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The Chinese Model of Development: Characteristics, Interpretations, Implications

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Abstract

Influenced by promising economic indicators, the mass media and policy circles have begun to use the term "China Model" to celebrate China's fast-speed development. However, researchers are still not clear what exactly the China Model is. This paper provides a critical examination of the China Model of development. This paper starts with a discussion of what are the major characteristics of the China Model and why the developing countries are attracted to them. Then this paper argues that researchers should not take the China Model for granted because its ingredients are highly contested. Finally, this paper discusses what implication the China Model has for developing countries.

Keywords

China – development – market socialism – Third World

At the turn of the 21st century, the mass media liked reporting the news about China's remarkable development (China Daily 2009; Wines 2010; Washington Post 2009):

- China had become the largest producer of many key industrial and agricultural products by 2007, including rolled steel (566 million tons), coal (2.5 billion tons), chemical fertilizers (58 tons) and personal computers (121 million, or 30 percent of the world's output);

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- China surged past the United States to become the world's largest automobile market—in units, if not in dollars. It also toppled Germany as the biggest exporter of manufactured goods. World Bank estimates suggest that China—the world's fifth-largest economy four years ago—will shortly overtake Japan to claim the No. 2 spot; and
- China had a US$265 billion trade surplus with the US and held US$1.4 trillion in US Treasury security in 2009.

Influenced by these promising economic indicators, the mass media and policy circles began to use the term "China Model" of development to celebrate China's fast-speed economic development. After 2004, the term was further upgraded to "The Beijing Consensus," representing the alternative economic development model to the Washington Consensus, which was a United States-led plan for reforming and developing the economics of small, Third World countries (Ramo 2004). A Google search on "Beijing Consensus" yields 110 results, showing that the term is gaining popularity in the mass media.

It is reported that the China Model has begun to influence the developing countries in the South. *The Australia* (2010) reported that "after the Olympic Games, the success of China's model of development is increasingly apparent." The China Model was reported to be very well-received at the China-Africa Business Summit in Cape Town in 2009, and "is likely to inspire both Islamic countries and African countries to develop faster" (BBC 2009a, 2009b).

However, despite the fact that the term "China Model" is widely used since the mid 2010s, not enough scholarly attention has been paid to China's developmental experience. Thus, researchers are still not clear what exactly the China Model is. The aim of this paper is to provide a critical examination of the China Model of development. This paper has three parts: First, it starts with a discussion of what are the major characteristics of the China Model and why the developing countries are attracted to them. Then this paper argues that researchers should not take the China Model for granted because its ingredients are highly contested. Even though it is called "Beijing consensus," there is simply no consensus on how to characterize China's developmental experience over the past thirty years. Finally, this paper discusses what implication the China Model has for developing countries. Specifically, this paper tackles the following three questions: (1) How can researchers move beyond ideological debates around the China Model? (2) Why has the China Model worked while the other models like neoliberalism and state socialism failed? (3) Can the China Model be copied? What lessons can the China Model offer to developing countries?

Characteristics

Since the mass media and policy studies reports have not spelled out systematically the nature of the China Model, this paper takes the liberty of bringing together different passages mentioned in the literature and tries to reconstruct what I see as the major characteristics and the key ingredients of the China Model. Developing countries in the South will find the following features in the China Model very attractive:

- *Fast economic growth*. From 1978 to 2001, China's annual average growth rate was 8.1% and its annual rate of industrial growth was 11.5% (Kiely 2008: 355). In a short span of 30 years, China has been transformed from a poor, backward third world country to an economic powerhouse of the world.
- *Export-led industrialization*. By the early 2000s, China has become the global factory and the workshop of the world. China exports grew from US$18.1 billion in 1978 to US$266 billion in 2001, reflecting an annual average growth rate of 12%. By 2001, manufacturing exports accounted for 90% of total exports (Nolan 2004: 910).
- *Innovation and technological upgrading.* In contrast to the assumption that China is trapped in labor-intensive, low-tech, sweatshop export production, China has modernized its educational system, upgraded its science and research capabilities, and participated in high-tech production. From the 1990s on, foreign corporations began to transfer a significant amount of their research and development activity into China. Microsoft, Oracle, Motorola, Siemens, IBM, and Intel have all set up research laboratories in China because of its "growing importance and sophistication as a market for technology" and "its large reservoir of skilled but inexperienced scientists, and its consumers, still relatively poor but growing richer and eager for new technology" (Buckley 2004). In the 2010s, China began to move up the value-added ladder of production and to compete with South Korea, Japan, Taiwan, and Singapore in spheres such as electronics and machine tools.
- *Poverty Reduction.* China managed to reduce the share of the population living on less than US$1 per day from 64 percent in 1981 to 16 percent by 2006; effectively lifting 400 million people out of absolute poverty (UNDP 2006). Thus, the China Model has worked more effectively than the IMF-designated Structural Adjustment Program in the Washington Consensus model for sub-Saharan Africa and the "shock therapy" for Russia (Zhang 2006).
- *Independent and autonomous development.* According to Ramo (2004: 3-4), China shows "how to fit into the international order in such a way that

> allows them [developing countries] truly independent, to protect their way of life and political choices in a world with a single powerful centre of gravity." In short, the Beijing Consensus contains "a theory of self-determination, one that stresses using leverage to move big, hegemonic powers that may be tempted to tread on your toes" (Dirlik 2004: 3).

To summarize, the major characteristics of China Model are fast-speed economic growth, export-led industrialization, innovation and technological upgrading, poverty reduction, and independent and autonomous development.

Contestations and Interpretations

In the 2010s, as China is making inroads in Africa, the Middle East, and Latin America for raw materials and minerals, and as Chinese state enterprises are encouraged to extend their investments in other parts of the world, the China Model is put forward to provide an ideological foundation to clear the brush of the above overseas adventures of the Chinese state and the Chinese transnationals. As Dirlik (2004: 2) remarks, the China Model "appears, more than anything, to be a sales gimmick—selling China to the world, while selling certain ideas of development to the Chinese leadership."

Developing and post-socialist countries are buying into this China Model because they are highly dissatisfied with neo-liberalism's Washington Consensus, shock therapy, and structural adjustment programs (Rodrik 2006). The Brazilian leader Lula da Silva, for example, expressed his admiration for China and its ability to globalize without giving up its autonomy and sovereignty (Dirik 2004).

Developing countries certainly can learn from China's developmental experience, like export-led industrialization and poverty reduction. However, to portray the above features as the China "Model" becomes an exercise in ideological construction. Like other ideological models which articulate only half-truth, the China Model tends to accentuate, exaggerate, or idealize its positive features, while at the same time tries to hide, minimize, or define away its negative traits.

Once researchers start to *problematize* the characteristics of the China Model, they will find the traits in the China Model are highly contested and the celebration of the China Model is pre-matured, as seen in the following debates:

Problems of the Fast-speed Export-led Growth Model. Those who are on the left tend to take a critical stand on China's remarkable economic growth rate.

Hung (2009: 25), for instance, argues that China's export-led growth model is "rooted in a developmental approach that bankrupts the countryside and prolongs the unlimited supply of low-cost migrant labor to coastal export industries. The resultant ever-increasing trade surplus may inflate China's global financial power (in the form of expanded holdings of debt), but the long-term suppression of manufacturing wages restrains the growth of China's consumption power," making it very difficult for China to re-orient its development model to achieve a balance between domestic consumption and exports. Thus China could not free itself from dependence on the collapsing US consumer market and addiction to risky US debt.

Ching Pao-yu (n.d.: 39-40) also shares the observation that high-speed economic growth has not done China any good:

> the development of the past thirty years has thrown tens of millions of workers out of the factories and has also ruined the foundation for long-term development of China's countryside. The capitalist development of the past thirty years has deprived a large portion of the Chinese population their basic necessities of life and has also ruined China's fragile environment. China has many environmental crises as a result and many more surely to come.

Technological Upgrading or Technological Dependence. Despite the assertion that the China Model highlights a commitment of innovation and technological innovation in China's developmental experience, Wang Yong (2008) points out that the export-oriented growth model cultivates strong inertia, locking China in at the lower end of the value-added chain.

China's world factory status denotes that the Chinese firms have successfully hooked into the global commodity chain, becoming assembly lines for foreign-brand transnationals; and the lion's share of the profits have gone to foreign investors. Kiely (2008) argues that this kind of linkage has *not* led to any significant technological upgrading or domestic linkages that have characterized the shift to developed country status, or indeed to the form of upgrading that characterized the first tier of East Asian newly industrializing countries.

China's Industrial Development Report also shows that transnationals have not exported their most current technology to China—and the technology they have exported to China is under strict controls to prevent dissemination (CASS 2003).

Autonomous Development or the Head Servant of the US. There is also a controversy regarding to China's autonomous development. Ching (n.d.: 38), for example, has argued that

> China has lost its autonomy in developing its economy just as other developing countries have. China is now dependent on the investment of multinational corporations and the foreign technology these corporations bring in. It is also dependent on the expansion of exports to the international market in order to maintain its high GDP growth.

How important are these transnationals to China's development? Roughly 2/3 of the increase in Chinese exports in the past 12 years can be attributed to non-Chinese owned global companies and their joint ventures. Foreign owned global corporations account for 60% of Chinese exports to the US. In 2004, retail giant Wal-Mart was China's 8th largest trading partner ahead of Russia, Australia, and Canada (Roach 2006).

To Hung (2009: 16), China has little autonomy or independence. Instead, China is merely "the head servant" of US and transnational corporations, "leading the others in providing cheap exports to the US and using its hard-earned savings to finance American purchase of those exports."

Poverty Reduction or Rising Social Inequality. Instead of the highly-celebrated poverty reduction in the China Model, researchers have pointed to worsening income inequality in China. The Gini coefficient for household income in China, for example, rose from 0.33 in 1980, to 0.40 in 1994, and to 0.46 in 2000. The last figure surpasses the degree of inequality in Thailand, India, and Indonesia. By 2004, observers suspect that China's Gini coefficient had exceeded 0.50, placing its income inequality near Brazilian and South African levels (Hart-Landsberg and Burkett 2004). Within a short span of 30 years, therefore, China has transformed itself from one of the most egalitarian to one of the most unequal societies in the world (Wang Feng 2008).

Political Stability or Rising Social Conflict. The China Model portrays the Chinese communist party-state as fully in charge with the developmental process in China. The party-state also had widespread legitimacy, and unlike its communist counterparts in Soviet Union and Eastern Europe, the Chinese communist party-state is not under any threat of revolution. What the China Model fails to highlight, however, is that widening social inequality has caused many social problems (such as rural bankruptcy and labor unrest), which will threaten social stability and the survival of the communist party-state.

In response to increasing social inequality and the cutting back of social benefits by the post-socialist party-state, the Chinese working class has become restless. *China Labour Bulletin* (2002: 1) reports that

> almost every week in Hong Kong and mainland China, newspapers bring reports of some kind of labor action: a demonstration demanding

> pensions; a railway line being blocked by angry, unpaid workers; or collective legal action against illegal employer behavior such as body searches or forced overtime.

According to official statistics, in 1998 there were 6,767 collective actions (usually strikes or go-slows with a minimum of three people taking part) involving 251,268 people. This represented an increase in collective actions of 900 percent from the 1990s. In 2000, this figure further jumped to 8,247 collective actions involving 259,445 workers (*China Labour Bulletin* 2002, p. 2). Given such widespread labor protests, it is no wonder that the Chinese government has identified the labor problem as the biggest threat to social and political stability (So 2007).

A Model or a Culprit to Pull Down Global Wages. Despite the fact that China is constructed as the model, many countries still see it as a competitor for foreign investments and jobs.

An *Economist* (2001) report noted the "alarm and despair" with which China's neighbors reacted to its rise: "Japan, South Korea and Taiwan fear a hollowing out of their industries, as factories move to low-cost China. . . .Southeast Asia worries about 'dislocation' in trade and investment flows [to China]."

In addition, Global Labor Strategies (2008, p. 8) reported that

> Workers, communities, and countries throughout the world are confronting the challenges posed by China's growing role in the global economy. About 25% of the global work force is now Chinese. The 'China price' increasingly sets the global norm for wages and working standards at both the high and low ends of the production chain. As a result, the hard-won gains of workers in the global North are being rapidly undermined while the aspirations of workers in the developing world are being dashed as China becomes the wage setting country in many industries.

Therefore, China posted as an export powerhouse only intensifies economic tensions and contradictions through the South—to the detriment of workers everywhere.

In sum, although the China Model and its derivatives are labeled as "the Beijing Consensus," there is simply no consensus concerning the major ingredients of the China Model. While the proponents of the China Model want to highlight its positive features—such as its remarkable growth rate, export competitiveness, technological upgrading, poverty reduction, and independent development—critics of the China Model are quick to point out the harmful consequences of the China Model, such as rural bankruptcy, being trapped in low-tech assembly line production, being dependent on the US consumer market, rising social inequality, social conflict, and the downward pull on global wages. Moreover, since the reports of the China Model tend to be promoted by policy circles and by the mass media, they fail to provide the detailed documentation to support their arguments. As a result, critics, especially those of the Left, tend to see the China Model as an exercise in ideology construction to justify the global reach of the Chinese party-state and transnational corporations.

What then is the implication of the China Model for the developing countries in the South? Critics have provided a great service by problematizing the China Model, pointing out China's path of development has many structural problems and many undesirable consequences. In short, the critics say that China couldn't possibly be celebrated as a "model" for other developing countries to emulate.

Although this paper agrees with the critics that China is not without its developmental problems, the critics seem to have gone too far by defining away the remarkable achievement of Chinese development over the past thirty years. This paper argues that if researchers want to make any advance in understanding the remarkable development of China, they need to perform the following three tasks: (1) move beyond the ideological lens to capture the complexity and ambiguity of China's development, (2) explain why China's development has worked while other packages like neoliberalism and state socialism have failed, and (3) explore the possibility whether the pattern of China's development can be copied by the countries in the South.

Beyond the Ideological Debate: The Ambiguity of China's Development

Studies of China's development are bound to be controversial because it defies any simple ideological labeling. Wallerstein (2010) articulates this issue well when he poses the question "How to think about China?" Wallerstein points out that people tend to debate the following three issues when they discuss China:

The first debate is whether to think of China as essentially a socialist country or a capitalist one. China of course still proclaims itself to be socialist. China continues to be governed by the Communist Party. On the other hand, China seems to be basing its internal economic operations (and certainly its global trade) on market principles. On this capitalist-socialist divide, China seems to be neither purely capitalist nor socialist, but a hybrid of both capitalism and socialism, thus the Chinese communist party still insists that China belongs to "*market socialism*" (Szelenyi 2010).

On the state-market divide, China is reported to be closely pursuing the path of neoliberalism: liberating its market, downsizing its state bureaucracy, loosening its regulations, cutting back its social welfare commitment, and privatizing its state economy. On the other hand, despite of the above neoliberal policies, China still has a powerful state and a large state sector. The party-state is still in full control of the market, including the huge infrastructure of heavy industries, the promotion of industrial policy, the legacy of central planning, and corporatist control over the society (Baek 2005, p. 487). To capture the above contradiction, So and Chu (2012) prefer to label China as "*state neoliberalist*" because China is neither purely statist nor neoliberalist, but a hybrid possessing both the characteristics of state developmentalism and neoclassical neoliberalism. According to So and Chu, state neoliberalism emerged when the party-state's survival was threatened by the growing number of labor protests in the cities and numerous peasant protests in the countryside at the turn of the 21st century. In order to preempt the further intensification of class conflict, the party-state was induced to slow down, stop, or to reverse neoliberal policies. Under the policy of "building a new socialist countryside" and a "harmonious society," the Hu/Wen regime tried to move toward a balance between economic growth and social development. State neoliberalism policy advocates for a transfer of resources from the state to strengthen the fiscal foundation of the countryside. Not only was the agricultural tax abolished to help relieve the burden on farmers, but the state increased its rural expenditure by 15% (to $15 billion) to bankroll guaranteed minimum living allowances for farmers, and an 87% hike (to $4 billion) for the health-care budget (Liu 2007).

On the export-import divide, China is said to have an extreme version of the export-growth model, as its trade dependence (measured by the total value of exports as a percentage of GDP) has been mounting continuously, reaching a level never attained in other East Asian economies (Hung 2009). On the other hand, China has built up a strong import substitutive capital-intensive industry to capture the huge domestic Chinese market. China is able to have import-substitution and to produce for the global economy because imports and exports are performed by a dual economic structure of public and non-public sectors. On the one hand, small and medium-scale companies have propped up the export-oriented economy and investment in these companies have been supplied from the curbside market rather than banks. On the other hand, large companies in the public sector have specialized in upstream sectors that had been developed by import substitution industrialization. The finance of these large state enterprises has absolutely depended on state banks and they realized economies of scale by way of monopolies (Baek 2005). In China, the export sector and the import substitution sector coexist side by side. Lee and Mattews (2009) suggest that the export sector will provide competitive pressures to curb the potential for rent-seeking by the state enterprises, while the import sector can provide nurturing to domestic firms, which is needed to bring the firms to the point where they could withstand the fierce competition of the world market. After thirty years of development, China's corporations can produce commodities to meet the demands of the domestic market and to compete with foreign corporations. In this respect, China's economy is neither purely export-led nor dominated by import substitution, but is a hybrid economy walking on two legs to capture the dynamics of an export-led as well as an import-substituted economy.

On the core-periphery divide, the issue is whether China is still part of the South or has now becomes part of the North. Thirty years ago there was no doubt; China was a poor, third word country. China attended the Afro-Asian conference in Bandung in 1955, and presented itself everywhere as a promoter of the interests of the South. But today China is classified as the strongest of the "emergent" nations, and the second strongest economy in the world. The world press now speaks of the G-2 (the United States and China), who in effect share world power. Again, China is neither a core nor a periphery nation, but a "semi-periphery" hybrid, which in a world-systems perspective, behaves like a periphery to the core, but behaves like a core to the periphery (i.e., giving out aid and expanding its influence in Africa, Latin America, and the Middle East).

In short, researchers need to go beyond the dualism of capitalist vs. socialist, state vs. market, or core vs. periphery in order to capture the complexity of China's development. If researchers can move beyond their ideological lens and obscurantism (Pan 2007), they will find that China's developmental experience is highly ambiguous and it doesn't fit any conventional label in the literature. However, ambiguity aside, researchers still need to answer the question that critics of the China Model fail to raise: How was China able to transform itself from a poor, third world country to an economic powerhouse in thirty years?

Why the China Model Works

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

What is missing in the above account, however, is that China's remarkable economic growth over the past thirty years actually owed much to the historical heritage of the Maoist era. Despite many shortcomings, the Maoist legacy has provided China with a strong Leninist party-state, with all the powers concentrated in the Communist Party. Only political organizations (like peasants' associations and labor unions) formally sponsored by the party were allowed to operate; other organizations were either made ineffective or simply banned from operation. This Leninist party-state was all-powerful in the sense that it had extended both vertically and horizontally to every sphere in the Chinese society. Vertically, the Leninist party-state was the first Chinese state that was able to exert its political control all the way down to village, family, and individual levels. Horizontally, there was a great expansion of state functions. The Leninist state did not just collect taxes and keep social order, but also oversaw such functions as education, health care, marriage, culture, economic policy, and carried out the radical socialist policies of land reform, collectivization, and the Cultural Revolution. After 1978, although the Chinese state was no longer interested in promoting revolutionary socialism, it still inherited a strong state machinery to carry out its developmental policy.

The critical issue, then, is what explains the dramatic transformation of the revolutionary state in Maoist China to the developmental state in the reform era? This paper argues that the fading of the Cold War provided the pre-condition for China to re-enter the world-economy, the success of the Asian NIES (newly industrializing economies) and their industrial relocation provided the incentives for the Chinese leaders to pursue developmental objectives, and the passing of the old generation and natural disasters provided the triggering events to overcome the inertia of the status quo.

The Fading of the Cold War. If the Cold War and the forced withdrawal from the world-economy prevented China from pursuing either export-oriented industrialization or import substitution in the 1950s and the 1960s, the fading of the Cold War since the 1970s had provided the pre-condition for China to re-enter the world-economy to pursue developmental objectives.

The late 1970s was a period of declining American hegemony. Economically, the U.S. faced the problems of inflation, low productivity, and recession. Its products were under strong competition with Japanese and German manufactures in the world market. Politically, the U.S. was still plagued by its defeat in Vietnam and its failed attempt to fend off global Soviet expansion. At this historical conjuncture, the U.S. welcomed China back to the world-economy. China could be a new regional power to counterbalance Soviet military expansion and Japanese economic expansion in East Asia. Moreover, the vast Chinese market, the cheap Chinese labor, and the abundant Chinese raw materials and minerals could considerably increase the competitive power of American industry in the world economy.

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

Furthermore, as Hong Kong, Taiwan, and South Korea were upgraded to the status of NIEs in the late 1970s, they gradually lost their geopolitical privileges with the U.S. They, too, had to face the trade restrictions (tariffs, quotas, and rising foreign currency values). Due to their economic success, there were also labor shortages, increasing labor disputes, escalating land prices, and the emergence of environmental protests—all of which served to raise the cost of production in the East Asian NIEs. As a result, the Asian NIEs felt the need to promote an industrial relocation in the 1980s in order to secure a stable supply of a cheap, docile labor force and other resources.

Industrial relocation of the NIEs provided a strong incentive for the Chinese state to promote developmental objectives. From the Chinese perspective, China could be a favourable site for the NIEs' relocation because it has abundant cheap labor, land, and other resources. China was also quite close to Hong Kong, Taiwan, and South Korea, and they share a common Confucian cultural heritage with strong emphases on education, a diligent work ethic, and obedience (Gong and Jang 1998). Therefore, China set up four special economic zones (SEZs) in 1979, opened fourteen coastal cities and Hainan Island in 1984 and three delta areas in 1985 for foreign investment, and pursued a coastal developmental strategy to enhance export industrialization in 1988.

Triggering Events. Even though the fading of the Cold War and the NIEs' industrial relocation have provided the precondition and an incentive for the Chinese state to transform itself into a developmental state, several triggering events were necessary to overcome the inertia of the communist status quo.

Lin Yimin (2003) points out that the critical event that set in motion the efforts to reform the economic system was the passing of the old generation of revolutionary leaders. The death of Mao in 1976 was followed by the rise of a new coalition of political leaders who were leaning or receptive to some form of economic institutional change. Most of them were victims of the Cultural Revolution. Their return was accompanied by a national rehabilitation of lower level party-state functionaries. Most of these functionaries had prior experience in formulating and implementing economic policies.

Lin further explains that the shift in policy focus from socialist egalitarianism to economic development and the reshuffling of local leaders opened the way for bottom-up institutional innovation. In provinces like Anhui, pro-reform leaders gave tolerance and even encouragement to certain attempts made by grassroots officials. This significantly changed the political risk perceived by the rank-and-file of the local state apparatus. Subsequently, when severe national disasters hit during 1977-79, some local officials resorted to various form of family production and justified their rule-breaking on the ground of coping with natural disaster. The good results of family farming in turn provided a ground of justification for the arrangement to be introduced to other provinces, which later led to decollectivization and the institutionalization of the Household Responsibility system in the countryside. The great success of the economic reforms in the agricultural sector—as shown by the crop output growth from 2.5% during 1954-1978 to 5.9% during 1978-1984—further empowered the Chinese state to develop various developmental strategies.

Developmental Strategies and Why They Worked: The Legacy of the Maoist Era. Once the Chinese state decided to pursue developmental objectives, it found itself blessed with many legacies of the Maoist era. To start with, the Maoist legacy of economic backwardness ironically worked to the advantage of economic reforms in the late 1970s. As Andrew Walder (1996: 9) points out, at the outset of the reforms, employment of China was 75% agriculture; in the Soviet Union, it was 75% in industry. Since the Soviet Union was already an urbanized industrial society, Soviet economic reforms necessitated technological and organizational innovations to boost industrial productivity in the urban sector. On the other hand, since China was still mostly agricultural, the state could achieve rapid growth rates by simply taking labor out of agriculture and increasing its productivity by putting it to work in industry.

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

Third, the Maoist legacy provided the much-needed rural infrastructure and local institutions to carry out the economic reforms. It was during the Maoist era that reservoirs were constructed, irrigation systems strengthened, and drainage networks improved. During the Great Leap Forward, the state mobilized millions of peasants to construct dams, reservoirs, and large-scale irrigation systems for the communes. It was also during the Maoist era that rural industries and enterprises were set up in the communes; local officials accumulated managerial experience through running commune and brigade enterprises; and local governments were asked to promote development in the community. The Maoist commune model and its decentralization policy provided the medium to tap local resources, train local leaders, and arouse local initiatives. Without all these infrastructural and institutional foundations built in the Maoist era, it is doubtful whether agricultural productivity could increase so rapidly at the beginning of the reforms, and whether local village and township enterprises could play the leading role in China's industrialization since 1980s and 1990s.

With the Chinese party-state in full control of the development process, it had carried the following strategies of development: decentralization and local development, mobilizing diaspora capitalists, and controlled labor migration.

Decentralization and Local Development. Attracted by the policy of fiscal decentralization through which local governments could keep part of the tax revenue, local governments quickly engaged in market activities. The product was the formation of township and village enterprises (TVEs), which were not bound by the central plan and were free to seek out market opportunities. Kyung-Sup Chang (2003) remarks that for local cadres, running rural industries was no new experience since they had been in charge of rural industries since the Great Leap Forward in the late 1950s. Seizing the golden opportunity created by the policy of fiscal decentralization, many rural cadres created a favorable political and administrative environment so the nascent businessmen no longer needed to be afraid of being condemned as "blood-sucking capitalists" exploiting the workers. Once they received the signal that capital investment was tolerated by the "communist" party-state and later when they were told that "to get rich is glorious," they began to initiate new industrial ventures, renovate or build factories, set up corporate organizations, mobilize villagers' economic resources, secure financial and technical cooperation from urban enterprises, and staff the management of rural industrial enterprises. Focusing on the South China case, George Lin (2003) points out that a new "bottom up" development mechanism is taking shape in which initiatives are made primarily by local governments to solicit overseas Chinese and domestic capital, mobilize labor and land resources, and lead the local economy to enter the orbit of the international division of labor and global competition. As a result, South China has experienced rural industrialization through which a great number of surplus rural laborers entered the TVEs without moving into the city. In the South Chinese countryside, it is common to find industrial and agricultural activities stand side by side. Lin stresses that the geographic outcome of intense rural-urban interaction in the countryside has been the formation of a dispersed pattern of spatial distribution that does not conform to the classic definition of urban or rural but displays the characteristics of both types.

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

However, in China ethnic diversity is generally a valuable asset for economic development, instead of becoming a source of political instability. Before 1978, Chinese diaspora capitalism thrived in Hong Kong, Taiwan, Singapore, and in overseas Chinese communities. After the Chinese state adopted an open door policy for foreign investment in 1978, Hong Kong accounted for the bulk of China's foreign investment and foreign trade. By the early 1990s, Taiwan became the second largest trading partner and investor for Mainland China.

Drawing upon Guangdong's Dongguan County as a case study, Lin (2003) shows that the local government has sought every possible opportunity to cultivate kinship ties and interpersonal trusts with the diaspora capitalists in Hong Kong in order to attract them to invest in Dongguan County. Special policies, including tax concessions and preferential treatment regarding the import of necessary equipment and the handling of foreign currency, were announced to attract foreign investment. A special office was set up by the county government to serve Hong Kong investors with efficient personnel and simplified bureaucratic procedures. Economic cooperation between Dongguan and Hong Kong was arranged creatively and flexibly in a variety of forms; including joint ventures, cooperative ventures, export processing, and compensation trade. The general pattern is that designing and marketing are handled in Hong Kong, while labor intensive processes are performed in Dongguan. Access to cheap labor enables Hong Kong diaspora capitalists to compete effectively in the global market, and export processing has created jobs and income for Mainland China.

In discussing the case of Fujian Province, Hsin-Huang Michael Hsiao (2003) also points out that Chinese diaspora capitalists have played an important role in the economic development of Fujian. In the 1980s, many Southeast Asian

Chinese business groups with Fujian origins, such as the Philippines' Tan Yu and Lucio C. Tan, Indonesia's Liem Sioe Liong, and Malaysia's Robert Kuok, made substantial investments in Fujian. By the early 1990s, Taiwan capital began to enter Fujian in a massive scale. By 1997, Fujian had attracted more than 4,900 Taiwanese enterprises, with the total realized investment exceeding US$ 6.9 billion. Taiwan capital has been highly diversified, ranging from small-scale labor-intensive manufacturing industries to capital-intensive heavy industries and high-tech industries.

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

Kam Wing Chan (2003) contends that economic development in the reform era in China is intimately linked with migration. Migration is a redistribution of labor that helps balance China's regional supply and demand. The vast pools of rural migrants provide plentiful supply of cheap labor in sustaining China's urban economic boom. This labor force is also flexible, able, and willing to move quickly into new growth areas. In the cities, the full cost of hiring a migrant worker is only about one-quarter of that of a local worker. Migrant workers are also willing to work not only for less and for long hours, but also often under unsafe conditions with minimal protection. The increasing supply of labor from outside has fostered the development of an urban labor market.

Kam Wing Chan also reveals the generally positive impact of migration for rural areas. Out-migration is an effective and cheap way to siphon off surplus rural labor and ease pressure on local land and resources. In addition, remittances have become a major contribution by migrant workers to their family back home. Chan estimates that remittances in the size of 180 billion yuan are sent back to rural areas every year, equivalent to 15% of China's agricultural sector's GDP.

Furthermore, working in the cities is an important opportunity for many farmers to learn about the modern world and skills. It is not uncommon for returnees to use their savings, skills, and business contacts they bring back to start up or invest in small businesses. And the remittances allow those working on the farm to purchase fertilizers and other needed modern inputs (such as better seeds) for farming.

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

Furthermore, in the Soviet Union political reforms were carried out before economic reforms, with the hope that democratization would provide the Communist Party with the needed support to overcome bureaucratic resistance toward economic reforms. The Soviet Union also carried out reforms in urban areas first because of the deep-rooted problems in the countryside. However, political reforms had unintentionally released new political forces that opposed the Communist Party, and urban unrest eventually led to the overthrow of the communist state in the Soviet Union.

In contrast, the Chinese state promoted economic reforms before carrying out major democratic reforms. In the late 1970s, communes were dismantled and peasants were asked to be responsible for their own living. In the early 1980s, the Chinese state tried to promote enterprise reforms to increase the power of the managers. In the mid 1980s, the Chinese state further opened fourteen coastal cities to attract foreign investment. Although in the reform period the Chinese state showed more tolerance toward dissent, granted more freedom toward the its citizen, and allowed local elections at the village level, the Chinese state was reluctant to promote any serious democratic reform to allow multi-party elections at the provincial and national level. As a result, the Chinese state could retain the Leninist structure. Not only it needed not share power with other political parties, it also needed not worry about the critical democratic voices in the civil society and the uncertainty of election outcomes. Without being distracted by democratic reforms, the Chinese state was able to concentrate on the economic front to promote its modernization programs.

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

Therefore, different from the "one bang" approach in Eastern Europe, the reform in China has been a gradual, adaptive process without a clear blueprint. McMillan and Naughton (1992) remark that the reforms have proceeded by trial and error, with frequent mid-course corrections and reversals of policy. In other words, the economic reforms were not a complete project settled in the first stage, but an ongoing process with many adjustments. There was no rapid leap to free prices, currency convertibility, or cutting of state subsidies; nor was there massive privatization and the quick selling off of state enterprises. This gradualist approach practiced by the Chinese state was quite different to those "one bang" and "shock therapy" approaches practiced in Eastern Europe, which called for the dismantling of centrally planned economy as soon as possible. As Walder (1996: 10) remarks,

> Where in Europe shock therapy and mass privatization are designed in part to dismantle Communism and strip former Communists of power and privilege, in China gradual reform is intended to allow the Party to survive as an instrument of economic development.

Can the China Model be Replicated?

The above section shows that there is, in fact, no easily identifiable "model" that captures China's developmental experience over the past thirty years. The China Model is highly ambiguous in the sense that it is a hybrid and uneasy combination of contradictory elements, including capitalist vs. socialist, state vs. market, export-led vs. import substitution economy.

To the extent that a model can be described, it concerns process rather than blueprint or policy prescription. As Cook (2010) remarks,

> the China Model is one of pragmatism, experimentation, and gradualism, looking for successes, keeping what works, and discarding what does not. This approach is reflected in widely-cited slogans of the Chinese communist party-state, such as "seeking truth from facts," "crossing the river by feeling the stones," and Deng Xiaoping's comment about the color of the cat being unimportant as long as it catches mice.

What is distinctive in China's developmental experience, therefore, is less an ideologically-based set of policy prescriptions, but rather a flexible process of adaptation to rapid change within specific political and institutional context in a changing capitalist world-economy. As such, can the third world developing countries copy China's *flexible process of adaptation*?

This flexible process of adaptation presupposes a strong state machinery that has the capacity not only to carry out its policies, but it also can make policy adjustments (i.e., speed up, slow down, or change course) in mid-course if it detects the policies are not working. It also presupposes the state has a highly degree of autonomy in the sense that other social classes and political groups are too weak to capture the state for their own interests. For example, the capitalist class in China was simply too small, too weak, and too dependent on the party-state to become the agent of historical transformation in China. As the capitalist class was almost destroyed during the Cultural Revolution, the nascent capitalists emerging after the Cultural Revolution were politically too impotent to capture the state to carry out. Facing growing labor unrest and popular struggle against such abuses as child labor in the coal mines, discrimination against immigrant workers and environmental degradation, the capitalist class was powerless to stop the policies toward state neoliberalism (So and Chu forthcoming).

In sum, unless the Third World developing countries have a state as strong and as autonomous as the Chinese communist party-state, they will not be able to copy the "flexible, process of adaptation" of China.

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