op.Cit p.49.

⁹⁹ Loc cit.

Can a Hybrid Theory Fully Explain China's Economic Development?

Although the statist and neoclassical models are both necessary, it is just as necessary to combine the similar criticisms or the lacking of both. Most importantly, neither model has traditionally and adequately incorporated the cultural perspective to their analysis¹⁰⁰. This does not mean the hybrid model should be abandoned as the main framework for China's economic analysis, since the cultural perspective does not necessarily aim to reduce economic development to just a set of cultural traits. Culture is not the main factor of development but allows researchers to link development choices and institutions to particular cultural antecedents, which helps make the reasons for certain choices easier to understand¹⁰¹. Also similarly, historical (such as foreign domination) and geopolitical factors are just as important and supplementary¹⁰². Thereby, as a reference point, these considerations "compliment rather than contradict the [orthodox]...economic interpretation"¹⁰³.

Through the contemplation of such factors, this study will incorporate what So and Chiu see as missing in literature; that is, a comprehensive meta-perspective that studies the complex interactions among cultural, political and economic forces – the forces that have all shaped East Asian, and particularly China's, development¹⁰⁴. By expanding the analysis, actors beyond the state and the private sector, like non-governmental organisations (NGOs) - which can use voluntary efforts and influence further social and economic goals – can be considered just as necessary. It is thus essential when examining a theory, to understand the extent of reality it is able to explain, for instance the neoclassical model may be realistic and suitable for actors such as multinational corporations (MNCs) simply because they are the ones with the interests in open markets¹⁰⁵.

¹⁰⁰ So, A.Y. and Chiu, S.W.K. Op.Cit p.8.

¹⁰¹ Loc cit.

¹⁰² Ibid p.11.

¹⁰³ Ibid p.8.

¹⁰⁴ Ibid p.21.

¹⁰⁵ So, A.Y. and Chiu, S.W.K. Op.Cit p.7.

End Remarks

Considering the case of China and its neighbours, it can therefore be drawn that there are a variety ways of being modern and that Western liberal democracy is but one of them¹⁰⁶. It is clear from this discussion that there is no agreement on which theory is best for economic development, since “ugly facts don’t fit fancy models”¹⁰⁷. This chapter has thereby demonstrated that there really is no one factor that can serve as the best path for development or economic growth rates¹⁰⁸. Having said that, the various factors that have contributed to what we call China’s economic development will be addressed in subsequent chapters.

Additionally, keeping in line with the discussion on theory, the relationship between the state and economic development will be particularly pertinent in China’s economic experience. Even more so, the consideration of issues mentioned that go beyond the state and market has also contributed to the variables, which complete the next three subsequent chapters. These chapters thus deal with, in the following order: the socio-historical context, which is informed by the past and cultural perspective; the governments’ non-economic policies whose intention is the well-being of the population as well as foster human capital that give economic development its significance; and lastly, the role of the market, and the government’s relationship with such a system. These considerations and chapters are what will eventually lead away from traditional theoretical paradigms to the more complex understanding of economic development - something aptly embodied in the Chinese model.

¹⁰⁶ Elliot, M. “Into the Unknown” in TIME, Vol.174, No.5, 10 August 2009, p.32.

¹⁰⁷ Edwards, M. Op.Cit p.49.

¹⁰⁸ Loc cit.

Chapter 2:

The Cultural and Historical aspects of China's Economic Reforms

千里之行，始於足下 (A journey of a thousand miles begins with a single step)
- Lao Tzu, Chinese philosopher (604 BC - 531 BC)

In keeping with the theoretical discussion on looking beyond the traditional paradigms; considering aspects that explain *how* China's reforms came about and *why* a particular reform path was chosen - are necessary supplements to understand China's current economic choices. Also, the ideas discussed in this chapter are probably the most difficult for other countries to replicate, considering that it involves culture, geography, circumstance, leadership and luck¹⁰⁹. As will become apparent, both a particular mindset and past are important when it comes to national choices; and as aptly put, national objectives will not be achieved "...unless there is a clear-eyed sense of where China has been and where it is going"¹¹⁰. At the same time, a 'Chinese way' must be preconceived in a sophisticated manner that leads away from a black-white dichotomy of things like liberty versus tyranny, and rather takes into account China's ancient and modern history¹¹¹; and by Chinese, it is referring to the description of the largest group of culturally and ethnically unified people in the world¹¹².

More generally, economic development is a process of cultural and social change; and above that, there are various viable impulses to change in society that must be considered¹¹³. Thereby both cultural choices as well as history are two important influences that cannot be separated easily; as in order to understand a culture's unique attributes, the very study of history is required¹¹⁴. So to understand China's larger strategy, the long-term culture and context that has provided the impetus for subsequent economic preferences are examined; as these are some of the major shaping forces that are necessary when attempting to understand any period of history¹¹⁵. The

¹⁰⁹ Edwards, M. Op.Cit p.57.

¹¹⁰ Elliot, M. "Small World, Big Stakes" in TIME, Vol.165, No.26, 27 June 2005.

¹¹¹ Wei, P. "The Chinese Model of Development", <http://fpc.org.uk/fsblob/888.pdf>, 11 October 2007, p.2.

¹¹² Taeuber, I.B. "China's Population: The Riddle of the Past, Enigma of the Future" in Feuerwerker, A (ed.): Modern China, Prentice Hall: New Jersey, 1964, p.16.

¹¹³ Nash, M. "Some Social and Cultural Aspects of Economic Development" in Economic Development and Cultural Change, Vol.7, No.2, January 1959, p.139.

¹¹⁴ Kwok, C.C.Y and Tadesse, S. "National Culture and Financial Systems" in Journal of International Business Studies, Vol.37, No.2, March 2006, p.230.

¹¹⁵ Hsü, I.C.Y. The Rise of Modern China (Third Edition), Oxford University Press, Hong Kong, Oxford, New York, Melbourne, 1984, p.7.

discussion begins with long-standing cultural traits that have allowed the nation to approach economics in a particular manner; following by the examination of global and local contexts that led to China's reforms. Only with this understanding, can the importance of current reforms in China be understood.

A Culture that Informs Economic Development

Culture can be described as a collective programming of minds that distinguishes members of a category of people from others¹¹⁶. In turn, this group holds values that shape a "set of behavioural competencies that in turn form behavioural dispositions"¹¹⁷. Of course, cultures are not rigid and can also transform in subtle ways, particularly with the exertion of outside forces of nature, and human beings: through trade, conquest, technological breakthroughs or political dominance¹¹⁸. Yet Hof disagrees that cultures would become homogenous with the advent of technological advancement and modernization, because these things still do not "...wipe out variety"¹¹⁹. 'Tradition', the basic cultural logic that has been created by China's social legacy, is what has shown much continuity¹²⁰.

On a larger scale though, national culture can become extremely stable over time – as ironically, the very institutions that reinforce cultural patterns, are themselves the products of dominant cultural systems¹²¹. According to Fukuyama, this is apparent with economic development, as particular norms and social values can in fact promote ideas of saving, exchange and investment – which for him support the idea that there is a cultural dimension that pervades economic behaviour¹²². Four such ways that economic life is affected is through: cultures impact on production and organization; to create and manage institutions; on attitudes towards

¹¹⁶ Kwok, C.C.Y and Tadesse, S. Op.Cit p.229.

¹¹⁷ Hudson, V.M. "Cultural Expectations of One's own and Other Nation's Foreign Policy Action Templates" in Political Psychology, Vol.20, No.4, December 1999, p.767.

¹¹⁸ Kwok, C.C.Y and Tadesse, S. Op.Cit p.230.

¹¹⁹ Ibid. p.231.

¹²⁰ Solomon, R.H. Mao's Revolution and the Chinese Political Culture, University of California Press: Berkley, Los Angeles and London, 1972, p. 20.

¹²¹ Kwok, C.C.Y and Tadesse, S. Op.Cit p.230.

¹²² Fukuyama, F. "Culture and Economic Development: Cultural Concerns", www.sais-jhu.edu/faculty/fukuyama/articles/isb505010.pdf, no date available, p.3130.

consumption; and the creation of social networks¹²³. Thereby, the particular cultural elements or traits that could provide a comparative advantage are important¹²⁴, and will thus be discussed.

The Social Structure of Chinese Society

It is necessary to understand the way the Chinese have historically viewed politics, authority and social conflict, in order to grasp what the societal political culture is; not forgetting that its moral norms also play a great influence¹²⁵. Thereby, beyond the individual social behaviour in everyday life, there is more or less a set of orderly, institutionalised cultural arrangements at the societal level¹²⁶. For Edwards, the Confucian emphasis on conformity; the needs of society as a whole; respect for education and hard work; and authority that rules but exercises with compassion, are definitely important aspects of East Asian (or Sinitic civilization) success¹²⁷. It is this importance that Confucianism is used to explain Chinese society, as such a thought continues to pervade a political and economic function by providing moral foundations¹²⁸.

Unlike any other philosophical tradition, the Chinese in both past and present, view life and philosophy as a totality, than as parts¹²⁹. In other words, there is a closer relationship between philosophical theories and practice in China than other places¹³⁰. In fact, this study shows the clear interlink between Confucian culture and economics. This culture links morality and the sacred ideas of success in political and economic life¹³¹. Even more so, Confucianism motivates economic rationality and ceremonial functions that are both agreeable with modern savings and investments¹³². The enmeshing of culture and marketplace is visible in late imperial China; for instance, Confucian values gave merchants a sense of self-esteem and also encouraged officials

¹²³ *Ibid.* p.3132.

¹²⁴ Hsiao, H.M. "An East Asian Development Model: Empirical Explorations" in Berger, P.L. and Hsiao, H.M (eds.): *In Search of an East Asian Model*, New Brunswick: New Jersey, 1993, p.19.

¹²⁵ Solomon, R.H *Op.Cit* p.2.

¹²⁶ Hsiao, H.M *Op.Cit* p.20.

¹²⁷ Edwards, M. *Op.Cit* p.56.

¹²⁸ Bell, D. "From Commune to Confucianism: China's Alternative to Liberal Democracy", www.digitalnpq.org/archive/2010_spring/06_bell.html, spring 2010, no page number available.

¹²⁹ Moore, C.A. "Introduction: The Humanistic Chinese Mind" in Moore, C.A. (ed.): *The Chinese Mind: Essentials of Chinese Philosophy and Culture*, East-West Center Press, Honolulu, 1967, p.3.

¹³⁰ Chan, W. "Chinese Theory and Practice, with Special Reference to Humanism" in Moore, C.A. (ed.): *The Chinese Mind: Essentials of Chinese Philosophy and Culture*, East-West Center Press, Honolulu, 1967, p.11.

¹³¹ Myers, R.H. "How did the Modern Chinese Economy Develop? – A Review Article" in *The Journal of Asian Studies*, Vol.50, No.3, August 1991, p.618.

¹³² *Loc cit*.

to regard commerce as a socially valuable activity that must be promoted by the use of complex, flexible procedures¹³³. More specifically, Yu Ying-Shih argues that the values of merchants in this period were in important ways similar to “the spirit of capitalism”; while Metzger states that state supervision of the salt monopoly came with relative flexibility to respond to complex commercial forces – feature still prominent today¹³⁴.

Thereby, with the idea of Confucianism playing the over-arching thought that underlies Chinese society the Confucian derived values and ethics toward family, authority and work are now explored¹³⁵.

The Family in Chinese Society

At first glance, family life seems largely irrelevant to the type and speed of economic development. However, familial institutions have dominated almost every feature of social, cultural, political and economic aspects of Chinese life for centuries¹³⁶. It is notable to remember that the main type of group that Confucius recognises is the family, as an individual’s life is incomplete without existing along social relationships¹³⁷. In fact, the basic unit of society is often seen as the family, not the individual¹³⁸. Having said that, Chinese family organisation has also evolved since the imperial times, and that not all aspects of this arrangement may be conducive to economic success - however the entrepreneurial tendencies of Chinese families embedded in Confucian values and ancient traditions will find expression under favourable conditions¹³⁹. For instance, one of the factors that made circumstances conducive for economic development in China was the incorporation of Western notions of progress and modernity¹⁴⁰. Thus, instead of family institutions being passive and subject to powerful economic and political forces, family patterns can affect whether and how rapidly economic development occurs¹⁴¹.

¹³³ Loc cit.

¹³⁴ Loc cit.

¹³⁵ Hsiao, H.M. Op.Cit p.19-20.

¹³⁶ Whyte, M.K. “The Chinese Family and Economic Development: Obstacle or Engine” in Economic Development and Cultural Change, Vol.45, No.1, October 1996, p.14.

¹³⁷ Solomon, R.H. Op.Cit p.38.

¹³⁸ Hsü, I.C.Y. The Rise of Modern China (Third Edition), Oxford University Press, Hong Kong, Oxford, New York, Melbourne, 1984, p.69.

¹³⁹ Whyte, M.K. Op.Cit p.14.

¹⁴⁰ Freedman, M. “The Family in China, Past and Present” in Feuerwerker, A (ed.): Modern China, Prentice-Hall: New Jersey, 1964, p.35.

¹⁴¹ Whyte, M.K. Op.Cit p.1.

For instance, family loyalty in Chinese society plays a strong source of motivation and performance. Whyte explains that for the sake of the family, young Chinese will generally study diligently, pursue advanced education and maximize their qualifications, and also take pay cuts for the family business to succeed¹⁴². This type of family loyalty and entrepreneurial aspirations also explain the high savings rate, which is a characteristic of Chinese families¹⁴³. Furthermore, it is believed that family orientated business are also better in succeeding, since members are likely to remain loyal, even if better paying opportunities arise elsewhere, allowing a continuation in firm management - anthropologist Margery Wolf explains that Chinese farm families reveal this tendency¹⁴⁴. Even more so, the use of family roles to arrange management is often used as a cultural basis for enterprise authority, which helps avoid any conflict¹⁴⁵. So, even though the Chinese family has evolved with a changing context, what is still very apparent is the traditional treatment of the duties of children to their parents; because parents have a duty to rear and educate their children, while the children have the duty to look after and assist their parents – even more they can inherit the other's' property¹⁴⁶.

At the same time, even though traditional Chinese family patterns can be advantageous for development; they are also controversial. For instance, sex-role segregation in Confucian cultures have an economic benefit as women often participate in firm operations as bookkeepers and financial managers, however, even more importantly is their contribution through child rearing¹⁴⁷. By pouring their energies into making sure that children remain motivated and loyal to the family, guarantees that the dynamics of the family firm remain and loyalty persists¹⁴⁸.

Additionally, the idea of kinship organization can also be described on a societal level. In fact, kinship relations and values dominate the conduct of economic affairs, which often leads enterprises to take the form of what is often called: the 'family business'¹⁴⁹. Thereby, Chinese

¹⁴² Ibid. p.9.

¹⁴³ Loc cit.

¹⁴⁴ Whyte, M.K. Op.Cit p.9.

¹⁴⁵ Ibid. p.10.

¹⁴⁶ Freedman, M. Op.Cit p.37.

¹⁴⁷ Whyte, M.K. Op.Cit p.10.

¹⁴⁸ Ibid. p.10.

¹⁴⁹ Freedman, M. Op.Cit p.30.

economic enterprises tend to strongly be organised so that people are related by kinship or affinity, even if they are not family-based firms¹⁵⁰. The instance of the Ethnic Business Networks (ECBN) is fitting here, as many of these networks are directly tied to the family type structure in that they place great emphasis on human relations, largely based on ethnicity; and ties are based on trust and other none contractual relations based on kinship¹⁵¹. Therefore, the operation of these networks is informal, and because of mutual trust, it is common to have deals involving hundreds of millions of U.S. dollars carried out between Chinese firms without legal contracts¹⁵².

With such a traditional outlook such as: relationships' being more important than transactions and more attention to friendship and trust than formal contracts as the basis for business - the family and social structure is thereby conducive to economic efficiency. So, there are two relevant views on the family in Chinese society: one, is the family as a unit of society; and secondly, the family as a model for the entire society - in fact the entire "polity might be regarded as one massive family"¹⁵³. Thus, it can be said that the form taken by the 'family' in recent years is essentially no different as that which we have seen to have characterised the Chinese population before any modern trends intercepted¹⁵⁴. Having said this, it is a fitting juncture to move onto larger society and its relationship with politics, as contributing to economic harmony.

Society and the Chinese Government

In respect to the drive for reforms, Nash states that the ability of a government to carry out any possible measures that are open to them, really depends on the degree and kind of national integration available; this is often easier when there is a sort of national culture above a plurality of traditions - from a cultural perspective Chinese society holds such characteristics¹⁵⁵.

What is very important to note is, Chinese society is organised very differently to the West in that there is no clear state-society dichotomy, rather the state and society are intermingled and

¹⁵⁰ Loc cit.

¹⁵¹ Peng, D. "Ethnic Chinese Business Networks and the Asia-Pacific Economic Integration" in Journal of Asian and African Studies, Vol.35, No.1, 2000, p.232.

¹⁵² Ibid. p.234.

¹⁵³ Freedman, M. Op.Cit p.27.

¹⁵⁴ Ibid. p.40.

¹⁵⁵ Nash, M. Op.Cit p.143.

penetrated by one another “...into an entity or many entities like waves of concentric circles”¹⁵⁶. Furthermore with this combination, the importance of group life also means exposing the individual to collective interests¹⁵⁷. Thereby, with parallels to the familial structure again, the traditional dominant social philosophy in Chinese politics is that: like the filial piety with which the superior man shows his parents, so it should be transferred to his ruler as the ruler “...completes the lessons for the state”¹⁵⁸. Confucius also encouraged citizens to take up informal than formal participation in society; thus the masses are discouraged from actively participating in politics¹⁵⁹. So, filial piety is also prominent in politics or superior-subordinate relations, where the ruler should be seen as a parent¹⁶⁰. From this point of view, participation in government must be done on the basis of respect and obedience.

In that way, it can be said that China has a long-standing culture where politics is “ruled by men, not laws”¹⁶¹. However, in return, Confucianism does demand that leadership be moral; virtuous; attentive to the needs of the population; set a precedence of the past; as well as be a living example to the population¹⁶². So, in relation to reforms and the fact that China is a developing state, Confucian tradition persuades the logic that: to benefit the people, material conditions must firstly be secured; thus, rulers and officials are advised to first make people comfortable, and then educate them¹⁶³. Additionally, unlike the electoral democratic system, Wei says that the Chinese government does ensure accountability to the population through meritocracy; that is the entering of government through examinations, and the promotion through constant evaluations – considering that government positions are subject to fierce competition¹⁶⁴.

Thus the political system is likened to a family; harmony is achieved as long as everyone fulfils their required roles, creating a reciprocal relationship. Adding to this mixture that is conducive to economic reforms then, is the Chinese emphasis on interpersonal harmony as a social value, so much so that even Chinese societies bear names like ‘Western Tranquillity’ (Sian) and ‘Southern

¹⁵⁶ Wei, P. Op.Cit p.2.

¹⁵⁷ Solomon, R.H Op.Cit p.4.

¹⁵⁸ Ibid. p.28.

¹⁵⁹ Murthy, V. Op.Cit. p.23.

¹⁶⁰ Loc cit.

¹⁶¹ McGeary, J. Op.Cit. p.16.

¹⁶² Hsü, I.C.Y Op.Cit p.46.

¹⁶³ Loc cit.

¹⁶⁴ Wei, P. Op.Cit p.10.

Peace' (Nanning)¹⁶⁵. Confucius sees the importance of being in harmony with traditional values as “the exemplary person pursues harmony rather than conformity; the small person does the opposite”¹⁶⁶. Harmony ultimately means that each person knows and stays in their proper position in society¹⁶⁷. Such ideas still prevail in modern China.

During the commencement of reforms, leader Deng Xiaoping recognised that before the four modernisations could be implemented, the precondition was a political circumstance characterised by traditional views of social stability and unity¹⁶⁸. In fact, in an interview with Liu Song from the Foreign Affairs Office of Guangxi Zhuang Autonomous Region; he made the comment that China is a harmonious society in general; he pointed to the idea that there exists no serious conflict between minority ethnic groups all over China – although he does consider Tibet and Xinjiang to be slight problems, but under control¹⁶⁹. So when asked in a seminar, how China has maintained stability during the 2008 economic crisis, Danhui answered: it is the long-standing strength of China's political system, and the respected leadership and guidance of the Chinese Communist Party's (CCP) that the response to national needs have been rapid¹⁷⁰. Even today, theorists like Pan Wei, looks to Chinese roots to explain the current China model. Looking to ancient Chinese mythology, Wei refers to the model as the ‘Kunpeng System’ after the massive and glorious bird of Chinese legend – “Its head is people-based politics, its state system (社稷体制) is the body, and the national economy (国民经济) is its wings . . .”¹⁷¹.

Overall, what is clear is that the Chinese state has a tradition where it is disciplined, meritocratic; yet reasonably accountable and autonomous from interests groups that can stifle reforms; while citizens are generally hard workers and savers, and can accept wage limits for the promise of

¹⁶⁵ Solomon, R.H Op.Cit p.3.

¹⁶⁶ Murthy, V. Op.Cit. p.21.

¹⁶⁷ Buttery, A.E. and Leung, T.K.P. “The Difference between Chinese and Western Negotiations” in European Journal of Marketing, Vol.32, No.3/4, 1998, p.383.

¹⁶⁸ Gibney, F.B. “We can Develop a Market Economy under Socialism”, www.china.org.cn/english/features/dengxiaoping/103388.htm, 26 November 1979, no page number available.

¹⁶⁹ Loc cit.

¹⁷⁰ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

¹⁷¹ Bandurski, D. “The China Model, Matter or Myth?”, <http://cmp.hku.hk/2010/05/06/6003/>, 6 May 2010, no page number available.

future benefits¹⁷². Berger remarks that even today, amongst its most modern sectors, there is still a continuance to the following of collective solidarity and discipline that is striking to the Western observer¹⁷³. These aspects referred to, are what add to China's social capital or as Berger sees it Sinitic cultural traits are a 'comparative advantage'¹⁷⁴. In summation, from a cultural point of view, China's economic model has four subsystems, a unique way of: social organisation; developing its economy; government; and as will be seen, outlook on the world¹⁷⁵.

The Defining Context

It can be drawn that Chinese values and beliefs have been socialised over time; and that the past has become a filter for later learning – encouraging the continuation of certain cultural aspects ingrained in the national collective consciousness and behaviour¹⁷⁶. In other words, modern changes in China must not lead to the mistaken assumption that it has undergone radical transformation in terms of the very nature of the Chinese state¹⁷⁷. Thereby, beyond cultural factors, the context that motivated China into reforming to achieve the ultimate social harmony is examined- through global and local appreciation¹⁷⁸.

Global Context Leading to China's Economic Reforms

Looking to the pre-1949 era in China, the "...intrusion of the West can be construed as a kind of catalyst, precipitating traditional China into its modern counterpart"¹⁷⁹. In particular, the Opium War of 1840 was the incident that forcefully and suddenly opened China to the rest of the world¹⁸⁰. China's association with the West began violently with this collision which led to nine foreign nations tromping through its territory¹⁸¹. European colonial governments largely created

¹⁷² Edwards, M. Op.Cit. p.53.

¹⁷³ Berger, P.L. Op.Cit. p.6.

¹⁷⁴ Ibid. p.11.

¹⁷⁵ Wei, P. Op.Cit p.2.

¹⁷⁶ Lantis, J.S. "Strategic Culture and National Security Policy" in International Studies Review, Vol.4, No.3, autumn 2002, p.109.

¹⁷⁷ Hsü, I.C.Y. Op.Cit. p.ix.

¹⁷⁸ Thomas, S.C. "China's Economic Development from 1860 to the Present: The Roles of Sovereignty and the Global Economy", in Forum on Public Policy, no volume or number available, 2006, p.1.

¹⁷⁹ Hsü, I.C.Y. Op.Cit. p.6.

¹⁸⁰ No author available, "The Opium War and the Opening of China",

<http://historyliterature.homestead.com/files/extended.html>, no date available, no page number available.

¹⁸¹ Ramo, J.C. "How to think about China" in TIME, Vol.175, N0.15, 19 April 2010, p.25.

negative economic impacts in China. This is evident as while such powers were preoccupied with WWI, China's economic development was actually greatly accelerated - May Wright called this period a 'golden age' for Chinese industrialisation – however, prosperity ended with the return of such colonial powers¹⁸². Thereby China's long journey towards modernity came when the imperial government was forced to accept foreign trade¹⁸³. What is clear is that Western and Japanese occupation activities during the nineteenth century played an important role in restraining successful economic development in China; largely due to the fact that successful economics required enough sovereignty to keep the economy and foreign trade under control, and for the leadership to design a sustainable program¹⁸⁴. In other words, foreigners invested in China to make money, few thought in terms of aiding China's economic development.

However at the same time, this sudden contact with the outside world, brought with it successes. Foreign investors introduced modern technology and the entrepreneurial motive, as well as financed modern industries to China¹⁸⁵. Overall, Hsü says that foreign investment produced an imitation effect in China, and provided the preconditions necessary for economic modernization¹⁸⁶. Therefore, on one hand imperialism was baneful and it inhibited the native industry from succeeding, but on the other, it was a large stimulator of patriotism as it brought a desire for national economic protection and competitive equality; for example, it was during the height of imperialism that many Chinese enterprises and factories were created; although under the shadow of larger foreign firms, they emerged with this foreign stimulation¹⁸⁷. It can also be said that China benefited, as without the presence of the West, the problem of *how* to deal with the West would have never existed¹⁸⁸.

So, throughout modern China, there is a thread of nationalistic-racial feeling against foreign elements in Chinese society that often surfaces then submerges – a constant nationalistic

¹⁸² Ibid. p.21.

¹⁸³ Elliot, M. "Small World, Big Stakes" in TIME, Vol.165, No.26, 27 June 2005, p.24.

¹⁸⁴ Ibid. p.4.

¹⁸⁵ Hsü, I.C.Y. Op.Cit. p.437.

¹⁸⁶ Loc cit.

¹⁸⁷ Loc cit.

¹⁸⁸ Esharik, J. "Harvard on China: the Apologetics of Imperialism" in Bulletin of Concerned Asian Scholars, Vol.4, No.4, December 1972, p.15.

revolution¹⁸⁹. This suggests that China's response to the world has been a result of more cultural and psychological challenges than anything else¹⁹⁰. Yet, a different type of nationalism has guided China since the end of imperialism; one that accepts that blissful seclusion is no longer favourable and that patriotism can in fact embody aspects of traditional and modern thought. This process of transformation began when Chinese technology became stagnant and lagged behind the world because the government upheld classical Confucian learning and gave no tolerance for science and technology; corruption also became widespread¹⁹¹. Thus, Hsiao explains that East Asian states generally take their nation's survival as a problem facing society, particularly with the challenge of modern Western society as there is a clear mix of cultural superiority and political inferiority¹⁹². Thereby, China began to find a way to survive in the new world forced upon them; and this theme of nationalism and survival is what still makes a government able to motivate and control its people¹⁹³.

China also changed its mind on foreign relations, which assisted in eventual economic development. From the end of WWII the world's economy developed very fast, yet mainland China remained shut to the world, with its centrally planned socialist system and concept of absolute equality – causing much poverty within¹⁹⁴. In fact, after 1949 there was still little interaction with the rest of the global economy, besides through Hong Kong, and crucial but modest assistance from the Soviet Union¹⁹⁵. This was largely a result of the Cold War with the socialist versus the Western camp, and in particular the Korean War in 1950, which brought Chinese forces in conflict with Western powers¹⁹⁶. However, Moscow-Peking relations deteriorated by the 1950 due to border and ideological differences¹⁹⁷.

¹⁸⁹ Hsü, I.C.Y. Op.Cit. p.9.

¹⁹⁰ Solomon, R.H Op.Cit. p.1.

¹⁹¹ Fitzgerald, C.P. Communism Takes China: How the Revolution Went Red, American Heritage Press, New York, 1971, p.15&17.

¹⁹² Hsiao, H.M Op.Cit p.21.

¹⁹³ Wright, M.C. "Modern China in Transition, 1900-1950" in Feuerwerker, A (ed.): Modern China, Prentice-Hall: New Jersey, 1964, p.6.

¹⁹⁴ Jian, T. "Chinese Economy Driven by the End of Communism",

<http://www.theepochtimes.com/n2/content/view/25543/23> November 2009, no page number available.

¹⁹⁵ Thomas, S.C. Op.Cit. p.24.

¹⁹⁶ White, G. Riding the Tiger: The Politics of Economic Reform in Post-Mao China, MacMillan: London, 1993, p.1.

¹⁹⁷ Hsü, I.C.Y. Op.Cit. p.673.

Regionally, it can be said that in the 1960's and 1970's, the dynamic performance of China's capitalist neighbours, the East Asian NICs, could not be ignored as they posed a powerful demonstration effect¹⁹⁸. That was their demonstration of the domestic benefits of opening to the international economy, and the profound ability to compete effectively thereafter¹⁹⁹. Coupled with this factor, was the eventual visit of President Richard Nixon to China in 1972; where U.S.-China trade began to surpass its limited commercial relations²⁰⁰. However, China's foreign policy at the time still remained characterised by nationalism, ideology and politics, while economics was second²⁰¹. Following from such events, it was under Deng Xiaoping that realised that China had isolated itself during the 1960's, even when opportunities and contacts presented themselves; China would have to learn to use favourable international conditions - thus these experiences led Deng to open up China in 1978²⁰². This move allowed China to modernise freely with the use of "...Western money and know how"²⁰³. Consequently, global circumstances taught China to adapt and understand that domestic well-being could not be fruitful with closed doors.

Local Context Leading to China's Economic Reforms

Economically speaking, a prime reason for China's backwardness was the long-standing economic self-sufficiency of the country²⁰⁴. Also, until the second half of the twentieth century, China remained predominantly an agrarian society as the soil and human labour constituted the economic foundations of the state²⁰⁵. As mentioned by Deng's reflection, China had clearly constructed the conditions for "virtually total isolation"²⁰⁶. Having said this, 1949 was the wake from of a Sino-Japanese and civil war which resulted in national exhaustion, economic distress and psychological wariness²⁰⁷; this date will be the juncture where domestic circumstances led to reform and towards a new economic outlook.

¹⁹⁸ White, G. Op.Cit. p.35.

¹⁹⁹ Loc cit.

²⁰⁰ Hsü, I.C.Y. The Rise of Modern China (Fourth Edition), Oxford University Press, Hong Kong, Oxford, New York, Melbourne, 1990, p.858.

²⁰¹ Hsü, I.C.Y. Op.Cit. p.662.

²⁰² Loc cit.

²⁰³ McGeary, J. Op.Cit. p.18.

²⁰⁴ Yunsheng, L and Zhan, S. "China: The Process of Reform and Opening up to the World" in East Asia Project, no volume available, No.3, no date available, p.1.

²⁰⁵ Wright, M.C. Op.Cit. p.8.

²⁰⁶ Yunsheng, L and Zhan, S Op.Cit. p.2.

²⁰⁷ Hsü, I.C.Y. Op.Cit. p.611.

Under the leadership of Mao Tse-tung the Chinese communists gained complete control of China in 1949, allowing them to rehabilitate economic institutions that were torn by years for war²⁰⁸. Considering a shared ideological heritage and perception that the Soviet Union achieved such rapid economic transformation in a short time, China was as eager to achieve such change²⁰⁹. The initial rigorous effort to develop the economy was the soviet-inspired First Five-Year Plan (FFYP) from 1953-1957 which was led by investing in modern physical capital and technical training for the increase of output²¹⁰. However, despite some economic success, the Soviet model also brought with it problems; largely because there was the “... imposition of a foreign institutional system in an alien context...”²¹¹ This was the first step for China finding its own adequate form of development, taking socialism and integrating it into the Chinese experience – beginning with the Great Leap Forward, Mao’s development was the result²¹².

So Maoism was a continual organisation of mass movements to attain specific objectives predetermined by the Communist Party²¹³. With regard to economics, Mao’s main idea was that economic development based on industrialisation and modernisation is possible to achieve with a classless society; and that correct modernization could in turn create a classless society as well²¹⁴. Thus China became a blank canvas on which a new country was built²¹⁵. And compared to its pre-1949 development, the following positive contributions for later reforms were visible under Mao, even though the implementations were not directly in anticipation of later reforms or opening up.

Firstly, under Mao’s egalitarian ideology, he had ensured some pre-reform equality that would make later reformers tasks easier, since there were fewer vested interests²¹⁶. Additionally, ever since Mao’s revolution, state-run enterprises had picked up the cost of healthcare for millions of

²⁰⁸ Herschede, F. “Chinese Education and Economic Development: An Analysis of Mao Zedong's (Mao Tse-tung's) Contributions” in The Journal of Developing Areas, Vol.14, No.4, July 1980, p.452.

²⁰⁹ White, G. Op.Cit. p.1.

²¹⁰ Herschede, F. Op.Cit. p.452.

²¹¹ White, G. Op.Cit. p.2.

²¹² Loc cit.

²¹³ Hsü, I.C.Y. Op.Cit. p.658.

²¹⁴ Herschede, F. Op.Cit. p.448.

²¹⁵ Hsü, I.C.Y. Op.Cit. p.877.

²¹⁶ Zafar, A. “Learning from the Chinese Miracle: Development Lessons for Sub-Saharan Africa” in The World Bank, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1559734, February 2010, p.15.

Chinese workers²¹⁷. As Sen states more generally, Maoist policies on land reform, expansion of literacy, and enlarging public health care all had favourable effects on economic growth after reforms²¹⁸. Additionally, despite the impressions made by the American and Chinese media, there were substantial investments made in heavy industry – especially crude oil, hydroelectric power and power generation equipment – during the post-cultural revolution period in 1970 onwards²¹⁹. This ensured the development of the strategic heavy industries²²⁰. Thus, compared to the developing world, China had indeed achieved high rates of industrial and agricultural growth, and had established a reasonably comprehensive industrial and technical base; at the same time without much foreign economic or political support²²¹.

Mao also contributed to women's role in the economy, as almost six decades ago, he famously declared that: "women hold up half the sky"²²². Hence, with his classless policies, women were encouraged to enter the work force in the 1950's; this not only contributed to future economic growth, but addressed rampant female illiteracy; high maternal mortality rates and widespread social prejudices²²³. So, for almost thirty years prior reforms, preliminary material foundations for agriculture, industry and science and technology were laid²²⁴.

However, if this was the result of Maoist policy, the question is then why was there a need for further reforms in 1978? The fact was, despite success under Mao, there was also a deepening of challenges. Mao himself admitted in a speech in 1962, that he made mistakes in economic planning, commerce and industry: "in socialist construction, we are still acting blindly...I myself do not understand many problems in the work of economic construction"²²⁵. Above that, the Chinese Communist Party (CCP) was also bent on committing to ideology and self-reliance; as learning from the West and Japan was seen as dishonourable²²⁶. Yet, this notion of self-reliance

²¹⁷ Powell, B. "A Fast Drive to Riches" in Newsweek, no volume and number available, 3 March 1997, p.23.

²¹⁸ Sen, A. Op.Cit. p.260.

²¹⁹ Herschede, F. Op.Cit. p.461.

²²⁰ White, G. Op.Cit. p.30.

²²¹ Loc cit.

²²² Krishnan, A. "Chinese Women Lag Only in Politics",

<http://beta.thehindu.com/news/international/article223550.ece>, 9 March 2010, no page number available.

²²³ Loc cit.

²²⁴ Gibney, F.B. Op.Cit. no page number available.

²²⁵ Hsü, I.C.Y. Op.Cit. p.803.

²²⁶ Ibid. p.854.

and rejection of foreign technology from about 1958-76 left China undeveloped and poverty stricken, while other countries leaped ahead with technological innovations²²⁷. The success that Mao brought has to be weighed against the costly massive failures that came as well in his time; in particular, fifteen to thirty million lives were lost during the policy created famine, the 'Great Leap Forward' during 1958-60; and the chaos and persecution of intellectuals and party members in the Cultural Revolution of 1966-76²²⁸. In summary, during Mao's twenty-seven year rule, only 1952-57 showed genuine economic growth; while 1949-52 was a preoccupation with recovery from civil war, and 1963-65, recovery from the Great Leap²²⁹.

Thus, the economic imperfections during pre-reforms reflected problems with the specific form of state-directed economic development; revealing the close relationship that politics and economics inevitably shared²³⁰. However, change seemed inevitable, especially because the misguided ventures were damaging the sense of nationalism; people were becoming disillusioned, lethargic and cynical from the exhaustion of pursuing unattainable goals²³¹. In part, an influence on this national sentiment towards economics was also the Gang of Four, who practised individualism and anarchy; and delayed the objectives and principles of the four modernizations, that was actually formulated by then Premier Zhou Enlai and Chairman Mao²³².

It can be said that the passing of Mao in September 1976 and arrest of the radical Maoist Gang of Four', marked a point of reflection and the need for a change of direction in China's development as standing policies came under great scrutiny²³³. As Danhui explains, one of the main guidelines of the CCP was to serve people; yet the question was how they could do this if they could not improve their lives, how much respect would the government receive then²³⁴. So, in 1978 China's economic reforms were launched, and was a planned, top-down affair that was managed by a man called 'the architect' of China's emergence, Deng Xiaoping²³⁵. With renewed

²²⁷ *Ibid.* p.855.

²²⁸ Thomas, S.C. *Op.Cit.* p.24.

²²⁹ Hsü, I.C.Y. *Op.Cit.* p.882.

²³⁰ White, G. *Op.Cit.* p.36.

²³¹ Schran, P. "Some Reflections on Chinese Communist Economic Policy" in

²³² Gibney, F.B. *Op.Cit.* no page number available.

²³³ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

²³⁴ *Loc cit.*

²³⁵ Kyunge, J. *China Shakes the World: The Rise of a Hungry Nation*, Phoenix: London, 2006, p.13.

vigour, Deng brought pragmatic economic development to China²³⁶. There were two corresponding movements occurring: a drastic revamping of the Chinese economic system and a dramatic opening up to the outside world. Also, the Four Modernizations – that was agriculture, industry, national defence, and science and technology – began to take precedence over class struggle; thereby calling on the Chinese to “emancipate their minds” in another manner²³⁷. So, there was a great transition from “politics in command” to “economics in command”²³⁸. Even more, Deng declared that China would not go “back to the days of trampling the economy to death”²³⁹. Scientific research and education became commitments, and the Chinese initiative was aroused – because if their intelligence and wisdom was put to use, Deng believed China could have high hopes²⁴⁰.

Deng was also different to the past leadership in that he committed little to ideology and said that “...reality is our teacher”²⁴¹. He sought to find truth from facts, and thus was reformer with respect to economic and technological change, and conservative when opposing political instability²⁴². Thereby, without committing to a clear plan on China’s economic development, Deng felt it was enough to “cross the river by feeling the stones”; and realistic that notable achievements had to come in the long-term and not two or three years²⁴³. Additionally, Deng was comfortable with reaching out and to take what was necessary from the outside world; thereby China sought to inherit advanced methods of operation; management and scientific development from advanced capitalist countries²⁴⁴. It was this flexibility and his ability to moderate his political ambitions that allowed Deng to survive at the centre of power for so long²⁴⁵. Ideally, Deng also looked to the notion of *Xiaokang*, a historical term referring to the adequate provision to society²⁴⁶. In line with cultural tradition, this society involves comprehensive social, political

²³⁶ Schell, O. “Deng’s Revolution” in Newsweek, no volume and number available, 3 March 1997, p.14.

²³⁷ Loc cit.

²³⁸ Hsü, I.C.Y. Op.Cit. p.799.

²³⁹ Schell, O. Op.Cit. p.13.

²⁴⁰ Gibney, F.B. Op.Cit. no page number available.

²⁴¹ Kissinger, H. “The Philosopher and the Pragmatist” in Newsweek, no volume and number available, 3 March 1997, p.33.

²⁴² Loc cit.

²⁴³ Schell, O. Op.Cit. p.17.

²⁴⁴ Gibney, F.B. Op.Cit. no page number available.

²⁴⁵ Schell, O. Op.Cit. p.14.

²⁴⁶ Shelton, G. “China and Africa: Advancing South-South Cooperation” in East Asia Review, Vol.1, No.2, no date available, p.2.

and economic development; and balance between regions, ethnic groups and, people and nature – thus a harmonious society²⁴⁷.

During a visit to south China in 1992, Deng remarked that Capitalism could also have a planning economy – thereby establishing a socialist market economy²⁴⁸. This meant that, unlike before, the state restrained from society and the economy just enough for the creativity and the entrepreneurial talents of the Chinese to be unleashed²⁴⁹. In fact, Deng adapted previous thinking by encouraging people to emancipate their minds and fully use their wisdom, by reiterating Mao’s policy of “letting a hundred flowers blossom and a hundred schools of thought contend”²⁵⁰. The government had recognised that material reward was indeed a powerful incentive for increased production²⁵¹. At the same time, beyond being marketised there were elements of regulation; yet combined, the goal was to participate in the benefits of the global economy²⁵². This relative autonomy and the open door policy adopted in 1978 are what have contributed to the rapid foreign trade that is visible even today²⁵³. Politically, it is evident that reforms were a response to the increasing tension between state and society that was harming stability and threatening revolt against the state²⁵⁴.

So to sum up the historical local context, both Mao and Deng played relevant leadership roles that parallel those in earlier dynasties. Like a few earlier Emperors, Mao played the unifier role in 1949; while Deng had to consolidate the mixed legacy and draw on the positive aspects of the reunification, sometimes being ruthless in pursuit of these goals²⁵⁵. Deng also played the role of Chinese and Manchu statesmen during the waning years of the last dynasty, the Qing; were there was a consciousness of the advanced technology of the West, and there was the application of

²⁴⁷ Mengkui, W. “China Human Development Report, 2005”, <http://planipolis.iiep.unesco.org/upload/China/China%20HDR%202005.pdf>, 2005, p.19.

²⁴⁸ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

²⁴⁹ Shambaugh, D. “The Road to Prosperity” in *TIME*, Vol.174, No.12, 28 September 2009, p.18.

²⁵⁰ Gibney, F.B. *Op.Cit.*, no page number available.

²⁵¹ Hsü, I.C.Y. *Op.Cit.* p.849.

²⁵² Thomas, S.C. *Op.Cit.* p.25.

²⁵³ Hsü, I.C.Y. *The Rise of Modern China (Fourth Edition)*, Oxford University Press, Hong Kong, Oxford, New York, Melbourne, 1990, p.858.

²⁵⁴ White, G. *Op.Cit.* p.39.

²⁵⁵ Spence, J.D. “Deng Xiaoping as Past and Prologue” in *TIME*, Vol.149, No.9, 3March 1997, p.33.

such technology to domestic infrastructure²⁵⁶. There was also a gradualist approach, which allowed China to feel that it was somehow preserving its own inner value system, while at the same time adopting Western developing areas²⁵⁷. Interestingly, there were and still has been little political objection to China's reforms. Duckett explains that officials adapted to marketisation with ease considering that there were opportunities in reform; sometimes more than just the status quo²⁵⁸. Gore also shows that bureaucratic entrepreneurs are economically rational but hold political and social objectives as well; and so the ability to induce economic growth locally has great weight on their political promotion²⁵⁹.

Therefore, ever since the post-Mao era, China has been seeking a different type of socialist developmental state, this involves the redefinition of the state's role in the economy; however, the political aspect has not changed dramatically, what has changed dramatically is the developmental aspect.

Consolidating Context

What context has demonstrated is that China did not experience gradual and structured free market reforms so neatly; rather many key events towards capitalism were unplanned, and accidental that led Deng to bring about deep seated change and improve the lives of many²⁶⁰. There was truly interplay between cultural, foreign and domestic elements that gave rise to the revolutionary changes in China²⁶¹. It can be summed that during pre-revolutionary times the Chinese had a ethnocentric outlook of the world, a view stemming from a historical tradition of being the most civilised people; then came a more internationally inclined doctrine under the CCP, and the exposure to technology, natural science and modern living, the Chinese have reshaped their thoughts to a realistic compromise between national pride and a need to live in a world larger than their own²⁶².

²⁵⁶ Loc cit.

²⁵⁷ Loc cit.

²⁵⁸ Ma, S. Op.Cit. p.590.

²⁵⁹ Ibid. p.592.

²⁶⁰ Kyunge, J, Op.Cit p.14.

²⁶¹ Hsü, I.C.Y. Op.Cit. p.4.

²⁶² Fitzgerald, C.P Op.Cit p.13.

Overall, transition from past resentment to a strong competitor of the West has given China the impression that its survival is very much dependent on its ability to keep its economy going²⁶³. Therefore, the trend that is most visible throughout the study of context, is that the history of China demonstrates no passive response to the West but an active struggle to balance domestic and external demands²⁶⁴.

Conclusion: A Legacy of Reform

With all the culminating factors and mindset in place, China proceeded with reforms in 1978²⁶⁵. This marked the start of 'socialism with Chinese characteristics' through reform and opening to the world²⁶⁶. The process began with the countryside where the easier aspects of reforms began, and then moved onto the more complex reforms like the financial sector and state-owned enterprises (SOEs) - this gradual approach encouraged a flourishing of the private sector without much change of underlying politics²⁶⁷. As a result, Hsü explains that the economic and technological benefits were apparent, in both rural and urban life²⁶⁸. So, ever since reforms, China has moved toward accelerated economic growth and greater openness with the outside world²⁶⁹. Also, in almost all years since 1978, the Chinese domestic economy has grown dramatically²⁷⁰.

China is not only a burgeoning market but a gigantic export platform as foreign and Chinese manufacturers take advantage of its optimal conditions²⁷¹. With economic changes, unthinkable social changes have been propelled, making way for various colorful lifestyles so that people are free to wear, work, live and travel where they want²⁷². With this remarkable transformation, China is continuing this gradual approach; Xiaokang remains a goal for economic development,

²⁶³ McGeary, J. Op.Cit p.20.

²⁶⁴ Hsü, I.C.Y. Op.Cit p.13.

²⁶⁵ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

²⁶⁶ Yunsheng, L and Zhan, S. Op.Cit p.2.

²⁶⁷ Zafar, A. Op.Cit p.15.

²⁶⁸ Hsü, I.C.Y. The Rise of Modern China (Fourth Edition), Oxford University Press, Hong Kong, Oxford, New York, Melbourne, 1990, p.867.

²⁶⁹ Ibid. p.vii.

²⁷⁰ Thomas, S.C. Op.Cit p.26.

²⁷¹ Powell, B. "A Fast Drive to the Riches" in Newsweek, no volume and number available, 3 March 1997, p.22.

²⁷² McGeary, J. Op.Cit p.19.

yet aims of greater affluence are now encouraged²⁷³. At the same time, the government still ensures that it does not obstruct economic freedom, it simply functions to devise and implement macro-economic control policies; the construction of the correct infrastructure facilities, and creating an environment favourable to economic development²⁷⁴. So, with the economic growth of regions and sectors, comes the rise in optimism for greater things²⁷⁵. At the same time, it is taken into account that the development path is not smooth, as seen in 1989, soaring inflation, corruption and crime can disrupt optimism; however, motivation should press on²⁷⁶. Conclusively, there seems to be no definite blueprint or timetable for the modernization process, however, the leadership of China continues with pragmatic goals and five year plans, suggesting that successful modernization are an eventuality²⁷⁷.

Throughout history, there is a trend where, when the government was at its weakest, that was when pressures for a strong government were at its greatest²⁷⁸. So the reason for the persistence in the 1978 mindset comes from the lessons learnt at the time; as Danhui says, the government has learnt that to stay in political power there is a need to also improve people's livelihoods and keep the economy going²⁷⁹ - an economic solution to a political problem. Thus, with the exception of the period following the 'Great Leap Forward', where many starved to death, the government has managed to avoid another devastating famine²⁸⁰. Additionally, the government has learnt that there needs to be political and social stability to carry out reform and greater development; international cooperation must be strengthened in all aspects; war must be avoided as it is a pull on human and financial resources; economic development must be 'centrist' which is based in reality and economic laws; and finally, the traditional diligence of the Chinese must be revived, "their enthusiasm rekindled, and their creativity encouraged"²⁸¹. With such high

²⁷³ No author available, "All about Xiaokang", http://english.peoplesdaily.com.cn/200211/10/eng2002110_106598.shtml, no date available, no page number available.

²⁷⁴ Yuncheng, L and Hong, M. "China: Marching to a Socialist Market Economy in the Asia-Pacific Region" in *East Asia Project*, no volume available, No.11, June 1996, p.12.

²⁷⁵ Spence, J.D. *Op.Cit.* p.33.

²⁷⁶ Schell, O. *Op.Cit.* p.17.

²⁷⁷ Hsü, I.C.Y. *Op.Cit.* p.856.

²⁷⁸ Wright, M.C. *Op.Cit.* p.8.

²⁷⁹ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

²⁸⁰ Starr, J.B. "Human Rights and the Rule of Law" in *Understanding China*, Hill and Wang, New York, 1997, p.205.

²⁸¹ Hsü, I.C.Y. *Op.Cit.* p.885-886.

stakes, it has become expensive to reverse these long-standing policies, thus there is a national confidence that eventually, everyone will share in the prosperity of economic growth²⁸².

Consolidating this history, China is currently experiencing the last stretch of its 11th Five-Year Plan, giving priority to regional development plans²⁸³. This juncture marks a new gradual step with 'Fourth Generation' leaders, like Hu Jintao, focusing on long-term economic sustainability and emphasising openness and accountability²⁸⁴. This policy is in recognition that for the past thirty years, China's growth has benefited from reform, opening up and cooperation with the rest of the world²⁸⁵. As Nash points out, there are three stages of economic development: the 'take-off' which is the central period where there is a break from a stagnant past; prior to take-off is the building of resources and skills; and subsequent to take-off is self-sustaining growth²⁸⁶. From the tracing in this chapter, China is at its last but lengthily stage: as from a cultural and historical mixture, China has found a means to maintain stability and prosperity, however to reach such status requires that China continues reforms and opening up.

Having pointed to the non-traditional factors that have contributed to China's economic development, it is a fitting moment to introduce the other broader factors that have added to China's modernization experience. The study will move onto the government's relationship with the market and how it assists China's ongoing opening up process, followed by the final chapter on how the government's macro-economic policy and its non-economic choices also supplement this economic development. Therefore, with such a multiple number of forces at play, China cannot be labelled as 'unchanging'; however, riding on this change is the consistency of culture, history and a flexible government to head this change.

²⁸² Edwards, M. *Op.Cit.* p.59.

²⁸³ WWF, "The 12th Five Year Plan", <http://pamlin.net/blog/China%2012th%20FIVE%20year%20plan.pdf>, no date available, p.7.

²⁸⁴ Deloitte, "2010- Engaging China's Five Year Planning Cycle", http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_csg_2010china_planningcycle_010510.pdf, November-December 2009, p.2.

²⁸⁵ Xiaoming, L. "Great Expectations" in *The Times*, 21 September 2010, p.17.

²⁸⁶ Nash, M. Edwards, M. *Op.Cit.* p.139.

Chapter 3:

The Role of the Market in China's Economic Development

*Use temporary protection, regional alliances and anything else you can find to get you up to speed in the race for international competitiveness, but don't enter the race without your safety gear in working order*²⁸⁷

-Michael Edwards

With the decision to open up its economy to the world and accession to the World Trade Organisation (WTO) in 2001, it appears that China is handing a greater and influential role to the free market. There are even opinions that serious implications come with China's rapid integration into the global economy as this adds an extra 1.3 billion consumers and a labour force of about 800 million to the mix – changing the global economic equilibrium totally²⁸⁸. However, it is questionable whether China really has opened its economy along the lines of the capitalist market system, considering that it is still travelling along its culturally and historically influenced development path. The extent that the role of the market is autonomous in China is examined hereafter. To begin with, the context around China's opening up is examined. Then the large component of this chapter - the aspects that are both important and causing implications for market dominance, are observed. Only having looked at the aspects of: Special Economic Zones (SEZs) and emerging regions; greater trade with the outside world; and State-Owned Enterprises (SOEs); can China's approach towards its economy, and the global one at large, then be accounted for.

Although China's choices is its alone, this move towards integration into the world economy is not completely on its own terms, because economic globalisation has become an irresistible trend that is exerting much influence and impact on the world's economy, politics, culture and society; with greater speed and momentum²⁸⁹. Although - with this global mainstream trend, it is also necessary to explore whether China has pursued such an approach entirely - that is specifically the global free-market system as we have known it - or with the recent financial crisis and global

²⁸⁷ Edwards, M. Op.Cit p.56.

²⁸⁸ Zeng, M and Williamson, P.J. Dragons at Your Door, Harvard Business School Press: Boston, 2007, p. Ix.

²⁸⁹ Jinhua, C. "Introduction" in Mengkui, W (ed.): China: Accession to the WTO and Economic Reform, Foreign Language Press: Beijing, 2002, p.1.

recession, whether it has actually added to a tipping point, to an alternative trend that has been developing “...beneath the surface for many years”²⁹⁰.

The Context of Opening up to the World

China had an industrial policy of self-reliance in its pre-1978 years²⁹¹. Under central planning, it meant that imports were only deemed necessary if substitutes could not be produced nationally, and trade planning and foreign exchange control also aimed to minimise imports²⁹². However China has taken a different approach to its economy since 1978. In short, there were two corresponding movements occurring: a drastic revamping of the Chinese economic system to incorporate market forces, and a dramatic opening up to the outside world²⁹³. Thereby, with regard to trade, planning was and still is, generally more relaxed compared with previously²⁹⁴. Broadly speaking, state macroeconomic direct control has generally given way to indirect control through economic and legal means²⁹⁵.

The reforms and opening up process is argued by Jinhua as laying the foundation for China’s economic system, and has prepared it for integration with the world economy²⁹⁶. For instance, China has become the largest recipient of foreign direct investment (FDI) in the developing world since 1992, and among the top ten trading countries in the world²⁹⁷. This increasing foreign trade and investment suggests that China’s growth since the 1980’s has been motivated by opportunities in the world market²⁹⁸. With this, has come internal autonomy, where cities and

²⁹⁰ Horton, S. “The End of the Free Market: Six Questions for Ian Bremmer”, www.harpers.org/archive/2010/05/hbc-90006994, 7 May 2010, no page number available.

²⁹¹ He, J and Yang, Y. “The Political Economy of Trade Liberalisation in China” in Asia Pacific School of Economics and Management Working Papers, dspace.anu.edu.au/bitstream/1885/40385/1/cep99-1.pdf, 1999, p.5.

²⁹² Loc cit.

²⁹³ Schell, O. “Deng’s Revolution” in Newsweek, no volume and number available, 3 March 1997, p.14.

²⁹⁴ He, J and Yang, Y. Op.Cit. p.5.

²⁹⁵ Yuncheng, L and Hong, M. “China: Marching to a Socialist Market Economy in the Asia-Pacific Region” in East Asia Project, no volume available, No.11, June 1996, p.8.

²⁹⁶ Jinhua, C Op.Cit p.15.

²⁹⁷ Prime, P.B. “China Joins the WTO: How, Why and What Now?” in Business Economics, Vol.XXXVII, No.2, April 2002, p.2.

²⁹⁸ Rodrik, D. Op.Cit. p.2.

provinces have been permitted to form their own export organisations and to make their own export contacts²⁹⁹.

Even more so, China's accession to the WTO in December 2001 has confirmed its integration into the world and its partaking in economic globalization on a higher level³⁰⁰. It is the realisation that an external force is required to overcome domestic obstacles to aid further reforms and protect trade interests to sustain economic growth. Thereby, markets have become equally central as the state was in economic activities, suggesting that the market is playing an essential role, being a major allocator of resources at the moment³⁰¹. Amartya Sen explains that the role of markets is actually essential in development, as the use of market mechanisms can contribute to high economic growth and overall progress³⁰². So, since the WTO is seen as the principle vehicle of globalisation it is then necessary to question how China, as a member, has embraced the free-market liberalism closely associated with the organisation³⁰³.

Off-hand, China has not embraced WTO principles – in its entirety. Policy shifts are a costly affair as coping with drastic changes takes time and effort; thus it is only understandable that the Chinese leadership have consistently taken precautions by opening up and reforming at a gradual pace³⁰⁴. Rather, China has also explicitly recognised that it has moved from a planned economy to a 'Socialist Market Economy'; that is socialist conditions and Chinese characteristics operating in a market economy³⁰⁵. Deng himself stated³⁰⁶:

It is wrong to maintain that a market economy exists only in a capitalist society and that there is only a 'capitalist' market economy. Why can't we develop a market economy under Socialism? Developing a market economy does not mean practising capitalism

²⁹⁹ Shelton, G and Alden, C. "From Transformation to Economic Prosperity: Lessons from the Chinese Experience" in East Asia Project, no volume available, No.9, August/September 1998, p.5.

³⁰⁰ Jinhua, C Op.Cit p.1.

³⁰¹ Lin, Y. "Between Politics and Markets: First Competition and Institutional Changes in Post-Mao China, Cambridge University Press: Cambridge, Madrid and Cape Town, 2001, p.1.

³⁰² Sen, A. Development as Freedom, Anchor Books: New York, 1999, p.6.

³⁰³ Horton, S. Op.Cit no page number available.

³⁰⁴ Ge, W. "Special Economic Zones and the Opening of the Chinese Economy: Some Lessons for Economic Liberalisation" in World Development, Vol.27, No.7, 1999, p.1268.

³⁰⁵ Jinhua, C Op.Cit p.3.

³⁰⁶ Gibney, F.B. "We can Develop a Market Economy under Socialism", www.china.org.cn/english/features/dengxiaoping/103388.htm, 26 November 1979, no page number available.

Demonstrations of China's Balancing Approach

What is apparent in China's approach is that it does not view economics in a clear dualistic manner. The important features that demonstrates China's predicament of government and market influences are: special economic zones (SEZs); general trade with the outside world; and state-owned enterprises (SOEs). Clearly, its struggle to find equilibrium between the two forces comes with its need for economic development.

Special Economic Zones (SEZs) and Emerging Regions

According to Ge, SEZs are broadly characterised by a geographic area within the territory of a country "...where economic activities of certain kinds are promoted by a set of policy instruments", which is not normally applicable to the rest of a country³⁰⁷. Also, Dixin says that these zones are generally compatible with the development of capitalism³⁰⁸. However, for China, SEZs are a significant part of its gradualist approach for reforms and opening up further, as they were created as experiments for developing an outward market-orientated economic system³⁰⁹. Also, economically, the SEZs scope is the largest; in fact they are described as "self-contained mini-societies"³¹⁰. In China, the main SEZs are located in the cities of Shenzhen (which developed first and most rapidly), Zhuhai, Xiamen of Fujian province, and Shantou of Guangdong province³¹¹.

The development of such areas is the emphasis on 'special'; for instance, opening the door to foreign countries and foreign direct investment (FDI) also means policies like simplified procedures for entry and exit for visitors are implemented, and that foreign trade is accentuated³¹². Thus, the interest from abroad is based on the industrial, commercial, macro-economic and financial aspects of the zones³¹³. It is namely the special treatment in these zones allowing for fewer costs for production and operation, leading to more profits; which make

³⁰⁷ Ge, W. Op.Cit p.1268.

³⁰⁸ Dixin, X. "China's Special Economic Zones", www.bjreview.com.cn/nation/txt/2009-05/26/content_197576.htm, 26 May 2009, no page number available.

³⁰⁹ Ge, W. Op.Cit p.1267.

³¹⁰ Ibid. p.1268.

³¹¹ Dixin, X. Op.Cit no page number available.

³¹² Ge, W. Op.Cit p.1269.

³¹³ Wu, C. "China's Special Economic Zones: Five Years After" in Asian Journal of Public Administration, no volume and number available, no date available, p.140.

investment in China highly agreeable³¹⁴. With this, investors have found that China holds cheap labourers with uniquely high skills and work habits for their income levels³¹⁵. More broadly; China's membership in the WTO has also accelerated investor interest in the general Chinese market³¹⁶. Overall though it is the NICs in East Asia that are likely to gain the most, as they have invested heavily in the mainland, and their type of exports compete less with that of China³¹⁷. Thereby, it is the strong linkages between SEZ's and the international market that has created an economic boom for China³¹⁸.

Despite opposition from certain conservative sectors because SEZs seem to lead towards capitalism, the practice of opening to the outside world has now become an established and irrevocable state policy³¹⁹. This suggests that the successful SEZs operation is highly dependent on economic as well as institutional factors - that is foreign capital inflow has namely been policy induced³²⁰. The inducements referred to are financial and legal attractions, as well as the states initial funding for infrastructure being imperative³²¹. Also, even though SEZ's incorporate a socialist state economy, individual economy and collective economy, state capitalism still takes the largest share – so as Lenin said, this type of capitalist activity is where the state can restrict, while such limits allow the state to fix³²².

Thereby, state capitalism in SEZs means the processing of materials for foreign countries; compensatory trade; and joint ventures between state and foreign enterprises - at the same time, enterprises are still subject to the control and regulation of local governments designated in these zones³²³. Fan thus explains that these favourable conditions are due to the state's role in these

³¹⁴ Ge, W. *Op.Cit* p.1270.

³¹⁵ Todaro, M.P. and Smith, S.C. *Op.Cit* p.194.

³¹⁶ Shelton, G. "China and Africa: Advancing South-South Cooperation" in *East Asia Review*, Vol.1, No.2, January 2006, p.2.

³¹⁷ Adhikari, R and Yang, Y. "What will the WTO Membership Mean for China and its Trading Partners?" in *Finance and Development*, Vol.39, No.3, September 2002, no page number available.

³¹⁸ Ge, W. *Op.Cit* p.1280.

³¹⁹ Wong, K. "China's Special Economic Zone Experiment: An Appraisal" in *Human Geography*, Vol.69, No.1, 1987, p.28.

³²⁰ Ge, W. *Op.Cit* p.1283.

³²¹ Fan, C.C. "Uneven Development and Beyond: Regional Development Theory in Post-Mao China", ideas.repec.org/a/bla/ijurrs/v21y1997i4p620-639.html, 1997, p.624.

³²² Dixin, X. *Op.Cit* no page number available.

³²³ *Loc cit*.

zones, and are part of the government's greater development agenda³²⁴. More specifically, it is necessary to understand the reasons for such a strategy in order to understand why the state continues to feature along with a liberal approach.

In context, WTO membership boosts China's attractiveness for investments because it promises to open its market, and above that, increase its policy transparency, better governance and business predictability³²⁵. In fact, FDI flows have already been diverted at the expense of other countries, particularly the Association of Southeast Asian Nations (ASEAN)³²⁶. However, with WTO membership, it is namely the coastal cities and provinces, and SEZs that are adequate in dealing with positive aspects and integration in economic globalization³²⁷. This suggests that when the state approaches SEZs, it must still consider the possible benefits and negative impact on the rest of the country, thereby making the state role necessary despite free-market progress.

To start with, the state views the role of SEZs as a window for the rest of the economy, because a backward linkage connects the SEZs with the rest of the domestic economy which not only helps in the success of SEZs but fosters the economic transition process throughout the country³²⁸. For example, the large trade surplus has meant a rise in foreign exchange income which in turn has allowed the greater country to finance capital needed for import goods³²⁹. Even more importantly, as the SEZs economy expands, so does the overall employment in the zones increase; this is directly linked to the upward trend of FDI in the country³³⁰. Thus the SEZs are not only creating hundreds and thousands of new jobs, but better paying ones as well; since the high productivity of these zones means a more capable use of physical, natural and human resources³³¹. On the other hand, SEZ development is also unlikely without the interior and vice versa. Cooperation is required from both sides in order for SEZs to attain the necessary resources needed from the interior, while at the same time SEZs create the commodities needed by the interior – thus

³²⁴ Fan, C.C. Op.Cit p.623.

³²⁵ Adhikari, R and Yang, Y. Op. Cit. no page number available.

³²⁶ Loc. Cit

³²⁷ Jiangsu, C. Op. Cit. p.24.

³²⁸ Ge, W. Op. Cit. p.1279.

³²⁹ Loc. Cit

³³⁰ Ibid. p.1274.

³³¹ Ibid. p.1280.

inferring a relationship based on mutual benefit³³². Also, employment is generated inland as most consumer items in SEZs are brought from the rest of China's economy; and SEZs also act as intermediaries who tranship manufactured products from the in-land internationally³³³.

Another important aspect of SEZs is the spill-over of foreign technology for greater development. The increasing presence of foreign investors in SEZs is occurring with the rise of their domestic counterparts; so spreading of technology is common in this co-existence³³⁴. Furthermore, a co-development fund is set up in these zones to aid SEZ and domestic firm collaboration, considering that the SEZ inland projects also hold far more advanced technology³³⁵. For instance in 1995, Shenzhen had accumulated funds for 1400 projects inland³³⁶. Thus, foreign capital and technology is channelled to the inland through SEZs; further development also comes with information exchanges intensifying, and with the increase in trade in technology generally. More largely, it is the technology transfer from the outside that has made domestic players strong and helped China move away from just an assembler of components to consumer electronics³³⁷. Overall, the SEZ arrangement by the state has become a bridge for bringing in foreign capital; advanced technology and equipment; and a 'classroom' type of setting to train personnel in mastering such technology – these are the requirements that pave the way for foreign access to China's domestic market³³⁸.

At the same time, one of the advantages that China has is the technical and financial capital that it receives from the Chinese diaspora; this group makes important contributions to economic development and has contributed largely to Chinese FDI³³⁹. It is no coincidence that when SEZs were created by the state, that they were created in geographic proximity to neighbouring Hong Kong and Taiwan, where many Chinese emigrated and many cultural ties are maintained; because there is an economic relationship with its neighbours that allows China to capitalise on

³³² Dixin, X Op. Cit. no page number available.

³³³ Ge, W. Op. Cit. p.1280.

³³⁴ Ibid. p.1276.

³³⁵ Ge, W. Op. Cit. p.1281.

³³⁶ Loc. Cit

³³⁷ Rodrik, D. Op. Cit. p.13.

³³⁸ Dixin, X. Op. Cit. no page number available.

³³⁹ Zafar, A. "Learning from the Chinese Miracle: Development Lessons for Sub-Saharan Africa" in The World Bank, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1559734, February 2010, p.16.

the diaspora and use ethnic networks to ease production shifts³⁴⁰. Thus, such ties have only been utilised with the correct guidance of the state. Overall, Danhui points out that China's neighbours are one of the defining factors that have made China's economic development unique and successful; not only does China share many borders with Association of Southeast Asian Nations (ASEAN) states, the meeting of the Chinese, South Korean and Japanese foreign ministers to discuss how to boost economic development and cooperation, shows that neither of these nations are independent from each other³⁴¹.

More recently the Chinese government has taken further steps in ensuring economic prosperity in other regions. They have been developing the densely forested Guanxi Zhuang Autonomous Region, which neighbours the SEZ of Shenzhen, as well as Hong Kong and Macao; and is China's gateway to the Association of Southeast Asian Nations (ASEAN) through the Guanxi Beibu Gulf Economic Zone³⁴². Also, much of the region's success comes from its capital city, Nanning, due to the establishment of the China-ASEAN Free Trade Area since the beginning of 2010 – making Nanning the pilot of this relationship³⁴³. The success of Nanning is visible if one just drives along its streets; modern infrastructure that has also been consciously made environmentally friendly is overtaking the predominantly farm filled area in just six years (see Appendix B). The thoroughly thought out policies and efficient management are what have led to growing industries, helping the local economy, and more largely, the advanced pace of Nanning's development³⁴⁴. Thus, one can understand why Nanning's development is likened to Shenzhen's transformation - from a fishing village to "glitzy modern boomtown"³⁴⁵.

Although, clearly such initiatives take gradual steps before such rewards and development is realised. The central government understands this, because unlike the extent that places like the SEZ's or Nanning city have grown, they are only starting such a process from the beginning for

³⁴⁰ *Ibid.* p.17.

³⁴¹ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

³⁴² Chiu, J. "High Hopes for Nanning", <http://english.peopledaily.com.cn/90001/90778/90862/687630.html>, 21 February 2010, no page number available.

³⁴³ *Loc. Cit*

³⁴⁴ Chantachon, S. "Nanning Economy, Society and Culture" in *The Social Sciences*, Vol.4, No.1, 2009, p.98.

³⁴⁵ Chiu, J. *Op. Cit.* no page number available.

places like the Xinjiang Uyghur autonomous region³⁴⁶. Its strategy has been to appoint nineteen provinces and municipalities to contribute to the region financially that is 0.3-0.6% of their fiscal revenue during 2011-2020; ensuring an eventual annual 8% growth rate for Xinjiang – a method to boost the area before it can self sustain³⁴⁷. Without failure, the Chinese government demonstrate an approach to Xinjiang’s fast track development that comes from past experience – that is its previous Wenchuan earthquake recovery model. The same provinces contributed 1% (and will continue until 2011) of their fiscal revenue to Sichuan and neighbouring areas to aid reconstruction after the Wenchuan earthquake³⁴⁸. Thus, Xinjiang is one of the current projects where government has had an important role in initial growth, before market forces can partake equally as well.

Thereby, SEZs and regions following their tracks, demonstrate that China does not necessarily allow the market to lead, despite the increasing market friendly approach and leaner bureaucratic procedures - they are an instrument that is consistent with greater development, and compatible with the state’s guidance for deeper reform³⁴⁹. Furthermore, SEZs are the very testing grounds for developing a market-orientated, open economy, where once reform measures are successful in the SEZs, are introduced to the rest of the economy³⁵⁰. This suggests that although SEZs have significance on a larger scale, the total economies of such zones still only make up only a portion of the national economy³⁵¹. In fact, from the range of available announcements of the government and the opinions of economists, the very goals and objectives of establishing the SEZs are as such: the first stresses the desires to absorb from abroad: foreign technology, management methods, foreign exchange and foreign capital.; the second set stresses the expected impact on individual Chinese, the provision of employment and training effects³⁵². Thus, government goals are inseparable from open markets.

³⁴⁶ Jia, C. “Xinjiang Takes a Leaf out of Sichuan’s Book” in China Daily, 21 May 2010, p.5.

³⁴⁷ Loc. Cit

³⁴⁸ Loc. Cit

³⁴⁹ Fan, C. Op. Cit. p.623.

³⁵⁰ Ge, W. Op. Cit. p.1281.

³⁵¹ Dixin, X. Op. Cit. no page number available.

³⁵² Wu, C. Op. Cit. p.134.

Trade that Transpires Special Zones

Despite the fact that the Eastern Regions of China have experienced fast economic growth, they are also where export-led industrialisation occurred³⁵³. Thereby, the trade aspect that connects China to the world economy is now explored, considering that China demonstrates an uncanny ability to go beyond just attracting investment, as large multinational operations like Wal-Mart is its sixth largest export market³⁵⁴. Also, with WTO membership, China's industrial policy may be curtailed somewhat but new export opportunities have evidently opened, especially for textiles and garments³⁵⁵. It has also expanded access to markets such as Japan, North America, and the European Union (EU)³⁵⁶. Thereby, since reforms and even more so in recent years, trade has become a significant factor in China's transformation³⁵⁷.

The defining strength of China's economy is that it is very much based on a "strong real economy"³⁵⁸. The main element of the 'real' that China has been long committed to is: becoming a manufacturing centre of the world; for instance, the country produces two-thirds of the world's photocopiers, microwaves and shoes³⁵⁹. Government had a role in this successful process as since reforms, property rights in the countryside were expanded, allowing small non-agricultural businesses to form; decollectivization and higher agricultural product prices also led to productive farms and efficient use of labour³⁶⁰. It was these factors that motivated people to move out of agriculture, and with village enterprises, millions were drawn to higher-value-added manufacturing³⁶¹. However, at the same time, beyond government role, exports have been mainly led by small and medium non-SOEs who are the main beneficiaries of FDI, who are influenced by a functional industrial policy than inclined industrial policy of the government³⁶².

³⁵³ Fan, C *Op. Cit.* p.624.

³⁵⁴ Elliot, D and Powell, B. "Wal-Mart Nation" in *TIME*, Vol. 165, No.26, 27 June 2005, p.29.

³⁵⁵ Lall, S and Albaladejo, M. "China's Competitive Performance: A Threat to East Asian Manufactured Exports?" in *QEH Working Paper Series*, no volume available, No.110, October 2003, p.3.

³⁵⁶ Shelton, G. *Op. Cit.* p.5.

³⁵⁷ Rodrik, D. *Op. Cit.* p.2.

³⁵⁸ Yan, C. "Expert: Three Reasons why China's Economy will be the First to Recover", http://www.newsgd.com/business/prospective/content/2009-02/05/content_4886370.htm , 5 February 2009, no page number available.

³⁵⁹ Shambaugh, D. "The Road to Prosperity" in *TIME*, Vol.174, No.12, 28 September 2009, p.18,

³⁶⁰ Hu, Z and Khan, M.S. "Why is China Growing So Fast", <http://www.imf.org/external/pubs/ft/issues8/index.htm>, June 1997, no page number available.

³⁶¹ *Loc cit.*

³⁶² Baek, S. "Does China Follow 'The East Asian Development Model'?" in *Journal of Contemporary Asia*, Vol.35, No.4, 2005, p.494.

Although this demonstrates China's embrace of the free market, Chantachon explains that free trade has come in the form of exports, yet imports into China are still tightly controlled with restrictions like complicated procedures; private firms can not send products directly into China, and agricultural products are especially difficult to enter³⁶³. In fact non-tariff barriers (NTBs) like import licenses, quotas, state monopolies; and quality inspection of electronic goods and imports of machinery, have all been widely used as protection instruments³⁶⁴. Also, exports themselves see measures of government protection too, as many Western economists believe that China manipulates the Chinese currency, the Yuan, to keep exports artificially cheap³⁶⁵. This allows Chinese manufacturers to sell toys, electronics and shirts cheaply in foreign markets, particularly the U.S. and Europe³⁶⁶.

Yet besides this one strategy, there are also other important and defining factors that help China remain a key manufacturing base such as: good infrastructure, low wages, compliant unions, hospitality towards business and a hard-working labour force – all of which have the government behind them³⁶⁷. At the same time, like the NICs, these measures are not viewed as an ends, but rather a long term strategy at aiming to become an exporter of higher value-added products³⁶⁸. The ends is greater national development, that today, requires more economic integration, which can only be useful through continued, careful preparation³⁶⁹. Thus, government direction seems unlikely to give complete way to the market, the leadership recognises that excessive reliance on investment is problematic, and agrees that a new policy requires greater dependence on an expanded service sector and consumption³⁷⁰.

For now though, it can still be said that China's exports continue to flourish with a complexity of aspects: cheap and productive labour, a large supply of technical manpower; a large and

³⁶³ Chantachon, S. *Op.Cit.* p.97.

³⁶⁴ He, J and yang, Y. *Op.Cit.* p.5.

³⁶⁵ Schuman, M. "Common Currency", www.time.com/time/magazine/article/0,9171,2020980,00.html, 4 October 2010, no page number available.

³⁶⁶ Zakaria, F. "The Real Challenge from China: Its People, Not its Currency", www.time.com/time/world/article/0,8599,2024090,00.html, 7 October 2010, no page number available.

³⁶⁷ *Loc cit.*

³⁶⁸ Edwards, M. *Op.Cit.* p.61.

³⁶⁹ *Loc cit.*

³⁷⁰ ICTSD, *China and Global Sustainable Recovery*, http://www.sccc.ch/download/events/2009/20091026-20091027_ICTSD_SCCC.pdf, October 2009, p.9.

diversified industrial sector; pragmatic use of its industrial policy; appeal to foreign investors; and now greater access to the world through the WTO³⁷¹. According to Prime, being portrayed as ‘part of the fair trade system’ means that there is less political resistance to Chinese goods³⁷². At the same time, China has actually moved from agro-processing to labour intensive manufacturing for exports; it has also then moved to heavy steel and chemicals; and now another transition is occurring – high-technology industries are actually growing - taking Western goods and developing them at lower cost but with high quality standards³⁷³. So, with the upgrades in export structure, comes the competitiveness feared by more advanced economies³⁷⁴.

Somehow, China has been able to catch on to advanced, high-productivity products that is generally unexpected from a developing, labour abundant country to actually produce, as well as export³⁷⁵. As summed by Zheng and Williamson, Chinese companies are breaking the rules of the game by using cost advantage in new ways to “offer customers around the world dramatically more for less”³⁷⁶. This shows how Chinese enterprises are absorbing foreign capital attracted by the state’s beneficial policy to expand businesses abroad³⁷⁷. In other words, these companies are presenting customers with high technology products at a low cost; this means they can challenge the conventional high technologies which are normally restricted to high-end products, and price segments. These competitors are offering customers an unrivalled choice of products, for instance ‘Goodbaby’ has a product line that offers about sixteen hundred strollers and car seats, four times more than its mass market competitors³⁷⁸. Overall, what is changing Chinese manufacturers is their unique advantages like: access to low-cost talent across the range, from assembly workers to the highly skilled; the advantage of using state assets and intellectual property below their market value; greater autonomy in management than shareholders; and

³⁷¹ Lall, S. Op.Cit p.2.

³⁷² Prime, P.B Op.Cit p.6.

³⁷³ Edwards, M. Op.Cit p.53.

³⁷⁴ Lall, S. Op.Cit p.2.

³⁷⁵ Rodrik, D. Op. Cit. p.4.

³⁷⁶ Zeng, M and Williamson, P.J. Dragons at Your Door, Harvard Business School Press, Boston, 2007, p.1.

³⁷⁷ Yunsheng, L and Zhan, S. “China: The Process of Reform and Opening up to the World” in East Asia Project, no volume available, No.3, no date available, p.6.

³⁷⁸ Ibid. p.2.

personal incentives to create value³⁷⁹. This cost advantage strikes at the core of what makes enterprises in high-cost countries lucrative today³⁸⁰.

Thereby, like the SEZs instance, there is an inevitable amalgamation of market fundamentalism and planning in the Chinese context³⁸¹. Thus a final yet equally important examination is the role of SOEs, which help to understand the extent China has really embraced globalisation and its supporting principles.

SOE Reform: Does this Mean the Adoption of Free Market Principles?

SOEs are generally understood as public corporations that are operated and owned by the state³⁸². Such enterprises were prominent pre-1978, as China came from a highly-centralised planned economy, so much so that when reforms began, state-owned sectors covered almost the whole secondary and tertiary industry³⁸³. Yet, in the 1980's, the government decided to dismantle inefficient SOEs, while expanding the private sector which allowed for unbound capitalism; declining the importance of the SOE sector in the economy³⁸⁴. Reform policy has also altered corporate governance in SOEs, where ownership and management rights are separated so that the state has a role as large stockholders but has no direct management³⁸⁵. This is in response to China's opening up, that all types of enterprises need to rise to the occasion and be competitive.

However, despite this new autonomy, the government role in the Chinese economy through SOEs is unlikely to diminish readily. For instance, the 2008 economic crisis has reinforced such enterprises' role since China's economic stimulus has boosted the SOEs while private companies mostly fended for themselves³⁸⁶. Even before the crisis, SOEs may have been decreasing in importance but they still occupy a large part of the economy; and the state still has a say over

³⁷⁹ *Ibid.* p.28.

³⁸⁰ *Ibid.* p.2.

³⁸¹ Rodrik, D. *Op. Cit.* p.16.

³⁸² Todaro, M.P. and Smith, S.C. *Op.Cit* p.776.

³⁸³ Ping, A and Welyun, Z. "Reform of China's State-Owned Enterprises" in *East Asia Project*, no volume available, No.19, May 1998, p.1.

³⁸⁴ Ramzy, A. "Why China's State-Owned Companies Are Making a Comeback", www.time.com/time/world/article/0,8599,1894565,00.html, 29 April 2009, no page number available.

³⁸⁵ Baek, S. *Op. Cit.* p.490.

³⁸⁶ Ramzy, A. *Op. Cit.* no page number available.

financial resources and appointment of SOEs high level managers³⁸⁷. The fact also remains that medium and large SOEs still remain, and are seen as pillars of China's economy for a long time to come³⁸⁸. They also dominate key industries; for example, they account for almost all production of civil aviation, post, telecommunications and railways³⁸⁹.

Even more so, true to the hybrid model that China demonstrates, it is also not just SOEs that lobby for protection, but also the market orientated FDI companies; who see protection as an advantage against competitors outside China³⁹⁰. Thus it confirms that it is not only the state that has become a major player in the political market. Furthermore, the companies that have become successful globally are mixtures of public and private ownership. For instance, although China's Lenovo has a primary subsidiary with namely private ownership through a listing on the Hong Kong stock exchange; it originates from the parent company owned by the Chinese Academy of Sciences³⁹¹. Thus, Jinhua still sees China as a market where the state-owned economy is still the protagonist that develops in conjunction with sectors where other kinds of economic ownership exist³⁹².

However, like the cases of SEZs and the larger trade with the outside world SOEs roles are also linked to China's reform process, having a share of 5% of China's total GDP³⁹³. The reality is that SOEs are burdened with much social welfare and economic responsibilities that are also difficult to implement through a privatization program³⁹⁴. SOEs thus engage in economic activities that lack private incentives³⁹⁵. Likened to small societies like SEZs, SOEs perform a social function by employing workers and even more so, extending services to include: housing provision, education, health and pensions – some Chinese towns and cities like Daqing in Heilongjiang province are even based on an enterprise alone³⁹⁶. Thereby, with the reform of

³⁸⁷ Baek, S. Op. Cit. p.487.

³⁸⁸ Ping, A and Welyun, Z. Op. Cit. p.13.

³⁸⁹ He, J and Yang, Y. Op. Cit. p.9.

³⁹⁰ Ibid. p.10.

³⁹¹ Zeng, M and Williamson, P.J. Op. Cit. p.2.

³⁹² Jinhua, C Op.Cit p.3.

³⁹³ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

³⁹⁴ Megginson, W.L. and Netter, J M. "From State to Market: A Survey Of Empirical Studies On Privatization" in Journal of Economic Literature, no volume or number available, June 2001, p.5.

³⁹⁵ Todaro, M.P. and Smith, S.C. Op.Cit p.777.

³⁹⁶ He, J and Yang, Y. Op. Cit. p.10.

SOEs is the challenge for government to meet social needs like unemployment that could become long-term challenges³⁹⁷. Additionally, Jinhua states that as a developing country, China still has yet to establish its economic development, and if only some industries and enterprises can participate in the global economy successfully, there is still a need for the state's active support³⁹⁸. Therefore, despite the fact that there is a large leap towards privatisation in the developing world, and that few SOEs have been created recently³⁹⁹, there is still an important role for SOEs – particularly in the China case.

End Remarks: the Transition to Free Market is Not That Simple

Despite a clear government role that still exists in China's economy, the reality is that China's situation is rather ironic. There has been a gradual, hesitant and conflicting manner in which policies have been created and implemented that has actually been favourable to entrepreneurial experiments, than an assumed top-down, centralised and overly coordinated government⁴⁰⁰. For instance, although the central government of China's policy has been trade liberalisation for an open economy, it is actually the local governments (the main authorities of SOEs) who bear the costs and must deal with issues like unemployment and bailouts of enterprises– they thus have no incentive to support central policy⁴⁰¹. Also, under reforms, it is recognised that it is the local governments that provide central government with revenue; thus, China's political system is decentralised in that local governments have the primary control over economic affairs within their jurisdiction⁴⁰².

Also, as mentioned Chinese society is largely fluid – that is there is no clear boundaries between public service and business; allowing implementation and decision making to happen speedily⁴⁰³. Thus, China has been able to achieve the results it has as contrary to traditional theories, close links between government, industry and intermediary groups are what have given the state information required to make accurate decisions. In a seminar by Professor Xu Ying from

³⁹⁷ Loc cit.

³⁹⁸ Jinhua, C Op.Cit p.18.

³⁹⁹ Todaro, M.P. and Smith, S.C. Op.Cit p.780.

⁴⁰⁰ Rodrik, D. Op.Cit p.15.

⁴⁰¹ He, J and Yang, Y. Op. Cit. p.13.

⁴⁰² Motinola, G, Qian. Y and Weingast, B.R. "Federalism, Chinese Style: The Political Basis for Economic Success" in World Politics, Vol.48, No.1, 1996, p.52.

⁴⁰³ He, J and Yang, Y. Op. Cit. p.11.

Renmin University of China, she gave the example of non-governmental organisation (NGO) relationship with government⁴⁰⁴. Although many NGOs are led by retired officials this link to government does not make them ineffective, because according to Ying, they play a very important social and economic role⁴⁰⁵. Considering China's current state, with such radical changes occurring, it is difficult to adapt, and depend on markets and governments entirely to deliver goods⁴⁰⁶. More will be discussed on NGO's assistance and complimentary to society in the next chapter.

The government sees that reaping benefits from opening up the market is largely predetermined by the amount of improvement in the domestic situation⁴⁰⁷. This domestic situation is the possibility of social instability aggravated by rapid privatisation, which only reinforces the need for former government led development⁴⁰⁸. It is apparent that China has a dual-structured economy, on one hand non-state sectors are expanding and playing major roles in increasing China's opening to the world economy, while the state sector still plays a large role in things like heavy industry, encouraging domestic savings and promoting industrial policy⁴⁰⁹. Reinforcing this is the idea that China is following the NIC development model than the Anglo-Saxon approach of full liberalisation; while unlike the NICs, China's domestic goals are also affected by current neo-liberal globalisation⁴¹⁰. Thus, although planning has declined since reforms, much of the mentality and tools still continue today, in support for a national development strategy.

End Remarks

It seems no coincidence that an interview with Liu Song on such a topic was taking place on route to Yulin city (part of Guanxi province, the upcoming regional hub). With this topic fitting with the part of China we were in; Song explained that China's system is likened to a yin-yang arrangement, it is a balance between a government controlled economic system combined with a

⁴⁰⁴ Ying, X. Professor of Sociology and Political Science at Renmin (People's) University of China interviewed by author, Beijing, 18 May 2010.

⁴⁰⁵ Loc cit.

⁴⁰⁶ Loc cit.

⁴⁰⁷ Jinhua, C Op.Cit p.19.

⁴⁰⁸ Baek, S. Op.Cit p.488.

⁴⁰⁹ Loc cit.

⁴¹⁰ Ibid. p.496.

market economic system – the latter may lead development rapidly, but it also brings a lack of control in the advent of unexpected events⁴¹¹.

China is definitely a combination of unique features, with continued state-centricity as well as more diversity and flexibility, thus permitting market dynamism to emerge from state hierarchies – a true non-commitment to the traditional economic theories outlined in Chapter 1⁴¹². China has embraced globalisation which makes state ability to economically intervene difficult, yet it is also a developmental state like its NIC predecessors⁴¹³. Perhaps this sort of approach is chaotic; it certainly does seem haphazard for the pro-neoliberal or statist theoretical supporters. One paradigm argues that China has too little FDI and must liberalise more for progress, while the latter sees an overreliance on FDI and points to domestic development⁴¹⁴. Yet, it is not adequate enough to look at China's system as all about ideology because its state capitalism is not retaliation to right historical wrongs, but simply a management technique unique to the country⁴¹⁵.

The reality today is that no country can really afford an inward-looking strategy, as an outward looking development approach, far outperforms⁴¹⁶. Economic globalization is a trend of historical development, so while countries try to develop, they need to seize and go with the trend, and make conscious use of it⁴¹⁷. Since there is a large movement for country's to liberalize, the issue then is not whether this shift is desirable but how to manage the process while minimising any foreseeable social, economic and political costs⁴¹⁸. Although the government is ambitious, its international affairs and domestic circumstances are still constructing and it is not yet secure enough to be over-confident⁴¹⁹. It faces a very serious challenge of developing to create new and greater demand in light of reforms, yet also dealing with the fact that many more

⁴¹¹ Song, L. From the Foreign Affairs Office of Guangxi Zhuang Autonomous Region: Friendship Association Division, interviewed by author, 23 May 2010.

⁴¹² Ma, S. *Op.Cit* p.593.

⁴¹³ Baek, S. *Op.Cit* p.486.

⁴¹⁴ Prime, P.B. *Op.Cit* p.4.

⁴¹⁵ Horton, S. *Op. Cit.* no page number available.

⁴¹⁶ Ge, W. *Op.Cit* p.1284.

⁴¹⁷ Jinhua, C. *Op.Cit* p.7.

⁴¹⁸ *Loc cit.*

⁴¹⁹ Ramo, J.C. "How to Think About China" in *TIME*, Vol.175, No.15, 19 April 2010, p.26.

citizens will be exposed to further challenges⁴²⁰. Thus, the government will continue to play an important role in China's economy by helping to guide markets in line with long-term national goals, while market signals keep the government informed and effective⁴²¹.

Of course its membership in the WTO has meant there are high hopes of China embracing the global capitalist market system. It is also worth remembering that as a member and major trading partner, China too may exert influence over the multilateral trading system⁴²². Additionally, it is unlikely that there will be any more liberalisation on an international scale for the moment; because even though the WTO is valuable and China's accession is a big deal, the lasting damage from the financial crisis and global market meltdown is enough to curb global free trade initiatives for a while⁴²³. Therefore, it is clear that all states play a realistic role than virtuously committing to a theoretical paradigm. For instance, the financial crisis did in fact shift the balance of decision making power from Wall Street to Washington to practically revive the American economy⁴²⁴.

Thus, Ge says that economic liberalisation is generally like surgery on a patient; not only must the surgeon know what it is doing; the patient has to be in a reasonable condition to survive⁴²⁵. Permanent damage is possible if there is failure to meet prerequisites on both sides – the same can be said for a state's balance of international and domestic economic policy within liberalisation⁴²⁶. Thereby, it is a fallacy that deeper economic integration spells the control of policy options for upgrading a states investment, industry and exports; and the decentralisation of the state's role in the economy⁴²⁷.

Conclusively, the economic policies made in today's conditions still remain very much determined by a political market. This was adequately demonstrated in China's specific case, through the examination of SEZs and upcoming regions, its trade decisions, and SOEs, which

⁴²⁰ Jinhua, C Op.Cit p.1.

⁴²¹ Edwards, M. Op.Cit p.53.

⁴²² Adhikari, R and Yang, Y. Op. Cit. no page number available.

⁴²³ Horton, S. Op. Cit. no page number available.

⁴²⁴ Loc cit.

⁴²⁵ Ge, W. Op.Cit p.1.

⁴²⁶ Loc cit.

⁴²⁷ Weiss, L. "Global Governance, National Strategies: How Industrialized States Make Room to Move under the WTO" in Review of International Political Economy, Vol.12, No.5, December 2005, p.724.

have all been governed by practicality than state actors. Also, the manner in which China consolidates its state and market influences is not chaotic but rather practical when viewed from its reform aspirations. What can then be said about the government and market relationship is that China happens to be the latest, but not the only, version of the so called ‘hybrid’ approach – nothing more, nothing less. So like all pragmatic governments, there is a need to approach domestic challenges with the influence of global consequences.

Having looked at how China consolidates its outside economic relations with the world, with its domestic economic development; it is now necessary to look at how China uses its internal, ‘non-economic’ policies to aid the economic development process. In other words, having looked at the government’s approach to “foreign policy and trade liberalization, [and] foreign investment” it is now worth understanding the formation of human capital and demographic outlook which all reinforce and complement greater economic objectives⁴²⁸.

⁴²⁸ Shelton, G and Alden, C. Op. Cit. p.2.

Chapter 4:

Consolidating Domestic Circumstances with the Greater Economic Development Scheme

To worry before the common people worries; to enjoy only after the people can enjoy
-Yueyanglou by Fan Zhongyan

On a global scale, China's unprecedented economic growth has brought with it international recognition of its rise. This recognition is seen through Dr Margaret Chan's election as Director-General of the World Health Organisation (WHO) in 2006; also Beijing winning the 2008 Olympic bid; and most recently the 2010 World Expo hosted by Shanghai⁴²⁹. Part of this success, as seen in the previous chapter is China's ability to balance external and internal circumstances to cope with global trends. Yet, focusing on a more national level it is economic reform that has allowed economic aspects to increasingly take a protagonist role, along with its political counterpart in Chinese society. However, society itself as well as the government, is at the same time required to meet the demands and fill in the gaps of new economic circumstances – which in turn aids economic growth. These demands are: cultivating human capital through education, and health for greater employment opportunities; the building of infrastructure; and the meeting of population pressures – as well as more recent developments. Recurrent in meeting these demands is also the very involvement of society in assisting in government drive, and also how it responds to government's direction such as the subject of consumption.

Although these mentioned aspects will be the study of this chapter – that is how noneconomic policies and social developments are used to supplement greater economic development; and whether they can provide greater well-being – there is also a constant struggle to stay on the long-term economic development track. This is because; reforms and growth have also dramatically changed China's social and economic structure, for example, three aspects of social policy has changed, that is public ownership of the means of production; a centrally planned economic system and egalitarian ideology⁴³⁰. Whether unintended or intended consequences of government policy, China faces real challenges from its choices, and these challenges make so much clearer that the politics of economic development also bear a human face.

⁴²⁹ Fan, C.C. Op.Cit. p.719.

⁴³⁰ Guan, X. "China's Social Policy: Reform and Development in the Context of Marketization and Globalization" in Social Policy and Administration, Vol.34, No.1, March 2000, p.118.

In fact, similar to its balancing stance of government role and free market principles, China's social policy - that is the state's basic social, economic and political aims – is also tackling an equilibrium between efficiency and equity; the equal importance of economic growth and social progress; and also the overall improvement of living standards⁴³¹. Of course, from its experience China is no longer aiming for the type of growth witnessed in the 1980's and 1990's. As will be demonstrated, there is a shift in attention towards the ways economic growth takes place and very importantly the changes that come with such development.

The current President of China, Hu Jintao, and the Premier, Wen Jiabao have decidedly created a unique path, as well as allowed continuity in the administration's outlook⁴³². It is they who introduced terms such as: 'putting people first', 'concept of scientific development', 'harmonious socialist society' and 'common prosperity' into the Eleventh Five-Year Plan⁴³³. Also, there referral to such plans as 'program' (规划) rather than 'plan' is symbolic, showing an appreciation that there are limitations to such a process⁴³⁴. However at the same time, like Deng Xiaopeng's outlook, there is still the belief that state intervention is necessary for China to become a *Xiaokang* society⁴³⁵.

With this grander picture in mind, the domestic and social aspects that bolster China's economic outcomes are examined.

Growth Begins with Human Capital

As illustrated in the previous chapter, China is gradually moving towards higher-quality goods and services⁴³⁶. To achieve this, the Chinese government is planning further investment in human capital, and with as much vigour that was used to build highways, to achieve the next

⁴³¹ Zhixin, Zhu, "Strengthening the social security system to promote coordinated economic and social development", <http://www.ipc-undp.org/publications/cct/2chine.pdf>, no date available, p.1.

⁴³² Fan, C.C. *Op.Cit.* p.717.

⁴³³ *Loc cit.*

⁴³⁴ Kwan, C. "2010 - Engaging China's five-year planning cycle", www.deloitte.com/.../us_csg_2010china_planningcycle_010510.pdf, 2009, p.2.

⁴³⁵ Fan, C.C. *Op.Cit.* p.717.

⁴³⁶ Zakaria, F. "The Real Challenge From China: Its People, Not Its Currency" in *TIME*, www.time.com/time/world/article/0,8599,2024090,00.html, 7 October 2010, no page number available.

phase of development⁴³⁷. By human capital, economists often mean education, health and other human capabilities that can raise productivity when they are increased; also such aspects do not just contribute to economic well-being, but are indirect approaches to increased income⁴³⁸. This suggests that not only will technology be redundant without human capital, but such capital is also needed to create the capacity for self-sustaining growth⁴³⁹. So, health and education are basic objectives that expand human capabilities - the central meaning of development. It can be deduced then that human capital is key for further growth and development in China, because it has a dual role as input as well as output⁴⁴⁰.

However, China has also used this particular aspect as the foundation for its current successes. In fact, Amartya Sen states that the attributes that have allowed China to lead in economic growth is its massive investments in education and health⁴⁴¹. To give a time span, human capital growth came exactly when the reform period started⁴⁴². Since China previously invested heavily in education and health, liberalisation in 1978 started with a numerate, literate and relatively healthy adult population, thus creating high growth – this is one explanation for China's better economic performance than India's after market liberalisation⁴⁴³. Social commitment was strong towards education and health in the pre-reform regime; and although the commitment was unrelated to market-orientated economic growth, the social opportunities created came into vibrant use when China took the road to marketisation⁴⁴⁴.

The lesson then is that economic growth requires suitable social policy as well. China is also a good example of negative social consequences that can affect growth. For instance, Mao's fear of the educated elite led to the repression of intellectuals in the Cultural Revolution, eventually deteriorating the reserve of higher-education human capital⁴⁴⁵. At the same time, negative lessons have provided useful for China today, because previous Maoist educational investments

⁴³⁷ Loc cit.

⁴³⁸ Todaro, M.P. and Smith, S.C. Op.Cit p.375.

⁴³⁹ Loc cit.

⁴⁴⁰ Ibid. p.376.

⁴⁴¹ Ibid. p.312.

⁴⁴² Holz, C.A Op.Cit., no page number available.

⁴⁴³ Sen, A. Op.Cit p.42.

⁴⁴⁴ Loc cit.

⁴⁴⁵ Fleisher, B.M. "Higher Education in China: A Growth Paradox" in Kwan, Y.K and Yu, E.S.H (eds.): Critical Issues in China's Growth and Development, Ashgate: Burlington, 2005, 4.

have shown that the rate of learning cannot ignore time constraints on the learning process, and that expectations should account the costs are involved in various programs⁴⁴⁶. Most importantly, it was realised that the masses must be given a sense of participation in the development process, and the means to materially benefit from modernization – human capital is one such apparatus⁴⁴⁷. Thereby, how China uses human capital in post-1978 for economic growth is briefly explained.

Education

According to Powell, many from the outside link education in China with overdone⁴⁴⁸. And although this may be true, the developments in China's education are bidding well for its economy. Along with the decades of state investment in education, enrolment has risen steeply and it is even reaching the most remote villages that China's literacy rate is now over 90% (during 2009)⁴⁴⁹. More recent and importantly, urban students are not just learning to read, but are learning maths and science; as well as foreign languages – which has led William McCahill, a former deputy of mission in the U.S. embassy in Beijing to state that China is “...getting the basics right...their kids are often ahead of [the U.S.]”⁴⁵⁰. At the Same time however, a real explosion in education only began in the late 1990's which means that the upgrading of the education level of Chinese labourers may not be felt in several years to come⁴⁵¹. However, with such a vast population and long-term-greater gain outlook, China's willingness to improve its education system will have an impact in twenty years, as school children today will be capable of discussing any issues with the world – in English⁴⁵².

What has also made the state's educational aspirations uniquely achievable in China is the understanding that there are no real substitutes for putting in the hard work and hours. Powell makes special reference to a seven-year-old boy called Liu, he explains that although both his parents work, it is not unusual that grandparents are at home to greet school children after school,

⁴⁴⁶ Herschede, F. Op.Cit p.464.

⁴⁴⁷ Ibid. p.463.

⁴⁴⁸ Powell, B. “Five Things the U.S. Can Learn From China” in TIME, www.time.com/time/printout/0,8816,1938671,00.html, 12 November 2009, no page number available.

⁴⁴⁹ Loc cit.

⁴⁵⁰ Loc cit.

⁴⁵¹ Holz, C.A Op.Cit., p.18.

⁴⁵² Powell, B. Op.Cit., no page number available.

and to guide them through their everyday routine⁴⁵³. Thereby, family involvement also has a large role in education success in China, as the emphasis that families place on such matters have a knock on effect for government to deliver a decent system; for instance, government has responded by insisting that primary-school teachers in math and science require degrees in those fields⁴⁵⁴. Thereby, no one can deny the socialised importance of education for the Chinese. To put into simple terms, in 2004, 65,000 U.S. students participated in the annual international Science and Engineering Fair conducted by Intel – in China, 6 million did⁴⁵⁵.

There may be objections that the best students coming out of U.S. universities are just as bright, and generally more creative than their Chinese counterparts; nevertheless, the more smart and well-educated the school age population that hard work creates is, the more likely that China's economic health and companies benefit⁴⁵⁶. For instance, the relatively new company, BYD Co., who is working on developing electric car batteries, employs up to 10,000 engineers⁴⁵⁷. So, even though China may not produce as many Nobel Prize winners, it is worth noting that maintaining the basic educational competence of its workforce is a key factor in it becoming a global manufacturing powerhouse – that is not just "...cheap labour; it's about smart labour"⁴⁵⁸. So demographics in the form of quality and quantity of labour are sufficient to foster continued economic growth in China⁴⁵⁹. Additionally, economist Edwin Mansfield claims that firm productivity also jumps as a result of more education, not just individual workers⁴⁶⁰. In a 1971 study, he found that president's of companies that were early adopters of complex new technologies, were generally younger and better educated in technology know how, than those slower to innovate⁴⁶¹.

It should also not be overlooked that due to the defining years of the 1990's, during the end of 2000, the nine-year compulsory education in China had been made universal by and large; illiteracy among young and middle-aged citizens had basically been eliminated; and college

⁴⁵³ Loc cit.

⁴⁵⁴ Loc cit.

⁴⁵⁵ Kyunge, J. China Shakes the World: The Rise of a Hungry Nation, Phoenix: London, 2006, p.169.

⁴⁵⁶ Powell, B. Op.Cit., no page number available.

⁴⁵⁷ Loc cit.

⁴⁵⁸ Loc cit.

⁴⁵⁹ Holz, C.A Op.Cit. p.2.

⁴⁶⁰ Fogel, R. Op.Cit., no page number available.

⁴⁶¹ Loc cit.

students for every 10,000 had increased from 8.9 in 1978 to 32.8 in 1999⁴⁶². Even more recently, the number of students in college has quintupled from 1 million in 1997 to 5.5 million in 2007⁴⁶³. At the same time, there has in fact been growing recognition of higher education in the government, which has led to a large increase in enrollements in higher education institutions, and in 2001 education spending reached 3% of China's GDP for the first time⁴⁶⁴. These shifts and swift responses bring a reality to then-President Jiang Zemin's 1998 call for massive increase in enrolment in higher education⁴⁶⁵. Building on Zemin's policy; an education plan was implemented for the Western region in 2004, where compulsory education in poor rural areas was promoted; while renovation of school facilities continued in these areas⁴⁶⁶.

With such policies, Fogel predicts that China can raise its high school enrolment rate to near 100 percent and college rate to about 50 percent in the next generation – which on its own could raise the country's annual economic growth rate by more than 6 percentage points⁴⁶⁷. The reason he thinks that these goals are not out of reach is that in the past, Western European countries experienced college enrollment rates increase from 25 to 50 percent, just in the last two decades of the twentieth century⁴⁶⁸. So although China is still in a process before it witnesses eventual outcomes of its education policies, it is moving in the right direction. It is moving during a time when universities in Europe and the U.S. are struggling from the impact of massive budget cuts, while itself is moving in the opposite direction - it cannot be downplayed that "China has built the largest higher-education sector in the world in merely a decade's time"⁴⁶⁹.

At the same time, above Beijing's remarkable record in improving availability and quality of education, on a human level, there is an incredible thirst for more – that is overseas education⁴⁷⁰. It is actually difficult to quantify the potential demand in this area as China's middle class has

⁴⁶² Xinhua, "China's Population and Development in the 21st Century", http://news.xinhuanet.com/employment/2002-11/18/content_633168.htm, December 2000, no page number available.

⁴⁶³ Zakaria, F. *Op.Cit.*, no page number available.

⁴⁶⁴ Fleisher, B.M. *Op.Cit.*, 16.

⁴⁶⁵ Fogel, R. *Op.Cit.*, no page number available.

⁴⁶⁶ Mengkui, W. *Op.Cit.*, 90.

⁴⁶⁷ *Loc cit.*

⁴⁶⁸ *Loc cit.*

⁴⁶⁹ Zakaria, F. *Op.Cit.*, no page number available.

⁴⁷⁰ Kyunge, J. *Op.Cit.* p.168.

inflated⁴⁷¹. For this group, education loans held against property are now available from state banks; and English is less of a barrier with about 200 million people already studying it domestically; and even more, teaching standards are rising so that students are thriving under capable tuition⁴⁷². There is definitely recognition of these high-quality standards, as elite English schools such as Dulwich, Harrow (the alma mater of Winston Churchill) and Eton have all set up campuses in cities like Beijing and Shanghai⁴⁷³. These ventures are by no means the end to negotiations for more franchised international schools in China, because while the world becomes “more global, education has to follow”⁴⁷⁴. Through this, it cannot be denied that China is starting to move up the value chain into jobs and industries that was previously unimaginable⁴⁷⁵.

Health

Health is an equally important component to human capital as education; this is because neither can adequately exist without the other. For example, the health status of an individual affects their school performance, as better health and nutrition leads to longer and earlier school enrollment, better attendance and effective learning⁴⁷⁶. Again, the Communist Party under Mao created health policies that later fared well for economic reform⁴⁷⁷. Since 1952, the Chinese health care system achieved improvements in health and health care, reflecting major investments in public health through a centralized government⁴⁷⁸.

However, with the privatisation of the Chinese economy, and the reduced role of the central government in regional and local affairs, there is recent recognition of the disruption trends that are brought to health care. The challenge authorities face in ensuring national health today is a decreased role of the central government in investing in health care services, as much of the responsibility is handed to local authorities – who are divided between the coastal richer and

⁴⁷¹ *Ibid.* p.169.

⁴⁷² *Loc cit.*

⁴⁷³ *Ibid.* p.170.

⁴⁷⁴ *Ibid.* p.173.

⁴⁷⁵ Zakaria, F. *Op.Cit.*, no page number available.

⁴⁷⁶ Todaro, M.P. and Smith, S.C. *Op.Cit* p.374.

⁴⁷⁷ Blumenthal, D, and Hsiao, W. “Privatization and Its Discontents – The Evolving Chinese Health Care System” in *The New England Journal of Medicine*, Vol.353, No.11, 15 September 2005, p.1166.

⁴⁷⁸ *Loc cit.*

western poorer, themselves⁴⁷⁹. In effect, the central government has a lesser role in redistributing health care resources amongst regions; and they are left to cover public expenses through the sale of services in private markets due to the privatising of most health care facilities⁴⁸⁰.

Yet, at the same time, it is clear that the government recognises the challenge of meeting global trends and domestic needs; that economic development cannot occur without their role in it, as it was the government who funded the development of health care delivery systems in rural and urban areas. Since 2003, there have been experiments in all China's provinces to create cooperative medical systems, supporting the treatment of serious illnesses⁴⁸¹. Through such cooperation between the local and central governments, and about 17 percent of the rural population, the money pooled in 2005, supported the reimbursement of medical fees for 70 million individuals, and health checkups for 8.10 million⁴⁸². However, what has made the adoption of such reforms successful is not only the increased investment in medical infrastructure and overarching insurance coverage, but also their long term targets⁴⁸³.

In a study on fiscal decentralisation on health outcomes in China, by Uchimura and Jutting, it was found that counties in more fiscal decentralised provinces had lower infant mortality rates than those where central government remained the main spending authority⁴⁸⁴. The reason for the better performance is that through the ultimate incentive system, government introduced competition locally for national resources; and that heads of provinces with higher growth rates and development were more likely to get promotions⁴⁸⁵. Also, with economic growth, government has sufficient tax revenues to make substantial healthcare investments, without having to reduce spending on competing social services⁴⁸⁶.

⁴⁷⁹ Loc cit.

⁴⁸⁰ Loc cit.

⁴⁸¹ Mengkui, W Op.Cit., p.90.

⁴⁸² Loc cit.

⁴⁸³ Gurriá, A. "The Transformation of China's Growth Pattern in the Global Context", http://www.oecd.org/document/32/0,3343,en_21571361_44315115_44848288_1_1_1_1,00.html, 22 March 2010, no page number available.

⁴⁸⁴ Zafar, A. Op.Cit., 31.

⁴⁸⁵ Loc cit.

⁴⁸⁶ Blumenthal, D, and Hsiao, W. Op.Cit., p.1169.

Additionally, in a seminar held by Madame Hong Ping, she explained that government supportive NGOs, also known as GONGOs have recently had an increase role in advancing public awareness and education in issues such as HIV/AIDS, where messages about the illness is available on telephone cards and in public toilets⁴⁸⁷. Such actors have the power to carry out social tasks namely as they have access to adequate government funding; and as Madame Ping points out, even before funds were readily available, for HIV/AIDS, there was a practical approach of concentrating efforts in rural areas and the youth⁴⁸⁸. Thereby, the emergence of new actors has also increased China's ability to maintain its economic wellbeing.

So with the hopes of positive effects on growth, Chinese leaders have begun to design a new health care system, and although it is difficult to say what it will look like, it will likely resemble a combination of public and private provisions in insurance and services, and there will likely be differences in implementation amongst regions as well⁴⁸⁹. Basically the response of government has been pragmatic, unconfined by ideology, and making use of foreign experiences in its solutions⁴⁹⁰.

Human Capital Linked to Poverty and Employment

With the mentioned efforts China is making in fostering human capital for the development process are vital to help families escape the poverty cycle that they are trapped in – even though at times, poor health is a result of poverty itself⁴⁹¹. Thereby, the most basic goal for health and well-being is poverty reduction – a national responsibility. In fact China's achievements in combating poverty, through large scale programs, have been vital for economic development, as absolute poverty dropped from 250 million in 1978 to about 21 million in 2006⁴⁹². Ultimately what has shaken off poverty so drastically is the leadership, social involvement, poverty elimination through development, all around development, and a degree of self-reliance⁴⁹³. The government has also identified the steps it will go about in addressing poverty, for now that is:

⁴⁸⁷ Ping, H. Deputy Director of International Affairs, China Family Planning Association, interviewed by author, Beijing, 19 May 2010.

⁴⁸⁸ Loc cit.

⁴⁸⁹ Blumenthal, D, and Hsiao, W. Op.Cit., p.1170.

⁴⁹⁰ Ibid. p.1169.

⁴⁹¹ Todaro, M.P. and Smith, S.C. Op.Cit p.371.

⁴⁹² People's Daily Online. "China's Poverty Elimination Sets a Model for the World", <http://english.peopledaily.com.cn/90001/90780/91342/630763.html>, 22 November 2007, no page number available.

⁴⁹³ Loc cit

resolving food and clothing issues for the rural areas; improving entire villages; building roads and improving electricity access in villages where it is practical; and improving the drinking water and medical conditions for people⁴⁹⁴.

A recent example of government efforts is Shaanxi Province, where government has put increasing efforts in poverty alleviation contributing to overall economic development, through policies and investments⁴⁹⁵. For instance, about 293,000 people have received training in labour skills and have also been relocated into new employment; while every year, 1 million farmers are given training in practical agricultural skills – thus bringing noticeable improvement⁴⁹⁶. Conclusively, poverty cannot be divorced from the aspects of human capital.

At the same time, jobs are very important for the low-income and the poor, since the provision of job opportunities is an effective way to fend off poverty⁴⁹⁷. Thus, the development and attention towards labour-intensive industries and agriculture, the bulk of rural incomes, is necessary⁴⁹⁸. Duanhui explained that if a wife and husband are unemployed, it is the local governments responsibility to find either of them a job to generate an income for the household⁴⁹⁹. At the same time, he identified that society can help in government efforts if the traditional mentality on employment is changed, that employment in the service and public industry is as commendable as working in the private sector. This change in thought will create more working opportunities, because with China's current economic growth, the government can create 10 million working opportunities in the service sector⁵⁰⁰.

One way that government has found new opportunities for university graduates, and benefit development at the same time, is to encourage graduates to find jobs and contribute to rural areas or communities in urban areas – an area normally dominated by the elderly and retired. For instance, government encourages them to become village heads, and earn government salaries;

⁴⁹⁴ Loc cit

⁴⁹⁵ Jianguo, X. "Enormous Achievements in Poverty Alleviation in Shaanxi Province" in Chinese Association for International Understanding, no volume available, No.4, 2009, p.19.

⁴⁹⁶ Ibid. p.20.

⁴⁹⁷ Mengkui, W. Op.Cit., p.6.

⁴⁹⁸ Loc cit

⁴⁹⁹ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

⁵⁰⁰ Loc cit

the graduates are also motivated as they are offered preferential treatment that is if they serve in a rural area for two years, they are considered for employment in civil government⁵⁰¹. This is how the educated can contribute to development in a scientific way.

Additionally, if one only visits Beijing, it is clear how events such as the 2008 Beijing Olympics can add to an economy and its people⁵⁰². This was demonstrated through a system that was created to accommodate the Olympics, whereby unemployed people were given work by regulating the human traffic that entered and exited buses at busy bus stops – such an arrangement still exists in China today⁵⁰³. Thereby, true to Duanhui's words, there are still opportunities of work in the service sector.

End remarks

Ultimately, the central government still has an important role in fostering human capital. Case in point, the social security system in China is based on guidelines issued by the government, while the specifics and administration aspects are managed locally⁵⁰⁴. This method seems most practical in a context and country as diverse as China's, because a rigid system could not necessarily meet the needs of citizens in such diverse cities like Shanghai and Behai. Thereby, the social insurance is broken into broad categories and guidelines: pension, medical insurance, unemployment insurance, maternity insurance, and occupational insurance⁵⁰⁵. In all these categories, the government creates a culture where every employed individual contributes a sum to their expenses in the event of emergency, and an incentive is provided, for instance, every month end individuals receive a small amount of money onto their medical insurance cards to purchase medicine and pharmaceutical goods⁵⁰⁶.

It is with the growing relationship between China and the globalising world economy, that there is a disconnection between the foreign investment-backed and private sector, and the traditional Chinese welfare system; which suggests that new systems of social security, as mentioned, are

⁵⁰¹ Loc cit

⁵⁰² See appendix C for photos of the Beijing Olympic grounds.

⁵⁰³ This type of employment opportunity was evident during my visit to Beijing in during May 2010.

⁵⁰⁴ Livermore, A. "Understanding China's Social Security System", <http://www.china-briefing.com/news/2010/09/14/chinas-social-security-system.html>, 14 September 2010, no page number available.

⁵⁰⁵ Loc cit

⁵⁰⁶ Loc cit

required more than ever before⁵⁰⁷. True to this change, China has attempted to change a social system to match the development of its market economy⁵⁰⁸. Therefore, to cope with change and reform, beneficiaries have had to pay some of the costs of services in the welfare field; this derives from a philosophy that individuals should rely on themselves, as far as they can instead of relying on government⁵⁰⁹.

Thereby, China is ensuring its growth through developing a comparative advantage through investments and precautionary measures in human capital. There is a clear understanding that health, education and income must be simultaneously addressed in government policy, as people tend to spend more on human capital aspects with higher and more secure incomes⁵¹⁰.

Infrastructure

China has not only focused on its people, but during the last three decades it has also focused on building up its infrastructure, because there was recognition that factories, roads, ports and airports needed to be modern – all of which were built in unparalleled speed and scale⁵¹¹. In support of China's efforts, a study by Fan and Zhang found that infrastructure development is highly correlated with the economic development level, thus more prosperous cities that are open to the global economy such as Shanghai have higher road densities⁵¹². So the motto that followed the opening up and reform was aptly: "if you want to get rich you must first build a highway"⁵¹³.

To understand how sincerely China has taken this quote, one only needs to look at projects such as its network of high-speed train lines that cover about 16,000 km that is being built nationwide⁵¹⁴. In fact, the railway system is probably one of China's most impressive

⁵⁰⁷ Guan, X. Op.Cit., p.120.

⁵⁰⁸ Mengkui, W. Op.Cit., p.61.

⁵⁰⁹ Ibid. p.123.

⁵¹⁰ Todaro, M.P. and Smith, S.C. Op.Cit p.373.

⁵¹¹ Zakaria, F. Op.Cit., no page number available.

⁵¹² Fan, S and Zhang, X. "Infrastructure and Regional Economic Development in Rural China" in China Economic Review, Vol.15, no number available, 2004, p.207.

⁵¹³ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

⁵¹⁴ Powell, B. "Five Things the U.S. Can Learn from China" in TIME, www.time.com/time/printout/0,8816,1938671,00.html, 12 November 2009, no page number available.

infrastructural improvements, as the faster line linking Shanghai to Suzhou and Nanjing with trains that can run 350km/h was in service by July 2010⁵¹⁵. Above having the largest rail networks, they also cover the world's most difficult terrain such as the Tibetan Plateau⁵¹⁶. Additionally, China shows a willingness to learn, with many of its city planners and transport experts travelling abroad to absorb how efficiencies are made in modern infrastructure and cities; suggesting that there is no coincidence that Chongqing very much mirrors Chicago in days gone by⁵¹⁷.

The U.S. demonstrated to the Chinese how its interstate highways reduced the cost for American companies producing services and goods by over \$1 trillion in its initial forty years of operation since 1956 - the first step to opening markets⁵¹⁸. Yet at the same time, this does not mean that China has embraced all that is American, because its dream to build a dam that could span the Yangtze goes back to about eighty years to Sun Yat-sen⁵¹⁹. Then, leaders saw the Yangtze, the biggest river in China, as a “muscle, that if flexed could lift the nation from poverty”⁵²⁰. So, in 2003 the Three Gorges Dam was built - and every year since 2004, China has built enough power plants to provide enough electricity for the needs of a large European economy like Spain or Italy⁵²¹.

Also, it cannot be forgotten that during the economic crisis of 2008, China's stimulus package was successful as it was particularly put into building excellent infrastructure for emerging cities, which would provide a further long-term economic boost⁵²². The idea was that such projects were simply bringing forward expenses that would be spent eventually, as they were part of a

⁵¹⁵ Ramzy, A. “Engines of Growth” in *TIME*, 16 August 2010, www.time.com/time/magazine/article/0,9171,2008791,00.html, no page number available.

⁵¹⁶ Loc cit

⁵¹⁷ Kyunge, J. Op.Cit.p.31.

⁵¹⁸ Loc cit

⁵¹⁹ *Ibid.* p.32.

⁵²⁰ Loc cit

⁵²² Zakaria, F. “Analyst: China to Come Out of the Economic Crisis Strong”, http://www.chinadaily.com.cn/bizchina/2009-09/18/content_8708590.htm, 17 September 2009, no page number available.

larger plan⁵²³. Such initiatives are what kept jobs constant and economy growing, and improved living standards – thereby infrastructure projects not only sheltered China from the crisis, they assisted in the rebalance of wealth amongst China’s regions⁵²⁴.

It is definitely clear that China’s ambitions span beyond weathering the crisis. Although railroad construction increased by 80 percent in 2008, that is \$88 billion spent by 2009, the expenditure is said to rise to \$120 billion over the next decade⁵²⁵. Also, infrastructure is a means to other ends, for example, the recent 2010 Shanghai Expo was an opportunity for China to create the world’s largest fair⁵²⁶. Therefore, above the \$4.3 billion spent on the event, more was spent to improve the subways, roads, tunnels, airports, and other public facilities in the city – in turn, \$12 billion was generated in tourism related-spending above the jobs created through services and construction⁵²⁷.

Perhaps one new emerging issue that government needs to address is the prevalent idea that “new things are always better than the old”⁵²⁸. An instance is the Gloria Plaza Hotel built in 1990 in Beijing, which is announced to be replaced by a larger five-star hotel that is more cosmopolitan⁵²⁹. Thereby, Zheng Shiling, a professor of architecture at Shanghai’s Tongji University, says that the lives of Chinese buildings need to be prolonged as before there were hardly priorities to reduce energy consumption and waste, but now development needs to be adaptable to the era, durable, and timeless in style⁵³⁰.

Thus, there is no doubt that China is still occupied with the building infrastructure, and will continue to do so. Yang Zhongmin, the director general of the Ministry of Development and

⁵²³ Hoffman, A and Milner, B. “China’s Economic Recovery: Reading the Tea leaves”, <http://www.resourceinvestor.com/News/2009/8/Pages/Reading-the-tea-leaves-Chinas-economic-recovery.aspx>, 19 August 2009, no page number available.

⁵²⁴ Loc cit

⁵²⁵ Ramzy, A. “Engines of Growth” in *TIME*, 16 August 2010, www.time.com/time/magazine/article/0,9171,2008791,00.html, no page number available.

⁵²⁶ Kurtenbach, E. “Shanghai World Expo Ends, DREW 72M Visitors” in *TIME*, www.time.com/time/world/article/0,8599,2028454,00.html, 30 October 2010, no page number available.

⁵²⁷ Loc cit

⁵²⁸ Jiang, J. “Not Built to Last: Is China Overusing the Wrecking Ball” in *TIME*, www.time.com/time/world/article/0,8599,2030548,00.html, 10 November 2010, no page number available.

⁵²⁹ Loc cit

⁵³⁰ Loc cit

Planning Department explained that China went through thirty years under Mao where development fell behind the national rate of growth, and now, China is simply building faster to catch up to where it should be⁵³¹. Yet, true to the Chinese style of looking at the long-term, China is looking even further beyond the benefits of infrastructure spending and export-led growth, to dramatically upgrade the economy by investing \$600 billion in high tech, life sciences, renewable energy, advanced materials and aerospace, in the next five years⁵³². This is the path that China is currently treading.

Population Issues

Growth and Density

Population is not independent of the other aspects examined - on how China supports the economic growth and global trend – however; it is probably the most controversial. The daughter of a high-ranking Chinese cadre demonstrates this well, when referring to the Great Leap Forward which resulted in a famine and the death of 30 million people, she said “It was a good thing they died...there are just too many people in China”⁵³³. Today’s population pressures are largely a result of the legacy under Mao’s era, where the pronatalist stance believed that a populous nation was a powerful nation⁵³⁴. Similarly, Kyunge describes that China may have changed through time and that its natural scenery is eclectic; but what is constant in every direction is the Chinese people⁵³⁵. At the moment, population pressures are a threatening prospect for future development because land in China is becoming scarce with such growth, that it is necessary to adjust domestic measures around land – which directly affects the food security of the population⁵³⁶. Thereby, it is the identification that people as a whole can have an influence in a country’s direction, particularly how it improves. So, there is no coincidence that the government places the population agenda as an integral part of national economic and social

⁵³¹ Ramzy, A. “Engines of Growth” in *TIME*, 16 August 2010,

www.time.com/time/magazine/article/0,9171,2008791,00.html, no page number available.

⁵³² Abdoolcarim, Z. “The Moment” in *TIME*, <http://www.time.com/time/magazine/article/0,9171,2026793,00.html>, 1 November 2010, no page number available.

⁵³³ Kyunge, J. *Op.Cit.* p.46.

⁵³⁴ Todaro, M.P. and Smith, S.C. *Op.Cit* p.310.

⁵³⁵ Kyunge, J. *Op.Cit.* p.45.

⁵³⁶ Todaro, M.P. and Smith, S.C. *Op.Cit* p.310.

development – that population growth should be compatible with socio-economic trends, resource usage and the environment⁵³⁷.

Although success in curbing such trends is difficult to measure, there has been a drive to deter births since the 1980s, the goal being to reduce the annual birth rate by 1% during that decade⁵³⁸. By 1983 the Chinese government adopted a policy of one child per family, and implemented this by requiring birth certificates before the birth of children, as well as through economic incentives like housing, education and medical care⁵³⁹. Also, those who had more than one child were taxed and sterilization was mandatory⁵⁴⁰. By the 10th Five Year Plan (2000-2005), the government had pledged to keep the population size at 1.33 billion people, and carried this out through municipalities that could identify and formulate policies according to local conditions⁵⁴¹. At the same time, the government has also received much international criticism with such policies. The dilemma being that China's tough and coercive fertility policies have led to ideas that dictatorships can be advantages, as they can spur development⁵⁴².

There is no denying, China's living standards have been raised by keeping the growth rates down; access to resources have increased since 1980, such as tap water which has increased from 84 percent to 94 percent, and the increase in average life expectancy from 35 years in 1949 to 70 years in 1996⁵⁴³. Basically, from 1.9 births per woman in 1995, the number fell to 1.6 in 2008; this means there are 250 million less people than without such policy measures⁵⁴⁴. Thus, population policy is favourable to economic growth. However, more measures are needed to ensure a stable population growth these include further policies, education and urbanisation⁵⁴⁵. The prediction is, by the mid-21st Century if circumstances are consistent, the population in

⁵³⁷ Xinhua, "China's Population and Development in the 21st Century", http://news.xinhuanet.com/employment/2002-11/18/content_633168.htm, December 2000, no page number available.

⁵³⁸ *Ibid.* p.311.

⁵³⁹ *Loc cit*

⁵⁴⁰ Cook, J. "Population Control and Consequences in China", <http://maps.unomaha.edu/peterson/funda/sidebar/chinapop.html>, 5 December 1999, no page number available.

⁵⁴¹ Leung, J.C.B. "Social Security Reforms in China: Issues and Prospects", <http://hub.hku.hk/bitstream/10722/48671/1/84205.pdf>, 29 August 2002, p.6.

⁵⁴² Cook, J. *Op.Cit*, no page number available.

⁵⁴³ *Loc cit*

⁵⁴⁴ Todaro, M.P. and Smith, S.C. *Op.Cit* p.310.

⁵⁴⁵ Cook, J. *Op.Cit*, no page number available.

China will reach 1.6 billion before slowly decreasing so that an improving social security system will become more efficient and per capita income is raised⁵⁴⁶.

Clearly, population has an effect on future development; yet at the same time, with growth and the rising of incomes, fertility can also fall due to the need for women to weigh the opportunity costs of their time, as they are more likely to be incorporated into the economy – even though more progress is needed on this matter⁵⁴⁷. So the greater participation of women in the labour force (now at 70%) ensures later marriage and lower fertility, which is also encouraged through government policy⁵⁴⁸. Simply, China's rapid economic growth has partly attributed to its lower fertility rate. While overall, economic growth, coercion as well as incentives are driving a lower fertility rate in China⁵⁴⁹.

Regional Development

In the past thirty years China has seen dramatic changes in its economic and social structure, more currently the country is trying to transit from a bipolar rural versus urban system, to something that is more balanced and integrated⁵⁵⁰. For instance is the shift of hundreds of millions of peasants into non-agricultural sectors through urbanization and industrialisation-accompanied with extraordinary social restructuring⁵⁵¹. It is recognised however, that there are still challenges of the wide gap between the rich and poor; as well as regional inequality in China. During the 1980's the eastern region grew much faster than the central and western regions, yet this was also due to the relatively slow growth of old industrial regions that offset the rapid growth of the south eastern region provinces and cities⁵⁵². True to the power of the population, the media's reporting of inequality data like the Gini coefficient, and protests across China have helped create a consensus that have helped formulate the pursuit of "common prosperity"⁵⁵³. (See appendices D and E for maps of China demonstrating Regional Differences)

⁵⁴⁶ Xinhua, "China's Population and Development in the 21st Century", http://news.xinhuanet.com/employment/2002-11/18/content_633168.htm, December 2000, no page number available.

⁵⁴⁷ Todaro, M.P. and Smith, S.C. *Op.Cit* p.310.

⁵⁴⁸ *Ibid.* p.384.

⁵⁴⁹ *Ibid.* p.312.

⁵⁵⁰ Mengkui, W. *Op.Cit.*, p.1.

⁵⁵¹ *Loc cit*

⁵⁵² Fan, C.C. *Op.Cit.*, p.713.

⁵⁵³ *Ibid.* p.714.

Since the late 1990's the Chinese government has attempted to alter uneven development across regions – particularly its policy to 'develop the west' was implemented where funding of new infrastructure and increased fiscal transfers helped the lagging of the region⁵⁵⁴. They followed the policy to 'revitalise the northeast' where stimulating industrial development through tax breaks, technology upgrades, as well as trial reform of the social security system⁵⁵⁵. The 11th Five Year Plan also gave priority to regional plans, by initiating three major national level regional developments based on the Beijing-Tianjin-Hebei city ring; the North-East region; and Yangtze Delta region⁵⁵⁶. Unlike other plans, these regional plans place importance to regional differences; resources endowment and the distribution of production factors⁵⁵⁷. On a practical level, the government has been reallocating those in very poverty stricken areas, as practically, it is more costly to build roads to and homes in these areas; thus homes and land are provided elsewhere – this is the logic of urbanization⁵⁵⁸.

Such policies (including the Xinjiang project referred to in Chapter 3) have played an important role in promoting the development and difficult financial situation in these parts of the country⁵⁵⁹. Thus, over the last decade, implementation of regional development strategies and the nine-year compulsory education have narrowed regional gaps in life expectancy and educational levels⁵⁶⁰. For example, Tibet's human development index (HDI) was equivalent to 57 percent of Shanghai's in 1990 but it rose to 70 percent in 2003⁵⁶¹. Furthermore, China has relatively peaceful coexistence of its fifty-five ethnic minority groups, as since the early 1980's; economic assistance has been provided to minority areas which in turn gave national loyalty⁵⁶².

⁵⁵⁴ Ibid. p.90.

⁵⁵⁵ Loc cit

⁵⁵⁶ WWF Op.Cit., no page number available.

⁵⁵⁷ Loc cit

⁵⁵⁸ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

⁵⁵⁹ WWF Op.Cit., no page number available.

⁵⁶⁰ Mengkui, W. Op.Cit., p.11.

⁵⁶¹ Loc cit

⁵⁶² Zafar, A. Op.Cit., p.32.

At the same time Fogel explains that when projections are made about China, the rural sector is conveniently overlooked⁵⁶³. However when economic growth is analysed, three sectors need to be included: services, industry and agriculture; as since 1978 to present, the growth of labour productivity in all three sectors have increased approximately by 6 percent⁵⁶⁴. It is true that output per worker in the two former sectors have been much higher, however it should not be forgotten that in 2009, 55 percent of the population (700 million people) still stay in the countryside⁵⁶⁵. Investments in roads, education, electrification and other public investments in rural areas have added to the rise in agricultural production; the development gap is also narrowed through the stressing of the ‘three rural issues’ – agriculture, village and farmer⁵⁶⁶. For example in 2006, the agricultural tax was abolished nationwide, and the government extended direct subsidies to grain farmers⁵⁶⁷. This is the start to recognising that the rural economy is a large determinant of rural income, and so investing in the rural infrastructure is how the income of rural population can be raised⁵⁶⁸.

The Rise of Migrant Labour

Originating in the rural areas, are 700 million people who mostly get by on less than \$2 a day, which provides a large pool of labour that is willing to work at low wages in factories that are able to produce goods thousands of times faster than the original Industrial Revolution⁵⁶⁹. Kyunge call this productivity a result of ‘the compression of developmental time’, where as long as there are factories being built there will be a strong demand for labour⁵⁷⁰. Centuries of development have been compressed where people being paid little are working in factories equipped with up-to-minute machinery. At the same time, it is not that such labourers are willing to do such work, but that they are driven to it by the material and social hardship handed down by Chinese history - so aptly put, they are not so much economic migrants “but émigrés from a cruel past”⁵⁷¹. However, this marriage of modern factories and cheap labour gives China much of its competitiveness; it also prompts the need for large investments to fast forward the urbanisation

⁵⁶³ Fogel, R. Op.Cit., no page number available.

⁵⁶⁴ Loc cit

⁵⁶⁵ Loc cit

⁵⁶⁶ Mengkui, W. Op.Cit., p.90.

⁵⁶⁷ Loc cit

⁵⁶⁸ Ibid. p.213.

⁵⁶⁹ Kyunge, J. Op.Cit. p.30.

⁵⁷⁰ Loc cit

⁵⁷¹ Ibid. p.34.

process, which can also benefit labourers in the long term⁵⁷². The process is also grand considering that more than half the migrant workers move across provinces, normally to the more well off regions⁵⁷³.

Recently, the central government has modified its policy toward the rural floating populace and migrant labour – their longstanding unequal treatment is being slowly lifted for instance the permanent residence registration, Hukou system, is being reformed to include rural and urban components⁵⁷⁴. This system meant that migrant workers have to keep their permanent residence in the countryside, which made access to healthcare and education difficult⁵⁷⁵. However, earlier in 2010, thirteen mainland newspapers made a rare joint appeal through a signed editorial, urging the end of such a system; they argued that with better circumstances, there is great potential in consumption demand in the rural areas that can raise domestic demand and boost economic development⁵⁷⁶. This marks a changing face for how labour affects the growth in China.

Also, Hong Ping explains that the mindset towards migrant labourers is changing. Drawing on her own organisation, the China Family Planning Association, she speaks of a migrant labourer who has become a successful actor and ambassador for migrants in the organisation – inspiring the 200 million migrants in China⁵⁷⁷. Additionally, as Wei explains, all economies have their ups and downs, yet migrant workers have their homes in other areas to return to - because in villages each family is assigned roughly a piece of land where they can build homes – “this is one of the many factors of Chinese socialism, which is firmly supporting [the] market economy”,⁵⁷⁸.

⁵⁷² *Ibid.* p31.

⁵⁷³ No author available. “Migrant Workers in China”, <http://www.china-labour.org.hk/en/node/100259>, 6 June 2008, no page number available.

⁵⁷⁴ Mengkui, W. *Op.Cit.*, p.91.

⁵⁷⁵ Chung, O. “Wen Plugs Concerns Over Stimulus Exit”, http://www.atimes.com/atimes/China_Business/LC06Cb01.html, 6 March 2010, no page number available.

⁵⁷⁶ *Loc cit.*

⁵⁷⁷ Ping, H. Deputy Director of International Affairs, China Family Planning Association, interviewed by author, Beijing, 19 May 2010.

⁵⁷⁸ Wei, P. *Op.Cit.*, p.5.

Furthermore, there is a growing trend where plants supplying manufacturers like Honda Motor Corp, are raising wages and rooting themselves in rural villages like Lanqi Village⁵⁷⁹. Suggesting that growth is no longer just concentrated in the export driven areas along the coast. Thus, many people no longer need or want to go distances to make a living, as two big changes have occurred in the national economy⁵⁸⁰. First there is more even distribution of growth across China with the boom in construction and infrastructure, providing workers more options; with the work force getting older, they are more reluctant to leave home for long periods⁵⁸¹. This is what forces China to make adjustments.

End Remarks: The Ongoing to the More Recent Concerns

The more up to date debate sees the Chinese government acknowledging China's reliance on investments like infrastructure and manufacturing to drive the economy; and that a new model is possibly needed in China where consumption and the service sector play a larger role⁵⁸². Although, trade liberalisation has no doubt benefitted the consumers in China. However, being such a large and dispersed group, He and Yang explain that consumers have little influence over trade policy, not only because they are so heterogeneous but also due to their traditional weaknesses in the political process; the legacy of central planning; and the national objective to develop industries - while consumer interests remain secondary⁵⁸³. At the same time government has played a role in stimulating domestic consumption and economic development. Danhui explains that goods are sold from wealthier areas to rural-poor areas with part of the product subsidised by government; this includes appliances like fridges and televisions⁵⁸⁴. In other words, the government provides 13% of the total price of goods, when selling to the rural market, giving them a closer foothold towards development⁵⁸⁵.

⁵⁷⁹ Batson, A. "China's Shifting Jobs Keep Migrants Closer to Home", <http://online.wsj.com/article/SB10001424052748703513604575310364275165900.html>, 17 June 2010, no page number available.

⁵⁸⁰ Loc cit.

⁵⁸¹ Loc cit.

⁵⁸² ICTSD Op.Cit., no page number available.

⁵⁸³ He, J and yang, Y. Op.Cit. p.4.

⁵⁸⁴ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

⁵⁸⁵ Loc cit.

However, criticism holds that consumer spending needs to become one of the primary key growth drivers⁵⁸⁶. This is what is said would rebalance the economy and allow for outside economies to sell to Chinese consumers⁵⁸⁷. However, it must be considered that these initiatives will be decided along national development objectives. Edwards explains that in economic development, a key is investment in the future, so eventual output is higher than current output; which means postponing consumption or borrowing is important to generate savings⁵⁸⁸. Eventually, the surplus created is large enough to provide for everyone's basic necessities and finance of health, education and other services so that further wealth and growth is generated⁵⁸⁹. Also, with a renewed social security system, it is likely that reducing uncertainty of basic guarantees will make the household savings rate less relevant⁵⁹⁰.

Even though consumer spending fell to an all time low of 36% in 2008, this was only because investment spending increased in this period; and that over the period of thirty years, Chinese consumer spending has actually increased at an inflation rate of 9%⁵⁹¹. As Sharma says, "...any faster [Chinese consumerism] would defy the history of economic development in a dangerous way"⁵⁹². Thereby, how the trend is so far planning out is practical so long as the government remains committed to economic development as its agenda.

The above instances demonstrate the challenge that population issues bring, as well as the recognition given to such trends. The point is, the ways population growth, regional balance and migrant workers are approached have large effects on economic development for China as a whole. At the same time, these long-standing issues are also solved with the advent of economic growth. Thus, population is probably China's main paradox – its biggest strength and weakness at the same time. On one hand the Chinese population is simultaneously a large pool of diligent, low cost workers; new graduates that outnumber the U.S. every year; and as the middle class grows, a domestic market of consumers⁵⁹³.

⁵⁸⁶ Sharma, R. "The Post-China World" in Newsweek, no volume or number available, 28 June & 5 July 2010, p.32.

⁵⁸⁷ Loc cit.

⁵⁸⁸ Edwards, M. Op.Cit. p.47.

⁵⁸⁹ Loc cit.

⁵⁹⁰ Gurria, A. Op.Cit., no page number available.

⁵⁹¹ Sharma, R. Op.Cit. p.32.

⁵⁹² Loc cit.

⁵⁹³ Kyunge, J. Op.Cit. p.51.

However, the Chinese government is constantly faced with coping with the population along its economic development goals, which leads it to implement draconian measures to cope with the country's size⁵⁹⁴. Clearly the task of achieving fast and sustainable growth, structural change and social transformation simultaneously is an overwhelming task for any government; as the balanced relationship between land, population and power is crucial⁵⁹⁵. Accomplishing these historical tasks will take time, and will mean that many policy issues and practical problems need to be addressed.

Additionally, the hosting of the 2010 Shanghai Expo is an alternative approach to increase economic development in China⁵⁹⁶. The building and upgrading of infrastructure, like the Beijing Olympics, built to meet the demands of the event has also ensured efficiency in the city for the long-term, as well as respected international standing among visitors⁵⁹⁷. The Expo was also a platform that helped boost development for the country's inner provinces as well. For example, Guizhou is one of China's poorest inner provinces; who used the Expo to promote its rich natural and cultural resources to generate more growth in the region⁵⁹⁸.

At the same time, Liu Song's words seem to demonstrate the support of government initiative by justifying that: "if you do anything you want, there is actually no freedom for all – thereby some sort of order is still needed"⁵⁹⁹. Perhaps this is but one opinion of an individual and not the same for the entire Chinese population; yet beyond words there is one thing common among the Chinese – the visible, active participation of a forward looking society. Perhaps this participation comes in a time when government's traditional role as financial provider is shifting to locally driven and overseen projects, even though it remains the main actor in the new system⁶⁰⁰. The fact is the government facilitates the process through encouraging: cities like Shanghai to assist

⁵⁹⁴ Loc cit.

⁵⁹⁵ Mengkui, W. Op.Cit., p.1.

⁵⁹⁶ See Appendix F for pictures of the Shanghai Expo

⁵⁹⁷ Channel News Asia. "Shanghai expo expected to boost development in inner provinces", <http://www.channelnewsasia.com/stories/eastasia/view/1052744/1/.html>, 27 April 2010.

⁵⁹⁸ Loc cit.

⁵⁹⁹ Song, L. From the Foreign Affairs Office of Guangxi Zhuang Autonomous Region: Friendship Association Division, interviewed by author, 23 May 2010.

⁶⁰⁰ Guan, X. Op.Cit., p.120.

other regions like Tibet; college graduates to apply their knowledge in villages; and helping rural areas build infrastructure⁶⁰¹.

However, it is also the emergence of NGOs or civil organisations, which did not exist prior to reforms that are assisting and operating in social welfare fields in China⁶⁰². For Ying, this actor's role has greatly expanded⁶⁰³. During her seminar in Beijing, she said that no matter how strong the Chinese government is, there are always gaps that need filling, for instance China often faces natural disasters which requires multiple avenues of disaster relief⁶⁰⁴. Although, NGO's are dynamic by nature who can be at odds with authority, or simply creations and puppets of them; they have found ways to be smart, by aiding society without directly challenging the government by looking at issues like education and the environment – all ventures government says it supports⁶⁰⁵.

The Beijing Volunteer Federation is an example of a well established NGO in China. Guo Xinbao from the organisation explained that the Federation is namely made of college volunteers who give their assistance during their spare time⁶⁰⁶. Although this organisation has strong funding from government, its operations have been efficient with such support. For example, those who volunteered at the 2008 Beijing Olympics and 2010 Shanghai Expo were given transport subsidies, as well as a meal and water if they gave more than half a day of their time. Also, a sixty person delegation will be sent to the 2010 Olympics in Brazil for assistance in the event⁶⁰⁷. However, despite such efficient operations that have come with government support, what has strengthened this arrangement is simply the willingness of everyday Chinese to give their time to social projects, without viewing their duty to the community as a position that requires formal pay.

⁶⁰¹ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

⁶⁰² Guan, X. Op.Cit., p.121.

⁶⁰³ Ying, X. Professor of Sociology and Political Science at Renmin (People's) University of China interviewed by author, Beijing, 18 May 2010.

⁶⁰⁴ Loc cit.

⁶⁰⁵ Forney, M. "Power to the People" in TIME, Vol.165, No.26, 27 June 2005, p.32.

⁶⁰⁶ Xinbao, G. Secretary General of the Beijing Volunteer Federation, meeting at the organisation attended by author, 19 May 2010.

⁶⁰⁷ Loc cit.

Overall the obvious social participation in China is positive, because this ensures economic growth with consideration of human development, and not just growth on its own⁶⁰⁸. The coherence and networks between local and central government, and other actors like NGOs are also how government remains informed to make effective macroeconomic choices⁶⁰⁹. According to Edwards, this type of trust, ability to problem solve, and other social capital; forms a web that is not easily defined by Western norms of democratic accountability and free association⁶¹⁰. Conclusively, despite the international environment and social policy reform adopting a largely neoliberal character, the Chinese government still has an important role in strengthening domestic conditions to suit its external economic standing. In turn, China's urbanisation itself is steering worldwide demand for basic metals and resources⁶¹¹. However, China's economic emergence through poverty reduction, migration of workers, the quantum leap in education and construction of world-class infrastructure, has benefited China itself primarily⁶¹².

China's Economic Development and the Grand Scheme

Challenges

Despite China's obvious success when it comes to economic development, it is harder to coincide these goals with other types of development that is beneficial. Human and social developments are different to economic development, because they emphasises the developmental outcomes of human beings, social sectors and public services, while the latter emphasises the wealth of a society and economic growth⁶¹³. However, it makes sense that economic growth can initially be achieved without much human improvement, yet if this phase continues; it will lead to unsustainable and unequal growth⁶¹⁴. Judging from this description, China seems to be facing this particular juncture – ensuring meaningful economic growth by incorporating aspects such as poor areas that were previously ignored. To illustrate this, Sharma

⁶⁰⁸ Todaro, M.P. and Smith, S.C. Op.Cit p.570.

⁶⁰⁹ Edwards, M. Op.Cit, p.58.

⁶¹⁰ Ibid. p59.

⁶¹¹ Kyunge, J. Op.Cit.p.29.

⁶¹² Ibid. p.211.

⁶¹³ Mengkui, W. Op.Cit, p.5.

⁶¹⁴ Ibid. p.6.

says that beyond thinking that Chinese policymakers only care about growth, there is real emerging attention towards social stability⁶¹⁵.

At the same time, it is accounted that China faces many valid challenges to bring forth development – even growth for that matter. Duanhui explained that above launching reforms (a success in itself), the attempt to address the imbalance of the Eastern and Western regions are not yet satisfactory, due to resource and transportation challenges⁶¹⁶. The government needs to be very aware of the unintended consequence of its policies, which the past demonstrates, as today; China is still dealing with former problems⁶¹⁷. Today, the coercive family planning measures are also reducing infant mortality, particularly female babies⁶¹⁸. Also, it is easy to see how population issues are tied to every other domestic aspect that the government is developing. For example, human capital promotion still lags in rural areas as there is slower development of healthcare compared to cities⁶¹⁹. It is the rural and urban poor that are most vulnerable in gaining assurances in economic development.

Conversely, it is commendable that there is barefaced recognition of the multiple problems that China faces. Even though economic growth and development remains the absolute principle for government, the 11th Five Year Plan highlighted some of the problems due to rapid economic growth, such as environmental issues and inequality⁶²⁰. The response was the “concept of scientific development” and “harmonious socialist society” that incorporates long-term stability and equitable allocation⁶²¹. Additionally, during vice-President Xi Jinping’s visit to South Africa, he explicitly stated that as a developing country, China still has problems of its own which has yet to be addressed⁶²². The explicit leadership’s recognition that China has much space for progression, such acknowledgement is a positive step towards its long-term goals. What is true is that unlike China under Deng, the twenty-first century is different⁶²³. The prominent role of the

⁶¹⁵ Sharma, R. “The Post-China World” in Newsweek, no volume or number available, 28 June & 5 July 2010, p.32.

⁶¹⁶ Duanhui, T. Deputy Director General of the CPC Center for International Exchanges, interviewed by author, Beijing, 17 May 2010.

⁶¹⁷ Sen, A. Op.Cit., p.258.

⁶¹⁸ Loc cit.

⁶¹⁹ Mengkui, W. Op.Cit., p.10.

⁶²⁰ Fan, C.C. Op.Cit., p.710

⁶²¹ Ibid. p.711.

⁶²² Jinping, X. Speech by Vice-president at the Sheraton Hotel, Pretoria, attended by author, 28 November 2010.

⁶²³ Fan, C.C. Op.Cit., p.720.

central government – of massive inputs and drastic policies – has made the ingredients for over two decades of success⁶²⁴. However Fan explains that the challenge for the leadership is identifying a further set of economic, institutional and political approaches for development⁶²⁵. This ensures a development that incorporates economic growth, human development and social progress⁶²⁶.

Simultaneously, China should still be commended that compared to other countries at the economic development level; its human development is relatively high⁶²⁷. Of course, there should also be consideration that economic development is also accompanied with uncertainty. No matter how much leadership or analysts study growth and development, that not all outcomes can be accounted for or dealt with simultaneously. These issues include: in any long-term reform process, there is likely various unpredictable social influences on social policy trends; also true to Deng's words, the process in China is also not rigidly designed, which means space for trial and error must be provided⁶²⁸. Most importantly, China's reform has been influenced by various social and economic variables that too come from both local and international levels – change in any of these variables provokes a departure from prearranged development.

Conclusion

At first glance, the following quote seems very apt to describe China's current predicament: "Given China's unparalleled economic rise, it's easy to buy into the idea that a country can zoom into the future with one foot on an economic accelerator and another on a political brake"⁶²⁹.

This chapter has examined the various ways that the government attempts to bring the domestic in coherence with global circumstances. Yet, it is clear that this assignment is challenging and daunting for the Chinese government, let alone any government. The theme that carries from Chapter 3 is that globalisation and market reform remain an important force that China is attempting to come to terms with; this does not disregard social inequality and the ideological

⁶²⁴ Loc cit.

⁶²⁵ Loc cit.

⁶²⁶ Mengkui, W. Op.Cit., p.6.

⁶²⁷ Ibid. p.8.

⁶²⁸ Guan, X. Op.Cit., p.124.

⁶²⁹ Beech, H and Ramzy, A. "China's Unwanted Nobel" in TIME, Vol.176, No.17, 25 October 2010, p.26.

responses that also inform social policy⁶³⁰. Thereby, the efforts to keep up with a global context are what has been driving China's goal to balance its domestic needs and development, with market principles and privatisation. However, it seems like China is still in its early years from completely privatising aspects such as its social welfare system⁶³¹. So with the arrival of the new 12th Five Year Plan, it is clear that there will be much continuity with its predecessor; because income disparities for instance are long-term challenges that require sustained but perhaps changing efforts⁶³².

What may be important then is economic development that sees a functioning between public, private and citizen divisions – “each plays an important role in attaining balanced, shared and sustainable development”⁶³³. This conclusively shows that it may be too simplistic to define the politics and economics so clearly apart from one another as the quote mentioned suggests; because political brakes may be ideologically chosen, yet at the same time, there is no denying that economic prosperity can halt politics in the non-ideological sense as well. That embracing the global circumstances is necessary for China to gain economically, which has been shown to bring forth further benefits to the population. It means that central politics, as the central social provider, will have to let go of its traditional mandate and find other means to remain present. Thereby, perhaps it is far more constructive to explain that China is facing a *social* rather than political brake, which is lagging behind an economic accelerator and it is this very aspect that China is currently trying to deal with, demonstrating that there are gains as well as losses from the economic development process.

⁶³⁰ *Ibid.* p.126.

⁶³¹ *Ibid.* p.115.

⁶³² Kwan, C. “2010 – Engaging China’s Five-Year Planning Cycle”, http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_csg_2010china_planningcycle_010510.pdf, November-December 2009, p.3.

⁶³³ Todaro, M.P. and Smith, S.C. *Op.Cit* p.573.

Conclusion

The image of China has long been romanticised and mysterious, as even Napoleon warned: “Let China sleep... for when she wakes, she will shake the world”⁶³⁴. This suggests that even about two hundred years ago, there was as much caution and suspicion towards a large but misunderstood nation⁶³⁵. However, the issue of economic development has been very fitting in proving how China is so much a part of this world, and it faces the same realistic dilemmas that any other ordinary country does. In fact, each chapter of this paper, have studied and demonstrated just how human China can really be.

To begin with, Chapter One gave the relevant direction on what should be studied when it came to current issues of economic development. It particularly demonstrated how traditional theories fit in the real world. That to be true to reality, the orthodox views of neoliberals and statist cannot possibly explain economic development alone. So with the case of China’s progress in economic development, it is clear that theories only explain but one face of certainty; and more profoundly that they do not have to exist in disagreement. Thereby, a recurrent theme throughout has been the relationship between government and market tendencies in the context of China’s reforms since 1978.

Closer to an eclectic approach towards economics, Chapter Two made consideration of further areas of analyses: the relevance of cultural-historical factors like social structure and governments’ relationship with its people, as well as global and local contexts, and the direction of leadership have all made way for China’s recent choices. These aspects explain the choices of a state are not as irrational as suspected. The socio-historical factor is an important aspect that steers the direction that development will take. The ingredients of “world system timing, geopolitical considerations, and cultural factors” are then reasons that there is no coincidence China has chosen a pragmatic approach towards its development⁶³⁶. In other words, China is taking on the global revolution of globalisation with an approach also known as the ‘bamboo

⁶³⁴ Kyunge, J. Op.Cit.p.7.

⁶³⁵ Loc cit

⁶³⁶ Hsiao, H.M. Op.Cit.p.22.

policy’, where they prefer to “bend with the wind rather than standing straight and eventually snapping”⁶³⁷.

Transitioning from historical context, Chapter Three looked at the current global economic context that China’s economic development exists under. Like other members of the WTO, China is an equal member and supporter of free market principles that are influencing the country in the direction of its reforms and greater economic development. Yet, even though such principles are changing the features of China, they are again in coexistence with socio-historical factors which China aims to balance. True to the theoretical framework provided, China is embracing global neoliberal economics and is doing so with the continued efforts of government as demonstrated through SOEs, SEZs and its overall trade relationships. Ironically, China has become less centrally governed in the economic respect, however this is so, as government is embracing market principles so that it can function as an instrument of state power⁶³⁸. It was also mentioned however that, no country actually exists without violating the line between politics and economics, yet it cannot be denied that China is walking this line most miraculously, strictly and openly – and perhaps right now, admirably.

Finally, Chapter Four explores the government’s non-economic policies and how China prepares internal conditions to meet optimal growth; as after all, economic growth is ultimately a national affair. Successfully, it is the broad areas of human capital, infrastructure, and population matters that are relevant in pushing China’s reform agenda forward. Yet, it is these very factors, if not maintained adequately (particularly with regard to population) that can inhibit the growth process; and that could also benefit from the appropriate policies. There is no denying that China faces as much obstacles as its successes, in large; this dual result is also because of the global context that development is occurring under today. The reality is development initiatives are only as successful as China’s ability to incorporate the free market global trend with domestic economic progress; and due to the effects of this, it is social and human improvement that require equal, if not the most attention.

⁶³⁷ The Economist Op.Cit. no page number available.

⁶³⁸ Loc cit

However, China runs on contradictions, whether it is a prime polluter as the world's factory or making plans to build giant green cities⁶³⁹. However, what is defining is that above the criticisms and concerns over the problematic areas of China's development, these issues are importantly no secret to the Chinese leadership who have proved capable of tackling oncoming issues as they come⁶⁴⁰. For the bigger picture then, it is really inadequate to put a verdict on China's economic success, considering that it faces an ongoing process of development – where it is by no means anywhere near from complete. Instead, it is hoped that interest has been evoked on looking further beyond what achievements or non-achievements the Middle Kingdom has actually accomplished, but more meaningfully then towards, exploring *how* China got to where it is today.

If the reality then is that China's model will continue to grow out of trials and errors, and it “will not change simply because other nations dislike it”⁶⁴¹, then the relevant question is, can China's economic development serve as a model for others?

Perhaps what China's model significantly teaches the world is that there is no one factor to success, but rather it is a result of favourable initial conditions, a fitting international context, and the formation of a strong polity that has provided a foundation of effective policies – none of which dominate in order of importance⁶⁴². Overall, there is no single path to development goals and that instead of focusing on the ‘universal theories’ that describe the world, attention towards policies and the politics that create them, are necessary⁶⁴³. Thus, economic development is a gradual, careful and strategic progression that requires genuine support and understanding throughout the world. Additionally, Amsdem explains that no East Asian state's model can be readily force fed to poor countries, like the World Bank had done with its ‘market friendly’ approach; rather countries need to individually analyse *which* supporting institutions in China have bided well for education, investment and exports - as well as be able to modify such institutions to work elsewhere⁶⁴⁴. The hard fact taught is that lesser developed countries must assume and accept active responsibility for their national well-being, before any assistance can

⁶³⁹ Ramo, J.C. Op.Cit.p.22.

⁶⁴⁰ Fogel, R. Op.Cit.p.5.

⁶⁴¹ Wei, P. Op.Cit.p.3.

⁶⁴² Edwards, M. Op.Cit.p.59.

⁶⁴³ Ibid. p.68.

⁶⁴⁴ Amsdem, A.H. Op.Cit.p.628.

be constructively made use of; even more so, they need to be committed to innovation and change that is on a scale that has almost never been experienced before⁶⁴⁵.

Along with the personal lessons that China may teach states, these lessons must be taken with the caution that China itself is a student as well. In fact, it was demonstrated that it takes its lessons on infrastructure from outside its own borders - selectively - and hopefully others are encouraged to do the same. Therefore, "...each case finds a heady cocktail of ingredients shaken and stirred to suit local tastes"⁶⁴⁶.

China provides direction versus imposed lessons of how states should apply another's economic development experience, it is conceivably fruitful to suggest that further studies are made on: how and what aspects China's model could be applied in specific countries. Notably, this suggestion motivates studies that span beyond what is politically correct or incorrect; as in the name of development, political opinions on China are not what will solve poverty at the end of the day.

Perhaps states could find it easier to apply aspects of the so called 'China Model' if they had an idea where China is going, beyond the many predictions that cannot give much certainty. However, this is unrealistic. No one really knows what new factor will emerge, and how it may play out. As Edwards points out, not only are economies embedded in culture and social structure, they also depend on social and economic forces that change when they interact with one another over time⁶⁴⁷. What is possibly more reassuring is that like other East Asian states, China's draconian measures may eventually reach a very different end, where individuals may need to give less to the greater good. Yet, even though there is no guarantee that China will become like its regional counterparts, what the state implements is necessary *right now* – not looking behind or ahead, but learning and anticipating for it – as clearly demonstrated with the advent of the new 12th Five Year Plan, just one of its many phases of reform. This is how China's actions could be learnt as well, that the necessary lessons that China brings are applied in relevant and indispensable areas, without looking to what China may or may not become.

⁶⁴⁵ Todaro, M.P. and Smith, S.C. Op.Cit p.573.

⁶⁴⁶ Edwards, M. Op.Cit p.67.

⁶⁴⁷ Edwards, M. Op.Cit p.49.

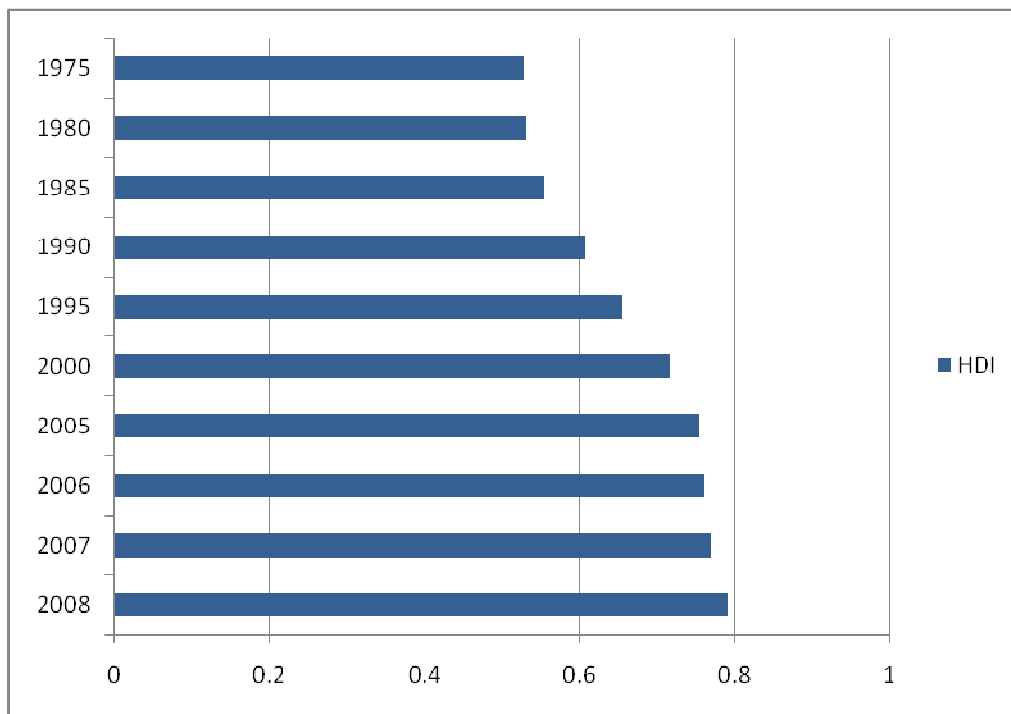
Thereby, is it necessary to end off saying that the holistic consideration of China's economic development is but the first modest step towards the many opportunities available for successful development; and realistically speaking – there is no real benchmark in order to measure economic development against. So perhaps this is not a conclusion in the strict sense but just the beginning or the foundation towards looking at China beyond a romantic love affair. Instead, it marks the beginning of a true relationship, one that is honest, realistic, lasting and thoughtful.

It then only makes sense to end in Bennett's words:

I am aware that I have raised many more questions than I have answered. This, I am afraid, is of course the nature of the beast we call social science. Contrary to what many people think, science can never give us certainty, only probabilities.

Appendix

A: China's Rise in Human Development Index (HDI), 1975-2008



Source: UNDP, “China Human Development Report 2009/2010”,
http://hdr.undp.org/en/reports/nationalreports/asiathepacific/china/nhdr_China_2010_en.pdf

B: Photographs of Nanning City, Guanxi Province



Source: Nanning City, Taken by author, 24 May 2010.

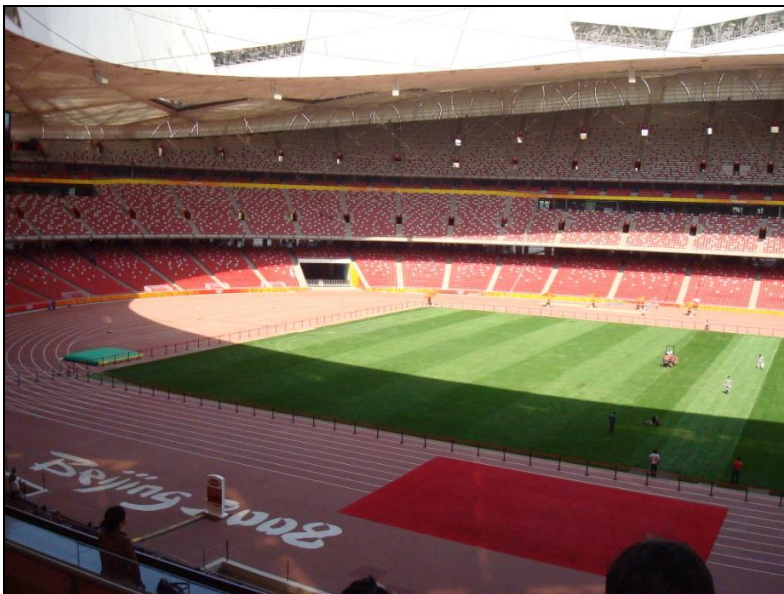


Source: Nanning City, Taken by author, 24 May 2010.

C: Beijing Olympic Site



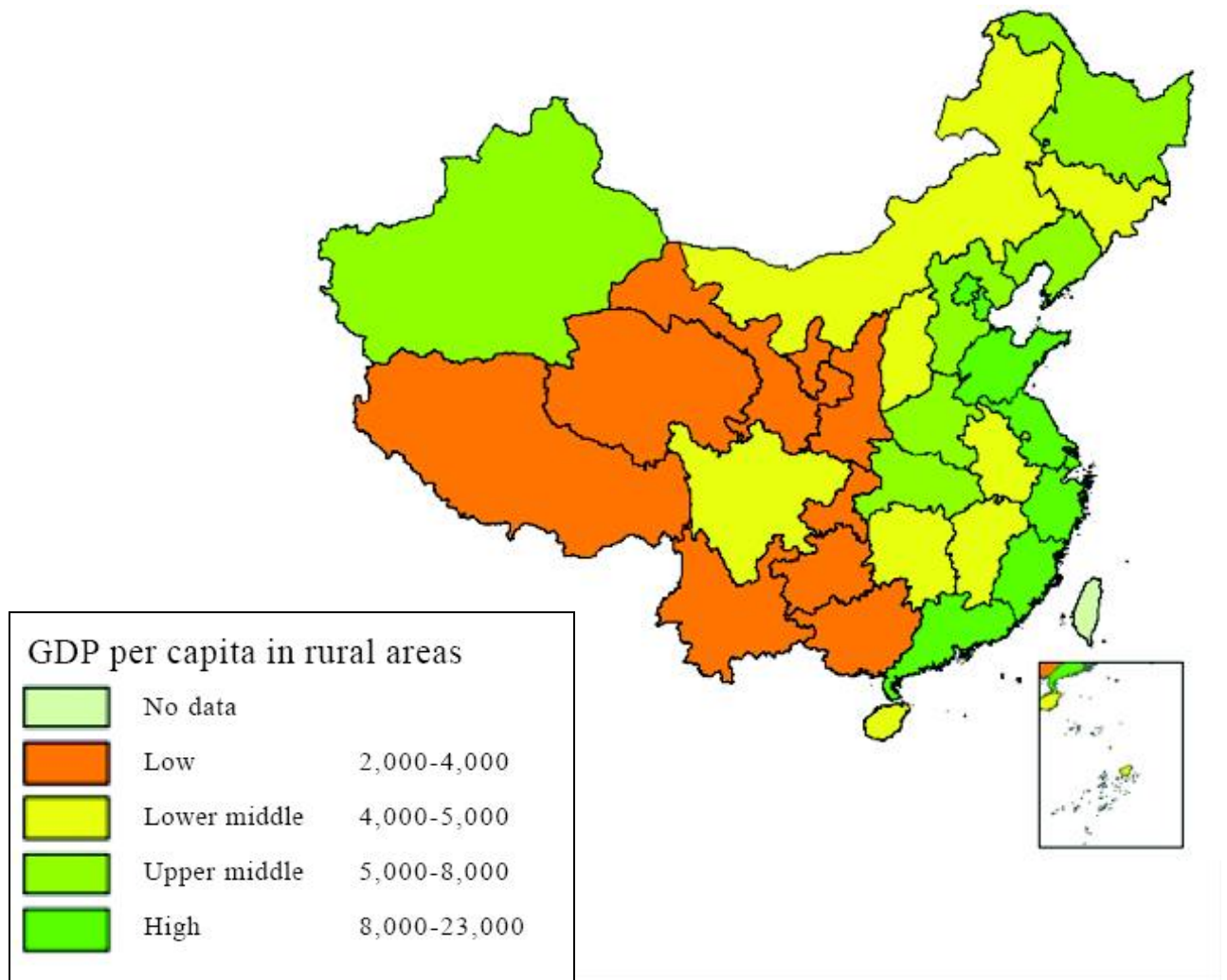
Source: Olympic Grounds, Taken by author, 20 May 2010.



Source: Olympic Stadium, Taken by author, 20 May 2010.

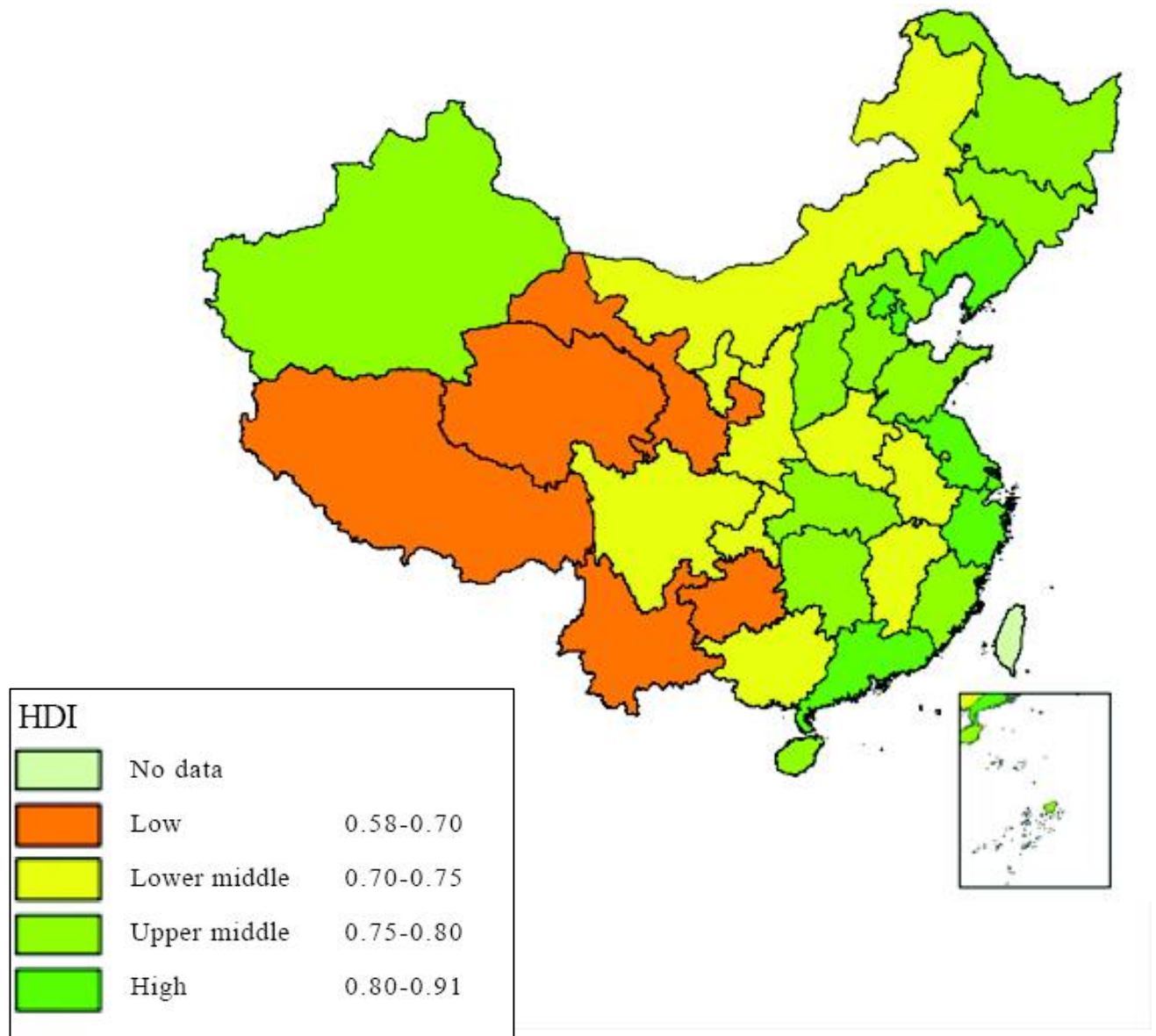
Maps of China that demonstrate differences Among Regions :

D: GDP per capita



Source: UNDP, “China Human Development Report 2005”,
<http://planipolis.iiep.unesco.org/upload/China/China%20HDR%202005.pdf>

E: Classification of Provinces by HDI

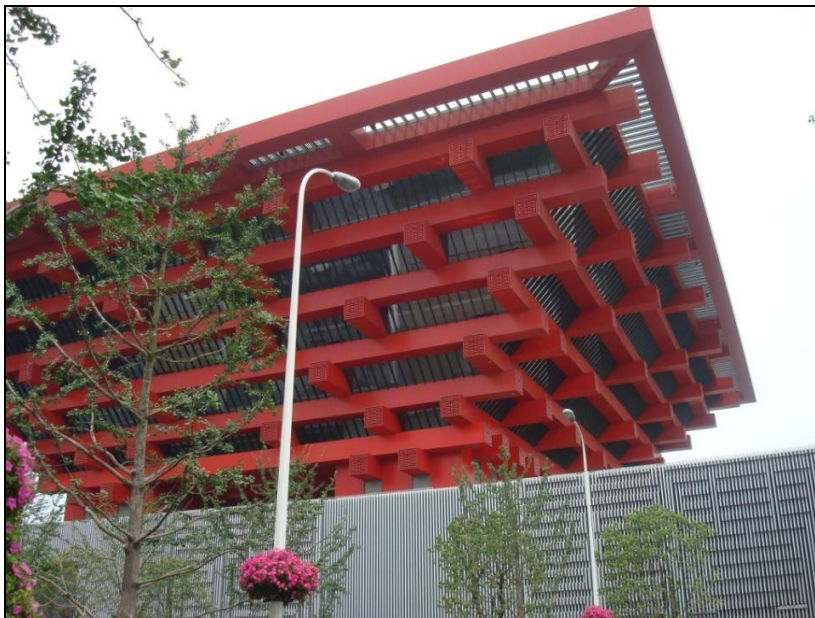


Source: UNDP, "China Human Development Report 2005",
<http://planipolis.iiep.unesco.org/upload/China/China%20HDR%202005.pdf>

Appendix F: Shanghai Expo, 2010



Source: South African Pavilion, Taken by author, 26 May 2010.



Source: China Pavilion, Taken by author, 26 May 2010.



Source: North Korea (Left) and Iran (Right) Pavilions, Taken by author, 26 May 2010.

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